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McNamara Papers

Contacts
Tunisia (1968-1970)

Folder 1

TUNISIA

TUNISIA

1.	5/16/68	President Habib Bourguiba - Breakfast at Blair House (see attached attendance list)
2.	5/17/68	Ben Salah, Secretary of State for the Plan and National Economy Hamed Ammar, Tunisian Embassy
	8/21/68	Ambassador Rachid Driss
3.	9/18/68	Ambassador Rachid Driss
4.	5/15/69	Ahmed Ben Salah, Secretary of State for the Plan and National Economy and Secretary of State for National Education Mr. Bahroun, Director General of the Plan Ambassador Rachid Driss
	9/17/69	Ambassador Rachid Driss
5.	1/23/70	Chedly Ayari, Secretary of State for Planning Ambassador El Goulli Ben Yahia, Attache, Tunisian Embassy
6.	11/3/70	Mohamed Masmoudi, Minister of Foreign Affairs Ambassador El Goulli Abdelaziz Lasram, Director for International Cooperation, Ministry of Foreign Affairs
7.	9/18/70 (Copen.)	Hedi Nouira, Governor, Central Bank of Tunisia (Meeting Chairman)
8.	10/1/71	Mansour Moalla, Minister of Planning Belhadj Amor, Director of Budget and Chief of Cabinet, Ministry of Finance Ahmed Abdelkefi, Technical Advisor to the Ministry of Planning Ahmed Ghezal, Minister Counselor, Embassy of Tunisia
9.	12/8/71	Habib Bourguiba, Jr., President of SNI Ambassador El Goulli
10.	9/27/72	Mansour Moalla, Minister of Planning Mohamed Ghenima, Governor, Central Bank Ambassador El Goulli Habib Bourguiba, Jr., President of SNI Moncef Bel Hadj Amor, Secretary General of the Ministry of Finance
	3/22/73	Ambassador El Goulli
11.	5/14-16/73	Notes on Visit (Filed in RMcN office)
12.	5/14-16/73 (Tunis)	Prime Minister Hedi Nouira Mohamed Masmoudi, Minister of Foreign Affairs Mansour Moalla, Minister of Planning Driss Guiga, Minister of Education Chedli Ayari, Minister of National Economy Dhaoui Hannablia, Minister of Agriculture Mohamed Fitouri, Minister of Finance Ambassador El Goulli

12. 5/14-16/73 (Contd) (Tunis)	Mohamed Ghenima, Governor of the Central Bank Tijani Chelli, President, Agency for Industrial Promotion Moncef Belkhodja, Societe Nationale d'Investissement (SNI) Messrs. Darghout and Berrebi - Textile industrialists
	Mustapha Zaanouni, Secretary of State for Plan Mr. Aouidj, Chef de Cabinet Mr. Abdelkafi, Director for International Cooperation
	President Habib Bourguiba Mr. Chatti, Director of the President's Cabinet
	Hassan Belkhodja, President, Societe Tunisienne de Banque (STB) Sadok Bahroun, Societe Tunisienne d'Electricite et Gaz (STEG) Adelaziz Lazram, President, Banque Nationale de Tunisie Tahar Amira, President, Gafsa Phosphate Mining Co.
	Mr. Torjemane, Managing Director, Union Internationale des Banques Mr. Boukhris, ICM Mr. Jilani, Textile Industrialist Messrs. Mhenni and Zalila, Contractors Mr. Majoul, Vice President, Federation of Industries, UTICA and a leather manufacturer Mr. Chatti, Managing Director, STIL
12/6/73	Ambassador Slaheddine El Goulli (farewell call)
13. 3/13/74	Minister of Foreign Affairs Habib Chatti Ambassador
14. 5/28/74	Minister of Planning Mansour Moalla Ambassador Ali Hedda Mr. Chelvi, Director of Human Resources, Planning Ministry
10/21/74	Slaheddine El Goulli, former Ambassador to US
15. 1/16/75	Chedli Ayari, Minister of Planning Mohamed Ghedira, Secretary of State, Ministry of Agriculture Ambassador Ali Hedda
3/8/75 (Kuwait)	Abdul Aziz Al Mathari, Chairman, Arab Investment Guarantee Corporation (Dinner Guest)
6/12-13/75 (Paris-Dev. Cte.)	Mustapha Zaanouni, Minister of Planning
1/6-10/76 (Dev.Cte., Kingston)	Mustapha Zaanouni, Minister of Planning

16.	10 /19/76	Mustapha Zaanouni, Minister of Planning Ali Hedda, Ambassador to the U. S.
17.	7/14/77	Hassam Belkodja, Minister of Agriculture Ali Tekaia, Minister Counselor and Chargé d'Affaires of Embassy
18.	9/28/80 Annual Meeting	H.E. Mansour Moalla, Minister of Planning and Finance Mr. Souissi, Director General of Projects, Ministry of Planning Amb. Ali Hedda
19.	11/29/80	Prime Minister Hedi Nouira

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FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: May 16, 1968

FROM: M. P. Benjenk MPB.

SUBJECT: Tunisia: Mr. McNamara's Meeting with President Bourguiba

Mr. McNamara this morning called upon President Bourguiba at Blair House. The following Tunisian officials were also present at the breakfast meeting.

Mr. Habib Bourguiba, Jr., Secretary of State for Foreign Affairs

Mr. Ahmed Ben Salah, Secretary of State for the Plan and the National Economy

Mr. Chedly Klibi, Secretary of State for Cultural Affairs

Mr. Rachid Driss, Ambassador of Tunisia in Washington

Mr. Hamed Ammar, Economic Minister at the Embassy.

On the Bank's side, Messrs. Shoaib, Lejeune and Benjenk accompanied Mr. McNamara.

After Mr. McNamara had expressed his pleasure at seeing President Bourguiba in Washington, the President expressed his own satisfaction with the contacts he had made so far, which had made him feel that Tunisia was held in high esteem in the United States and that Tunisia's friends had not had cause to regret the support which they had given to it. Mr. McNamara assured the President that the high regard in which Tunisia was held was not confined to the United States administration but that this also applied at all levels in the World Bank.

Mr. McNamara expressed his pleasure at the interest which the Tunisian Government had shown in the possibility of acting as host to the 1970 Annual Meeting of the Bank's Board of Governors and he hoped that Tunis would, indeed, be the place where this meeting would be held. This, however, depended on whether Tunis presented the necessary material facilities for such a meeting, a matter which was still under discussion. Mr. McNamara stressed that, although the decision was not his to make, he felt that if it proved feasible from the material point of view and if the Tunisian Government did not feel that such a meeting would impose too great a burden on them, there would be every advantage in having it in Tunis.

Mr. Ben Salah intervened to say that materially he thought the obstacles would be overcome and that Tunis was an acceptable site for the meeting. Furthermore, he, like President Bourguiba, felt that for a "Middle Eastern" and African country like Tunisia, the holding of such a meeting on a basis which did not discriminate against any country, would be a great step forward. Mr. McNamara replied that this was certainly an important point, as was the fact that the Bank was an institution which existed to help developing countries and there was no reason why its meetings should take place in the richer countries. Furthermore, since the studies made by the Bank and others on Tunisia had stressed the importance of tourism for Tunisia's economic development, a useful byproduct of holding such a meeting in Tunisia might be the attracting of investments to that sector. Summing up his thoughts on this matter, he repeated that while no decision could yet be made and while some problems might arise in this connection, he felt that the selection of Tunis might offer real opportunities for useful achievement. President Bourguiba commented that by 1970 Tunisia would be able to show its visitors the results of ten years of active international cooperation in the field of economic development.

The President also expressed the hope that Mr. McNamara would visit Tunisia soon. Mr. McNamara thanked President Bourguiba, but said that for the time being he would confine his visits to countries with serious economic and other problems and, happily, Tunisia was not one of those.

Turning to current relations between the Bank and Tunisia, Mr. McNamara expressed the Bank's satisfaction at the receptivity of the Tunisian Government to the Bank's suggestions on economic policy matters, as recently evidenced again at the meeting of the Consultative Group in Paris. He felt that, subject to progress being made on the lines discussed by Tunisian and Bank officials, such as reduction in current expenditures, lesser recourse to medium-term debt, better project preparation and selection and the concentration of investment on high-yielding sectors such as petroleum and tourism, the level of investment by the Bank and IDA in Tunisia might be up to 50 to 75 percent higher in the next five years than it had been in the previous five years.

After Mr. Ben Salah had remarked that the Bank could help Tunisia in achieving results on the matters mentioned, in particular by assisting Tunisia in better project preparation, President Bourguiba recalled that the past three or four years had been very difficult ones for Tunisia. These difficulties had stemmed both from political circumstances and natural causes. In addition to successive bad harvests, Tunisia's difficulties with France in the concluding stages of decolonization and, in particular, with regard to the taking over by Tunisia of the lands formerly held by French settlers, had created important obstacles to the sale abroad of Tunisia's principal exports. This situation had now improved and Tunisia was certainly able and willing to respond to the requirements of the friends who wished to extend help to it.

Mr. McNamara told President Bourguiba that this was a difficult time for development aid since there was an acute shortage of funds for this purpose, both from private and from public sources. The money the Bank had to borrow for its loans was getting more expensive and the resources which IDA required for its replenishment depended on the willingness of governments to provide it. Mr. McNamara cited the uncertainties on this score and expressed the hope that the United States Congress would vote favorably on the request made to it for IDA resources. He commented that the situation with which he was confronted now as President of the Bank was, in a way, the opposite of what it had been when he was Secretary of Defense. In the latter position he had been obliged to turn down funds which the legislative branch insisted upon appropriating for the defense budget, which amounted to over $70 billion. As President of IDA, he was having a difficult time obtaining only $160 million for development aid. At this difficult juncture, it was extremely helpful to be able to cite as an example a country like Tunisia, whose government was willing to take difficult decisions and respond to suggestions made by those who cooperated with it for more effective economic development. President Bourguiba commented that many governments considered Tunisia as an interesting example to cite to their legislatures. Recently a German parliamentary delegation and a large number of journalists had been taken to Tunisia so that they could be shown the effective uses made of German aid. President Bourguiba expressed the hope that one day governments would find it possible to transfer part of what they spent on defense to help developing countries.

Replying to this last comment by President Bourguiba, Mr. McNamara said that, as Secretary of Defense, he had often declared himself ready to take out $5 of the defense budget for each $1 that could be appropriated for foreign assistance. Unfortunately things had not moved in that direction and defense expenditures had risen while aid funds had been reduced, leading to instability in many parts of the world. He recalled his speech in Montreal in which he had said that countries were more and more obsessed by the thought that they could acquire security by purchasing increasingly expensive military hardware on the principle that if something costs more, it must necessarily be better. He felt, however, that this situation would change soon, but that it would change in two stages. The first stage, which would not be long delayed, would be a reduction in defense expenditures but without an increase in aid appropriations. The next stage, which he foresaw as happening within two to five years, would be an increase in aid to the developing countries. The intervening period would be rather difficult. President Bourguiba commented that some further belt-tightening would obviously be necessary for all concerned and ended the meeting by expressing his pleasure at meeting Mr. McNamara and exchanging ideas with him.

MPB/mct

cc: Mr. McNamara
President's Council
Mr. Lejeune
Mr. Mendels

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** May 14, 1968

FROM: Michael L. Lejeune

SUBJECT: Tunisia - Your Meetings with Messrs. Bourguiba and Ben Salah

1. Mr. Benjenk's memorandum to you of May 7, with its attachments, gives the basic information on Tunisia and our relations with it. Little new came out of the Consultative Group meeting in Paris last week.

2. The atmosphere of the meeting was very favorable to Tunisia. Since the economic report in front of the meeting (which was prepared by us), was somewhat critical of Tunisia's economic behavior over the last eighteen months, some of the delegations felt free to commend Tunisia's handling of its difficulties. The meeting was rather bland and it was hard to elicit substantive comments from the delegations, no doubt partly because Tunisia is by now a well known subject on which it is becoming difficult to make new and original comments. Everybody seemed to think the Group was a useful instrument and wished it to continue.

3. During the meeting, Mr. Ben Salah once again requested that aid givers indicate the total amount they are prepared to allocate over the next few years to Tunisia. During the restricted session (without the Tunisian delegation) I asked the delegations what answer could be given to this request. The reactions were negative, especially from the French and Belgian delegations. The Germans did not express any comments but from past experience we know they are strongly opposed to any advance commitments and they had already said so during my visit in Bonn prior to the meeting. On the other hand the Swedes indicated that they could, under certain circumstances, state in advance the amount of aid which would be available; the Dutch and Italians also seemed inclined in this direction, although their comments on the subject were far from clear. On the whole it is evident that most of the members of the Group want to keep it as it is and would resist any move in the direction of making it the forum for making pledges of aid.

4. The Tunisian Government is now preparing the next four-year plan (1969-1972) which is expected to be available for discussion in January or February 1969. It was generally agreed that the Bank would review this plan, and that the next meeting of the Consultative Group would take place when this review had been completed and made available to the members of the Group. Mr. Ben Salah suggested that members of the Bank's staff might sit with the Tunisians during the process of drawing up the plan in the period September to December 1968, and thus be able to give a critique of it at a meeting in February or March 1969. I was non-committal. In fact it would be better to make our review after the plan is complete. This would imply a Consultative Group meeting in June, July or even September 1969. too late

President has seen

5. We have received no advance indication of the subjects the Tunisian delegation is likely to raise with you. However, from what we know generally, the following subjects may come up:

(i) Amount of future lending. In 1965, we indicated that we would be prepared to finance up to $100 million over the years 1966, 1967 and 1968. We have financed so far $48 million during this period, and we expect to commit another $40 million ($5 million for a port, $15 million for water supply and $20 million for railroads). The Tunisians may be expecting the Bank and IDA to cover about 20% of Tunisia's total foreign capital requirements during the next Plan period. It is true that our own internal five-year lending forecast implies Bank/IDA financing of about that magnitude, but I would suggest that we make no commitment to the Tunisians at this stage. We can more appropriately answer questions of this kind after we have seen their new four-year plan.

