

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: Travel Briefings: Tunisia - Travel briefs 02 (01/05/1973-31/05/1973)

Folder ID: 1772684

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: May 16, 2013

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK  
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or  
The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

Archives

A1995-259 Other #: 15

1772684

309696B

Travel Briefings: Tunisia - Travel Briefing

*McNamara Paper*

*Folder 2 of 2*

**DECLASSIFIED**

WBG Archives

F

GNP PER CAP: \$ 350

OPERATIONS PROGRAM		TUNISIA - 6 YEAR OPERATIONS AND LENDING PROGRAMS (BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)					
		1973	1974	1975	1976	1977	1978
5-TUN-AC-02	RURAL DEVT-CNTRL TUNISIA			8.0			
5-TUN-AC-05	AGR. CREDIT III					6.0	
5-TUN-AC-06	AG.CR. RURAL DEVT.				5.0		
5-TUN-AF-02	FISHERIES II						5.0
5-TUN-AI-01	IRRIG. REHABILITATION I		6.0				
5-TUN-AI-03	IRRIG.DEVT.I(SIDI-SALEM)			11.0			
5-TUN-AI-04	IRRIGATION DEVT.II					9.0	
5-TUN-AL-01	LIVESTOCK I (SEDJENANE)		3.0				
5-TUN-AL-02	LIVESTOCK II					7.0	
5-TUN-DD-05	SNI V (DFC)	14.0					
5-TUN-DD-06	SNI VI DFC			14.0			
5-TUN-DD-07	DFC-SNI VII					15.0	
5-TUN-EE-03	EDUCATION III			7.0			
5-TUN-EE-04	EDUCATION IV						7.0
5-TUN-IL-01	INDUSTRY II-TEXTILES				6.0		
5-TUN-IM-01	PHOSPHATE PROJECT		16.0				
5-TUN-IX-01	INDUSTRY III UNIDENT.						12.0
5-TUN-NN-02	POPULATION II				7.0		
5-TUN-QQ-02	TOURISM TRAINING		5.0				
5-TUN-QQ-03	TOURISM INFRASTRUCT.II				10.0		
5-TUN-TH-03	ROADS CONSTRUCTION II					8.0	
5-TUN-TR-02	RAILWAYS II*				5.0		
5-TUN-UT-01	URBAN TRANSPORT		23.0				
5-TUN-WE-01	URBAN SEWERAGE I		12.0				
5-TUN-WE-02	URBAN SEWERAGE II						8.0
5-TUN-WW-03	WATER SUPPLY III*				7.0		
5-TUN-WW-04	WATER SUPPLY IV						9.0

\*Projects in the contingency list for FY 1975

POPULATION: 5.0M

TABLE IVA

PAGE 89

GNP PER CAP: \$ 350

TUNISIA - 6 YEAR OPERATIONS AND LENDING PROGRAMS  
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM

1973 1974 1975 1976 1977 1978

	1964-68	1969-73	1974-78
IBRD	34.0	145.3	146.0
IDA	19.0	45.8	62.0
TOTAL	53.0	190.1	208.0
NO	5	16	25

	1973	1974	1975	1976	1977	1978
IBRD	30.0	21.0	33.0	28.0	38.0	26.0
IDA	7.0	21.0	7.0	12.0	7.0	15.0
TOTAL	37.0	42.0	40.0	40.0	45.0	41.0
NO	2	5	4	6	5	5

LENDING PROGRAM (10/15/72)

	1964-68	1969-73	1974-78
IBRD	34.0	137.3	130.0
IDA	19.0	45.8	40.0
TOTAL	53.0	183.1	170.0
NO	5	16	21

	1973	1974	1975	1976	1977	1978
IBRD	22.0	27.0	29.0	21.0	28.0	25.0
IDA	7.0	12.0	7.0	7.0	7.0	7.0
TOTAL	29.0	39.0	36.0	28.0	35.0	32.0
NO	2	5	4	4	4	4

P R B 04/24/73

TUNISIA  
COUNTRY PROGRAM PAPER

**DECLASSIFIED**  
**APR 08 2013**  
**WBG ARCHIVES**

Postscript

64. Tunisia's Country Program Paper for 1972 was reviewed in the President's Office on October 16, 1972. The overall lending program of \$170 million for the five-year period ending in FY 1978 and the operations program amounting to \$215 million for this period were approved. Because of the improvement in Tunisia's economic performance during 1971 and 1972 and prospects for future years, the IDA allocation for FYs 1974-78 was reduced to \$40 million with \$12 million for FY 1974 and \$7.0 million per year for the subsequent four fiscal years.

65. Because of manpower constraints the Bank should attempt to finance larger projects in Tunisia and to reduce simultaneously the total number of projects in the operations program.

66. The sectoral composition of the operations program was approved and the reinstatement of a phosphate project for 1974 noted. The following changes from the proposed program were agreed:

- (a) the second railway project would be postponed until FY 1975. At the same time, the Bank should toughen its position concerning the implementation of the first project;
- (b) the second power project covering rural electrification and distribution should be maintained in the program for FY 1974 only if manpower is available within the EMENA region.

67. The high priority of the rural development project was noted and the President asked to be informed on its details, particularly the credit distribution scheme, as soon as this became available.

68. More generally, Mr. McNamara requested the regional office to establish a five-year manpower program. The purpose would be to determine manpower availabilities and requirements in relation to the proposed operations program for each country in the region. He also asked P&B to initiate the action required to establish such a program for all operating units of the Bank Group.

Attachments

Revised Attachment 1, page 1  
Revised Attachment 4

Europe, Middle East and North Africa Region

November 14, 1972

CONFIDENTIAL

October 11, 1972

COUNTRY PROGRAM PAPER

TUNISIA

		<u>IBRD/IDA Lending Program (US\$million)</u>			
		<u>FY 64-68</u>	<u>FY 69-73</u>	<u>FY 74-78</u>	
1972 Population	: 5.4 million	IBRD	34.0	137.3	120.0
1971 Per Capita GNP	: \$282	IDA	19.0	45.8	50.0
Current Population Growth Rate	: (1966-72) 2.6%	Total	53.0	183.1	170.0
Current Exchange Rate	: D 0.484 = US\$1	Operations Program			215.0
		<u>Annual Average Per Capita (US\$)</u>			
		IBRD/IDA	2.25	7.00	5.90
		IDA	0.81	1.75	1.73

A. COUNTRY OBJECTIVES

Political and Social Setting

1. Since its independence in 1956, Tunisia has enjoyed a high degree of internal political stability under the leadership of President Bourguiba. The President has shared only a fraction of political authority with the Destour Party and continues to retain effective control of political power. While until recently the President and his government have enjoyed wide popular support, this is less true today. There are signs of growing disenchantment stemming first from insufficient improvement in individual welfare and secondly, from the fact that political power remains in the hands of President Bourguiba and a small group of personal friends and close supporters surrounding him.

2. In the late sixties, Bourguiba's declining health raised the issue of succession and created demands for political liberalization which led to some presidential initiatives in 1970. These were endorsed by the Eighth Congress of the Party in October 1971. However, the President subsequently became increasingly reluctant to accept any political reforms which would reduce his personal powers. He ignored the election of the political bureau by the Party Congress, thus encouraging opposition from within the Party and personal maneuvering and rivalries within the government. Up to now, disagreement on political liberalization has not affected progress towards economic liberalization. There appears to be general agreement in government and business circles that economic liberalization is sound and that it can provide the only basis for Tunisia's development. Nevertheless, the disagreement on political reforms has affected and will continue to affect the choice and tenure of individual ministers, which must inevitably result in changes and in the pace of decision-making.

3. Tunisian society has undergone a profound economic and social transformation but a significant gulf remains between the relatively rich communities of Tunis, the Sahel and Sfax on the one hand and the rural population of small and medium-size farmers particularly in infertile and semi-desertic areas in the center and south, on the other. This is accentuated by the concentration of political, governmental and business activities in Tunis and to a lesser extent, Sousse and Sfax. This situation, with its accompanying social attitudes, has its counterpart in the civil service where a bureaucratic and technocratic layer of senior civil servants still retains considerable nostalgia for the direct paternalistic role allocated to the State in the policies pursued up to 1969.

4. In the external field Tunisia entered an association agreement with the EEC in 1969. Negotiations on broadening the association to include financial and technical assistance are due to start in the fall of 1972. Tunisia is seeking a greater European involvement in the Mediterranean basin and in North Africa and has improved relations with Arab countries, in particular with Algeria and Libya. It is an energetic supporter of the somewhat vague concept of a Maghreb union but there has not been any concrete achievement. Yet, many differences exist between the moderate, western-oriented Tunisian regime and its neighbors. This political moderation is a major reason for the large amounts of aid granted to Tunisia. Aid policies and coordination are reviewed by the Consultative Group which meets annually under IBRD chairmanship.

#### Development Experience

5. The main development objectives of the government were embodied in the 1961 "Ten-Year Perspective" which provided for (a) the Tunisification of the economy, (b) promotion of equal opportunities for all citizens, the improvement of living stand-



ards and more equitable distribution of income, (c) implementation of wide ranging structural reforms designed to remove the existing imbalances between different sectors of the economy and regions of the country, and (d) achievement of a stage of self-sustained growth by 1973. The government sought to achieve these objectives through the planned development of the economy within a framework of three medium-term development plans (1962-64, 1965-68 and 1969-72).

6. In terms of macro-economic aggregates, some results are impressive. Investment doubled from D 84 million in 1961 to D 171 million in 1971, and the investment rate increased accordingly from 18 percent of GDP in 1961 to 22 percent in 1971 averaging 21 percent over the period. Domestic savings have risen from 7 percent of GDP in 1961 to 19 percent in 1971. The increase in savings has substantially reduced Tunisia's dependence on external borrowing from almost 60 percent of investment in 1961 to barely 20 percent in 1971. In contrast to this rise in investment and savings, the growth in output has fallen considerably short of the targets in almost all sectors of the economy, with the notable exception of petroleum and tourism. The overall growth rate was 4 percent per annum by comparison with an average rate of 3 to 3-1/2 percent prior to 1961 and a target rate of growth of 6 percent. The exceptionally high capital output ratio implied by these results is a reflection of both poor harvests and misallocation of resources: in particular, excessive emphasis on social and administrative infrastructure, a number of uneconomic investments in public enterprises, and discouragement of private sector initiative in nearly all sectors except for tourism. Furthermore, an annual population increase of 2.5 to 2.8 percent resulted in an actual 1.2 to 1.5 percent growth rate in per capita income.

7. Disenchantment with lack of improvement in living standards, dissatisfaction with economic policies and opposition to compulsory expansion of the cooperative system came to a head in 1969. This led to a re-examination of development policies and the formulation of a new strategy. This strategy, presented by the Prime Minister in November 1970, redefines the role of the government in the economy. Prime responsibility for economic activity is largely to be given to the private sector, while the government will provide only indirect support through promotion and incentives.

8. Substantial progress has been made in reducing government controls by streamlining import and foreign exchange procedures, effectively liberalising imports of raw materials and spare parts, eliminating delays in review of investment proposals and discontinuing price regulation in a wide range of goods. Taxes on exports have been discontinued and an impressive range of incentives provided to encourage foreign and domestic investors to export and to invest in export-oriented industries. Some progress has also been made toward the financial reorganization of three or four state enterprises, including approval of an expansion program for the iron and steel company and a managerial reorganization of the large state-owned textile company. The phosphate company's problems remain under study.

