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AND

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INTERIM STRATEGY NOTE

FOR

THE REPUBLIC OF TUNISIA

FOR THE PERIOD FY13-14

May 17, 2012

Maghreb Department
Middle East and North Africa Region

International Finance Corporation
Middle East and North Africa Region

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activity
AFFI	Arab Financing Facility for Infrastructure
AFD	*Agence française de développement* (French Development Agency)
AfDB	African Development Bank
ALMP	Active Labor Market Policy
ANETI	*Agence national de l'emploi et du travail independent* (National Agency for Employment and Independent Work)
ANSA	Arab Network for Social Accountability
AWI	Arab World Initiative
CAS	Country Assistance Strategy
CDD	Community-Driven Development
CMI	Center for Mediterranean Integration
CPR	*Congrès pour la République* (Congress for the Republic)
CPPR	Country Portfolio Performance Report
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CSP	Concentrated Solar Power
DPL	Development Policy Loan
DPR	Development Policy Review
EBRD	European Bank for Reconstruction and Development
e4e	Education for Employment
ESW	Economic Sector Work
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GO DPL	Government Development Policy Loan
GOT	Government of Tunisia
FY	Fiscal Year
HIV/AIDS	Human Immune-Deficiency Virus/Acquired Immune-Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
ICL	Integration and Competitiveness Loan
IFC	International Finance Corporation
ICA	Investment Climate Assessment
IFI	International Financial Institutions
ICT	Information and Communication Technology
IsDB	Islamic Development Bank
ISN	Interim Strategy Note
IMF	International Monetary Fund
IMR	Infant Mortality Rate
JICA	Japan International Cooperation Agency
JSDF	Japan Social Development Fund
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
LPI	Logistics Performance Index
MENA	Middle East and North Africa Region
MICI	Ministry of Investment and International Cooperation
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
OECD	Organization for Economic Cooperation & Development
DAC	Development Assistance Committee
PEFA	Public Expenditure and Financial Accountability
PBGs	Policy-Based Guarantees
PER	Public Expenditure Review
RCD	Constitutional Democratic Rally
SIL	Simple Investment Loan
SME	Small and Medium Enterprises
SOE	State-Owned Enterprises
SPF	State and Peace-Building Fund
StAR	Stolen Asset Recovery Initiative
STB	Société Tunisienne de Banque/Tunisian Bank Society
TA	Technical Assistance
TAV	Tunisian Monastir International Airport
TND	Tunisian Dinar
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UNHCR	Unites Nations High Commissioner for Refugees
US	United States
TA	Technical Assistance
TAV	Tunisian Monastir International Airport
WB	World Bank
WEF	World Economic Forum

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TUNISIA
INTERIM STRATEGY NOTE

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Map No IBRD 33500

EXECUTIVE SUMMARY

i. **In December 2010, Tunisia experienced an unprecedented and spontaneous wave of massive civil resistance that ended the 23 year rule of President Zine El Abidine Ben Ali, which ushered in a new political and economic era.** The January 2011 revolution was fueled by widespread anger and frustration over lack of social and political inclusion, governance and corruption issues, mounting unemployment and the rising cost of living. While Tunisia's economy was held up as one of the most successful in the Middle East and North Africa (MENA) region, growth increasingly benefited the well connected few. Country-wide protests led to the fall of President Ben Ali on January 14, 2011, inspiring similar uprisings in the Region, commonly referred to as "The Arab Spring."

ii. **Tunisia has successfully completed the first phase of its political transition to a multi-party democracy.** On the heels of the revolution in February 2011, an Interim Government was sworn into office and tasked with organizing the national election of a Constituent Assembly to write a new constitution. On October 23, 2011, ninety percent of the 4.1 million registered voters participated in the elections which were declared free and fair by international observers. While the Constituent Assembly Government navigates the uncharted territories of the political transition, it has an exceptional opportunity to lay the foundation for a new social and economic contract to foster more inclusive growth. The immediate challenge facing the authorities is promoting inclusive economic recovery and responding to the demands of the revolution for greater citizen voice, state accountability and opportunities to ensure the success of the political transition. In parallel, the Government must press ahead with reforms which will enable Tunisia to move from a low value-added and low cost economy to a higher value-added knowledge intensive economy capable of reducing unemployment, its overriding challenge.

iii. **On the economic front, Tunisia faces a slow recovery during the transition. Tunisia's economic performance deteriorated sharply in 2011, after having recovered in late 2010 from the global financial, fuel and food price crisis.** With growth stable at 3 percent, the fiscal deficit down to 1.3 percent and official reserves equivalent to 5 months of imports at end 2010, the Government began 2011 with the fiscal space to absorb some of the economic shock caused by the January revolution, the spillover from Libya conflict and the sharp downturn in tourism and Foreign Direct Investments (FDI). The Interim Government in June 2011 approved a supplemental budget to stimulate the economy, increase social assistance and provide resources to lagging regions where the need for jobs and basic services was greatest. For its part, the Central Bank provided a substantial amount of short-term loans to banks to encourage lending and reduced interest rates to encourage borrowing. In spite of these and other efforts, the economy contracted by nearly 2 percent and unemployment increased from 13 percent in 2010 to 19 percent in 2011.

iv. **The economic situation in 2012 is likely to remain difficult, with GDP growth only moderately positive.** Social tensions remain, due to high and increasing unemployment and difficult short-term economic prospects, at a time when Tunisians expected the revolution to improve living standards. Uncertainty about the new leadership has led many domestic and foreign investors to adopt a wait-and-see approach. And difficulties in the financial sector could endanger the economic recovery. While the authorities' goal is to minimize external borrowing, the unfavorable international environment and continued fiscal pressures to mitigate social tensions are likely to call for substantial external public borrowing in 2012-2013. The Tunisian recovery could consolidate in 2014, as improved confidence domestically as well a recovery in Libya and in the European Union (EU) contribute to raise growth to around 5 percent.

v. **This Interim Strategy Note (ISN) outlines a Bank Group program focused on contributing directly and indirectly to the Government's short and medium-term employment creation objective.** The program will support the authorities in the reforms necessary to promote private sector-led recovery and job creation, with a focus on openness, opportunity and accountability. Drawing on other

country experiences, the Bank will assist Tunisia as it forges a new social contract to redefine the relationship between the Government and the various stakeholders in society. To achieve its overarching objective of supporting employment creation, the Bank Group will frame its support within three Areas of Engagement: i) Laying the Foundation for Renewed Sustainable Growth and Job Creation; ii) Promoting Social and Economic Inclusion; and iii) Strengthening Governance: Voice, Transparency and Accountability. The ISN program has been designed in close consultations with the Constituent Assembly Government and other stakeholders and is a joint World Bank Group effort of the International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC), with MIGA's participation. To support the ISN objectives of employment creation and economic recovery, the IFC will focus on restoring investor confidence in the short-term and boosting private sector activity over the longer-term.

vi. **Bank instruments to implement the ISN will include a blend of IBRD policy-based and investment operations; Global Environment Facility (GEF) trust funds, and other trust funds administered or funded by the World Bank, as well as analytic and advisory services.** The Bank program under the ISN would give priority to activities that support the short-term priorities of the transition. The Government's program is expected to call for up to $950 million in FY13 for policy-based and investment lending. FY14 financing would be defined based on performance of the FY13 program, the Government's request, IBRD's capital position and demand from other borrowers. Given the difficult economic outlook, the Bank expects to commit a large share of Tunisia's IBRD envelope through budget support using the DPL instrument, based on program performance, to help advance government reforms to accelerate inclusive growth and job creation. Investment lending, which remains a critical instrument to achieve medium-term development objectives, is expected to constitute a greater share of lending commitments in FY14, as the economy recovers.

vii. **The Bank's performance will be measured against its contributions to the priorities of the Constituent Assembly Government as proposed in this ISN.** Annex 1 presents a Results Framework that corresponds to the expected outcomes of the driving objectives in each of the three Areas of Engagement where the Bank expects to contribute. The Bank will hold Country Portfolio Performance Reviews to evaluate program performance jointly with Tunisian counterparts.

viii. **The ISN identifies several risks to the program and mitigating measures:** *Social tensions and delayed economic recovery*: Although social tensions have abated since February 2012, an escalation due to the difficult economic situation could hamper the Government's ability to effectively govern and push forward needed reforms, as well as further delay investor confidence needed for growth to resume. In addition, external issues outside the Government's control, such as the recession in Europe and the difficult transition in Libya, together with a projected rise in oil and food prices, could create additional challenges for *fiscal discipline and macroeconomic stability*. Meanwhile, 2013 will be an election year and this will have implications for the spending and the pace of reforms. The World Bank's program under this ISN is intended to assist the Government in mitigating these risks, including by supporting the design of a reform program that helps respond to Tunisia's immediate needs while securing macro-stability and laying the ground for sustained private sector-led recovery. This will be supported by quick-disbursing financing of the Government's 2012 program and by leveraging budget support. IFC's program will also be tailored to support economic recovery and restore investor confidence and will be adaptable to evolving market conditions. *Financial sector weaknesses* could also impact economic recovery. In coordination with the authorities, the Bank and IMF have identified a program to strengthen the sector's resilience to economic shocks. *Government ownership* of the reform and investment program supported by the Bank Group will also remain critical. As Tunisia pilots new social accountability models and broadens the range of actors involved in decision-making at the local level, the Bank Group will need to ensure that operations adequately anticipate the need for *building institutional and implementation capacity* and have realistic objectives in terms of what can be achieved within a limited time frame.

I. INTRODUCTION

1. **In December 2010, Tunisia experienced an unprecedented and spontaneous wave of massive civil resistance that ended the 23 year rule of President Zine El Abidine Ben Ali, which ushered in a new political and economic era.** The January 2011 revolution was fueled by widespread anger and frustration over lack of social and political inclusion, governance and corruption issues, mounting unemployment and the rising cost of living. While Tunisia's economy was held up as one of the most successful in the MENA region, growth increasingly benefited the well connected few. Country-wide protests led to the fall of President Ben Ali on January 14, 2011, inspiring similar uprisings in the Region, commonly referred to as "The Arab Spring" or "Arab Awakening."[1]

2. **This Interim Strategy Note (ISN) outlines the Bank Group's proposed post-revolution engagement in Tunisia in FY13 and FY14**. This period is intended to cover the term of the Constituent Assembly Government[2] and the transition to the next elected government. The Constituent Assembly has been mandated with drafting a new constitution and organizing national elections within a year. Once an elected government is in place, the Bank Group will prepare a full Country Partnership Strategy (CPS). The most recent CPS for Tunisia (2010-2013) was discussed by the Board on December 17, 2009. Following the January 2011 revolution in Tunisia, the CPS no longer reflects the new country priorities.

3. **This ISN outlines a Bank Group program focused on contributing directly and indirectly to the Government's short and medium-term employment creation objective**. The program will support the authorities in the reforms necessary to promote private sector-led recovery and job creation, with a focus on openness, opportunity and accountability. In a context of lively debate and protest taking place across the country, a new social contract is being forged in post-revolution Tunisia. Drawing on other country experiences, the Bank will assist Tunisia as it seeks to redefine the relationship between government and the various stakeholders in society. To achieve its overarching objective of supporting employment creation, the Bank Group will frame its support within three Areas of Engagement: i) Laying the Foundation for Renewed Sustainable Growth and Job Creation; ii) Promoting Social and Economic Inclusion; and iii) Strengthening Governance: Voice, Transparency and Accountability. The ISN program has been designed in close consultations with the Constituent Assembly Government and other stakeholders and is a joint World Bank Group effort of the IBRD and IFC, with MIGA's participation.

II. COUNTRY CONTEXT

A. General Economic and Political Context

4. **Tunisia is a middle-income country with a mostly urbanized population of 10 million**. Following independence from France in 1956, Tunisia established a highly centralized presidential system with key sectors of the economy being publicly-owned and managed. Revenues from major natural resources—including oil, natural gas and phosphates—helped fuel growth and investments used to diversify the economy in the early 70s. The Government established a liberal off-shore regime that attracted foreign direct investment

[1] The effect of the "Arab Spring" after Tunisia has included, *inter alia*, governments overthrown in Egypt (February 2011); Libya (August 2011); and Yemen (February 2012); government changes and reforms in Jordan, Kuwait, Lebanon, Morocco and Oman; and sustained unrest and armed violence in Syria.

[2] In this document, "interim government" refers to the government appointed immediately following the revolution in February 2011; and "Constituent Assembly Government" refers to the government named by the Constituent Assembly elected on October 23, 2011.

(FDI) from Europe, developed new export-oriented industries (including textile and clothing), and made human development a priority, investing heavily in social welfare, education and basic infrastructure.

5. **Tunisia further diversified the economy away from extractive industries in the 1990s, liberalized trade and invested in social programs**. These reforms helped create new markets for exports, notably electrical and mechanical equipment for European markets. Following economic difficulties in the 80s (due to the drop in oil prices and production), prudent macroeconomic management underpinned Tunisia's strong growth performance in the mid 90s and into the 2000s. Tunisia's average annual growth of 5 percent (1997 to 2007) placed it among the fastest growing countries of the MENA region (average 4.3 percent). The standard of living compared favorably to most of its neighbors, with average income[3] at US$4,160 in 2010, higher than for Algeria, Egypt and Morocco. Strong revenues enabled the Government to continue investing heavily in education and social programs and to establish the National Solidarity Fund and the National Employment Fund to improve infrastructure in disadvantaged areas and promote employment opportunities.

6. **Tunisia's impressive socio-economic progress was, however, marred by widespread corruption, coercion and political interference.** Tunisia's public administration has historically been highly centralized with power concentrated in the presidency. Under President Ben Ali, this power was abused and economic reforms were often undermined with privileges being granted to family members and close associates, to protect their vested interests and to reinforce the regime's control over the private sector. Similarly, the National Solidarity Fund and the National Employment Fund were directly controlled by the President's party and were managed with little transparency. Many of its resources were unaccounted for and distributed through clientele networks. The scale of corruption and lack of transparency and rule of law made many Tunisians reluctant to invest in the country.

7. **A complex web of policy interventions created inefficiencies and distortions, resulting in low investment, limited growth and insufficient, low quality, job creation.** Whereas the domestic private sector was handicapped by unfair regulations and a predatory regime, the offshore regime received significant incentives to invest, including fiscal advantages, simplified regulatory requirements and competitive wages. Entire segments of the domestic economy were not open to trade and competition (through non-tariff barriers, limits on foreign investment and ad hoc concessions and monopoly rights). Rigid regulations also distorted the labor market. To reduce labor costs, employers preferred flexible short-term contracts which provided no job security for workers. Meanwhile, Tunisia witnessed a growing structural imbalance as the demand for labor tilted towards the unskilled, and schools produced a growing supply of skilled labor.[4] Increasingly, unemployment affected the young (15-29 years old) and educated, whose unemployment rate in 2010 reached 44 percent. With high unemployment, nepotism became a main channel to distribute jobs and benefits under the strict control of the president's ruling party, fuelling increasing social frustration, particularly among the young.[5]

8. **Contributing to these imbalances, whatever growth took place was concentrated in the coastal areas among the country's elite.** Left out of the prosperity created by steady growth were many rural and urban poor, notably in the regions of the interior. While coastal cities generated the bulk of the country's wealth—85 percent of Tunisia's GDP—inner regions and hinterlands remained impoverished with significantly higher levels of poverty. The result has been widening socio-economic inequality across regions, which further exacerbated social tensions.

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[3] GNI per capita, in current US$, Atlas method.

[4] *Development Policy Review: Towards Innovation Driven Growth*. Report No. 50847-TN.World Bank, 2010.

[5] *Tunisia: Changes and Challenges of Political Transition*, MEDPRO Technical Report No. 3, May 2011.

9. **The Ben Ali regime, with its tight political control over the country and repressive measures, discouraged public accountability and transparency and denied citizens a voice.** In the absence of checks and balances, the executive enjoyed almost unfettered control over political discourse and policy-making. There were no conflict of interest regulations, no independent reviews of the executive or legislature, both of which lacked accountability, and asset disclosure requirements were not enforced. Freedom of association was almost non-existent. Political organizations were denied legal registration and opposition parties were not allowed to hold public meetings. The judicial system was controlled by the regime and lacked independence. Very limited information was made available about government programs or economic statistics. Databases used to produce poverty statistics were never published, creating doubts about their veracity. No critical press or independent radio/television was allowed; internet censorship became extensive, personal e-mail accounts were monitored, websites blocked and internet cafés supervised. In the absence of free elections and with civil society organizations systematically co-opted, the voice of citizens was muted. The absence of voice, transparency and accountability, coupled with declining living standards, provided the key ingredients for the revolution.

10. **Tunisia is at a turning point today, facing unprecedented challenges and opportunities.** While the Constituent Assembly Government navigates the uncharted territories of the political transition, it has an exceptional opportunity to lay the foundation for a new social and economic contract to foster more inclusive growth. The immediate challenge facing the authorities is promoting shared economic recovery and responding to the demands of the revolution for greater citizen voice, state accountability and opportunities to ensure the success of the political transition. In parallel, the Government must press ahead with reforms which will enable Tunisia to move from a low value-added and low cost economy to a higher value-added knowledge intensive economy capable of reducing unemployment, its overriding challenge.

B. Recent Political Developments

11. **Tunisia has successfully completed the first phase of its political transition to a multi-party democracy.** On the heels of the revolution in February 2011, an Interim Government was sworn into office and tasked with organizing the national election of a Constituent Assembly to write a new constitution. The Interim Government sought to ensure full representation of eligible political parties and adequate preparation of electoral lists. On October 23, 2011, ninety percent of the 4.1 million registered voters participated in the elections which were declared free and fair by international observers.[6]

12. **Ennahda, the once-banned moderate Islamist Party, won the most seats (89 seats, or 40 percent) in the 217-member Constituent Assembly, making it the leading governing party.** It formed a coalition government with two secular political parties, the Congress for the Republic (CPR) with 9 percent of seats, and Ettakatol, the social democratic party, with 7 percent. Under the agreement brokered by the three parties, the CPR's Moncef Marzouki became President of the Republic, Ennahda's Hamadi Jebali became Head of Government and Prime Minister, and Ettakatol's Mustapha Ben Jaafar became Speaker of the Constituent Assembly. The new cabinet, which includes members from Ennahda, CPR, Ettakatol, and independent ministers, was confirmed on December 23, 2011 by the Constituent Assembly.