(ii) Program loans. The United States, France and Italy have made and expect to continue making loans which are not attached to individual projects and the Tunisians, not unnaturally, prefer this kind of financing. However, one of our main recommendations is that Tunisia should put more emphasis on the project approach; a program loan from the Bank would not be consistent with this recommendation.

(iii) Loans for local currency expenditures. Mr. Ben Salah is a strong advocate of loans to cover local expenditures in addition to imported goods and services. In previous projects we have financed some local currency expenditure in agricultural and educational projects. While such financing is not likely to be needed for the port, water supply and railroad projects we presently have under consideration, it might be appropriate for the future. This is a matter of general policy and there is no need to make any special commitments for Tunisia at this juncture.

(iv) Technical assistance for preparing projects to be included in the plan: We do help already in preparing projects for our own financing, and we make that work available to others whenever we have partners in financing projects (as with Sweden). It does not seem justified to go beyond this, considering the relatively high level of expertise in Tunisia and the scarcity of technical personnel in the Bank.

(v) Rate of creation of agricultural cooperatives: Mr. Ben Salah has attached his reputation to the rapid creation of farm cooperatives. We have already lent $18 million for such developments. Several times Mr. Ben Salah has tried to push the development of these cooperatives at a rate we feel to be too fast, and we have persuaded him to slow down. If the subject is raised, it would be useful to advise caution to avoid endangering the efficiency of existing cooperatives.

(vi) Visit to Tunisia. You will almost certainly be invited to visit Tunisia. As you know, Mr. Woods never got there, despite repeated invitations.

(vii) Conciliation. As Conciliator of the compensation dispute between Tunisia and several power companies, Mr. Woods has made a recommendation to the parties about the mode of payment of the amounts already agreed. The Tunisians probably will not raise this, but you might wish to remind Mr. Ben Salah that a reply from Tunisia is expected before June 22.

6. Finally, I do not doubt that Mr. Bourguiba will want to repeat his invitation to hold the 1970 Annual Meeting of the Bank and Fund in Tunis. Mr. Mendels will be reporting separately to you on this. I should, however, mention that during a private conversation I had with Mr. Al-Hamad, head of the Kuwait Fund, on the occasion of the Consultative Group meeting, he brought up the subject with me. He expressed strong misgivings about a meeting in Tunis, pointing out that any meeting held in an Afro-Arab country and in which both South Africa and Israel participated could only be a source of intense embarrassment for all other Arab and African members, many of whom would not wish to attend. I do not know how much weight to attach to Mr. Al-Hamad's unsolicited remarks, but I thought you would want to know about them.

c.c. Mr. Knapp

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Rainer B. Steckhan DATE: May 8, 1968

FROM: M. P. Benjenk MPB

SUBJECT: Visit of President Bourguiba of Tunisia

I have just been informed by the Tunisian Embassy that the following Cabinet Ministers and officials will be attending the breakfast meeting at Blair House between President Bourguiba and Mr. McNamara on Thursday, May 16, at 8:30 a.m.

Mr. Habib Bourguiba, Jr., Secretary of State for Foreign Affairs

Mr. Ahmed Ben Salah, Secretary of State for the Plan and the National Economy

Mr. Chedly Klibi, Secretary of State for Cultural Affairs

Mr. Rachid Driss, Ambassador of Tunisia in Washington

Mr. Ammar, Economic Minister at the Embassy.

The Embassy would like to know who will be accompanying Mr. McNamara on the Bank's side. Please let me know the answer to this question so that I can inform the Embassy in due course.

MPB/mct

Messrs. Shoaib, Lejeune & Benjenk attended from the Bank.

2

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the record

DATE: July 15, 1968

FROM: Michael L. Lejeune

SUBJECT: Tunisia - Visit of Mr. Ahmed Ben Salah

Mr. Ben Salah, Secretary of State for the Plan and Economy, paid a courtesy visit to Mr. McNamara on May 17, 1968. He was accompanied by Mr. Smida, Alternate Executive Director, and Mr. Ammar, Economic Minister at the Tunisian Embassy. I was present.

Mr. Ben Salah, after expressing his satisfaction with the state of relations between the World Bank Group and Tunisia including the operation of the Consultative Group which had met recently in Paris, raised three points:

a) the possibility of obtaining finance from the Bank for programs as distinct from projects,

b) the need of a country such as Tunisia for external finance for local expenditure, and

c) the possibility of assistance from the Bank in preparing projects for eventual financing.

With respect to the first point, Mr. McNamara said that the Charter of the Bank clearly stated that the Bank's loans should be for productive projects. Moreover, he had found that there were a number of important members of the Bank who strongly believed that the Bank should continue in the future to finance projects rather than programs. The same considerations applied with respect to IDA. He therefore believed that there was little prospect of any great change in the Bank's practices on this score.

On the second point, Mr. McNamara said that here again the Bank's Charter stated that only in exceptional circumstances could the Bank's loans be made for local expenditure and here too some of the important countries represented on the Bank's Board had strong views on this subject. He could not hold out much prospect for any great change but he expected to hear more from the Executive Directors as to their views on this question as time goes by.

Respecting the third point, Mr. McNamara said that he quite well understood the need for expertise in identifying and preparing projects and even though Tunisia was, as compared with some Bank members, fairly well supplied with such expertise, he could imagine there might be need for some outside help. He said the Bank would consider Mr. Ben Salah's request and would let him know. He emphasized, however, that the Bank was short of staff itself and he was not sure what, if anything, could be done.

c.c. Messrs. McNamara, Knapp, Benjenk, Thompson, Springuel

MAY 23 REC'D

Files May 22, 1968

Michael L. Lejeune

Tunisia - Mr. McNamara's Meeting with Mr. Ben Salah

Mr. Ben Salah, the Secretary of State for the Plan and the National Economy, met with Mr. McNamara at 3:00 p.m. Friday, May 17. He was accompanied by Mr. Hamed Ammar of the Tunisian Embassy and Mr. T. Smida, Alternate Executive Director for Tunisia. I was present.

Mr. Ben Salah raised three operational questions:

(a) Program Lending
(b) Local Expenditure Financing
(c) Technical Assistance in Project Preparation

Respecting Program Lending he made the case that the carefully worked out Tunisian planning and the faithfulness with which it was followed gave lenders the measure of foreign financial aid needed and the assurance that it would be put to good use. The particular application of the aid to projects or other investment was secondary. Mr. McNamara replied that it would be contrary to the Bank's Articles of Agreement to lend for anything other than defined projects. Moreover, there was among some important members of the Bank a resistance to departing from project financing.

As to Local Expenditure Financing, Mr. Ben Salah said that Tunisia had reached the stage of development where many projects could be undertaken with little foreign procurement and therefore it was hard to find projects whose "foreign component" would be large enough to attract the amount of foreign capital needed if that foreign aid was confined to foreign purchases. Mr. McNamara said he doubted that this was really the case in Tunisia. He asked for an example. Mr. Ben Salah quoted the instance of hotels; these used to have a foreign component of about 50% but now it was down to 25%. Mr. McNamara said he expected that part of the 75% involved overseas purchase of materials and parts and that the true foreign component would be more than 25%. The Bank was not precluded from financing these "secondary" imports. It was left that this aspect would be examined further, but Mr. McNamara made it clear that he would be unlikely to recommend to the Executive Directors Bank loans to finance truly local expenditures. Here again, he knew important members to be against it.

On Technical Assistance Mr. Ben Salah made a plea that a staff member from the Bank be lent to Tunisia to help them in setting up procedures for preparing projects so they would meet the Bank's standards. Such a person would also train local staff for that purpose. Mr. McNamara explained that we were already short-handed and that with an increasing volume of business our own staffing problem would get worse. This was particularly true for tourism, a sector Mr. Ben Salah had emphasized. Mr. McNamara doubted we could help but promised we would consider the request.

The conversation then turned to the question of holding the Annual Meeting in Tunis in 1970. Mr. McNamara said he favored it provided some important points could be satisfied:

(a) that Tunis was capable of providing the facilities needed;

(b) that holding the meeting in Tunisia could not be an undue burden on Tunisia;

(c) that all members of the Bank and all nationalities who would attend as delegates, staff or guests would be welcome;

(d) that the other African and Arab countries would not find it objectionable to meet in Tunisia with such countries as South Africa, Portugal and Israel.

Mr. McNamara said that if all these points could be satisfied there remained the question of other countries who wished to have the meeting. If the above points were taken care of he personally would favor having the meeting in Tunisia. He favored the idea of meeting in an under-developed country. He thought the publicity would be good for Tunisia, would bring it business (particularly tourists) and thus would make our investment all the more secure.

Mr. Ben Salah gave unequivocal answers on (a) and (c). It appeared that he had not completely studied (b), nor had the Tunisians fully explored (d). Mr. Smida said he had talked to Mr. Kochman (who was strongly in favor) but not yet to Mr. Coleman.

c.c. Mr. McNamara
Mr. Knapp
Mr. Aldewereld
Mr. Shoaib
Mr. Mendels
Mr. Chadenet
Mr. Benjenk
Mr. Springuel

MLL:ms

3.

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: September 17, 1968

FROM: Michael L. Lejeune

SUBJECT: Visit of Tunisian Ambassador, Wednesday, September 18, 1968

1. I understand you are going to see the Tunisian Ambassador on Wednesday, September 18, at 12:15 at his request. While it is not known what topics the Ambassador may want to cover, two topics may possibly be on his mind, namely the proposed transfer of the Port Project from IDA financing to the Bank and the withdrawal of the Tunisian Government's proposal to have Tunis as the site of the 1970 Annual meeting.

Port Project

2. You proposed to the Executive Directors on September 3 that the Tunisian Port Project be transferred from the waiting list of IDA credits "subject to IDA replenishment" to the Bank, if the Government of Tunisia agreed to it. In accordance with this, we have offered, through the Tunisian Embassy, to finance the project with a Bank loan to the "Office des Port Nationaux" (OPNT) with a Government Guarantee. (Internally it has been agreed that the loan would be repayable in 30 years, including a 10 years' grace period.) In so doing we have underlined that the proposed repayment terms would be longer than the repayment terms envisaged for relending from the Government to the Port Authority in the IDA credit (20 years, including a 3 years' grace period), but have not told the Government that we are prepared to go to 30 years including 10 years' grace. I expect that the Tunisian Ambassador will give you the Government's answer and, perhaps, make a new plea for IDA funds.

3. In February 1968, the Economic Committee concluded that Tunisia should be considered a "soft blend" country. There is no reason to change that judgment now, but in the light of the delay in the Second IDA replenishment, we have to take into account the fact that Tunisia has already received a fairly large amount of IDA money (3 credits for $24 million) which amounts to $5.30 per capita and puts Tunisia among the highest IDA recipients. The grace period of 10 years which is proposed for the Bank loan is as long as for an IDA credit, and would help Tunisia over the external debt repayment hump which will be critical during the next five years or so.

President has seen

4. In the May 29, 1968 cable inviting the Tunisians to send representatives to negotiate, we indicated that "credits will be available only after IDA replenishment is effective." This was repeated several times during negotiations and the staff even suggested informally to the Tunisians that they consider asking for a Bank loan rather than an IDA credit to avoid delaying the operation. Thus our recent proposal to make a Bank loan cannot really surprise the Government.

1970 Annual Meeting

5. The Tunisians had offered to host the 1970 Annual Meeting in Tunis, but recently decided to withdraw their invitation because of objections from certain Arab and black African countries, the latter because they object to the presence of Portuguese and South African delegates on African soil. It is possible that the Ambassador wants to inform you officially of this decision and to explain the background of it.

4

Mr. McNamara - to see please
ABS 6/10

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: June 9, 1969

FROM: R.H. Springuel

CONFIDENTIAL

DECLASSIFIED
JUN 20 2013
WBG ARCHIVES

SUBJECT: Tunisia - Visit of Mr. Ahmed Ben Salah, Minister of Planning and National Economy, on May 15, 1969.

1. On May 15, 1969, at 12 a.m., Mr. Ben Salah, Minister of Planning and National Economy, visited Mr. McNamara. Mr. Ben Salah was accompanied by Mr. Bahroun, Director General of the Plan, and Mr. Driss, Ambassador of Tunisia. Messrs. Knapp, Lejeune and Springuel were also present.

2. After welcoming Mr. Ben Salah, Mr. McNamara mentioned that he had just been to Kuwait, where he had found interest in the idea of participating in an industrial project in Tunisia, possibly together with the Bank Group.

3. Mr. Ben Salah understood that there was some disquiet in the Bank on agricultural cooperatives, but he had explained the situation. Mr. Lejeune said that these explanations were being considered. Mr. McNamara agreed with the Tunisian social preoccupations to share equitably the increased revenues of cooperatives and noted that recently, in relation to a large agricultural project, some Executive Directors had asked whether the farmers would get a fair share of the increased revenues. In view of the Minister's preoccupations, the Bank did not need to be concerned by this problem in this case, but another preoccupation was even more important, namely that there should be an incentive to increase the efficient use of resources since equitable distribution of additional revenues could take place only if additional revenues were produced.

