AFRICAN DEVELOPMENT BANK

TUNISIA

COUNTRY STRATEGY PAPER

2007- 2011

COUNTRY REGIONAL DEPARTMENT
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CURRENCY EQUIVALENTS

(January 2007)

Currency unit	=	Dinar (TND)
UA 1	=	TND 1.96035
UA 1	=	US$ 1.50440
UA 1	=	€ 1.14229

FISCAL YEAR

1st January - 31st December

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
AECI	:	Spanish International Cooperation Agency
AFD	:	French Development Agency
AL	:	Arab League
MFA	:	Multi-fiber Arrangement
AMU	:	Arab-Maghreb Union
ANPE	:	National Environmental Protection Agency
AU	:	African Union
BCT	:	Central Bank of Tunisia
BDET	:	Economic Development Bank of Tunisia
BNA	:	National Agricultural Bank
BNDT	:	National Tourism Development Bank
CEN-SAD	:	Community of Sahel-Saharan States
CHU	:	University Teaching Hospital
CITET	:	International Environmental Technologies Center in Tunis
CNE	:	National Environmental Commission
CPIA	:	Country Policy and Institutional Assessment
CREDIF	:	Research, Documentation and Information Centre on Women
CSO	:	Civil society organizations
CSP	:	Country Strategy Paper
EU	:	European Union
FDI	:	Foreign direct investment
GDP	:	Gross domestic product
ICTs	:	Information and Communication Technologies
MDCI	:	Ministry of Development and International Cooperation
MDGs	:	Millennium Development Goals
MEAT	:	Ministry of the Environment and Territorial Development
MIC	:	Middle income country
NPL	:	Non-performing loan
ONFP	:	National Family and Population Authority
PAC	:	Competitiveness Support Program
PDAI	:	Integrated Agricultural Development Program
PDRI	:	Integrated Rural Development Program
RD	:	Reportable diseases
SME	:	Small and medium-sized enterprises
SMI	:	Small and medium-sized industries
STB	:	*Société tunisienne de banque* (Tunisian Bank Corporation)
STEG	:	Tunisian Electricity and Gas Corporation
STUSID	:	Tunisian-Saudi Investment and Development Company
TFR	:	Total fertility rate
TND	:	Tunisian Dinar
TOE	:	Ton Oil Equivalent
UA	:	Unit of account (Bank Group)
UN	:	United Nations
UNDP	:	United Nations Development Program
UNFT	:	National Union of Tunisian Women
UP	:	Upgrade Program
VAT	:	Value-added tax
WTO	:	World Trade Organization

Executive Summary

1. The Board approved Tunisia's Country Strategy Paper (CSP) for 2002-2004 in December 2002. During that period, the Bank Group's strategy focused on supporting Government efforts to attain the development objectives of the 10th Five-Year Development (2002-2006), namely the acceleration of economic growth to reduce unemployment mainly by strengthening competitiveness. The main areas of intervention related to: (i) the pursuit of economic and financial reforms; (ii) consolidation of economic infrastructure; (iii) human resource development; (iv) boosting of productive sectors; and (v) private sector development. Various updates of the CSP for 2005 and 2006 did not alter this strategy, given the encouraging results obtained by the country and the satisfactory performance of the portfolio.

2. Tunisia's Country Strategy Paper (2007-2011) covers the period of the 11th Five-Year Development Plan. It starts with an analysis of the country's political, economic and social trends over the last few years, highlighting the strengths and weaknesses of the Tunisian economy, then presents and assesses the Government's national development strategy during the 11th Plan, assesses its implementation challenges and risks, and lastly presents the Bank's medium-term assistance strategy. To ensure massive participation, broad-based discussions were held with the government, the private sector and civil society during the mission of February 2006, and with development partners in May 2006.

3. **Recent economic and social trends.** Tunisia's economy has performed exceedingly well since the mid-1990s, with an average annual growth rate of more than 4% and its domestic and external imbalances under control. At the same time, the country's successful family planning policy scaled down the population growth rate to 1.1% in 2005. Both factors have combined to generate a substantial and sustained increase in per capita income which stood at US$ 2,713 in 2005. Such economic and social progress in Tunisia is the fruit of cautious macroeconomic policies and structural reforms initiated in the early 1990s.

4. Tunisia's growth is driven by the services sector which accounts for more than 40% of GDP and registers an average growth rate of about 9%. From the demand standpoint, household consumption is growing; the same applies to exports, albeit to a lesser extent. Meanwhile, private investments remain insufficient, mainly as a result of limited access to financing, administrative bottlenecks and red tape as well as keen competition from abroad. With regard to macroeconomic balances, the budget deficit has been contained in a context of high oil prices and salary increases in the public service. The excellent performance of exports brought down the current account deficit, partly as a result of exchange rate depreciation and a reduction in imports. However, the national debt level is still very high.

5. The improvement in the living standards of Tunisians was accompanied by remarkable social progress in terms of life expectancy, health, literacy, etc, ranking Tunisia among the few countries that will succeed in attaining the Millennium Development Goals. However, despite these positive results in social development and poverty reduction, there are still some pockets of poverty, in particular in the mainland regions and particularly in the North West which record below-average performance.

6. **National Development Agenda: 11th Plan.** The main guidelines of the 11th Plan focus on consolidating the activities initiated under the previous plan and implementing the 2004-2009 presidential program. The priority of the 11th Plan is to **accelerate economic growth** by an average of 6% per year and **create employment,** especially for young graduates, with the objective of slashing unemployment from 13.9% in 2006 to 10-11% in 2011.

7. Attainment of these objectives requires diversification of the economy, in particular the productive and export sectors, as well as greater private sector involvement. In view of recent economic trends, the services sector, and in particular the information and communication technologies (ICTs) which have enormous job creation potential, has been identified as a strategic sector. The manufacturing sector remains a growth pillar and the sector goal is to increase product value-added in order to improve response to external shocks by increasing exports. Hence, the current transformation within the textile sector from sub-contracting to co-contracting, shall be encouraged and extended to the mechanical and electrical industries sector which is developing rapidly and taking over from the textiles sector. Agro-industries, chemical and biochemical industries and other non-traditional industrial sectors with high value-added shall be developed, in particular through new partnerships, technopoles or any other private initiatives. Agriculture, whose share of the GDP has stabilized at 12%, shall be boosted, especially for crops whose European quotas have not yet been attained, especially olive oil or new crops such as bio-food-crops. Lastly, special emphasis will be laid on regional development (technological centers, promotion of investments, social actions) in order to reduce economic and social disparities.

8. **Medium-term outlook, challenges, stakes and risks.** The medium-term economic outlook for Tunisia is bright, with an annual growth rate of 6% and above for 2006-2010 (as projected by the country and international institutions), inflation contained at 2% per year, a reduced budget deficit and an improved external position. These prospects take into account the negative impact of the end of the MFAs and are based on various assumptions that include an oil price of US$60 in 2006 which could be scaled up in the supplementary budget, a certain sluggishness in European demand and privatization revenue of TND 3,000 million in 2006 and TND 135 million per year subsequently.

9. Nonetheless, Tunisia still faces two main challenges. With the opening of European markets from 1st January 2008, **the first challenge is to ensure the competitiveness of the Tunisian economy.** Despite the gains made through reforms implemented under the previous plan, certain protectionist measures and rigidities persist. The productive sector is still largely controlled by the State and there is growing competition with Eastern European and Asian countries, especially in the textile sector. **The second challenge is high unemployment** and the massive influx of women and higher education graduates into the labor market. However, despite its many economic and social gains as well as its relatively high growth, the Tunisian economy still has some weaknesses such as the low elasticity of employment, insufficient private investment or dependence on climatic conditions.

10. **Bank Group assistance strategy.** Considering Tunisia's encouraging performance in the implementation of the 10th Plan, such as the Bank's positive contribution to its results, the Bank's assistance strategy is aimed at supporting Government efforts to attain the objectives of the 11th Plan. Given the performance and shortcomings of the 10th

Plan, this next plan will focus on the double challenge of speeding up economic growth in a context of greater trade liberalization and the curbing of unemployment which undermines social cohesion and all the poverty reduction gains made so far.

11. For greater efficiency, flexibility and selectivity, the Bank's assistance strategy for 2007-2011 has retained three pillars: (i) **The reinforcement of macroeconomic policies and acceleration of reforms** addresses the need to improve the business environment and is geared towards consolidating the reform programs already initiated by the Bank. The expected outcomes are the consolidation of the macroeconomic framework and greater competitiveness. (ii) **The modernization of infrastructure and consolidation of the productive sector** is a strategic option for speeding up growth that will be bolstered by the Bank's past experience. It will contribute to the creation of wealth and improve the wellbeing of the people. (iii) **The consolidation of human capital** focuses on creating employment, in particular by consolidating the linkages between training, research and production; supporting the development of technological centers that give concrete form to such linkages; and ensuring balanced regional development.

12. Nevertheless, for reasons of selectivity, the first two years will be devoted to the promotion of competitiveness, private sector financing, modernization of infrastructure and management of water resources. Following the mid-term review of the CSP in 2009, the results framework shall be updated and consolidated and the activities retained by mutual agreement with the Tunisian authorities shall be clearly specified.

13. **Recommendation**. The Board of Directors is invited to consider and approve the strategy and priority intervention areas proposed for Tunisia in 2007-2011. The Bank's strategy shall be implemented using the reference scenario which provides for an indicative sustainable maximum loan amount of UA 188 million for financing the reform program and investment projects. This sum could be increased beyond the stated amount, in accordance with the agreed flexibility in the treatment of middle income countries, and shall be adjusted annually.

I. INTRODUCTION

1.1 In December 2002, the Board approved the Country Strategy Paper (CSP) (Ref. ADB/BD/WP/2002/114) on the Bank's assistance to Tunisia for 2002-2004. After reviewing the CSP, the Board congratulated Tunisia for its sound economic performance during the five years under review, which contributed to the country's social and political stability. It also praised the Government's determination to introduce much-needed structural reforms under the 10th Five-Year Plan (2002-2006) to boost competitiveness. However, Tunisia still suffers from water shortage and high unemployment. The Board also identified potential slippages such as the economy's vulnerability to external shocks, the volatility of internal balances and dependence on the EU market, and encouraged rapid implementation of the structural reforms initiated.

1.2 The Board appreciated the satisfactory performance of the Bank's portfolio in Tunisia and approved its operations strategy for 2002-2004, which focused on supporting Government efforts to attain the development objectives of the 10th Five Year Plan, namely the acceleration of economic growth to curb unemployment by strengthening competitiveness. The main areas of intervention are: (i) the pursuit of economic and financial reforms; (ii) the consolidation of economic infrastructure; (iii) human resource development; (iv) consolidation of productive sectors; and (v) private sector development. The various updates of 2005 (ADB/BD/WP/2002/114/Add.1) and 2006 (ADB/BD/IF/2006/68) intentionally maintained Bank support in the implementation of the 10th Plan and thus left the strategy unchanged. To date, the results obtained by the country have been encouraging and portfolio performance (review of end-2005, ADB/BD/WP/2005/146) has improved further.

1.3 The current CSP starts with an analysis of the country's political, economic and social trends over the last few years, highlighting the strengths and weaknesses of the Tunisian economy, then presents and assesses the national development plan, and lastly presents the Bank's medium-term assistance strategy. The CSP is based on data and information collected during the CSP mission of January 2006, studies conducted by the Bank, especially the one on the competitiveness of the Tunisian economy[1], and various documents available on Tunisia.

Box 1

Main characteristics of Tunisia

Tunisia is situated in the far North-Eastern part of Africa and at the center of the Mediterranean basin, with a surface area of 164,000 km², a smooth topography and a hydrographic network composed essentially of the Medjerda and Meliane wadis. Endowed with few natural resources, Tunisia has based its development on human capital. It is a middle-income income country that registered an average annual growth rate of 4.5% in 2001-2005.

As of 1 July 2005, the population was estimated at 10.1 million inhabitants, representing an average density of 61.7 inhabitants/km² and an annual population growth rate of 1.1%. The majority of the population lives in urban areas (64.8%), in particular Tunis (20%). The age structure indicates that Tunisia has made a demographic transition. The labor force in 2005 was estimated at 3.3 million, of which 26% are women. About 49.6% of this labor force works in the services sector, 34.3% in the industrial sector and 16.3% in the agricultural sector. The unemployment rate stood at 14.3% in 2005, with 465 thousand unemployed.

In 2005, the GDP per capita was US$ 2,713, life expectancy at birth was 73.9 years, the infant mortality rate was 19.7 per 1000, the literacy rate was 77.1%, while the enrolment ratio for children aged 6-11 was 97%. About 95.8% of the population has access to safe water, 96.4% have access to electricity and 4% live below the poverty line.

[1] A feedback workshop was held on 28 November in Hotel Abou Nawas Tunis that brought together Tunisian authorities and development partners.

Tunisia ranks 89th out of 177 countries in the Human Development Index (HDI) of the 2005 World Human Development Report.

With regard to territorial administration, Tunisia is divided into 24 governorates, each ruled by a Governor who represents the Head of State at the regional level, and composed of several communes (1541 in all). The Governors are under the authority of delegates who head Delegations (262 in all.

Tunisia is a free, independent and sovereign State; its religion is Islam, its language is Arabic and it is a republic. According to the 1959 Constitution, the President of the Republic is elected through universal, free, direct and secret ballot by absolute majority for a five-year term of office. The President of the Republic is re-eligible. Tunisia has had two Presidents since independence. The political system is bicameral with a House of Representatives, elected for a five-year term and a House of Advisers, whose term is limited to 6 years with half of its membership renewed every 3 years. The last presidential and legislative elections in 2004 were conducted without any incident and did not modify the political landscape.

II. COUNTRY CONTEXT

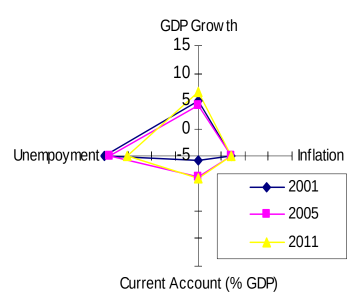
2.1 Political context

Tunisia has a stable political environment, with one President since 1987, who is backed by the *Rassemblement constitutionnel démocratique* (RCD). He won a 4th term in 2004 with 89% of the votes cast and enjoys a huge majority in parliament (80% of the 189 seats). The presidential elections of 2009 will take place midway through the CSP, and there is little risk of a change in the country's main socio-economic policies.

2.2 Macroeconomic and structural context issues

2.2.1 Tunisia's economy has performed exceedingly well since the mid-1990s, with an average annual growth rate exceeding 4% and its internal and external imbalances under control. At the same time, its successful family planning policy has kept the population growth rate low (close to 1%). Both factors have generated a substantial and sustained increase in per capita income which stood at US$ 2,713 in 2005. Such economic and social progress in Tunisia is the fruit of cautious macroeconomic policies and structural reforms initiated in the early 1990s and implemented through quality[2] administration. It also stems from the abiding concern to balance economic growth with social development, which has made Tunisia a potential candidate for attaining the Millennium Development Goals (MDGs). However, concern for social cohesion has also slowed down the pace and scope of reforms, notably with regard to economic distortions, openness to the outside world and the development of certain sectors.

Figure 1 : Magic squere



2.2.2 **Growth/inflation/ unemployment/ internal and external accounts – "the magic square"**: Growth has not generated inflationary pressure but has rather made it possible to reduce the unemployment rate and the current account deficit. However, this graphic representation has highlighted the imbalance between growth and employment; growth based on demand and on very capitalistic investments which generates few jobs and negatively affects

[2] Cf. Quality classification of the administration, MENA Report on governance, World Bank 2003.

the external balance since most capital goods are imported. The objectives of the 11th Plan are aimed at rebalancing the four aggregates, in particular more sustainable growth to reduce unemployment, controlled inflation and sustainable imbalances.

2.2.3 **High growth rates**: During 2001-2005 the average annual economic growth rate was 4.5%. The excellent performance of the agricultural sector and especially the strong growth in services[3] generated an unprecedented growth rate of 6% for Tunisia in 2004. The slight decline in 2005 projections (4% growth) can be attributed to a slowdown in the growth rates of manufacturing industries[4] which represent about 20% of GDP, and the poor performance of the agricultural sector whose contribution to GDP stabilized at 12%. Meanwhile, the services sector which accounts for more than 40% of GDP has continued to grow at an average rate of about 9% owing to the strong performance of the transport, communication and tourism sectors.

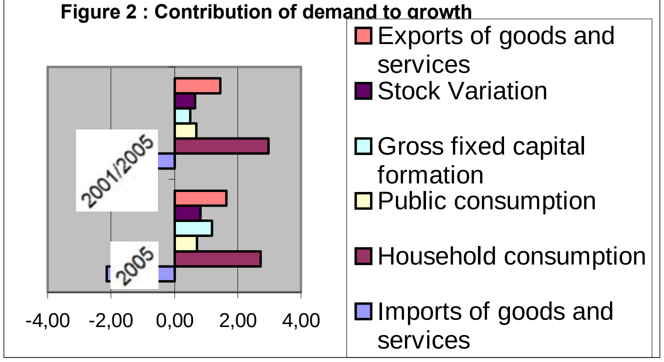
2.2.4 **Supply driven by services**: A breakdown of sector contribution to growth (cf. Annex 14) shows that services contribute highest, followed by manufacturing industries and lastly agriculture. In the services sector, tourism's contribution is declining while that of transport and communication activities is rising. In the industrial sector, the textile, mechanical and electrical industries are gradually undergoing diversification. The erratic trends in agricultural sector contributions stem from excessive dependence on climatic conditions.

Table 1
Sector contribution to GDP

	2004	2005*	1990/2000	2001/2005	
AGRICULTURE AND FISHERIES	**1.26**	**-0.65**	**0.39**	**0.26**	↓
MANUFACTURING INDUSTRIES	**0.89**	**0.16**	**0.83**	**0.55**	↓
... Mechanical and electrical Industries	0.23	**0.27**	0.16	**0.23**	↑
... Textile, clothing and leather Industries	-0.02	-0.27	**0.24**	0.04	↓
NON-MANUFACTURING INDUSTRIES	**0.45**	**0.37**	**0.41**	**0.37**	↓
... –Construction and civil engineering	0.25	**0.15**	0.31	0.36	↑
COMMERCIALLY-TRADED SERVICES	**3.13**	**3.49**	**2.19**	**2.54**	↑
... Trade	0.62	**0.56**	0.46	**0.59**	↑
... Transport and communication	1.43	**1.77**	0.78	**1.18**	↑
... Hotels, cafés, restaurants	0.38	0.35	0.21	0.15	↓
NON-COMMERCIAL ACTIVITIES	0.50	0.64	0.61	0.59	↑
...including Government services	0.50	0.49	0.57	0.50	↓
TOTAL VALUE-ADDED	**5.89**	**3.84**	**4.17**	**4.16**	↑
GDP AT MARKET PRICES	**6.04**	**4.0**	**4.66**	**4.47**	↓

* estimated from available disaggregated data for 2005.
Source: 2005 Economic budget

Figure 2 : Contribution of demand to growth



2.2.5 **Demand driven by consumption**: Household consumption and exports were the main sources of growth in 2001-2005. However, the increase of imports over exports generated a negative contribution to trade. In all, the 4.47 average annual growth points registered in 2001-2005 are broken down as follows: 3.12 points for household consumption

[3] This sector which was the engine of growth in the 1990s suffered a decline after the Djerba attacks (11 April 2002) and following the events of 11 September 2001.
[4] A decline that partly stemmed from the expiration of the Multi-fiber Arrangement (MFA).

expenditure, 1.79 points for exports, 0.69 point for public expenditure and 0.26 point for investment (cf. Annex 14). From the total of these contributions should be deducted a 1.2-point contribution from imports (representing a negative contribution of -0.2 point of the trade balance) and a stock variation contribution of 0.2 point. In spite of a relatively stable growth rate, the sources of growth changed in 2005, with an increase in the contribution of investments over that of household consumption.

2.2.6 **Budget deficit contained in a difficult context**: The State budget in 2002-2005 was characterized by a reduction in the tax burden from 24.4% to 22.4% and the curbing of expenditure, despite the impact of oil price hikes on subsidies[5] and a public service salary increase in 2005[6]. The budget deficit was contained to 3% of GDP. About 77% of this deficit was financed with internal resources, in particular the issue of treasury bonds, and 23% financed with external resources. Inflation rates remain controlled (2.8% on average) over the period thanks to a policy of absorption of excess liquidity generated by privatizations and external flows. At the same time, there was a balance between the growth rate of credits to the economy and economic activity. In 2006, inflation rose (estimated at 4.6%), resulting in an increase in Central Bank interest rates (from 5% to 5.25%). This increase reflects the pressure on prices caused by the rise in oil prices and their repercussions on transport and other consumption goods as well as strong domestic demand and the depreciation of the dinar. The downward trend which started in August 2006 is expected to continue.

2.2.7 **An improvement in external deficits while the debt burden remains high**: The trade balance deficit dropped from 10.1% of GDP in 2002 to 6.8% in 2005, and the balance of payments current account deficit also fell from 3.6% in 2002 to 1% of GDP in 2005. This decline stems from the excellent performance of exports, due to the depreciation of the real effective exchange rate and despite the end of the Multi-fiber Arrangement and oil price hikes, and from the decline in imports. The volume of exchange reserves equally rose to the equivalent of 3.6 import months in 2005. At the same time, Tunisia’s total ratio of external indebtedness rose from 65.2% of GDP (US$ 13.7 billion) in 2002 to 67.9% (US$ 18.5 billion) in 2005. These rates remain relatively high especially when compared with those of countries having the same level of development. Public external debts (2/3 of the total external debt) contributed to this high level of indebtedness. Measures were taken to reduce this debt burden, such as the setting-up of specialized structures[7] and prepayment. Meanwhile, the debt service ratio slightly improved to 14.5% in 2005.

2.2.8 **Reforms positioned Tunisia as the leading economy in the region in terms of economic performance**: The stabilization and structural adjustment policies initiated in 1987 fuelled the drive towards economic growth. The success of this phase, which focused on internal liberalization, paved the way to the next phase, which lays emphasis on external liberalization. With the signing of the Partnership Agreement with the European Union in 1995, the external openness strategy was translated into reality, especially for manufactured goods. The gradual introduction of structural reforms, coupled with the steady depreciation of the Tunisian Dinar have boosted economic competitiveness and fuelled the growth of exports.

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[5] To limit the impact of high oil prices on subsidies, petrol station prices continued to increase by about 30% in 2005

[6] The UGTT and Government reached an agreement wage increases as follows: 3.5% per year for the next three years, representing 10.5% over the 2005-2007 period.

[7] Pursuant to the recommendations of the study on public debt management conducted under the economic competitiveness support loan PAC III financed by the ADB, the World Bank and the EU, a Directorate General for Public Debt Management and Financial Cooperation was set up under the Ministry of Finance.

2.2.9 **Tunisia needs to speed up reforms in order to ensure its successful integration into the world economy:** Its excellent performance notwithstanding, Tunisia has not yet attained the development level of the emerging OECD economies (lower living standards in terms of purchasing power parity) and has not been able to make a sharp reduction in its unemployment rate (from 16% in 1999 to 13.9% in 2006). Hence, despite two decades of reforms, much remains to be done to improve the competitiveness and flexibility of the economy[8]. The structural transformation of the economy needs to be accelerated in order to increase the share of skilled-labor-intensive sectors and boost productivity. The necessary reforms[9] focus on liberalization, the promotion of regional integration, improvement of the business environment, consolidation/development of the financial sector, flexibility of the labor market and the opening of a capital account in preparation for a floating exchange rate regime.

2.3 Sectoral context issues

2.3.1 **An agricultural sector that is heavily dependent on climatic conditions**: In 2001-2005, agriculture contributed 12.1% to GDP, grew at an average annual rate of 2.1% and contributed 0.26 point to growth, which is a slight decline compared to 1990-2000, when these values were 14.6%, 3% and 0.39 point, respectively. This average trend reflects the structural deformation of the economy in favor of the secondary and tertiary sectors. However, it masks the erratic long-term trend within the sector, with negative growth rates during years of drought and positive growth rates during years of abundant rainfall. Moreover, this occurs despite the existence of irrigation infrastructure and the steady development of irrigation areas which have helped to reduce the impact of these shocks and consolidate food security. The food trade balance for 2001-2005 showed a deficit, with an average cover rate of 76%.

2.3.2 **Real potential, but some persistent constraints too**: Tunisia’s rural population represents one-third of the total population and is most hard-hit by poverty. One quarter of the labor force works in the agricultural sector where 5.6% of the farm operators to date are women. The production of products like olive oil, dates and fishery products that have a comparative advantage needs to be increased. However, there are some persistent constraints, such as shortage of water, arable land and credits (access, guarantee and insurance problems) especially for small farmers, limited empowerment of farmers’ organizations, poor development of agricultural products (packaging and marketing), and land ownership and parceling problems.