13. **The Ennahda-led coalition Government has maintained a moderate political position and reiterated its support for a religious-neutral constitution, maintaining women's status and working with international partners.** In the first few months of 2012, vocal hardliners from secular and Islamist groupings have prompted sit-ins, strikes and general social unrest. Despite Ennahda's reassurances that it supports a pluralistic, religious-neutral constitution which maintains or advances women's rights, secular groups fear that

[6] However, the independent electoral commission invalidated votes cast for 7 seats of the Aridha Chaabia party, on the grounds that they had exceeded campaign spending limits (they retained 19 of 26 seats).

the new constitution will have religious underpinnings. Demonstrating its commitment to strengthening its participation in the global economy and its intentions to work with many international partners, the Government has been holding discussions with the EU, Gulf countries, the US, and international financial institutions such as the World Bank Group, the African Development Bank (AfDB), the Islamic Development Bank and the IMF, and is pursuing links with partners from other Maghreb countries, Africa, Asia and South America.

14. **The Constituent Assembly Government announced in March 2012 that new elections would be held no later than June 30, 2013.** Following months of debate in the Constituent Assembly on the question of whether to introduce Shariah law as the main legal framework for Tunisia's new constitution, Ennahdha confirmed that it would opt instead to uphold Article 1 of the 1959 Constitution (which stipulates that Tunisia is a free, sovereign and independent republic).

C. Recent Economic Developments and Economic Outlook

15. **Tunisia's economic performance deteriorated sharply in 2011, just as it had started recovering in late 2010 from the global financial, fuel and food price crisis.** Tunisia ended 2010 with a reasonable macroeconomic stance and solid economic fundamentals. Following a downturn in GDP from 4.5 percent to 3.1 percent between 2008 and 2009, the economy had started showing signs of recovery in 2010 with growth stable at 3 percent, the fiscal deficit shrinking from 3 percent to 1.3 percent of GDP, and the current account widening to 4.8 percent of GDP from 2.8 in 2009, reflecting an increase in imports of intermediate inputs for manufacturing (Table 1).[7] This provided the Government with fiscal space in 2011 to absorb some of the economic shock caused by the January revolution, the spillover from the Libya conflict[8] and the Euro Zone crisis, notably the sharp downturn in tourism and FDI.

16. **In 2011, the Interim Government sought to mitigate the revolution's impact on the economy and to boost recovery using a combination of fiscal and monetary policy measures.** The authorities' macroeconomic response was swift and appropriate. They approved a supplemental budget in June 2011 which introduced additional spending measures to stimulate the economy (with simplified procurement procedures to accelerate public investment projects), increase social assistance and provide resources to lagging regions where the need for jobs and basic services was greatest. However, only part of these resources could be absorbed within the year due to weak capacity at the local level.[9] For its part, the Central Bank reduced reserve requirements in 2011 from 10.5 percent to 2 percent, while providing a substantial amount of short-term loans to banks to increase their liquidity and encourage lending to businesses. It also reduced its main interest rate from 4.5 to 3.5 percent to boost access to credit and investment.

17. **In spite of the sound policy response, economic growth was negative in 2011 and unemployment increased.** The economy is estimated to have contracted by -1.8 percent as a result of the drop in tourism (-35 percent) mining production (-71 percent) and FDI (-29 percent), with virtually zero growth in exports (in real terms). In fact, following the beginning of a recovery in the second and third quarter of 2011, performance deteriorated substantially in the fourth quarter due to several factors: (i) exports in November and December had negative growth in real terms due to lower demand from Europe, and a new wave of strikes in the transport/logistics services disrupted economic activity; (ii) the tourism sector, accounting for 17 percent of

[7]Gross official reserves decreased from US$11.1 billion at end 2009 to US$9.6 billion at end December 2010, still a comfortable level of about 5 months of imports.
[8]Tunisians hosted over 50,000 displaced Libyans during the Libya conflict, assisted by agencies such as the UNHCR.
[9]The stimulus was expected to increase the 2011 fiscal deficit from 2.5 percent of GDP in the original budget to 4.8 percent; however, delays in budget execution have limited the fiscal deficit to 3.6 percent of GDP in 2011.

GDP and 16 percent of employment, which had improved over the summer with the influx of Libyans fleeing war at home, dropped to pre-July levels (65 percent of 2010 receipts) when most Libyans returned home after the conflict; and (iii) strikes and sit-ins hindered production and exports of phosphates, oil, gas and cement, as well as delayed the execution of public investment projects.

18. **Tunisia's banking sector, already performing poorly before the revolution, was further hard hit by the economic downturn, particularly in tourism sector**. Political interference and weak governance in the financial sector had severely undermined its performance and led to a high number of non-performing loans. Following the revolution, banks were hit by the sharp downturn in the tourism sector, which constituted a substantial portion of the non-performing loans. The Central Bank provided liquidity support to banks in 2011 which allowed credit growth to continue at 13 percent for the year, facilitated the restructuring of existing loans and prevented bankruptcies. However, with less room for monetary easing in 2012 and more bonds issued by the Government, there is a risk that the banking system will start to tighten credit, making it difficult for businesses to operate and dampening economic recovery.

19. **The economic outlook remains highly uncertain and external financing needs are likely to remain large in 2012 and 2013.** The economic situation in 2012 is likely to remain difficult, with GDP growth only moderately positive, mainly due to post-revolution social unrest, the fragile economic outlook in Europe and the difficult transition in Libya. The number of strikes and sit-ins diminished in early February 2012, but social tensions remained, due to high and increasing unemployment and difficult short-term economic prospects, at a time when Tunisians expected the revolution to improve living standards. Uncertainty about the new leadership has led many domestic and foreign investors to adopt a wait-and-see approach. In addition, difficulties in the financial sector could endanger the economic recovery. The authorities will have little room for additional monetary expansion in 2012 and will be limited by the rise of inflationary pressures and risks of financial sector instability. As such, fiscal policy will play a critical role in the next one to two years of the transition. While the authorities' goal is to minimize external borrowing, the unfavorable international environment and continued fiscal pressures to mitigate social tensions are likely to call for substantial external public borrowing in 2012-2013. The Tunisian recovery could consolidate in 2014, as improved confidence domestically as well as recovery in Libya and the EU contribute to raising GDP growth to around 5 percent.

Table 1. Tunisia: Selected Macroeconomic Indicators, 2010-2014

	2010 Act.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.
Real GDP growth rate	3.0%	-1.8%	2.4%	3.7%	4.9%
Growth of Real Exports GNFS	4.8%	2.0%	3.4%	5.5%	4.6%
Growth of Real Imports GNFS	3.8%	-5.0%	1.4%	8.3%	4.7%
Inflation (GDP deflator)	4.7%	3.5%	6.8%	4.1%	3.8%
Gross Domestic Investment (real growth rate)	0.7%	-4.5%	9.8%	6.2%	8.2%
Gross Domestic Investment (% of GDP)	26.4%	23.2%	24.9%	25.5%	26.3%
Fiscal Balance (excluding grants and privatization, % of GDP)	-1.3%	-3.7%	-6.6%	-4.8%	-4.3%
Primary Balance (excluding grants and privatization, % GDP)	0.5%	-3.5%	-5.3%	-3.4%	-2.8%
Current Account Balance (% of GDP)	-4.8%	-7.4%	-7.7%	-7.0%	-6.9%

Source: Tunisian Authorities, World Bank staff estimates

D. Debt Sustainability

20. **Public borrowing required to respond to the economic downturn does not endanger Tunisia's fiscal and debt sustainability.** Tunisia's public debt had been declining in the few years prior to 2011. Prudent debt management and sustained growth reduced public debt from 52 percent of GDP in 2005 to 40 percent in 2010, of which almost 25 percent is foreign debt. Total external debt dropped from 60 percent of GDP in 2004 to 46 percent of GDP in 2010 (of which 37 percent of GDP was medium and long term debt). While external debt remained fairly high, its composition suggests fairly limited risks for debt sustainability. Public debt and external debt are projected to have increased by approximately 4 percent of GDP in 2011, as a result of the financing needs associated with the response to the crisis. Debt levels are projected to increase to 46 percent of GDP in 2012, and to reach approximately 50 percent of GDP by 2014. While this level remains tolerable in comparison to standard debt sustainability thresholds, it will nevertheless require a rapid return to a less expansive fiscal policy stance. In order to verify that the level of borrowing remains fiscally sustainable, particularly if economic performance weakens further, the Bank is carrying out a Fiscal and Debt Sustainability Analysis in collaboration with the authorities, and in consultation with the IMF, which should be finalized in May 2012.

E. Social Context

21. **While Tunisia remains on track to achieve the MDGs, recent data shows that poverty rates and inequality are higher than previously claimed.** Economic growth and public investments in human development have contributed to impressive improvements in indicators (Table 2). However, poverty rates were downplayed for many years while Tunisia maintained a very low poverty line, one sufficient only for survival and food consumption. In September 2011, the National Statistics Institute, in a major break with the past, revised poverty estimates for 2005 upwards from 3.8 percent to 11.8 percent of the population using a more adequate poverty line. Broken down by region for the first time, poverty estimates range from a low rate of 5-7 percent in the Center East region and Grand Tunis to a high of 29 percent in the Center-west region (see Figure 1).

Table 2. Key Social Indicators

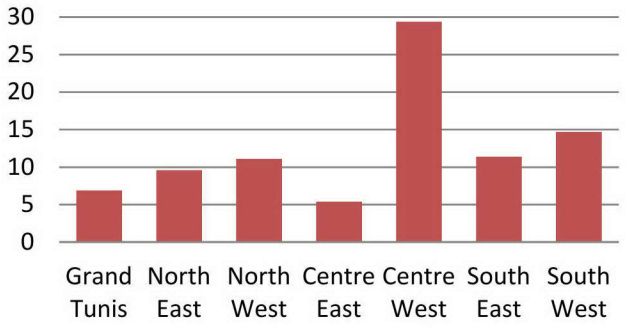
Indicator	1990	2000	2008	Likelihood of meeting MDG
Primary school enrollment rate	93	96	98	YES
Primary school completion rate	80	88	93	YES
Ratio of girls to boys in primary & secondary school	85	99	103	YES
Prevalence of malnutrition (%)	10.3	4	-	YES
Infant mortality rate (per 1,000 births)	40	23	18	YES
Access to improved water source (%)	81	90	94	YES
Access to improved sanitation (%)	74	81	85	YES
Life expectancy at birth (all/women)	70/72	73/75	74/76	

22. **Progress toward the MDGs has lagged behind in rural and inner regions.** At the national level, substantial progress has been achieved since 1990 to reduce malnutrition and infant and maternal mortality rates, while the HIV/AIDS prevalence is very low. The challenge remains to: i) improve indicators in rural areas, where children are more than twice as likely to be stunted (10 percent in rural areas versus 4 percent urban); and maternal mortality rates are three times higher (70 versus 20 deaths per 100,000 live births,

respectively); and ii) improve access to services in rural areas, where fewer women get prenatal services or treatment for high-risk pregnancies; and where only 50-60 percent of the population has access to safe drinking water and 40 percent to modern sanitation (compared to near universal access in urban areas).[10]

23. **The lagging indicators reflect regional inequalities which contributed to the sense of injustice and social exclusion that led to the revolution.** Tunisia's three largest cities and centers of growth, Tunis (the capital), Sfax and Sousse, are all coastal cities, which account for 85% of the country's GDP. The benefits of this growth have not spilled over to the hinterlands and inner regions and did not lead to improved public services and opportunities in disadvantaged areas. It should, however, be acknowledged that even the wealthier cities of Tunis, Sfax and Sousse have pockets of poverty.

Figure 1. Poverty Headcount by Region (2005)



Source: INS estimates (September 2011)

24. **With regard to gender, Tunisia is one of the more advanced countries of the region and its positive record on the status of women needs to be carefully safeguarded.** Shortly after its independence from France in 1956, Prime Minister Bourguiba introduced the Code of Personal Status, a series of laws aimed at giving women and men equal rights. The Code of Personal Status outlawed polygamy, required mutual consent for marriages and gave women constitutional equality, the right to vote, to travel and work without permission from their husbands, to file for divorce, to sign contracts and open bank accounts. A second wave of reforms in the early 1990s was led by women's organizations and successfully challenged discriminatory citizenship laws which prevented women married to non-nationals from passing their nationality to their children. Women have also benefited from Tunisia's high level of investment in education and made good progress in education (38 percent university enrollment compared to 25 percent of men, in 2007), wage parity, participation in politics and reduced fertility rates (by nearly half). However, many civil society groups feel that these acquired rights could be easily reversed.

25. **The quality of education and learning outcomes have declined and higher education needs to be more relevant and applicable to the economy.** Despite the high level of investments in education from the late 50s through the 80s, the quality of education declined in the 90s and 2000s. As a result, student learning outcomes today are low, with fewer Tunisian students passing the 'low international baseline' for 8th grade math and 8th grade sciences than the international average. Meanwhile, at the tertiary level, college graduates are confronted with a mismatch between the education and skills they obtain and the opportunities offered by the Tunisian job market. A study of 2004 graduates estimates that around 30 percent were in jobs that did not match the skills acquired through post-secondary education. Graduates from technical colleges do better in terms of finding and keeping jobs.

26. **High unemployment is considered the most urgent socio-economic issues for Tunisia to resolve.** Unemployment, a major aspect of youth frustration that led to the January revolution, increased in 2011 and is particularly elevated among educated young people. With the economic downturn of the past year, the overall unemployment rate is expected to have increased from 13 percent in 2010 to 19 percent in 2011.

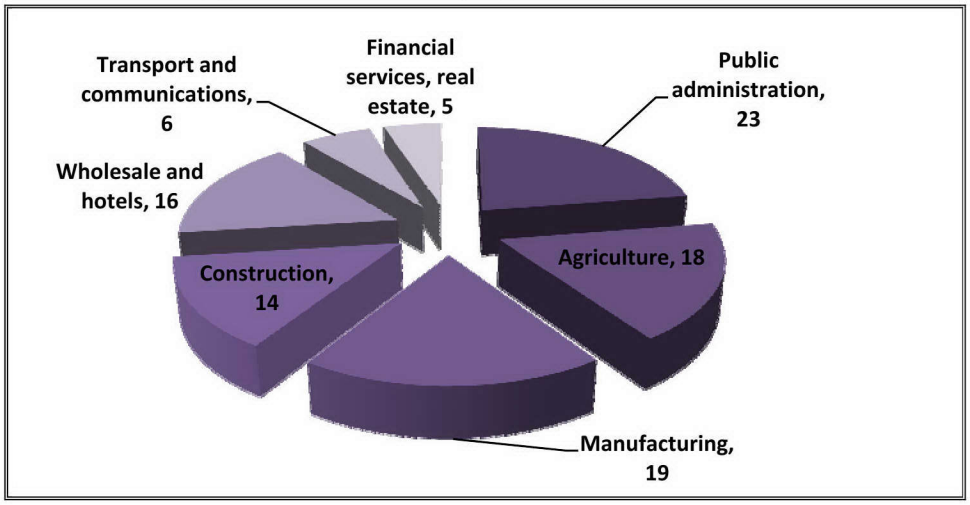
[10] Governance and Opportunity DPL, Program Document, Report 61627-TN, World Bank, 2011; Ministry of Public Health/UNICEF (2006), *Multiple Indicator Cluster Survey (MICS3)*, Tunisia.; UNICEF (2009), *State of the World's Children Report*, UNICEF, New York.

Unemployment rates were highest among high-skilled young individuals (15-29 years old), at 44 percent in 2010, and this rate has increased following the revolution.

27. **Unemployment disproportionately affects women graduates.** This is largely due to the fact that a greater share of women are highly-educated, 46 percent of whom were unemployed, compared to 33 percent for men (in 2007).[11] The stock of unemployed low skilled workers is nonetheless even higher, estimated at 67 percent in 2010. In 2010, about 34 percent of the unemployed have been searching for employment for longer than 12 months, with rates of long-term unemployment particularly high among university graduates (44 percent). Moreover, the labor market situation has also been deteriorating with respect to quality of employment, with over 70 percent of youth aged 15 to 24 working without a contract in 2010.

28. **The labor market has not kept up with the rate of new entrants in the labor force.** Since 2005, annual job creation (between 70,000 and 80,000) has not kept up with the rate of new job seekers (about 90,000 annually). Most jobs that have been created in export-oriented industries such as textiles and clothing, hospitality and tourism services, in construction and others, have by-and-large absorbed low-skilled workers. For example, 93 percent of those employed in manufacturing (textile, mechanical and other manufacturing), which accounts for 20 percent of employment, are low-skilled. For most degree holders, the public administration has been the main employer: more than 55 percent of Tunisia's highly educated workers are employed by the government (largely in the health and education sectors). In 2010, public administration and social services accounted for 51 percent of all formal employment and 23 percent of all employment. Public sector workers are more likely to have open-ended contracts (87 percent), whereas 60 percent of private sector workers are in informal situations without a formal contract. The public sector also offers higher average wages and more generous benefits.

Figure 2. Share of Employment by Sectors, 2010



F. Regional Context

29. **Tunisia is a long-standing trade partner of the European Union and a signatory of numerous agreements with countries of the Middle East and North Africa and the Maghreb in particular, as well as increasingly with G8 partners.** In 1995, Tunisia signed the Association Agreement for industrialized

[11] *Development Policy Review: Towards Innovation Driven Growth*. Report No. 50847-TN.World Bank, 2010

goods with the EU which instituted a free trade zone in early 2008. Tunisia also participates in the EU neighborhood policy, which outlines a cooperative effort to push political and economic reforms for the mutual benefit of Tunisia and the EU. The 2004 approval of the European Neighborhood Policy prompted the adoption of an action plan in 2005 that comprised economic and non-economic issues. Negotiations have been underway since 2009 for the liberalization of the services and agricultural sectors but have yet to be concluded. Tunisia has also entered into numerous agreements with Middle East and North African countries. Tunisia has been a member of the Arab Maghreb Union since 1989, a signatory of the Agadir Agreement[12] since 2004, as well a member of the Euro-Mediterranean Partnership since 2008. Trade is still primarily conducted with the EU, though Tunisia had increased its trade ties with Libya prior to the conflict.