4. Mr. Ben Salah felt he had now a better appreciation of the difficulty of developing Tunisian agriculture. If the cooperative farm project, thoroughly appraised by the Bank and under a Bureau de Contrôle created with the help of the Bank, was experimenting delays and difficulties, how much more difficult was it to develop agriculture without such a framework. Because the Government wanted agriculture to remain the mainstay of the economy, there was an absolute need to accelerate its development, which could be achieved only through the cooperative movement.

5. Mr. McNamara concluded that there was no difference of objectives between the Bank and the Government, but that we must insist on the satisfactory use of resources which we had put at the service of Tunisia. In the last five years, the World Bank Group had financed some 20% of the total public capital needs of the country, and we were planning to expand substantially our activities and possibly finance as much as 30 or even 35%. This could be done only if there was a satisfactory development of existing projects.

President has seen

Memorandum for Record June 9, 1969

6. Turning to education, Mr. Ben Salah said that the great past efforts to develop primary and secondary education led to the need for further efforts at present. Emphasis was placed on secondary and university education, and first priority, on teachers training, since on the basis of present trends, foreign teachers' salaries might amount to as much as $40 million by 1976. A new and flexible system better suited to the needs of Tunisia and adaptable from year to year was being adopted. The Minister would be interested in the reactions of the Bank.

7. Mr. McNamara expressed interest in all aspects of education developments, but reminded that the Bank Group could only finance projects which were linked to economic development. He noted we had almost tripled our lending in this field, and had serious staffing problems. However we would look closely at what could be done for Tunisia.

8. Mr. Ben Salah mentioned his desire to see included in the next loan to SNI (Development Bank) some funds to finance local expenditure and public enterprises.

9. Mr. Ben Salah had discussed with Mr. Rosen his idea of developing a holding company for fertilizer and complex chemical plants, and possibly phosphate mines. This might also include a nuclear power station for the production of water and energy. Mr. McNamara would be delighted to consider a nuclear project, especially for the production of desalinated water. However, he had discussed the question with Mr. Rosen in the morning, and their guess was that it might cost several hundred millions of dollars, possibly as much as $1 billion. As a result, water cost would be frightfully high, and power cost, at the beginning, very high too. He therefore advised the Minister not to put too much hope on such a project. On the other hand, he said that fertilizers are a very competitive market, but that the Bank would be happy to examine a project thoroughly, possibly with a Kuwaiti participation.

10. Mr. Ben Salah would want to examine the underground water resources of the desert, and Mr. McNamara said the Bank would be delighted to take a look at it.

11. Turning to housing, Mr. Ben Salah said he had discussed with USAID the importance to develop housing outside the big cities to prevent the exodus to the cities and resulting social dislocations. He felt a need for a new mechanism in housing, giving high priority to social stability. The Tunisian four-year plan included 55,000 houses, most of them to be mass-produced, sometimes a whole village at a time, at an average cost of about $2,000, plus the cost of infrastructure.

12. In the field of family planning, Mr. Ben Salah stated the Government and the people of Tunisia had no reservation. He felt a family program would be the fitting complement to the efforts of economic development. Until now only health considerations had entered into the picture, but he wanted to integrate this effort in the overall economic planning. Mr. McNamara agreed this was indeed

one of the greatest needs of Tunisia. We would do what we could but, for the present time, the Bank was not staffed to do all the things we wished in this field, and might have to rely on outside help to implement the program. Mr. McNamara was greatly interested in family programs in Arab and African countries, and he felt Tunisia was a country where the Bank could start, both because of the attitude of the Government and that of the people. He asked Mr. Lejeune to discuss the question within the Bank, and to let him know if there were difficulties in obtaining the necessary staff.

13. Mr. Ben Salah repeated the standing invitation of the Government to Mr. McNamara for a visit to Tunisia, and Mr. McNamara said that indeed he would be very interested to go, and would do his best to do so as soon as he could find time.

14. Mr. McNamara concluded in assuring he was very interested in the social objectives of Mr. Ben Salah, for this was indeed the ultimate objective of all economic development efforts.

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: May 14, 1969

FROM: Michael L. Lejeune CONFIDENTIAL

SUBJECT: Tunisia - Visit of Mr. Ben Salah on May 15, 1969

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WBG ARCHIVES

1. Attached is a brief on Mr. Ben Salah and on the main Tunisian problems (Annex I). For your information, I also attach the back-to-office report of the economic mission which was in Tunisia until the end of April (Annex II) and the March 1969 country paper with the Five-Year lending program, as agreed during the review (Annex III).

2. The Tunisians will have met with USAID on May 13. They will have had luncheon with Mr. Rosen on May 14. On May 15, they have a meeting with me at 10:30 and at 12, I will bring them to your office. I expect Mr. Ben Salah will be accompanied by Messrs. Bahroun (Directeur General of the Plan), Driss (Ambassador of Tunisia), and Ammar (Minister of the Embassy). I will bring Mr. Springuel, the Division Chief in charge, who can act as interpreter if Mr. Ben Salah chooses to speak French. I will tell Mr. Knapp of your meeting. He will be giving a lunch in honor of Mr. Ben Salah after the meeting. Mr. Schweitzer gives one on May 16.

3. You may want to raise with Mr. Ben Salah the following questions:

(i) Rate of creation of agricultural cooperatives (paragraphs 7-12, Annex I);

(ii) Economic justification of development of the South which depends on phosphate studies still under way (paragraph 15 of Annex I);

(iii) Family planning project under preliminary consideration.

4. Mr. Ben Salah may wish to raise:

(i) The proportion of IDA financing. About 25 percent of total Bank/IDA lending during the four years of Tunisia's Plan and about 33 percent during the period of our Five-Year lending program (See paragraph 14 of Annex I);

(ii) A second loan for agricultural cooperatives. This would have to await improvement on the first loan/credit (point 3 (i) above), and

(iii) Technical assistance for planning and for project preparation (paragraph 18 of Annex I).

President has seen

[signature]

ANNEX I

CONFIDENTIAL

May 14, 1969

TUNISIA

Brief for Mr. Ben Salah's Visit to Mr. McNamara

May 15, 1969 at 12 noon

Tunisian Delegation

BEN SALAH, Ahmed. Secretary of State for the Plan and National Economy, and Secretary of State for National Education.

Born: 1926

Education: Sadiki College, Tunis, and Paris University (Arab literature).

School teacher in Sousse (1948-1951), Tunisian Trade Union Movement Delegate to International Confederation of Trade Unions (Brussels, 1951-1954), Secretary-General of Tunisian General Labor Union (1954-1956), Secretary of State for Public Health and Social Affairs (1957-1960), for the Plan and Finance (1960-1964), for the Plan and National Economy (1964), Assistant Secretary-General of Neo-Destour Socialist Party (1964), Secretary of State for National Education (1968).

He overworks and his health sometimes suffers.

BAHROUN, Sadok. Director General of the Plan.

Born: 1925

Education: Sadiki College, Tunis - Institut National des Statistiques et Etudes Economiques, Paris.

Deputy Director (1962), Director (1964), Director General (1967) of the Plan. Most important man in economic affairs after Mr. Ben Salah and Mr. Rassaa (Undersecretary of State for Finance and the Plan).

DRISS, Rachid. Ambassador of Tunisia in Washington since 1963.

AMMAR, Hamed. Minister since 1967.

Background

1. Elections (one party system) are now scheduled for November 1969, at which time Bourguiba is expected to designate a Vice-President (with right of succession to the Presidency), and a Prime Minister. Ben Salah is certainly hoping to become Prime Minister.

2. When Ben Salah was Secretary of State for Health and Social Affairs (1957-1960) he opposed the then prevailing "laissez-faire" economic policy which permitted capital flight and stagnating production and investment. Because of this opposition, Bourguiba demoted him in early 1960 and dissolved the general labor union which formed his power base. A few months later, however, Bourguiba changed to a policy of state economic intervention and called back Ben Salah to apply it. Since then there has never appeared to be any conflict between the two men.

3. Ben Salah sparks the modernization of the traditional Tunisian society through generalizing education, establishing agricultural cooperatives, and grouping the traditional small traders into cooperatives. The development of a strong and prosperous private tourist industry helps in the modernization, but may force a loosening up of the present tight control over the economy.

4. Ben Salah has a small group of able assistants, among whom Bahroun is one of the most important. A few now have gained solid experience, but many of the younger ones are inexperienced with the result that policies are often poorly implemented.

5. Substantial control over the one-party system (Neo-Destour), the key economic ministries, most public enterprise and the growing cooperative movement, and limited roles for the central and commercial banks, and the private sector, have enabled Ben Salah and his team to bring about economic reform and development despite poor natural resources and a small economy, but this system has also been responsible for some misallocation of resources.

6. In the early 1960's Ben Salah was popular, but as his control of economic life became tighter, he met increasing opposition from the conservative, rural, religious and bourgeois elements which feared for their traditional way of life. Opposition became more marked in the last two or three years as the Government tried to increase savings - in part at the urging of the Bank and the Fund - and grew stronger more recently as more of the economy is being forced into cooperatives. Even though Bourguiba fully backs him, Tunisian opponents distinguish between Bourguiba, who is still very popular, and Ben Salah, who is identified with the structural reforms and the rather austere economic policy.

Agricultural Cooperatives

7. Since 1965, the state farms resulting from the 1964 expropriation of all foreign-owned farms (essentially French) have been progressively transformed into cooperatives. The average size of a cooperative is about 1,000 hectares, and it may include between 50 and 300 members (former salaried workers and farmers with land adjacent to the state farm). The members of the cooperatives receive a salary and, in theory, additionally an annual payment proportional to the value of the land they have brought into the cooperative and a share in the cooperative's profits, if any. In practice few such additional payments take place.

8. In February 1967 we made a $12 million loan and a $6 million credit to finance farm machinery, buildings, livestock, water development and technical assistance for cooperatives. Reorganization of the initial 213 cooperatives under the Project is lagging and almost half of the total debt of the cooperatives is in arrears. Most cooperatives are late in the preparation of their annual accounts. Important delays have been experienced in the introduction of livestock, water development and construction of farm buildings both in existing and new cooperatives. The Project on the whole is poorly managed and executed. Yet the Government has recently decided to bring into cooperatives all Tunisian farmlands before the end of the year.

9. On March 25, 1969 we wrote about these problems to Ben Salah who answered on May 6 that the delays resulted from the need to review all existing cooperatives on a regional development basis and to incorporate in cooperatives all private land. This means a review of the boundaries of all cooperatives, an increase of the total area under review from 327,000 hectares to 950,000 hectares, and postponement of the target dates. This approach differs substantially from what was contemplated in the Loan and Credit Agreements.

10. About 38% of farmland is already within the cooperative system. In public speeches Ben Salah argues that the cooperative idea is now sufficiently implanted in Tunisia to be implemented throughout the country forthwith, that it would be unwise to force certain farmers in cooperatives while others remained outside, and that more men and money would be required to develop private traditional farmers than cooperatives. However immediate financial requirements of new cooperatives are greater than those of traditional farmers, the organizational problems resulting from badly working cooperatives are more serious than those of an inefficient extension service and, last but not least, the reform will result in the disappearance of some 5,000 good sized private Tunisian farms which might become the nucleus of a modern agricultural sector under a different system.

11. As in many under-developed countries, existing agricultural structures constitute a serious obstacle to agricultural development. Ben Salah himself is convinced that he is promoting the only workable method to transform traditional agriculture, and he is now staking his career to prove it. Initially, the cooperatives were his pragmatic solution to specific problems, but they now seem to have become a dogmatic position. The forthcoming Economic Report will consider the economic implications of the decision to extend cooperatives throughout the country.

12. Regarding our Loan and Credit, we are now at a critical juncture. Total disbursements amount to $3.6 million and commitments to $3.8 million. In addition disbursement claims for about $3.5 million are expected to be presented for Bank approval within a month or two. The present Government's program is so much at variance with what was contemplated when we signed the Loan and Credit for the Project that it is

probably unrealistic to expect the Project to be implemented as originally agreed. Ben Salah's proposals appear to be beyond the technical, economic and financial resources available. We are taking the opportunity of Ben Salah's presence to discuss the problems with him. Subsequently we shall have to decide on a course of action.

Program Submitted to the Bank

14. At the December 1965 Consultative Group meeting, the Bank announced its hope to lend to Tunisia about $100 million over the ensuing three years. In the subsequent 3-1/2 years, the Bank and IDA financed 8 projects for a total of $87.3 million including $27.5 million IDA. At present we are actively discussing with the Government 10 projects for a total of about $100 million. We have them scheduled for Fiscal Years 1970, 1971 and 1972. In addition 4 other projects for a total of about $25 million are under preliminary discussion. Mr. Ben Salah is aware that this program represents an increasing contribution to the annual flow of public capital into Tunisia (about 25 percent in 1970). The economic mission which recently returned from Tunisia is preparing its report. During the review of the Five-Year Program for Tunisia, it was decided that we should take another look at its size in July, after the report is finished.

15. We plan also in July to discuss with the Government the conclusions of the economic mission and the Government's economic policies, with a view to reaching general understandings with the Tunisians. The future volume of lending would depend on economic performance and the preparation of good projects. Ben Salah is likely to ask that the Bank/IDA be prepared to indicate the amount it might lend for the Tunisian four-year plan, and the IDA proportion in this lending. For the period January 1969-June 1972 (six months less than the Plan period), we have presently scheduled $102 million of Bank loans and $35 million of IDA credits (i.e. about 25% of IDA), and for our Five-Year Lending Program period $148 million of loans and $75 million of credits (i.e. about 33% of IDA).