9. The change in policies in 1970 was followed by a substantial recovery of the economy in 1971 and 1972; GDP rose by about 9 percent in 1971, compared with 3.5 percent on average in the two preceding years, and the government expects an increase of almost 20 percent in 1972. This recovery has been partly due to favorable weather conditions for agriculture and record olive and cereal crops, partly to higher profits from petroleum production due to the increase in posted prices for Tunisian crude, partly to the revived confidence and initiative in the private sector, particularly in industry and tourism. Given the expected increases in output, the average annual rate of growth for the whole period of the Third Plan (1969-72) is now forecast at 10 percent compared with the target rate of 6.5 percent. Total investment in the four-year period is expected to reach D 676 million, compared with the Plan target of D 607 million. This would result in an average capital output ratio for the Plan period of 3:1, an important reduction compared with the much higher ratios in the 1960s. In all sectors except agriculture the target rate of growth will have been exceeded, particularly in petroleum, manufacturing, transport, telecommunications and tourism.

10. Most striking is the emergence of petroleum, tourism and workers' remittances as major sources of foreign exchange earnings and the parallel improvement in the overall balance of payments and external debt situations. Between 1962-71 foreign exchange earnings have increased at an annual rate of 11.4 percent <sup>1/</sup> compared with 9.2 percent for imports. This has led to a gradual reduction in the current account deficit since 1965 and, together with the continued high level of external aid, has permitted a rebuilding of foreign assets to the record level of D 80.7 million at the end of 1971, equivalent to over 5 months of merchandise imports. In net terms, the position has changed from a traditional net liability up to 1969 to a net asset of D 52.3 million at the end of 1971. Gross external borrowing has tripled since 1962 and, despite concessionary terms, amortization charges have jumped from D 1.3 million in 1962 to D 23.0 million in 1971, to represent about 25 percent of gross capital inflows. While the external debt service ratio rose to a level of 22 percent in 1970, the increase in foreign exchange earnings reduced the debt service ratio in 1971 to 18.5 percent, and it may be expected to fall further.

#### Major Economic Issues

11. Development during the seventies will depend on the degree of success in tackling the following difficult and inter-related problems:

1/ in current prices

- (a) moving further in liberalizing imports, and investment decisions and reducing the government's role in determination of prices;
- (b) increasing the proportion of production-oriented investment;
- (c) improving domestic resource mobilization;
- (d) creating additional employment and improving income distribution.

12. Progress in liberalizing the system of administrative controls and regulations, and in encouraging the private sector has been quite impressive but has stopped short of what are probably the fundamental issues, namely:

- (i) the freeing of private investment decisions from all but purely formal control by government agencies;
- (ii) the abandonment of price regulation, particularly the practice of evaluating prices on the basis of cost plus;
- (iii) the revision of the present system of protection of domestic industries based on quantitative import restrictions, in favour of temporary tariff advantages.

The government is committed to further steps in this direction but anticipates difficulties in implementing its proposals, in particular due to the lack of viability of small manufacturing firms and the repercussions of liberalization on prices and the cost of living. However, measures can be taken to assist the majority of firms to reorganize their production on a competitive basis and prices could be freed on a phased program associated with further import liberalization. The principal obstacle to progress is likely to be the opposition of existing producers and the reluctance of government administrators to abandon traditional controls.

13. One of the important reasons for the short fall in growth is the nature and composition of investment. Particularly, a major part of investment was not clearly oriented toward increasing production within specified time periods. Greater effectiveness of investment outlays requires a considerable shift away from infrastructure and a better balance between private and public investment. This in turn would be encouraged by a more competitive market-oriented economy. In addition, the government will need to make an important effort to develop promotional machinery and provide the private sector with market research, training and extension services and the means and know-how for developing and rationalizing the existing industrial base.

14. Domestic savings have increased impressively from 7% of GDP in 1961 to 19% in 1971 with a further increase to over 21% expected in 1972. Workers remittances have also become an important source of additional savings. Because 1972 is an abnormal year, in terms of its exceptionally high GNP growth rate and large inventory accumulation, it is not likely that the high savings rate estimated for this year can be sustained in the years immediately ahead. However, there is scope for significant institutional improvements of a sort which could help the longer term growth of savings and greater efficiency in their use. While the establishment of a capital market is still in its infancy, steps could be taken to encourage incorporation of family concerns and the broadening of participation in corporate concerns. Measures could also be taken to improve public savings and develop domestic long-term borrowing, including a revision of the interest rate structure. With the rapid growth in GNP and petroleum revenues in 1971, government current revenues have shown an 11 percent increase despite a reduction in some tax rates and elimination of some other taxes. Underlying the long-term problem of government and public enterprise savings, however, are three basic issues: the need to modernize and improve the system of taxation, the desirability of a detailed evaluation of the present claims of government ministries and departments in relation to the services required of them, and the disappointing contribution to public savings of state enterprises which, in certain cases, are a serious cause of financial disequilibrium (notably the phosphate company and the railways). The government has undertaken a thorough review of the tax system including the customs tariff. It now plans to progressively introduce a new customs tariff and a number of reforms designed to stimulate productive activities, encourage exports and investments, and particularly reorganize state enterprises.

15. Until 1971 per capita income remained virtually unchanged and disparities between the standard of living of various parts of the population have widened. There is no overall prices and incomes policy but the government had done much to establish minimum living standards through minimum wage legislation and price controls on staple commodities. It advocates improved income distribution but neither fiscal policies nor investment policies nor the administrative allocation of resources have worked to this end. The movement of workers abroad which has now reached about 20,000 per year and the governments work relief program, particularly between 1962 and 1970, have helped to avoid a serious unemployment problem emerging. For the future, there appear to be two important requirements for government action which are not yet embodied in official policy: first, the development of regional plans which would create regional centers of activity and strengthen the economic basis of the regions; second, measures to maintain existing employment while increasing job opportunities in the regions and in particular in rural areas so as to slow down migration into urban areas with the resulting increase in urban unemployment. The government has tried, somewhat unsuccessfully, to promote isolated projects in the regions by locating a few industrial plants and the new Port of Gabes in areas requiring additional support but it has no clear policy on these issues at present. The need for supporting infrastructure and other activities has not been met. Employment creation is a fundamental objective in the government's development program. It is closely associated with the strategy of allocating the bulk of investment resources in the coming Fourth Plan period to non-agricultural productive activities. Yet, in our view, the problem is unlikely to be resolved without a balanced program based on regional resources, predominantly agricultural, and employment needs.

Prospects

16. The government appears determined to proceed further with the economic reorientation and considers the 1973-76 development plan as a major instrument for this purpose. The new development plan is not yet complete. According to preliminary indications, the main quantitative objectives are likely to be a growth rate of GDP of 6.5 percent per year, an aggregate investment of D1,000 million and the creation of some 30,000 jobs per year, and net emigration of 20,000 per year. The government plans to expand the rate of growth of private consumption, to reduce dependence on external finance to 20 percent of investment and restrict borrowing within a 20 percent debt-service ratio. These objectives appear to be generally consistent with recent experience, subject to progress in dealing with the problem issues referred to above, and barring harvest failures, the economy should even be able to grow at a rate of about 7 percent per year in the immediate future. The achievement of such a target will depend strongly on increasing the proportion of production-oriented investment, particularly in agriculture and industry, and on the degree of participation of private investors, including foreign.

17. The outlook for the balance of payments until 1977 is influenced strongly by petroleum and tourism. In addition to the favorable impact of the 30 percent rise in oil prices in 1970/71, further foreign exchange gains will result from the projected expansion of petroleum output from 4 million tons per year at present to 6.5 million by 1974. Other commodity exports will depend to a large extent on new sector policies in agriculture and manufacturing, which will be slow in maturing, and are therefore unlikely to expand fast. On the other hand, receipts from tourism can be expected to double again in the next 4-5 years. Overall, exports of goods and NFS<sup>1/</sup> are projected to increase at a rate of about 10.5 percent per year. Import demand can be expected to rise at about the same rate. On these assumptions, the resource gap could be expected to increase from \$45 million in 1971 to a peak of about \$91 million in 1973 and then to fall off until 1976 when it can be expected to start climbing for a while, as the immediate potential for exports is taken up. New discovery of oil deposits, continued development of tourism and success in achieving a high growth rate for agricultural production and manufacturing exports could alter the picture of export earnings. Similarly, faster liberalization of imports, or expansion of investments may widen the resource gap. In the circumstances, it is difficult to assess total foreign and capital requirements in the late 1970s with any degree of certainty. The Bank projection reflects the Government's insistence on liberalizing trade and investment and the need for an increase in private consumption expenditure but these factors will need to be kept under control, particularly in the late 1970s. In the meanwhile, the Government will need to develop new techniques for controlling demand.

1/ at current prices

Macro-Economic Indicators

	<u>Actual</u> <u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Projected</u>		<u>1976</u>	<u>1977</u>	<u>Compound</u> <u>rate of</u> <u>growth/</u> <u>Average</u> <u>1972-77</u>
				<u>1974</u>	<u>1975</u>			
<u>National Accounts a/</u>								
GNP (\$ Mil.)	1724	2051	2014	2158	2325	2479	2653	7.4
Population (millions at mid-year)	5.23	5.36	5.49	5.63	5.77	5.92	6.06	2.5
Gross Investment	382	521	456	488	534	559	602	7.9
% of GDP	21.7	25.0	22.3	22.3	22.6	22.2	22.4	.
Gross Domestic Saving	337	446	367	428	460	504	533	8.1
% of GDP	19.2	21.4	18.0	19.5	19.5	20.0	19.8	.
Resource Gap	45	77	89	70	64	56	69	7.4
% of GDP	2.5	3.7	4.4	3.2	2.7	2.2	2.6	.
<hr/>								
<u>External Finance b/</u>				\$ million				
Exports of Goods and NFS	423	513	521	583	649	708	772	10.5
Imports of Goods and NFS	468	590	612	654	717	768	848	10.4
Net Factor Income Payments	29	29	31	35	38	41	41	5.9
Deficit on Goods and Services	74	106	122	106	106	101	117	.
Minus: Direct Investment	27	28	34	37	40	44	48	10.0
Plus: Changes in reserves less private transfers	75	50	3	12	19	19	1	.
Equals: Net Inflow of Medium & Long-Term Capital	122	128	91	81	85	76	71	.
Plus: Amortization	52	65	57	58	60	67	74	6.1
Equals: Gross Inflow Loan Capital	174	193	148	139	145	143	145	-5.4
External Debt Outstanding c/	557	625	693	758	829	893	953	9.4
Debt Service Ratio d/	18	17	17	16	15	15	16	.

a/ In millions US\$ at 1971 constant prices adjusted for changes in the external terms of trade, exchange rate of Dinar = \$2.08.

b/ In millions US\$ at current prices; (an inflation rate of about 2% is assumed for both imports and exports.)

c/ Excluding undisbursed.

d/ In percent of exports of goods and NFS.

18. Assuming the continuation of aid at the present level but on hardening terms from 1976; and, furthermore, that (a) oil production will rise to 6.5 million tons per year by 1974; (b) the phosphate industry will be rehabilitated and expanded slightly; (c) the economy will grow at a rate of about 7.0 percent per year; (d) investment will average \$500 million per year during the Fourth Plan period; and (e) imports and exports would grow in current prices at a rate of about 10.5 percent per year, the gross capital requirements would amount to about \$185 million per year during 1973-77, compared with a figure of \$201 million in 1971.