G. Governance Context

30. **Prior to the revolution, Tunisia was characterized as having weak levels of transparency and accountability and performed poorly across most dimensions of governance and anti-corruption.** Tunisia also had important shortcomings and failures related to voice and accountability, a highly centralized decision-making process with a system of checks and balances which largely existed on paper, and, more generally, substantial discretion in the application of laws. Global Integrity's 2008 rating labels Tunisia's performance as "very weak" on executive accountability, mainly because of the concentration of power that was subject to few checks and balances. Freedom House's 2010 report rates the country as "not free," the lowest ranking possible. Legally, citizens had the right to vote and were eligible to run for office. However, in reality, elections were tightly managed and no agency had independent authority to monitor their integrity. On election integrity, Tunisia was ranked "very weak" by Global Integrity. Tunisia also fared poorly on budget processes, rated "very weak," as the legislature provided limited input into the national budget. A separate legislative committee provided oversight of public funds, though its independence and impartiality were questioned. Freedom House's Freedom of the Press rated Tunisia as "not free" and Global Integrity indicated that Tunisia was one of the most repressive regimes in the world with regard to media freedom. In addition, while Tunisia's anti-corruption law was seen as being of very good quality, its implementation was very weak.

31. **Lack of adequate participation, transparency and accountability was a key trigger of the revolution.** A prevailing culture of secrecy also prevented informed debates or consultations on public policies, finances or services. One of the words most frequently heard from young people demonstrating in Tunisia was the word "dignity." This sense of indignity was due to the social and economic exclusion stemming from lack of opportunity and participation. The Government lacked legitimacy, responsibility and accountability to the national assembly, which in turn lacked legitimacy with citizens. Achieving greater government accountability to citizens and greater citizen participation and feedback in policy-making called for greater transparency in government operations and higher standards for public officials.

32. **Weak governance also constrained the domestic private sector and job creation; nevertheless, key economic governance failures were not adequately captured in various rankings.** Tunisia improved its ranking in Doing Business from 58th place (out of 155 countries) in 2008 to 46th (out of 183 countries) in 2012. However, these rankings reflected the reasonably good business environment in the 'offshore' sector, and did not capture the reality of most domestic investors in the 'onshore' sector. Tunisia's governance problem revolved around issues such as discretion in the application of laws and regulations, inefficient procurement processes, rigged privatization, declassification of public land and asset and improper use of public banks. An example of the latter is illustrated by state-owned enterprises which financed their deficits by borrowing from public banks which, in turn, were burdened by a large number of non-performing loans. This situation exacerbated governance failures in the banking sector. Heavy-handed and pervasive state intervention

[12] The other signatories include Egypt, Jordan, and Morocco.

in the economy and slow progress to strengthen the business environment in the 'onshore' sector limited competition and private domestic investment (15 percent of GDP on average), limiting job creation.

33. **Following the revolution, the interim authorities in 2011 initiated a broad program of emblematic reforms (within their mandate) to strengthen governance and social accountability, including:**

- ✓ Revised the law on Freedom of Association to remove all major legal obstacles and facilitate the development of a strong and free civil society.
- ✓ Revised the legal framework to allow public access to information and give the public the right to access information held by public bodies (and among other things, remove constraints to public access to economic and social statistics, including micro data).
- ✓ Modified the Domain Names Charter for the hosting of Internet websites, in order to simplify the procedures for the registration and hosting of Internet websites and eliminate the condition that the registrar must be a Tunisian Internet Service Provider (ISP).
- ✓ Revised the legal framework for public procurement to improve the efficiency and transparency of procurement procedures and to shorten the decision process without compromising quality.
- ✓ Launched a systemic, participatory, measurable and visible reform to simplify administrative procedures and red-tape and reduce discretion and arbitrariness in taxes and customs procedures.
- ✓ Established a new regulatory framework for the National Employment Fund, starting with moving its management away from the Presidency to the Ministry of Employment.
- ✓ Revised the regulatory framework on banks' corporate governance practices, including the introduction of criteria for selection of senior management and members of the board.
- ✓ Enabled the use of monitoring and evaluation mechanisms that allowed citizens to rate performance of social programs and public services (e.g., community scorecards).

34. **The Interim Government in 2011 established an independent governance commission to investigate corruption and embezzlement allegations against the Ben Ali regime**. The commission's report released in November 2011 concluded that corruption was widespread across all state agencies, ministries, banks and the media, and pervaded the administration, legal system, properties, state projects and contract awards, privatization, telecommunications and the tax system. The commission made recommendations to strengthen the legal and institutional framework on anti-corruption. The Government subsequently signed into law a decree foreseeing a permanent anti-corruption framework, which will help pave the way for building stronger institutions to effectively prevent and fight against corruption.

35. **The Stolen Asset Recovery Initiative (StAR), sponsored jointly by the World Bank and the UN, has been supporting the efforts of Tunisian authorities in recovering stolen funds and assets**. The Tunisian authorities are working with the program to design and implement an investigative strategy and to train Tunisian investigators and judges. StAR also facilitates international contacts and cooperation, including in the Mutual Legal Assistance process. Tunisia's Central Bank Governor chairs the Committee for the Recovery of Stolen Assets, created in March 2011 to conduct asset recovery efforts and to coordinate with relevant agencies (Interior, Justice, Finance, and others). While some tangible assets have been recovered, including airplanes in France and Switzerland that were returned to Tunisia, the process will be lengthy and challenging but will help restore trust in the Government.

III. THE GOVERNMENT'S PROGRAM

36. **The Constituent Assembly Government in early 2012 prepared a draft supplemental budget law and began working on an economic recovery program with a focus on lagging regions.** The program assumes 3.5 percent economic growth in 2012 translating into 70,000 new jobs. The draft supplemental budget law for 2012 was endorsed by the Council of Ministers on March 30, 2012 and is expected to be approved by the Constituent Assembly in May 2012.

37. **In the short-term, the Government's main challenge is to ensure social peace and security as a prerequisite for restoring economic activity and putting the economy back onto a growth trajectory.** The Government is also seeking to establish an enabling environment for structural reforms that, among other things, would reduce unemployment and regional disparities and improve living conditions throughout the country. Moving forward, the Government seeks to promote national pride to bring all citizens together, putting religious and political considerations aside.

38. **The draft economic recovery program shared with the Bank and recent discussions with the authorities have focused on the following:** (i) financial (banking) sector reforms; (ii) improving governance; (iii) strengthening competitiveness and the business environment; (iv) scaling up social safety net programs; (v) promoting regional development using, among other things, community driven development techniques; (vi) supporting environmental protection and optimizing natural resources; and (vii) creating short-term employment opportunities for the rising number of unemployed. Governance reforms include strengthening the institutional framework to tackle corruption, improving transparency, further increasing access to information and addressing inefficiencies in procurement/contract award procedures. Regarding improvements in the business environment, the Government is exploring options on how best to address the recommendations of the recent financial sector assessment (FSAP) to strengthen the banking sector, including recapitalizing banks, and reforming the Investment Incentives Code to attract domestic and international investment in innovative sectors. In terms of regional development, the Government plans to give Tunisia's 24 Governorates the leeway to make development decisions and allocate funding accordingly. In terms of public programs for the unemployed, the Government is exploring options to restructure the AMAL program (cash transfers and employment support for the unemployed) to be more effective.

IV. WORLD BANK GROUP INTERIM STRATEGY

A. Recent World Bank Group Engagement in Tunisia

39. **The World Bank Group's engagement in Tunisia grew significantly in 2011.** In the mid 2000s, demand for Bank financing was steadily declining as Tunisia achieved investment grade status and accessed financing on the global markets. As a result of the global economic crisis, Bank lending to Tunisia sharply increased from $6 million in FY08 to $336 million in FY09. The Bank prepared a Country Partnership Strategy (CPS) for FY10-FY13 to support Tunisia's 2007-2011 National Development Plan. The CPS focused on supporting Tunisia's efforts to generate employment through a knowledge-based economy and to invest in human development.[13] Proposed lending and AAA focused on investments and reforms to help Tunisia accelerate its structural transformation to a higher value-added, knowledge-intensive economy to become more competitive and create more jobs for the high rate of educated unemployed. It also included support for education and health services, basic infrastructure services, rural and municipal development and energy. The Bank upgraded the Tunis liaison office to a country office and appointed a Country Manager in early 2011.

[13] "Country Partnership Strategy for the Republic of Tunisia for the period FY10-13" Report No. 50223 TUN, November 23, 2009.

40. **Bank support to Tunisia prior to the revolution was perceived as not being bold enough on governance and transparency.** The Bank highlighted the limits of the Tunisia development model in the 2010 Development Policy Review (DPR) which underpinned the FY10-FY13 CPS. The DPR pointed to critical reforms needed to strengthen competition and fairness for the domestic private sector; to boost productivity and improve the ability of the private sector (including in agriculture) to absorb high skilled workers; to boost trade integration, strengthen the financial sector, adapt education, improve the functioning of the labor market, strengthen the performance of municipalities and modernize the public administration, including to increase openness and urgently address public procurement weaknesses. However, reforms to create a more open economy and a more level playing field moved very slowly and the Bank was seen as not having sufficiently pressed on some of the serious governance, transparency and accountability issues that weakened citizens' voice and undermined economic performance and prospects for Tunisians to more fully participate in economic activity. A lesson learned from the brief period of CPS implementation and the Arab Spring is that transparency, voice and accountability are fundamental for shared and sustainable growth and poverty reduction.

41. **Prior to January 2011, IFC had a limited role in Tunisia due to a challenging business environment and difficulties in identifying adequate partners.** IFC's engagement in Tunisia has been predominantly in infrastructure and in the financial sector, with a focus on Micro, Small and Medium Enterprises (MSME) financing. This includes the first airport concession in North Africa, Small and Medium Enterprises (SME) funds, micro-finance targeting women borrowers, and selective engagement in high value-added industries (electronics).

42. **Since January 2011, IFC has ramped up its engagement and established a field presence in Tunis for the first time**. IFC has 4 new investments amounting to US$50 million committed since January 2011 (compared to a total of 5 in the previous 10 years) in the health care, financial/funds and oil and gas sectors. In parallel, IFC has engaged with strong advisory support in the areas of investment climate, education for employment (e4e) focusing on youth employment, promoting good corporate governance and supporting micro-finance. IFC's new investments include an US$8.2 million equity investment to help broaden access to quality private health care for lower-income groups and people living in underserved regions. The project will help create more than 1,000 jobs and enhance the skills and employability of graduates in the private health sector. IFC also committed US$22 million to support a North Africa regional fund focused on investing in SMEs in Tunisia, provided US$10 million of equity to a junior oil and gas company with assets in frontier and lagging regions, and extended a US$10 million trade finance facility to a commercial bank to support Tunisian exports. In January 2012, IFC appointed a Senior Country Officer in Tunis, co-located in the World Bank country office, and plans to appoint advisory staff to implement its fast growing advisory program.

43. **MIGA's role in Tunisia is relatively limited.** Its most recent and only investment has been providing a US$240 million guarantee, approved by the Board on June 30, 2011, in support of financing for a passenger-car ferry acquired by the Tunisian Navigation Company (*Compagnie Tunisienne de Navigation)*. MIGA also has small manufacturing projects in its Tunisia pipeline.

44. **Immediately following the January 2011 revolution, the Bank responded rapidly to the Interim Government's request to help define and support priority actions to break with the past.** Lending operations and analytical work that had been under preparation were put on hold while the Bank worked with the Interim Government to support post-revolution priorities. A new package of World Bank activities was agreed upon and focused on reform measures to promote governance, transparency and accountability, and alleviate the social impact of the economic downturn. The new program in 2011 included a US$500 million single-tranche multi-sector Governance and Opportunity Development Policy Loan (GO DPL) supporting reforms to (i) improve transparency and accountability in a visible way to respond to the aspirations of the population; (ii) signal to investors that Tunisia was creating a level playing field for private sector-led growth; and (iii) take immediate actions to relieve the plight of the unemployed and the poorest and most vulnerable

groups. The DPL program was prepared jointly with the AfDB, the EU, and French Agency for Development (AFD), which together contributed an additional US$800 million, for a total lending package of US$1.3 billion. Bank commitments approved in FY11 reached a record US$590 million.

45. **The Bank and interim authorities also took stock of the ongoing investment portfolio to ensure their relevance following the revolution.** Investment lending operations and GEF projects that were ongoing prior to the revolution continue to be implemented and efforts were made to speed up the implementation of two Community Driven Development (CDD)-type operations due to their focus on improving socioeconomic conditions of poor and vulnerable communities in lagging regions (The Second Natural Resources Management Project, approved in June 2010; and the Fourth Northwest Mountainous and Forested Areas Project, approved in December 2010).[14] Trust funds were also mobilized to pilot innovative approaches to employment and basic services (*paragraph 68*).

46. **The Bank's portfolio in Tunisia was affected by the revolution, with implementation of some activities slowing in 2011.** The active portfolio includes IBRD and GEF financing for infrastructure and social services, rural development and natural resources management. Actual commitments are estimated at US$539 million (of which US$29 million are GEF grants) with an undisbursed balance of US$353 million as of April 30, 2012. The investment lending disbursement ratio slowed from 28 percent in FY10 to 20 percent in FY11, still higher than the regional average of 14 percent. The slower investment lending disbursement rate and some implementation issues can be attributed to disruptions caused by the revolution and political transition, including delays with decentralized entities and with the awarding of contracts for projects that required investor participation (energy sector). Three IBRD investment operations are rated as problem projects: The Second Natural Resources Management Project, which experienced a slow start-up related to the socio-political situation and political transition, which delayed disbursements; the Energy Efficiency and Renewable Investment Project, which includes activities to attract private investments in the energy sector, but investors have been wary in the lead-up to and following the revolution; this has delayed implementation; and the Sustainable Solid Waste Management project, which was also affected by the political turmoil delaying contract bids. Bank staff are examining options to restructure these operations.

47. **Going forward, the Bank is developing implementation readiness filters to improve project disbursement rates following effectiveness.** The Bank's financial management team will also work with sector teams to embed measures in operations to strengthen Tunisia's governance and anti-corruption performance and ensure Bank funds are used in line with project development objectives. In terms of moving toward greater use of country systems, the Bank could provide support to strengthen the internal audit function of the Ministry of Finance and line ministries to provide assurances of the soundness of, and compliance with, internal controls and gradually improve the balance between the ex-ante to ex-post controls and have greater accountability of public sector managers. In addition, the Bank will need to carefully manage the mobilization of a number of new trust funds, including from the Japanese Social Development Fund (JSDF) and the State and Peace Building Fund (SPF) for various pilot activities to ensure their efficient implementation. New trust fund operations will be clearly linked with IBRD lending activities to promote synergies and efficiencies.

48. **IFC's committed portfolio in Tunisia has grown from US$56 million in 2006 to about US$250 million in 9 companies at present**. IFC's portfolio is predominantly in infrastructure (70 percent) and financial markets (23 percent). IFC's largest investment in TAV Tunisia Airports, which represents 65 percent of IFC's committed portfolio, has been adversely affected by the sharp contraction in tourism in the country.

[14] The authorities also requested an amendment to country financing parameters to reduce counterpart financing and have all investment project expenditures financed 100 percent by the Bank. The request is being evaluated on a case-by-case basis to ensure that sufficient funds are available to implement projects in accordance with the project development objectives described in the loan agreements.

B. Rationale for an ISN and Principles of Engagement

49. The rationale for preparing an ISN is driven by: (i) the significant shift in the Government's priorities following the revolution, requiring a commensurate shift in the Bank's priorities to support post-revolution Tunisia; and (ii) the short time horizon of the Constituent Assembly Government, whose mandate is expected to come to an end in 2013.

Box 1. Four principles of engagement under the ISN

Flexibility. The Bank demonstrated its flexibility in 2011 to ensure that adequate lending instruments and financing levels were made available to Tunisia for its pressing financial needs. The lending pipeline was consolidated and streamlined into the quick-disbursing Governance and Opportunity (GO) DPL to rapidly address the interim authorities' resource constraints while supporting reform priorities that demonstrated a break with the past. The Bank mobilized global expertise and significantly scaled up technical assistance to support the new reform program, particularly in the areas of access to information and for short-term employment programs, and mobilized trust funds to pilot new employment and social services programs in lagging regions. The Bank and IFC will seek to maintain flexibility, in light of the fluid country context.

Selectivity. With a fluid and evolving political environment, the Bank Group will need to be selective in terms of the scope of its engagement in the different sectors where it will intervene, and in terms of the results it commits to helping Tunisia achieve during the ISN period. In particular, given the short time horizon of the ISN, new activities will focus on the most critical short term priorities that can achieve results in the near term or pave the way for results in the medium-term. An example is the support for social dialogue this year with a view to eventually supporting consensus on labor code reforms.

Integrating gender into new activities. Maintaining and advancing women's role in Tunisia through the political transition is a priority for the Bank Group. The Bank plans to support policy-focused gender diagnostics and analytical work (a youth inclusion survey and poverty and social assessment), mainstream gender into Bank-supported human development and employment and labor market projects, and support reforms to enhance women's social and economic inclusion (DPL). Gender disaggregated and gender-specific performance indicators will continue to be included in relevant projects. For the IFC this would include strengthening women's access to credit, education and business opportunities.