16. The development of southern Tunisia is a problem. It is the poorest and most restless part of the country. About a fifth of investment under the Plan will take place in the South, but yields are likely to be low. The economic viability of southern development as a whole depends mainly on the prospects of the phosphate industry. An exensive market study is expected to be completed in October 1969 and technical studies in the first half of 1970. Development plans include the Chemical Complex (ICM) which IFC has been considering for several years and a railroad line and phosphate mining developments for which Bank financing has been requested. Mr. Rosen intends to discuss ICM with Ben Salah. The Bank's answer on the two other projects has been postponed until completion of the studies.

Technical Assistance

17. A Bank mission which visited Tunisia in February is preparing its report on steps to improve the performance of public industrial

enterprises which, as a whole, have not been very successful. The report should be ready by mid-June. Its recommendations will be discussed with the Government in July.

18. Ben Salah has again asked that the Bank participate in the preparation of the next development plan (1973-1976). Because of the shortage of staff, we have not been able to provide this service in the past. We should be cautious about promising to do so in the future. why

19. During the recent economic mission, the Government requested the Bank to make a general evaluation of its family planning program and help prepare a specific family planning project. This request is under consideration. we should accept

ANNEX II

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune May 14, 1969

FROM: Ernst F. Schaad

SUBJECT: Tunisia Economic Mission - Back-to-Office Report

1. In accordance with the terms of reference dated March 19, 1969, an economic mission visited Tunisia between March 25 and April 24. Discussions were also held with FAO in Rome, EEC in Brussels and the French Government in Paris. The mission consisted of Mr. Ernst F. Schaad (Chief of Mission), Mr. Michael H. Payson (general economist), Mr. Gabriele Sciolli (fiscal economist), Mr. Louis Pouliquen (transport economist), Mr. David Miller (population specialist), Mr. Hans Thias (education economist), Mr. Denis Mortier (young professional), Mr. Robert Mangolini (consultant, agricultural economist), and Miss Geraldine Prefontaine (secretary).

Political Situation

2. Tunisia has enjoyed internal political stability since its inception as an independent state. The Parti Socialiste Destourien is firmly in power and its leader, Habib Bourguiba, also the President of the Republic, has unchallenged support and popularity. Within the all powerful party, Mr. Ahmed Ben Salah, Secretary of State for Planning and National Economy has been the subject of increasing controversy in recent months. Being the driving force behind the Government's policy of greatly accelerated structural reforms, he has found himself increasingly opposed by the larger farmers, parts of the tradition-minded population in the South and in trade and handicraft generally. However, the strength of the opposition is difficult to assess. It can be safely stated that the small fellah now in cooperative, welcomes a guaranteed salary, and as long as this lasts will support Mr. Ben Salah. He seems to have Mr. Bourguiba's full support and there is no doubt that for the time being major domestic issues are largely decided by him.

Recent Performance of the Economy

3. During the last Four Year Plan period, 1965-1968, real gross domestic product at factor cost grew at about 3% per year, i.e., about half the 6% growth objective of the preceding Plan. Faced with stagnating output in 1966 and 1967 and shortfalls in savings, particularly of the public sector, the investment rate was reduced from about 28% of GDP in 1965 to 21% in 1968. Nevertheless, for the period as a whole the gap between domestic financial resources and capital expenditures was higher than anticipated, and foreign financing accounted for more than 50% of the total. Although disbursements on public foreign aid of about $370 million were roughly in line with Plan expectations, the higher resource

gap resulted in greater reliance on private foreign borrowing and a decline in reserves. The global debt service ratio climbed from about 17% in 1965 to 27% in 1968 owing mainly to increasing service payments on medium term foreign debt.

4. 1968 saw considerable improvement in Tunisia's overall economic performance as real GDP increased by over 8%; the deficit on current account was reduced; and there was a $12 million rise in net foreign resources. The application of direct controls over domestic credit, medium term foreign borrowing, and investment by public enterprises resulted in relatively stable prices, a reduction in new private borrowing abroad, and a moderately lower level of investment. However, current public expenditures climbed rapidly, and there was a drastic reduction in the Central Government surplus, which, coupled with domestic and foreign credit ceilings, remained the major constraint on public development expenditures.

Planning

5. The new Four-Year Plan (1969-1972) is looked upon as the Government's major instrument for bringing about economic development. The methodology and presentation of the Plan have been improved in that (a) the Plan has been formulated within the framework of the annual economic budgets, thus facilitating a year by year monitoring of its implementation, and (b) total investment has been itemized project by project. Industry, including mining, petroleum and power, is planned to account for 27% of total investment, with agriculture and transport expected to account for 21% and 16% respectively. Investment in manufacturing per se is forecast to be 10% of the total, and the largest capital expenditures within manufacturing are expected to be made in chemicals, particularly in phosphoric and sulphuric acid.

6. Weaknesses in the project content of the Plan remain, nevertheless, and certain important projects, particularly in the public enterprise sector, are of doubtful viability. Evaluation of the economic rates of return of projects in industry and agriculture is just now being done for projects already included in the Plan. The Plan authorities recognize that adjustments will be required in the composition of the investment program, but they do not contemplate a reduction in the overall total.

7. With regard to the quantitative targets of the Plan, the projected annual real output and merchandise export growth rates of 6.1% and 9.0% respectively appear achievable, but they are somewhat higher than long term trends and substantially higher than in the preceding four year period. The present evaluation of various operational and marketing problems indicates that shortfalls are likely in industrial output and industrial exports, but these could be partly offset by better performance in agriculture and tourism.

8. Tourism has been the most dynamic sector in recent Tunisian economic development. Annual average growth rates of both visitors and foreign exchange receipts over the last 5 years have exceeded 40% and revenues from tourism accounted for almost one quarter of total foreign exchange receipts in 1968. In the light of past performance the projected average increase of 15% per year in foreign exchange receipts, over the new plan period, may be on the conservative side.

9. Agricultural production, particularly in the North, has been subject to heavy fluctuations partly as a result of erratic rainfall, and partly the sweeping structural reform very often had immediate detrimental effects, resulting in declines or slow growth of exports of agricultural products. Exports of phosphates have grown steadily and are expected to increase further, although not at a spectacular pace, while petroleum exports will depend essentially on the discovery of new deposits, which means that prospects are basically uncertain.

10. Even if the output and export targets are achieved, however, efforts to implement the forecast investment program are likely to impose continued pressure on the financial equilibrium of the economy. It may be difficult to realize the savings projected for the public enterprises and the Central Government. Revamping of public savings, after the sharp decline in recent years, is one of the main targets of the Plan. The improvement relies heavily on curtailing the growth of current expenditure below 6% per annum. This is an ambitious target considering that the annual growth rate of current expenditure in recent years has been around 11-13% and having regard to the various political pressures for faster expansion in current expenditure. Although an increase in salary rates for Government employees is at present actively discussed, to mention an important example, the Plan projections do not allow for such an increase.

11. Projections of revenues are fairly in line with the expected growth of the economy and incorporate a further improvement in tax administration. Towards the end of the Plan period, unspecified measures would increase the growth rate of revenues from taxation more than one can reasonably expect with the present elasticity of the tax system. The possibility of significant shortfalls in given years cannot be excluded. For example, the level of tax revenues depends heavily on the level of imports, which from experience can behave quite erratically. Further uncertainties stem from the required amount of capital transfers to enterprises which will eventually depend on the success of the recent efforts in improving their economic situation. On the whole, improved analysis and control may permit some adjustments in fiscal policy, but in view of the limited possibilities in this respect, the main burden of adjustment, if the need for it occurs, must fall on the public investment program.

12. In addition to the uncertainties mentioned above in relation to achieving the domestic savings targets, particularly Government savings, there is the possibility of shortfalls in disbursements on foreign public aid, estimated at some $500 million for the four years. 145 [illegible] 332

13. A further important factor in the balance between the creation and use of savings is likely to be the program of greatly accelerated structural reforms. The financial effect of the decision to proceed with nationwide reforms in the agricultural sector was not explicitly evaluated in the Plan. If fully implemented it would result in an increase in credit requirements particularly for current but probably also for investment purposes, with uncertain results on the production side.

Institutional Problems

14. The accelerated "cooperativisation", which is central in what is commonly called structural reforms of the economy, goes far beyond the attempt to solve economic problems: they amount to a radical transformation of Tunisian society with primarily socio-cultural motivations of progress. Looking towards the repetition of failures of the Arab world in its attempt to adapt to the conditions of modern times, the Tunisian political leaders are proud to point to their pragmatic and successful philosophy, which as they say, is based on individual responsibility for progress and integration of the educated into a homogenous society without creating an isolated elite. A prime preoccupation has therefore been and still is to avoid a rupture between social categories. Stability, harmony, peace and security are considered the main elements in an evolution which is claimed to be based on the respect for private property within a cooperative structure.

15. However, the nature of these basic political choices has often prevented the application of strict economic criteria and short-term measurable economic benefits have perhaps been sacrificed for far less certain longer-term development prospects. Agriculture has been deliberately chosen as the economic basis and the social framework of the country, while industry and more recently the booming tourist trade have been accepted as contributions to the creation of income, but rejected as main economic objectives. Similarly, competition is not accepted as a basic mechanism to direct economic development.

16. As a result of this philosophy where dogmatic elements have become increasingly important, the organization of agricultural production in cooperatives has been pushed ahead at a greatly accelerated pace in order to prevent the creation of two different agricultural societies, one individual, and one in cooperatives. Similar motivations have been and still are at the basis of the generalization of the cooperativisation principle in retail trade and in a number of industries.

17. Deliberately, the risk has been taken to accept a possible decline in productivity of previously comparatively efficient farming units, in order to be able to spread at the same time new technologies and new management approaches over the whole of the country. It is generally recognized that this can only be achieved very imperfectly, given the lack of sufficiently trained technicians and administrators as well as current and capital inputs.

18. Within this set-up it is hardly surprising that indirect economic policy measures to direct consumption and production, savings and investment have not been applied. Direct intervention and control by the Government have been the main instruments of economic policy. Prices for many major commodities are therefore established on a highly questionable cost plus basis, while interest rates in combination with the direct regulation of credit amounts reflect mainly the Government's priorities in the allocation of financial resources and bear little or no relationship with the demand for and the supply of funds and capital. Direct controls by the Government are expected to remain the principle vehicles for implementing economic policy during the next four years.

19. A preliminary assessment of Tunisia's economic problems suggests that on the whole planning at the aggregate level, is done realistically and a great sense of responsibility underlies the conduct of economic policies within the given framework. However, the detailed preparation and implementation of projects is often defective. It appears at this stage, that after having fully analyzed the material collected, the mission will have a number of reservations about various assumptions underlying the Plan. However, it seems unlikely that those will be as strong as to alter significantly the Bank's present evaluation of Tunisia's creditworthiness for Bank loans and eligibility for IDA credits.

20. On the whole, the export projections of the Plan appear reasonable, offering the possibility of improving somewhat the balance of payments on current account; however, given the restrictive system as it is, there is some danger that the priority given to imported investment goods will result in a scarcity of imported materials and supplies needed to utilize existing capacity effectively. The Plan projects a $60 million increase in net foreign exchange reserves during the Plan period, but it is likely that if shortfalls in capital inflows occur, reserves will be adjusted downward.

21. Of a total projected gross foreign capital inflow over the 4-year plan period of about $690 million, about $510 million is expected to come from public sources. Despite the projected increase of capital inflows from abroad, the Plan projects that growth in foreign exchange earnings and a further improvement in the structure of the external debt will result in a moderate decline in the ratio of external public debt service payments to foreign exchange earnings from exports of goods and services from presently about 25% over the coming years.

22. A full report on the mission's findings is presently under preparation. Sector specialists will draft background papers on their respective subjects and appropriate paragraphs for inclusion in the economic report.

c.c.: Messrs. Friedman, Benjenk, Thompson, Springuel, Masoni, Hendry, Goffin, D. H. Davis, Kamarck/Stevenson, Gwen, Mission members

TUNISIA

I. THE ECONOMIC SITUATION AND OUTLOOK

A. ECONOMIC POSITION AND PROSPECTS

1. An economic mission to review the New Four Year (1969-1972) Plan will visit Tunisia in March-April 1969. Pending the report of this mission any assessment of the medium term outlook for Tunisia's economy can only be very tentative.

2. The United Nations estimates the 1967 population to be 4.56 million and the annual average growth rate at 2.3 percent. This growth rate, coupled with a ratio of 41 percent of the population aged under 15 years is typical of developing countries, though not among the highest in Africa. Tunisia is one of the few countries in the world which has been making aggressive efforts in the field of family planning. The forthcoming mission will review development in this field as well as the long term outlook for the structure and growth of population.

3. The Tunisian economy made considerable progress during 1968. After two years of virtual stagnation output increased by 8 percent; the current account deficit was reduced by about 30 percent; and there is some evidence of better performance on the part of public enterprises. These developments resulted in a surplus in the balance of payments and a rise in national savings.

4. Major problems, however, remained. The current surplus of the Central Government, which had fallen by 20 percent in 1967, declined further in 1968 and was half that expected by the Tunisian authorities. Service on total debt including private debt amounted to 27 percent of foreign exchange earnings; net reserves at year end stood at about -$25 million; and gross fixed investment, though reduced in 1968, was projected to rise substantially in 1969. Moreover in spite of difficulties encountered in the development of agricultural cooperatives, the Government has maintained its drive to create new ones.

5. Tourism is expanding fast and over the next few years will become the leading sector in Tunisia's growth. Phosphate, the second foreign exchange earner, is of low quality and difficult to mine but could still increase moderately, while crude oil, which grew rapidly in the past two years, is expected to level off by 1970. Despite harsh natural conditions rising productivity is expected to increase agricul-

tural output by 3 percent per year, and manufacturing output should expand more rapidly as installed capacity is more efficiently utilized and operational problems are resolved. The next five years could see a 6 percent annual rate of growth in GDP, maintenance of the current account deficit at about $110 million, an improvement in foreign exchange reserves, an increase in the national savings ratio from 12 to about 15 percent, and a modest strengthening of the Government's financial position.