19. Underlying these projections are also the assumptions that better allocation of capital than in the past will be achieved, i.e. that efforts will be made to identify and develop production-oriented projects in agriculture and industry and to allocate larger resources in order to contain rural migration and unemployment. The projections also imply that Tunisia should be in a position to carry an increasing volume of aid on conventional terms.

#### B. EXTERNAL ASSISTANCE

20. During 1960-71, Tunisia's gross capital inflow has totalled some \$1,700 million. This consisted of \$175 million in direct investment, \$415 million in private credits, \$415 million in grants and \$700 million in loans. Direct investment has been made primarily in the petroleum and tourism sectors and whilst investment in tourism has tended to decline, that in the petroleum sector has increased due to more intensive exploration and the exploitation of recently discovered deposits. It has increased from a low average of about \$6 million at the beginning of the decade to some \$25 million per year at the end. Private credits, essentially for financing government short and medium-term needs and investments in state-owned enterprises have increased to a maximum of \$57.0 million in 1965 whilst repayments also reached a peak of over \$42 million in 1967. Since then, the government restricted recourse to private credits and the amount has fallen to an average of about \$40-45 million per year.

21. Tunisia has always enjoyed a high level of official grants, about 55 percent of which has been for technical assistance primarily for education. The total has been increased in the past few years due to flood relief and food deliveries to cover Tunisia's food deficit. Grants declined in 1971 to \$39 million or 31 percent of net aid because of the better harvest and may be expected to decline further as agricultural output is diversified and foreign teachers are replaced by Tunisian graduates.

CAPITAL REQUIREMENTS AND SOURCES OF FINANCING

1973-77 (US\$ Million)

	<u>1971</u> <u>Actual</u> <u>1/</u>	<u>Projected 1973-77</u> <u>Total</u>	<u>Annual Average</u>
<u>Requirements:</u>			
Deficit on Goods and NFS	45	368	74
Net Factor Income Payments	29	187	37
Increase in Reserves less private transfers, e&o	75	53	11
Amortization	<u>52</u>	<u>316</u>	<u>63</u>
= Gross Capital Requirements	201	924	185
 <u>Sources:</u>			
Direct Investment (net)	27	204	41
Official Grants	38	74	15
Medium and Long-term Loans	136	646	129
 <u>Of which:</u>			
<u>World Bank Group</u>	<u>19</u>	<u>186</u>	<u>37</u>
IBRD	14	126	25
IDA	5	60	12
 <u>Bilateral</u>	 <u>71</u>	 <u>312</u>	 <u>62</u>
U.S.	27	100	20
Germany	10	53	10
France	10	53	10
Other <u>2/</u>	24	106	22
 <u>Private</u>	 46	 148	 30

---

1/ At \$2.08 = D 1 exchange rate.

2/ Includes ADB and E.E.C.



22. The major capital inflow in the period 1960-71 has been from public loans, 80 percent of which have been from bilateral sources; these have recently averaged about \$70 million, the recent increases in loans from Germany and France offsetting the drop in U.S. loans. The latter now appear to have levelled off at about \$25 million per year. German loans at about \$10 million and those from France slightly higher. Other lenders, accounting in all for some \$23 million in 1971, include mainly Canada, Italy, Sweden and the Kuwait Fund. Disbursements of multilateral aid, mainly from the Bank Group, have increased steadily from barely \$2 million in 1965, representing about 6 percent of the gross public inflow, to about \$22 million in 1971, equal to almost 25 percent of the total inflow.

23. Over half the public capital (including grants) has been in the form of program aid. To a lesser extent, local cost financing of projects was also used to provide foreign exchange for imports of other than capital goods. Program aid now accounts for most of the U.S. aid and is also granted in smaller amounts by France and Germany. The average terms on external aid (including grants) have been quite favorable. In 1971, the average terms of borrowing from public sources were about 4 percent interest, over 22 years repayment period and 6 years grace. Because of higher grants and a larger proportion of public capital, the overall grant element rose from an average of 49 percent during 1965-68 to over 70 percent in 1971. For loans and credits only, the grant element rose from 39 percent (1965-69) to 50 percent in 1971, due mainly to the increase in IDA disbursements in 1970 and 1971. The grant element on bilateral loans has averaged about 52 percent since 1965.

24. Bilateral aid has included large shares for agriculture and, in particular, irrigation, transportation, industry, tourism, power and education; the U.S. program aid has also served to finance work relief programs. Despite its magnitude, the effectiveness of bilateral assistance has often been below expectation because it has not always been directed to high priority purposes. Other factors have been poor selection and preparation, lack of complementary services, long project gestation periods and inadequate planning for effective utilization of investment on completion. In the last two years there appears to have been some awareness of these shortcomings and a greater effort has been made to provide the necessary conditions for successful projects, including an increasing volume of technical assistance.

25. Bank/IDA financed projects have covered a wide spectrum. They have permitted a substantial improvement in secondary education, providing the leverage for a start in manpower and educational planning, the creation of the main commercial port with a revised institutional structure, the establishment of a national water supply agency,

the utilization of natural gas and, through the DFC, development of private industry and even more of tourism. The financing of cooperative farms was not successful because of the changed agricultural policy. The other projects are still in their early stages of implementation but it is believed they will make important contributions to the development of the country.

26. The capital inflow required to be financed by direct investment and loan capital during 1973-77 would be about \$924 million (see table on p. 10). Net direct investment may be expected to expand slowly and provide about \$204 million during the years 1973-77. Official grants, mainly technical assistance, are expected to provide about \$74 million. On these assumptions the gross inflow of medium and long-term capital would have to be \$646 million during the period, equivalent to \$129 million per annum. Since the government continues to restrict access to private credits, most of this would have to come from bilateral and multilateral sources. The donor countries appear to be willing to maintain loan disbursements at a level somewhat higher than the average of \$60 million over the last five years. Donors may, however, be less willing to continue the present level of aid in the form of program aid and commodity assistance for long, given the improvement in the overall balance of payments position. To provide the required capital inflow, annual commitments from bilateral lenders would need to be about \$80 million per year.

27. The proposed Bank program would provide for a flow of about \$37 million per year.

28. The balance of capital requirements amounting to some \$30 million per year would come in the form of private credits. This represents a continuation of capital inflow of this type at a somewhat lower level than the average for the last five years of about \$45 million. This should present few problems if it continues to represent a complementary element of official bilateral assistance and is guaranteed by the government as at present.

29. In the light of the changing balance of payments prospects and the urgency of promoting growth, greater efforts will be needed to achieve effective coordination between donors and to improve the efficiency and usefulness of bilateral assistance, which has hitherto acceded more or less to the requests of the Tunisian Government. As Chairman of the Consultative Group for Tunisia, which has met annually since 1967, the Bank will have to take a special initiative to improve the quality of aid and the amounts allocated to quick-yielding and directly productive projects and also keep member countries advised of the implication this improved economic situation may have for the terms and other conditions of aid.

### Debt and debt services

30. On the basis of the assumptions above, the amount of debt outstanding would rise from \$557 million at the end of 1971 to about \$953 million by the end of 1977. The level of debt service would rise from about \$77 million in 1971 to about \$100 million by 1977 if the terms for the various categories of loans remain the same as in the recent past. Under these assumptions the debt service ratio could fall from 18.5 percent in 1971 to about 16 percent by 1977. This results from the marked improvement in foreign exchange earnings and a better debt structure due to the restraint exercised over the last few years in the use of short and medium-term credits. The long term debt projection given in attachment 4 shows a further gradual decline in the debt service ratio to around 12% by 1985. This assumes a continuation of real export growth at an average rate of 7.8% between 1977 and 1985. A major element in this projection is the assumption that exports of manufactured goods will become of major importance by this time. Another important assumption is that government policies and demand management will be able to restrain consumption to hold the growth rate of imports significantly below that for exports despite progress in liberalization. Both assumptions are subject to considerable uncertainty. A significantly slower export growth rate, higher imports and greater reliance on suppliers' credits than the modest amounts assumed here, could quickly lead to much higher debt ratios than those now projected for the late 1970's and early 1980's.

### C. BANK/IDA LENDING PROGRAM

31. Much of past Bank/IDA lending to Tunisia has been for transport (ports, railways and highways), which accounted for 31 percent of commitments through FY 1972. Lending for public utilities projects (water supply and power) accounts for another 18 percent, industrial and hotel financing through Société Nationale d'Investissement (SNI) 17 percent, agriculture and fisheries 13 percent, education 8 percent, tourism infrastructure 11 percent, and population 2 percent. Important institutional improvements have been made in conjunction with this lending.

32. The emergence of new development policies has changed the setting for the Bank's operations in Tunisia and provides an opportunity for evolving a lending program less heavily concentrated on infrastructure and intended to have a more direct impact on the country's fundamental development problems. This would imply lending designed to exploit Tunisia's available resources more effectively and to encourage more productive investments in industry and agriculture, with emphasis on promoting foreign exchange earnings and improving the productivity of investments already made. Important concomitant objectives should be to assist in developing to a fuller extent the country's human resource potential and overcoming the discrepancy in income between urban and rural areas.

33. As proposed last year, the Bank's program for FY 1974-78 now reflects these objectives through considerably increased emphasis on lending in agriculture; it includes for the first time, lending for direct investments in industry in response to the government's determination to rehabilitate and expand its major mining resources and promote export-oriented industries. Lending for education and population projects has been maintained in line with the

objective of developing human resource potential. On the other hand, a decrease is envisaged with regard to infrastructural projects, particularly in transportation. Finally some emphasis is being added to urban infrastructure (transport, sewerage and water supply), a field which is likely to become increasingly critical with the continuing migration to urban areas.

34. A relatively small increase in the operations program, from \$195 million in FY 1972-77 to \$215 million for FY 1974-78 is proposed. This increase would not amount to much more than offsetting the effects of the dollar devaluation to maintain the real volume of transfer of Bank resources to Tunisia. The sectoral composition of the FY 1974-78 programs is summarized below:

	1974-78	
	(\$million)	(%)
Agriculture	66.0	30.7
Industry	23.0	10.7
DFCs	29.0	13.5
Education	18.0	8.4
Population	5.0	2.3
Power	5.0	2.3
Tourism	18.0	8.4
Transport	18.0	8.4
Sewerage	16.0	7.4
Water Supply	17.0	7.9
Total	215.0	100.0

35. In the light of the projected improvement in Tunisia's debt servicing capacity (see paragraph 30) the question arises as to what Bank/IDA blend is appropriate. Tunisia remains a country with a low per capita income, limited resources and continuing vulnerability to adverse weather conditions, and is still at an early stage of development. Because of these factors and the possible transitional nature of several elements of the economic recovery, the lack of assurance about Tunisia's long-term capacity to maintain the projected rate of growth of GDP and exports, which would have to be based on exports of manufactured goods, Tunisia should continue to be regarded as eligible for IDA, with an important margin for borrowing on conventional terms. Taking account of the fact that bilateral aid seems likely to continue a little above the present level and that a significant share of this would be on soft terms, a relatively hard Bank/IDA blend of 70:30 is proposed. which would be in line with the expected blend for FY 1969-73 and below the blend of 55:45 for 1973-77 approved at last year's CPP review. The attached projections assume that the IDA portion would phase out after 1978.