Broadening consultations to reach new stakeholders. Although consultations with civil society and the private sector are not new to the Bank's work in Tunisia, the audiences with whom the Bank engaged previously was closely influenced by the authorities. Following the revolution, the Bank has been able to solicit considerable input from new stakeholders through some 26-30 consultations, including local officials, CSOs, youth and women's groups, private sector, parliamentarians and others, on development priorities and topics of youth employment, governance, health and education, and for the preparation of analytical work and operations, such as the GO DPL.

C. Areas of Engagement and Driving Objectives of the ISN

50. **This ISN outlines a Bank Group program focused on contributing directly and indirectly to the Government's short and medium-term employment creation objective. The program will promote private sector-led recovery and job creation, with a focus on openness, opportunity and accountability.** To this end, the Bank Group will frame its support within three Areas of Engagement: (i) Laying the Foundation for Renewed Sustainable Growth and Job Creation; (ii) Promoting Social and Economic Inclusion; and (iii) Strengthening Governance: Voice, Transparency and Accountability.

51. Given the weak economic outlook (*see Section II.C*), Bank lending to Tunisia during the ISN period is likely to be dominated by fast-disbursing budget support for reforms in the three areas of engagement.

AREA 1: LAYING THE FOUNDATION FOR SUSTAINABLE GROWTH AND JOB CREATION

Driving objectives: i) Supporting macroeconomic stability and economic recovery; (ii) Strengthening the business environment and deepening integration; (iii) Creating an enabling environment for labor market reforms and iv) Improving active labor market programs for the unemployed

(i) Driving Objective 1: Supporting macroeconomic stability and economic recovery

52. **One of the Government's key priorities in 2012 is to ensure macroeconomic stability and take steps to restart the economy as it presses ahead with the political transition**. While Tunisians are impatient for progress and eager to reap the rewards of the revolution, the country has faced an economic downturn since 2011 due to factors outside the Government's control, and this period is likely to be followed by only a gradual recovery. Social tensions remain high and the Government has taken actions to maintain social, political, legal stability to accelerate economic recovery. Macroeconomic policies will play a critical role to facilitate the economic recovery. Having substantially eased monetary policy in 2011, the Government will likely use fiscal measures to stimulate recovery in 2012 and 2013.

53. **Improving budget execution is an immediate priority.** The experience in 2011 (and previous years) shows that there are significant bottlenecks in budget execution, including in procurement procedures, which have hampered the effectiveness of the fiscal stimulus. In mid 2011, the Bank worked with the Government to simplify procurement procedures for public investment projects and improve their transparency. Notwithstanding the fluid political environment in 2012, the Bank will explore options and opportunities to continue to assist the Government to refine and apply new emergency procurement procedures to speed up the execution of the public investment program.

54. **The Bank will provide quick-disbursing financing to support reforms which lay the foundation for job creation and renewed sustainable growth.** Until its international commercial borrowing terms improve, the Government will continue to need budget support from international partners, notably from IBRD, to stimulate recovery and finance social programs. For these purposes, the Bank will provide financing through Development Policy Loans (DPLs). The Bank is also discussing options to use Policy-Based Guarantees (PBGs) to support Tunisia's efforts to raise additional financing on the international financial markets. As with the GO DPL in 2011, the Bank's policy-based loan and guarantee will leverage support from other development partners, including the AfDB, the EU and the US Government. The 2012 reform program, to be supported with policy-based lending instruments, is being discussed with the new authorities and will likely build on the 2011 GO DPL, and include reforms to accelerate inclusive growth and job creation.

55. **Ensuring fiscal sustainability is an essential parameter of the policy response to the economic downturn.** While Tunisia went into the crisis with a reasonably low level of public and external debt, it will be crucial to help the interim authorities ensure that the short-term macro-policy response to the economic downturn remains consistent with a sustainable fiscal path. In this context, the Bank is also working with the authorities on a fiscal and debt sustainability analysis (to be completed in May 2012) which will look at the Government's fiscal space over the medium-term.

56. **To support the ISN objectives of employment creation and economic recovery, the IFC will focus on restoring investor confidence in the short-term and boosting private sector activity over the longer-term.** Short-term areas of engagement will include: trade finance; access to finance to underserved segments, such as MSMEs; the investment climate and corporate governance, among others. To respond to the long-term challenges of job creation and economic competitiveness, IFC investments will target high value-added sectors and MSMEs, which account for about 80 percent of firms in Tunisia and play a key role in creating jobs. Investments will also promote inclusion by targeting: i) women and young entrepreneurs; ii) labor-intensive and high value-added manufacturing sectors (i.e. electronics, electrical and mechanical

industries, agribusiness, IT and off-shoring); and iii) improvements in the quality and access to infrastructure and social services in lagging regions.

57. IFC expects to grow its investment and mobilization program over the next two years, committing five to eight investments during the ISN period. IFC's advisory program will play a key role in supporting efforts to improve the business environment, strengthen financial markets, address the skills and job mismatch, and support PPPs in infrastructure. IFC will integrate its investment and advisory programs and complement regional initiatives with other international financial institutions (IFIs) and will continue to work closely with the Bank and other donors as part of the Deauville Partnership process and in the context of joint MENA initiatives. These regional initiatives would support the SME Facility, the Education for Employment in the Arab World (e4e), the MENA Fund and the Arab Financing Facility for Infrastructure. Additionally, IFC will look to support pre-privatization, wholesaling and consider equity stakes in nationalized assets in key sectors such as banking, telecom and manufacturing.

(ii) Driving Objective 2: Strengthening the business environment and deepening integration

Business environment and trade integration

58. **A fundamental priority for post-revolution Tunisia is to enact reforms to improve the business environment to enable the private sector to flourish and start creating jobs.** Adopting reforms to improve the business environment—by reducing bureaucratic requirements and restrictions, increasing transparency and market contestability, and reducing discretion and privileges—will send a strong signal to private investors that Tunisia is once again open for business, but this time with a more transparent and competitive environment. A priority policy reform is to simplify the investment code to reduce the onshore-offshore dichotomy and move towards a level playing field across the economy. Also, building on the 2011 GO DPL, it will be important to assist the authorities in simplifying administrative procedures for business licensing and transactions, and reducing the room for discretion in their application. In addition, significant reforms are needed to open up and enable renewed growth in key sectors such as tourism. IFC's advisory services in Tunisia will also support this agenda, by assisting the authorities in streamlining business regulations, improving competition and investment regulations and implementing regulatory reforms.

59. **Tunisia also needs a new growth strategy that realistically addresses job creation and regional development challenges.** Tunisia's economy has been plagued by low investment slow productivity growth, and insufficient (and low quality) job creation. With the significant pressure to increase wage levels in post-revolution Tunisia, the competitive edge that moderate wages previously afforded Tunisia could be lost. The challenge for Tunisia is to enable productivity growth to become the engine of faster private sector-led growth and job creation, while still providing adequate job security and an efficient and well-targeted social protection for the poor. To help the authorities think through this agenda, the Bank will prepare a Development Policy Review (DPR) aimed at helping the Government articulate a vision for faster and broadly-shared growth, focusing on job creation and identifying regionally sensitive growth strategies. As part of the DPR, the Bank will prepare a series of policy notes on selected policy challenges.

60. **The Bank and IFC are supporting additional analytical work to promote policies for sustainable growth and a stronger private sector**. The Bank and IFC are preparing an Investors' Motivation Survey and an Investment Climate Assessment to better understand and address private sector constraints. Focusing on agriculture, which accounts for 18 percent of employment, the Bank has been studying options to improve access to rural finance and create the right incentives for the sector to grow.

61. **A critical aspect of any growth strategy will remain the pursuit of greater global economic integration.** With the European Single Market accounting for a quarter of world trade and outward investment, integration with the EU has been a core element of Tunisia's global integration strategy. Beyond

the EU, Tunisia has a lot to gain from deepening integration with the rest of the world, in particular within the Region. Moreover, the new Constituent Assembly Government has boldly reaffirmed its commitment to global and regional integration, including in the Maghreb. The Bank will prepare analytical work (Global Integration Programmatic ESW) to assess the impact of different trade integration options and identify the regulatory and institutional bottlenecks to deeper integration, as well as the potential trade and economic benefits. These recommendations could inform policy options to be supported under a future DPL. The Bank is also preparing the Third Export Development Project (EDP III) to continue supporting SMEs that export. The Bank and authorities are discussing options for adapting or broadening EDP III to possibly provide support for other private sector priorities, such as expedited custom clearance procedures.

62. **With regard to tourism sector debt, the Bank and IFC in 2011 undertook a tourism debt restructuring analysis.** The tourism sector, which has been affected by high levels of debt and non-performing loans, is in dire condition due to the sharp decrease in tourism revenues in 2011. Based on the Bank-IFC diagnostic, unless comprehensive action is taken in the sector, there is a risk that the economic downturn will magnify the economic, financial and social costs in the sector. The Bank is proposing an action plan which recommends, *inter alia*, creating a "bad bank" for the distressed assets of *Société Tunisienne de Banque* (STB) or transferring all banking sector distressed assets from the tourism sector to asset management companies, as well as reforms to improve the insolvency regime and creditors' rights, implement a diversification strategy, open up the air transport sector and improve the governance of the tourism sector.

Financial Sector

63. **The Bank and IMF conducted an FSAP in early 2012 which recommends structural reforms to improve the operation and stability of the financial sector, as well as to strengthen its resilience to economic shocks.** The FSAP confirmed that with the weak domestic economy, the banking sector—already compromised by poor risk provisioning, a high rate of non-performing loans (NPLs) and weak governance practices during the Ben Ali regime—faces deteriorating profitability, solvency and quality of loans. Lack of liquidity in 2011 became a new source of vulnerability for the banking sector and a material threat for firms relying on external funding to support their economic activity. Along with the tourism debt restructuring analysis, the FSAP is providing the analytical underpinnings for technical assistance and policy reforms that the Bank, IFC and IMF will support to help the Government strengthen the financial sector. Priority reforms include the restructuring and recapitalization of state-owned banks, the introduction of stricter regulation requirements, the strengthening of banking supervision procedures, and the establishment of a financial crisis preparedness monitoring framework. Following the identification and implementation of some initial reforms through the FY13 DPL, the Bank could further support the sector through a financial sector support loan. In coordination with the Bank and the IMF, the IFC has provided training and advisory services to promote sound banking governance practices in the banking sector to improve performance and attract investment. The Bank could provide training and advisory services to the Banking Supervision department of the Central Bank in order to better monitor the implementation of the new Corporate Governance rules established in 2011.

64. **In addition, IFC will seek to develop a sizeable investment (loan and equity) and advisory program to strengthen financial institutions (investment funds, banks, micro-finance institutions) and lending capacity to MSMEs.** IFC is committed to further expanding its engagement in the financial sector through bank equity investments, in particular as the Government embarks on restructuring Tunisia's banking sector. The program could possibly include a review of the regulations for micro-finance institutions and promotion of the establishment of a Credit Bureau, jointly with the Bank. IFC is establishing a regional MENA Fund that will leverage investment opportunities in the region, support capital markets and help scale up access to finance. The Fund is expected to be mainly an equity fund of around US$300 million and will co-invest with IFC across all sectors. Lastly, IFC will increasingly focus on women and youth in access to microfinance, SME banking, corporate governance and training for female entrepreneurs.

(iii) Driving Objective 3: Creating an enabling environment for labor market reforms

65. **There is a new window of opportunity for the Government to lay the groundwork to restructure the labor market which has been in disarray for years.** Labor regulations in Tunisia are rigid, complex, difficult to enforce and outdated (nearly unchanged since their inception in 1966) and have become a disincentive for job creation in the formal sector. There is widespread agreement that labor market regulations represent a significant constraint to growth and employment creation. Notwithstanding the fragile political environment, the Government, employers and unions are more receptive than ever to reforms that would make it more flexible.[15] Specific policy options could be defined as part of a National Social Dialogue process with the authorities, the unions, the representative of the business community, and civil society at large. The Bank's programmatic TA on employment will explore options to support the national dialogue process in reaching a social consensus on suitable and concrete labor reform options. Reform options would include promoting greater women's participation in the labor market, through among other things regulations for more flexible public sector working hours.

(iv) Driving Objective 4: Improving active labor market programs for the unemployed

66. **Coping with a large and increasing stock of unemployed youth (estimated at 44 percent for university graduates) is a key challenge for the Tunisian government.** The Bank is working with the Government on a series of short-run policy options to better assist the large pool of unemployed. For instance, a legal and institutional framework needs to be put in place for results-based monitoring and evaluation of public expenditures on Active Labor Market Programs (ALMP, unemployment programs) which will collect gender-disaggregated data. Reforming the National Employment Fund (FNE), the main source of financing for ALMPs in the country, has become a priority in the sector, and the World Bank could also work on identifying options to reform regional employment programs financed by the FNE. The AMAL program for unemployed graduates has fallen far short of expectations and needs to be reformed and/or eventually phased out.[16] Also, the Government could explore options for public-private partnerships to deliver vocational training and employment services. In this context, the job placement services of Tunisia's National Agencies for Assistance to the Unemployed (ANETI) needs to be strengthened through, among other things, private sector partnerships. The Bank could identify options for reforming FNE regional employment programs, which have sizeable budget allocations but lack governance and accountability frameworks. Finally, the delivery, targeting and governance of labor intensive public works and other regional employment programs also need to be reformed. As these options for reform are explored, the Bank will identify opportunities to include women, especially young women, within ALMPs, monitor progress and inform policy. Parts of this reform agenda could be supported by the Bank's TA on employment policy.

67. **The Bank will also explore the possibility of a Training for Employment investment project that would expand the private sector's role in training and certifying skills, in an effort to reduce the mismatch between skills supply and labor demand.** Notably, the operation could focus on fostering

[15] In the medium-term, Tunisia will need to engage in a process of comprehensive and politically sensitive reforms in the labor market, which would include: (i) a revision of the labor code, (ii) a revision of social security systems (including tax wedges, social contributions, and pensions), (iii) liberalization of professions, (iv) the introduction of a lifecycle approach that focuses on protecting workers (more social support, unemployment insurance, and active measures to assist workers during periods of transition rather than protecting particular jobs), and (v) the liberalization of private intermediation.

[16] The AMAL program established post-revolution to provide limited financial and job placement support to unemployed graduates is mainly providing cash assistance, with important implications for the country's budget, and has failed to provide coaching, training and placement services that were supposed to accompany the program. The government needs to develop a strategy (accompanied of a well-thought communications campaign) to put a time limit to the AMAL program. Reforms to be introduced to the program, should include: tightening eligibility criteria, limiting the program to urban setting, reducing the stipend, requiring active search, and establishing a time limit.

agreements between vocational training providers and firms to train unemployed graduates in skills required to fill pre-identified jobs in high potential sectors, such as in the off-shoring business. Leveraging the Education for Employment Initiative in the Arab World (e4e), IFC will implement a pilot IFC-World Economic Forum (WEF) project focused on addressing the mismatch between labor demand and job skills. The pilot program aims to enhance the employability of youth through new models for partnerships between the public and private sector and between education providers and employers. The Tunisia program has three facets: 1) leading a public-private platform to establish a structured bridge between the private sector (demand for skilled youth) and education institutions, donors and Government (supply) which will target sectors having high employment potential; 2) catalyzing investments in private sector providers of tertiary, vocational, and work readiness education and training; and 3) potentially investing in a venture fund alongside other local and international investors to increase the supply of long-term capital for businesses to spur growth and create jobs.

68. **The Bank has mobilized trust fund financing to pilot innovative approaches to youth employment, training and social services.** Two JSDF grants were mobilized to finance labor intensive public works in Jendouba (US$3 million) and emergency income and short-term employment for rural youth in Sidi Bouzid and Kasserine (US$3 million), both of which were approved in 2011 and will be under implementation in 2012. This latter JSDF project will collect gender-disaggregated data, and it anticipates an equal representation of female and male beneficiaries. The employment for rural youth JSDF pilot will collect gender-disaggregated data, and it anticipates an equal representation of female and male beneficiaries. An SPF grant (US$5 million) approved in 2011 will benefit vulnerable populations, including Tunisians who returned from Libya due to the conflict, and employ them in the provision of basic services and training. These operations include gender specific indicators to monitor performance in terms of women's active participation in sub-project identification, implementation, and oversight. They will also provide lessons for employment programs and could be scaled up.

AREA 2: PROMOTING SOCIAL AND ECONOMIC INCLUSION

Driving objectives: (i) Improving access to basic services for underserved communities; and (ii) Improving the efficiency of social safety net programs.

(i) Driving Objective 5: Improving access to basic services for underserved communities

69. **The revolution highlighted the need for greater participation of local authorities and local communities in the design of economic policies, in decision-making and in delivery of public services.** Since 2011, a community scorecard program has been piloted and has led to lively town hall meetings (with the active participation of women) in which local authorities and citizens rate health, education and employment services and make recommendations for how to improve them. Building on this model, the Bank will support additional efforts at both the rural community level and urban/peri-urban municipal level to improve access to basic services based on concrete feedback and strengthened local governance.

70. **Ongoing IBRD operations will also contribute to this driving objective at the rural community level, during the ISN period:** The **Second Natural Resources Management Project**, approved in June 2010, which aims to improve the living conditions of rural communities, specifically targeting unemployment women and youth groups, through better access to basic infrastructure and services, through improved natural resource management and through an integrated approach to community-based development; the **Fourth Northwest Mountainous and Forested Areas Development Project**, which became effective in June 2011, and which also aims to improve socio-economic conditions for the rural population, focusing on vulnerable groups such as women, youth and the landless, through better management of natural resources and participatory community development; and the **Second Water Sector Investment Project**, which uses participatory approaches to promote the efficient management and operation of public irrigation schemes by farmers; and improved access and consumption of drinking water for rural households.

71. **In terms of activities to be initiated during the ISN period to pave the way for improved services at the municipal level, the Bank will work with the authorities to address weak managerial capacity and financial resource issues which have reduced local government capacity to deliver services.** Just before the revolution, the ratio of municipal resources to central government resources was estimated at 4 percent and was declining due to stagnating tax revenues, inter-governmental fiscal transfers biased towards richer municipalities, and increasing indebtedness of municipalities (due to excessive investment in poorly selected investment plans). The Government is exploring reform options to gradually transfer responsibilities and budget resources from the central government to local governments. These efforts will help to empower municipalities and local governments to provide services and fulfill their mandate of contributing to local and regional development.