2.3.3 **An industrial sector undergoing change and still facing keen competition**: In 2001-2005, the industrial sector contributed 28% to GDP, grew at an average annual rate of 3% and contributed 1 point to growth. This sector enjoys special attention, given its special role in promoting exports, investment and employment (cf. Annex 15). However, with the opening of markets in the context of globalization, there is an absolute need to improve the business environment, with greater involvement of the private sector and diversification of external markets (other than Europe).

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[8] Conclusions of the Bank study on Tunisian competitiveness.
[9] Shared by all partners: IMF - Article IV; ADB, World Bank and EU – PAC

2.3.4 **Small market and limited private investments:** Despite the positive performance of Tunisia's industrial sector, there are still a few shortcomings. First of all, despite the many incentive measures taken, private investments in the sector are not growing at the expected rate. Secondly, given the smallness of the local market, Tunisian industry depends heavily on the EU market and so is prey to the vagaries of the EU economy. In terms of employment, apart from the textile sector which has played a very special role in Tunisia, investments in the industrial sector are increasingly capitalistic. Lastly, other shortcomings in the sector include fragmentation of the industrial fabric, the low rate of training, poor marketing and no liaison or coordination between fully-export enterprises and the rest.

2.3.5 **Energy sector**: Tunisia's demand for energy has been rising steadily at an annual rate of 5% since the early 1990s. This trend is fueled by productive sector growth, social development and new consumer demands resulting from improved household living standards, the opening-up of the economy to the outside world and the consolidation of infrastructure. To address this demand, Tunisia is trying to diversify and protect its supplies in the long-term, reduce its energy bill and promote the rational use of energy.

2.3.6 The policy of rational energy use has contributed in slowing down the rise in final energy intensity[10], with a sharp decline in consumption in the cement, fertilizer, paper pulp and phosphate industries, especially. Industry remains the leading consumer of energy, although its share has fallen over the last twenty years from 40.2% of total consumption in 1980 to 33.8% in 2004. This decline stems mainly from the fact that the development of energy-consuming industries has given way to tertiary sector activities such as tourism, and the emergence of branches of industry with high value-added such as textiles that consume less energy.

2.3.7 With growing demand and the decline in national resources, an adapted energy policy was adopted that focuses on the following targets: (i) the development of national oil resources; (ii) the development of national energy infrastructure, cooperation and regional energy integration in order to guarantee safe, continuous and cheap energy supply to the country; (iii) the pursuit of the strategy to develop the use of natural gas as a substitute to other hydrocarbons such as liquefied petroleum gas (LPG) and gas-oil, so as to raise the share of gas in the country's energy consumption structure from 39.4% in 2001 to 43.9% in 2006; and (iv) the promotion of energy efficiency through the control and rational use of energy, the development of new and renewable forms of energy and environmental protection. To meet these targets, legislative and statutory measures were adopted to liberalize the sector, notably in the areas of oil exploration and production, electricity production and rational energy use.

2.3.8 Despite the positive progress in the energy sector, the electricity sub-sector still faces various constraints, notably: (i) the maintenance of high prices for natural gas due to high oil prices[11], (ii) a rigid pricing policy[12] and (iii) the obsolescence of part of the MT and BT[13] networks.

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[10] From 0.33 TOE/thousand Dinar in the early 1990s to 0.30 TOE/thousand Dinar in 2000 (TOE: Ton oil equivalent in relation to GDP expressed in Dinars).

[11] More than 95% of the electricity in Tunisia is generated from natural gas which is clean fuel. However, the price of close to 55% of the natural gas coming from the Gabès offshore gas deposits is indexed to oil prices. Hence the surge in oil prices generated a substantial increase in the production costs and overheads of the Tunisian Electricity and Gas Corporation (STEG).

[12] Although electricity production is open to private producers who supply energy to STEG and whose production and sales costs are indexed to the evolution of the various economic factors, notably the exchange rate, STEG tariffs are still controlled by the State. Structurally, the average sales prices of a KWh are lower than the cost price.

[13] Close to 25% of the MT/BT distribution networks in the main cities of the country are obsolete and at risk of causing accidents and power outages.

2.3.9 **Tertiary sector:** The tradable services sector experienced strong growth in 2001-2005, compared to 1990-2001. Indeed, it contributed about 39% to GDP in 2001-2005 (35.8% in 1990-2001), grew at an average annual rate of 6.63% (compared to 4.9%) and contributed 2.54 points (compared to 2.2) to GDP. This trend partly stems from the fact that Tunisia, having few natural resources, has always considered human capital as its primary resource. While tourism has always driven this sector, it remains dependent on external shocks[14] and presents some shortcomings, notably with regard to the type of services supplied, namely mass beach tourism. Hence, an upgrading program similar to that of the industrial sector has been initiated. This program also takes into account the fact that the tourism sector is becoming increasingly capitalistic whereas sector operators have limited own capital. Transport and communication are currently in the lead and have been identified as the sectors that will drive the new knowledge economy.

2.3.10 **Transport and communication sector**: This sector's contribution to average economic growth rose from 0.78 point in 1990-2001 to 1.18 points in 2001-2005. This trend was sustained by a substantial increase in sector share of GDP by 6.83% in 1990, 8.96% in 2000 and 12.44% in 2005. Similarly, annual average growth rates also picked up by 8.9% in 1990-2001 and 11.5% in 2001-2005, with a peak year in 2005, when the rate was 15.8%.

2.3.11 The transport sector represents about 6% of GDP, broken down into 48%, 30%, 17% and 5% for the road, air, maritime and railway sub-sectors respectively. The transport sector in Tunisia has created close to 140,000 direct jobs (representing more than 4.5% of the employed labor force) which are concentrated mainly in the road sub-sector (more than 65%). Given this sector's crucial role in the country's economic and social development and in the national strategy for integration into the world economy, the Tunisian Government embarked on an ambitious transport sector development program whose results are very encouraging. Tunisia has a dense and modern road network (12,000 km of paved roads and 5,000 km of dirt roads) linking the various regions of the country; a rail network of 2000 km; 30 fishing ports, 10 of which can receive trawlers, sardine boats, tuna boats and coastal fishing units[15]; and 7 international airports[16]. However, measures need to be taken to augment and modernize transport infrastructure, so as to sustain this rapid economic and social growth for the future. Such measures should boost trade, in particular by increasing relations with non-traditional markets (Asia, Latin America and sub-Saharan Africa) and help reduce costs in order to take up the competitiveness challenge.

2.3.12 The information and communication technologies (ICTs) sector has experienced a boom, especially in the mobile telephony segment. Indeed, competition set in from 2002 with the arrival of a second operator. The number of mobile phone users per 100 inhabitants rose from 5.7 in 2002 to 54 at the end of 2005. Meanwhile, the number of internet users also rose from 5.2 per 100 inhabitants in 2002 to 8.4 at the end of 2004, but the trend has remained slow because of high costs and various bottlenecks. Hence, Tunisia lags far behind Malaysia, Romania and even Morocco where the number of internet users per 100 inhabitants in 2004, stood at 39.7, 20.2 and 11.7 respectively. Nevertheless, the ICT sector is poised to play a leading role in the creation of wealth. Moreover, measures need to be taken to promote greater and fair competition, reform the statutory framework and curb various restrictions.

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[14] The 11 September 2001 terrorist attacks, the Djerba attacks of April 2002, the slowdown in the international and especially European (leading customer) economic situation.
[15] The ports are located in Tabarka, Bizerte, La Goulette, Kélibia, Sousse, Monastir, Mahdia, Sfax, Gabès and Zarzis and are endowed with all the necessary fisheries services.
[16] Carthage, Monastir, Djerba, Tozeur, Tabarka Gafsa and Sfax.

2.3.13 **Financial sector:** The Tunisian financial system is dominated by the banking sector and characterized by heavy State involvement. Apart from the capital market which comprises a list of 49 companies, the financial system is supervised by the Central Bank of Tunisia (BCT). Many of the measures implemented have led to an improvement of the institutional framework of the financial system, with the adoption of a statutory and prudential framework that meets with international standards and a better response to demand for financing generated by the development of the Tunisian private sector. Indeed, credits to the economy increased by 6% on average in 2002-2005. The contribution of the capital market still remained marginal at about 4% in 2005. The insurance market underwent profound restructuring with recapitalization of insurance companies that had a disequilibrium and support in sector supervision enhancement.

2.3.14 Banking sector: The banking sector is dominated by commercial banks that are also majority shareholders in many other financial institutions (leasing companies, common investment funds). The Government maintains firm control over the three biggest public banks (BNA, BH, STB). This sector is mainly plagued by the high volume of non-performing loans which, though on the decline, are estimated at 20% of all bank commitments. Streamlining the banking sector is an absolute precondition for improving the business environment and financing the private sector. Reforms initiated by the Government and supported by development partners[17] have helped to ensure sector stability [18]. However, the streamlining exercise still requires: (i) improved recovery of non-performing loans by writing off the classified claims of banks or transferring them to debt recovery companies; (ii) the rapprochement of former specialized banks with private banks; (iii) the improvement of financial transparency and security; and (iv) the improvement of banking sector stability and promotion of competition and innovation.

2.3.15 Capital market: During the last decade, the role and efficiency of capital markets were consolidated through various measures. However, recourse to such markets by Tunisian companies through the issue of securities and debentures to raise funds remains limited although there are encouraging tax incentives, in particular a tax reduction for companies that engage in a public issue of 35% to 20%. The main constraints to the development of financial markets are: the cost of capital, transparency, the impact of groups having mutual relations and cross-shareholdings, the financial culture and lack of operators that are specialized, independent and prepared to promote new products. The biggest of these constraints is the transparency costs of a public issue despite the adoption of a law on financial security.

2.3.16 Insurance sector: This sector has 18 resident companies and 3 offshore companies. Its penetration rate remains low at 1.82% compared to a world average of 8%. The leading product is automobile insurance (43% of total turnover), followed by health insurance (17.2%). Over the last few years, the Tunisian insurance sector has developed in tandem with the economy, thus providing better cover against non-commercial risks, although it has not succeeded in stimulating the development of institutional savings. An insurance sector that is more robust and diversified in its approach and products would promote the development of capital markets by providing long-term resources for private investments.

[17] Competitiveness Support Programs: PACI, PACII and PAC III.
[18] Financial Sector Assessment Program (FSAP) conducted by the IMF and the World Bank.

2.3.17 **Health sector**: Health enjoys the greatest political support, as evident in the Presidential Program. Hence, the budget of the Ministry of Health rose from TND 212 million in 1988 to TND 1 billion in 2005. Tunisia has made enormous progress in health that translates into an extension of the health cover and the improvement of all indicators. Indeed, according to current estimates, 90% of the population lives at least 5 kilometers from a health center and in 2005 there was one physician for every 1,200 inhabitants, which is one of the highest rates in the developing world. The general mortality rate plummeted from 15‰ in 1966 to 5.3‰ in 2005. This trend stems from the sharp decline in infant mortality from 138.6‰ in 1966 to 19.7‰ in 2005. The estimated maternal mortality rate in 2005 was 50 maternal deaths per 100,000 live births and several communicable diseases are being eradicated or carefully controlled. Such progress has generated a great leap in life expectancy from 51.1 years in 1966 to 73.9 years in 2005. Apart from State resources, this sector also receives technical and financial support from the specialized organs of the UN System, the donor community and bilateral cooperation.

2.3.18 **Persistent challenges**: Tunisia is facing new health needs that require: (i) reinforcement of the financial protection system for families which already bear 53.6% of health expenditure and whose expenses are bound to increase with the rise in life expectancy and the number of patients suffering from chronic diseases; (ii) protection of access to healthcare for the indigent, to hedge against adverse selection by the social protection sector that could lead private service providers to receive only rich patients; (iii) greater decentralization of the health system and more empowerment of healthcare providers, the development of a national health master-plan that spells out the location and volume of future investments; and (iv) reinforcement of the information system in response to current epidemiological and demographic changes in the country.

2.3.19 **Education sector:** The fundamental right to education for all Tunisians without exception, which is an essential element of the Government's education policy was reaffirmed in the Secondary and Primary Education Law of July 2002 which recognizes education as "an absolute national priority". This law provides for free and compulsory education for all children aged 6 to 16 and bans exclusion from school[19]. The Government's education policy is line with a strategic vision of economic development and social transformation that should contribute to the emergence of a knowledge society. The results registered are convincing, with a primary enrolment ratio of 99.2% and gender parity in all cycles of primary and secondary education.

2.3.20 The intention of the Tunisian Government is to raise Tunisian schools to the standards of the best educational systems, including European systems. To attain this objective, more effort has to be made to address a certain number of constraints, in particular the sharp increase in enrolments estimated at 80%[20] for primary schools in 2000/2010; geographical disparities in terms of access[21] and the quality and relevance of teaching to ensure better transition from school to professional life.

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[19] This law builds on the achievements of previous reforms and constitutes an important stage in the effective realization of a vast reform program entitled "*School of the Future"* 2002-2007. This program's strategy is aimed at: (i) placing the pupil at the center of all educational activities; (ii) using information and communication technologies in education and training; (iii) professionalizing teachers; (iv) enhancing the image and status of schools; (v) applying the equity principle; and (vi) modernizing the educational system and improving performance through the skills-based approach.

[20] This increase is due to a combination of several factors such as the rise in school promotion rates and universal access (according to the Ministry of Education).

[21] Between the West of the country and the coastal areas in the East which are better endowed, and also between rural and urban areas. For example, the gross secondary enrolment ration was 55.4% in Kairouan in 2002 compared to 91.2% in Kébili. The Baccalaureate success rate in 2003 was 65.3% in the Governorate of Béja compared to 84.8% in the Governorate of Sfax.

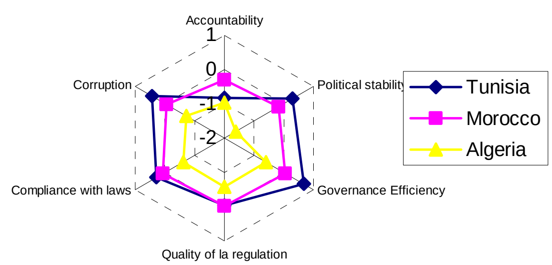
2.4 Priority cross-cutting issues

2.4.1 **Sound public finance management practices**: The World Bank 'Country Financial Accountability Assessment (CFAA)' indicates that Tunisia's public finance system is governed by a very developed legal and statutory framework which is well implemented[22]. Moreover, the Government launched budgeting by objectives from 2005 in three ministries namely: Education, Health and Agriculture.

2.4.2 **Good ranking in corruption control**: According to Transparency International, the Corruption Perceptions Index (CPI)[23] in 2005 stood at 4.9, on a scale of 0 to 10, ranking Tunisia in the 43rd position out of 158 countries. This indicator remained relatively stable over the 2002-2005 period[24]. In Africa, Tunisia comes second after Botswana (32nd), and is followed by South Africa (46th).

2.4.3 **Good regional ranking in governance**: Based on the two major components of governance which are the quality of public administration and accountability, Tunisia's scores are higher than the average for countries in the Middle East and North African Region[25]. However, the statistics of the UNDP's Program on Governance in the Arab Region, POGAR 2002 highlights areas needing improvement, such as the quality of regulation (price control, constraints to external trade and business development) and accountability.

Figure 3 : Governance indicators
Gouvernance Program in the Arab Region
(POGAR, PNUD - 2002)



2.4.4 **Labor market**: The Government has instituted an active employment policy, mainly as part of its drive to combat unemployment. However, the labor market in Tunisia is characterized by wide disparities between job demand and supply, and between the profiles of job-seekers and those requested by enterprises as well as the rigidities of the Labor Code.

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[22] According to the 2004 report: "the practices of public finance system operators are in line with its legal framework".
[23] The Corruption Perceptions Index of TI is a composite survey that reflects the perceptions of resident and non-resident businessmen and country analysts. The index is based on 16 different surveys conducted by 10 independent institutions. To be included in the CPI, a country must feature in at least three surveys. 7 sources were used for Tunisia.
[24] 5 in 2004, 4.9 in 2003 and 4.8 in 2002.
[25] cf. Governance in the MENA Region, World Bank

Box 2
Employment policies in Tunisia

Employment policies are characterized by direct Government intervention to help introduce the unemployed and newcomers into the labor market. They cost between 1% and 1.5% of GDP per year. More than 65% of this expenditure concerns subsidized employment and job creation (mainly support to self-employment and direct job creation). Expenditure on the youth (apprenticeship, vocational training) represents about 28% of total expenditure.

Several intermediaries are involved in policy implementation:

(1) Intermediaries directly responsible for the labor market: the National Employment and Self-Employment Agency (ANETI) and the Directorate General for Labor Inspection;
(2) Financing institutions for employment programs: the Tunisian Solidarity Bank (BTS), the National Employment Fund (FNE 21-21) and the National Social Security Fund (CNSS);
(3) Vocational training institutions: the Tunisian Vocational Training Agency (ATFP) and schools providing vocational training in hotel business and public health, vocational training centers for agriculture and fisheries and private vocational training centers.

2.4.5 **Shortcomings in Tunisia's employment policies**: In spite of the many interventions in employment, the unemployment rate remains high and inequitably distributed all over the national territory and within the population. The benefits granted are unevenly distributed within the target population (i.e. the youth), especially young school leavers, whereas the majority of the unemployed have received secondary or primary education. Other categories of the target population such as university graduates and disadvantaged or at-risk workers barely benefit from incentive expenditure to promote employment. Training essentially benefits major corporations even though emphasis is laid on the development of small and medium-sized enterprises (SME/SMI). Most labor market intermediaries are concentrated in urban areas although unemployment is higher in rural areas, especially in the North-West region.

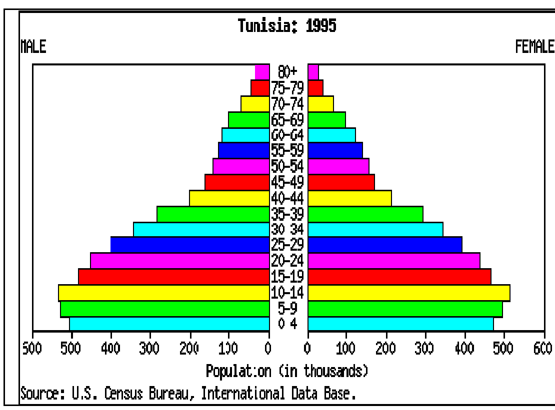
2.4.6 **Consolidating labor legislation reform**: Labor legislation reform was initiated to promote social dialogue at all levels and thus consolidate consensus and solidarity between employers and workers. Such reforms, aimed at adapting the Labor Code to the new economic and social context, have helped to increase labor market flexibility[26]. However, worker layoff difficulties still constitute a handicap to job creation and investment[27].

2.4.7 **Regional integration**: The opening-up of the national economy through extension and diversification of partnership relations and the conclusion of free trade agreements is an abiding feature of Tunisian economic policy. Tunisia, by virtue of its geographical situation, is poised for Maghreb, Arab, African and European integration. Since the creation of the Arab Maghreb Union (AMU), Tunisia has resolutely embarked on the path to political and economic integration with member-countries. It is a member of the African Union, was the first non-European country to sign a Partnership Agreement with the European Union on 17 July 1995 and joined the WTO on 29 March 1995.

[26] They focused mainly on the following issues: organization of social dialogue at the corporate, sectoral and national levels, settlement of labor conflicts, professional courts, labor inspection and penalties, health and safety at work, employment, salaries as well as ratification of important international conventions to keep pace with international labor legislation..
[27] IMF (Article IV) and World Bank

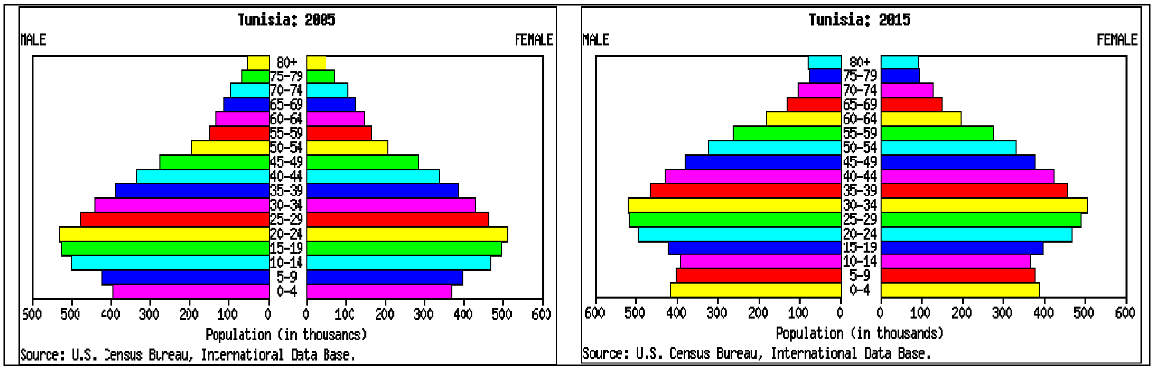
2.4.8 **Various stages of integration**: Since signing the Partnership Agreement with the European Union, Tunisia has implemented various reforms and measures, notably as concerns upgrading, in order to get ready for 1st January 2008, the date when the free trade area will go into force. This event constitutes a real challenge for Tunisia which conducts 80% if its trade with Europe. Meanwhile, political stumbling blocks have not made it possible for AMU member-countries to create a prosperous trade area. Tunisia's trade with AMU member countries represents a very small proportion of its total trade (5% of its exports and 4% of its imports). Such limited regional integration (commerce, infrastructure and services) reduces Tunisia's attractiveness for investments, especially foreign direct investments (FDI).

2.4.9 **Population**: According to the general census of April 2004, Tunisia had a population of 9,910,872 persons. It was estimated at 10.1 million in 2005. The population growth rate has fallen sharply, reaching 1.1% in 2005, after standing at an annual average of 1.21% during 1994-2004 and 2.35% in the previous decade. This trend can be attributed to a successful family planning program that slashed the total fertility rate (TFR) from 4.7 children per woman in 1984 to 1.9 in 2005. According to some experts, this rate could further decline to 1.66 in 2020-2025, because of high enrolment among girls, the rise in age at first marriage, the use of female contraceptives and unemployment. This decline in the TFR which has helped to push up income per capita, however raises some medium-and long-term problems such as: a burgeoning working-age population, which translates into tensions on the labor market, and a growing population of senior citizens, which means more retirement pensions to be paid. The urbanization rate rose from 61% in 1994 to 64.8% in 2004, because of massive rural-urban migration for reasons of employment or family reunification. The Governorate of Tunis alone has 20% of the population living on 2% of the national land surface area. The employed labor force stood at 3.3 million (or 29% of the total population) in 2005 compared to 2.32 million in 1994. Women make up 26% of the labor force, but are relatively most hard-hit by unemployment, since they represented 48% of the unemployed in 2004, compared to 35% in 1994. This trend reflects the massive arrival of women on the labor market mainly as a result of their higher level of education. Indeed, the proportion of women who have received a secondary or higher level of education rose from 22% in 1994 to 35.6% in 2004.



<u>Box 3</u>:
Tunisia's age pyramids (in thousands)
Years: 1995 - 2005 - 2015

Tunisia's demographic transition was rapid. The average size of families declined from 5.16 members in 1995 to 4.53 in 2005. The deformation of the pyramid over time is indicative of the success of the family planning policies implemented. **However, this deformation of the age pyramids highlights the growing weight of the working-age population, in a context of tensions on the labor market.**



2.4.10 **Gender parity**: Tunisia is one of the most active countries on the continent in terms of advocacy on gender parity and strongly defends these causes on the international scene[28]. As evident in many institutional instruments put in place, Tunisia is the champion of gender equality[29] through its Code of Personal Status which turned out to be very innovative and whose fiftieth anniversary was celebrated in 2006[30]. However, apart from the changes made within the Ministry which do not necessarily signify an increase of its gender-related prerogatives[31], there is still some discrimination, according to the joint report submitted in June 2002 to the Committee on the Elimination of Discrimination against Women (CEDEF)[32]. The control of violence against women has just received an institutional response through the Tuniso-Spanish joint project (ONFP and AECI) "Gender Equality and the Prevention of Violence Against Women" which is aimed at influencing public policy and training stakeholders.[33] Besides, the National Action Plan for Rural Women initiated since 1998 and reformed in 2001, especially after further extension of the micro-credit coverage, produced mediocre results. Nevertheless, the 2004-2009 Presidential Program has opened up new prospects by proposing that it be financed through Regional Council budgets and has the advantage of addressing gender mainstreaming at the budgetary and regional levels. Female representation within decision-making bodies is still below the presidential target of 30%, and female participation varies in these areas from 8.5% among corporate leaders to 23% in the public service and 26% among elected representatives. Cognizant of these difficulties, CREDIF[34] has embarked on a vast program called "Female Executives, Leadership and Decision-making" which will start in 21 Governorates before reaching out to the rest of the country through 3 to 4 annual sessions targeting about 20 women and equally open to men.