B. CURRENT ASSESSMENT

Level and Composition of Investment

6. A comprehensive assessment of progress on the fundamental problems identified last year of the low yield and sectoral allocation of investment must await the forthcoming review of the new Four Year Plan, but there is some evidence that there was improvement in 1968. Gross fixed investment outlays of D118 million were D9 million below 1967, and well below the levels of investment realized during the three preceding years. Fixed capital outlays of the Government were reduced by 10 percent and of public enterprises by over 20 percent, and private investment, particularly in tourism, agriculture and transport, increased by 24 percent. The reduction in government investment outlays was a direct consequence of a shortfall in domestic financial resources, while in the case of public enterprises the reductions were due partly to the completion of ongoing projects and partly to stronger central control.

7. For 1969 the Government projects a rise in fixed investment to D140 million, with most of the increase occurring in government and public enterprise investment. This level could impose a strain on the Government's financial position and as in the past appears to be an ambitious target. The authorities have expressed their intention to limit investment outlays to the availability of capital resources, but investment may also be constrained by lags in project implementation.

Role of the Private Sector

8. Private investment is increasingly dominating the tourist sector and prospects for rapid expansion are good. On the other hand prospects remain uncertain in industry because of the pervasive role of public industrial enterprises and the absence of the long promised investment code. Private investment data include outlays by cooperatives in agriculture and trade and these have increased substantially in the past year. The Government maintains that it is only through cooperatives that it can bring about the development of these sectors, but so far achievements of the cooperative program have not met expectations.

Financing of the Public Sector

9. As in the past four years, the rapid climb in public current expenditure and the unresponsiveness of tax receipts to growth in economic activity constituted significant weaknesses in Tunisia's economic performance. The general government current surplus of D9 million was half of that projected by the Economic Budget last year and despite the rise in GDP was under the already low levels experienced in the three preceding years. However, in anticipation of the new Plan the Government made a detailed review of the current budgetary impact of development outlays, and for 1969 current expenditure is budgeted to rise by 7 percent, compared with 12 percent in the past four years. Owing partly to new measures, tax revenue is budgeted to increase 13 percent. Even if these estimates are realized, the current surplus of D20 million would only equal levels already achieved in 1965 and 1966. Moreover given the present burden of taxation and high level of current expenditure, general government savings can be expected to equal only D30 million by 1972 and perhaps D35-D40 million by 1974.

Public Enterprise Performance

10. Savings of public enterprises exceeded estimates, and further improvement can be expected in the coming year. Nevertheless, high costs and organization and managerial problems at the enterprise and central government levels remained important issues. A Bank mission to review public enterprises is at present in Tunisia.

External Payments and Foreign Debt

11. Improvement in the current account deficit was achieved through a rise in service receipts, especially tourism, and a sharp decline in consumers and intermediate goods imports. The reduction in consumer goods imports was due to the maintenance of controls on consumption imports and to a drawdown of stocks and the replacement of cereal and finished cloth by domestic production. The reduction in intermediate goods imports was due to reductions in imports of petroleum, cotton thread, and supplies for the construction industry. Merchandise exports remained at the 1967 level of $150 million. At an estimated $43 million, net factor income payments accounted for almost half of the current account deficit, while service on total debt including private debt amounted to 27 percent of foreign exchange earnings, and service on public and publicly guaranteed debt amounted provisionally to 25 percent. Recourse to medium term private credit was, however, less than in 1967, and there was a slight improvement in the debt structure.

12. The remarkable improvement in the current account deficit is not likely to recur during the next few years. Even with substantial growth in export earnings, imports in 1969 can be expected to return to at least their 1967 level, as stocks are replenished and capital equipment imports increased, and should grow in future years at about the same rate as GDP. With rising factor income payments the current account deficit may increase in 1969 and remain at about $110 million through 1972. Thereafter some improvement is foreseen.

Planning and Administration

13. The development program pursued in 1968 consisted almost entirely of ongoing projects contained in the last Four Year Plan, and the next Four Year Plan is being prepared. The annual Economic Budget has been improved through more accurate estimation of enterprise financial requirements, and monthly economic indicators aimed principally at strengthening public financial control have been initiated. It remains to apply these improved procedures in practice. A Transport Survey including a detailed investment program was completed during the year and discussed with the Government. Greater emphasis is now being given to project definition in other sectors, and several projects have been presented to the Bank.

Key Obstacles

14. Limited natural resources, a small domestic market, a continuing shortage of managerial and skilled manpower and the slow growth of merchandise exports combined with heavy foreign indebtedness constitute key obstacles to Tunisia's economic growth.

15. Emphasis on a rationalization of existing industrial activity would help lower costs and increase output aimed at the domestic market. In both agriculture and industry, however, there is a possibility that future productivity growth may be impeded by too much reliance on central control. The direct participation of the administration in industrial enterprise and efforts to encourage agricultural modernization through the imposition of a cooperative system have placed a heavy burden on available high level manpower resources. The Government's educational policy has been aimed largely at a rapid expansion of primary and secondary education, and is now absorbing a large share of available funds (over 25 percent of the current budget). Moreover, the conclusions of a recent project supervision mission suggest that the Government should now become more selective in its educational investments, in order to satisfy the need for managerial and technical manpower. This points to the desirability of slowing down the program aimed at the mass of the population and to the intensification of efforts to produce more specialized skills.

16. Lagging merchandise exports and growing imports owing largely to high levels of public current and capital expenditure have resulted in continuing reliance on foreign finance and a heavy burden of external debt. Rapid growth of tourism and the recent spurt in crude oil production have helped to improve export earnings, but more effort will be required to encourage diversification, competitive costs and prices and to develop foreign markets. The projected 8-9 percent growth in foreign exchange receipts over the next few years assumes that tourist growth will continue at a rate somewhat less than the historical average but that exports of phosphate will increase by 6 percent and of most other products by 5 percent.

Sectoral Priorities

17. Emphasis over the next few years should be given to relieving bottlenecks and to encouraging the growth of undertakings having quicker financial returns. More high level manpower is required in agriculture and manufacture if returns to investment in these sectors are to be raised. Educational policies should be reoriented accordingly, with equal attention being devoted to changes in the curricula and to selective additions to existing schools. Substantial investment is also required in transport to modernize road and railroad facilities and to relieve bottlenecks. Financial returns have been high in tourism, and Tunisia should continue to implement policies favoring foreign and domestic private investment in this sector. In line with the need to reduce costs and prices, priority should be given to investment in export enterprises and to adjusting fiscal and exchange control policies to promote exports. Studies of phosphate mining and enrichment are under way and may eventually justify higher priority than in the past to investment for exports in this sector.

Case for Local Currency Finance

18. The level and composition of planned investment over the next four years is to be reviewed in the context of the new Plan. An evaluation of local currency requirements relative to probable availabilities must await this review.

C. CREDITWORTHINESS

Policies

19. Progress on the principal financial and economic issues confronting Tunisia has been satisfactory enough to warrant continued Bank lending. If appraisals of projects now under consideration by the Bank/IDA are favorable, an expansion in loans and credits is justified. Nevertheless, implementation of the proposed increase in lending activity should be conditioned on:

a. an improvement in public sector savings,

b. an improvement in the structure of foreign debt through a gradual reduction of the share of medium (1-10 years) term debt in the total,

c. continuing restraint on public sector investment to a "reasonable" level, to be appropriately defined by the forthcoming economic mission.

Debt Problems and Prospects

20. Tunisia's foreign indebtedness has grown rapidly - from an estimated $215 million at the beginning of 1965 to $510 million by the end of 1968. Moreover prior to 1968 the structure of foreign indebtedness had been deteriorating. Public capital inflows have not been as high as anticipated by the Tunisian authorities, and to supplement these resources Tunisia has relied heavily on borrowing from suppliers and private banks at terms less favorable than those applicable to foreign aid.

21. Last year, owing in part to the availability of funds raised on the Eurodollar market on more favorable terms, disbursements on medium term private credits (1-10 years) were reduced to a provisional $32 million from $46 million in 1967, and new authorizations of such borrowing at an estimated $30 million were less than repayments of $36 million. Nevertheless, for the past four years intermediate term credit has accounted for about half the inflow of loan capital, and service on medium term loans is expected to represent about three quarters of total debt service during the next four years.

22. Assuming that disbursements on new medium term private foreign credits are limited to $30 million next year and reduced to $20 million in 1971 and succeeding years, gross public capital inflows are projected to climb from $125 million in 1969 to $130 million in 1971, declining to about $100 million by 1974. This represents an average increase during 1969-1972 of about 25 percent over the amount of gross public capital inflow realized in 1967 and 1968 and is largely a function of a projected increase in annual fixed investment from about $260 million to $310 million during the period. Should shortfalls in public inflows occur, there would be increased pressure to resort to medium term foreign private borrowing.

23. During 1965-67 about 20 percent of new foreign borrowing contracted by Tunisia was on concessionary terms, mostly from the United States. From the period 1969-1974 it is projected that 25 percent of Tunisia's new public borrowing will be on concessionary terms. If no concessionary aid from other donors were available, the appropriate Bank/IDA mix could tentatively be estimated at 50/50, but if concessionary aid is available in historical proportions, the blend could be harder. Assuming that the USAID concessionary aid will decrease but not disappear, the proposed Bank/IDA lending program includes about a third of IDA financing.

II. THE LENDING PROGRAM

Bank Objectives

24. The prime objective of the Bank Group is to participate in and encourage through the Consultative Group the maximum possible public financing of the foreign exchange requirements of the Four Year Development Plan (1969-1972), reducing to a minimum Tunisian recourse to medium and short term credit. Bank Group financing would be attached to specific projects in all priority sectors and would finance most identifiable bankable projects in the earlier part of the program. There could be some local currency financing but no program financing. This general objective will have to be reviewed in the light of the conclusions of the forthcoming economic mission. Policy making at the macroeconomic level has been substantially strengthened during the last four years and Tunisia's modernizing leadership, though small, is growing and plays an important role. Bank activities in Tunisia should support these trends while encouraging more attention to project preparation and implementation, and to improvement of the economy (public finance, public enterprises, cooperatives, etc.).

Project Content of Lending Program

25. The proposed program closely follows the sectoral priorities (para. 16). The proposed lending in development finance companies ($30 million), phosphate ($20 million) and agriculture ($37 million) is aimed at early financial returns and increased export earnings, while the proposed lending in tourism infrastructure ($25 million), water supply and sewerage ($20 million), transport ($53 million), power ($20 million) and education ($20 million) should help remove bottlenecks impeding the development of tourism, industry and agriculture. All projects included in the program have been discussed at least tentatively with the Government or will follow on operations already made or under preparation. New projects to supplement or replace projects in the latter part of the program may be suggested by the forthcoming economic mission.

Rationale for Program

26. The forthcoming economic mission will review the Plan investment objectives. Pending this review, the program is intended to achieve a level of commitments commensurate with Plan requirements and there is no reason at present to determine Bank priorities different from those of the Plan. Total lending is constrained by absorptive capacity. Lending by Bank/IDA is limited by the expected volume of lending of other members of the Consultative Group and by the availability of projects. Should Consultative Group financing not be forthcoming at the forecast level, additional

Bank/IDA lending would be needed but would require intensification of the already large Bank/IDA project identification and preparation efforts.

27. If the Bank/IDA lending program has to be reduced, cutbacks should first be made in power where other financing might be obtained, and in education where new investments are slow yielding and existing investments could be more efficiently used. Additional cutbacks would apply to parts of projects with not very high rates of return and/or low export earnings prospects. This would probably lead to reductions successively in agriculture, phosphate, transport, water supply and sewerage, development finance and tourism infrastructure.

28. The Bank/IDA lending program would represent about 35 percent of total public foreign capital commitments during the period as compared to about 20 percent in the last five years. This increase is needed to compensate on one hand an expected decrease in USAID and on the other hand, the recommended decrease in medium term borrowings. The proposed IDA component would represent about a third of the total lending program (cf. para. 24).

Major Assumptions Underlining Lending Program

29. Before the report of the economic mission is available, it is not possible to list the precise policies and measures the Government should undertake. However, the most critical policies are those relating to improvement of public sector savings, the structure of foreign debt and continuing restraint on public sector investments (para. 20 above). Other important issues will be giving priority to high yield investment, removing bottlenecks in transport, slowing down the rate of creation of new cooperatives in agriculture, emphasizing education of middle management and technical specialists, creating favorable conditions for private enterprises and encouraging exports.

30. The Government has policies and is planning measures to deal with these problems. The progress that can be expected on most of them will be evaluated by the forthcoming economic mission. On the basis of its report, the size of the Bank/IDA lending program, its composition and the conditions to be fulfilled for its implementation will be specified and, to the extent desirable, discussed and confirmed with the Government. Serious overall deviations from the understanding reached would lead to reductions in total lending, and deviations resulting in a slower development rate of certain sectors would lead to reductions in lending to those sectors.

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III. OTHER BANK ACTIONS AND ISSUES

Consultative Group

31. The next meeting of the Group is planned for October 1969. Subsequent meetings should be held at 12-18 months intervals as in the past.

Technical Assistance

32. Study of water resources: A preliminary review for a Water Master Plan in the North of the country is about to be undertaken with Bank financing. This will possibly lead to the Master Plan itself (probably with UNDP financing). The Government is also requesting that a similar study be undertaken for the rest of the country, and the Bank should examine the role it could play in this respect once the results of the preliminary study are available.