36. In many sectors and for important projects, particularly in agriculture and education, there is a need for local currency financing in excess of what can be raised domestically. Many projects, especially the socially-oriented ones, have a low foreign exchange component and are of limited size. It is therefore proposed that for projects where the Bank wishes to have a policy impact the Bank/IDA continue to finance local currency expenditures to achieve this objective.

37. The share of Bank/IDA in the total public debt outstanding (excluding undisbursed) would rise from 12 percent at the end of 1971 to 23 percent at the end of 1977 and the share of debt payments from 4.8 percent to 15 percent.

38. With a few exceptions, execution of Bank/IDA financed projects has been satisfactory. In August 1971, part of the remaining proceeds of the second education credit was allocated to finance technical assistance to contribute in the establishment of an inter-ministerial mechanism for the planning and coordination of education and training. UNESCO is now assembling a team of experts expected to take up their duties within the near future. Execution of the 1969 railway project has continued to be unsatisfactory in 1972. The railway company's main customer, the Gafsa Phosphate Company, is seriously in arrears with its payments, and railway tariffs are too low to generate reasonable profits. Government is reluctant to approve an increase in railway tariffs for social and political reasons. A plan of action to improve the railway's financial position has been prepared and discussed between the Bank and the Government, but the Bank will have to continue using its influence on the Government to ensure that this action plan is adopted and implemented.

39. The proposed program will require intensive project preparation efforts for which, to judge by past experience, the Tunisian authorities are not well equipped. The Bank should therefore be prepared to extend sizeable assistance in project formulation and preparation, and in the formulation of more coherent sectoral strategies, particularly in connection with lending for agriculture, industry and education where the institutional framework needs to be strengthened. The difference between the operations and lending programs (\$45 million) largely reflects the difficulties and delays expected in project preparation.

40. The Bank has not initiated and is not contemplating any new sectoral program for pre-investment studies. Following the study of a transport master plan in 1968, it made a technical assistance grant in 1969 for the preparation of a Water Master Plan for northern Tunisia. A final Water Master Plan is expected to be ready in February 1973 which should lead to a first Bank project in FY 1975.

41. A number of other projects (e.g. phosphate mining, railways, highways) would require financial assistance beyond the limits of the Bank/IDA capacity. It is intended to explore the possibilities for joint or parallel financing with bilateral donors to a larger extent than in the past. Sweden has made two parallel loans with the Bank to SNI; a gas pipeline project was jointly financed with the Kuwait Fund, and the recent tourism infrastructure project was jointly financed with the Federal Republic of Germany. The Consultative Group for Tunisia provides a suitable forum for promoting such operations. For joint or parallel financing schemes to materialize, closer contact will be established and maintained with the bilateral donors between the annual meetings of the Consultative Groups. Such regular contacts would have the additional advantage of promoting coordination of aid policies towards Tunisia, on a more regular basis and could in the long run lead to a closer integration of the Bank program and the various bilateral programs.

42. IFC has made investments in a fertilizer plant, in SNI and COFITOUR (a tourism development company); it is presently reviewing, on a preliminary basis, the possibilities for an investment in a phosphoric acid plant.

D. ECONOMIC SECTORS AND SECTORAL DISTRIBUTION OF BANK/IDA OPERATIONS

43. Agriculture contributes about 17 percent of GDP, nearly half of the country's employment and a third of merchandise exports; food processing industries, which depend on agriculture, account for another 6 percent of GDP and over a third of the value added in manufacturing.

44. Agricultural resource endowment is neither large nor uniformly good, yet there are favorable prospects for growth. Over the decade through 1970, production stagnated although substantial investments were made, mainly in infrastructure. Returns to complementary expenditure aimed at improving the utilization of the installed capacity could now be substantial. Furthermore, there is a strong demand for agricultural commodities, particularly cereals, meat, dairy products, fruit and vegetables, both domestically and abroad. To a large extent, the increase of production will depend on the government's ability to support and promote the private sector, which accounts for 85 percent of useable land and includes a large proportion of small farm units. Both in the irrigation and rainfed sectors, there is a need for substantial efforts on on-farm development combined with measures designed to increase the availability of inputs and equipment. Steps should also be taken to reorganize and expand extension services in order to provide advice to farmers, and the credit system should be expanded parallel with the extension services to ensure that credit is made available for medium and small scale farmers in conjunction with the supervision of its use. These actions require a reorientation and strengthening of development efforts which, so far, have been largely concentrated on public land, and reforms in the machinery of policy formulation and decision making.

45. The government recognizes the need for a more effective contribution to growth for agriculture to meet the rising domestic demand for food, including tourism, the expanding needs of industry and exports and, to a lesser extent, to improve living conditions in the rural areas and at least check migration, if not create additional employment in these areas. The magnitude of the problem has not been fully reflected in the Government's thinking until very recently. Efforts are to be directed to providing support for production, exploiting livestock and fisheries resources more fully, promoting on-farm development in both irrigated and rainfed areas. Although there is a sense of urgency of obtaining improved returns rapidly in those areas which have benefited from past investment, the emphasis still remains on infrastructure-type investment. The

government should give greater attention to the improvement of the large private traditional sector and small and medium-size farms, which have been virtually neglected hitherto and should devote increasing attention to research, extension and farmer training. Such a move would result in a significant increase in current budgetary allocations, greater emphasis on production-oriented investment, and fundamental changes in policies affecting investment, the supply and cost of inputs, prices and other incentives.

46. The proposed operations can only respond to these priorities slowly since project preparation will take time but it is intended to give special priority to the preparation of the rural development projects proposed for 1974 and 1976 which would replace the irrigation rehabilitation projects initially scheduled for 1973 and 1974. These projects, which would have a supervised agricultural credit component and would focus on on-farm development, would seek to assist rainfed and irrigated areas, together with a major support to medium and small-scale farmers producing cereals, tree crops and livestock.

47. Both these projects would involve close association with extension services and need for technical assistance and training. Two livestock projects are also envisaged in 1974 and 1977, the first project to be located in northern Tunisia would include both settlement and infrastructure features. Some work has already been done by the Tunisian authorities to prepare this project. A second fisheries project is scheduled for 1975 which would continue the modernization programs already launched and incorporate the construction of port infrastructure, expansion of ship building capacity and fisheries training. UNDP is currently pursuing a fisheries development project to be completed by the end of 1973. A third fisheries project is proposed for 1978. It is proposed to postpone the agricultural credit project included in last year's lending program for 1974 to 1975 and try to set it up in a way which would provide credit mainly to medium-size farmers through traditional channels. This project could also consist of an expansion of the schemes presently financed under the first agricultural credit project. The third agricultural credit project envisaged in 1977 would further contribute to the continuation and development of previous programs.

48. Two irrigation projects which will result from the Water Master Plan for northern Tunisia are envisaged in 1975 and 1977. They are likely to provide for the rehabilitation of areas constrained by insufficient underground water (Cap Bon), the improvement of existing irrigated zones and their expansion, including the construction of dams. Feasibility studies are expected to be completed by the end of 1973.



49. The scope and magnitude of the proposed program in agriculture are consistent with the Bank's assessment of development priorities, respond to Tunisia's desire for the Bank's advice and assistance in the sector giving the Bank some leverage to influence new agricultural policies and strengthen institutions. All the projects will require substantial technical assistance in order to ensure efficient project execution and management. An important related agricultural training program would be included under education. However, the number of projects proposed for this sector may call for an increase in the Bank's resources for project preparation and appraisal.

#### Industry

50. In Industry the new development strategy introduced in 1970 has opened the door to new prospects based on private initiative and the development of an export-oriented manufacturing industry. However, in the next four years the main points of growth are likely to be the expansion of petroleum output and, providing the phosphate industry is reorganized on a competitive basis, the increase of phosphate output to 5 million tons per year. Progress in developing manufacturing industry will depend to a large extent on the success of the government's liberalization policy in promoting private domestic and foreign investment; this is nevertheless likely to go slowly and will depend directly on the willingness of the government to undertake an active program of industrial promotion.

51. For these reasons it is important that the government should also turn its attention to the modernization and expansion of existing industries producing for the domestic market. Priority should be given to: (i) re-equipping and refinancing the textile industry; (ii) organizing and expanding the existing capacity in the engineering industries; (iii) promoting the development of other light industries, including agro-industries for both domestic and export production; (iv) promoting investment in partnership with foreign investors in export-oriented industry in textiles, engineering and agro-industries sectors, with a view to enable foreign managerial and technical experience to be extended back from the processing stage to the organization of agricultural production for an expanding food processing industry, including canning and conservation; and (v) improving the present institutional framework with a view to facilitate the formulation of government policies, undertake an active program of industrial promotion, and provide industrial infrastructure and extension services on the scale called for. Major steps have been taken by the government to create a suitable economic environment for developing manufacturing. More needs to be done and particularly in identifying and promoting production possibilities.

52. The government has sought help of the Bank in developing an industrial strategy and in identifying, preparing and financing industrial projects. Because of the size of the present market, and, until recently, the obstacles to private initiative, large projects in the economy will be limited in the early years. This has led the Bank to focus directly on the shortcomings of existing enterprises in the first instance and secondly on the development of appropriate institutions for industrial promotion which would also be able to assist in a program of rationalization and modernization of existing industries on a sector basis. It is, therefore, proposed to reinstate in the lending program the phosphate mining project which was withdrawn at last year's CPP review because of the government's reluctance to provide the Bank with information on the sector and its apparent intention to rely on suppliers' credits for financing mining equipment. Since then, the government has adopted a more pragmatic approach and actively studied a modernization expansion program. The need for a realistic reassessment of the industry's possibilities has led the government to ask the Bank to assist in establishing the program and to consider lending if a satisfactory project should emerge. Such a project would therefore be an important instrument in rehabilitation, resource exploitation and in fostering sectoral reforms. A \$12 million project is proposed in FY 1974 for mining development. This would also include substantial amounts for training and technical assistance. The balance of the financial needs would have to be obtained through joint and parallel financing arrangements. Two industrial projects have been introduced into the program for 1976 (public enterprise in textiles) and 1978 (unidentified). The latter would be related as far as possible to a program of reorganization of the mechanical and electrical industry, but a great deal of preparatory work will be required.

53. It is proposed to continue loans to Société Nationale d'Investissement (DFC-SNI) which would meet part of the credits of private industry of a more routine nature. Although SNI has been reorganized and is aware of its place in the development of the industrial sector, it is not yet fully equipped to carry out the promotional activities and financing of new ventures which the present stage of development of industry calls for. However, efforts should be made to attempt to strengthen the SNI's role in the rationalization of existing firms, in the promotion of exports and in the mobilization of domestic finance. According to SNI's prospective industrial (and tourism) investment possibilities the fifth Bank loan of \$13 million in 1973 will cover SNI's commitments through 1974. Further loans are proposed in 1975 and 1977.

54. Tourism expanded rapidly during the last decade and has become the largest source of foreign exchange earnings (\$100 million in 1971); it also provides substantial direct and indirect employment and contributed to reduce regional disparities in development since most tourism zones are outside the Tunis region. In 1971, the bed capacity amounted to 43,000 and foreign visitors exceeded 600,000. There are good prospects for further rapid expansion and the government, which gives a high priority to the sector, has approved a master plan for the forthcoming decade. Tentative targets for the early 1980s are 1.5 million visitors and a 105,000 bed capacity; efforts will concentrate on six tourist zones in order to intensify the utilization of infrastructure. As in the past, the main constraints on future expansion will remain the availability of infrastructure and trained personnel. In the shorter term, there may be some difficulty in providing hotel accommodation at an adequate rate.