2.4.11 In education, there is gender disparity in favor of women in higher and secondary education (57.2% and 56.6% respectively), but female illiteracy, which is a handicap on the labor market, remains high (31%), especially in rural areas where many women are still

[28] In 2006, Tunisia chaired the Executive Council of the Arab Women's Organization and undertook to offer the prize for the first session of the program to rehabilitate the image of women in the media. It intends to finalize the data collection and dissemination program initiated in 2004 and further open up the Organization to its Mediterranean and African environments. The country equally intends to share its gender achievements with the African continent through greater provision of gender training on the continent by CREDIF. Besides, 15 Tunisian women are either members or chair international bodies including eight within the UN system.

[29] GDI is 0.743, attesting to very low gender disparity.

[30] The Code has abolished polygamy, instituted court-sanctioned divorce, set the minimum for marriage at 17 for girls, subject to their consent and given guardianship of children to their mother in case of the death of their father.

[31] The MAFFEPA, former Secretariat of State attached to the Prime Minister's Office is the result of various changes: transformed into a Ministry Delegate to the Prime Minister in charge of Women and Family Affairs and then into an autonomous ministry and then given charge of children's affairs and of senior citizens since 2004. Hence, the portfolio of women has become a mere department among four others that directly deal with the family.

[32] Inequality in succession rights, since men inherit double the portion inherited by their sisters of the same parentage, except expressly stated otherwise; a non-Muslim wife cannot inherit from her Muslim husband; violence against women is not recognized and punished.

[33] It would be interesting to involve the police given their role in prevention/punishment.

[34] The strategy of this research and study institution on women is aimed at extending its scope of action to the production of statistics, although this may be heavily undermined by the lack of skilled staff in this area.

ignorant of their rights. In employment[35], the registration of women within the labor force is still relatively low (26.6%) and volatile since half of this labor force is aged 15-24, i.e. most of them unmarried[36]. Moreover, 75.9% of working women are found in the manufacturing sectors (textiles and dress-making) and services, in positions characterized by precariousness, irregularity and low pay and mainly held by women with more than 7 years experience. Meanwhile, only 22.3% of women are in stable and protected professions. Lastly, while perceptions of work vary with the nature of employment[37], 65.7% of married women feel that their jobs have a positive impact on their marriage life.

2.4.12 **HIV/AIDS and communicable diseases**: The health situation is analyzed on a regular basis by the communicable disease surveillance system governed by Act No. 92-71 of 27 July 1992 which obligates physicians and biologists to report cases of disease and related deaths. It also defines the list of reportable diseases (RDs) whose number has risen to twenty-seven because of the inclusion of new diseases such as AIDS and uro-genital infections. As concerns HIV/AIDS, the situation has stabilized at 70 new cases reported each year, according to the Ministry of Public Health[38]. Besides, Decree No. 93-2451 of 13 December 1993 stipulates that certain diseases are subject to rapid reporting. These include yellow fever, measles, tuberculosis, poliomyelitis, malaria, bilharzias, meningitis and food poisoning.

2.4.13 C**ommunicable diseases are, on the whole, well controlled**, as evident in RD statistics, which constitute a reliable and representative indicator. This positive trend is reflected by the sharp decline in mortality rate. Over the last decade, the number of RDs plummeted from 25,995 cases (early 1990s) to 10,293 (late 1990s), representing a decline of 60.4%. The incidence is therefore 109.9 per 100,000 habitants. This sharp fall, which attests to Tunisia's success in combating major diseases, is borne out by the examples of typhoid fever whose incidence fell from 8.7 cases per 100,000 inhabitants in 1976 to 3.6 in 1994 and finally 1 case in 2000, and that of tuberculosis which tumbled from 48.8 per 100 000 habitants in 1976 to 21.4 in 2000.

2.4.14 **The incidence of RDs varies widely from one region to another**. The decline in incidence ranges from 16% to 70%. Apparently, it depends on the diseases endemic in the region and on the capacity of the various teams to diagnose, treat and monitor diseases in order to detect and report cases. Hence, the average regional incidence rate for all of Tunisia is 109.91 per 100 000, although certain regions record incidence rates that are higher the national average, reflecting disparities between geographical areas, particularly the West and the South. These are the South West (313.73), South East (180.63), Center-West (127.75) and Center-East (108.10).

2.4.15 **The success achieved in the control of major traditional epidemics is quite obvious.** It stems from the determination of the State which mobilized the resources necessary for the development of basic healthcare and maintained its commitments to sector

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[35] Source: *La femme tunisienne, acteur de développement régional.* CREDIF – World Bank 2005.

[36] The rise in average age at marriage, being 32 years for men and 29 years for women, partly accounts for this phenomenon, although high celibacy among those aged 35-39 (15.5% for women and 19.5 % for men) attests to the growing difficulty of contracting marriages especially for rural women who interrupted their education early to help their families with household chores or to earn extra income for the native families. Besides, the rise in average age at marriage reflects the desire of young couples to ensure some material comfort within the marriage before the arrival of the birth of their first child.

[37] Work as an identity reference for top executives and persons of similar rank, work as an opportunity for social interaction for intermediate professions or work dictated by economic needs.

[38] UNAIDS is currently conducting a study that will focus on the behavior of certain target groups across the country.

priorities; and to a program-based approach whose effectiveness in terms of means management and efficiency is well known. However, Tunisia's experience in family planning shows that final sustainability cannot be achieved through such a vertical approach and that a lot remains to be done in terms of the integration of healthcare. Lastly, epidemiological transition calls for a redefinition of the nature and content of the activity of frontline services within the overall functioning of the health system.

2.4.16 **Environment**: In Tunisia, the cost of environmental degradation is estimated at 2.1% of GDP per year, which is the lowest among all Maghreb countries. The progress of recent years is characterized by the mobilization of almost all water resources through integrated water infrastructure that is increasingly environment-friendly, and the generalization of access to safe water for close to 100% of the urban population and 80% of the rural population. Sanitation services cover 71% of the urban population, and the estimated garbage collection cover rate in urban areas is estimated at 95%. The institution of financial incentive mechanisms and subsidies for environmental protection has contributed to this progress. Having mobilized nearly all water resources since 2000, Tunisia has moved from a supply management policy to a demand management policy.

2.4.17 The main environmental problems concern the scarcity and fragility of natural resources because Tunisia has attained its limits in water and land resource management. Indeed, Tunisian agriculture is practiced on marginal and fragile lands. This quantitative mobilization of water resources (more than 84% of water is used by agriculture) is a response to growing demand for food. If current farming practices continue unabated, the result could be irreversible salinization of the water table and soil poisoning through excessive use of chemicals.

2.4.18 Given this situation, major decisions were taken at the institutional and statutory levels in 2005[39]. However, most environmental policies remain largely independent of each other. Besides, although qualitative and quantitative impact assessment on the environment and natural resources is generally well understood from the technical standpoint, progress still has to be made in the identification of financial instruments, analytical capability (cost-benefit, environmental and social strategy studies, etc.), as well as public participation in the design, implementation and monitoring of sector policies.

2.4.19 Given the technological and underlying changes in an economy that is increasingly more competitive and creating jobs, there is need to adapt the policy and institutional frameworks accordingly. The greater use of incentive mechanisms; better integration of economic growth goals into sustainable environmental management; better inter-sectoral coordination and a greater role for municipal councils, other local organizations and civil society in the management of environmental problems are the important elements to be addressed in detail.

2.4.20 **Participation:** The country has 8,500 associations, of which 66% are cultural and artistic associations. Five national unions play the role of social partners and receive financial and political support that enables them to carry out some major actions. Apart from the unions, some entities are called upon to participate in development as service providers and are supported by the Information, Training, Studies and Documentation Center on

[39] By Decree No. 2317 of 2005, a National Waste Management Agency (ANGED) was set up within the Ministry of the Environment and Sustainable Development. Law No. 2005-82 of 15 August 2005 to set up an energy management system as well as Decree No. 2005-2234 of 22 August 2005 defining the rates and amounts for energy management have gone into force. Decree No. 2005 – 1991 governing environmental impact assessments and supplementing the law of 1991 has been ratified.

Associations (IFEDA). Most human rights civil society organizations (CSOs) have a legal identity and their ideas are listened to and even explored, as is the case with certain women's associations. Participatory action programs are currently in place at the local council level, but since Governors do not conduct sensitization and facilitation systematically, the improvement of public practices is not yet very perceptible in the activities conducted for the target population.

2.5 Poverty and social context issues

2.5.1 **Incidence of poverty:** The dynamism of the Tunisian economy has been beneficial to its citizens, who experienced a net improvement in living standards in 2005. Hence per capita GDP was US$2,713 (TND 3,503) compared to US$1.510 (TND 1,950) in 2001. The UNDP has also noted a substantial reduction in monetary poverty, with those living on less than $2 a day representing 4% of Tunisia's population, as against 6.7% in 1990 and 22% in 1975. This improvement in living standards was accompanied by notable social progress in terms of life expectancy, health, literacy, etc. With a human development index (HDI) of 0.753 in 2005, Tunisia ranks 89th in the world within the group of "averagely developed" countries. Given such trends in economic and social performance, Tunisia features among the countries that will succeed in attaining the Millennium Development Goals.

2.5.2 **Pockets of poverty**: Beyond these excellent results in social development and poverty reduction, there are still some persistent pockets of poverty that require special attention. In geographical terms, the performance of rural regions is below the national average, although there are wide disparities within the selfsame rural areas, between regions that are richly endowed with natural resources and ecologically fragile regions such as the North West (mountainous and forested) and the South West. The gravity and incidence of poverty varies widely from one region to another, with a sharp contrast between the North and the richer coastal regions on the one hand, and the South and Central regions on the other hand. Rural poverty affects landless families living on the outskirts of inhabited areas, day laborers, illiterates, small farmers practicing rain-fed farming, women and youths in general on account of their lack of economic autonomy and their exclusion from the decision-making process. The creation of development poles under the 11th Plan will make it possible to settle rural youths in their regions of origin by helping them to introduce technological innovation and artistic creation into their handicraft activities.

Box 4
Millennium Development Goals: status

	1990	2001	2005	*But 2015*
Goal 1: Eradicate extreme poverty and hunger				
Population living on less than $1 a day (%)	-	<2	<2	***1***
Prevalence of malnutrition among children (% of children under 5 years of age)	10.3	4.0	1.0	***0.5***
Goal 2: Achieve universal primary education				
Net primary enrolment ratio	93.5	99.2	99.2	***100***
Literacy rate (15-24 years)	84.1	93.4	95.6	***100***
Goal 3: Promote gender equality and empower women				
Ratio of girls to boys in primary and secondary education (%)	81.9	99.9	100	***100***
Proportion of seats held by women in national parliament (%)	4.0	12.0	20.0	***-***
Goal 4: Reduce child mortality				
Under-five mortality rate (per 1000)	52.0	27.0	25.0	***17.6***
Infant mortality rate (per 1000 live births)	37.3	21.0	21.0	***12.3***
Goal 5: Improve maternal health				
Maternal mortality ratio (per 100,000 live births)	-	70.0	50	***40***
Proportion of births attended by skilled health personnel (% of total)	69.0	89.9	90	***100***
Goal 6: Combat HIV/AIDS, malaria and other diseases				
HIV/AIDS prevalence	-	-	-	
Incidence of tuberculosis (per 100,000 individuals)	-	36.9	-	
Goal 7: Ensure environmental sustainability				
Access to a better source of water (% population)	75.0	80.0	95.8	***98***
Access to a better sanitation system (% population)	76.0	84.0	85.0	***88***

Sources : World Bank, UNICEF

2.6 Medium-term economic outlook and external environment

2.6.1 **Main constraints to sustainable growth**: Despite its many economic and social gains, the Tunisian economy still presents some weaknesses. The major handicaps identified relate to the size of the external debt, the weakness of the financial system, the low elasticity of employment, insufficient private investment or dependence on climatic conditions.

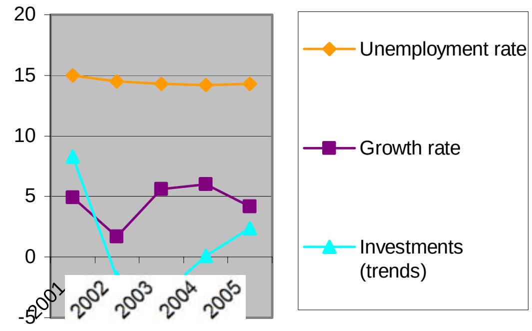
2.6.2 **Reduction of the external debt is a priority**: The public indebtedness ratio of 58.4%, as well as the burden of the external public debt affect Tunisia's economy in terms of resources (total cost of commitments) and risk[40] (volatility of commitments). Efforts to consolidate the national debt and make prepayments with part of the revenue from privatization should help to reduce this burden.

2.6.3 **The weakness of the Tunisian financial system constitutes a handicap to growth** because it raises the cost of capital and leads to inefficient resource allocation. The integration of the Tunisian financial sector into the international market can be envisaged only after the correction of these shortcomings, notably the high level of non-performing loans. Reforms have to be accelerated and intensified.

40 The debt vulnerability tests show that debt service is sensitive to currency fluctuations.

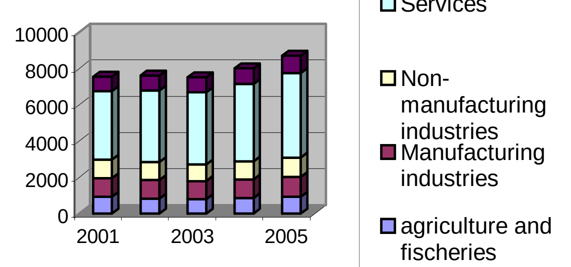
2.6.4 **Economic growth that creates few jobs**: Tunisia faces a major challenge, namely the achievement of robust and sustainable growth that creates jobs in a context of rapid growth of the labor force. Over the 2001-2005 period, economic growth, which was relatively sustained (4.5% per year on average) did not generate enough jobs to reduce unemployment substantially. The number of jobs created remained relatively stable over this period (67,825 on average per year), while growth trends were more erratic, reflecting investment trends.

Figure 4 : Jobs and growth (in %)



2.6.5 **The promotion of private investments is waning**: Investment trends under the 10th Plan revealed the limits of the reforms implemented, with a contribution from private investment that was below target and an investment level that was quite constant over the period. The increase in 2005 can be attributed to the rise in services and, to a lesser extent, community facilities. This trend, which confirms Tunisia's economic transition to the tertiary sector, remains inadequate when compared to the country's assets, in particular a highly-skilled labor force. There is an absolute need to improve the quality of the statutory framework[41] governing business transactions and, in general, the business environment.

Figure 5 : Sectorial distribution o (in TND Thousand)



2.6.6 **Persistent dependence on climatic conditions**: Climatic difficulties, such as the severe drought of 2001-2002, could affect agricultural output, thereby aggravating food demand and reducing supplies to agro-industries and ultimately compromising the trade balance and household income levels. Concerned with this situation, the Government launched a strategic study on the management of drought periods. Subsequent programs to diversify agricultural output and enhance irrigation systems should help to mitigate these risks.

2.6.7 **Optimistic outlook**: Tunisia's medium-term economic outlook is bright and confirms the excellent performance registered over the last three years. According to projections made by Tunisia and international institutions[42], the growth rates for 2006-2010 will be 6% and above per year, inflation will remain under control (3% per year) and the external position will improve. This outlook takes into account the negative impact of the end of the MFA and depends on various assumptions such as: a world oil price of US$60 per barrel in 2006, which could be raised in the supplementary budget; a certain degree of sluggishness in European demand; and proceeds from privatization that could be used to make a substantial reduction in Tunisia's external debt.

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[41] Simplification of administrative procedures, elimination of prior authorizations, improvement of the tax system for greater efficiency through reinforcement of the VAT, rationalization of tax benefits and broadening of the tax base.

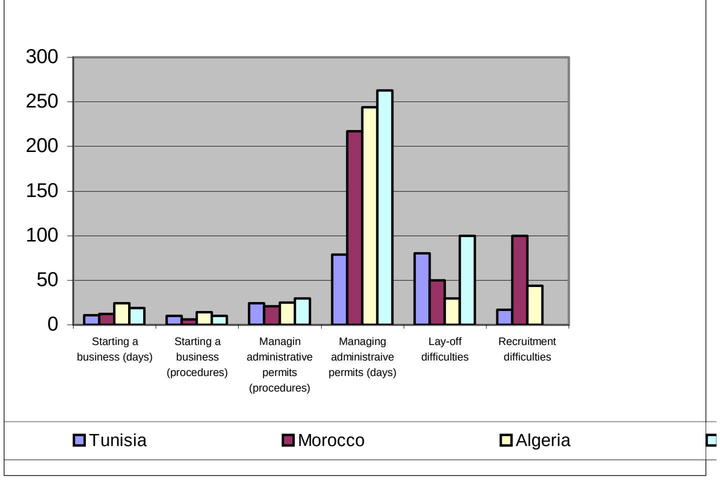
42 Economic Forecasts: Tunisia, Article IV IMF, and other research institutions (EIU, IFF)

2.6.8 **Affirmed political will**: The Government has always manifested its determination to consolidate the foundations of robust and sustainable growth that can help to curb unemployment. This is borne out by the many measures and structural reforms already implemented[43]. Policy activism will continue to play an important role in performance in the medium-term.

2.7 Business environment and private sector issues

2.7.1 **Tunisia is one of the good candidates among emerging economies**: It is ranked 80th in the World Bank report (Doing business 2007) and 30th in terms of competitiveness by the Davos World Economic Forum, up from the 40th position in 2005. On the African continent, Tunisia is first, followed by South Africa and Botswana. This performance is the result of the many initiatives taken to develop the private sector. Hence, Tunisia has made improvements in business creation, facilitation of business closure procedures and the legal application of contracts. The minimum capital needed to start a business has been reduced by one-tenth of the original amount. The number of documents needed for export trade is 5 and property registration requires 5 procedures. The single window of the Investment Promotion Agency (API) has contributed a great deal to these improvements. However, in spite of these reforms and a relatively well-developed support mechanism for enterprises, the volume of private investments remains low.

Figure 6 : Indicators of facility in doing business (Doing business 2007, World Bank)



2.7.2 **Business environment, investment and corporate competitiveness as priorities of the 11th Plan.** The Government intends to pursue and intensify the efforts initiated to improve the business environment. Hence, the liberalization of services will be gradual, with negotiations starting with the EU in 2007. With regard to facilitation of access to credit for resident companies, the State has set up various mechanisms (guarantee agencies, banks for SMEs, Corporate Wednesdays, etc.), that are beginning to make a positive impact[44]. The 2007 Finance Law contains many measures to promote employment, simplify procedures and ease tax pressure[45]. With regard to foreign trade, given the average period needed to clear merchandise through customs, estimated at 9 days for imports (compared to 3.5 days in

43 These include the intensification of economic integration, through simplification of the tariff system (in particular the reduction of the number of customs tariffs (from 54 to 17) and adjustment of the tariffs applied to products from most favored nations to match those applied under the Partnership Agreement signed with the European Union) , improvement of the business environment by enhancing the transparency and predictability of the legal framework and reform of the financial system, notably through restructuring of development banks, the enactment of a law on consolidation and a law against money-laundering and terrorism financing and the improvement of banking supervision.

44 Non-resident companies only have access to short-term credits. Nevertheless, there are more extensions than creations, a sign that the country enjoys investor confidence. For 2006, there were 201 new companies with foreign shareholding and 239 extensions.

45 Reduction of company income tax from 35% to 30%, increase of VAT credit refund from 50% to 100%, increase of the electronic processing rate for bills of entry from 40% to 80%, etc.

Poland and 5.6 days in Turkey) and 5 days for exports, the Government has embarked on the preparation of a master-plan for reducing the clearance period to less than 24 hours from the date of presentation of the relevant bills of entry. Other actions will be initiated in the course of the Plan to address private sector concerns[46], which will focus mainly on the quality of telecommunications services (cost, quality and availability constraints), layoff difficulties given the rigidity of the Labor Code and restrictions on foreign majority holdings in corporate share capital.

2.7.3 **Towards greater liberalization**: Improvement of the business environment is a necessary precondition for raising the quality and volume of private investments. To that end, the acceleration of international trade liberalization, simplification of tax and customs procedures and consolidation of relations between the administration and the private sector, should give a new impetus to the private sector such that it effectively takes over from the public sector in creating wealth. Since the services sector has been identified as the main engine of growth, its progressive liberalization will produce a positive impact. Furthermore, the pursuit of financial sector restructuring and consolidation should generate new opportunities, especially for SMEs, by helping to facilitate access to financing and by developing activities related to financial services. Lastly, given the great expectations held about the private sector's potential to create jobs, labor regulations need to be adapted to the demands of the new environment. To that end, the Bank, in conjunction with the European Union and the World Bank, has been supporting the Government since 2002 through its competitiveness support programs[47].

III. NATIONAL DEVELOPMENT AGENDA AND MEDIUM-TERM PROSPECTS

3.1 Key elements of the Government's development agenda

3.1.1 The major guidelines of the 11th Plan focus on consolidating the actions initiated under the previous plan and implementing the 2004-2009 electoral program. The priority of the 11th Plan is to **speed up economic growth** to about 6.5% per year and **create jobs**, especially for young graduates, with the objective of slashing the unemployment rate from 14.3% in 2005 to 10-11% in 2011. These objectives can be attained only through diversification of the economy, notably the productive and export sectors, and greater private sector involvement.

3.1.2 Since the elasticity of employment remains low, the services sector, and in particular the information and communication technologies (ICTs) which have major job creation potential, has been identified as a strategic sector. First of all, services do not require heavy investments and, secondly the productivity of ICTs can generate multiplier effects. In order to boost the development of these sectors, measures have been envisaged to ensure greater liberalization.

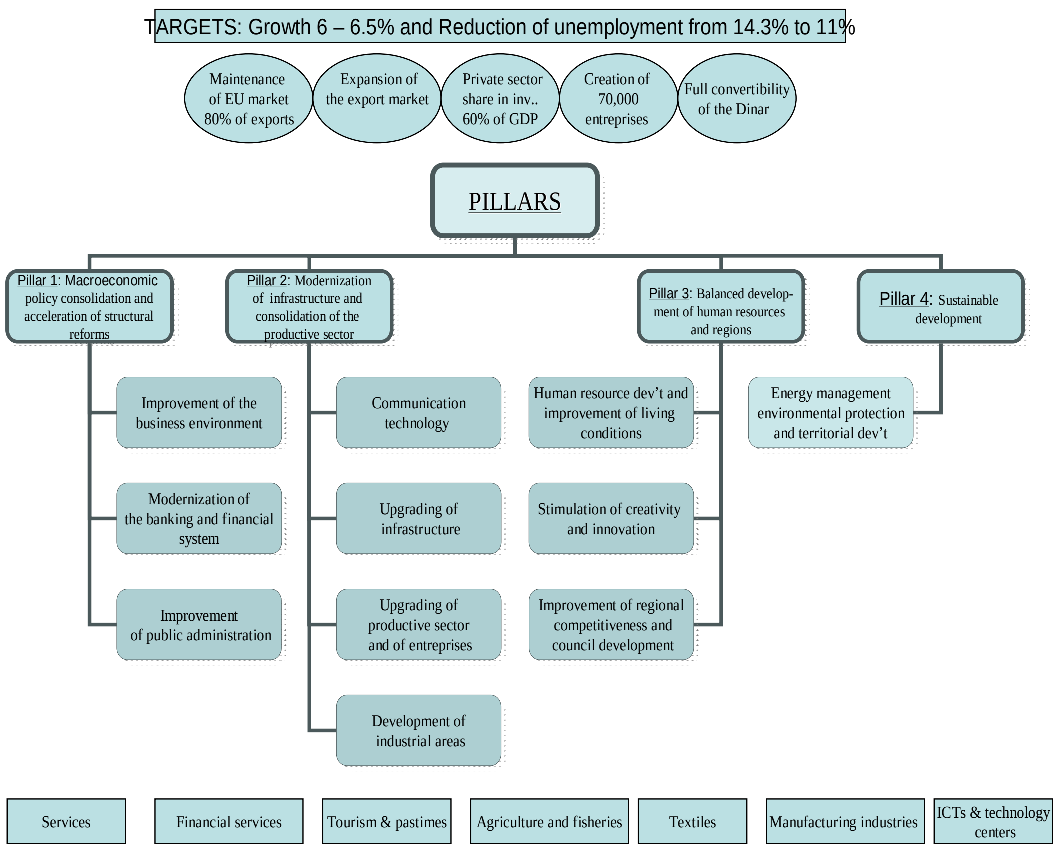
3.1.3 The manufacturing sector remains a pillar of growth and the objective in this sector is to raise product value-added so as to improve response to external shocks by increasing exports. Hence, the transformation taking place in the textile sector from sub-contracting to co-contracting shall be encouraged and extended to the mechanical and

[46] Cf. Survey on enterprises by the Institute of Quantitative Surveys (IEQ) and an ADB study on competitiveness.
[47] As concerns improvement of the business environment, the programs supported the implementation of reforms relating to market openness (notably the reduction of administrative authorizations for investments) and taxation (reduction of rates and exonerations).

electrical industries sector which is developing rapidly and taking over from the textiles sector. Agro-industries, chemical and biochemical industries and other non-traditional industrial sectors with high value-added shall be developed, notably through new partnerships, technopoles or any other private initiatives.