33. Study of public enterprises: A mission is in Tunisia reviewing the public enterprises to advise the Government on how improvements could be made in the short run and which enterprises should be further studied for more fundamental improvements. A program of additional studies and possibly some investment opportunities are expected to result from the mission. The Bank would normally help in the organization and supervision of the studies as well as in the financing of the investments.

34. Development of phosphate exports: A marketing study is under way, and mining and other technical studies are about to be undertaken. The Government has requested Bank advice on how to organize such studies. The Government has also requested UNDP financing for a long term study of the sector and wants the Bank to act as executing agency. The need for the additional study is being reviewed. It might be more advisable to concentrate on the earlier studies and possibly to expand somewhat their objectives. If successful these studies should result in substantial investments for which provision is being made in the lending program.

35. Fiscal system: In the framework of our regular economic missions, a study of the fiscal revenue system is presently under way, and it is expected that the forthcoming economic mission will be able to make specific recommendations in this field.

36. During the forthcoming economic mission, additional fields of study are likely to be identified. A study on export opportunities and export promotion would appear of high priority and the Bank should be prepared to play a role in it. Continuation of Bank help in preparing projects and in improving institutions would also be of high priority.

37. The Tunisian Government has frequently requested that a small group of Bank specialists for project identification and preparation be stationed in Tunis. Recently Area and Project Departments project identification missions have been multiplied. As a result the 1969-74 lending program is $235 million compared to $115 million for the 1968-73 lending program. Further efforts of the same nature are needed to prepare these projects as well as to identify new ones and to improve implementation of the investment program. This approach appears more efficient and more economical than the creation of a permanent project preparation mission.

Joint Financing

38. The Swedish Government and the Bank have made a coordinate investment in SNI (DFC) and a joint one in the Water Supply organization. Additional joint financing with Sweden will probably take place in the field of water supply and sewerage. There is no immediate prospect of joint financing with any other organization at this time.

39. While not yet very bright, prospects for Tunisia's access to the international financial market exist. Recently Tunisia signed an agreement with a consortium of European Banks for issuing $15 million on the Euro-dollar market. The Bank has encouraged Tunisia to exercise its credit in the market and should be prepared to make some of its loans in conjunction with private or, eventually, public placements.

Law and Regulation

40. In March 1968 Mr. Woods recommended the amount and terms of the indemnity to be paid by the Government to the former Tunisian electricity companies. These recommendations have been accepted by all parties. Implementing them is a precondition for further lending. The legislation needed for this purpose is expected to be enacted soon.

41. Modification of the statutes of individual enterprises has usually been found necessary before the first loan to such enterprises was made. This has delayed financing in the past, but should be less time consuming in the future as the Government becomes more familiar with Bank's requirements.

Europe, Middle East and North Africa Department
March 24, 1969

Form No. 49

May 13, 1969

IBRD/IDA 5 YEAR LENDING PROGRAM
FOR TUNISIA (COUNTRY)

PROGRAM:	SECTOR PROJECT NAMES - UNALLOCATED 1/	Check one: IBRD	IDA	Amounts ($m.) 70	71	72	Timing (FY) 73	74
Agriculture	Oases irrigation	x					5	
	Agricultural Credit I	x			12			
	Agricultural Credit II	x					15	
	Fisheries	x			5			
Education III			x			10		
IV		x						10
Power		x				8		
Transportation	Highways Construction I	x			15			
	Highways Construction II		x				10	
	Ports III	x				10		
	Pipeline	x			8			
	Railways II		x			10		
Water Supply II		x			5			
Sewerage I			x			15		
Tourism Infrastructure I			x	10				
II		x					15	
Development Finance Companies	SNI III	x		10				
	IV	x				10		
	V	x						10
Industry	Phosphate I	x			10			
	II		x					20
	GRAND TOTAL 223	5 year total		20	55	53	55	40
TOTALS -	IBRD	148		10	55	28	35	20
	IDA	75		10		25	20	20

1/ Where projects not yet identified give total "unallocated" amounts indicating, in parenthesis, probable number of projects in appropriate amounts column.

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	Ports III	x				10		
	Pipeline	x			8			
	Railways II		x			10		
Water Supply II		x			5			
Sewerage I			x			15		
Tourism Infrastructure I			x	10				
II		x					15	
Development Finance Companies	SNI III	x		10				
	IV	x				10		
	V	x						10
Industry	Phosphate I	x			10			
	II		x					20
GRAND TOTAL	223	5 year total		20	55	53	55	40
TOTALS -	IBRD	148		10	55	28	35	20
	IDA	75		10		25	20	20

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Form No. 49A.

TUNISIA
MAY 13, 1969

ANNEX IV

BANK/IDA LENDING PROGRAM

	FY1965 and prior	FY1966	FY1967	FY1968	FY1969	FY1970	FY1971	FY1972	FY1973	FY1974
Agriculture		1/								
Bank	-	-	½/12	-	-	-	2/17	-	2/20	-
IDA	-	-	½/ 6	-	-	-	-	-	-	-
Communications										
Bank	-	-	-	-	-	-	-	-	-	-
IDA	-	-	-	-	-	-	-	-	-	-
Education										
Bank	-	-	-	-	-	-	-	-	-	1/10
IDA	1/5	-	1/13	-	-	-	-	1/10	-	-
Maint. Imports										
Bank	-	-	-	-	-	-	-	-	-	-
IDA	-	-	-	-	-	-	-	-	-	-
Power										
Bank	-	-	-	-	-	-	-	1/8	-	-
IDA	-	-	-	-	-	-	-	-	-	-
Transportation										
Bank	1/7	-	-	-	1½/17.8	-	2/23	1/10	-	-
IDA	-	-	-	-	½/ 8.5	-	-	-	2/20	-
Water Supply										
Bank	-	-	-	-	1/15	-	1/15	-	-	-
IDA	-	-	-	-	-	-	-	1/15	-	-
Tourism										
Bank	-	-	-	-	-	-	-	-	1/15	-
IDA	-	-	-	-	-	1/10	-	-	-	-
Dev. Fin. Cos.										
Bank	-	1/5	-	1/10	-	1/10	-	1/10	-	1/10
IDA	-	-	-	-	-	-	-	-	-	-
Industry										
Bank	-	-	-	-	-	-	1/10	-	-	-
IDA	-	-	-	-	-	-	-	-	-	1/20
Other & Unallocated										
Bank	-	-	-	-	-	-	-	-	-	-
IDA	-	-	-	-	-	-	-	-	-	-
Total										
Bank	1/7	1/5	½/12	1/10	2½/32.8	1/10	6/55	3/28	3/35	2/20
IDA	1/5	-	1½/19	-	½/ 8.5	1/10	-	2/25	2/20	1/20
Bank and IDA	2/12	1/5	2/31	1/10	3/41.3	2/20	6/55	5/53	5/55	3/40

Fiscal Years 1970-1974: Bank 15/148
IDA 6/75
Bank/IDA 21/223

½ refers to a project partly financed by Bank and partly by IDA.

1/ Each entry will show both the number of projects and the total dollar value for that year and sector, separated by a slash. Thus, for example, an entry of 4/57 would denote 4 projects with a total value of $57 million. If the exact number of planned projects for a year is not known, put an X where the number would otherwise be, e.g., X/57.

5-YEAR ECONOMIC DEVELOPMENT PROGRAM

Tunisia

			Actual Data						Projected Data						Period Growth Rates	
			1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1963-67	1970-74
Population - growth rate	%	1	2.4	2.4	2.3	2.3	2.2	2.2							2.3	
birth rate	per 1000	2	44.9	48.4	44.0	45.2	41.1									
Price Change - c.o.l. index	%	3	2.7	4.2	6.6	3.9	2.9	1.0							4.0	
exchange rate (dinar)	per US$	4	0.42	0.52	0.52	0.52	0.52	0.52	0.52							
Means of Payment - change	%	5	26.1	4.0	9.0	14.1	4.1	9.4							11.2	
GNP at factor cost; 1964 prices - Total	$ mil.	6	770	822	866	864	868	932	1,002	1,063	1,128	1,196	1,269	1,348		
per capita	$	7	183	193	197	192	189	200							1.1	
GNP at constant market prices - real growth rate	%	8	5.2	6.6	5.4	-0.2	0.4	7.4	7.5	6.1	6.1	6.0	6.1	6.2	3.4	6.1
GDP at current market prices - Total	$ mil.	9	956	967	954	976	1,022	1,098	1,181	1,260	1,337	1,421	1,504	1,587		
Production Growth (real) - agriculture	%	10	28.2	3.8	-18.2	-15.2										
food per capita	%	11	26.7	1.8	-21.6	-18.7										
manufacturing	%	12														
GDP by Branch - agriculture	%	13	24.2	23.2	23.0	17.3	15.4	17.1	17.1	16.6	16.2	15.6	15.2	14.6		
mining	%	14	1.8	2.0	2.6	3.7	5.2	5.8	6.8	6.8	6.7	6.8	6.8	6.8		
manufacturing	%	15	13.0	14.6	13.8	14.8	14.8	14.8	14.8	15.0	15.3	15.6	15.9	16.2		
construction	%	16	9.8	8.9	9.3	9.7	9.3	7.8	8.0	7.9	7.6	7.5	7.4	7.2		
transport & communication	%	17	7.9	7.9	8.6	9.6	9.5	9.2	8.9	8.9	9.1	9.1	9.2	9.3		
public admin. & defense	%	18	14.6	14.1	13.7	16.7	17.2	17.6	16.9	17.0	17.2	17.4	17.5	17.6		
other branches	%	19	28.7	29.3	29.0	28.2	28.6	27.7	27.5	27.8	27.9	28.0	28.0	28.3		
Resource Gap	% of GDP	20	9.8	11.6	14.3	10.4	10.4	5.3	5.7	4.7	4.2	3.5	2.8	2.4		
Net Factor Payments	% of GDP	21	1.5	1.8	2.5	2.8	3.8	3.9	3.7	4.0	4.0	3.9	3.8	3.4		
National Saving - private	% of GDP	22	7.8	7.2	7.0	8.6	6.9	10.4	8.6	9.0	9.3	9.6	9.6	9.7		
public	% of GDP	23	1.6	3.7	4.2	4.2	2.9	1.6	3.3	3.5	3.6	3.9	4.2	4.5		
Total	% of GDP	24	9.4	10.9	11.2	12.8	9.8	12.0	11.9	12.5	12.9	13.5	13.8	14.2		
Marginal Saving Rate		25													.20/a	.21
Consumption - private	% of GDP	26	72.9	70.6	70.4	66.4	67.6	64.8	65.1	64.7	64.3	63.9	[illegible]	[illegible]		
public	% of GDP	27	16.2	16.7	16.0	18.0	18.9	19.4	18.9	18.8	18.7	18.6	18.7	18.8		
Total	% of GDP	28	89.1	87.3	86.4	84.4	86.5	84.2	84.0	83.5	83.0	82.5	82.4	82.4		
Exports of Goods and Services	$ mil.	29	181.9	200.9	189.8	219.8	231.5	242.7	269	292	317	342	377	413	5.9/a	9.0
Imports of Goods and Services	$ mil.	30	275.6	321.5	326.2	321.3	337.3	300.6	337	352	369	392	419	452	1.8/a	6.1
Net Goods and Services	$ mil.	31	-93.7	-120.6	-136.4	-101.5	-105.8	-57.9	-67	-60	-52	-50	-42	-38		
Interest on Public Debt, Gross: Outflow (-)	$ mil.	32	-3.3	-5.2	-8.5	-11.7	-15.4	-17.3	-17	-20	-20	-20	-20	-17		
Other Investment Income, Net: Outflow (-)	$ mil.	33	-18.3	-17.1	-15.0	-16.9	-23.3	-25.2	-27	-30	-34	-36	-38	-37		
Net Investment Income: Outflow (-)	$ mil.	34	-21.6	-22.3	-23.5	-28.6	-38.7	-42.5	-44	-50	-54	-56	-58	-54		
CURRENT SURPLUS(+) DEFICIT(-)	$ mil.	35	-115.3	-142.9	-159.9	-130.1	-144.5	-100.4	-111	-110	-106	-106	-100	-92		
Long Term Private Capital, Net inflow	$ mil.	36	33.1	34.3	61.6	40.9	27.1	23.8	18	6	8	14	18	20		
Long Term Public Capital, Gross inflow	$ mil.	37	78.1	91.1	92.5	64.2	102.6	99.1	124	136	131	121	110	102		
less: amortization	$ mil.	38	1.2	4.2	5.8	7.2	9.5	13.1	19	20	23	24	25	27		
Net long term pub. cap. inflow	$ mil.	39	76.9	86.9	86.6	57.0	93.1	86.0	105	116	108	97	85	75		
Short Term Capital, Net inflow	$ mil.	40	0.5	6.5	--	6.4	1.4	--								
Other Capital, Net Inflow (incl. errors & om.)	$ mil.	41	-15.9	5.4	4.6	9.3	10.6	4.9								
NET BALANCE	$ mil.	42	-20.7	-9.8	-6.9	-16.5	-12.3	14.2	12	12	10	5				
IMF Drawings(+) Repayments(-)	$ mil.	43	--	5.2	17.1	25.3	26.5									
Foreign Exchange Reserves, Inc.(+) Dec.(-)	$ mil.	44	1.5	-30.0	6.1	-3.2	11.2	1.4	12	12	10	5	3	3		
Foreign Exchange Reserves, Net - Total	$ mil.	45	3.8	-6.0	-12.9	-29.4	-41.7	-27.5	-15.5	-3.5	6.5	11.5	11.5	11.5		
Foreign Exch. Reserves, Gross - govt. entities	$ mil.	46	63.4	33.4	39.5	31.3	42.5	43.9								
comm. banks	$ mil.	47	9.0	4.4	4.4	8.3	9.8	9.6								
Total	$ mil.	48	72.4	37.8	43.9	39.6	52.3	53.5								
External Debt /b	$ mil.	49	227	283	368	423	545									
Debt Service Ratio	%	50				18	19	23	24	24	24	23	22	20		
Export Price Index	%	51														
Central Government /c - Current revenue	% of GDP	52	22.2	24.3	24.7	27.4	26.9	26.3	27.5	27.6	27.8	28.0	28.4	28.7		
Current expenditure	% of GDP	53	20.6	20.6	20.5	23.2	24.0	24.7	24.2	24.1	24.2	24.1	24.2	24.2		
Saving	% of GDP	54	1.6	3.7	4.2	4.2	2.9	1.6	3.3	3.5	3.6	3.9	4.2	4.5		
Capital revenue	% of GDP	55														
Capital expenditure	% of GDP	56	13.2	15.2	13.6	13.3	14.1	12.8	13.7	13.4	12.9	12.2	11.9	11.9		
Surplus(+) Deficit(-)	% of GDP	57	-11.6	-11.5	-9.4	-9.1	-11.2	-11.2	-10.4	-9.9	-9.4	-8.3	-7.7	-7.4		
Military expenditure	% of GDP	58	1.6	1.7	1.5	1.8										
Education - expenditure (general government)	% of GDP	59	3.7	4.0	4.2	4.8	5.1	5.5	5.7	5.6	5.8	5.8	5.9	5.9		
school enrol., primary & second.	%	60		63												
literacy rate, adult /d	%	61	16													
Tax Revenue (general government)	% of GDP	62	15.0	16.1	15.8	17.9	17.6	17.2	17.9	17.9	17.8	17.7	17.8	17.8		
Public Saving (% of public fixed investment)	%	63	7.4	15.1	15.7	16.7	12.2	7.8	15.4	16.8	17.2	18.7	20.6	22.4		
Gross Investment - private fixed	% of GDP	64	6.0	6.0	4.9	5.0	5.2	7.2								
public fixed	% of GDP	65	16.0	18.2	21.7	20.4	17.7	13.5								
increase in stocks	% of GDP	66	-1.3	0.1	1.3	0.6		0.4	0.5	0.3						
Total	% of GDP	67	20.7	24.3	27.9	26.0	23.9	21.1	21.7	21.2	20.9	21.0	20.5	20.0		
Finance of Investment - National saving	%	68	45.4	44.9	40.0	49.2	40.8	56.7	54.9	59.0	62.1	64.5	67.5	70.9		
Foreign capital	%	69														
private	%	70	10.8	14.9	22.5	19.5	16.0	12.4	8.8	2.2	2.8	3.2	5.6	5.5		
public	%	71	33.3	35.5	34.9	24.7	38.1	37.1	41.4	43.2	38.6	32.3	27.8	23.9		
Total	%	72	44.1	50.4	57.4	44.2	54.1	49.5	50.2	45.4	41.4	35.5	33.4	29.4		
Change in reserves	%	73	10.5	4.7	2.6	6.6	5.1	-6.2	-5.1	-4.4	-3.5		-0.9			
Public Investment by Sector - agriculture	%	74		22.2	20.8	19.9	19.0	19.3	20.0	19.0	18.6	18.7	21.9	21.2		
industry	%	75		27.4	35.3	26.3	22.9	21.2	20.0	24.1	25.5	29.0	28.1	27.3		
power	%	76		5.4	5.9	4.7	8.3	5.4	6.9	8.8	8.3	7.1	5.0	6.1		
housing	%	77		12.8	10.6	7.9	9.2	11.3	9.2	8.8	7.6	8.4	9.4	9.7		
transportation /e	%	78		8.9	5.7	12.6	9.2	11.4	13.1	12.4	12.4	9.0	7.5	8.5		
telecommun.	%	79														
education	%	80		4.6	7.6	7.9	9.9	10.6	9.2	7.3	7.6	7.7	8.1	7.9		
health	%	81			0.9	1.3	1.3	1.4	1.5	2.2	2.1	1.9	2.5	2.4		
other	%	82		18.7	13.2	19.4	20.2	19.4	19.2	17.4	17.9	18.2	17.5	16.9		