72. **To support these efforts, the Bank will initiate a two-pronged urban development and local governance program, consisting of:** 1) An integrated program of analytical work to inform sector policies related to: (a) municipal finance and fiscal resources for sustainable urban services and infrastructure; (b) local empowerment, decentralization, and local governance; and (c) review of lagging regions and urbanization and options for sustainable growth and inclusive development. This program will be implemented with the support of Cities Alliance and the Marseille Center for Mediterranean Integration (CMI); and 2) an IBRD lending operation focused on financing local investments and promoting sector-wide reforms for better governance, performance and sustainability of urban/regional development. The project will also upgrade basic public services and create employment opportunities. The Bank will consider using the Performance for Results (P-for-R) instrument for this operation. Tourism development and cultural heritage promotion and preservation may play a significant role in these programs.

73. **Other ongoing Bank-financed operations providing basic services will continue to be implemented during the ISN period.** This includes: The **Urban Water Supply Project**, which is strengthening water supply systems to connect over 160,000 households to water supply service by 2025 and improve the quality of services in Greater Tunis (accounting for one-fifth of the population) and small urban centers in northern and central provinces; The **West Sewerage Project** serving poor communities in Greater Tunis; a **Sustainable Municipal Solid Waste Management Project** piloting public-private partnerships in solid waste management planning at the municipal level; and the **West Tunis Wastewater** and the **Northern Tunis Wastewater projects**, which are paving the way for the reuse of up to 44 percent of the treated wastewater produced by Greater Tunis. A new GEF Healthcare Waste Management project supports the sustainable disposal of healthcare waste from medical facilities.[17] IFC will continue to promote private sector provision of infrastructure and social services, notably in health and education, through advisory and investment services. IFC will offer its advice to the Government on PPP transactions for infrastructure.

74. **In addition, the Bank may be called upon to provide support for medium-term sustainable development programs to support rural incomes, provide energy services and conserve the environment.**[18] Although Tunisia has been at the forefront of environment mitigation, there are increasing

[17] The Bank plans to assess these operations and whether they would need to be reoriented or adapted to new priorities during a CPPR proposed for mid 2012.

[18] The Bank could leverage resources from the Clean Technology Fund for the development of a 50 MW Concentrated Solar Power (CSP) plant to increase power generation from solar energy and mitigate greenhouse gas emissions. This project would help Tunisia provide more efficient energy services and will support green skills and jobs (the potential number of jobs to be created will be assessed during project preparation). Against a backdrop of increasing water scarcity and the need to support rural employment, the Bank could finance a Treated Waste-Water Reuse operation to sustainably increase agricultural productivity and to overcome water deficits. In addition, a GEF-IFC Ecotourism and Conservation project could contribute to desert biodiversity conservation and the sustainability of desert lands. The project would pilot

signs that tourism, manufacturing and farming are stressing the environment, including declining water resources, coastal degradation and increasing dependency on fossil energy. IFC will also pursue opportunities to provide financing, advisory services and catalyze support for renewable energy projects or having energy efficiency components.

(ii) Driving Objective 6: Improving the efficiency of social safety net programs

75. **The Bank is currently providing technical assistance to the National Statistical Office (INS) to review the methodology used in preparing poverty estimates of the past 15 years.** Poverty and inequality estimates are being revised as a result of this work, which is using a participatory process involving local institutions, civil society and academics. The participatory process aims to create a consensus about the methodology used for measuring poverty and increase transparency in the process to help restore the credibility of poverty estimates. The assessment will pay particular attention to lagging regions and peri-urban areas as well as disaggregate gender-specific indicators. These indicators will measure the incidence of poverty in female-headed households compared to that of male-headed households. The assessment will also examine the relationship between poverty, literacy, education and employment outcomes for women. As part of this activity, TA will inform policies to strengthen poverty programs and also contribute to Area 3 to strengthen access to information as well as accountability and transparency.

76. **The Bank will provide technical assistance for reforms to improve targeting of social safety nets, update beneficiary eligibility criteria to be more transparent, and develop a unified database collating beneficiary information**. There are indications that the efficiency and equity of social safety net spending needs to be strengthened, while the need for social assistance will likely grow in the short-term. Nearly four percent of GDP was spent in 2011 on universal food and fuel subsidies and 0.4 percent on unconditional cash transfers. Seven percent of the population receives unconditional cash transfers and the Government may increase this to 10 percent of the population in 2012. Eligibility criteria are not transparent or systematically evaluated (there are broad public concerns with corruption in cash transfer allocation and health card duplication), and there are no strategies for graduating recipients. The Bank will explore with the Constituent Assembly authorities options to establish targeting mechanisms and develop a monitoring framework for these services. In addition, the Bank will support capacity-building at the community level to provide maternal health in Jendouba and Kasserine (JSDF grant of US$1 million, approved in 2011).

77. **The Bank will support health and education services at the local level through its support for decentralization and local development, by providing performance-based incentives and strengthening accountability.** The 2011 GO DPL supported the establishment of a national framework for outreach to strengthen social services in lagging regions. Under this initiative, technical assistance to the health sector seeks to strengthen performance monitoring and help establish accreditation standards for hospitals. The Bank's dialogue in the health sector has focused mainly on supporting services in lagging regions and health insurance coverage. With JSDF financing, the Bank is also supporting community-based maternal health services. The Bank's dialogue in the education sector is focused on modernizing and strengthening basic education in lagging regions, building on the Bank-financed Education Quality Improvement Program (2004-2010).

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an improved approach to protected areas management that integrates ecotourism development and community engagement. These operations would be initiated during the ISN period and would have results thereafter.

AREA 3: STRENGTHENING GOVERNANCE: VOICE, TRANSPARENCY AND ACCOUNTABILITY

Driving Objectives: (i) Improving access to information and social accountability; and (ii) Increasing transparency and accountability of institutions.

(i) Driving Objective 7: Improving access to information and social accountability

78. **The Bank will continue to provide technical assistance to support reforms initiated in 2011 to strengthen voice, transparency and accountability**. The Bank continues to support the full implementation of the decrees approved in 2011 to establish a more open information environment through increased access to public information, to liberalize the internet and to set up social accountability mechanisms for public services. Following the revolution, access to internet content was liberalized and controls were eliminated. The Bank will continue to support the Government in further liberalizing internet hosting activities (creating and hosting of local websites), to support e-Participation tools in government websites, and establishing channels through which citizens can communicate their views concerning the quality of public services and the government's performance. The Bank will also assist Tunisia with governance reforms to become eligible to join the Open Government Partnership, such as fiscal transparency, open budget, access to information and asset disclosure.

79. **To complement these activities, an Information, Communication and Telecommunication (ICT) TA is being prepared to ensure that access to the internet is broadened as well as unrestricted to all.** The ICT TA focuses on civic engagement to strengthen and develop solutions for municipal service delivery, the layer of government which is the most accessible to citizens. This program will build the capacity of municipalities to monitor basic service delivery and introduce feedback mechanisms to strengthen accountability. An Innovation Grant will pilot the establishment of municipal platforms for citizen engagement and participation. The Bank expects to support further reforms in the ICT sector under the planned multi-sector DPLs in FY13 and FY14 and provide technical assistance in parallel.

80. **Under the Governance in Social Sectors TA, the Bank is also supporting efforts to strengthen social accountability in Tunisia, in close coordination with the above initiatives**. Through this activity, the Bank will continue supporting implementation of community score cards to evaluate public services in health, education and employment as one model for improving social accountability. Additional technical assistance could be provided to institutionalize the scorecards; to introduce school assessments and school councils to strengthen social accountability in education; and to improve accreditation of health facilities, licensing of health workers, incentives to decentralize health workers to underserved regions, and other actions to further strengthen social accountability and quality in the health sector.

81. **The Bank is working with the Arab Network for Social Accountability (ANSA) to help establish a regional platform for constructive engagement between Civil Society Organizations (CSOs), the Government, media and the private sector in Tunisia**. The objective of this partnership is to: (a) raise awareness of the concepts and benefits of participatory governance and social accountability; (b) enhance the capacity of network members on the concepts of participatory governance and social accountability tools through capacity-building and learning by doing programs; and (c) strengthen networking and knowledge exchange among stakeholders, including women's and youth groups. In terms of supporting outreach to youth and increasing their voice, under the Arab Youth Initiative and with Institutional Development Fund (IDF) support, the Bank is supporting the establishment of a national youth platform of youth-led organizations.

(ii) Driving Objective 8: Increasing transparency and accountability of institutions

82. **Strengthening the country's anti-corruption framework will be an important way to increase public officials' and institutions' accountability.** The Bank is prepared to support the Government's efforts to build an appropriate institutional and organizational anti-corruption framework, based on the lessons learned from international best practices and the findings of the commission established right after the revolution to investigate corruption and embezzlement. With the signing in November 2011 of a decree-law to fight

corruption and embezzlement, Tunisia has a strengthened legal framework to set-up strong and permanent institutions, as well as to strengthen existing ones such as the judiciary, and to establish appropriate procedures and processes, such as an anti-corruption chain. The StAR program is providing technical support to the authorities' to help recover stolen assets, including to assist with the institutional and legislative framework for specialized units set up to prosecute and investigate asset recovery cases and to provide training for prosecutors, judges and operational staff of these specialized units (*see Governance Context*).

83. **The Bank will also seek to support key public financial management reforms to improve transparency, accountability, and efficiency of the budget and public expenditures.** The Bank is discussing with the authorities moving to an open and performance-based budget process and supporting their efforts to address the major internal and external accountability shortcomings inherited from the previous regime.[19] Public Financial Management (PFM) reforms could be supported under the FY13 DPL program, and will be informed by existing and ongoing analytical work, such as the 2010 Public Expenditure and Financial Accountability (PEFA) report and a planned public expenditure review (PER). Reforms to increase the transparency and procedures of the public procurement process to strengthen competitiveness will continue to be supported through the DPL operations. In coordination with the AfDB, the Bank is supporting the Tunisian Government in carrying out an assessment of its public procurement processes using the OECD/DAC methodology to strengthen and modernize the public procurement framework, systems and processes. In addition, the Bank will assist the authorities in reforming the role of the Government in managing and monitoring SOEs to improve their performance and increase the transparency of their financial reporting. The Bank will explore options for working with civil society groups and parliament to strengthen their capacity to monitor and track the performance of reforms, including in PFM and other areas.

84. **The drafting of a new constitution provides an opportunity for the Government to develop a road map for reforms that emphasize good governance principles: public accountability, the fight against corruption, access to information and transparency, participation and strengthening institutions and mechanisms for accountability**. Recognizing the limited mandate of the Constituent Assembly and its primary focus of drawing up a new constitution, the Bank will explore with the authorities opportunities to provide expertise on governance and development topics and to inform the national debate on economic and good governance issues and on the potential development impact of different constitutional provisions.

D. Resources and Instruments to Implement the ISN

85. **Bank instruments to implement the ISN will include a blend of IBRD policy-based and investment operations; GEF trust funds, and other trust funds administered or funded by the World Bank, as well as analytic and advisory services.** The Bank program under the ISN will give priority to activities that support the short-term priorities of the transition. Additional medium-term priorities could also be supported, if feasible. These operations are listed in Table 3. The Government's program is expected to call for up to US$950 million in FY13 for policy-based and investment lending. The FY14 financing will be defined based on performance of the FY13 program, the Government's request, IBRD's capital position and demand from other borrowers. Given the worsening international and domestic economic outlook, the Bank expects to commit a large share of Tunisia's IBRD envelope through budget support using the DPL instrument, based on program performance. Investment lending, which remains a critical instrument to achieve

[19] This entails notably the revision of the budget and internal control frameworks, which are key levers to implement the new authorities' transparency and accountability policy across the public administration. External controls also need to be strengthened, and in this respect, Tunisia's Supreme Audit Institution will be supported to effectively implement its mandate. A new public accounting system is also needed to provide more timely and transparent financial information including sub-national government expenditures and autonomous agencies (social security, pension funds).

medium-term development objectives, is expected to constitute a greater share of lending commitments in FY14, as the economy recovers.

Table 3. Proposed New IBRD Financing Activities, FY13/14

<table>
<tr><th></th><th>AREA 1
Laying the Foundation for Renewed Sustainable Growth and Job Creation</th><th>AREA 2
Promoting Social and Economic Inclusion</th><th>AREA 3
Strengthening Governance: Voice, Transparency and Accountability</th></tr>
<tr><td rowspan="2">Short-term priorities for the Transition</td><td colspan="3">-Annual multi-sector Development Policy Loans
-FY13 Policy Based Guarantee</td></tr>
<tr><td>-Export Development III
-Financial Sector Support
-Training for Employment</td><td colspan="2">-Urban Development and Local Governance</td></tr>
<tr><td>Medium-term IBRD priorities</td><td>-Concentrated Solar Power
-Treated Waste-Water Reuse</td><td></td><td></td></tr>
</table>

86. **The Bank will closely monitor Tunisia's economic situation and the implications for lending.** If there is a further deterioration in the balance of payments and fiscal situation in 2012, the Bank will look to mobilize additional IBRD resources. The Bank's ability to do so will depend on Tunisia's program performance and burden sharing with other IFIs and development partners that can provide budget support, including the IMF.

87. **In terms of trust funds, in addition to the GEF, support has been mobilized from the IDF, JSDF, PHRD and SPF**. The Bank could also leverage financing from the Clean Technology Fund, as well as other development partners whose financing and technical assistance complements the Bank's programs. Trust fund activities are listed in Table 4.

Table 4. Trust Funds Administered or Funded by the World Bank

Start Year	Project (US$M)	Total (US$M)
FY12/13	• JSDF Community Health Care Outreach (1) • JSDF Emergency Support for Youth (3) • IDF Procurement Capacity (0.250)	4
FY13/14	• JSDF Community Works and Local Participation (3) • SPF Participatory Services Delivery and Reintegration (5) • GEF Ecotourism and Conservation (4.3) • Clean Technology Fund (18)	30

88. Table 5 proposes AAA for FY13 and FY14, according to the three areas of engagement. This includes economic and sector work, as well as technical assistance, in support of the 8 driving objectives.

Table 5. Proposed Analytical and Advisory tasks, FY13/14

AREA 1 Laying the Foundation for Renewed Sustainable Growth and Job Creation	AREA 2 Promoting Social and Economic Inclusion	AREA 3 Strengthening Governance: Voice, Transparency and Accountability
Driving Objective 1: Supporting macroeconomic stability and economic recovery -Macroeconomic Monitoring -Debt Sustainability Analysis -Access to finance for MSMEs: (IFC) -Investment in labor intensive and high-added value industries (IFC) **DO2: Strengthening the business environment, deepening integration** -Financial Sector TA -Tourism Debt Restructuring -DPR for Growth Strategy -Investment Climate Assessment -Investor Survey -Global Integration TA **DO3: Creating environment for labor market reforms** -Support for social dialogue **DO4: Improving ALMPs for the unemployed** -Employment TA (M&E) -Evaluation of ALMPs -E4E (IFC)	**DO5: Improving access to basic services in underserved communities** -Peri-Urban Assessment -Youth Inclusion Study -Municipal Finance -Administrative decentralization -Urban Development Options -PPP infrastructure advisory (IFC) - Investment in infrastructure and social services (IFC) **DO6: Improving efficiency of social safety net programs** -Governance & social sectors TA -Programmatic Poverty Assessment -Public Expenditure Review	**DO7: Access to information and social accountability** -ICT TA -Governance & social sectors TA **DO8: Increasing transparency and accountability of institutions** -Governance & anti-corruption TA -PEFA update -Public Expenditure Review -Corporate Governance (IFC)

E. Coordination and Partnerships

89. **Immediately following the January 2011 revolution, the Bank worked closely with the first Interim Government, the AfDB[20], the EU and AFD to support Tunisia as it embarked on political transition**. Under the Interim Government's leadership, a program of reforms, many emblematic of the revolution, was designed to show a clear break with the past. The program, supported by the 2011 GO DPL was ground-breaking in terms of the rapidity of donors' response, the nature of the reforms, and the size of fast-disbursing financing brought together by these donors for Tunisia. The Bank and partner agencies are planning to pursue a similar approach to support the Constituent Assembly Government's budgetary priorities in 2012.

[20] The AfDB, which has its headquarters in Tunis, announced in February 2012 a new two-year interim strategy for Tunisia. It focuses on governance, economic transformation, access to basic infrastructure and social services in lagging regions, and job creation in disenfranchised parts of the country. The program envisages a mix of budget support and investment lending as well as analytical support.

90. **Under the Deauville Partnership, launched by the G8, GCC countries and Turkey in 2011, countries and international financial institutions (IFIs) committed themselves to take special steps to support the political and economic transformation in the MENA region with financial and technical assistance.**[21] In this context, support was pledged for strengthening the governance framework; Economic and social inclusion; job creation; regional and global integration, and accelerating private sector led growth. The ISN is consistent with these building blocks. Tunisia continues to be an active participant in the Deauville partnership with the aim of securing broad and deep support for the Tunisian transformation.

91. **Following the revolution, many development organizations either strengthened their presence in Tunisia or became new partners.** The Islamic Development Bank (IsDB) is one of these new partners and concluded an MOU with potential areas of cooperation for 2012-2014 in sectors such as basic infrastructure, agriculture, regional development, tertiary education, employment and private sector development. Initial support has included new financing for rural development and unemployed university graduates. UN agencies and humanitarian agencies also established new programs, in particular to respond to needs related to refugees from Libya. Tunisia has also actively sought support from the Gulf countries, and Qatar provided a draw-down line of credit of US$500 million to the Constituent Assembly Government in early 2012. The US provided US$190 million in technical assistance and support for the private sector, following the revolution. In February 2012, the US Congress appropriated US$30 million for a loan guarantee of several hundred million USD that would be agreed to in mid 2012. In addition, Tunisia became a member of the European Bank for Reconstruction and Development (EBRD) in January 2012. EBRD has announced that 2.5 billion Euros could be made available to the four Deauville Partnership countries, starting with a technical assistance program of US$10 million in Tunisia. An IFI Coordination Platform has also been created under the Deauville Partnership[22] to ensure coordination and reduce the risk of overlap among these donors.