3.1.4 Agriculture, whose share of the GDP has stabilized at 12%, shall be boosted, especially for crops whose European quotas have not yet been attained, notably olive oil or new crops such as bio-foodcrops.

Box 5: Main elements of the Government program and expected results



3.1.5 To support the development of these sectors and, more specifically, the development of private enterprise, the Government has provided for a set of mechanisms and measures, namely: (i) greater liberalization, in particular the elimination of prior authorizations for investments, streamlining of the incentives system, reform of labor regulations with a view to ensuring greater flexibility in lay-offs while preserving the social safety net; (ii) promotion of exports; (iii) upgrading and modernization programs in industry and tourism; (iv) setting-up of business creation structures and support funds, such as the Industrial Development Promotion Fund (FOPRODI), the seed capital fund, the SOTUGAR guarantee fund, the SME financing bank (BFPME), spinning off; (v) tax and financial incentives aimed at promoting balanced regional development; (vi) reform of the educational and training system; and (vii) the development of technological centers.

3.1.6 As part of its efforts to open up its economy to the world, join the free trade area to be established with the European Union and modernize its industry, Tunisia has decided to develop innovative enterprises by setting up a mechanism for developing technopoles and supporting business incubators and by encouraging research and innovation. In all, nine technopoles covering various strategic sectors are operational or programmed. The general aim of these technopoles is to establish a linkage between training, research and production; encourage the incubation and creation of innovative enterprises by making use of research findings; stimulate job creation especially for higher education graduates; boost the competitiveness of national industry; and attract foreign investment to Tunisia.

3.1.7 In this context of growth acceleration by the private sector, and considering Tunisia's environmental concerns and current oil price trends (Tunisia being a net importer), special effort shall be made to develop natural gas through exploration/tapping and management of energy.

Box 6
National energy strategy

It focuses on three aspects: (1) **Substitution of hydrocarbons with natural gas**. Direct actions targeting simple users such as enterprises will be stepped up so that the penetration rate of gas will rise substantially (+10,000 customers per year) and enterprises invest in the co-generation of electricity. The objective is to reach 500,000 customers by 2009. 40,000 new customers were registered in 2005. The subsidy consists of TND 140 for connection of natural gas; (2) **Consolidation of energy management**. The energy audit, program contracts and pre-consultations within enterprises will receive allocations amounting to 20% of the global cost of each operation; (3) **Promotion of renewable energies**. 11,000 households benefit from an autonomous photovoltaic system, 65 pumping stations run on solar energy. The heating of water using solar energy will receive an allocation amounting to 20% of the cost of solar collectors. There are plans to move from the current 125,000 m² of solar collectors to 500,000 m² in 2009. As concerns wind energy, its production capacity will be raised to 200 MW by 2009. This energy management system shall be financed by a vehicle tax payable on first registration and on air-conditioners.

3.1.8 The mechanisms and actions implemented by the Government are part of the drive to improve the business environment, which is a vast program to speed up structural reforms. To that end, the financial sector stands as a key element of the Plan, with the objective of improving access to financing, restructuring the sector and ultimately ensuring the convertibility of the Dinar. The measures implemented under previous plans will be pursued, reinforced and supplemented, bearing in mind that maintaining macroeconomic balances with a budget deficit that does not exceed 3%, reducing the external debt and curbing inflation are specific and indispensable targets.

3.1.9 The central government also plays a fundamental role in the implementation of this plan, within the context of State divestment from productive sectors (opening-up of the capital of Tunisie Télécoms in 2006) and stabilization of the workforce. Only the workforce of the education and health sectors will be increased in response to trends in demand and education (100,000 graduates from 2009).

3.1.10 Lastly, economic progress has to be accompanied by an improvement in the living conditions of citizens, through higher incomes and greater access to healthcare and educational services and better quality of life. Women shall be a key aspect of this drive, and apart from the recognized progress made, especially in legislative terms, special emphasis shall be laid on their active participation in all areas of society, particularly in decision-making bodies.

3.2 Assessment of implementation progress of the agenda

3.2.1 The assessment of the 10th Plan reveals the strong performance of the main activity indicators and an improvement in results, in terms of growth and management of employment, while preserving the domestic and external financial balances. However, it reveals certain results that fall short of projections, thereby laying emphasis on priority actions and areas of intervention.

3.2.2 **Investments:** The investment growth rate remained below the estimates of the 10th Plan (7%) to stand at a yearly average of 2.8% during the 2002-2005. This low rate reflects the erratic trends in investments, with negative rates recorded in 2002 and 2003 as a result of the international situation[48], and positive trends from 2004 that reached about 5% in 2005. The share of private investment in total investments was 55%, compared to a target of 56.5%, because of persistent bottlenecks, in particular administrative authorizations for investments[49]. Foreign direct investments (FDI) reached TND 485 million in 2005 and represented 2.5% of GDP, compared to 2.1% in 2004 and 2003. Measures for improving the business environment need to be accelerated and reinforced (cf. §2.7.3) because Tunisia has a shortage of private investment[50], despite its generous incentives system and targeted actions for export activities and the setting-up of offshore enterprises.

3.2.3 **Competitiveness**: With regard to external trade, the share of exports in GDP stood at 45.8% compared to the Plan's target of 47%. This disparity between performance and targets is partly due to the disparities in textile and leather exports which grew at a mere 3% compared to a target of 7.3%, and in general, to the slow growth in the volume of exports which registered an average annual growth rate of 2.7% compared to the 7.6% target. The industrial upgrading project launched in 1996 to support the creation of the free trade area between Tunisia and the EU focused on 2,300 enterprises and was successful, especially in terms of employment, recourse to ICTs and new market share[51]. The positive results registered do not in any way mean that much-needed improvements should not be made to bring about a competitive international environment and ensure the very functioning of the program itself.

3.2.4 **Employment**: An estimated 282,000 jobs were created during this period but this had no substantial impact on the unemployment rate which stood at 14.3% in 2005. The economic growth rate is therefore insufficient and does not make it possible to absorb the supply of labor. Furthermore, the structure of the job-seeker population has evolved, with the growing influx of women and skilled labor into the labor market. Moreover, given the structural changes within the industrial sector and the productive sector in general, special attention should be paid to certain target groups such as unskilled labor in the textile sector whose prospects within the new knowledge economy are limited.

3.2.5 The lessons learnt from the 10th Plan were taken into consideration during preparation of the 11th Plan which aims at speeding up growth and curbing unemployment by promoting private sector development. In terms of employment, the Plan takes into account

[48] Notably the postponement of projects after 11 September 2001 and a wait-and-see attitude about the partnership agreements (fears about 2008: transition from a protected economy to free trade).
[49] Of which a good number were eliminated at the end of the period or replaced with terms of reference, in accordance with PAC III recommendations.
[50] World Bank study on private investment in Tunisia as compared to five other rapidly-growing economies.
51 cf. Chapter 3.4 of the study: "Competitiveness of the Tunisian economy and Bank interventions", African Development Bank, 2006.

the structural changes within the labor force; that is, a growing volume of skilled labor with a higher proportion of women. In terms of growth, the changes in the economic environment have been well taken into account (Agreement with the European Union, WTO, rising oil prices).

3.2.6 **Remain competitive even after opening up to European markets**: The first challenge is the competitiveness of the economy, especially its capacity to adapt after opening up to European markets from 1 January 2008. Indeed, despite the gains made through reforms implemented under the previous plan, certain protectionist measures and rigidities persist. The productive sector remains heavily controlled by the State. Moreover, the competition is becoming keener with Eastern European and Asian countries, especially in the textiles sector. The Bank's study on competitiveness shows that, apart from stepping up reforms to boost the business environment, improving competitiveness requires that emphasis be laid on research and development to create new products, build appropriate technical infrastructure, develop partnership actions and consolidate regional integration.

3.2.7 **Developing the entrepreneurial spirit**: The second challenge relates to the capacity of the educational system to train youths who wish to engage in self-employment, after a long experience with salaried employment, especially in the public service. Hence, the educational system is expected to contribute in preparing the graduates of this system for better integration into the labor market. To that end, there is need to match school syllabuses with real labor market needs.

3.3 Partnership framework

3.3.1 The main strategic goals of the 11th Plan have been backed by a broad consensus from the community of development partners which has translated into massive and regular support over the last few years. The quality of cooperation stems essentially from Tunisia's assimilation capacity, its competitiveness and its rating by international agencies. The macroeconomic management is satisfactory and its project management capacity is recognized. Furthermore, there is growing cooperation between donors on assistance strategies and the harmonization of procedures in order to cut costs to the Borrower and produce a greater leverage effect.

Box 7
Donor interventions by sector

Apart from the African Development Bank, the World Bank, the European Investment Bank, the Arab Fund for Economic and Social Development or the Islamic Development Bank also intervene in Tunisia. Bilateral donors also intervene within the framework of the French, German or even Japanese cooperations.
This list is not exhaustive. The main areas of intervention are:
World Bank: support to reforms (competitiveness, financial sector, public debt management, Council development, etc.), water and sanitation, transport, natural resource management, agriculture (support services and development in the North West), tourism, information society.
European Union: reform and modernization of the judicial system, private sector development, support to the Partnership Agreement and regional agreements, industrial modernization, natural resource and water management, improvement of youth employability, higher education and health (support program for reform of the health insurance system).
EIB: infrastructure (energy, transport, water supply, solid waste), council area development, support to SMEs (credit lines or direct support to cement and steel plants) and tourism.
AFESD: water (dams, irrigation areas and water supply facilities).
UNDP/UNFPA: health (program to reinforce regional health and procreation centers, managed by the National Family and Population authority).
IsDB: agriculture (infrastructure, improvement of living conditions, training, micro-credits, etc.), management of natural resources and the environment.
AFD: corporate upgrading and boosting of competitiveness (support to financial restructuring of enterprises and vocational training) and improvement of the living conditions of the people (urban development project, rural development project and support to the water sector).
JBIC and JICA: electricity, water and other infrastructure
KfW et GTZ : environment

3.3.2 Besides, since Tunisia signed the Partnership Agreement, the role of European institutions in the country (MEDA, European Commission, European Investment Fund and the European Investment Bank) has increased. Hence, the Bank has reinforced coordination of its assistance with the European Union. This cooperation has, since 1999, translated into co-financing, also in conjunction with the World Bank, of three economic and financial reform programs to transform Tunisia into a more open and competitive economy. Hence, in 2005, the Bank co-financed the third phase of the competitiveness support program (PAC III) of the Tunisian economy, together with the EU and the World Bank. The objective here is to consolidate the gains of the last two phases in order to address three major challenges, namely: consolidation of the financial sector, boosting of the private sector and maintenance of a solid macro-economic framework. Co-financing of the fourth phase is envisaged for the 2007-2008 period.

3.4 Challenges and risks

3.4.1 The main challenges currently faced by Tunisia are: (i) economic, namely how to achieve robust and sustainable growth in order to create employment, and (ii) social, namely how to guarantee social cohesion and peace. The 11th Five-Year Economic and Social Development Plan has carefully analyzed these challenges and intends to adopt certain specific measures to address some of them such as the persistently low levels of foreign direct investments or the steady climb in oil prices. However, apart from a strong political will, the management of these challenges requires regular monitoring because it depends a lot on exogenous factors.

3.4.2 Given the international competition for foreign direct investment (FDI)[52], FDI objectives can only be attained through rapid and profound implementation of certain reforms, notably in the areas of transparency and liberalization. The measures adopted through the 2007 Budget Act partly address these issues.

3.4.3 The impact of rising oil prices on the Tunisian economy has been absorbed so far and has not led to budgetary and external slippages. This trend results from the efforts made to control and conserve energy and the policy of passing world oil price increases onto domestic prices. With the current persistent climb in oil prices on the world market, the primary balance could deteriorate in 2006, despite Government measures to improve revenue collection and control expenditure. Uncertainty in the face of international market trends calls for a flexible strategy and budget management.

IV. BANK GROUP COUNTRY ASSISTANCE STRATEGY

4.1 Country context and strategic selectivity

4.1.1 Encouraged by the results of the previous Development Plan (cf. 3.2), the Tunisian government designed the 11th plan which builds on and consolidates the actions initiated during the 2002-2006 period, taking into account the weaknesses and shortcomings noted in the execution of the 10th Plan and the structural changes that have taken place in Tunisian society (cf. Chapter 2). The objective of the 11th Plan, which was designed and discussed at the regional and national levels, is to speed up economic growth in order to cut unemployment (cf. 3.1).

4.1.2 The 11th Plan is the cooperation framework between Tunisia and its development partners over the next five years. Hence, the Bank's strategy in Tunisia for 2007-2011 is closely related thereto and its strategic options stem from the MDGs, from this new plan (cf. 3.1.1) and from the status of implementation of the Bank's earlier strategies in Tunisia (cf. 4.2.2 and 4.2.3). Indeed, the Bank will make full use of its assets in intervention areas where it has longstanding experience and expertise and where it has the capacity to support the Government in its development efforts.

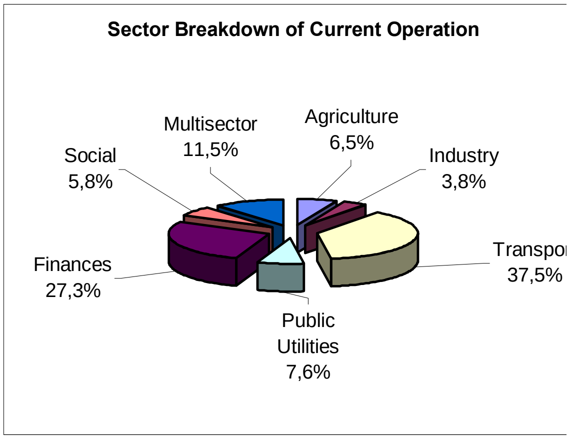
4.2 Portfolio management and lessons learnt from previous CSP

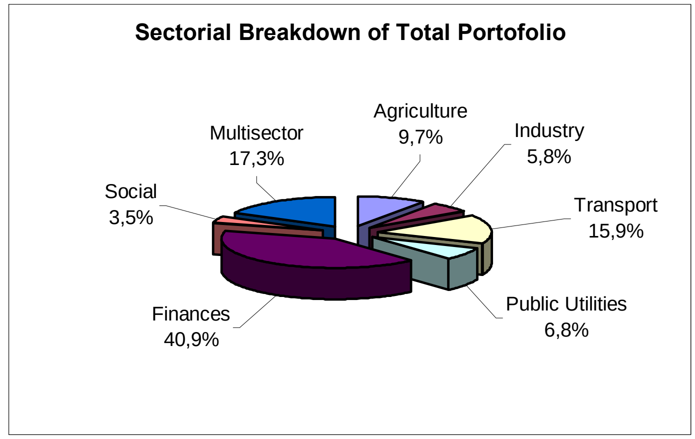
4.2.1 **Portfolio performance**: The Bank Group financed 92 operations with ADB window funds in Tunisia, of which 78 have been completed and 14 are underway, as well as two studies with MIC funds, for net cancellations of UA 3,400 million. The total disbursement rate is 80%. Interventions in the private sector remain modest, namely three credit lines for the sum of UA 49.86 million, representing 1.5% of the portfolio. The amount for ongoing operations stands at UA 877 million with a disbursement rate of 45.9%. The average age of the portfolio is 3.86, for projects being completed and new projects. Performance by sector[53] is homogenous, between 2.4 and 2.7. The last portfolio review prepared in 2005 indicates that portfolio performance is satisfactory (overall assessment mark of 2.53 on 3) and improving (compared to 2.41 in 2003), mainly as a result of the Bank's presence in Tunis. This performance will also be improved through the consolidation of project preparation/assessment using preliminary studies, and the organization of seminars for new executing agencies on the

[52] Mainly due to the geographical situation, with two major oil-producing countries as neighbors
[53] Evaluated according to the criteria: lending conditions, procurement of goods and services, financial performance, implementation of activities and achievements.

application of the Bank's rules of procedure on disbursements and procurement. Lastly, Tunisia has been retained for the testing of a system that allows project managers to have direct access to the financial statements of their projects, using the website.

Figure 7
Situation of the Bank's portfolio in Tunisia as of 31 December 2006





4.2.2 Lessons learnt: The project completion and supervision reports highlight the good results obtained in the consolidation of the macro-economic framework and setting-up of economic and social infrastructure. More specifically, the economic reform and competitiveness support programs constitute ideal mechanisms for dialogue with the authorities and provide an opportunity for intervention during determination of the country's major strategic options. Infrastructure projects have helped raise the electrification rate substantially and to improve the road and rail networks. They have also improved the business environment and living conditions of citizens, which need to be consolidated. The credit lines have provided invaluable financial support to the private sector, which has made visible achievements, such as in the tourism sector. They have also enabled the banking sector to respond adequately to the high demand for financing generated by a rise in private investments. However, their impact on the functioning of the financial sector is less pronounced and should therefore be the focus of special attention, in particular the inclusion of technical assistance projects for banks (cf. Bank study on credit lines in Tunisia). Lastly, the deep involvement of the Tunisian counterpart, from the design of the project, planned at the national level or at the level of the Department concerned, right up to its implementation and completion, reinforces the efficiency and sustainability of Bank interventions.

4.2.3 Anchoring the strategy to Tunisia's 11th Five-Year Development Plan (2007-2011): During the 2002-2006 period, the Bank approved 13 projects, which bring out the coherence between the Bank's strategy and its interventions, namely: (i) the boosting of competitiveness: PACIII; (ii) the reinforcement of economic infrastructure: 1 road project, 1 railway project and 1 electrification project; (iii) human resource development: 1 secondary education support program (PAES II); and (iv) consolidation of productive sectors and private sector development: 1 program to boost the capacity of Compagnie des phosphates de Gafsa (CPG) in the area of environmental protection and phosphate mining, 1 integrated agricultural development program, and 6 credit lines, three of them through the private sector window. Given encouraging results obtained by the country in the implementation of the 10th Plan and the Bank's positive contribution to the attainment of these results, the Bank's assistance strategy aims to support Government efforts and contribute to the attainment of the objectives of the 11th

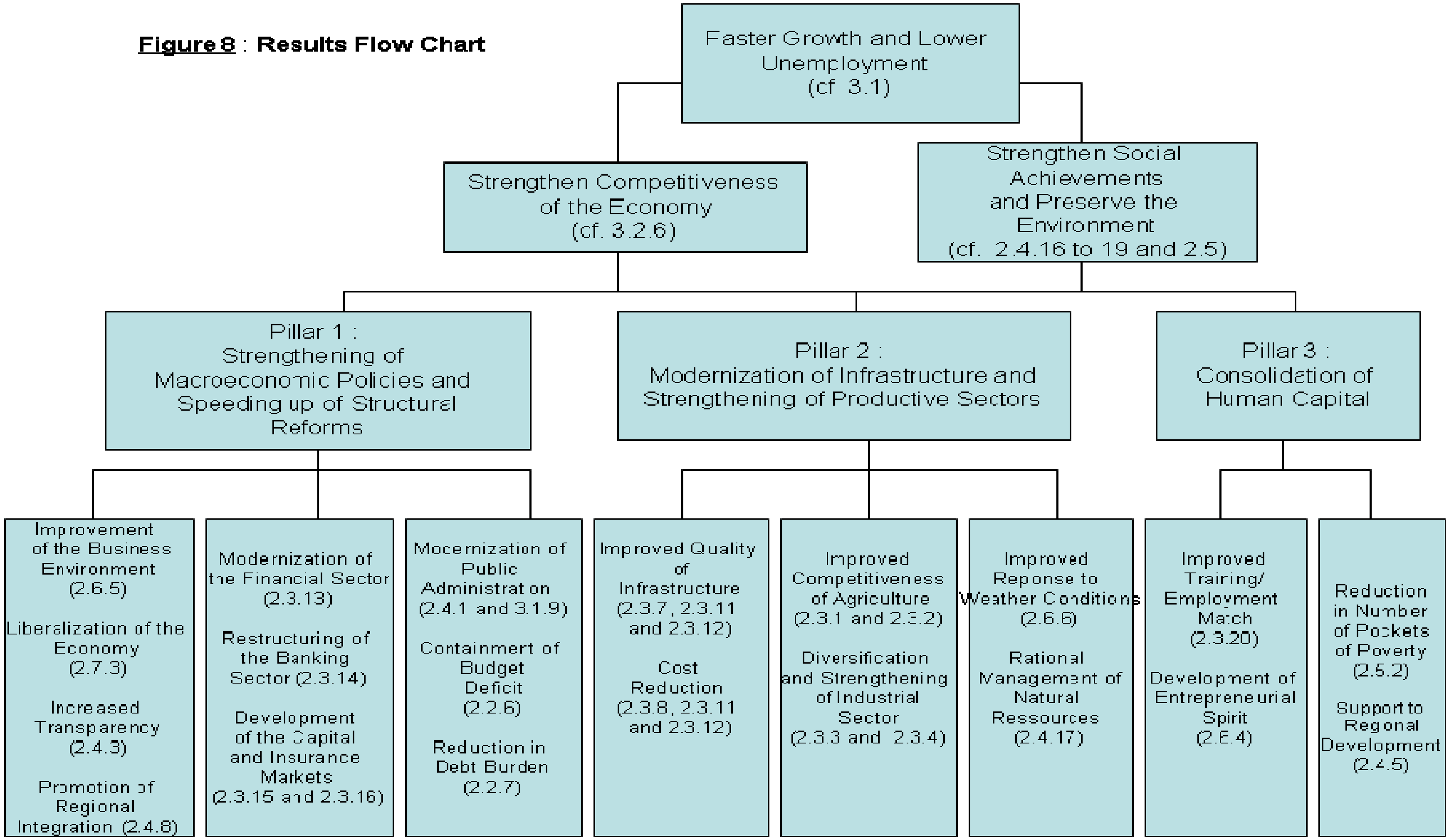
Plan which builds on and consolidates the previous plan. The Bank's interventions will be conducted in complementarity with those of other development partners. Considering its geographical position, the Bank will endeavor to play a bigger role in the areas of harmonization and cooperation, in accordance with the principles of the Paris Declaration.

4.3 CSP results framework

4.3.1 The Bank's assistance strategy in Tunisia is aimed at consolidating the country's performance and preparing it to address future challenges. Consequently, it focuses on improving competitiveness, while preserving and consolidating social gains and the environment. The three main pillars of this strategy are: (i) consolidation of macro-economic policies and acceleration of structural reforms, (ii) modernization of infrastructure and strengthening of the production system, and (iii) consolidation of human capital. The results flow chain (cf. Figure 8) highlights the linkages between MDGs, Tunisia's 11^{th} Plan and the Bank's intervention strategy for 2007-2011.

4.3.2 Results will be assessed using quantitative and qualitative indicators. For the first pillar, economic growth rate trends, internal and external balances and private investment shall be retained. The quality and cost of infrastructure-related services and productive sector trends will be retained for the second pillar. The third pillar shall be assessed through the dynamism of the technopoles, in terms of innovation and job creation.

Figure 8 : **Results Flow Chart**



4.4 CSP pillars and areas of focus

4.4.1 As indicated in Paragraph 4.1.3, three pillars were selected, in view of their relevance in contributing to the MDGs, Tunisia's long-term objectives and the Bank's value-added (cf. Annex 2). The first concerns the reinforcement of macroeconomic policies and the acceleration of reforms. It falls in line with support to structural reform efforts undertaken by the Government since the 1990s and with the consolidation of actions already initiated by the Bank, namely six reform programs whose results are satisfactory and which need to be consolidated. The second pillar focuses on the modernization of infrastructure and consolidation of the productive sector. It contributes to the creation of wealth and the acceleration of economic growth, which are priority to the Government and the Bank which intends to continue supporting infrastructure projects and to step up its actions in favor of private sector development. The third pillar focuses on the consolidation of human capital. Human resource development has always been a priority of the Government and the Bank has supported it through its interventions in the educational system and in health. Henceforth, there is need to strengthen the linkages between education and the labor market to ensure greater adaptation of training to labor market needs and thus help to curb unemployment.

4.4.2 **Pillar 1: Reinforcement of macroeconomic policies and acceleration of reforms.** Given the smallness of the Tunisian market, investments and growth depend on the improvement of competitiveness and greater integration into the world market[54]. The cautious and gradual approach followed hitherto by the authorities seems to be showing its limits and the entry into force of the EU Agreement at the beginning of 2008 requires the acceleration of reforms and the pursuit of State divestment from productive activities in order for Tunisia to fully benefit from the agreement.