55. The loan and credit for tourism infrastructure made in FY 1972 will help Tunisia to meet investment requirements through 1976 and a second project, which would again include sewerage works, roads, water supply, electricity and telecommunications, is proposed in 1976. Furthermore a training project is included in the proposed program for 1974 and another project, as yet unidentified, for 1978. Other lending also has an incidence on tourism: over one-third of the proposed loans to DFC will finance hotel investments and the proposed highway, water supply and urban sewerage projects will also favor tourism. On the other hand, the tourism development project initially scheduled for 1974 has been withdrawn from the program, considering the availability of other sources of finance, particularly SNI and COFITOUR.

56. The transport system is well developed and generally adequate to handle the traffic during the next few years. Road maintenance and modernization, which have been neglected in the past, are now being improved under the First Highway Project of 1971. Overall transport coordination, planning and organization are still deficient and one of the Bank's principal objectives of further lending for transport is to remedy these deficiencies. The proposed railway project for 1974 is contingent on the implementation of an action plan to improve the financial positions of the railways. Feasibility studies and detailed engineering for preparing a Second Highway Project (shifted from 1976 to 1977) are being carried out under the First Highway Project.

57. The power project financed in 1972 will meet the anticipated increase in power consumption through 1976. Feasibility studies are being carried out for further expansion which may be financed through bilateral agencies. A second project is however proposed in 1974 (shifted from 1973) which would finance a rural electrification program presently being prepared by the Tunisian power agency STEG.

58. Education has expanded rapidly owing to the government's policy of providing equal educational opportunities regardless of the social or geographical origin of children. Expenditures now absorb about one-third of the government's current budget, about 20 percent of its investment budget, and 8 percent of GNP. The rapid expansion has weakened the efficiency of the system; furthermore, there are indications that the number of people with general secondary education now exceed the immediate needs of the economy. The establishment of mechanisms for the adaptation of secondary and higher education programs to meet changing employment needs will be an important task for the technical assistance in educational planning. A manpower survey is being carried out by an ILO team which will provide a basis for further education development.

59. The extension of the second education project (1967) which will provide technical assistance for education planning, will help prepare the third (1975) and fourth (1978) projects. The fourth project has been deferred from 1976 to 1978 in the program because of the delays in setting up an education planning team now due to become operational. Both projects will be directed mainly at improving secondary, technical education, vocational training and higher education.

60. Population will continue to increase at a high rate, at least until the 1980s, compared with Tunisia's resources and employment opportunities. As of January 1, 1972, GOT created an independent National Family Planning Institute to give a new impetus to the government's family planning program established in 1966. With the assistance of a management consulting firm a four-year plan of action is being developed. Additional administrative measures have to be taken to incorporate more medical and paramedical personnel in the family planning services. The lack of adequate personnel and operational directions have prevented the program from yielding the expected results. At the time of the signing of the first credit only 2.5 percent of the eligible female population was reached by the program. A second credit for family planning is included in the program for 1976; at that time, the present project (1971) should have been substantially completed.

61. Projects comprising urban infrastructure are of importance owing to the increase in population and rapid urbanization. An urban transportation project to improve facilities for Greater Tunis has been identified in FY 1972 and its status of preparation is such that it may be appraised in time to be scheduled for FY 1973. The urban sewerage project scheduled for 1974 (shifted from 1973 because of delays in selecting consultants) mainly concerns the Tunis metropolitan area; feasibility studies are being financed under the 1972 tourism infrastructure project. Another sewerage project, primarily for other cities, is proposed in 1978. Further lending for water supply is also proposed in 1976 and 1978.

62. Possible increases in Bank/IDA lending could be considered in both agriculture and industry, where there is room to increase Bank lending with substantial economic benefits to the economy, in water supply in both urban and tourist zones, and urban infrastructure. Such increases would imply a higher local currency component in the lending program and, in the case of industry, might involve a sector program loan. Greater support could also be given to phosphate mining and ore transformation. Because of water shortage, a desalinisation project might need to be given serious consideration by the mid 1970s. On the other hand, any reductions in the program should be made, first in transportation, power and DFC, in that order.

63. The economic work program includes three studies which arise directly from existing constraints on Tunisia's development. These involve first, inclusion in the next basic mission, FY 1973, of staff to undertake a survey of manpower needs, unemployment and job creation, second, in FY 1974 within the framework of a new industrial development strategy, a study of institutional developments required to encourage and facilitate industrial developments and policies and selected measures related to interested sub-sectors and, third, in FY 1975, a study of the measures which might be taken to improve regional development planning, to reduce employment and income discrepancies and improve the regional distribution of resources. The object of all three studies would also be to identify projects related to these problems.

CONCLUSIONS AND RECOMMENDATIONS

- i) The economic recovery of 1971-72 following the reorientation of economic policies in 1970 opens up the possibility of a period of more rapid growth than Tunisia experienced in most of the 1960s. A growth rate of 7 percent of GNP appears feasible. This will be contingent on (a) policy actions over a wide front, including liberalization of trade, price and investment controls and (b) changes in the composition of the investment program toward production-oriented projects and energetic measures to improve the contribution of agriculture, to achieve an optimum use of petroleum, phosphate and other resources and to develop manufactures for export.
- ii) Because of the projected increase in the labor force, the existing volume of unemployment, the increase of migration from rural to urban areas, the government is giving special attention to the expansion of employment opportunities, but insufficient attention is being given to measures needed to check rural migration by improving the standard of living and employment opportunities in rural areas.
- iii) The proposed lending program for FY 1974-78 amounts to \$170 million. This is a small increase over the level of \$157 million proposed last year for 1973-77 and would do little more than offset the effects of the dollar devaluation. In view of the sharp change in the composition of the program over the last two years and the heavy volume of work required in new project preparation, as well as the present high per capita transfer of Bank/IDA resources, it is not proposed to increase the program further. However, in view of the low per capita income, limited resources, difficulty of developing exports quickly, the need for a moderate amount of external finance for many years, vulnerability of the economy to the effects of weather conditions and the fact that several elements of the present recovery may be temporary, it is proposed to lower the IDA blend to a ratio of 70:30.
- iv) The phosphate mining project is being reinserted in the program; this is in response to a specific government request from a number of ministers and reflects the general consensus in favor of the Bank becoming involved. It also reflects a more rational view of the future prospects of the industry

and willingness to make available all information at the government's disposal. (The absence of this was the principal cause for the deletion of the project last year.) Other new projects included in the program for the first time, at the government's request, reflect development priorities: one fisheries project (port and ship building), three industrial projects including phosphate mining, textiles and one unidentified, probably mechanical and electrical engineering, one tourism project (training), one water supply project and an urban transport project; the two integrated rural development projects replace Irrigation Rehabilitation I and II.

- v) Priority investments in agriculture, education and socially-oriented projects have a relatively high local currency content. The proposed lending program envisages a moderate amount of local currency financing in projects of this kind where the Bank wishes to have a policy impact. It is recommended that all projects should include a significant proportion of funds for training and technical assistance.
  
- vi) Recommended for inclusion in the economic work program are three studies which arise directly from the particular constraints on Tunisian development today; namely, unemployment, regional disparities and the under-developed state of a rather inefficient industrial base.

## TUNISIA

## INDICATORS OF DEVELOPMENT

	Unit	Annual Average				
		1951-60	1961-65	1966-70	1971-75	
<b>I. ECONOMIC &amp; STRUCTURAL INDICATORS</b>						
1. Gross Dom. Product (at constant factor cost)	% Change	3.6	5.5	2.9	8.1	
2. Manufacturing Output	% Change	..	6.2 <u>a/</u>	4.9 <u>a/</u>	..	
3. Agricultural Output	% Change	4.8	1.6 <u>b/</u>	-3.5 <u>b/</u>	..	
4. Imports of Goods and NFS	% Change	3.8	11.1	3.6	10.8	
5. Exports of Goods and NFS	% Change	0.7	5.1	11.0	10.5	
6. Domestic Price Level <u>c/</u>	% Change	3.9	3.2	2.9	3.0	
		<u>1950</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
7. Gross National Savings	% GDP <u>k/</u>	..	7.7	11.1	13.7	18.3
8. Resource Gap	% GDP <u>k/</u>	..	7.0	14.3	5.1	2.8
9. Net Factor Payments Abroad	% GDP <u>k/</u>	..	0.3	2.5	2.6	1.6
10. Gross Domestic Investment	% GDP <u>k/</u>	..	14.5	27.9	21.4	22.6
11. Debt Service <u>d/</u>	% Exports	..	..	17.7	22.7	14.9
12. Central Govt. Current Revenue	% GDP <u>k/</u>	..	21.9	20.9	24.8	..
13. Central Govt. Curr. Surplus	% GDP <u>k/</u>	..	3.5	5.0	4.5	..
14. Public Exp. on Social Services <u>e/</u>	% GDP <u>k/</u>	..	5.8	6.5	9.9	..
15. Military Expenditure	% GDP <u>k/</u>	..	2.2	1.5	1.5	..
16. Manufacturing Output	% GDP <u>k/</u>	..	11.5	11.9	12.7	..
17. Energy Consumption	Million KWH	..	..	306.3	576.7	825.0
18. Fertilizer Consumption	'000 tons	..	..	59.0	74.0	..
<b>II. SOCIAL INDICATORS</b>						
		<u>1951-60</u>	<u>1961-65</u>	<u>1966-70</u>	<u>1971-75</u>	
19. Population Growth Rate	%	2.5	2.4	2.6	2.5	
20. Urban Population Growth Rate	%	..	..	..	..	
21. Birth Rate	Per 1,000 popln.	..	..	40.6	40.0	
22. Family Planning Acceptors '000s		..	..	25.0	..	
23. Income of: Highest quintile	% total income	..	..	..	..	
24. " " ; Lowest " "	% total income	..	..	..	..	
25. School enrollment: Primary and Secondary	% school-age pop.	27 <u>f/</u>	54	65 <u>g/</u>	..	
26. Literacy rate	% adult popln.	..	..	55 <u>h/</u>	..	
27. Unemployment rate	% labor force	..	..	14 <u>i/</u>	..	
28. Population per hospital bed	Number	..	..	422 <u>j/</u>	..	

a/ Based on value added.b/ Based on value added and average for 1964-66.c/ Detail prices.d/ Service on total foreign debt in % of exports and NFS.e/ Central Government.f/ 1955.g/ 1968.h/ 1971.i/ Percentage of male unemployment in 1968-70.j/ 1968.k/ See footnote to Attachment 4. In this table all ratios of GDP are based on the unadjusted statistics and should be reduced by approximately 10%.Europe, Middle East and  
North Africa Department



ECONOMIC WORK PROGRAM

FY 1973-75

<u>Activity</u>	<u>Rationale</u>	<u>Responsibility</u>	<u>Status</u>
<u>FY 1973</u>			
Basic economic mission	Detailed review of the Tunisian economy, including a review of the 1973-76 development plan, and a survey of manpower needs, unemployment and problems of job-creation.	EME/Others	Programmed
Special study of the organization and machinery of policy formulation and decision making (second half 1973)	Technical assistance to the Tunisian authorities, with emphasis on planning and coordination	Development services Dept./EME	To be arranged
<u>FY 1974</u>			
Special study on industry	To assist the Tunisian authorities in defining institutional developments required to encourage and facilitate industrial development and policies and measures related to selected sub-sectors.	Bank staff and consultants	Recommended
Updating economic mission Feb. 1974		EME/Others	
<u>FY 1975</u>			
Special study on integrated regional development	To assess the institutional and policy changes necessary to plan and implement integrated development programs in selected less developed regions and to identify possible projects.	EME/Others	Recommended
Updating economic mission		EME/Others	

FY 1976

Urbanization of Tunis  
area

The need and purpose of the  
mission will be reconsidered  
in the light of the progress  
of urban planning for Tunis.