92. **As noted in this ISN, the Bank Group has collaborated closely with many key traditional partners in Tunisia**, such as the AfDB, AFD and the EU, with whom the Bank has prepared joint analytical work and technical assistance and co-financing. The Bank also collaborates with the IMF most recently on the joint FSAP.

93. **The Bank Group is strengthening partnerships with Tunisian civil society and the private sector through a "dialogue with new stakeholders,"** which will provide a forum for debate and exchange of views among community and national leaders on topical issues related to the transition and economic development. The Bank Group held consultations specific to the preparation of this ISN in late January 2012 with Constituent Assembly Government ministers and government officials in Tunis and with the private sector, academia, development partners and local communities in Tunis, Bizerte, Nabeul and Kelibia (Annex 2). The Bank is also undertaking a client survey of perceptions of the World Bank in Tunisia which will be an input for the preparation of a full CPS. The Bank Group will continue to work closely with the Ministry Investments and International Cooperation, Finance, and Regional Development and Planning to define development programs in close coordination with other development partners. The Bank will develop a communications strategy to more effectively reach new stakeholders.

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[21] The "Deauville partners" include Canada, France, Germany, Italy, Japan, Kuwait, Qatar, Saudi Arabia, Turkey, the United Arab Emirates, the United Kingdom, the United States, Russia and nine associated international and regional financial institutions. "Partnership countries" include Egypt, Jordan, Libya, Morocco and Tunisia.

[22] Participating IFIs include AfDB, Arab Fund for Economic and Social Development, Arab Monetary Fund, European Bank for Reconstruction and Development, European Investment Bank, International Monetary Fund, Islamic Development Bank, the OPEC Fund for International Development, and the World Bank Group. The Organization for Economic Cooperation and Development is an observer.

F. Monitoring and Evaluation of Bank Support

94. **The Bank's performance will be measured against its contributions to the priorities of the Constituent Assembly Government as proposed in this ISN.** Annex 1 presents a results framework that corresponds to the expected outcomes of the driving objectives in each of the three ISN Areas of Engagement. Outputs and corresponding indicators have been drawn directly from the ongoing and new program to show the link with lending and AAA activities. Only those lending and non-lending World Bank Group activities and their corresponding outcomes and indicators that are relevant to the ISN Areas of Engagement and Driving Objectives have been included in the results framework. In this regard, activities closed prior to the ISN period and activities initiated during the ISN which will bear results after FY13 are also not included in the results framework.[23] The outcomes and indicators are based on program and project documents (Project Appraisal Documents; Implementation Status and Results Reports) unless otherwise indicated in the Results Framework. Implementation Supervision Reports and Implementation Completion and Results Reports (ICRs) will continue to be important Monitoring and Evaluation (M&E) tools to monitor program performance. The Bank will hold Country Portfolio Performance Reviews (CPPRs) to evaluate program performance jointly with Tunisian counterparts. A CPPR at the outset of the ISN period will review the active portfolio, including lending and trust fund activities, with a view to identifying priority changes or restructuring needs of ongoing projects. With regards to trust funds and grants, the SPF and JSDF grants approved following the revolution all support employment-creation and service delivery objectives and Bank management will work closely with the authorities to support their implementation. Going forward, new trust funds will need to be clearly associated with IBRD operations.

95. **The Bank will prepare a CPS Completion Report (CPS CR) in FY15, reporting on the performance and results of both the FY10-FY13 CPS and the FY13-14 ISN**. The CPS CR will be an input to a full CPS to be prepared with the new government that will emerge from the 2013/14 elections. Given the significant shift in strategic objectives and results frameworks from the CPS to the ISN, the CPS CR will use each of the CPS and ISN results frameworks to assess Bank Group's performance.

V. RISKS AND RISK MITIGATION

96. The risks to achieving the ISN objectives and mitigating measures include:

97. ***Social tensions and political uncertainty***: While the successful outcome of the October elections and the arrival of the moderate Islamist/center-left coalition Government brought some stability to Tunisia, the new Government has been confronted by growing social tensions in early 2012. On the one hand, the growing activism of Salafis calling for Islamic law and confrontations with secularists, and on the other, a rash of strikes and sit-ins that continued to disrupt economic activity in some key sectors. Although protests and strikes have abated since February, there are concerns that these could return and escalate unless there are visible improvements in the economy. In such a case, this could hamper Government's ability to effectively govern and further delay investors returning to Tunisia. The adoption and implementation of the Government's 2012 program and budget law in April 2012 should provide some assurances of the Government's priorities, particularly to respond to needs of lagging regions and social programs. The Bank recognizes that there are still vested interests that will resist some governance reforms. The Bank is providing support for the social dialogue between the Government, unions and employers to support efforts to build consensus on needed reforms. The forbearance and understanding of the international community, together with financial and policy support from international financial institutions, may further help mitigate these risks.

[23] The Go DPL was approved in 2011 and closes in June 2012. However, the DPL includes indicators that extend into FY13 and these are reflected in the Results Framework.

98. ***Delayed economic recovery and risks to macro stability and fiscal sustainability*:** The economic situation in 2012 is likely to remain difficult, with GDP growth only moderately positive, mainly due to the ongoing post-revolution social tensions and external issues outside the Government's control such as the recession in Europe and the difficult transition in Libya. These factors have slowed economic recovery, and together with a projected rise in oil and food prices will create additional challenges for fiscal discipline and macroeconomic stability. Tunisia's uncertain economic outlook in the short-term will continue to adversely affect investor confidence. The authorities will also need to take into account that 2013 will be an election year, and this has implications for the budget and pace of reforms during that year. The World Bank's program under this ISN is intended to assist the Government in mitigating these risks, including by supporting the design of a reform program that helps respond to Tunisia's immediate needs while securing macro-stability and laying the ground for sustained private sector-led recovery. This will be supported by quick-disbursing financing of the Government's 2012 program and by leveraging budget support. IFC's program will also be tailored to support economic recovery and restore investor confidence and will be adaptable to evolving market conditions.

99. ***Financial sector instability:*** Notwithstanding recent efforts to reduce non-performing loans and strengthen bank supervision, the weakness of the financial sector could impact economic recovery. The recession in Europe and the significant downturn in the tourism sector have further compromised the already weak asset quality of commercial banks. The FSAP undertaken jointly with the IMF has identified a program of reforms to improve the capacity of the financial sector and strengthen its resilience to economic shocks. The risk to the financial sector at this point would stem from inaction on the part of the authorities. The Bank and the Government have discussed support for these reforms under a proposed FY13 DPL and investment lending.

100. ***Government ownership*:** The ISN objectives are in line with many of the aspirations that led to the revolution and consistent with those of the Constituent Assembly Government. That said, there is a risk that the Government would not push forward with difficult reforms if they prove too unpopular or create further social disruptions, particularly given the Government's short mandate. The Bank should have realistic expectations of what can be achieved during the transition based an open dialogue with the Government, civil society and other partners.

101. ***Institutional and implementation capacity limitations:*** As Tunisia seeks to adopt a new social contract and establish new ways of working, such as introducing social accountability models and broadening the range of actors involved at the local level, the Bank Group will need to ensure that operations adequately anticipate the need for building institutional and implementation capacity and have realistic objectives in terms of what can be achieved within a limited time frame. Tunisians are impatient for things to change and improve more quickly and capacity limitations can pose a risk to the transition and the Bank Group's credibility. The Bank Group will continue to identify opportunities to fast-track support for capacity-building and scale up TA and implementation support as needed to assist reforms and investment projects.

Annex 1. Interim Strategy Note Results Framework

AREA I. LAYING THE FOUNDATION FOR SUSTAINABLE GROWTH AND JOB CREATION		
Driving Objectives	**Outcomes and Indicators**	**World Bank Group Program**
1. *Supporting macroeconomic stability and economic recovery*	❖ Sustain economic recovery. o Fiscal stimulus by Government is supported by Bank and leverages funding from other budget support donors, though joint DPL preparation. Baseline: $1.3bn (2011) o Emergency procurement procedures are streamlined ❖ Promote fiscal sustainability and consolidation. o Fiscal and debt sustainability analysis completed o Public Expenditure Review completed	**Ongoing AAA :** ❖ Macroeconomic monitoring ❖ Fiscal and Debt-Sustainability Analysis ❖ Public Expenditure Review **Proposed Lending :** ❖ Annual multi-sector DPL ❖ Policy-Based Guarantee **Proposed AAA :** ❖ Macroeconomic monitoring
2. *Strengthening the business environment and deepening integration*	❖ Streamlined customs procedures. o Compliance time with selected customs procedures and taxes reduced by 20% Baseline: 3.6 days (2010) o Processing time for a 20 m^3 container in port decreased by 1 day: Baseline: 4 days (2010) ❖ Banking sector stabilized. o Capital adequacy ratio increased to 9% (7% tier one) o At least 18 banks, including the 5 largest, have appointed 2 or more independent directors ❖ Increased access to financing for MSMEs. o $30 million in loans granted to 200 MSMEs. Baseline: 0 (2011) o Establishment of the supervisory body for microfinance activities Baseline: 0 (2011)	**Ongoing Lending**: ❖ Export Development Project 2 ❖ MSME AWI Facility **Ongoing AAA:** ❖ FSAP Update **Proposed Lending :** ❖ Annual multi-sector DPL ❖ Policy-Based Guarantee **Proposed AAA :** ❖ Rural Finance study ❖ Development Policy Review ❖ Trade integration with EU ❖ Investment Climate Assessment (WB, IFC) ❖ Investor Survey (WB, IFC)
3. *Creating an enabling environment for labor market reforms*	❖ Process launched for national consensus for labor market reform. o Institutional framework (e.g. a National Commission) set up to discuss labor market reform options o Number of meetings on social dialogue organized jointly by the Ministry of Vocational Training Employment and the Ministry of Social Affairs o The government commissions a series of studies and identifies options for reform in the areas of social security reform, labor taxation, and labor regulation	**Ongoing AAA**: ❖ Employment TA **Proposed Lending:** ❖ Annual multi-sector DPLs **Proposed AAA:** ❖ Employment TA (Social Dialogue)
4. *Improving active labor market programs for the unemployed*	❖ Improving delivery of employment services/intermediation. o Number of registered unemployed who receive employment services through private providers. Baseline: 0 o Increase number of ANETI job-counselors. Baseline: 1 counselor per 794 job seekers (2009) ❖ Governance and Accountability of Employment Programs delivered by ANETI. o Set up a results-based monitoring system for ANETI programs. Baseline: No monitoring system for results exists o Develop periodic monitoring reports (results-based) for ALMPs delivered by ANETI. Baseline: No periodic reports exist.	**Ongoing AAA**: ❖ Employment TA (M&E agenda of employment programs) **Proposed Lending:** ❖ Annual multi-sector DPL ❖ Policy Based Guarantee **Proposed AAA :** ❖ Evaluation of ALMPs

AREA II. PROMOTING SOCIAL AND ECONOMIC INCLUSION		
Driving Objectives	**Outcomes and Indicators**	**World Bank Group Program**
5. *Improving access to basic services for underserved communities*	❖ Better access to basic infrastructure and services in rural communities. o 20% of targeted rural Imadas with improved access to basic infrastructure and services. o Water storage capacity increased by 12 000 m3. o 10% of vulnerable people, including women and youths, seeking to start income generating activities (IGAs) have obtained financing. Baseline 0 (2010) ❖ Better management of natural resources and participatory community development in rural communities. o 33% of land under soil/water conservation. Baseline: 30.9% (2010) o 97 administrative sectors that have their population organized in community development groups and have prepared Community development Plans being implemented in collaborations with partner. Baseline: 37 (2010). o 75 income generating activities which are managed by women and young graduates. Baseline 0 (2010).	**Ongoing Lending**: ❖ 4th North West Mountain & Forest Area Project ❖ Second Natural Resources Mgmt Project **Proposed AAA :** ❖ Peri-Urban Assessment ❖ Municipal Finance ❖ Administrative decentralization ❖ Urban Development options
6. *Improving the efficiency of social safety net programs*	❖ INS staff trained in new poverty measures methodology and in core poverty and social protection diagnostics. o Ten INS staff trained in new methodologies. Baseline: 0 (2011) o Ten INS staff trained in core poverty and SP diagnostics. Baseline: 0 (2011) ❖ INS to publish methodology for poverty measurement online. o Researchers are able to access information online once the new methodology is launched. Baseline: 0 (2012) ❖ Improved targeting of social services. o Beneficiary eligibility criteria update. Baseline: No update (2011) o Unified database for beneficiary information created. Baseline: 0 (2011) o Monitoring framework for targeting mechanisms created. Baseline: 0 (2011) o 30% of community workers are women. Baseline: 0 (2011)	**Ongoing AAA & Trust Funds**: ❖ Programmatic Poverty Assessment ❖ Governance in Social Sectors TA ❖ Youth Inclusion Study ❖ JSDF Community Works and Local Participation ❖ JSDF Emergency Support for Youth ❖ SPF Participatory Service Delivery and Reintegration **Proposed Lending :** ❖ Annual multi-sector DPL **Proposed AAA :** ❖ Public Expenditure Review

AREA III. STRENGTHENING GOVERNANCE: VOICE, TRANSPARENCY AND ACCOUNTABILITY		
Driving Objectives	**Outcomes and Indicators**	**World Bank Group Program**
7. *Access to information and social accountability*	❖ Access to information and to economic and social statistics and surveys. ○ Clear procedures and contact details to request public information are established and published. Baseline: 0 (2010) ○ Increased use of the new right to access public sector information: more than 50 official requests made. Baseline 0 (2010) ○ 2007 and 2009 Labor force surveys are published. Baseline: 0 (2010) ○ 2000, 2005 and 2010 Household surveys are published. Baseline: 0 (2010) ○ Detailed national accounts for 400 products published. Baseline: 0 (2010) ❖ The Budget process is more transparent and participatory. ○ Openness of the budget process, through the presentation and debate of pre-budget statements and the public disclosure of budget proposals. Baseline: 0 (2010) ○ Greater accountability on budget execution: publication of quarterly, mid-term and year end budget execution reports,. Baseline: 0 (2010) ❖ Private demand of internet usage met. ○ Demand for *.TN domain* increased by 50% Baseline: 8,000 domains (2010)	**Ongoing Lending** ❖ GO DPL **Proposed Lending:** ❖ Annual multi-sector DPL ❖ Policy Based Guarantee **Proposed AAA :** ❖ ICT TA ❖ Governance & social sectors TA
8. *Increasing transparency and accountability of institutions*	❖ The legal and institutional framework to foster more accountable public institutions and to fight corruption has been revised. ○ A permanent anti-corruption institution has been set-up and is operational. Baseline: 0 (2010) ○ A more transparent and performance based budget process is introduced, with the publication of ministry's performance plans and reports. Baseline: 0 (2010) ○ The internal financial controls are being revised to integrate a risk based approach and foster greater accountability of public institutions. Two out of the four main control bodies' mandate and operations have been revised. Baseline: 0 (2010) ❖ All government contract awards are made available on-line. ○ 100 % of contract award information available on the website of the *Observatoire National des Marchés* Baseline: 0% (2010) ❖ Procurement process streamlined. ○ Time for full cycle of procurement process is reduced by 50%. Baseline: 6 months (2011) ❖ E-governance complaint systems for citizens introduced. ○ GOT websites have an operating feedback mechanism.	**Ongoing Lending** ❖ GO DPL **Ongoing AAA:** ❖ Procurement Reform TA (IDF) **Proposed Lending:** ❖ Annual multi-sector DPL ❖ Policy-Based Guarantee **Proposed AAA:** ❖ Governance & anti-corruption TA ❖ PEFA update ❖ Public Expenditure Review ❖ Corporate Governance (IFC)

Annex 2
Consultations Summary

1. Following the January 2011 revolution, the new environment enabled the Bank to extend its dialogue to a broader set of stakeholders in Tunisia, including groups with which it had previously had limited official contact. These groups include youth associations, civic organizations, bloggers, students, women groups, private sector representatives, people's representatives[24] and others. Bank staff sought their views for the preparation of the Governance and Opportunity Development Policy Loan, launched in February 2011, to help design a series of emblematic measures which the government pursued in an effort to cleanly break with the past. Consultations with Tunisia's new emerging civil society covered topics of employment, governance, health and education services and social safety nets. The Loan was approved by the Board in June 2011. Since then, the Bank has sought to systematically include outreach activities and consultations with relevant new actors during the preparation of new lending and analytical work. The Bank conducted over 25 rounds of consultations in 2011 and early 2012, including through workshops, seminars, conferences and interactive discussions, as well as during preparation of projects and analytic work. [25]

2. The Bank organized consultations specific to the preparation of the 2013-2014 Interim Strategy Note in late January 2012, following the installation of the new Constituent Assembly Government and an internal Concept Note review meeting of a draft ISN document. The consultations were conducted jointly with the IFC, in two stages: initial meetings with the Constituent Assembly Government ministers in Tunis and civil society groups in Bizerte, led by the Country Director and the IFC Country Manager, followed by broader discussions with government officials, the private sector, academia and local communities in Tunis, in Nabeul and in Kelibia, as well as other development partners. This dialogue remains open with a blog posted to the Bank's external web page and hosted by the country manager.[26]

3. During the consultations, which took place immediately following the naming of the new government, both the constituent assembly government representatives and non-government stakeholders pointed to the high level of social tensions resulting from uncertainty in terms of the direction of the country, as well as economic difficulties due to high unemployment (which had increased from 13% in 2010 to 19% in 2011) and weak economic activity following the revolution, the recession in Europe and conflict in Libya. In all of the ISN consultations, there emerged a great sense of pride and achievement among participants for having been the agents of change and for having lead or participated in the revolution, and for the fact that Tunisia's revolution had sparked the Arab Spring. At the same time, there was a sense of disillusionment at the pace of change and lack of concrete improvements in living standards following the revolution. Discussants were impatient for the government to define its program and provide a clear vision for the country. The need for employment and improved living conditions was a common refrain. At the same time, local development and community participation in decision-making

[24] Prior to the October 23, 2011 elections, this consisted of members of the Higher Authority for the Safeguarding of the revolution's Achievement. Following the elections, this refers to the Constituent Assembly members.