4.4.3 **The first strategic goal is to improve the business environment,** in order to promote investments and consolidate the private sector which is the main engine of growth and job creation. The support of economic reforms, in particular consolidation of the macroeconomic framework, improvement of predictability and transparency of the statutory framework, will be done mainly through competitiveness support programs. **The second strategic goal is to modernize the financial sector,** which is expected to increase its contribution to financing of the economy and build its capacity to respond to demand for private investment financing. An important component of the competitiveness support programs relates to streamlining of the financial sector, notably a sharp reduction in the volume of non-performing loans, improvement of the efficiency of financial intermediation within the banking sector, promotion of the capital market and consolidation of the insurance sector. Other more targeted interventions will be necessary, through technical assistance, for example. Lastly, **the improvement of public administration, which is the third strategic goal** is important for implementation and acceleration of reforms and for controlling budget expenditure. The implementation of budgeting by objective (which is in the pilot phase in the health, education and agricultural sectors), the institution of annual monitoring of plans and other ongoing initiatives show the Government's willingness to optimize the role of the administration. Given discussions with other donors and the Bank's experience in public administration reform[55], targeted interventions will make it possible to support the

[54] At the end of the workshop on the competitiveness of the Tunisian economy, organized on 28 November 2006 in Tunis by the ORNA Department of the Bank, it was strongly recommended that the Bank should pursue and reinforce its support to Tunisian competitiveness, given the need to boost the competitiveness of the economy in order to achieve the key objectives of accelerating growth and creating jobs.

[55] Notably in Morocco, a country of the sub-region, where an administrative reform support program was approved in December 2004 (PARAP) and a second phase (PARAP II) in July 2006.

Government's efforts to modernize public administration. Lastly, to fully play its role as the Government's adviser, through pursuit of the dialogue on economic policy and strategy issues, the Bank will have to lay special emphasis on the conduct of targeted analytical studies[56].

4.4.4 **Pillar 2: Modernization of infrastructure and reinforcement of the productive sector.** The opening of the Tunisian economy to external operators requires the setting up of good quality infrastructure. In this context, infrastructure is of strategic importance for attainment of the objectives of accelerating economic growth and improving the wellbeing of the Tunisians. Infrastructure promotes trade by opening up access to world trade. Moreover, it holds enormous potential for creating productive employment and provides a means for putting technology at the service of development. Such opening-up of the economy should also be accompanied by diversification and consolidation of the productive sector in order to ensure rational natural resource management.

4.4.5 **The first strategic goal is modernization of infrastructure**. It is aimed at developing opportunities for creating wealth in the infrastructure sector and providing other sectors with appropriate facilities at affordable cost. The conduct of infrastructure projects (creation/rehabilitation), in the areas of community infrastructure, transport and telecommunications, shall be an important aspect of our interventions. This will help to reduce the externalities of companies while developing new activities in the services sector. The private sector window shall play a central role, especially in the promotion and implementation of public/private partnerships. Geographical proximity, by virtue of the Bank's temporary relocation to Tunis, gives it a comparative advantage in terms of knowledge of the Tunisian private sector. **The second strategic goal of consolidating the productive sector covers SMEs, agriculture and natural resource management**. Private sector development focuses on the creation of a network of competitive and dynamic companies. The Bank's support to SMEs will be given through credit lines available in local financing institutions which have posted positive results in the past[57], as well as other mechanisms available to the Bank such as stock holdings and guarantees. The agricultural sector still presents some shortcomings and appears to be most vulnerable to market openness, given the working and competitiveness conditions. The Bank's actions with regard to the improvement of agricultural productivity and natural resource management (water, protection and management of flood plains, water and soil conservation, forest protection) shall be reinforced. The Bank's positive experience in integrated agricultural development has determined this choice.

4.4.6 **Pillar 3: Consolidation of human capital.** Tunisia already has an outstanding performance in the area of poverty reduction, slashing total incidence from 40% in 1970 to 4% in 2005, and in human development (education and health). Efforts at regional balance have also made it possible to ensure minimal development countrywide. Faced with keen international competition and market openness, curbing the unemployment rate (14.3% in 2005) and ensuring balanced regional development (some areas are still more disadvantaged than others) henceforth constitute Tunisia's two pillars for consolidating long-term development. Tunisia has retained the option of developing technopoles by combining the creation of jobs and wealth with regional development. Indeed, technopoles are integrated

[56] The economic studies carried out by the Bank were well appreciated by Tunisian authorities who, during the feedback session, recommended that more analytical studies be conducted.
[57] Based on the conclusions of (i) the Bank's economic and sectoral study on the impact of credit lines to Tunisian financial institutions and (ii) the Bank's study on credit lines.

entities specialized in certain sectors selected in accordance with the specificities of various regions of the country with a view to attaining the following objectives: (i) establishing linkages between training, research and production; (ii) promoting the incubation and creation of innovative businesses by building on research findings; (iii) stimulating the creation of jobs for higher education graduates; (iv) boosting the competitiveness of national industry; and (v) attracting foreign investment to Tunisia. The Bank, which contributes to the consolidation of this strategy by conducting a study on the Sidi Thabet Technopole (with PRI funds), intends to pursue and step up its support in this area. The conclusions of this study, which aims at determining the feasibility and socio-environmental impact of the Sidi Thabet Technopole, shall also be crucial to the final design and implementation of the technopole project. In this area, the Bank shall encourage partnerships with foreign research bodies and the private sector for the building and running of the technopole.

4.4.7 The priority sectors of intervention, grouped under the abovementioned three pillars, address Tunisia's challenges and are based on the Bank's experience in various sectors. However, for selectivity reasons, the focus of the first two years will be on the promotion of competitiveness and financing of the private sector, modernization of infrastructure and management of water resources. This period will equally be used to step up consultations with the authorities and continue dialogue, especially on the governance profile. Following the mid-term review of the CSP in 2009, the results framework will be updated and enriched and the interventions selected by mutual agreement with Tunisian authorities shall be specified.

4.5 Regional dimensions of Bank Group assistance

4.5.1 In accordance with its mission of supporting regional integration, the Bank shall continue to provide assistance to CEN-SAD as it sets up a free trade area for its member-countries[58]. This area will boost intra-regional trade and provide new opportunities to Tunisia, which is a member of this community.

4.5.2 At the sub-regional level, and as part of its assistance to multinational projects, the Bank could support the Libya-Tunisia gas pipeline project. It may also support the Maghreb public procurement reform project and any study relating to the promotion of integration.

58 In 2004, CEN-SAD sought technical and financial assistance from the Bank for the conduct of the study on the setting up of a free-trade area among CEN-SAD member-countries. The Bank conducted the study and, in conjunction with the CEN-SAD Secretariat, organized a validation meeting on 28 and 29 April 2006 in Tunis that brought together about fifty representatives from the 13 member-countries of CEN-SAD.

<u>Figure 9</u>

Thematic outcomes matrix

Longer term strategic goals	Medium-term CSP outcomes				Bank priorities and performance	
Development goals of the RMC	**Key challenges hampering attainment of national goals**	**Expected CSP outcomes and monitoring indicator**	**Mid-term outcomes**	**Reference situation**	**Bank interventions**	**Measure of Bank performance**
CSP Pillar 1: Reinforcement of macroeconomic policies and acceleration of structural reforms						
1. Improvement of the business environment						
Contain macroeconomic imbalances: reduce the relatively high level of external debt and especially of the public debt, and maintain a tolerable budget deficit. Pursue and consolidate economic liberalization Increase investment, especially private investment	Pressure due to petroleum product prices Fuel subsidies Decline of customs revenue under liberalization Lack of transparency in administrative procedures Sector subject to prior authorizations	Macroeconomic stability: control of internal and external balances. Improvement of the business environment Increase in private investment <u>Indicators:</u> Budget deficit: 2.7% External deficit: 2.9% Reduction in the number of prior authorizations Private investment: 65% of GDP	< 3.5% of GDP < 3.5% of GDP 60%	3.2% of GDP 1.8% of GDP 120 56.5% of GDP	Competitiveness support programs PAC III (ongoing) and PAC IV	National accounts Central Bank report Program supervision report Finance laws
2. Modernization of the financial sector						
Streamline and develop the financial sector Improve the quality of financial information	High level of non-performing loans Limited efficiency of the insurance sector	Restructuring of the portfolio of banks Development of the assessment, risk analysis and risk monitoring functions Reinforcement of the institutional and legal framework of the				Report of the Financial Markets Commission

Longer term strategic goals	Medium-term CSP outcomes				Bank priorities and performance	
Development goals of the RMC	**Key challenges hampering attainment of national goals**	**Expected CSP outcomes and monitoring indicator**	**Mid-term outcomes**	**Reference situation**	**Bank interventions**	**Measure of Bank performance**
	Low investor confidence in the accuracy of company financial statements	insurance sector Development of the financial market Indicators : Reduction of the volume of non-performing loans within the banking system to 15%	20%	20.7%	Competitiveness support programs PAC III (ongoing) and PAC IV	Communication of the findings of the annual survey on situation of non-performing loans Program supervision reports
3. Improvement of public administration						
Improve the efficiency of State interventions	Budget expenditure difficulties Administrative bottlenecks	Budget management by objectives Simplification of procedures for private initiative			PAC IV	Program supervision reports Finance reports
CSP Pillar 2: Modernization of infrastructure and consolidation of the productive sector						
1. Infrastructure						
Energy Satisfy the country's energy demands at affordable cost under the best conditions of reliability and safety and promote the competitiveness of companies and the economy through the upgrading and modernization of energy infrastructure.	Obsolescence of part of the MT and BT distribution networks. Maintenance of natural gas prices at a high level due to the barrel price for oil. A rigid rates policy.	Continue supporting the Program for Restructuring Electricity Distribution networks. Indicators : Reduction of the number and duration of faults on the network; Reduction of undistributed energy; Reduction of the number of industrial third-party accidents. Increase in the number of households and companies having gas.	Restructure electricity distribution networks; Improve service quality; Increase network reliability; Step up safety; Improve the environment. Extend the gas transportation and distribution network	Close to 25% of the MV and LV distribution networks in the country's main cities are obsolete. Number and duration of faults on the network amounting to 264 min. in 2006 ; Undistributed energy of 7.6 GWh in 2006 ; 80 industrial accidents and 25 third-party accidents in 2006.	Restructuring of the electricity distribution network and extension of the gas distribution network (ongoing) and Phase 2 Construction of the Tunisia-Libya gas pipeline	Quarterly project status reports; Bank's supervision reports; Project completion reports Performance of the State-STEG Program Contract.

Longer term strategic goals	Medium-term CSP outcomes				Bank priorities and performance	
Development goals of the RMC	**Key challenges hampering attainment of national goals**	**Expected CSP outcomes and monitoring indicator**	**Mid-term outcomes**	**Reference situation**	**Bank interventions**	**Measure of Bank performance**
Transport Reinforcement and modernization of the road network Reinforcement and modernization of the rail network	Provide a network adapted to new needs Reduce freight costs	Continue supporting programs that promote quality and low-cost transport infrastructure. <u>Indicators:</u> Paved roads 65% 584 km freeways 62% classified roads		62% of paved roads 261 km of freeways 52% of classified roads	Development of the IIIrd and IVth (ongoing) road networks Road Program Railway Modernization II (ongoing) Railroad Program	Supervision and completion reports
2. Reinforcement de la base productive						
Agriculture Consolidate food coverage and develop new profitable sectors.	Water scarcity Scarcity and erosion of arable land Weakness of farmers' organizations Weakness of agricultural extension services	Poverty reduced in rural areas A rise in the production of vegetables, fruits, meat and milk Natural resources are well managed. <u>Indicators</u> Construction of facilities (roads, PWS, etc.) Development of parcels		400,000 ha of irrigation areas 29% use of purified water	PDAI Gafsa, Kasserine, Gabès and Kairouan (ongoing)	Supervision and completion reports of PDAIs
SME/SMI Contribute to attainment of the growth targets of industry and services in 2007-2011. Finance the creation, extension, renovation or modernization of SME/SMIs	The financial market is unable to satisfy SME/SMI demand for financing, in the medium and long terms	Consolidation of SME/SMIs resources in the middle and long terms <u>Monitoring indicators</u> Growth rates of the industrial (5.5%) and services (6.5%) sectors Number of projects financed (100) Number of jobs created (3.000)	Sector growth: Manufacturing industries: 5%; Tourism: 6%. Seventy (70) industrial, hotel and services units created, renovated, modernized or rehabilitated. 2 500 jobs created.	Manufacturing industries: 4% Tourism: 5%	4th credit line to BTEI, 4th credit line to BNA, 2nd credit line to BH (ongoing) Credit line to STB	Supervision reports Completion reports
3. Natural resource management						

Longer term strategic goals	Medium-term CSP outcomes				Bank priorities and performance	
Development goals of the RMC	**Key challenges hampering attainment of national goals**	**Expected CSP outcomes and monitoring indicator**	**Mid-term outcomes**	**Reference situation**	**Bank interventions**	**Measure of Bank performance**
Rational management of the water resource mobilization in response to ever-rising demand	Scarcity of water resources Preservation of the water tables	Consolidation of water resource management Indicators: Increase of irrigation area facilities to form water economy systems (400,000 ha) Rise in the intensification rates of irrigation areas (120%) Rise in potable water supply rate (97%) Rise in water resources mobilization rate (95%)	360,000 ha 110% 95% 93%	320,000 ha 90% 88.5% 86%	Water Sector Investment Program (PISEAU II)	Program supervision report Quarterly project status report
CSP Pillar 3: Consolidation of human capital						
1. Training/Employment						
Guarantee free and compulsory access to quality basic and secondary education for all children aged 6 to 16. Develop innovation and research Compatibility between training and employment, better employability Development of private initiative Regional	Major regional disparities Massive arrival of higher education graduates on the job market	Promotion of access and equity in 2nd cycle basic education and in secondary education Promotion of the quality and relevance of 2nd cycle basic education and secondary education Consolidation of the managerial and monitoring/evaluation structures and mechanisms of the school system Indicators: 50 colleges of 750 places	At least 20 colleges and 10 high schools will be completed, furnished and equipped. Pedagogical guidance staff trained and training of teachers started IT equipment procured and installed and staff rooms operational and connected. Training of DGE staff and provision of equipment completed		PAES II (ongoing) Support to the construction of the Sidi Thabet Technopole	Project supervision and completion reports Validation and adoption of the results of the study on the Sidi Thabet Technopole

Longer term strategic goals	Medium-term CSP outcomes				Bank priorities and performance	
Development goals of the RMC	**Key challenges hampering attainment of national goals**	**Expected CSP outcomes and monitoring indicator**	**Mid-term outcomes**	**Reference situation**	**Bank interventions**	**Measure of Bank performance**
development/balance		and 20 high schools of 1,000 places; 150 educational guidance staff, 4,000 teachers trained (mainly in the multimedia IT section). 325 primary schools and 220 secondary schools have multimedia IT laboratories and staff rooms that are connected (Eduserv network) Obsolete IT equipment replaced in 575 colleges, 598 multimedia classrooms and 348 staff rooms;	Database is operational. Equipment is procured.			

4.5.3 Lastly, Tunisia signed a Partnership Agreement with the European Union in 1995 within the framework of the Barcelona process[59]. The Bank, through its competitiveness support programs contributed to the upgrading of the Tunisian economy, in conjunction with the World Bank and the European Commission. The countries of the sub-region could also benefit from the Tunisian experience since they are also involved in the process.

4.5.4 During the mid-term review of the current CSP, the ADB reserves the right to include activities of a multinational character or those that have a high regional integration potential into its operations program.

4.6 Bank Group assistance: performance-based resource allocation, performance benchmarks and non-lending activities

4.6.1 The excellent macroeconomic performance recorded by the country as well as the sound performance of the Bank's portfolio have, over the years, contributed in making Tunisia one of the Bank's best borrowers. Tunisia's overall good performance has also been confirmed by the rating agencies S&P and FITCH (BBB), MOODY'S (Baa2). The total annual volume of sustainable loans for the country currently ranges between UA 110 million and UA 228 million. This amount shall be adjusted annually in the light of the relevant criteria, in terms of portfolio exposure and country performance.

4.6.2 **Bank lending scenarios**: Two scenarios are envisaged, namely: (i) the reference scenario whereby the country is authorized to borrow up to UA 186 million per year, so long as the performance evaluation rating is maintained or improved and (ii) the low scenario, limited to UA 110 million per year, if the country's performance declines. The amount allocated for the baseline scenario could the higher than the abovementioned figure, considering the flexibility with which MICs are treated.

4.6.3 **Reference scenario:** For the 2007-2011 CSP, a proposal has been made for implementation of the reference scenario, which is equivalent to the "baseline scenario" according to the risk management framework criteria. It comprises two components: a reform program component and an investment project component. Based on this scenario, the Bank plans to finance reform programs, notably PAC IV, as well as investment projects in the infrastructure sector (roads, railways, etc.), productive sectors (agriculture, industry and services) and sectors geared towards human resource development (education/training and health).

4.6.4 **Low scenario:** The "low scenario" shall be implemented following: (i) a deterioration of the macroeconomic situation, which shall be gauged through budgetary and external slippages (deficit above 4% of GDP) and (ii) mediocre performance in portfolio management, namely abandonment of approved reform programs. This scenario would then entail a special structural adjustment program to be conducted in coordination with the IMF.

[59] On 27 and 28 November 1995, the governments of 27 countries, the European Union Council and the European Commission (the Partnership) met in Barcelona and set up the Euro-Mediterranean Partnership (EMP) with the main objective of transforming the Euro-Mediterranean Basin into a zone for dialogue, trade and cooperation with a view to guaranteeing peace, stability and prosperity. At the multilateral level, they adopted the Barcelona Declaration which comprises three components implementing the key principles of a political and security partnership, and economic and financial partnership and partnership in the social, cultural and human domains. Its most visible aspect is the institution of a free trade area by 2010.

4.6.5 **Performance benchmarks**: Tunisia was ranked in the first quintile (with a mark of 4.28) according to the results of CPA 2005. However, it was ranked in the second quintile for three sub-criteria, namely, regional trade, transparency and financial sector. Special attention shall be paid to these sub-criteria in the implementation of the Bank's assistance for 2007-2011, which helps support Tunisia in the pursuit of major reforms needed to create an enabling environment.

Table 2

CPA–ADB (2005)– Tunisia's ranking

First quintile	First quintile	First quintile	First quintile	First quintile
Second quintile	Second quintile	Second quintile	Second quintile	Second quintile
Third quintile	Third quintile	Third quintile	Third quintile	Third quintile
Fourth quintile	Fourth quintile	Fourth quintile	Fourth quintile	Fourth quintile
Fifth quintile	Fifth quintile	Fifth quintile	Fifth quintile	Fifth quintile
Economic managemnt (Mark: 4.67)	**Structural policy (Mark: 3.67)**	**Social inclusion and equity policies (Mark: 4.7)**	**Public and institutional management (Mark: 4.1)**	**Total mark (Mark: 4.28)**

Regional trade: As in other AMU countries, intra-zonal trade remains limited. Through the DSAIR, the Bank proposes a study paper on the relevance of integration and outlines areas for cooperation between member countries. This document is currently being finalized.

Transparency: The preparation of a governance profile could contribute to the identification of key actions that could be implemented to improve this benchmark; discussions are still underway.

Financial sector: Competitiveness support programs have a component on the restructuring and development of the financial sector.

4.6.6 **Three main financial instruments shall be used** during the next programming cycle, namely rapid disbursement loans in the form of balance of payments support to finance reform programs, project loans to finance investment projects and credit lines to financial institutions. These three types of instruments have already been used in Tunisia. Since the beginning of the Bank's operations in Tunisia, 35 credit lines have been granted to Tunisian financial institutions, including three granted through the private sector window. This instrument has proven to be efficient and shall be improved through the introduction of an institutional support component (cf. preliminary results of the Bank's studies on LDCs). 52 projects were financed with project loans and registered great success. 6 competitiveness support program support loans were granted to Tunisia as balance of payments assistance. Given the projections for the 11th Plan period and especially the persistence of internal and external deficits, this instrument which proved to be the most appropriate for co-financing of reform programs with other development partners will be used again.

4.6.7 Financing activities with non-lending instruments: Under the current strategy and on account of the new provisions governing the use of technical assistance funds of middle-income countries, the Bank intends to lay more emphasis on the conduct of analytical studies. Hence, it plans to conduct (i) a study on the professional future of women and youths in the textile sector, as a supplement to the studies conducted on competitiveness, (ii) a study on the regional export policy, within the framework of regional development; and (iii) a study on emerging and re-emerging diseases (including HIV/AIDS and malaria), given the need to enhance data quality through studies/surveys on themes such as maternal mortality and emerging and re-emerging diseases. These studies, whose list is not exhaustive, are aimed at enhancing the impact and range of Bank interventions. They will supplement the financing of reform programs, the preparation multidimensional projects and the upgrading of institutions. The Tunisian Government has already benefited from this Fund, notably in the preparation of the PDAI project in Kairouan and the study on the establishment of the Sidi Thabet Technopole. All requests within this framework shall be examined on a case-by-case basis, in the light of the priorities retained under the Bank's assistance strategy and their capacity to contribute to the attainment of pursued strategic goals.

4.6.8 The Bank will also strive to make bilateral resources and Global Environment Fund (GEF) financing available. The Bank's administrative budget will also take into consideration those needs which determine the quality and therefore the relevance of the Bank's opinions and the results of its operations. Lastly, since resources are limited, the Bank will develop co-financing activities with development partners, where there is compatibility in the modes of procurement of goods and services.

4.7 Partnership and harmonization

4.7.1 For several years now, Tunisia has adopted a strategy of limitation of joint financing, opting for parallel financing in order to avoid cross-conditionalities. Hence, external assistance is coordinated through launching meetings for five-year development plans and/or large-scale programs, which are attended by Tunisia's key financial partners. Such meetings contribute to better coordination of assistance among donors, on the one hand, and between donors and the Government on the other hand.

4.7.2 The donors intervening in Tunisia have always opted for bilateral coordination. Since Tunisia signed the Partnership Agreement, the Bank has stepped up coordination of its assistance with the European Union which has become very active in the country. Such cooperation has translated into the co-financing of three economic and financial reform programs since 1999 with the EU and the World Bank to transform the Tunisia into a more open and more competitive economy.

Box 8
Consultations on Bank Group strategy

The CSP preparation mission opted for the participatory approach which brings together all stakeholders involved in Tunisia's development. Hence, it discussed with the various ministries that participated in the preparation of the new five-year development plan, the private sector and associations. After preparation of a first draft of the strategy, a seminar bringing together donors and the MDCI was held at the Temporary Relocation Agency in Tunis, to ensure complementarity of interventions and explore possible areas for co-financing. The various donors re-affirmed their willingness to step up common actions, notably in the area of reforms. To that end, support to administrative reform was mentioned. The dialogue mission's discussions with Tunisian authorities made it possible to confirm the Bank's priority areas of intervention and agree on mid-term review indicators.

4.7.3 The Tunisian Government is keenly interested in the ongoing procedures harmonization process. In this area, the Bank introduced an *ex post* verification mechanism, like that of the World Bank, for the very first time in 2005, for procurements costing less than UA 300,000 for works, UA 150,000 for supplies and UA 60,000 for consultants. These reviews shall be subject to annual independent audits of procurements. Such an audit should make it possible to revise these *ex post* review thresholds at a frequency of about every two years.

V. RESULTS-BASED MONITORING AND EVALUATION

5.1 Monitoring of CSP results and Bank Group performance

5.1.1 **Monitoring and evaluation by the Tunisian Government**: There is no special and centralized mechanism within the Tunisian Government for monitoring and assessing project and program outcomes. However, for monitoring and evaluation of the CSP, the Ministry of Development and International Cooperation (MDCI) and especially the Directorate-General for regional cooperation, which is the Bank's counterpart, shall be the main interlocutor. In its cooperation with other donors (notably the World Bank, CAS 2004), Tunisia has experimented with results-based management. This experience within the Tunisian administration will greatly facilitate the CSP results-based monitoring and evaluation process.

5.1.2 **Monitoring and evaluation by the Bank**: The Bank shall monitor CSP outcomes using its traditional tools which are project and program supervision, portfolio reviews, completion reports and the CSP mid-term reviews. Portfolio reviews will be conducted in 2007 and 2009. The mid-term review will be conducted in 2009, after the results of the 2009 presidential election. This review will provide the possibility, if need be, of adjusting the strategic priorities in line with the major economic and social guidelines that shall be presented by the President at the time of his investiture.

5.2 Risk management

5.2.1 The main kind of country risk that could be faced by the Bank Group program is socio-political. Indeed, while political stability is one of Tunisia's main characteristics, regional developments, dominated by the 11 September 2001 attacks and the aggravation of the Middle-East crisis and the growing number of unemployed graduates in the country could spark new tensions and demands. Tunisian authorities have shown a perceptible awareness of this risk by focusing on the creation of jobs for young graduates and initiating actions to promote solidarity and regional development. The consolidation of democracy and good governance, coupled with a judicious policy to curb unemployment will also help to mitigate this risk. It was to this end that the Bank encouraged Tunisia to embark on the preparation of a governance profile.