EME/Others

Recommended

Economic updating

EME/Others

## COUNTRY DATA - TUNISIA

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
164,000 km <sup>2</sup> / <sub>2/</sub>	5.6 million (mid-1972) Rate of Growth: 2.6% (from 1966 to 1971)	34 per km <sup>2</sup> / <sub>2/</sub> 105 per km <sup>2</sup> / <sub>2/</sub> of arable land

POPULATION CHARACTERISTICS (1972)  
 Crude Birth Rate (per 1,000) 38.8  
 Crude Death Rate (per 1,000) 12.0  
 Infant Mortality (per 1,000 live births) 115

HEALTH (1971)  
 Population per physician 6,486  
 Population per hospital bed 400

INCOME DISTRIBUTION 1961 6/  
 % of national income, lowest quintile 5  
 highest quintile 65

DISTRIBUTION OF PRIVATE LAND OWNERSHIP (1970) 2/  
 % owned by top 10% of owners 53.0  
 % owned by smallest 10% of owners 0.5

ACCESS TO PIPED WATER  
 % of population - urban 49.7 (1972)  
 - rural 19.5 (1966)

ACCESS TO ELECTRICITY (1966)  
 % of population 25

NUTRITION (1966)  
 Calorie intake as % of requirements 93.6  
 Per capita protein intake (grams per day) 62.9

EDUCATION (1972)  
 Adult literacy rate % 55<sup>2/</sup>  
 Primary school enrollment % 85<sup>2/</sup>

GNP PER CAPITA in 1972 : <sup>1/</sup> US \$ 350

GROSS NATIONAL PRODUCT IN 1972

	US \$ Mln.	%
• GNP at Market Prices	2,113	100.0
Gross Domestic Investment	522	24.7
Gross National Saving	453	21.4
Current Account Balance	- 69	- 3.3
Exports of Goods, NFS	555	26.3
Imports of Goods, NFS	609	28.8

ANNUAL RATE OF GROWTH (% , constant prices)

	1960-65	1965-70	1971	1972
• GNP at Market Prices	4.8	4.9	10.8	17.7
Gross Domestic Investment	13.3	3.6	13.0	38.6
Gross National Saving	14.0	12.2	24.0	25.0
Current Account Balance	.	.	.	.
Exports of Goods, NFS	2.3	11.2	14.2	25.7 <sup>3/</sup>
Imports of Goods, NFS	4.2	4.7	15.3	27.2 <sup>3/</sup>

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1972

	Value Added (at factor cost)		Labor Force		V. A. Per Worker	
	US \$ Mln.	%	Mln.	%	US \$	%
Agriculture	400	21.5	0.800 <sup>4/</sup>	52.5	500	41.0
Industry	477	25.6	0.252	16.5	1,893	155.2
Services	983	52.9	0.333 <sup>5/</sup>	21.8	2,952	242.0
Unemployed	.	.	0.140 <sup>5/</sup>	9.2	.	.
Total/Average	1,860	100.0	1.525	100.0	1,220	100.0

GOVERNMENT FINANCE

	General Government			Central Government		
	(Dinar Mln.)	% of GDP		(Dinar Mln.)	% of GDP	
	1972	1972	1970-72	1972	1972	1970-72
Current Receipts	253.1	24.6	25.2	216.1	21.0	21.4
Current Expenditure	215.9	21.0	21.9	175.8	17.1	17.5
Current Surplus	37.2	3.6	3.3	40.3	3.9	3.9
Capital Expenditures	85.0	8.3	8.4	58.6	5.7	6.0
External Assistance (net)	43.7	4.3	4.6	36.1	3.5	3.6

1/ World Bank Atlas conversion.

2/ Estimate.

3/ At current prices.

4/ Residual, equivalent to approximately 350 thousand in full-time employment, the balance represents underemployment.

5/ Male only.

6/ Unofficial estimate for the early 1960's prepared by Bank consultants (see I. Adelman and C. T. Morris "An Anatomy of Income Distribution Patterns in Developing Countries" 1971). In the absence of sufficient statistical information it is presently impossible to arrive at a reliable figure.

. . not available

. not applicable

## COUNTRY DATA - TUNISIA

## MONEY, CREDIT and PRICES

	1965	1969	1970	1971	1972
	(Million Dinars outstanding end period)				
Money and Quasi Money	170.4	229.8	250.9	303.9	354.7
Bank Credit to Public Sector	87.5	86.4	84.7	76.4	61.3
Bank Credit to Private Sector	149.5	234.8	255.7	285.6	332.7
	(Percentages or Index Numbers)				
Money and Quasi Money as % of GDP	32.2	33.9	33.6	35.1	34.5
General Price Index (1963 = 100)	111.0	126.8	128.1	135.4	138.3
Annual percentage changes in:					
General Price Index	6.7	4.2	1.0	5.7	2.2
Bank credit to Public Sector	11.7	7.6	-2.0	-9.8	-19.8
Bank credit to Private Sector	15.5	5.2	8.9	11.7	16.5

## BALANCE OF PAYMENTS

	1970	1971	1972
	(Millions US \$)		
Exports of Goods, NFS	317	405	555
Imports of Goods, NFS	382	439	609
Resource Gap (deficit = -)	- 65	- 34	- 54
Interest Payments (net)	- 21	- 23	- 27
Workers' Remittances	29	43	53
Other Factor Payments (net)	- 47	- 42	- 52
Net Transfers	10	16	11
Balance on Current Account	- 94	- 40	- 69
Direct Foreign Investment	20	24	54
Net MLT Borrowing	48	74	62
Disbursements	97	123	131
Amortization	49	49	69
Subtotal	68	98	116
Capital Grants	49	39	44
Other Capital (net)	- 4	- 7	- 16
Other items n.i.e.	-	-	-
Increase in Reserves (+)	19	90	75
Gross Reserves (end year)	78	170	247
Net Reserves (end year)	15	105	190

## RATE OF EXCHANGE

<u>Through December 20, 1971</u>	
US \$ 1.00 = 0.52 Dinar	
Dinar 1.00 = US \$ 1.90	
<u>Through February, 1973</u>	
US \$ 1.00 = 0.48 Dinar	
Dinar 1.00 = US \$ 2.08	

<u>Since February 1973</u>	
US \$ 1.00 = 0.44 Dinar	
Dinar 1.00 = US \$ 2.27	

## MERCHANDISE EXPORTS (AVERAGE 1970-72)

	US \$ Mln	%
Olive oil	52.6	21.9
Other Agric. products	39.3	16.3
Crude oil	60.9	25.3
Phosphate rock	22.0	9.1
Super phosphates	18.4	7.7
All other commodities	47.3	19.7
Total	240.5	100.0

EXTERNAL DEBT, DECEMBER 31, 1972<sup>1/</sup>

	US \$ Mln
Public Debt, incl. guaranteed <sup>2/</sup>	1020
Non-Guaranteed Private Debt	-
Total outstanding & Disbursed <sup>3/</sup>	675

## DEBT SERVICE RATIO

	%		
	1970	1971	1972
In % of Exports of Goods, NFS	22.1	17.7	17.2
In % of Exports of Goods, NFS, workers remittances	20.2	16.0	15.7

## IBRD/IDA LENDING, March 31, 1973 (Million US \$):

	IBRD	IDA
Outstanding & Disbursed	56.8	28.4
Undisbursed	92.2	30.3
Outstanding incl. Undisbursed	149.0	58.7

- 1/ Preliminary estimates  
 2/ Including undisbursed  
 3/ Excluding undisbursed

. . not available  
 . . not applicable

April 23, 1973

Europe, Middle East  
and North Africa Region

### Political Brief

Tunisia was a French Protectorate from 1881 to 1956. The last years of this period were marked by a successful campaign by the forces striving for independence under the dynamic and charismatic leadership of Habib Bourguiba, a French trained lawyer who skillfully alternated the force of action and discussion. After protracted negotiations in 1955-56, Tunisia became an independent sovereign state on March 20, 1956, ruled over by the Bey 1/ and a Constituent Assembly. In July 1957, the Assembly disposed the Bey, abolished the monarchy and elected Mr. Bourguiba President of the Republic.

Tunisia's constitution was promulgated on July 1, 1959, which declared Tunisia an independent sovereign republic whose official language was Arabic and religion Islam. The principal provisions called for the simultaneous election by direct, popular, universal suffrage of a National Assembly to which legislative power was entrusted and a President, for concurrent terms of five years. The Assembly, which shares the legislative initiative with the President, is required to meet annually between October and July. It alone has the power to tax and to commit the government in financial matters. The President combines very wide-ranging powers as chief executive, head of state and commander-in-chief of the armed forces. He determines government policies, nominates the Prime Minister and Ministers who are directly responsible to him. It is equally the President who declares war, concludes peace and ratifies treaties. During times of emergency, the President enjoys unlimited powers. President Bourguiba recently proposed constitutional reforms in the interest of "democratization" which provide for (i) a limited right of the Assembly to censure the government, the Assembly being subject to dissolution by the President after the second exercise of this right, (ii) the succession of the Prime Minister in case of vacancy of the Presidency during an interim period to be used to organize new legislative and presidential elections, and (iii) the use of a popular referendum in matters of national importance.

Administratively, the country is divided into 14 governorates, 90 delegations and also into 140 local communities. In practice there is little decentralization; all important decisions are made by the central government from Tunis.

The Neo-Destour Party, founded by Bourguiba in 1934, emerged from a brief struggle after Independence as the single most important political force in the country. Its organization, which is highly hierarchal, dates back to days when the Party operated in clandestinity. This organization has leant itself well to the perpetuation of a paternalistic attitude, particularly under Bourguiba's aging leadership, as well as the continued

---

1/ Title originally adopted by the governors of the Ottoman Empire, who intermittently ruled over Tunisia since the Sixteenth Century.

prominence of factions based on regional and tribal origins. These tendencies acting to discourage change were reinforced by the decision taken in 1964 to rename it the Socialist Destourian Party and to turn Tunisia into a one-party state, thus rendering the control of the Party tantamount to controlling the country.

The Tunisian political system has been stable since 1959, which is to be attributed to Bourguiba's forceful personality and his overwhelming popular support. In 1959 he was elected with over 90 percent of the votes. As the only official candidate of the single party, he was re-elected in 1964 and 1969 by margins of over 99 percent. In terms of policy one can distinguish three periods.

#### 1956-1961

During these years a middle of the road policy was followed seeking to maintain good relations with France and the Western world and playing down the internal pressures exerted in favor of a more Socialist program. However, unwillingness of foreign settlers to invest in Tunisia and diminishing flows of French capital led the economy into a period of stagnation which in the light of the climaxing Algerian war rendered the pursuit of this policy infeasible.