[25] The World bank post-revolution outreach effort included consultations on the following activities/themes: Governance and Opportunity DPL (April 2011); CSO meeting with the World Bank President (May 2011); community participation in public services (April-May 2011); regional consultations with the private sector July 2011; youth consultations (October 2011); Employment Flagship Report (October 2011); Vocational training consultations (October 2011); Gender World Development Report (October 2011); Gender and transport (October 2011); Conflict World Development Report (October 2011); Governance and Opportunity DPL II (November 2011); the use of technology in communications and services in municipalities (January 2012).

[26] http://menablog.worldbank.org/tunisia-one-year-after-revolution-which-priorities-should-world-bank-support

were also emphasized as fundamental for establishing a better relationship between the state and the public.

4. The ISN consultations were conducted in the form of meetings, presentations and informal conversations based on the three Areas of engagement and the corresponding driving objectives. Below are the main themes and issues evoked during these exchanges.

Area 1: Laying the Foundation for Renewed Sustainable Growth and Job Creation

"Access to credit is an essential tool to strengthen the local private sector and create jobs"(private sector representative, Tunis)

- Private sector representatives said they were operating in a new uncertain environment where the previous framework of government controls had been dismantled and not yet replaced with a new framework. Things were also in flux in terms of what social contract would be established to mediate relations between companies and workers as well as the communities in which they operate. Limited clarity on policy directions during the political transition had dampened their confidence in the business environment, until a clear government program could be provided.

- Private sector participants also noted that the increase in social tensions since the revolution had aggravated conditions in lagging regions making it difficult for businesses to operate, creating new risks as well (for example damages due to protests or strikes turning violent and the lack of compensation for such damages). The sense of uncertainty and risk had encouraged a number of important international and local companies to leave the country. Some representatives said the Bank and other donors should provide special support or exceptions for Tunisian companies to facilitate their efforts to exports goods to Europe and the US, particularly given public statements by the international community about supporting the transition.

- Stakeholders agreed that there was an important mismatch in terms of the skills they needed but had difficulties in finding (in particular mechanical, engineering, and other "practical" skills). Students said they were waiting out the recession by staying in school and getting additional degrees in the hopes of finding a better job market after the transition. Government, private sector and civil society all pointed to the need to support entrepreneurship and MSMEs to create jobs and wealth. Enabling the financial sector to provide access to small companies and start-ups was cited as crucial. A number of stakeholders—government representatives, private sector, community associations, university professors and students, put forward proposals for innovative development initiatives in ecotourism, environmental preservation, waste management and energy.

Area 2: Promoting Social and Economic Inclusion

"We need to devolve more responsibilities and empower communities to do something about unemployment" (CSO meeting, Kelibia)

- Stakeholders highlighted the importance of investing locally to provide services, create jobs and opportunities and revitalize growth. In addition to employment, they pointed to inadequate infrastructure services (roads, waste management, education and community centers). They agreed that young people in small towns have no resources—outside of school there is nothing to engage their time; if they do not go to school, they are not doing anything all day. The Bank could support educational and after school programs for these youth, including skills-building or recreational.

- There was a sense among civil society representatives that "pre-revolution" classifications for different regions, according to their average estimated economic wealth, was no longer relevant. They noted that pockets of poverty and vulnerability existed in all regions, and that government resources should not focus on only selected regions, but rather be invested according to the different needs and priorities of communities. They conveyed that social and economic tensions required development strategies at the community rather than regional level.

- Local communities said that associations were playing an increasing role since the revolution to advocate for citizens, but they said the central and municipal government was not consulting them sufficiently or supporting them. They cited Bank support to non-government organizations as an important channel to promote community participation.

- Participants in discussions also cited the need for support to municipalities, as communities turn to them for everything from employment to basic services, but they are often poorly equipped or resourced. All stakeholders, including the unemployed, were vehemently opposed to the government stipend and training program (AMAL) and said it needed to be completely overhauled since the training and placement component had not worked and the stipend was having a distorting effect of encouraging people not to take jobs that paid less than the stipend.

- The involvement of civil society at the local level was evoked with respect to implementation arrangements of projects. Participants said that such projects would be more effective if implemented through NGOs and CSOs. In this regard, the Bank team noted that the existing institutional arrangements as well as centralized management of government do not facilitate such transfer of capacity.

- The sustainable management of natural resources was evoked as a critical issue by local communities living in coastal areas.

Area 3: Strengthening Governance: Voice, Accountability and Transparency

"Governance is critical element to creating jobs." (Ecole Supérieure des Sciences Economiques et Commerciales, Tunis)

- The ISN conversations revealed mixed impressions of the policy reforms undertaken by government to increase access to information and voice. Participants agreed that the Bank should work to further strengthen governance at all levels, including to promote central government transparency and accountability, and also to empower local communities to have a voice and make decisions that affect their well-being and opportunities.

- While discussants agreed that legislation to improve freedom of association was a significant achievement, having reduced government controls that had been an obstacle for civil society organizations, other reforms had not yielded as many results, for example the public administration still appeared cumbersome.

- While legislation had increased the right to access public information, including economic and social data, and on public finances, such information was only partially available.

- Meanwhile, the use of the internet had significantly expanded, connecting Tunisians and opening up Tunisia to the world, and a sharp increase in the number of websites ".tn". However, many Tunisians did not readily have access to a computer or the internet to take advantage of these improvements. In

addition, there remained a sense of distrust vis-à-vis government institutions in charge of domain name registration and the cost of registering also hinders the further development of internet as a tool for local organizations to register and to reach the broad public. Participants nonetheless supported the direction of reforms and called on the Bank to ensure they are fully implemented.

- Participants questioned the role of the Bank in helping to recover stolen assets from the Ben Ali Regime. In particular, as the Bank had supported the regime, there was a sense that the Bank should play a role in this area. Related to this, private sector participants said it would be important to rapidly conclude or unfreeze assets of the Ben Ali families and associates that had been confiscated by the state. These assets represent important opportunities for the economy and restoring economic activity (for example, property that could be used for the administration, for public services or sold for private use).

Annex 2
Tunisia: Key Macro Economic Indicators 2008-2015

	2008	2009	2010	2011 (est.)	2012 (Proj.)	2013 (Proj.)	2014 (Proj.)	2015 (Proj.)
Real Sector								
Real GDP growth (% change)	4.5	3.1	3	-1.8	2.4	3.7	4.9	4.8
Gross Investment (% of GDP)	25.9	24.8	26.4	24.1	24.9	24.4	26.1	26.5
Gross National Savings (% of GDP)	22.1	21.9	21.6	16.6	17.2	17.9	19.9	21.4
Money and prices (% change)								
Inflation (GDP deflator, average)	6.1	3.1	4.8	3.8	6.8	3.9	3.8	4.0
Money and quasi-money (M2)	14.5	13.0	12.0	8.4	9.5	10.4	11.8	12.2
Government finance (% of GDP)								
Revenue (excluding grants & privatization)	23.8	22.8	22.8	21.5	26.2	23.5	23.5	23.5
o/w: Tax revenue	20.5	19.9	20.1	20.2	20.7	20.7	20.7	20.7
Total expenditure and net lending	24.8	25.8	24.2	26.9	32.0	29.4	28.9	27.3
Current expenditure	19.0	18.1	17.8	20.5	23.1	22.7	22.5	21.4
Capital expenditure and net lending	5.8	7.7	6.4	6.4	8.8	6.7	6.4	5.9
Overall balance (excluding grants and privatization)	-1.0	-3.0	-1.3	-3.7	-6.6	-6.0	-5.5	-3.9
Public debt ratio (% of GDP)	43.3	42.8	40.4	44.5	48.3	49.3	49.1	48.0
External sector								
Export (merch. FOB, US$ million)	19,140	14,418	16,431	17,822	17,456	18,294	19,461	20,937
Real export growth rate (merch. FOB, % change)	5.4	-9.7	4.2	-1.0	3.3	5.5	6.8	7.9
Import (merch. CIF, US$ million)	24,487	19,164	22,280	23,938	23,938	24,156	24,802	27,462
Real import growth rate (merch. CIF, % change)	7.3	1.0	-1.3	-4.6	7.0	3.1	6.1	5.0
Net non-factor services (US$ million)	2,643	2,486	2,440	1,551	1,844	2,201	2,421	2,675
Current account balance (US$ million)	-1,712	-1,234	-2,024	-3,371	-3,444	-2,984	-2,987	-2,617
Current account balance (% of GDP)	-3.8	-2.8	-4.8	-7.4	-7.7	-6.5	-6.2	-5.1
Gross reserves (US$ million, eop)	8,849	11,057	9,459	7,500	7,039	7,719	8,131	8,774
Gross reserves (months of merch. Imports)	4.6	7.3	5.4	4.0	3.7	4.0	3.9	4.1
Gross reserves (months of GNFS Imports)	4.0	6.3	4.7	3.5	3.2	3.5	3.4	3.6
External debt (US$ million)								
Medium & Long term	16,445	16,907	1,691	16,852	19,483	20,124	21,236	21,675
Short term	4,327	4,802	4,801	5,349	5,354	5,705	6,135	6,668
Total external debt stock	20,772	21,709	21,584	22,201	24,837	25,829	27,371	28,343
Debt ratio (% of GDP)	46.4	49.9	47.7	51.6	55.8	56.2	56.6	55.7
Debt service ratio (% of export)*	7.3	9.6	12.3	11.3	11.4	10.8	10.1	9.5
Memorandum items:								
Nominal GDP (TND)	55,296	58,768	63,323	64,566	70,612	76,080	82,841	90,290
Nominal GDP (US$ million)	44,775	43,522	44,238	45,860	44,512	45,934	48,320	50,908
Exchange rate, average (TND/US$)	1.235	1.350	1.431	1.408	1.586	1.656	1.714	1.774
GDP per capita (current US$)	4,335	4,172	4,199	4,326	4,158	4,249	4,426	4,617
Real GDP per capita growth (% change)	3.6	2	2	-2.4	1.4	2.7	3.9	3.8
Unemployment rate (% of active population)	12.6	13.3	13.0	18.9				

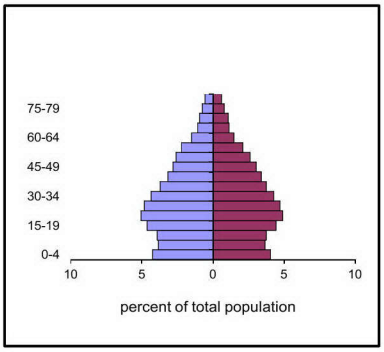
Source: World Bank and Tunisian authorities

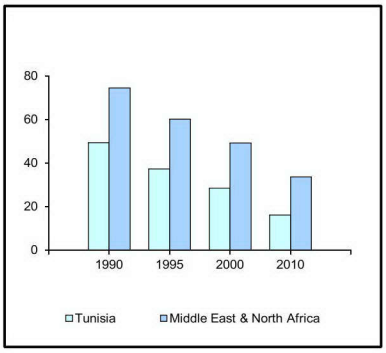
*: Exports of goods, factor and non-factor services and workers' remittances

CAS Annex A2 –Tunisia at a Glance

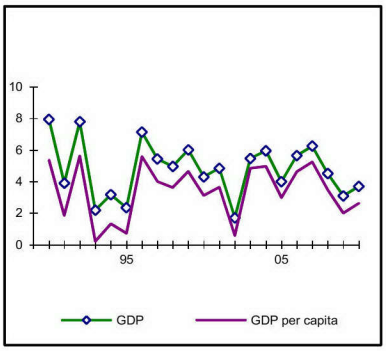
4/5/12

Key Development Indicators	Tunisia	M. East & North Africa	Upper middle income
(2010)			
Population, mid-year (millions)	10.5	331	2,452
Surface area (thousand sq. km)	164	8,775	59,328
Population growth (%)	1.0	1.7	0.7
Urban population (% of total population)	67	58	57
GNI (Atlas method, US$ billions)	43.9	1,283	14,429
GNI per capita (Atlas method, US$)	4,160	3,874	5,884
GNI per capita (PPP, international $)	9,060	*8,068*	9,970
GDP growth (%)	3.7	4.3	7.8
GDP per capita growth (%)	2.6	2.5	7.1
(most recent estimate, 2004–2010)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	3	..
Poverty headcount ratio at $2.00 a day (PPP, %)	8	14	..
Life expectancy at birth (years)	75	72	73
Infant mortality (per 1,000 live births)	14	27	17
Child malnutrition (% of children under 5)	3	8	3
Adult literacy, male (% of ages 15 and older)	86	82	96
Adult literacy, female (% of ages 15 and older)	71	66	91
Gross primary enrollment, male (% of age group)	111	106	111
Gross primary enrollment, female (% of age group)	107	98	111
Access to an improved water source (% of population)	94	89	93
Access to improved sanitation facilities (% of population)	85	88	73





Net Aid Flows	1980	1990	2000	2010
(US$ millions)				
Net ODA and official aid	240	393	222	551
Top 3 donors (in 2010):				
Spain	0	1	2	158
France	79	76	93	127
European Union Institutions	1	25	71	92
Aid (% of GNI)	2.8	3.3	1.1	1.3
Aid per capita (US$)	38	48	23	52



Long-Term Economic Trends	1980	1990	2000	2010	1980–90	1990–2000	2000–10
					(average annual growth %)		
Consumer prices (annual % change)	..	6.5	3.0	4.4			
GDP implicit deflator (annual % change)	12.8	4.5	3.7	4.0			
Exchange rate (annual average, local per US$)	0.4	0.9	1.4	1.4			
Terms of trade index (2000 = 100)	..	64	100	100			
Population, mid-year (millions)	6.4	8.2	9.6	10.5	2.4	1.6	1.0
GDP (US$ millions)	8,743	12,291	21,473	44,291	3.3	4.7	4.7
		(% of GDP)					
Agriculture	16.3	17.7	11.3	8.0	2.8	2.6	2.5
Industry	35.9	33.6	30.4	32.3	3.1	4.4	3.0
Manufacturing	13.6	19.1	18.5	18.0	3.7	5.7	2.8
Services	47.7	48.7	58.3	59.7	3.7	5.5	*6.6*
Household final consumption expenditure	61.5	63.6	60.6	62.7	2.9	4.2	4.7
General gov't final consumption expenditure	14.5	16.4	16.7	16.3	3.8	4.5	5.1
Gross capital formation	29.4	27.1	26.1	26.4	-1.8	3.1	3.9
Exports of goods and services	40.2	43.6	39.5	48.7	5.6	5.3	3.4
Imports of goods and services	45.6	50.6	42.9	54.0	1.7	3.7	3.0
Gross savings	25.1	21.7	22.1	22.5			

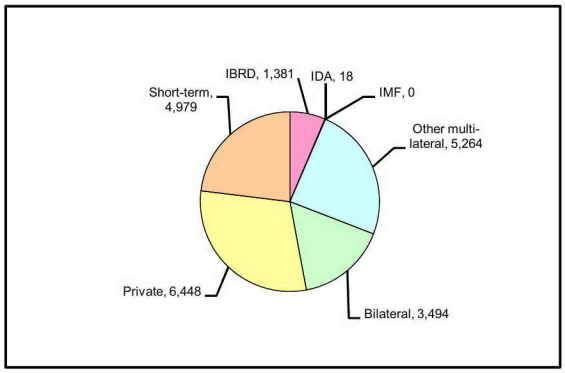
Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Development Economics, Development Data Group (DECDG).

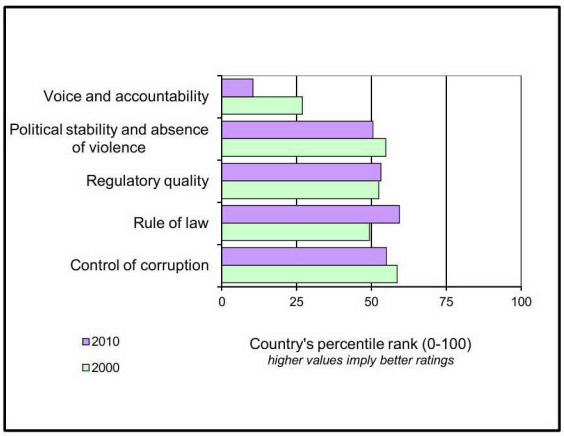
Balance of Payments and Trade	**2000**	**2010**
(US$ millions)		
Total merchandise exports (fob)	5,840	16,431
Total merchandise imports (cif)	8,556	22,228
Net trade in goods and services	-705	-2,115
Current account balance	-821	-2,118
as a % of GDP	-3.8	-4.8
Workers' remittances and compensation of employees (receipts)	796	1,970
Reserves, including gold	1,821	11,431

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	21.8	22.9
Tax revenue	*19.6*	20.1
Current expenditure	18.0	17.8
Overall surplus/deficit	-3.4	-1.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	*30*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,307	21,584
Total debt service	1,906	2,349
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	52.7	48.7
Total debt service (% of exports)	20.1	7.5
Foreign direct investment (net inflows)	752	1,401
Portfolio equity (net inflows)	-18	-26



Private Sector Development	**2000**	**2011**
Time required to start a business (days)	–	11
Cost to start a business (% of GNI per capita)	–	4.2
Time required to register property (days)	–	39
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2010**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	13.2	24.1
Bank capital to asset ratio (%)	*7.5*	..