5.2.2 The risk associated with Bank performance is very low, considering the satisfactory performance of the current portfolio and the Bank's presence in Tunisia, which constitutes a clear advantage in terms of consultation and improvement of the monitoring of operations.

5.2.3 Lastly, exogenous shocks such as the steady rise in oil prices, the sluggishness of the European economy, keener international competition or climatic factors have a negative impact on growth. Tunisian authorities are well aware of these elements. That is why they were taken into consideration and retained as assumptions in the growth model, during preparation of the 10th Plan. It should also be noted that Tunisia is implementing measures and reforms that are aimed at controlling the energy bill and ensuring optimum mobilization of water resources. Faced with globalization, Tunisia has embarked on a policy to open up its economy, in terms of market openness and diversification of trade partners. To that end, the implementation of the free trade area with Europe from 2008 should be a major asset for

Tunisia which, since signature of the Partnership Agreement in 1995, has been preparing for this event, with the support of the Bank, the World Bank and the European Commission. On the whole, these risks are unlikely to undermine the overall evolution of the country.

5.3 Country dialogue issues

5.3.1 At the end of the country performance assessments conducted in 2005, Tunisia was ranked in the first group of the Bank's most successful countries. The same equally applies to the management of its portfolio. Nevertheless, certain recurrent issues deserve special attention and should give rise to more sustained dialogue. These are mainly public governance and support for improvement of the administration which both contribute to the improvement of the business environment. Dialogue on the relevance of preparing a governance profile was initiated during preparation of this CSP and shall be pursued. The Bank's experience in public administration reform will make it possible to initiate reflection on the upgrading of the administration and envisage the actions to be conducted within this framework.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

Over the last decade, Tunisia recorded excellent economic and social performances and demonstrated its ability to implement many bold reforms and measures. It was supported in this endeavor by donors and the international community. However, this performance is still not enough to tackle the double challenge of accelerating economic growth in a context of greater trade liberalization, and curbing unemployment which undermines social cohesion and all the gains made in poverty reduction. That is why the Bank's assistance strategy for 2007-2011 focuses on the following three pillars: (i) consolidation of macroeconomic policies and acceleration or reforms, (ii) modernization of infrastructure and reinforcement of the productive sector, and (iii) consolidation of human capital. The main expected outcomes are an improvement in competitiveness, consolidation of the macroeconomic framework, upgrading of infrastructure and reinforcement of technological centers in order to generate strong and sustainable growth and a substantial reduction in unemployment.

6.2 Recommendation

The Board of Directors is invited to consider and approve the strategy and priority intervention areas proposed for Tunisia for the 2007-2011 period. The Bank's strategy shall be implemented using the "reference scenario" which provides for a sustainable loan allocation amounting to an indicative sum of UA 188 million, for the financing of reform programs and investment projects. This sum could be increased beyond the stated amount, in accordance with the agreed flexibility in the treatment of MICs, and shall be adjusted annually.

ANNEX I

COUNTRY STRATEGY PAPER
2007 - 2011
MAP OF TUNISIA

This map has been provided by the African Development Bank Group for the use of the readers of the report to which it is attached. The names used and the borders shown do no imply on the part of the Bank and its members any judgement concerning the legal status of a territory nor any approval or acceptance of these borders

TUNISIA
TABLE OF ONGOING BANK OPERATIONS AS OF 31 DECEMBER 2006
(Amounts in UA million)

PROJECTS	GROSS LOANS	CANCELLATIONS	LENDING MINUS REPAY-MENTS	DISBURSEMENT	% DISBURSEMENT					
	ADB	ADB	ADB	ADB	ADB	APPROV	SIGNAT	IMPLEM	CLOSING	REMARKS
1 AGRICUTURE (4)										
Integrated Development Program in Kasserine	13.239	0	13.239	9.464	71%	11/8/2000	28/02/01	13/06/01	31/12/07	ongoing
Integrated Development Program in Gabes	13.85	0.00	13.85	8.70	63%	11/8/2000	28/02/01	13/06/01	31/12/07	ongoing
Integrated Development Program in Gafsa	14.36	0.00	14.36	8.60	60%	11/8/2000	28/02/01	13/06/01	31/12/07	ongoing
Integrated Development Program in Kairouan	15.305	0.00	15.305	0	0%	29/03/2006	13/09/06	-	31/12/13	ongoing
Sub-total 1	**56.744**	**0.00**	**56.744**	**26.764**	**47.16%**					
2 INDUSTRY (1)										
Environmental capacity-building	33.847	0	33.847	2.707	8%	29/06/05	27/09/05	24/03/06	31/12/09	ongoing
Sub-total 2	**33.847**	**0.00**	**33.847**	**2.707**	**8%**					
3 TRANSPORT (3)										
Development of the Category III road network	123.313	0	123.313	71.096	58%	21/11/01	28/05/02	31/08/2002	31/12/07	ongoing
Development of the Category IV road network	141.848	0	141.848	17.021	12%	24/11/04	22/03/06	20/09/06	31/12/2009	ongoing
Modernization of the railway network II	63.995	0	63.995	5.992	9%	17/11/03	1/4/2004	1/4/2004	31/12/08	ongoing
Sub-total 3	**329.156**	**0**	**329.156**	**94.108**	**28.59%**					
4 COMMUNITY INFRASTRUCTURE (1)										
Enhancement of the electricity distribution network	66.325	0	66.325	20.128	31.41%	7/12/2003	20/09/04	21/02/05	31/12/08	ongoing
Sub-total 4	**66.325**	**0**	**66.325**	**20.128**	**31.41%**					
5 FINANCES (3)										
BTEI credit line IV	34.387	0	34.387	25.242	73%	20/12/02	31/12/2002	1/7/2003	30/04/07	ongoing

	GROSS LOANS	CANCELLATIONS	LENDING MINUS REPAY-MENTS	DISBURSEMENT	% DISBURSEMENT					
PROJECTS	ADB	ADB	ADB	ADB	ADB	APPROV	SIGNAT	IMPLEM	CLOSING	REMARKS
4th credit line to BNA	137.055	0	137.055	109.717	80%	28/06/01	15/01/02	6/5/2002	30/06/07	ongoing
2nd credit line to BH	68.775	0	68.775	54.99	80%	21/07/03	15/09/03	30/09/03	30/09/07	ongoing
Sub-total 5	**274.064**	**0**	**258.465**	**208.727**	**76.16**					
6 SOCIAL (1)										
Secondary education support program (PAESII)	51.409	0	51.409	0	0%	28/09/05	28/09/05	25/04/06	31/12/10	ongoing
Sub-total 6	**51.409**	**0**	**51.409**	**0**	**0%**					
7 MULTISECTOR (1)										
Competitiveness Support Program III	100.583	0	100.583	50.291	50%	21/09/05	27/09/05	12/12/05	31/12/07	ongoing
Sub-total 7	**100.583**	**0**	**100.583**	**50.291**	**50%**					
GENERAL TOTAL	**877.741**	**0**	**877.741**	**402.725**	**45.88%**					

TUNISIA – RESULTS-BASED CSP FRAMEWORK MATRIX 2007-2011

OVERALL OBJECTIVE: accelerate economic growth and curb unemployment

INDICATOR : growth rate > 6% and unemployment rate < 11%

Challenges for the country	Government Agenda	Bank Group Strategy	Bank Group Activities		Other strategies/bilateral & multilateral	Benchmarks	
			Recent and Ongoing	Proposed*		MDGs	End of CSP period goals
<u>Pillar 1</u>: Consolidation of macroeconomic policies and acceleration of structural reforms							
Acceleration of economic growth	Reduce macroeconomic imbalances	Consolidate the macroeconomic framework	PAC I and II (completed)	PAC IV	World Bank and European Union (PACE IV) European Commission (support to the improvement of administration quality)		Private investment represents more than 60% of total investment Economic growth above 5% per year
Improvement of the business environment	Increase private investment, especially foreign	Streamline the banking and financial sectors Develop the private sector	PAC III (ongoing)	Support to public administration improvement Governance profile	Italy (trade balance support)	Reduce poverty and double income per capita	Internal and external deficits are reduced Fiscal distortions are reduced
Opening-up of the economy	Pursue and step up economic liberalization	Pursue tax reform and reduce authorizations			EIB (modernization of banking sector) UNDP (support to modernization of the administration)		The banking and financial sector is consolidated

Pillar 2: Modernization of infrastructure and reinforcement of the productive sector							

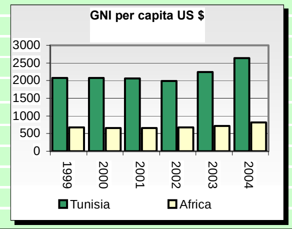
Increase national wealth Improve economic competitiveness Expansion of the export market	Diversify the productive base and create enterprises Reduce the cost of infrastructure and improve their quality Increase the supply of services Maintain and even increase exports to the EU and develop relations with other markets	Build the capacities of productive sectors and improve the production system Supply quality infrastructure at competitive cost Encourage access to SME/SMI financing	PDAI Kairouan PDAI Kasserine PDAI Gafsa PDAI Gabès Environmental capacity-building for the CPG Development of road networks III and IV Modernization of railways I and II Improvement of the electricity distribution network Credit lines (BTEI, BNA, BH)	PDRI PDAI Light Railway Network (RFL) PISEAU (water resource management) PGRN (natural resource management) Credit lines (CL to STB)	AFD (Light metro extension) SFI, BEI and JBIC (RFL) World Bank, KFW/GTZ and AFD (natural resources) Italy (solid waste management and environmental protection) Europ. Com, EIB, Italy, JICA, AFD (industrial upgrading) AFD (upgrading of tourism sector) Spain (development of cultural tourism) World Bank (development of ICTs) Italy (CL for SMEs)	Improve access to infra-structure Ensure a sustain-able environ-ment	Raise growth to 6.5% in 2011 Improve the supply of transport and communication services Increase the surface area of irrigation zones Reduce the influence of climatic factors

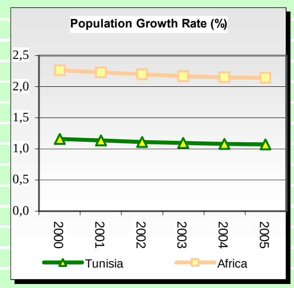
Pillar 3: Consolidation of human capital							
Reduction of unemployment Territorial development	Encourage the recruitment of young graduates Create 70,000 new projects Develop opportunities at the regional level	Encourage the interconnection between the labor market and the world of education and research Support regional initiatives	Study on the Sidi Thabet Technopole PAES II	Support feasibility studies on technopoles Support the setting up of technopoles	World Bank (improvement of the quality of the educational system / support to higher education reform) European Commission: support to business incubators EIB (support to technopoles, infrastructure, technical assistance, etc.) JICA/JBIC (support to the Borj-Cedria Technopole)	Reduce poverty Promote gender equality and women's empower-ment	The unemployment rate is reduced to 11%

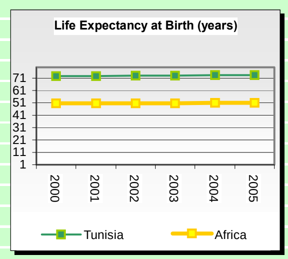
Tunisia

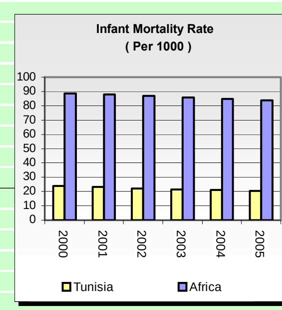
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Tunisia	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		164	30 307	80 976	54 658
Total Population (millions)	2005	10,1	904,8	5 253,5	1 211,3
Urban Population (% of Total)	2005	64,0	38,9	43,1	78,0
Population Density (per Km²)	2005	61,7	29,9	60,6	22,9
GNI per Capita (US $)	2004	2 630	811	1 154	26 214
Labor Force Participation - Total (%)	2003	41,8	43,4	45,6	54,6
Labor Force Participation - Female (%)	2003	32,7	41,1	39,7	44,9
Gender -Related Development Index Value	2003	0,743	0,460	0.694	0,911
Human Develop. Index (Rank among 174 countries)	2003	89	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2000	4,2	45,0	32,0	20,0
Demographic Indicators					
Population Growth Rate - Total (%)	2005	1,1	2,1	1,4	0,3
Population Growth Rate - Urban (%)	2005	1,5	3,4	2,6	0,5
Population < 15 years (%)	2005	25,9	41,5	32,4	18,0
Population >= 65 years (%)	2005	6,3	3,4	5,5	15,3
Dependency Ratio (%)	2005	47,5	81,4	57,8	47,8
Sex Ratio (per 100 female)	2005	101,5	99,8	102,7	94,2
Female Population 15-49 years (% of total population)	2005	32,4	26,7	27,1	25,0
Life Expectancy at Birth - Total (years)	2005	73,7	51,2	64,1	76,0
Life Expectancy at Birth - Female (years)	2005	75,9	52,0	65,9	79,7
Crude Birth Rate (per 1,000)	2005	16,5	36,8	22,8	11,0
Crude Death Rate (per 1,000)	2005	5,5	15,0	8,7	10,4
Infant Mortality Rate (per 1,000)	2005	20,3	83,6	59,4	7,5
Child Mortality Rate (per 1,000)	2005	22,9	139,6	89,3	9,4
Total Fertility Rate (per woman)	2005	1,9	4,8	2,8	1,6
Maternal Mortality Rate (per 100,000)	2004	47	622,9	440	13
Women Using Contraception (%)*	2000	60,0	26,6	59,0	74,0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	133,4	38,2	78,0	287,0
Nurses (per 100,000 people)	2004	285,5	110,7	98,0	782,0
Births attended by Trained Health Personnel (%)	2000	89,3	43,7	56,0	99,0
Access to Safe Water (% of Population)	2002	73,0	64,5	78,0	100,0
Access to Health Services (% of Population)*	2000	90,0	61,7	80,0	100,0
Access to Sanitation (% of Population)	2002	46,0	42,4	52,0	100,0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2003	0,0	6,4	1,3	0,3
Incidence of Tuberculosis (per 100,000)	2003	24,0	406,4	144,0	11,0
Child Immunization Against Tuberculosis (%)	2004	97,0	78,2	82,0	93,0
Child Immunization Against Measles (%)	2004	95,0	68,8	73,0	90,0
Underweight Children (% of children under 5 years)	2003	1,0	39,0	31,0	...
Daily Calorie Supply per Capita	2003	3 247	2 439	2 675	3 285
Public Expenditure on Health (as % of GDP)	2002	2,9	2,7	1,8	6,3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2002/03	111,0	96,7	91,0	102,3
Primary School - Female	2002/03	109,0	89,3	105,0	102,0
Secondary School - Total	2002/03	78,0	43,1	88,0	99,5
Secondary School - Female	2002/03	81,0	34,6	45,8	100,8
Primary School Female Teaching Staff (% of Total)	2002/03	50,0	44,1	51,0	82,0
Adult Illiteracy Rate - Total (%)	2005	23,8	35,0	26,6	1,2
Adult Illiteracy Rate - Male (%)	2005	14,4	26,9	19,0	0,8
Adult Illiteracy Rate - Female (%)	2005	33,3	42,9	34,2	1,6
Percentage of GDP Spent on Education	2000	6,80	4,7	3,9	5,9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005	18,3	6,0	9,9	11,6
Annual Rate of Deforestation (%)	2000	-0,22	0,70	0,40	-0,20
Annual Rate of Reforestation (%)	2000	8,0	10,9	...	...
Per Capita CO2 Emissions (metric tons)	2005	1,92	1,0	1,9	12,3









Source : ADB Statistics Division databases; UNAIDS; World Bank Live Database and United Nations Population Division; Country Reports

Notes: n.a. Not Applicable ; ... Data Not Available. * : latest data available within 1995-2000

ANNEX V

TUNISIA
MACROECONOMIC INDICATORS

	2002	2003	2004	2005	Est. 2006
Real economy (% change)					
GDP	1.7	5.6	6.0	4.0	5.3
GDP deflator	2.3	2.0	2.6	1.9	2.4
Consumer price index	2.8	2.8	3.6	2.0	4.6
National savings (% GDP)	21.7	21.9	22.0	20.9	20.5
Gross domestic investments (% GDP)	25.2	23.4	22.6	22.2	22.2
External sector (% change)					
Exports, fob (in US$)	3.8	17.1	20.6	8.4	4.5
Imports, fob (in US$)	-0.2	14.7	17.6	2.8	6.0
Exports (volume)	1.9	1.9	7.8	4.3	6.4
Imports (volume)	-2.4	-0.2	3.5	-1.9	7.6
Trade balance (% GDP)	-10.1	-9.1	-8.7	-6.8	-7.6
Current account, net of grants (% GDP)	-3.6	-3.0	-2.0	-1.0	-2.8
Terms of trade (deterioration -)	-0.4	-1.5	-0.5	-1.8	...
Real effective exchange rate (depreciation -)	-1.1	-4.1	-3.4	-4.5	...
Gross official reserves (US$ billion, end of period)	2.3	3.0	4.0	4.4	6.5
Gross official reserves (in import months of goods and services)	2.7	3.0	3.5	3.6	4.1
Public finance (% of GDP)					
Total revenue, net of grants and privatisations	24.4	23.6	23.9	22.4	23.6
Total expenditure and lending minus repayments	27.9	27.0	26.8	27.2	26.7
Central government balance, net of grants and privatizations	-3.5	-3.4	-2.9	-3.2	-3.0
Central government balance, including grants and privatizations	-3.1	-3.2	-2.6	-3.0	-2.8
Money and credit (% change)					
Credits to the economy	6.5	4.6	5.3	7.5	6.9
Money supply (M3)	4.5	6.3	10.3	10.8	10.4
Velocity of money circulation (GDP/M3)	1.88	1.66	1.63	1.56	1.54
Interest rate (money market rate, as end of period %)	5.91	5.00	5.00	5.0	...
Debt					
External debt (US$ billion)	13.7	17.9	19.8	18.5	18.7
External debt (as % of GDP)	65.2	67.2	67.8	67.9	64.3
Debt service ratio (Total debt service/ Exports of goods and services	17.2	15.1	16.2	14.5	17.9
Central government, domestic and external debt (% GDP)	61.6	60.4	59.7	59.0	56.1
Domestic debt (% GDP)	22.5	22.2	21.7	22.1	23.1
NB:					
GDP at current prices (TND million)	29.9	32.2	35.0	37.5	40.8
GDP at current prices (US$ million)	19.5	25.0	29.2	27.3	29.1
GDP per capita (US$)	2 056	2 531	2 942	2 713	2 859
Unemployment rate	14.5	14.3	14.2	14.3	13.9
Population (million)	9.8	9.9	9.9	10.1	10.2
Exchange rate: TND/US$ (average)	1.42	1.29	1.25	1.3	

Sources: Tunisian Government and the IMF

TUNISIA
VALUE-ADDED BY SECTOR AND GDP AT CURRENT PRICES

	2001	2002	2003	2004	2005	2006
	in thousand dinars					
AGRICULTURE AND FISHERIES	**3322.1**	**3078.3**	**3884.8**	**4450.2**	**4211.3**	**4489.2**
MANUFACTURING INDUSTRIES	**5328.4**	**5562.8**	**5772.0**	**6207.6**	**6442.7**	**6894.6**
Agricultural and food industries	901.2	941.1	989.4	1162.9	1180.8	1340.5
Ceramic and glass construction materials	483.9	527.2	556.1	609.6	655.9	712.7
Mechanical and electrical industries	789.4	844.2	928.3	1050.0	1190.2	1348.5
Chemical industries	560.0	602.8	614.8	651.8	690.7	739.5
Textiles, dressmaking and leather industries	1922.4	1973.9	1966.1	1968.3	1909.1	1860.5
Various industries	671.5	673.6	717.3	765.0	816.5	892.9
MANUF. INDUSTRIES other than AFI	**4427.2**	**4621.7**	**4782.6**	**5044.7**	**5261.9**	**5554.1**
NON-MANUFACTURING INDUSTRIES	**2965.0**	**3280.6**	3334.1	**3673.9**	**4405.9**	**5021.8**
Mining	231.0	236.0	230.9	200.4	205.2	201.1
Hydrocarbons	971.1	1013.4	947.7	1103.0	1615.9	2015.6
Electricity	289.0	329.3	294.2	375.8	414.8	448.8
Water	124.7	134.9	144.5	154.8	164.8	177.6
Construction and civil engineering	1349.2	1567.0	1716.8	1839.9	2005.2	2178.7
SERVICES	**10168.5**	**10775.3**	**11575.1**	**12638.2**	**14143.6**	**15587.7**
Trade	2474.3	2750.7	3063.2	3263.8	3568.3	3914.8
. Transport	1700.8	1695.7	1789.0	1953.8	2201.1	2385.2
Communications	718.6	864.4	1033.4	1270.9	1614.7	1953.7
Hotels, Cafes, Restaurants	1736.5	I 708.1	1794.3	2000.4	2207.7	2369.8
Financial bodies	1057.9	1055.3	980.7	1036.0	1129.9	1221.6
Sundry tradable services	2480.4	2701.1	2914.5	3113.3	3421.9	3742.6
IC- not broken down in fin. Services (-)	**862.6**	**827.0**	760.3	**823.6**	**934.9**	**994.7**
S/Total of commercial activities	**20921.4**	**21870.0**	**23805.7**	**26146.3**	**28268.6**	**30998.7**
Non-tradable service activities	3914.2	4178.0	4448.0	4742.6	5124.3	5523.9
GDP at factor cost	**24835.6**	**26048.0**	**28253.7**	**30888.9**	**33392.9**	**36522.6**
Indirect taxes net of subsidies	3921.6	3875.8	3948.7	4146.1	4178.4	4304.3
GDP at market prices	**28757.2**	**29923.8**	**32202.4**	**35035.0**	**37571.3**	**40826.9**
ANNUAL INCREASE (%)	**7.9**	**4.1**	**7.6**	**8.8**	**7.2**	**8.7**

Source: Tunisian Government

TUNISIA
VALUED-ADDED BY SECTOR AND GDP AT CONSTANT 1990 PRICES

	2001	2002	2003	2004	2005	2006
	in thousand dinars					
AGRICULTURE AND FISHERIES	**2237.3**	**1991.2**	**2419.3**	**2664.0**	**2477.7**	**2539.6**
MANUFACTURING INDUSTRIES	**3333.3**	**3394.6**	**3417.0**	**3589.1**	**3621.9**	3754.0
Agricultural and food industries	593.5	590.3	600.3	674.6	670.6	718.2
Ceramic and glass construction materials	327.1	342.1	352.4	373.5	380.6	399.6
Mechanical and electrical industries	508.9	527.1	559.3	603.9	655.5	721.1
Chemical industries	332.8	343.4	344.4	354.7	361.9	374.6
Textiles, dressmaking and leather industries	1129.0	1134.4	1092.6	1088.2	1033.8	992.4
Various industries	442.0	457.3	468.0	494.1	519.5	548.1
MANUF. INDUSTRIES other than AFI	**2739.8**	**2804.3**	**2816.7**	**2914.5**	**2951.3**	**3035.8**
NON-MANUFACTURING INDUSTRIES	**2009.9**	**2107.6**	**2152.1**	**2239.7**	**2321.7**	**2384.3**
Mining	143.8	139.1	145.3	146.8	143.3	134.4
Hydrocarbons	637.2	680.5	654.5	676.4	704.1	697.1
Electricity	292.0	305.1	319.3	334.0	350.7	368.2
Water	87.2	90.2	93.8	95.4	100.0	104.7
Construction and civil engineering	849.7	892.7	939.2	987.1	1023.6	1079.9
SERVICES	**6786.0**	**7051.5**	**7431.3**	**8036.8**	**8781.3**	**9507.4**
Trade	1654.6	1756.0	1868.9	1988.4	2135.5	2263.6
. Transport	1032.5	993.3	1015.4	1086.5	1152.8	1207.0
Communications	711.6	839.7	1003.4	1209.4	1501.7	1817.1
Hotels, Cafes, Restaurants	908.3	867.5	887.4	960.2	1022.6	1063.5
Financial bodies	948.2	951.5	974.4	1028.0	1089.7	1155.1
Sundry tradable services	1530.8	1643.5	1681.8	1764.3	1879.0	2001.1
IC not broken down in financial services (-)	**807.7**	**775.4**	**798.8**	**865.3**	**901.6**	**938.4**
S/Total of commercial activities	**13558.8**	**13769.5**	**14620.6**	**15664.3**	**16301.0**	**17246.9**
Non-tradable service activities	2344.2	2454.4	2545.2	2641.6	2779.0	2918.0
GDP at factor cost	**15903.0**	**16223.9**	**17165.8**	**18305.9**	**19080.0**	**20164.9**
Indirect taxes net of subsidies	2128.2	2105.8	2183.0	2211.3	2253.2	2309.5
GDP at market prices	**18031.2**	**18329.7**	**19348.8**	**20517.2**	**21333.2**	**22474.4**
ANNUAL INCREASE (%)	**4.9**	**1.7**	**5.6**	**6.0**	**4.0**	**5.3**
GROWTH (%)						
Non-agriculture GDP	6.0	3.4	3.6	5.5	5.6	5.7
GDP excluding agriculture and AFI	6.3	3.6	3.7	5.2	5.9	5.7
GDP excluding agriculture, AFI, Mining and Hydrocarbons	6.6	3.5	4.0	5.3	6.0	6.0