#### 1961-1969

In 1961 Mr. Bourguiba turned to Mr. Ben Salah, then leader of the trade union movement, more or less giving him a free hand in bringing Tunisia out of the vicious circle of underdevelopment through a program of central planning and intervention along socialist lines. Mr. Ben Salah, a man of considerable ability, dynamism and ambition, was entrusted the portfolios of National Economy, Planning and Education which made him the second most important man in Tunisia. He was convinced of the need for centralized control to optimize the use of scarce resources and of enforcing modernization through state cooperatives as the only means of stirring Tunisian society out of its traditional ways. During the early years, the program was carried out with some moderation and success leaning heavily on State ownership and management for new investment. However, following President Bourguiba's stroke in 1967 and his protracted state of poor health, the formation of cooperatives was pursued with increased vigor in the hope that sufficient time remained to make it the cornerstone of Tunisian Socialism and of continued power for the team at the helm. In January 1969 Ben Salah announced that the whole economy was to be organized in cooperatives by the end of the year, and increasingly coercion was used to achieve this target. This, in Ben Salah's reckoning, was a last ditch effort to destroy the traditional land-owning classes which increasingly resisted his economic policies that had yielded a large, bureaucratic and centralized administration, inefficient, unprofitable and overstaffed public enterprises. A succession of poor agricultural harvests contributed to a worsening economic situation. These factors were brought to bear against Mr. Ben Salah and persuaded an ailing President, to strip his minister of his powers. Ben Salah was subsequently tried, accused of treason and

mismanagement of the National economy and sentenced to ten years with hard labor.

#### Foreign Relations (1956-1969)

Foreign relations during this period were largely influenced by the Algerian struggle for independence, which compromised to a large extent Tunisia's relations with France and induced it to seek other allies, notably the U.S.A. Diplomatic relations with France were broken off in February 1958 following the bombing of a Tunisian border village. Tunisia then demanded total withdrawal of French troops from Tunisian soil. The accession to power of de Gaulle in June brought about an improvement in relations and an accord to withdraw all troops to Bizerte, yet the continued presence of French troops in Bizerte remained an explosive issue. In 1961, an attack against the base mounted by Tunisian irregulars was unsuccessful in dislodging the French troops and resulted in over 800 fatalities. Relations with France were broken off again. A U.N. mediation at first failed to bring about a settlement; however, following the censure of France in the Security Council, negotiations started resulting in the evacuation of the town, a year later of all French troops. In March 1963, the French government retaliated to the expropriation of foreign-owned lands by cancelling all financial aid.

Since 1964, Tunisia's relations with the world beyond the Arab states and Africa have tended to be influenced by the need for foreign aid brought about by the ambitious investment plans. Most of this came from Western countries where the Government's moderation inspired confidence. Overtures from communist countries have been treated with caution. Relations with Arab states, an area of great concern to President Bourguiba, were cooled by the initiatives taken, especially the critical attitude to the Arab League policy in 1965 and the advocacy of a more feasible approach with direct negotiations with Israel. Diplomatic relations with the U.A.R. were severed in 1966 and were only restored after the six-day war in 1967 which brought about a reconciliation of the Arab world.

#### 1969 to Present

During the six-month period following Ben Salah's ousting, the President, who was mostly out of the country for medical treatment, entrusted the government to Bahi Ladgham, his long-time right-hand who was then Secretary General of the Party. Associated with him were Messrs. Masmoudi, Nouria and Mestiri, who had played a major role in ousting Ben Salah. The latter two contributed to giving the government a distinctly more liberal orientation by allowing farmers to withdraw from their co-operatives, placing greater emphasis on sound financial management, and allowing a greater scope to private initiative. These developments in fact represented a reinstatement of the traditional middle classes to the levers of power.

In Foreign Affairs a distinct shift took place away from the position of President Bourguiba who had always been distrustful of the

political aspirations of the Arab world as formulated by Egypt's President Nasser and had preferred to follow a moderate, pro-Western stance emphasizing the pragmatic need to cooperate and coexist with Europe, Israel and other "capitalist" nations. A reversal to a more pro-Arab policy enabled Mr. Ladgham to act as mediator in the Jordanian/Palstinian crisis and also to normalize relations with Tunisia's more radical neighbors.

On his return to Tunisia in mid-1970, Bourguiba, sensing the turn of events and the popularity of Mr. Ladgham's government which had proved its ability to govern in the President's absence, announced the appointment of Mr. Hedi Nourira to the Premiership, ostensibly to allow Mr. Ladgham to devote his energies to the Arab peace committee overseeing the Jordanian truce.

Mr. Nourira, a previous governor of the Central Bank, then Minister of National Economy in the outgoing government, was reputed to be the brain of the Party and was known as a strong advocate of liberal economic policies. However, his cool manner and reserved character have proved to be handicaps in gaining popularity in the country at large. Having given a reminder of his personal power and placed the government in safer hands, President Bourguiba felt able to attend to further health problems, leaving Mr. Nourira in pursuing his liberal economic policies.

President Bourguiba returned to Tunisia in the summer of 1971 in better health and having recovered part of his stamina and legendary charisma. He soon began to backtrack on proposed political reforms, removing reform minded ministers from office, notably Mr. Mestiri. In October, 1971, the 8th Party Congress held at Monastir turned out to be a veritable test of strength between the President, backed by his loyal and conservative followers from the Sahel (the coastal region between Sousse and Monastir) and the more liberal elements led by Mr. Mestiri, largely representative of the Tunis bourgeoisie. The election of the Central Committee showed a clear preference for liberal candidates led by Mr. Ladgham and Mestiri, who obtained most votes. Not wishing to be outdone by the wishes of his Party, President Bourguiba insisted on presenting a list of candidates for the political bureau which reflected his conception of how the Party ought to be directed and clearly bypassed its expressed preferences. Mr. Mestiri, whose outspoken stance in favor of greater freedom of the press and a more rapid process of democratization had earned him the reprobation of the conservative leadership, protested violently at this procedure, which earned him the exclusion from the Party. This retrenchment of official policy and its clear message that dialogue and change within the Party would not be tolerated, at least during the life of the President, left dissident members voiceless in the wings. Repeated efforts to reconvert them to the fold have been of little avail.

Since then the improvement in President Bourguiba's health has been paralleled by an increasingly personal and direct control of affairs, pursued with an almost messianic zeal in skillfully undoing many of the measures undertaken during his absence and leading to a certain "corporatism" colored by a return to more conservative Islamic values. This is all the



more surprising from a man who had often challenged traditional religious beliefs as impediments to development as shown by his stand in emancipating the Tunisian woman and his unsuccessful attempt to abolish the observation of the fasting month of Ramadan. While the President still indubitably commands overwhelming support of Tunisians, the same cannot be said of the government in which no attempt is now made to balance the influence and interests of the various regions and clans which still determine Tunisian relationships.

Domestic politics continue to be dominated by the question of Bourguiba's succession, and the President himself is deeply concerned with this prospect. At the present time it would be idle to speculate about the eventual outcome given the improved health and unpredictable nature of the President. However, this position of uncertainty has led to a certain opportunism and an aversion to take firm positions by the leading contenders. The President continues to strongly favor Mr. Nouira as his successor. The recent constitutional amendment proposed effectively puts the Prime Minister in an almost unassailable position in the case of a vacancy of the Presidency, since he would be the Party leader, the defunct President's choice as a successor, and the person responsible for conducting the elections. This proposition has cut short liberal hopes of creating either a Vice Presidency, or the appointment of an interim President in the person of the leader of the Assembly to carry out the remainder of the mandate. It is essentially to appease liberal opinion at this reversal that it is thought that Bourguiba introduced the limited right of censure, which in its turn is counterbalanced both by the introduction of the referendum as an instrument of Presidential power and his speech on democracy referred to in the next paragraph.

Closely related to the succession question is the role and nature of democracy in Tunisia, which was the subject a recent speech of President Bourguiba to the Assembly (March 20, 1973). In it, he dispelled the notion of any real form of participatory democracy in Tunisia, arguing that it was not a traditional Arab or Islamic form of decision-making, and that the Tunisian people were still insufficiently mature for it. A more valid model was to be found in the prophets of old who received the advice of the councils of elders but were not bound by it. He pointed out that he had often acted against advice in the past, and that history had shown him to have been right, thereby making it quite clear that his vision of Tunisian development could not be achieved without his direct leadership and guidance. As an almost logical conclusion, he suggested to Parliamentarians last month to nominate him as President for life, a proposal he had still turned down two years ago at the Monastir Party Congress (see attached newspaper clipping).

An important element in the internal situation is the extent of student and intellectual opposition to the present regime, its political paternalism and liberal economic policies which have encouraged a flourishing of the small and middle bourgeoisie. The government's failure to create sufficient jobs to employ school and university graduates and to

give them a role in shaping the future of their educational institutions and country has given rise to considerable opposition, as has its policy of reducing the importance of education in the budget (current and investment expenditure accounts for over 25 percent of total government spending) and the redirection into sciences and technical education sought by the government. The University of Tunis has seen several outbreaks of unrest and strikes which last year led to the temporary closure of the University. A further outbreak in February 1973 spread to the regions and secondary lycées. A further expression of dissatisfaction occurred in the Tunis University after the successful escape of Ben Salah from prison last January (he is reported to be living in Europe) and the alleged torture and death of his brother at the hands of the police. As a result of these events, a minor reshuffle took place in March in which Mr. Khefacha, Minister of the Interior, was dismissed from his post and then made Minister of State, and replaced by Mr. Tahar Belkhodja, a previous chief of police known for his law and order position; the Ministers of Health and Education were exchanged in their responsibilities. Surprisingly, Ben Salah's escape does not seem to have had any other political repercussion and it looks as if the escape will not be politically meaningful.

The President has again been increasingly active in foreign affairs. In 1972 he was the official guest of the French Government, thereby achieving a long-nurtured dream of achieving the friendship and cooperation in development with the old colonial power. French aid to Tunisia was increased, including a substantially modified program in education where there are currently over 3000 French "cooperants" teaching in Tunisian schools.

In December 1972, Colonel Kaddafi, the Libyan President, officially visited Tunisia, providing the first encounter between the firebrand politics of Colonel Kaddafi and the mellowed experience of Bourguiba. In response to an unscheduled meeting held in a local theatre at which Colonel Kaddafi spoke forcefully about the need to create an Arab nation from the Gulf to the Atlantic, Mr. Bourguiba felt obliged to leave his residence and reply in person to the propositions of his guest. His speech was a long critique of the failings of the Arab movement and of the necessity to rely on the West for technological reasons. He also disclosed that he had turned down an offer by the Libyan President to head a union of their two countries, referring to the unhappy fates of previous attempts at unification in the Arab world. In short, his speech provided a reaffirmation of his traditional policy in foreign affairs, thereby largely rejecting the policy initiatives taken by his foreign minister, Mr. Masmoudi.

EMENA CP11 C  
May 2, 1973

TUNISIA: Mr. Bourguiba: "Geniuses of my stature do not grow on trees..."

Tunis - According to a speech reported in the Saturday morning press (April 21, 1973), the Head of the Tunisian State suggested to the Deputies of the National Assembly, whom he had convoked to his Carthage residence on Thursday April 12, that they envisage "a gesture which would honor Tunisia": his designation by the Assembly as President for life.