/a 1964-68. /b Including loans undisbursed. /c General Government. /d 1955. /e Including telecommunication.

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FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 22, 1970

FROM: D. Hartwich DH

CONFIDENTIAL

SUBJECT: Tunisia - Visit of Mr. Chedly Ayari, Secretary of State for Planning, on Friday January 23, at 12:15

1. Mr. Chedly Ayari is stopping over in Washington, on a private trip to Canada and the United States. He will have discussions at the working level on Thursday and Friday morning, and will call on you on Friday, at 12:15.

2. This will be his first visit to the Bank after he was appointed Secretary of State for Planning last November. He knows the Bank, however, having been Alternate Executive Director to Mr. Tazi from November 1964 to October 1965. During the staff discussions, we will endeavor to clarify a number of points listed below. I do not expect that Mr. Ayari will raise these points with you. He indicated, however, that he would want to suggest to you that the World Bank call a special Consultative Group Meeting to discuss the coordinated international aid for the Tunisian flood damages (cf. para. 16 below).

3. Mr. Ayari will be accompanied by Mr. El Goulli, new Ambassador of Tunisia, and Mr. Ben Yahia, Attaché. The Ambassador has an appointment at the State Department shortly before, and may be late.

Biographical Note

4. Mr. Ayari was born in 1933 in Tunis; he has a background in economics and worked from 1958 to 1960 as head of the research department of the major commercial bank in Tunisia. From 1960 until he came to the Bank in 1964, he was with the Tunisian UN mission in New York. Returning from his position with the Bank in 1965, he taught economics at the University of Tunis, where he was lately Dean of the Law and Economics Faculty, and Head of the Economic Research Institute. He was appointed Secretary of State for Planning in the Government reshuffle of last November, which followed the ousting of Mr. Ben Salah in October.

Governor and Capital Increase

5. As you may remember, Mr. Ben Salah's responsibilities as Secretary of State for Planning and National Economy were first taken over by Mr. Rassaa, who has become Governor for the Bank and, at the last Annual Meeting, was elected Chairman for the 1970 Annual Meeting. We still do not know how Ayari and Rassaa, who now holds the Ministry of Finance, are sharing responsibilities, nor do we know who will be

President has seen

the Governor of the Bank, and therefore Chairman of the Annual Meeting. The Tunisian Embassy informed us verbally that Mr. Ayari had been designated for this position; in spite of repeated requests, we have not yet received a written confirmation.

6. We were also informed recently that Tunisia does not intend to waive her pre-emptive right to an increase of authorized capital stock. This may be due to a misunderstanding.

7. Mr. Mendels took up both questions with Mr. Ayari this morning. Mr. Ayari confirmed his new designation as Governor for the Bank, and promised that the official letter from the Government will be sent soon after his return to Tunis. He also promised a cable for early next week, clarifying his Government's position with regard to the increase in authorized stock.

Changes in Government Policy

8. The Government is visibly turning away from Mr. Ben Salah's policies, which had gone out of hand in early 1969. This is in particular affecting the agricultural sector. We have just received a letter signed by the Prime Minister's Cabinet Director, informing us that all the agricultural cooperatives have been dissolved.

9. Government policies in other sectors of the economy are still being formulated. We will discuss this with Mr. Ayari at staff level, but it is only after the return of our economic mission at the beginning of February that we will be able to have a clear picture.

Effects of the Government Change on Bank Projects

10. The strong sense of direction which existed under Mr. Ben Salah has disappeared. We feel this in the project work.

11. The new government policies will affect most directly our 1967 \$18 million cooperative farm project (Bank: \$12 million; IDA: \$6 million) of which about \$12.6 million are still undisbursed. We know that only 158,000 ha. out of 315,000 ha. will stay in the project, but the system under which this land will be administered is still uncertain (cooperative, State farms or transfer to private property). A supervision mission will visit the country at the end of February. It appears certain that the major part of the undisbursed balance will be canceled (possibly about \$6 million Bank, and \$3 million IDA).

12. Progress in preparing our second water supply project scheduled for Fiscal Year 1970 (\$10.5 million IDA) is satisfactory, although certain organizational improvements are somewhat lagging.

13. Interest in the family planning project (\$3.0 million IDA scheduled for Fiscal Year 1971) seems to be lessening on the part of the new Government.

14. We will discuss these and other projects in the pipeline with Mr. Ayari.

Fields of Future Cooperation

15. Our Economic Mission has cabled that Mr. Ayari may request Bank assistance in computerizing the external debt administration, in providing an adviser to the planning administration and organizing a review of the industrial sector. We should await the return of the mission before making any commitment on these points.

Issue to be discussed

16. Mr. Ayari will suggest that the Bank call a special meeting of the Consultative Group for discussing the damages caused by the floods last September/October, and the financing of the reconstruction efforts. The next regular meeting of the Consultative Group is scheduled for June 1970. The idea of a special meeting was first launched by USAID a few weeks ago.

17. It seems not advisable to call a meeting of the Consultative Group before June. To be meaningful, such a meeting would have to be based on a report which shows at least the extent of the damages and recommends concrete reconstruction measures for the priority sectors. We could not possibly prepare anything of this kind before June 1970, and even that cannot be promised before we check the availability of staff. We also believe that the Tunisians could hardly do their part in the preparation of such a report within a shorter period. So far, they have only established very global estimates of the damages (Dinars 40 million = around $80 million). I should add that in the discussions we had sofar, Mr. Ayari has streesed that reconstruction of the flood damages should be based on economic criteria.

18. If the Tunisians insist on an early meeting, we might suggest that they call a meeting of important aidgivers on their own behalf and chair it. The Bank could be represented.

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 16, 1970

FROM: R.H. Springuel RHS

SUBJECT: TUNISIA - Visit of Mr. Masmoudi, Minister of Foreign Affairs, to Mr. McNamara

On November 3, Mr. Masmoudi visited Mr. McNamara. Mr. Masmoudi was accompanied by Messrs. Slaheddine El Goulli, Ambassador of Tunisia, and Abdelaziz Lasram, Director for International Cooperation, Ministry of Foreign Affairs.

After Mr. Masmoudi had conveyed the compliments of President Bourguiba and Mr. Nouira, who had just been appointed Prime Minister, he indicated Tunisia was facing a difficult situation. One could say this was due to the legacy of the previous Government, the floods, or the under-development of the country. These excuses might have some validity, but it was much more important to emphasize the willingness and the efforts of the Tunisians to face the situation and give priority to economic development. The world context in which this effort was being made was important, and the Minister wanted to know what Mr. McNamara felt about these matters, and in particular about the external resources developing countries like Tunisia could hope to receive.

Mr. McNamara recalled that the Pearson's Commission and the committees preparing the second development decade had outlined the growing needs of the developing countries, and pointed out that the transfer of resources from developed countries had been declining in the last five years, both as a percentage of their own resources and in relation to the needs of the developing countries. However, from the World Bank point of view, the perspectives were better with the third IDA replenishment agreed upon, and now submitted to the various legislatures. This represented a 100 percent improvement from $400 to $800 million which hopefully would come into effect next year. The IDA replenishment was extremely important for Tunisia since it received one of the highest IDA allocations per capita, about five times that of India for instance. This increased flow would need to be used effectively and Mr. McNamara was happy to hear Mr. Masmoudi reaffirm the Tunisian willingness to help itself.

The World Bank intended to continue its high level of activity in Tunisia, and Mr. McNamara wanted to bring to the attention of Mr. Masmoudi two points where further Tunisian self-help might be needed. The first one was the high level of debt and consequent debt service. Debt was becoming a serious problem in an increasing number of countries, and it was particularly serious in Tunisia. It was very important that Tunisia control carefully new short-term debts to improve its debt structure.

President has seen

Mr. McNamara went on to say that the second matter was delicate, and that he mentioned it only with some hesitation. He knew Messrs. Gaud and Benjenk had discussed two appointments with Mr. Masmoudi, and he had not been able to get himself acquainted with the details. He therefore did not wish his remark to be related to the personalities concerned, but he wanted to state that the will of a country to help itself had to be judged in part by the appointments it made.

Mr. Masmoudi wanted to thank Mr. McNamara for his wise advice. He noted that neighboring countries had shown unreason. Even Tunisia had done so with a number of large projects. When rich, one could be unreasonable, but when natural resources were limited, one had an obligation to use them well. Mr. Masmoudi felt Tunisia was now reasonable since priority was given to agriculture and to education.

Mr. Masmoudi enumerated requests received from a great number of African and Arab countries (in particular Libya) for middle level personnel. Approximately 500 Tunisians were now employed in other countries. Tunisian salaries were paid to their families in Tunisia, while they received salaries in the host country. A new standard contract was being worked out.

Mr. McNamara expressed interest in this development, which would give him an argument to justify the high level of aid to Tunisia. Mr. Masmoudi promised to send a memorandum giving the details.

Mr. Masmoudi mentioned a number of prominent Tunisians already serving the international community (Messrs. Guetta, Labidi, soon Mathari, etc.). The role of these men as well as the requests gave Tunisia a new vocation to provide assistance, particularly middle-level assistance to other developing countries. While it was possible to obtain external help to build a factory or make other tangible investments, there was practically no external help to finance the education of experts. Mr. Masmoudi pleaded for understanding on this from both bilateral and multilateral aid. Mr. McNamara noted that the Bank had made many loans to finance the development of secondary education.