Source: Tunisian authorities

ANNEXE VIII

TUNISIA
REVENUE AND EXPENDITURE AT CURRENT PRICES

	2001	2002	2003	2004	2005	2006
	in thousand dinars					
GDP AT MARKET PRICES	**28757.2**	**29923.8**	**32202.4**	**35035.0**	**37571.3**	**40826.9**
% increase	7.9	4.1	7.6	8.8	7.2	8.7
IMPORTS (GOODS & SERVICES)	**15029.1**	14815.5	**15356.4**	**17468.9**	18833,1	**21362,8**
% increase	17.0	-1.4	3.7	13,8	7,8	13,4
TOTAL REVENUE-EXPENDITURE	**43786.3**	**44739,3**	**47558,8**	**52503,9**	**56404,4**	**62189,7**
Annual % increase	10.9	2.2	6.3	10.4	7.4	10.3
PUBLIC CONSUMPTION	**4485.5**	4748.3	**5056.9**	**5405.0**	**5772.5**	**6165.1**
% increase	8.2	5.9	6.5	6.9	6.8	6.8
PRIVATE CONSUMPTION	**17561.1**	**18772.0**	**20308.9**	**22195.1**	23771.0	**26029.2**
% increase	8.5	6.9	8.2	9.3	7.1	9.5
TOTAL CONSUMPTION	**22046.6**	**23520.3**	**25365.8**	**27600.1**	**29543.5**	**32194.3**
% increase	8.4	6.7	7.8	8.8	7.0	9.0
G.F.C.F	**7541.8**	**7607.1**	**7536.1**	**7913.8**	**8330.8**	**9065.0**
% increase	8.9	0.9	-0.9	5.0	5.3	8.8
STOCK VARIATION	**487.1**	**76.8**	**547.8**	**550.5**	**-149.8**	**376.9**
DOMESTIC DEMAND	**30075.5**	**31204.2**	**33449.7**	**36064.4**	**37724.5**	**41636.2**
% increase	8.9	3.8	7.2	7.8	4.6	10.4
EXPORTS (GOODS AND SERVICES	**13710.9**	**13535.1**	**14109.2**	**16439.5**	**18679.9**	**20553.5**
% increase	15.5	-1.3	4.2	16.5	13.6	10.0

EXPORTS OF GOODS FOB	**9503.7**	**9748.6**	10342.6	12054.3	**13607.6**	14445.0
% increase	18.7	2.6	6.1	16.5	12.9	6.2
IMPORTS OF GOODS CIF	**13658.2**	**13510.9**	**14038.9**	**15960.4**	**17101.5**	18785.0
% increase	16.5	-1.1	3.9	13.7	7.1	-9.8

ANNEXE IX

TUNISIA
REVENUE AND EXPENDITURE AT CONSTANT PRICES 1990

	2001	2002	2003	2004	2005	2006
	In TND thousand					
GDP AT MARKET PRICES	**18031.2**	**18329.7**	**19348.8**	**20517.2**	**21333.2**	**22474.4**
% increase	4.9	1.7	5.6	6.0	4.0	5.3
IMPORTS (GOODS & SERVICES)	**8993.4**	**8652.0**	**8612.6**	**8917.9**	**8746.9**	**9377.9**
% increase	**13.6**	-3.8	-0.5	3.5	**-1.9**	7.2
TOTAL REVENUE-EXPENDITURE	**27024.6**	**26981.7**	**27961.4**	**29435.1**	**30080.1**	**31852.3**
Annual % increase	7.6	-0.2	**3.6**	5.3	2.2	5.9
PUBLIC CONSUMPTION	**2781.4**	**2900.8**	**3040.1**	**3173.6**	**3300.5**	**3432.5**
% increase	4.4	4.3	4.8	4.4	4.0	4.0
PRIVATE CONSUMPTION	**11100.5**	**11553.7**	**12150.4**	**12814.1**	**13454.8**	**14141.0**
% increase	5.7	4.1	5.2	5.5	5.0	5.1
TOTAL CONSUMPTION	**13881.9**	**14454.5**	**15190.5**	**15987.7**	**16755.3**	**17573.5**
% increase	5.4	4.1	5.1	5.2	4.8	4.9
G.F.C.F.	**4481.1**	**4403.6**	**4262.7**	**4266.6**	**4327.0**	**4546.1**
% increase	8.3	-1.7	-3.2	0.1	1.4	5.1
STOCK VARIATION	**247.5**	**24.0**	**404.3**	**447.0**	**-163.5**	**122.4**
DOMESTIC DEMAND	**18610.5**	**18882.1**	**19857.5**	**20701.3**	**20918.8**	**22242.0**
% increase	6.0	1.5	5.2	4.2	1.1	6.3
EXPORTS (GOODS & SERVICES)	**8414.2**	**8099.5**	**8103.9**	**8733.8**	**9161.3**	**9610.3**
% increase	**11.5**	-3.7	0.1	7.8	4.9	4.9
EXPORTS OF GOODS FOB	**5832.4**	**5832.8**	**5940.7**	**6404.5**	**6680.5**	**7105.7**
% increase	14.7	0.0	1.9	7.8	4.3	6.4
IMPORTS OF GOODS CAF	**8172.9**	**7886.8**	**7870.7**	**8144.6**	**7941.1**	**8564.7**
% increase	13.0	-3.5	-0.2	3.5	-2.5	7.9

ANNEX X

TUNISIA
CONSOLIDATED FINANCIAL OPERATIONS OF THE STATE

	2002	2003	2004	2005	Budget Act 2006	Est.. 2006
	In million dinars					
Total revenue, grants and privatization proceeds	7 748	7 716	8 577	9 152	9 640	12 620
Total revenue	7 290	7 632	8 379	8 929	9 396	9 526
Tax revenue	6 429	6 654	7 253	7 926	8 282	8 438
Income tax	2 025	2 177	2 385	2 886	3 022	3 023
Trade taxes	595	554	557	506	560	539
VAT	1 895	2 006	2 257	2 301	2 488	2 534
Non-tax revenue	854	960	1 117	997	1 106	1 080
Capital revenue	7	19	9	6	8	8
Total expenditure and lending minus repayments	8 326	8 752	9 378	10 109	10 831	10753
Total expenditure	8 230	8 622	9 411	10 083	10 783	10 705
Current expenditure	5 997	6 317	6 983	7 688	8 302	8 277
Wages and salaries	3 645	3 937	4 222	4 559	4 898	4 898
Goods and services	627	658	699	708	676	666
Interest paid	915	904	989	1.062	1.15	1.15
Domestic debt	380	359	418	473	521	521
External debt	535	546	571	589	629	629
Transfers and subsidies	809	819	1 073	1 359	1 442	1 442
Oil subsidies			203	414	500	500
Oil prices ($/barrel)			37.8	53.4	60.0	61.3
Capital expenditure	2 233	2 305	2 428	2 395	2 481	2 428
Direct investment	1 322	1 335	1 346	1 245	1 379	1 379
Capital transfers And equity participations	912	970	1 082	1 150	988	989
Lending minus repayments	96	130	-33	26	48	48
Central Government deficit (-), net of grants and privatization proceeds	-578	-1 035	-999	-1 180	-1 435	-1 226
Grants	118	77	73	63	94	94
Privatization proceeds	339	8	125	161	150	3 000
Central Government deficit (-), incl. grants and privatization proceeds	-578	-1 035	-801	-957	-1 191	1 868
Financing	578	1 035	801	957	1 191	-1 868
External	683	808	207	294	-106	-750
Domestic	-105	227	595	663	1.297	-1 118

** for a barrel price of US$ 60

Sources: Tunisian Government and IMF

TUNISIA
MONETARY SURVEY

	2002	2003	2004	2005	Est 2006
			in TND million		
Net foreign assets	1 909	2 279	3 126	4 146	7 010
Foreign assets	4 154	4 547	5 802	7 356	10 291
BCT	3 134	3 629	4 843	6 060	8 967
External debt	-2 246	-2 268	-2 675	-3 210	-3 281
Net domestic assets	16 392	17 178	18 340	19 642	19 257
Domestic credit	23 744	24 669	26 366	28 379	30 235
Net claims on the Government	2 790	2 758	3 283	3 574	3 729
Net claims on the Central Bank	-290	-504	-597	-636	-636
Commercial banks	1 642	1 746	2 180	2 274	2 429
Claims on the economy	20 954	21 911	23 084	24 805	26 506
Other items (net)	-7 352	-7 491	-8 026	-8 737	-10 978
Money plus quasi-money (M2)	16 681	17 859	19 846	22 085	24 388
Money (M1)	6 618	6 992	7 686	8 600	9 496
Currency	2 518	2 663	2 968	3 292	3 635
Deposits	4 100	4 328	4 718	5 308	5 862
Quasi-money	10 063	10 868	12 161	13 485	14 891
Money supply (M3)	18 301	19 457	21 467	23 788	26 268
Long-term deposits (M3-M2)	1 619	1 598	1 620	1 703	1 880
			(percentage annual variation)		
Net foreign assets	19.5	19.4	37.2	32.6	69.1
Domestic credit	6.4	3.9	6.9	7.6	6.5
Net claims on the government	4.4	-1.2	19.0	8.9	4.3
Claims on the economy	6.7	4.6	5.3	7.5	6.9
Money plus quasi-money (M2)	3.9	7.1	11.1	11.3	10.4
Money supply (M3)	5.2	6.3	10.3	10.8	10.4

Sources: Tunisian Government and IMF

TUNISIA
BALANCE OF PAYMENTS

	2002 in US$ million	2003	2004	2005	Est. 2006
Current account	-746	-730	-555	-360	-403
Trade balance	-2 124	-2 270	-2 435	-1 963	-2 234
Exports	6 857	8 027	9 679	10 501	10 956
Energy	641	801	924	1 354	1 602
Non-energy	6 215	7 226	8 755	9 125	9 364
Imports	-8 980	-10 297	-12 113	-12 452	-13 200
Energy	-863	-1 130	-1 331	-1 748	-2 027
Non-energy	-8 117	-9 166	-10 782	-10 704	-11 173
Services and transfers (net)	1 378	1 539	1 880	1 603	1 831
Non-factor	1 301	1 362	1 679	1 656	1 695
Incl. Tourism	1 422	1 477	1 839	1 976	2 048
Factor	77	177	201	-53	137
incl. remittances from emigrant workers	1 070	1 250	1 431	1 404	1 404
incl. external debt interest payments	-516	-572	-641	-707	-811
Capital account and financial operations	885	1 115	1 528	1 305	2 427
Net of grants	802	1 049	1 415	1 209	2 318
Capital account	76	59	107	86	104
Financial account	810	1 056	1 421	1 219	2 323
Foreign direct investment (net)	801	553	616	679	2 780
Medium and long-term lending (net)	766	823	947	360	-237
Disbursements	1 874	1 891	2 437	1 700	1 591
Debt amortization	-1 108	-1 068	-1 490	-1 340	-1 828
Short-term capital	-723	-289	-103	45	-220
Errors and omissions	-34	-32	-39	13.50	0
Overall balance	140	385	974	945	2 024
Reserve variations *	-349	-653	-1033	-409	-2 033
Use of IMF resources	0	0	0	0	0
Other assets (net) (increase -)	-349	-653	-1033	-409	-2 033
NB:					
Current account/GDP (%)	-3.6	-3.0	-2.0	-1.0	-2.8
Reserves (in US$ billion)	2.3	3.0	4.0	4.4	6.5
Reserves in import months of goods and services	2.7	3.3	3.5	3.6	5.1
Medium and long-term external debt (in US$ billion)	12.1	14.4	16.0	15.0	14.9
Medium and long-term external debt/GDP (%)	57.5	53.9	54.9	54.9	51.3
Short-term external debt (in US$ billion)	1.6	3.6	3.8	3.5	3.8
Short-term external debt/GDP (%)	7.8	13.3	12.9	13.0	13.0
Debt service ration (% of exports of goods and services)	17.2	15.1	16.2	14.5	17.9
Growth in goods exports (%)	1.9	1.9	7.8	4.3	6.4
Real growth in goods imports (%)	-2.4	-0.2	3.5	-1.9	7.6

* Different from the overall balance because of the effects of valuation

Sources: Tunisian Government and IMF

TUNISIA
BALANCE OF PAYMENTS: PROJECTIONS

	Est.	Proj.	Proj.	Proj.	Proj.
	2006	2007	2008	2009	2010
			in US$ million		
Current account	-403	-375	-363	-411	-427
Trade balance	-2.234	-2.254	-2.270	-2.398	-2.497
Exports	10.966	11.508	12.053	12.672	13.406
Energy	1.602	1.697	1.741	1.772	1.803
Non-energy	9.364	9.811	10.312	10.900	11.603
Imports	-13.200	-13.762	-14.323	-15.069	-15.902
Energy	-2.027	-2.126	-2.160	-2.177	-2.194
Non-energy	-11.173	-11.636	-12.163	-12.892	-13.709
Services and transfers (net)	1.831	1.879	1.907	1.987	2.070
Non-factor	1.695	1.710	1.735	1.760	1.788
Incl. Tourism	2.048	2.115	2.206	2.296	2.395
Factor	137	170	172	227	282
incl. remittances from emigrant workers	1.404	1.459	1.523	1.588	1.654
incl. external debt interest payments	-811	-821	-845	-883	-909
Capital account and financial operations	2.427	774	1.187	1.003	902
Net of grants	2.318	666	1.079	913	794
Capital account	104	103	103	101	103
Financial account	2.323	671	1.084	918	799
Foreign direct investment (net)	2.780	597	649	813	766
Medium and long-term lending (net)	-237	240	550	295	211
Disbursements	1.591	1.951	2.041	2.043	2.151
Debt amortization	-1.828	-1.712	-1.491	-1.749	-1.940
Short-term capital	-220	-166	-115	-190	-178
Errors and omissions	0	0	0	0	0
Overall balance	2.024	399	824	414	475
Reserve variations *	-2.033	-419	-842	-408	-487
Use of IMF resources	0	0	0	0	0
Other assets (net) (increase-)	-2.033	-419	-842	-408	-487
N.B:					
Current account/GDP (%)	-2.8	-1.2	-1.1	-1.1	-1.1
Reserves (in US$ billion)	6.5	6.9	7.7	8.3	8.8
Reserves in import months of goods and services	5.1	5.7	6.1	6.3	6.3
Medium and long-term external debt (in US$ billion)	14.9	15.3	16.1	16.5	16.8
Medium and long-term external debt/GDP (%)	51.3	48.5	46.7	44.1	41.4
Short-term external debt (in US$ billion)	3.8	3.9	4.1	4.3	4.5
Short-term external debt/GDP (%)	13.0	12.5	11.9	11.5	11.0
Debt service ration (% of exports of goods and services)	17.9	16.4	14.5	15.7	15.9
Growth in goods exports (%)	6.4	3.9	4.2	4.5	4.9
Real growth in goods imports (%)	7.6	5.0	5.4	5.6	5.7

* Different from the overall balance because of the effects of valuation

Sources: Tunisian Government and IMF

BREAKDOWN OF GROWTH BY SECTOR, GDP AT CONSTANT PRICES 1990

GDP and its components		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
	GDP AT MARKET PRICES	**13074.3**	**14008.6**	**14770.7**	**15477.4**	**16414.5**	**17185.1**	**18031.3**	**18329.7**	**19348.8**	**20516.9**	**21333.2**	**15490**	**19519**
1	**AGRICULTURE AND FISHERIES**	**1572.8**	**2037.5**	**2098**	**2077**	**2306.3**	**2283**	**2237.3**	**1991.2**	**2419.3**	**2664**	**2477.8**	**2098.8**	**2368.5**
2	**MANUFACTURING INDUSTRIES**	**2403.8**	**2468.7**	**2653.5**	**2767.7**	**2923.7**	**3117**	**3333.3**	**3394.2**	**3417**	**3589.1**	**3621.9**	**2741.0**	**3471.1**
2.1	... Agricultural and food industries	426.1	434.4	517	501.3	565.5	609.7	593.5	590.2	600.3	674.6	670.6	**513.9**	**625.9**
2.2	... Ceramic and glass construction material industry	263.6	262.8	265.3	276.7	290.3	312.9	327.1	342.1	352.4	373.5	380.6	**286.8**	**355.0**
2.3	... Mechanical and electrical industries	335.2	338.3	362	393.3	418.1	445.7	508.9	527.1	559	603.9	655.5	**413.6**	**571.4**
2.4	... Chemical industries	254.4	267.3	287	298.1	308.3	323.7	332.8	343.4	344.4	354.8	361.9	**278.3**	**347.5**
2.5	... Textile, dressmaking and leather industries	803.7	831.8	870.2	924.7	948.6	1008	1129	1134.4	1092.6	1088.2	1033.8	**878.7**	**1095.6**
2.6	... Various industries	320.8	334	352	373.6	392.9	417	442	457	468	494.1	519.5	**369.4**	**475.4**
3	**NON-MANUFACTURING INDUSTRIES**	**1587.1**	**1655.7**	**1717.9**	**1831.2**	**1903**	**1969**	**2009.9**	**2107.6**	**2152.1**	**2239.7**	**2321.7**	**1811.2**	**2164.9**
3.1	... Mining	110.6	118.3	112.4	134.5	143.7	146.1	143.8	139.1	145.3	146.8	143.3	**122.8**	**143.4**
3.2	... Oil and gas ext. & refining	601.7	635.1	639.1	669.2	669.9	644.1	637.2	680.5	654.5	676.4	704.1	**655.5**	**670.5**
3.3	... Electricity generation	205.6	214.5	232.8	244	262.4	275.7	292	305.1	319.3	334.5	350.7	**243.2**	**320.3**
3.4	... Water production	70	71.7	75.9	78.6	83.4	83.8	87.2	92.7	93.8	95.4	100	**79.2**	**93.8**
3.5	... Construction and civil engineering	599.2	616.1	657.7	704.9	743.7	819.3	849.7	8972.7	939.2	987.1	1023.6	**1215.6**	**2553.4**
4	**TRADABLE SERVICES ACTIVITIES**	**4582.5**	**4850.7**	**5178.2**	**5521.5**	**5948.7**	**6349.9**	**6786.1**	**7051.5**	**7431.3**	**8036.8**	**8781.3**	**5629.4**	**7611.7**
4.1	... Trade	1214.7	1228.4	1281.8	1383.6	1480.1	1551.8	1654.6	1756	1868.9	1988.4	2135.5	**1426.9**	**1874.3**
4.2	... Transport and communication	986.4	1095.1	1215.5	1310	1431	1540.1	1744.1	1833	2018.8	2295.9	265415	**1391.1**	**2110.1**
4.3	... Hotels, cafés, restaurants	680.4	705.9	758.3	795.3	857.3	886.9	908.3	867.5	887.4	960.2	1032.2	**763.8**	**931.1**
4.4	... Financial bodies	592.8	658.4	698.1	725.9	815.7	909.1	948.3	951.5	974.4	1028	1089.7	**731.1**	**998.3**
4.5	... Various tradable service activities	1108.1	1162.9	1224.5	1306.7	1364.7	1462.1	1530.8	1643.5	1681.2	1764.3	1879.0	**1317.4**	**1697.6**
5	**Intermediate consumption, non-itemized into banking services (in -)**	**455.8**	**515.6**	**548.7**	**589.3**	**684**	**751.4**	**807.7**	**775.4**	**798.8**	**865.3**	**901.5**	**603.8**	**829.7**
1+2+3+4+5	TRADABLE ACTIVITIES	9690.4	10497	11099	11608.1	12397.6	12967.5	13558.9	13766.3	14620.6	15664.3	16301.0	**11676.4**	**14786**
6	**NON-TRADABLE ACTIVITIES**	**1801.1**	**1868.3**	**1966.4**	**2053.8**	**2124.7**	**2224**	**2344.2**	**2454.4**	**2545.2**	**2641.6**	**2779.0**	**2040.3**	**2551.8**
6.1	...incl. public administration	1743.4	1809.7	1907.1	1993.7	2063.5	2162	2247.4	2337.3	2430.8	2528.1	2629.2	**1964.1**	**2434.5**
1+2+3+4+5 +6	TOTAL VALUE-ADDED	11491.5	12365.3	13065.4	13661.9	14522.3	15191.5	15903.1	16226.3	17165.8	18305.9	19080.0	**13717**	**17338**
7	**...Indirect taxes net of subsidies**	**1582.8**	**1643.3**	**1705.3**	**1815.5**	**1892.3**	**1993.7**	**2128.2**	**2105.6**	**2183**	**2211.3**	**2253.2**	**1773.7**	**2181.1**
1+2+3+4+5 +6+7	**GDP AT MARKET PRICES**	**13074.3**	**14008.6**	**14770.7**	**15477.4**	**16414.5**	**17185.1**	**18031.3**	**18329.7**	**19348.8**	**20516.9**	**21333.2**	**15490**	**19519**

Growth rate		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
	GDP AT MARKET PRICES	2.35	7.15	5.44	4.78	6.05	4.69	4.92	1.65	5.56	6.04	4.0	4.28	4.46
1	AGRICULTURE AND FISHERIES	-9.91	29.55	2.97	-1.00	11.04	-1.01	-2.00	-11.00	21.50	10.11	-5.06	2.69	2.08
2	MANUFACTURING INDUSTRIES	4.39	2.70	7.49	4.30	5.64	6.61	6.94	1.83	0.67	5.04	0.92	3.85	3.05
2.1	... Agricultural and food industries	-3.64	1.95	19.01	-3.04	12.81	7.82	-2.66	-0.56	1.71	12.38	-0.50	3.35	1.94
2.2	... Ceramic and glass construction material industry	6.59	-0.30	0.95	4.30	4.92	7.79	4.54	4.59	3.01	5.99	1.82	4.01	3.98
2.3	... Mechanical and electrical industries	4.36	0.92	7.01	8.65	6.31	6.60	14.18	3.58	6.05	8.03	9.01	5.35	8.11
2.4	... Chemical industries	5.52	5.07	7.37	3.87	3.42	5.00	2.81	3.19	0.29	2.99	2.11	4.51	2.27
2.5	... Textile, dressmaking and leather industries	7.37	3.50	4.62	6.26	2.58	6.26	12.00	0.48	-3.68	-0.40	-5.00	4.24	0.51
2.6	... Various industries	6.12	4.11	5.39	6.14	5.17	6.13	6.00	3.39	2.41	5.58	4.49	5.13	4.36
3	NON-MANUFACTURING INDUSTRIES	0.83	4.32	3.76	6.60	3.92	3.47	2.08	4.86	2.11	4.07	3.38	2.39	3.29
3.1	... Mining	21.01	6.96	-4.99	19.66	6.84	1.67	-1.57	-3.27	4.46	1.03	-3.27	2.20	-0.57
3.2	... Oil and gas ext. & refining	-2.64	5.55	0.63	4.71	0.10	-3.85	-1.07	6.80	-3.82	3.35	4.10	0.73	1.80
3.3	... Electricity generation	8.32	4.33	8.53	4.81	7.54	5.07	5.91	4.49	4.65	4.76	4.84	5.28	4.93
3.4	... Water production	-2.51	2.43	5.86	3.56	6.11	0.48	4.06	6.31	1.19	1.71	4.82	2.82	3.60
3.5	... Construction and civil engineering	-0.65	2.82	6.75	7.18	5.50	10.17	3.71	955.98	-89.53	5.10	3.20	5.76	4.45
4	TRADABLE SERVICES ACTIVITIES	5.86	5.85	6.75	6.63	7.74	6.74	6.87	3.91	5.39	8.15	8.91	4.99	6.63
4.1	... Trade	6.00	1.13	4.35	7.94	6.97	4.84	6.62	6.13	6.43	6.39	5.80	4.43	6.27
4.2	... Transport and communication	5.40	11.02	10.99	7.77	9.24	7.62	13.25	5.10	10.14	13.73	15.82	8.92	11.54
4.3	... Hotels, cafés, restaurants	1.70	3.75	7.42	4.88	7.80	3.45	2.41	-4.49	2.29	8.20	7.50	4.26	3.08
4.4	... Financial bodies	9.25	11.07	6.03	3.98	12.37	11.45	4.31	0.34	2.41	5.50	6.00	7.33	3.69
4.5	... Various tradable service activities	5.00	4.95	5.30	6.71	4.44	7.14	4.70	7.36	2.29	4.94	5.90	4.25	6.03
5	Intermediate consumption, non-itemized into banking services (in -)	5.58	13.12	6.42	7.40	16.07	9.85	7.49	-4.00	3.02	8.32	4.18	6.66	3.71
1+2+3+4+5	TRADABLE ACTIVITIES	1.80	8.32	5.73	4.59	6.80	4.60	4.56	1.53	6.21	7.14	4.19	4.11	4.71
6	NON-TRADABLE ACTIVITIES	4.74	3.73	5.25	4.44	3.45	4.67	5.40	4.70	3.70	3.79	4.90	4.56	4.52
6.1	...incl. public administration	4.84	3.80	5.38	4.54	3.50	4.77	3.95	4.00	4.00	4.00	4.00	4.45	3.99
1+2+3+4+5+6	TOTAL VALUE-ADDED	2.25	7.60	5.66	4.57	6.30	4.61	4.68	2.03	5.79	6.64	4.30	4.30	4.68
7	...Indirect taxes net of subsidies	3.13	3.82	3.77	6.46	4.23	5.36	6.75	-1.06	3.68	1.30	3.00	4.20	2.70
1+2+3+4+5+6+7	GDP AT MARKET PRICES	2.35	7.15	5.44	4.78	6.05	4.69	4.92	1.65	5.56	6.04	4.0	4.28	4.46