Technology and Infrastructure	**2000**	**2010**
Paved roads (% of total)	68.4	*75.2*
Fixed line and mobile phone subscribers (per 100 people)	11	118
High technology exports (% of manufactured exports)	3.4	4.9

Environment		
Agricultural land (% of land area)	61	*63*
Forest area (% of land area)	5.4	6.5
Terrestrial protected areas (% of land area)	1.3	1.3
Freshwater resources per capita (cu. meters)	*429*	*402*
Freshwater withdrawal (% of internal resources)	*67.6*	*61.7*
CO2 emissions per capita (mt)	2.1	*2.4*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	8.0	*9.5*
Energy use per capita (kg of oil equivalent)	764	*881*

World Bank Group portfolio	**2000**	**2010**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	1,211	1,381
Disbursements	136	234
Principal repayments	150	157
Interest payments	79	42
IDA		
Total debt outstanding and disbursed	39	18
Disbursements	0	0
Total debt service	2	2
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	11	342
of which IFC own account	11	230
Disbursements for IFC own account	1	89
Portfolio sales, prepayments and repayments for IFC own account	1	12
MIGA		
Gross exposure	–	–
New guarantees	–	–

Note: Figures in italics are for years other than those specified.
.. indicates data are not available. – indicates observation is not applicable.

4/5/12

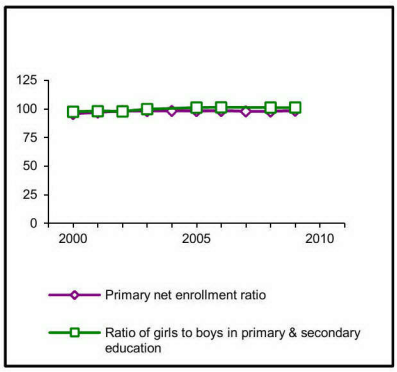
Development Economics, Development Data Group (DECDG).

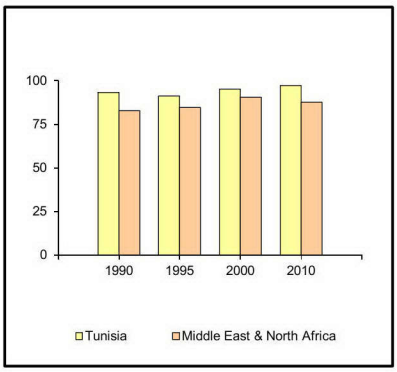
Millennium Development Goals

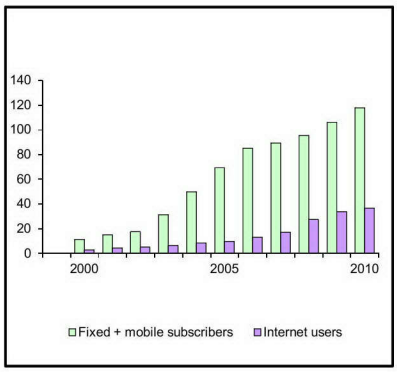
Tunisia

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Tunisia			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2010**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	5.9	6.5	2.6	*<2*
Poverty headcount ratio at national poverty line (% of population)	6.7	6.2	4.2	*3.8*
Share of income or consumption to the poorest qunitile (%)	5.9	5.7	6.0	*5.9*
Prevalence of malnutrition (% of children under 5)	*8.5*	8.1	3.5	*3.3*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	93	97	96	*98*
Primary completion rate (% of relevant age group)	80	92	88	*91*
Secondary school enrollment (gross, %)	44	58	76	*90*
Youth literacy rate (% of people ages 15-24)	..	..	..	*97*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	85	92	98	*101*
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	*23*	24	..
Proportion of seats held by women in national parliament (%)	4	*7*	12	28
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	49	37	28	16
Infant mortality rate (per 1,000 live births)	39	31	24	14
Measles immunization (proportion of one-year olds immunized, %)	93	91	95	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	130	110	83	*60*
Births attended by skilled health staff (% of total)	*69*	81	90	*95*
Contraceptive prevalence (% of women ages 15-49)	*50*	60	66	*60*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	*0.1*
Incidence of tuberculosis (per 100,000 people)	29	29	24	25
Tuberculosis case detection rate (%, all forms)	87	92	90	91
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	81	86	90	*94*
Access to improved sanitation facilities (% of population)	74	78	81	*85*
Forest area (% of total land area)	4.1	..	5.4	6.5
Terrestrial protected areas (% of land area)	1.3	1.3	1.3	1.3
CO2 emissions (metric tons per capita)	1.6	1.8	2.1	*2.4*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	7.4	7.6	8.0	*9.5*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	3.7	5.8	10.0	12.2
Mobile phone subscribers (per 100 people)	0.0	0.0	1.2	105.4
Internet users (per 100 people)	0.0	0.0	2.7	36.6
Computer users (per 100 people)	..	..	..	..







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Development Economics, Development Data Group (DECDG).

Tunisia

CAS Annex B2: Selected Indicators* of Bank Portfolio Performance and Management

As of 3/14/2012

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation[a]	16	16	15	13
Average Implementation Period (years)[b]	4.6	4.6	5.1	5.4
Percent of Problem Projects by Number[a, c]	0.0	6.3	20.0	30.8
Percent of Problem Projects by Amount[a, c]	0.0	8.8	16.2	23.7
Percent of Projects at Risk by Number[a, d]	0.0	6.3	20.0	30.8
Percent of Projects at Risk by Amount[a, d]	0.0	8.8	16.2	23.7
Disbursement Ratio (%)[e]	18.5	27.5	19.7	6.2
Portfolio Management				
CPPR during the year (yes/no)	No	No	No	No
Supervision Resources (total US$'000)	1432	1371	1708	1174
Average Supervision (US$'000/project)	72	69	77	84

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	106	7
Proj Eval by OED by Amt (US$ millions)	4,648.1	370.7
% of OED Projects Rated U or HU by Number	15.1	14.3
% of OED Projects Rated U or HU by Amt	9.1	7.6

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

TUNISIA

CAS Annex B3 - IBRD/IDA Program Summary

As of May 3, 2012

Fiscal year	*Project ID*	*US$(M)*	*Strategic Rewards (H/M/L)*	*Implementation Risks (H/M/L)*
2013-14	Multi-Sector DPL2	500.0	H	M
	Export Development III	70.0	H	M
	Training for Employment	65.0	H	M
	Urban Development	100.0	H	M
	Multi-Sector DPL3	500.0	H	M
	STEG Concentrated Solar Power	35.0	M	M
	Wastewater Reuse	50.0	M	M
	Financial Sector Support	100.0	H	M
	Policy-Based Guarantee	500.0	H	M
Overall Result		**1,920.0**		

Tunisia
CAS Annex B4: Summary of Non-lending Services
As of 3/14/2012

Product	Completion FY	Cost (US$000)	Audience[a]	Objective[b]
Recent completions				
Trade Integration TA	FY11	73	Govt, Bank	KG, PS
Growth and Macro Management	FY11	205	Govt, Bank	KG, PS
Performance Based Budgeting PESW	FY11	36	Govt, Donor,Bank	KG, PS
Low Carbon Transport Strategy	FY11	182	Govt, Bank	KG, PS
Maghreb Cross Border Constraints	FY11	290	Govt, Bank	KG, PS
Climate Change Impact on Cities in North Africa	FY11	1263	Govt, Donor,Bank	KG, PS
Agricultural Finance	FY11	175	Govt, Bank	KG, PS
Implementation of Logistics Action Plan	FY11	203	Govt, Bank	KG, PS
Underway				
Maghreb Energy Market Study	FY12	378	Govt, Bank	KG, PS
Clean Energy	FY12	186	Govt, Bank	KG, PS
Public Sector Reform	FY12	128	Govt, Bank	KG, PS
ALMP/E2W Pilotes Impact Evaluation	FY12	170	Govt, Bank	KG, PS
Maghreb Trade Facilitation and Infras.	FY12	300	Govt, Bank	KG, PS
Employment TA	FY12	350	Govt, Bank	KG, PS
Poverty PESW	FY12	100	Govt, Bank	KG, PS
Public Sector Governance	FY12	130	Govt, Bank	KG, PS
Financial Sector Reform	FY12	150	Govt, Bank	KG, PS
FSAP Update	FY12	200	Govt, Bank	KG, PS
Interim Strategy Note	FY12	150	Govt, Bank,PD	KG, PS,PD
Trade and Integration EU	FY13	100	Govt, Bank	KG, PS
Public Expenditure Review	FY13	200	Govt, Bank,PD	KG, PS
Youth Inclusion Study	FY13	250	Govt, Donor,Bank	KG, PS
Peri-Urban Assessment	FY13	220	Govt, Bank	KG, PS
ICT Service Delivery Health Sector	FY13	280	Govt, Bank	KG, PS
ICT Collaboration of Civic Engagement	FY13	100	Govt, Bank	KG, PS,PD
Low Carbon Action Plan for Transport Sector	FY13	100	Govt, Bank	KG, PS
Climate Change Country Systems	FY13	200	Govt, Bank	KG, PS
Tourism Sector Debt Restructuring	FY13	80	Govt, Bank	KG, PS
Growth Development Policy Review	FY13	250	Govt, Bank	KG, PS
Investment Climate Assessment	FY13	300	Govt, Bank	KG, PS
Governance in Social Sectors TA	FY13	300	Govt, Bank	KG, PS,PD
Strategic Energy Vision TA	FY13	100	Govt, Bank	KG, PS
Household Survey	FY13	120	Govt, Bank	KG, PS
Maghreb Fossil Fuels	FY13	400	Govt, Donor,Bank	KG, PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

CAS Annex B6: Tunisia Key Economic Indicators

Indicator	Actual			Estimate		Projected			
	2007	2008	2009	2010	2011	2012	2013	2014	2015
National accounts (as % of GDP)									
Gross domestic product[a]	100	100	100	100	100	100	100	100	100
Agriculture	9	8	8	7	8	8	8	7	7
Industry	29	30	29	29	29	29	28	27	27
Services	54	54	54	55	55	56	57	58	59
Total Consumption	78	77	78	79	84	83	82	80	78
Gross domestic fixed investment	23	24	24	25	23	25	24	26	27
Government investment	3	3	3	3	3	5	4	3	3
Private investment	20	21	21	22	20	20	20	23	23
Exports (GNFS)[b]	51	56	45	50	49	51	52	53	54
Imports (GNFS)	53	59	48	55	57	59	58	59	58
Gross domestic savings	22	23	22	21	16	17	18	20	22
Gross national savings[c]	21	22	22	21	16	17	18	20	21
Memorandum items									
Gross domestic product	38922	44775	43522	44238	45860	44512	45934	48320	50908
(US$ million at current prices)									
GNI per capita (US$, Atlas method)	3610	3880	4130	4210	4090	4000	4150	4230	4390
Real annual growth rates (%, calculated from 90 prices)									
Gross domestic product at market prices	6.3	4.6	3.0	3.0	-1.8	2.4	3.7	4.9	4.8
Gross Domestic Income	5.5	5.0	3.1	1.5	2.1	2.6	3.4	4.8	4.4
Real annual per capita growth rates (%, calculated from 90 prices)									
Gross domestic product at market prices	5.3	3.6	2.0	2.0	-2.4	1.4	2.7	3.9	3.8
Total consumption	4.3	3.8	3.1	0.2	1.2	1.9	2.6	2.5	2.7
Private consumption	4.5	3.5	2.9	3.5	3.6	1.0	2.7	2.3	4.0
Balance of Payments (US$ millions)									
Exports (GNFS)[b]	20068	25139	19917	22236	22684	22562	23855	25408	27299
Merchandise FOB	15147	19140	14418	16431	17822	17456	18294	19461	20937
Imports (GNFS)[b]	20837	26503	21091	24351	25931	26090	26798	28314	29639
Merchandise FOB	18023	23140	18117	21005	22621	22828	23438	24787	25952
Resource balance	-769	-1364	-1174	-2115	-3248	-3527	-2943	-2905	-2340
Net current transfers	1880	2159	2183	2267	2195	3017	2925	2954	2860
Current account balance	-917	-1708	-1234	-2104	-3371	-3444	-2984	-2987	-2617
Net private foreign direct investment	1515	2595	1525	1334	461	950	1112	1280	1740
Long-term loans (net)	-227	-10	340	-89	828	2668	640	1113	438
Official	9	-118	479	358	1587	757	883	471	49
Private	-236	108	-139	-447	-759	1911	-243	641	389
Other capital (net, incl. errors & ommissions)	352	690	1042	669	482	-636	1912	1007	1082
Change in reserves[d]	-723	-1567	-1673	190	1601	461	-680	-412	-644
Memorandum items									
Resource balance (% of GDP)	-2.0	-3.0	-2.7	-4.8	-7.1	-7.9	-6.4	-6.0	-4.6
Real annual growth rates (YR90 prices)									
Merchandise exports (FOB)	17.0	5.4	-9.7	4.2	-1.0	3.3	5.5	6.8	7.9
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	10.9	7.3	1.0	-1.3	-4.6	7.0	3.1	6.1	5.0

(Continued)

CAS Annex B6: Tunisia Key Economic Indicators (continued)

Indicator	Actual			Estimate		Projected			
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public finance (as % of GDP at market prices)[e]									
Current revenues	21.8	24.1	23.1	22.9	24.5	23.6	23.4	23.4	23.4
Current expenditures	18.4	19.0	18.1	17.8	21.0	23.1	22.7	22.5	21.4
Current account surplus (+) or deficit (-)	3.5	5.2	5.0	5.1	3.5	0.5	0.7	0.9	2.0
Capital expenditure	6.0	5.8	7.7	6.4	6.8	8.8	6.7	6.4	5.9
Foreign financing	-0.9	0.2	0.0	-0.4	2.5	3.2	2.5	1.7	0.8
Monetary indicators									
M2/GDP	56.5	58.4	62.1	64.6	70.1	70.2	71.9	73.8	76.0
Growth of M2 (%)	13.5	14.5	13.0	12.0	8.4	11.8	10.4	11.8	12.2
Private sector credit growth (%)	9.5	13.4	9.9	18.4	13.2	14.5	6.0	8.5	8.9
total credit growth (%)	9.7	12.0	11.2	16.2	13.0	9.5	6.9	9.3	9.4
Price indices(YR90 =100)									
Merchandise export price index	175.9	210.8	176.1	192.4	210.8	199.8	198.4	197.5	197.1
Merchandise import price index	212.8	254.6	197.3	231.8	261.7	246.8	245.7	244.9	244.1
Merchandise terms of trade index	82.7	82.8	89.3	83.0	80.5	81.0	80.7	80.7	80.7
Real exchange rate (US$/LCU)[f]	72.7	72.2	71.4	71.0	70.5	71.0	72.0	72.4	72.7
Real interest rates									
Consumer price index (% change)	3.4	4.9	3.5	4.4	3.5	6.2	3.7	3.5	3.7
GDP deflator (% change)	2.5	6.0	3.1	4.6	3.8	6.8	3.9	3.8	4.0

a. GDP at market prices
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Tunisia
CAS Annex B8: IBRD Portfolio
As of Date 5/3/2012

Closed Projects	**132**

IBRD/IDA *

Total Disbursed (Active)	191.39
of which has been repaid	10.95
Total Disbursed (Closed)	1,799.60
of which has been repaid	2,035.56
Total Disbursed (Active + Closed)	1,990.99
of which has been repaid	2,046.51
Total Undisbursed (Active)	332.45
Total Undisbursed (Closed)	0.28
Total Undisbursed (Active + Closed)	332.73

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Million				Difference Between Expected and Actual Disbursements [a]	
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P075809	Higher Education Reform Support II	S	S	2006	76.0			50.6	48.1	2.7
P095847	Water Sector Investment II	S	S	2009	30.6			13.3	5.7	
P119140	4th NW Mount & Forest Area Dev PNO4	S	S	2011	41.6			40.1	7.7	1.4
P104266	Energy Efficiency and Renewable Investment	U	U	2009	55.0			54.1	32.0	3.2
P071115	Export Development II	S	MS	2004	42.0		0.2	4.8	-6.1	-0.3
P118131	GEF Northern Tunis Wastewater Project	S	MS	2010		8.0		8.0	5.8	0.7
P069460	GEF: Gulf of Gabes	S	MS	2005		6.3		2.5	2.5	0.6
P124341	MSME Financing Faciltiy	MS	MS	2012	50.0			50.0	12.5	
P117082	Northern Tunis Wastewater Project	S	MS	2010	52.0			51.9	31.7	2.5
P005591	Ozone Depleting Substance	S	MU	1994		5.1		0.8	-0.5	-0.5
P086660	Second Natural Resources Management	MS	MU	2010	36.1			34.0	5.7	
P095012	Sustainable Municipal Solid Waste Mgt	MU	MU	2007	22.0			4.4	3.0	
P099811	Tunis West Sewerage	MS	MS	2007	66.8			18.6	13.7	-0.3
P064836	Urban Water Supply	MS	MS	2006	38.0			10.6	7.1	
P112568	GEF Second Natural Resources Mgt	MS	MU	2010		9.7		8.8	2.5	
Overall Result					**510.1**	**29.2**	**0.2**	**352.6**	**171.2**	**10.0**

CAS Annex B8: IFC Portfolio

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
0	Altermed apef	0	3.69	0	0	0	0	1.74	0	0	0
2010	Amen sante	0	8.32	0	0	0	0	3.89	0	0	0
2004	Biat	0	0	22.31	0	0	0	0	22.31	0	0
2012	Candax	0	9.81	0	0	0	0	9.81	0	0	0
2007	Enda inter-arabe	1.53	0	0	0	0	1.53	0	0	0	0
2008	Fuba pc	0	10.17	0	0	0	0	9.46	0	0	0
2012	Mpef iii	0	20.16	0	0	0	0	0	0	0	0
2008/09	Tav tunisie	94.53	28.17	40.26	0	119.11	94.53	28.17	40.26	0	119.11
2009	Topic sa	0	16.55	0	0	0	0	16.55	0	0	0
Total Portfolio:		**96.06**	**96.87**	**62.57**	**0**	**119.11**	**96.06**	**69.62**	**62.57**	**0**	**119.11**

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

IBRD 33500R

JANUARY 2007