Turning to the second point mentioned by Mr. McNamara, Mr. Masmoudi said that the only concern of the Government in making the two appointements had been to give more prominence to the two institutions. It was not a political appointment since it would have been easy to maintain the two personalities concerned in the Government, and it was not nepotism which had no place in Tunisia. Mr. Masmoudi added that everybody had the right to make errors. Mr. McNamara agreed that indeed everybody had the right to make errors, but not when it was known in advance they were errors.

Mr. Masmoudi reiterated the Government's wish that the Bank help Tunisia in the development of the phosphate industry. He knew the Bank was already involved, and hoped it would continue.

Memorandum for the Record November 16, 1970

Finally Mr. Masmoudi, on behalf of President Bourguiba and Prime Minister Nouira, wanted to renew the invitation extended to Mr. McNamara. Tunisia wanted to show its development, its errors as well as its ambition, to be judged as it was. Mr. McNamara was very grateful. When he would come, it would not be to judge but to learn. Since the Kennedy days, he had been a great admirer of President Bourguiba and all he had done for his country. He certainly hoped he would be able to come soon at a mutually convenient time.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr Robert S. McNamara

DATE: November 2, 1970

FROM: Munir P. Benjenk MPB

SUBJECT: TUNISIA - Visit of Mr Mohamed Masmoudi, Minister of Foreign Affairs

1. Mr Mohamed Masmoudi, Tunisian Minister for Foreign Affairs, is in Washington for bilateral consultations after attending the UN General Assembly. He will call on you on Tuesday, November 3 at 4.30 p.m., accompanied by Mr El Goulli, Ambassador of Tunisia, and (possibly) Mr Abdelazis Lasram, Director for International Cooperation, Ministry of Foreign Affairs.

2. The Embassy has explained that this is above all a courtesy call, without any particular questions to be discussed. I believe, however, that Mr Masmoudi may wish to discuss with you the appointment of two ministers as presidents of financial institutions connected with the Bank Group (para 12 - 18 below). I understand Mr Gaud has discussed this matter with you.

Biographical Note

3. Mr Masmoudi is 45 years old and one of the political veterans of Tunisia's struggle for independence, gained in 1956. He has kept very close personal ties with France ever since he studied political sciences in Paris in the mid-forties, and served as Ambassador in Paris 1956-58. Having fallen into disgrace for a short period in 1958 for criticism of the regime, he was appointed Minister of Information in 1960. Again disgraced in 1961 for his support of an oppositional newspaper and a personal clash with President Bourguiba, he once more became Ambassador to Paris in 1965 (following a second reconciliation with the President) to restore relations with France after the break of 1964. Mr Masmoudi remained in that post until June this year, when he was appointed Foreign Minister. He is said to have established a close relationship with Bourguiba during the latter's convalescence in Paris, October 1969 - June 1970, and is generally described as a French-oriented, skillful and ambitious politician.

Current Political Situation in Tunisia

4. Ben Salah's downfall in September 1969, in which Mr Masmoudi is said to have played a significant role, initiated a transitional period in Tunisian politics which still continues. The formerly prevalent and pragmatically based socialist options are being seriously questioned in favor of more liberal, but still vaguely defined, policies. Furthermore, President Bourguiba's age and faltering health have contributed to a lack of political decisiveness and cohesion. In June 1970 Bourguiba set up a high-level commission (including Masmoudi) to review the country's political institutions and prepare recommendations for their modernization. The committee recommended

President has seen

a limited democratization of the Tunisian regime. These recommendations were to be discussed and ratified by a Congress of the Neo-Dastour Party this month. Apparently disillusioned and bitter about the political in-fighting that had meanwhile arisen, Bourguiba recently decided, however, to postpone the Congress by one year.

5. Further political changes have been announced today. The main ones concern Hedi Nouira (chairman of the last Bank/Fund Annual Meeting), Minister of Economic Affairs, named yesterday Prime Minister by President Bourguiba; Bahi Ladgham, Prime Minister, now named personal representative of Mr Bourguiba; and Ahmed Mestiri, Minister of the Interior and rapporteur of the Commission, who is said to have left the Government yesterday. These three influential personalities and Mr Masmoudi have in common a strong mistrust of further socialist experiments, but do not dare abandon the socialist phraseology. Mr Nouira is clearly the most conservative element of the group, while the others are probably moderate liberals. Ladgham has been for 30 years the faithful assistant of Bourguiba. Nouira is a possible successor to Bourguiba, although he has little popular following. Masmoudi is said to have a strong following in the party, but Mestiri is clearly the most popular of the four.

Relations between the Bank and Tunisia

6. Our overall relations with Tunisia are very good. Total Bank/IDA lending to date amounts to approximately $120 million spread over transport (ports, railroads), education, water supply, agriculture, and DFC financing. The current fiscal year's lending program amounts to $38.5 million and comprises one IDA credit for a population project ($4 million) and three Bank loans for, respectively, agricultural credit ($9 million), a gas pipeline ($7.5 million) and a highway construction project ($18 million).

7. A cause for increasing concern during the past years has been Tunisia's foreign debt position, a disappointing performance in keeping current government expenditure under control, and the failure to curtail reliance in the investment program on external financial assistance. Last July, the Economic Committee considered Tunisia's economic performance to have been "mediocre".

Possible Topics

8. The role of the Tunisian Consultative Group in attracting European investments and technical assistance: As mentioned above, Mr Masmoudi is French-oriented and, in line with Mr Pompidou's policies, he is advocating a greater role for France and the rest of Europe in the Mediterranean area to offset what he considers excessive US and USSR influence. He sees this role not in military terms, but essentially in the form of an increased European economic involvement to help the Arab world to stand on its own feet and get closer to the European Common Market.

9. Mr Masmoudi's foreign policies are matched by domestic investment policies. During the past month, Tunisia has opened up foreign investment in most economic sectors and is now actively looking for foreign partners in joint ventures. The best way in which the Bank could support these efforts would probably be through attempts to mobilize the support of the Consultative Group members. A first step toward dissemination of private investment opportunities was taken at the last Consultative Group meeting in June this year, and we intend to discuss with the Government how these efforts can be best pursued.

External Debt Position

10. Both the Bank and the Tunisian Consultative Group members view the external debt position with a great deal of concern. Briefly, external public and publicly-guaranteed debt outstanding by the end of 1969 was about $700 million (equal to 60 percent of GNP), and the total debt service ratio is about 25 percent (equal to 36 percent of gross national savings). Debt service payments decline only slowly during the coming five years as a result of high short- and medium-term borrowing in the past, while obligations in subsequent years are already high as a result of long-term debts contracted. To prevent an aggravation of the debt burden, public external borrowing should not exceed about $130 million per year, an average close to the 1969-72 Development Plan target and the 1969 level of borrowing. Over 1966-70, IDA financing has made up 35 percent of our total lending to Tunisia, and the IDA portion in the 1971-76 lending program amounts to 40 percent, or $2.53 per capita, which is one of the highest per capita allocations in the world.

The Future of Tunisia's Planning Organization

11. As mentioned above, Mr Nouira has become Prime Minister. He is known to have little regard for economic planning and his nomination which was foreseen was viewed with fear in the Ministry of Planning, which is directly attached to the Office of the Prime Minister. Mr Masmoudi's views on planning are not known, but it might be useful to emphasize with him the importance of a good central planning organization, which can help the Government make rational economic choices, maintain the main contact with the Bank, and monitor the execution of the program.

Management of financial institutions

12. I understand Mr Masmoudi discussed with Mr Gaud the proposed appointment of Mr Bourguiba Jr. as president of SNI and that of Mr Ben Amar as president of COFITOUR. The background is summarized below.

13. The Bank has made three loans, totalling $25 million, to Societe Nationale d'Investissement (SNI), the Tunisian development bank, and is prepared to appraise a fourth one of $10 million in the early part of 1971.

The Swedish foreign aid agency (SIDA), relying on the Bank's appraisal of SNI, has made two loans to SNI totalling $9 million. In 1966 IFC invested $570,000 equivalent in the share capital of SNI and in June 1970 IFC approved a new equity investment of $630,000 in SNI to maintain its participation at 20 percent of the total share capital. In both cases IFC organised the group of foreign investors which subscribed to the new issue. The Bank, IFC and the investors they brought in are providing all the foreign exchange requirements and a large fraction of the local currency requirements of SNI.

14. In 1969 IFC also made a $9.9 million investment ($8 million loan and $1.9 million equity) and organized the group of foreign investors which subscribed to the $10 million share capital of Companie Financiere et Touristique (COFITOUR), a financial institution specializing in hotels and other tourist superstructure investments. IFC investment alone represents about a quarter of the total funds at the disposal of COFITOUR, which is expected to finance 25 to 33 percent of investments in Tunisian hotels in the next few years.

15. When SNI was reorganized as a condition of the Bank loan and initial IFC investment, Mr Abdelaziz Matari, a well-known Tunisian banker, was made its President. In October 1969 Mr Matari became president of COFITOUR and was replaced at the head of SNI by Mr Moncef Belkhodja, head of the credit department of the Central Bank. The performance of Mr Matari has been excellent as head of both institutions but, for personal reasons, he has now decided to leave COFITOUR to take charge of SEFIDA. Mr Moncef Belkhodja has not had time to prove himself.

16. Last summer we learned that the Government was planning to replace Mr Moncef Belkhodja, President of SNI, by Mr Hassan Belkhodja, Minister of Economic Affairs until June 1970 but in search of a new job after the last Government reshuffle. We represented at the time that, without entering into the respective merits of the present president and the proposed one, the Bank objected to a change which would have (i) prevented normal management continuity and (ii) established SNI as a dumping ground for former political figures. The Government did not make the proposed move.

17. As noted above, further Government changes are being made and Mr Gaud has been informed last week by Mr Masmoudi and the Tunisian Ambassador that President Bourguiba intends to have Mr Bourguiba Jr. (his son) named as President of SNI, while keeping Mr Belkhodja as general manager. Mr Bourguiba Jr. has been Minister of Foreign Affairs for years until the downfall of Ben Salah and has been Minister of Justice since then. He is said not to work very hard and the Ambassador has said that President Bourguiba has assured that this would be an honorary function, the real responsibility of management remaining with Mr Moncef Belkhodja. While far from ideal, such an arrangement is probably acceptable to the Bank Group.

18. On the other hand, the Ambassador has also indicated that President Bourguiba intends Mr Ben Amar (his brother-in-law) to be named as President of COFITOUR in replacement of Mr Matari who is leaving. A technical specialist still to be chosen would become the general manager of COFITOUR. Mr Ben Amar is a lawyer and has been Minister of Tourism for the last year. His performance in that capacity has been far from impressive, as testifies the repeated delays in the tourism infrastructure project prepared with Bank assistance. Considering that COFITOUR is a new institution which must still establish itself, a political figure to head it appears unacceptable and IFC proposes to resist strongly this proposal.

LEC COPY

10/9 To Mr. Hartwich

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 9, 1970

FROM: D. Hartwich DH

SUBJECT: TUNISIA - Visit of Minister of Foreign Affairs Mr. Mohamed Masmoudi, to Washington

Mr. Mohamed Masmoudi, Tunisian Minister of Foreign Affairs, will be in Washington from October 26 to 28, and wants to call on you. The Embassy has asked us to request a meeting with you for October 26 or 28.

Sofar, we have no indication of what Mr. Masmoudi wants to discuss with you, and possibly it will amount to a courtesy call. I recommend that you see him. OK RMcN

Masmoudi is the former Tunisian Ambassador to Paris, close to President Bourguiba, and a member of the four-men group which took over when Ben Salah was ousted last autumn. He is said to have to a large extent engineered his downfall. The group comprises Hedi Nouira, who is considered as likely to become Prime Minister shortly, Ahmed Mestiri, now Minister of the Interior who openly broke with Ben Salah in early 1968, and then resigned as Defense Minister, and Bahi Ladgham, the present Prime Minister.

Masmoudi is a skillful politician who tends to follow a less conservative line than Nouira, and he may emerge as the leading personality once the pendulum swings away from the right. Masmoudi is close to the French, and is advocating a greater role for France and Europe in the Mediterranean area to balance what he considers excessive US and USSR influence. He sees this role not in military terms, but essentially in the form of growing public and private European investments and technical assistance to help the Arab World to stand on its own feet and get close to the Common Market.

Is you wish to see him, we will try to find out the issues Mr. Masmoudi might raise. You might want to discuss:

(a) the future of Tunisia's planning organization (which is said to be at stake if Nouira becomes Prime Minister);

(b) Tunisia's growing external debt;

(c) the role of the Consultative Group in attracting European investments and technical assistance.

A brief will be prepared if you decide to see him.

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MEMORANDUM FOR THE RECORD October 9, 1970

Mr. McNamara called upon Mr. Nouira, Chairman of the 1970 Annual Meeting, on Friday, September 18, at the Bella Centre in Copenhagen. After the meeting Mr. McNamara asked me to inform Mr. Benjenk that the Minister had reiterated President Bourguiba's invitation to Mr. McNamara to visit Tunisia. Mr. McNamara had been noncommittal on this point, but had expressed his sincere appreciation for the invitation.

The Minister had also asked Mr. McNamara to help the Government with two projects of key importance in Tunisia's development program:

-- a fishery project which he thought would yield substantial economic benefits, and a tourism project covering the area around a lake near the city of Tunis.

The Minister had pointed out that there was perhaps no need for Bank financial support in these projects, but the Government would in any case ask the Bank to help them with the evaluation of these two projects. Mr. McNamara had replied to the Minister that the Bank would do its best to help him in these matters, despite an overloaded Fiscal 1970 mission schedule. Area Department would be in touch with the Government directly.

L.E. Christoffersen

cc: Mr. Knapp
Mr. Aldewereld
Mr. Benjenk

President has seen