Share of each activity		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
	GDP AT MARKET PRICES	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
1	**AGRICULTURE AND FISHERIES**	**12.03**	**14.54**	**14.20**	**13.42**	**14.05**	**13.28**	**12.41**	**10.86**	**12.50**	**12.98**	**11.84**	**13.83**	**12.12**
2	**MANUFACTURING INDUSTRIES**	**18.39**	**17.62**	**17.96**	**17.88**	**17.81**	**18.14**	**18.49**	**18.52**	**17.66**	**17.49**	**16.95**	**17.66**	**17.82**
2.1	... Agricultural and food industries	3.26	3.10	3.50	3.24	3.45	3.55	3.29	3.22	3.10	3.29	**3.14**	**3.34**	**3.21**
2.2	... Ceramic and glass construction material industry	2.02	1.88	1.80	1.79	1.77	1.82	1.81	1.87	1.82	1.82	**1.78**	**1.86**	**1.82**
2.3	... Mechanical and electrical industries	2.56	2.41	2.45	2.54	2.55	2.59	2.82	2.88	2.89	2.94	**3.08**	**2.63**	**2.92**
2.4	... Chemical industries	1.95	1.91	1.94	1.93	1.88	1.88	1.85	1.87	1.78	1.73	**1.69**	**1.79**	**1.78**
2.5	... Textile, dressmaking and leather industries	6.15	5.94	5.89	5.97	5.78	5.87	6.26	6.19	5.65	5.30	**4.84**	**5.67**	**5.65**
2.6	... Various industries	2.45	2.38	2.38	2.41	2.39	2.43	2.45	2.49	2.42	2.41	**2.42**	**2.37**	**2.44**
3	**NON-MANUFACTURING INDUSTRIES**	**12.14**	**11.82**	**11.63**	**11.83**	**11.59**	**11.46**	**11.15**	**11.50**	**11.12**	**10.92**	**10.83**	**11.82**	**11.10**
3.1	... Mining	0.85	0.84	0.76	0.87	0.88	0.85	0.80	0.76	0.75	0.72	**0.66**	**0.80**	**0.74**
3.2	... Oil and gas ext. & refining	4.60	4.53	4.33	4.32	4.08	3.75	3.53	3.71	3.38	3.30	**3.29**	**4.41**	**3.44**
3.3	... Electricity generation	1.57	1.53	1.58	1.58	1.60	1.60	1.62	1.66	1.65	1.63	**1.64**	**1.55**	**1.64**
3.4	... Water production	0.54	0.51	0.51	0.51	0.51	0.49	0.48	0.51	0.48	0.46	**0.47**	**0.52**	**0.48**
3.5	... Construction and civil engineering	4.58	4.40	4.45	4.55	4.53	4.77	4.71	48.95	4.85	4.81	**4.77**	**7.30**	**13.62**
4	**TRADABLE SERVICES ACTIVITIES**	**35.05**	**34.63**	**35.06**	**35.67**	**36.24**	**36.95**	**37.64**	**38.47**	**38.41**	**39.17**	**40.96**	**35.82**	**38.93**
4.1	... Trade	9.29	8.77	8.68	8.94	9.02	9.03	9.18	9.58	9.66	9.69	**9.84**	**9.16**	**9.59**
4.2	... Transport and communication	7.54	7.82	8.23	8.46	8.72	8.96	9.67	10.00	10.43	11.19	**12.44**	**8.64**	**10.75**
4.3	... Hotels, cafés, restaurants	5.20	5.04	5.13	5.14	5.22	5.16	5.04	4.73	4.59	4.68	**4.83**	**4.94**	**4.77**
4.4	... Financial bodies	4.53	4.70	4.73	4.69	4.97	5.29	5.26	5.19	5.04	5.01	**5.10**	**4.62**	**5.12**
4.5	... Various tradable service activities	8.48	8.30	8.29	8.44	8.31	8.51	8.49	8.97	8.69	8.60	**8.74**	**8.48**	**8.70**
5	**Intermediate consumption, non-itemized into banking services (in -)**	**3.49**	**3.68**	**3.71**	**3.81**	**4.17**	**4.37**	**4.48**	**4.23**	**4.13**	**4.22**	**4.22**	**3.82**	**4.25**
1+2+3+4+5	TRADABLE ACTIVITIES	74.12	74.93	75.14	75.00	75.53	75.46	75.20	75.10	75.56	76.35	**76.36**	**75.32**	**75.71**
6	**NON-TRADABLE ACTIVITIES**	**13.78**	**13.34**	**13.31**	**13.27**	**12.94**	**12.94**	**13.00**	**13.39**	**13.15**	**12.88**	**12.98**	**13.19**	**13.08**
6.1	...incl. public administration	13.33	12.92	12.91	12.88	12.57	12.58	12.46	12.75	12.56	12.32	**12.30**	**12.71**	**12.48**
1+2+3+4+5+6	TOTAL VALUE-ADDED	87.89	88.27	88.45	88.27	88.47	88.40	88.20	88.52	88.72	89.22	**89.34**	**88.51**	**88.80**
7	**...Indirect taxes net of subsidies**	**12.11**	**11.73**	**11.55**	**11.73**	**11.53**	**11.60**	**11.80**	**11.49**	**11.28**	**10.78**	**10.66**	**11.49**	**11.20**
1+2+3+4+5+6 +7	**GDP AT MARKET PRICES**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Sector contributions		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
	GDP AT MARKET PRICES	**2.35**	**7.15**	**5.44**	**4.78**	**6.05**	**4.69**	**4.92**	**1.65**	**5.56**	**6.04**	**4.0**	**4.66**	**4.47**
1	**AGRICULTURE AND FISHERIES**	**-1.35**	**3.55**	**0.43**	**-0.14**	**1.48**	**-0.14**	**-0.27**	**-1.36**	**2.34**	**1.26**	**-0.65**	**0.39**	**0.26**
2	**MANUFACTURING INDUSTRIES**	**0.79**	**0.50**	**1.32**	**0.77**	**1.01**	**1.18**	**1.26**	**0.34**	**0.12**	**0.89**	**0.16**	**0.83**	**0.55**
2.1	... Agricultural and food industries	-0.13	0.06	0.59	-0.11	0.41	0.27	-0.09	-0.02	0.06	0.38	-0.02	**0.11**	**0.06**
2.2	... Ceramic and glass construction material industry	0.13	-0.01	0.02	0.08	0.09	0.14	0.08	0.08	0.06	0.11	0.03	**0.07**	**0.07**
2.3	... Mechanical and electrical industries	0.11	0.02	0.17	0.21	0.16	0.17	0.37	0.10	0.17	0.23	0.27	**0.16**	**0.23**
2.4	... Chemical industries	0.10	0.10	0.14	0.08	0.07	0.09	0.05	0.06	0.01	0.05	0.04	**0.11**	**0.04**
2.5	... Textile, dressmaking and leather industries	0.43	0.21	0.27	0.37	0.15	0.36	0.70	0.03	-0.23	-0.02	-0.27	**0.24**	**0.04**
2.6	... Various industries	0.14	0.10	0.13	0.15	0.12	0.15	0.15	0.08	0.06	0.13	0.11	**0.12**	**0.11**
3	**NON-MANUFACTURING INDUSTRIES**	**0.10**	**0.52**	**0.44**	**0.77**	**0.46**	**0.40**	**0.24**	**0.54**	**0.24**	**0.45**	**0.37**	**0.41**	**0.37**
3.1	... Mining	0.15	0.06	-0.04	0.15	0.06	0.01	-0.01	-0.03	0.03	0.01	-0.02	**0.02**	**0.00**
3.2	... Oil and gas ext. & refining	-0.13	0.26	0.03	0.20	0.00	-0.16	-0.04	0.24	-0.14	0.11	0.14	**0.03**	**0.06**
3.3	... Electricity generation	0.12	0.07	0.13	0.08	0.12	0.08	0.09	0.07	0.08	0.08	0.08	**0.09**	**0.08**
3.4	... Water production	-0.01	0.01	0.03	0.02	0.03	0.00	0.02	0.03	0.01	0.01	0.02	**0.01**	**0.02**
3.5	... Construction and civil engineering	-0.03	0.13	0.30	0.32	0.25	0.46	0.18	45.05	-43.83	0.25	0.15	**0.31**	**0.36**
4	**TRADABLE SERVICES ACTIVITIES**	**1.99**	**2.05**	**2.34**	**2.32**	**2.76**	**2.44**	**2.54**	**1.47**	**2.07**	**3.13**	**3.49**	**2.19**	**2.54**
4.1	... Trade	0.54	0.10	0.38	0.69	0.62	0.44	0.60	0.56	0.62	0.62	0.56	**0.46**	**0.59**
4.2	... Transport and communication	0.40	0.83	0.86	0.64	0.78	0.66	1.19	0.49	1.01	1.43	1.77	**0.78**	**1.18**
4.3	... Hotels, cafés, restaurants	0.09	0.20	0.37	0.25	0.40	0.18	0.12	-0.23	0.11	0.38	0.35	**0.21**	**0.15**
4.4	... Financial bodies	0.39	0.50	0.28	0.19	0.58	0.57	0.23	0.02	0.12	0.28	0.30	**0.33**	**0.19**
4.5	... Various tradable service activities	0.41	0.42	0.44	0.56	0.37	0.59	0.40	0.63	0.21	0.43	0.51	**0.41**	**0.43**
5	**Intermediate consumption, non-itemized into banking services (in -)**	**0.19**	**0.46**	**0.24**	**0.27**	**0.61**	**0.41**	**0.33**	**-0.18**	**0.13**	**0.34**	**0.18**	**0.25**	**0.16**
1+2+3+4+5	TRADABLE ACTIVITIES	1.34	6.17	4.30	3.45	5.10	3.47	3.44	1.15	4.66	5.39	3.20	**3.56**	**3.57**
6	**NON-TRADABLE ACTIVITIES**	**0.64**	**0.51**	**0.70**	**0.59**	**0.46**	**0.60**	**0.70**	**0.61**	**0.50**	**0.50**	**0.64**	**0.61**	**0.59**
6.1	...incl. public administration	0.63	0.51	0.70	0.59	0.45	0.60	0.50	0.50	0.51	0.50	0.49	**0.57**	**0.50**
1+2+3+4+5+6	TOTAL VALUE-ADDED	1.98	6.68	5.00	4.04	5.56	4.08	4.14	1.79	5.13	5.89	3.84	**4.17**	**4.16**
7	**...Indirect taxes net of subsidies**	**0.38**	**0.46**	**0.44**	**0.75**	**0.50**	**0.62**	**0.78**	**-0.13**	**0.42**	**0.15**	**0.32**	**0.49**	**0.31**
1+2+3+4+5+6+7	**GDP AT MARKET PRICES**	**2.35**	**7.15**	**5.44**	**4.78**	**6.05**	**4.69**	**4.92**	**1.65**	**5.56**	**6.04**	**4.0**	**4.66**	**4.47**

BREAKDOWN OF DEMAND, GDP AT CONSTANT 1990 PRICES

GDP and its components	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
GDP	11237.9	12115	12380	12773.8	13074.3	14008.6	14770.7	15477.4	16414.5	17185.1	18031.3	18331.9	19350	20516.9	21333.2	15490.9	19520.3
Imports of goods and services	5165.1	5772.1	5931.2	6119.8	6348.6	6135.5	6676.7	7055.8	7269.9	7918.3	8993.4	8652	8712.6	8917.9	8746.9	7132.19	8849.78
Household consumption	6968.2	7445.7	7691.4	7927.8	8167	8524.9	8908.7	9409.5	9955.3	10505.8	11100.5	11526.5	12120	12814	13454.8	9585.66	12197.0
Public consumption	1856.2	1913.2	2000.8	2076.8	2138.5	2207.1	2343.7	2433.8	2526.3	2664.2	2781.4	2900	3030.5	3173.6	3300.5	2445.29	3039.00
Gross fixed capital formation	2687.3	3184.1	3305	3338.2	3112.8	3181.1	3453.8	3653.8	3964.8	4136.8	4481.1	4403.6	4262.7	4266.6	4327.0	3652.16	4356.42
Stock variation	221.7	300.1	100.2	-369	5.7	278.6	187	191.7	70.5	252.5	247.6	54.2	525.5	447	-163.5	176.57	258.68
Exports of goods and services	4669.6	5044.1	5214.2	5919.9	5998.9	5952.4	6554.3	6844.4	7167.4	7544.1	8414.2	8099.5	8123.8	8733.8	9161.3	6763.21	8518.22

Growth rate	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1990/ 2005	2001/ 2005
GDP	3.90	7.81	2.19	3.18	2.35	7.15	5.44	4.78	6.05	4.69	4.92	1.67	5.55	6.03	4.0	4.29	4.46
Imports of goods and services	-5.63	11.75	2.76	3.18	3.74	-3.36	8.82	5.68	3.03	8.92	13.58	-3.80	0.70	2.36	0.62	3.35	2.53
Household consumption	1.27	6.85	3.30	3.07	3.02	4.38	4.50	5.62	5.80	5.53	5.66	3.84	5.15	5.73	4.76	4.27	5.02
Public consumption	4.92	3.07	4.58	3.80	2.97	3.21	6.19	3.84	3.80	5.46	4.40	4.26	4.50	4.60	4.52	4.19	4.46
Gross fixed capital formation	1.99	18.49	3.80	1.00	-6.75	2.19	8.57	5.79	8.51	4.34	8.32	-1.73	-3.20	0.09	2.38	3.43	1.09
Stock variation	-24.26	35.36	-66.61	-468.26	-101.54	4,787.72	-32.88	2.51	-63.22	258.16	-1.94	-78.11	869.56	-14.94	-95.83	-16.64	-40.33
Exports of goods and services	-0.88	8.02	3.37	13.53	1.33	-0.78	10.11	4.43	4.72	5.26	11.53	-3.74	0.30	7.51	5.56	4.58	4.09

Share of demand components	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**1990/ 005**	2001/ **005**
GDP	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Imports of goods and services	-45.96	-47.64	-47.91	-47.91	-48.56	-43.80	-45.20	-45.59	-44.29	-46.08	-49.88	-47.20	-45.03	-43.47	-41.99	-46.32	-45.51
Household consumption	62.01	61.46	62.13	62.06	62.47	60.85	60.31	60.80	60.65	61.13	61.56	62.88	62.64	62.46	62.81	61.86	62.47
Public consumption	16.52	15.79	16.16	16.26	16.36	15.76	15.87	15.72	15.39	15.50	15.43	15.82	15.66	15.45	15.50	15.85	15.57
Gross fixed capital formation	23.91	26.28	26.70	26.13	23.81	22.71	23.38	23.61	24.15	24.07	24.85	24.02	22.03	20.80	20.44	23.83	22.43
Stock variation	1.97	2.48	0.81	-2.89	0.04	1.99	1.27	1.24	0.43	1.47	1.37	0.30	2.72	2.18	0.09	1.14	1.33
Exports of goods and services	41.55	41.63	42.12	46.34	45.88	42.49	44.37	44.22	43.67	43.90	46.66	44.18	41.98	42.57	43.14	43.64	43.71

Breakdown of growth	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**1990/ 2005**	**2001/ 2005**
GDP	3.90	7.81	2.19	3.18	2.35	7.15	5.44	4.78	6.05	4.69	4.92	1.67	5.55	6.03	4.0	4.66	4.47
Imports of goods and services	2.85	-5.40	-1.31	-1.52	-1.79	1.63	-3.86	-2.57	-1.38	-3.95	-6.26	1.89	-0.33	-1.06	-0.27	-1.56	-1.20
Household consumption	0.81	4.25	2.03	1.91	1.87	2.74	2.74	3.39	3.53	3.35	3.46	2.36	3.24	3.59	2.97	2.82	3.12
Public consumption	0.81	0.51	0.72	0.61	0.48	0.52	0.98	0.61	0.60	0.84	0.68	0.66	0.71	0.72	0.70	0.68	0.69
Gross fixed capital formation	0.49	4.42	1.00	0.27	-1.76	0.52	1.95	1.35	2.01	1.05	2.00	-0.43	-0.77	0.02	0.49	0.84	0.26
Stock variation	-0.66	0.70	-1.65	-3.79	2.93	2.09	-0.65	0.03	-0.78	1.11	-0.03	-1.07	2.57	-0.41	-2.19	-0.11	-0.20
Exports of goods and services	-0.38	3.33	1.40	5.70	0.62	-0.36	4.30	1.96	2.09	2.29	5.06	-1.75	0.13	3.15	2.37	2.00	1.79
Absorption	2.10	9.18	3.75	2.79	0.59	3.78	5.66	5.35	6.13	5.24	6.15	2.59	3.18	4.33	4.17	4.33	4.08
Stock variation	-0.66	0.70	-1.65	-3.79	2.93	2.09	-0.65	0.03	-0.78	1.11	-0.03	-1.07	2.57	-0.41	-2.19	-0.11	-0.20
Trade	2.46	-2.07	0.09	4.18	-1.17	1.27	0.43	-0.60	0.70	-1.66	-1.19	0.15	-0.20	2.09	2.10	0.44	0.59

ANNEX XV

Brief Overview of Tunisia's Industrial Sector

1/ Tunisia's industrial sector

As of the end of February 2005, Tunisia's industrial sector was composed of 5,468 enterprises, each having a workforce of 10 or more employees. Of this number, 2360 engaged in export business exclusively. The table below presents a breakdown of these enterprises by sector of activity. During the initial years of the 10th Development Plan, the industrial sector registered very positive results in spite of keener international competition and a rise in international oil prices, a situation that improved its standing on the domestic and international markets. Indeed the value of industrial production reached TND 24.8 billion in 2004, compared to TND 19.3 billion in 2000; representing an average annual growth rate of 6.5%. Its value-added in 2001 represented 31% of production value. The evolution of manufacturing industry contribution to GDP was the most dynamic component of the productive sector. Its share in GDP rose from 6% during 1961–1963 to almost 21% during the 2000–2004 period. Enterprises with a workforce of 10 or more persons employ 446,104 persons. The value of manufacturing industry exports (as shown on the table below: share in total exports at current prices in TND million) rose from TND 6.885 million in 2000 to TND 10,633 million in 2004, representing an average annual growth rate of 12%. Their share in Tunisia's total goods exports surged from 41% in 1981 to 91% in 2004.

Sectors	EE*	NEE*	Total	%
Agro-food	121	824	945	17
Ceramic and glass construction material	19	409	428	8
Mechanical and metallurgical	78	403	481	9
Electrical, Electronics & household appliances	153	130	283	5
Chemical (excluding plastics)	31	218	249	5
Textiles and dressmaking	1 656	438	2 094	38
Wood, cork and furniture	31	174	205	4
Leather and shoes	178	111	289	5
Miscellaneous	93	401	494	9
Total	**2 360**	**3 108**	**5 468**	**100**

*: EE: Exclusively export,
NEE: Not exclusively export.
Source: Industry Promotion Authority - February 2005

Years	1981	1987	2000	2001	2004
Manufacturing industry exports	498	1 130	6 885	8 462	10 633
Total exports of goods	1 233	1 771	8 005	9 504	11 692
Share of manufacturing industries	**41%**	**64%**	**90%**	**89%**	**91%**

2/ Textile and dressmaking sector

As of the end of 2005, the textile and dressmaking sector had 2094 enterprises operating with 10 or more employees each, of which 1656 engage in exclusively export business (Table 4.1). The sector's production reached TND 5433 million in 2004, compared to TND 4467 million in 2000, representing an average annual growth rate of 4%, with a value-added of TND 1630 million, corresponding to 30% of production. The sector's exports rose from TND 3258 million in 2000 to TND 4481 million in 2004, representing an average annual growth rate of 8%. For a few years now, Tunisia features among the European Union's leading suppliers. Indeed, it ranks 5th after China, Turkey, Rumania and Bangladesh. Tunisia's main European clients for textile products are: France, Germany and Italy, which are also its three main suppliers.

Distribution of enterprises employing 10 or more persons by activity and by regime

Activities	EE*	NEE*	Total
Spinning	12	32	44
Weaving	10	44	54
Finishing	15	16	31
Hosiery	175	61	236
Warp and weft, stitch	1 381	216	1 597
Other textile industries	177	138	315

*: EE: Exclusively export,
NEE: Not exclusively export.
Source: Industry Promotion Authority - February 2005

With the end of the multi-fiber arrangements in 2005 and the expected consequences of the extension of European Union membership to Eastern European countries as well as tough competition on the international market, Tunisia's textile sector entered a period of uncertainty, characterized by a decline in investments, the closure of certain units and the loss of about 5200 jobs. To curb the negative effects of this new situation, the authorities came up with a host of support and assistance measures for the sector, in particular acceleration of the corporate upgrading, and the initiation of a strategic study on the future of the sector. The study clearly showed that Tunisian textile industries can neither compete with South-East Asian industries for the production of so-called basic products, nor with European industries for the production of up-market products. Tunisian enterprises need to adapt to new market conditions by taking full advantage of all intermediate product niches in the clothing market. The proximity of the European market, the improvement of quality and cost-cutting are the sector's sole assets in the short and medium terms. For the long-term, the study recommends: (i) a gradual transition from sub-contracting to co-contracting and to finished products, while ensuring that production gradually evolves towards the establishment of a Tunisian label for finished products, the encouragement of the grouping of finishing activities within an industrial area with a capacity of 100 million meters of cloth, and lastly the improvement of the corporate environment and promotion of the sector on the international scene.

3/ Industrial sector development policy

The industrial policy applied by the Tunisian Government entails the execution of quality improvement and sector restructuring programs. Its implementation, which started in 1995, should usher in modernization, boost competitiveness and ensure integration into the world market. This program will run for a period of ten years and cover about 4000 enterprises. Moreover, in a bid to assist the enterprises of the sector in the various stages of their upgrading, a business center was set up with the help of the European Union. By the end of 2004, some 3161 enterprises had been upgraded, representing about 80% of the enterprises targeted. The Steering Committee (COPIL) approved 1946 of them for a total investment of TND 2893 million and subsidies of TND 415 million, including the sum of TND 133.5 million given as a grant for intangible investments. Assessment surveys conducted on the subject show that investments and exports have increased for enterprises that have completed their upgrading plans.

In addition to upgrading and in order to endow the sector with a solid foundation that will enhance its competitiveness and boost its performance, the Government has initiated several actions that include: (i) the creation of specialized technical centers that can promote quality, metrology, standardization and especially support to the industry in terms of innovation and the development of relations scientific research community; (ii) the development of industrial areas and creation of companies for promotion and management of technological centers. Such centers should provide quality technical assistance for the creation of industrial companies and the preparation of the strategic plans of technical centers; (iii) the institution of various incentives though the single investment code which will boost investments, notably in viable and innovative projects. These incentives will be backed by an awareness-raising campaign which should enable the business community, especially the private sector, to invest in the industrial sector.

Moreover, the industrial sector modernization drive is being pursued through the conduct of sectoral strategic studies and other studies aimed at boosting the competitiveness of industrial activities. As of the end of February 2005, the strategic studies conducted focused on the following sectors of activity: pasta, flour milling, canned foods, smelting and processing, the olive oil sector, the fruit juice sector and lastly automobile spare parts. These studies produced recommendations for boosting competitiveness by paying special attention to intangible investments such as: training, refresher courses and introduction to marketing which seems to be very often neglected by industrialists nowadays. For certain sectors such as canned foods, the studies recommended the development of partnerships and sub-contracting arrangements with multinational companies, reduction of the cost of agricultural products and especially the development of exports to neighboring countries to make up for the smallness of the local market. With regard to modernization, other actions have been programmed such as the promotion of intellectual property through the institution of mechanisms necessary for better application and dissemination of the relevant national regulations, the improvement of administrative services, the development of human resources and the creation of an industrial property authority.

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