This solution had already been proposed to Mr. Bourguiba in the course of the last party congress held at Monastir in October 1971. At that time the Head of the State had declined the offer, for he preferred to obtain his mandate each time by popular vote.

At present, it looks as if Mr. Bourguiba's position has evolved and that he fears the effect "of repeated electoral periods, feverish periods propitious for the proliferation of microbes dangerous to the health of the country. The act of designating me the Head of the State for life," Mr. Bourguiba said to the Deputies, "could only be a homage of recognition in the eyes of the whole world to a man whose name is synonymous with Tunisia, and to whom the country owes its reputation among nations. It is thanks to him that the country was created from nothing and built up to a respected state which enjoys general esteem. Furthermore, this matter relates to a prestigious leader whose advice and counsel is eagerly sought by people of all countries. Should the Assembly decide to confer him the title of President for life, this gesture would honor Tunisia. Through the feats which have characterized his political career, through the eminent service rendered to his country, through the dazzling success in which his actions have always culminated, and through the heavy responsibility that he has assumed in making Tunisia into an independent state, this man has amply merited such an homage, which officially will not add to his prestige".

"It is beyond all question that if a referendum were to take place in the country, 99.99 percent, if not 100 percent of the electorate consulted would confirm Bourguiba as President for life.... . Geniuses of the stature of Bourguiba do not grow on trees," the President continued. "His birth was a miracle of nature which is not frequently repeated during the course of centuries."

## ECONOMIC BRIEF

1. This note is based on a draft Issues Paper of the Basic Economic Mission which visited Tunisia from February 20 to March 24, 1973. It contains the main preliminary findings of the mission and covers:

- I. Government Organization and State Enterprises
- II. Overall Economic Growth, 1961 - 1972
- III. The New Economic Orientation, 1969 - 1972
- IV. 1973 - 1976 Development Plan
- V. Income Distribution, Regional Development and Employment
- VI. Mobilization of Savings and Resource Allocation
- VII. Agricultural Development
- VIII. Industrial Development
- IX. Education and Health

### I. Government Organization and State Enterprises.

2. While Tunisia's political situation has been characterized by stability, frequent changes have occurred of late in the ministerial establishment, the administrative structure and the relative importance of the roles of the public and private sectors. Since 1969, the new policy of economic liberalization has manifested itself in major but sometimes inconsistent changes in the institutional framework. A heterogeneous team has taken the place of the former powerful Secretary of State. The Prime Minister's authority is limited by the nature of his mandate, which can be recalled at the whim of the President, and by the principle of collegiate responsibility within the Party.

3. Frequent Cabinet reshuffles resulted in transfer of staff and responsibilities from one Ministry to another. Departments have proliferated and a number of public agencies have been created to bypass restrictions on salaries in the public administration. Some deconcentration in government administration has taken place, however, without effective decentralization of decision-making. Coordination within, as well as between, ministries is weak. The Cabinet meets frequently for making decisions which in fact could often be handled at a lower level. Reform of government administration, redefinition of ministerial schedules and reorganization of ministerial structures are under consideration. A start has been made with the Ministry of Education and proposals for reorganizing other ministries are in an advanced state.

4. Throughout the 1960's Tunisia followed a socialist approach of centrally planned economic and social development, which was intended to overcome the legacy of colonization that had left Tunisia seriously lacking in access to capital, both foreign and domestic, technical know-how and experienced managerial resources. Remedy to this situation was sought by creating, as vehicles of modernization, institutions under public control and hierarchically dependent on the Government. By 1972 about 80 administrative agencies and public enterprises had been created and had received over a third of total investment. In the industrial sector, they accounted for over two-thirds of value added in 1972. Their overall contribution to profits was small, reflecting managerial and technical deficiencies and a lack of domestic and foreign competition. Excluding the 32 million dinar profits of petroleum companies and financial intermediaries, the contribution of the other State enterprises was on average nil.

## II. Overall Economic Growth 1961 - 1972.

5. In terms of macro-economic aggregates, some results are impressive. Between 1961 and 1972, investment more than doubled from D84 million to D195 million; the investment rate averaged 23 percent over the period, increasing from 18 percent of GDP to 25 percent, and domestic savings rose from 7 percent of GDP to 22 percent, thereby substantially reducing Tunisia's dependence on external borrowing from almost 43 percent of investment to 13 percent. The balance of payments position has steadily improved since 1967; the deficit on current account, which had averaged \$115 million per year between 1962 and 1967, dropped to \$69 million in 1972. A net liability of foreign exchange reserves was reversed in 1971; net holdings increased to \$190 million by the end of 1972, covering over 6 months of commodity imports. Principal contributing factors were earnings from petroleum, tourism, workers remittances, exceptionally good cereal and olive harvests in 1971 and 1972, and a continued high level of foreign aid on concessionary terms. In 1972, gross net aid inflow totalled \$137 million.

6. Over the period 1962-1970, the growth of GDP<sup>1/</sup> at market prices averaged 5.1 percent p.a., a little below the Plan's target figure of 6 percent. The shortfall was largely due to a series of dry years, to the Government's investment policy which emphasized social and administrative infrastructure and projects whose contributions to growth were of a slow yielding nature, to a number of uneconomic investments in public enterprises, and to the discouragement of private initiative in nearly all sectors except tourism. Given the annual rate of population increase (2.5 percent to 2.8 percent per year), the growth per capita income was less than 2.5 percent p.a. while private consumption barely increased. In two sectors performance must be considered unsatisfactory: agriculture which grew by 2.3 percent p.a. (1.2 percent if calculated using least squares growth trend so as to eliminate bias in terminal years) and where disappointing results were partly a reflection of poor harvests; and food processing which fell by 2.4 percent (0.3 percent increase by least squares). In most other sectors the performance has been close to planned levels, although the gains in production and value added do not measure up to the investment effort. Growth in tourism, petroleum and to a lesser extent textiles, largely exceeded the targets while there were signs of a breakthrough in olive oil production.

7. A remarkable improvement in economic growth has taken place since 1970. GDP grew by 8 percent in 1970, 9 percent in 1971 and 18 percent in 1972. The reasons for this turnaround in growth performance can be attributed to:

- (a) exceptionally good weather for agricultural production with repercussions on food processing industry and disposable income.
- (b) an increase in olive production, obtained from trees planted 10-20 years ago.
- (c) continued rapid growth in tourism, averaging 20 percent per annum during the last four years.
- (d) increased production and export of petroleum, to reach almost 4 million tons in 1972, reinforced by important price increases in 1972.

---

<sup>1/</sup> A revision of the national accounts commenced in 1972, and not yet finalized, shows a fundamental improvement in performance between 1962 and 1970 compared with the conclusions drawn from the previous series. The analysis above is based on the revised series.

- (e) rapid growth in total workers' remittances, which have increased from \$9 million in 1965 to \$53 million in 1971.
- (f) an acceleration of growth, stemming from renewed self confidence in the private sector, and new emphasis on productivity, profitability and the private sector.

8. The first five developments were only mildly affected by recent Government policy changes, being largely attributable to exogenous factors such as the weather, worker emigration abroad, and pre 1969 policies to develop petroleum, olive plantations and tourism. Most of these factors can be expected to last throughout the Fourth Plan period, except for climatic conditions which are subject to extreme variations, the effects of which can more than offset growth in other sectors in a bad year. Also tourism development and workers' remittances remain subject to fluctuations, depending on exogenous factors such as economic stability in Western Europe.

### III. The New Economic Orientation, 1969 - 1972.

9. The fall of Ben Salah and the demise of the co-operative effort was followed by a reassessment and revision of Tunisia's development policies in 1969 and 1970 in the light of the slow economic growth achieved during the preceding decade. A new strategy was formulated which aimed at accelerating growth, exports and employment, mainly by reducing direct Government intervention, relaxing administrative controls and strengthening incentives and indirect support to productive activities in the private sector. In agriculture, because of the large infrastructure investments made in the past, more efforts were to be put into providing support to production. In industry, further expansion was to be oriented primarily toward exports because of the small size of the domestic market, with Government encouragement and support to both domestic and foreign investors.

10. During 1970-1972, a number of steps were taken to promote private investment, relax administrative and legal controls on imports, trade and prices, improve mobilization and allocation of financial resources and increase the general competitiveness of the economy. Most significantly, measures have been taken to provide incentives for export oriented industries and set up an agency for the promotion of investments, which recently became operational. The agency's approval of an investment project replaces approval previously required from various agencies and committees. This will facilitate foreign investment. In development financing, some measures have been taken or are under study to expand the provision of medium and long term credit and to develop the role of the banks in promoting investment. The importation of a range of products (mainly raw materials and spare parts representing about 25 percent of total imports) has been facilitated by a system of annual import authorization. Some of the import monopolies have been abolished. Private trade and commerce have been rehabilitated and some measures have been taken to relax price controls, particularly those on agricultural products.

11. The implementation of the new orientation has been facilitated by the acceleration of economic growth since 1970. Confidence and initiative in the private sector has been evidenced by the increased number of investment projects. However, land and financial resources in the private sector are now being increasingly concentrated in the hands of a small relatively rich business community. Unless the door is open to all to import, trade, invest, and raise capital, this group could rapidly become a highly endowed oligopoly benefitting from the existing system of administrative controls on import prices, investments, access to incentives and protective features already built into the system. To counter the risk that the Government's withdrawal from direct participation in production and its present laissez-faire approach will merely transfer economic power from the public regime to a private, or at least a semi-public system controlled by a restricted group of businessmen and technocrats, policies of liberalization need to be developed and implemented without further loss of momentum. This should include measures to remove quantitative control on imports in favor of tariffs to further reduce and simplify administrative controls on private investment decisions, to entirely abandon the present system of price fixing on a cost-plus basis and to revise the system of protection of domestic industries. Steps need also to be taken to consolidate and rationalize incentives to accord with objectives, to review the interest rate structure as an incentive to savings and financial market operations and to stimulate medium term credit. It would also be necessary to adapt the institutional framework to provide greatly increased technical assistance to agriculture and industry and a stronger promotional orientation for the recently introduced legislation.

12. This progress, however, will be hindered by a lack of a clear conception of what should come next and of how to program and coordinate future action. This stems from lack of experienced leadership, excessive political caution, the legacy of years of administrative restriction and control and a lack of experience with a market-oriented economy. In this respect, institutional changes, including a redefinition of the responsibilities of ministries, government agencies, enterprises and banks will be needed to improve the conception and the coordination of decisions, their implementation, and the efficiency of the economic system.

#### IV. 1973-1976 Development Plan.

13. The Fourth Plan, 1973-76, has reached a fairly advanced stage of preparation. However, crucial decisions remain to be made on policies and institutional reform in such areas as employment, income distribution, land tenure, water management, and education. Final options on the financing of the Plan and domestic resource mobilization also remain to be fixed.



14. The Plan is built around the objective of attaining a rate of GDP growth sufficient to provide 6 percent increase in private consumption while satisfying constraints on the balance of payments and the debt service. It proposes a 20 percent limit on external financing of investment and a 20 percent limit on the debt service ratio. As a subsidiary objective the Plan seeks the creation of new employment opportunities to meet as far as possible the expected increase in the labor force. (See paragraph 23 below). The Plan calls for continued rapid growth with GDP increasing by 6.5 percent p.a., over the exceptional levels of 1972 and a virtual doubling to 1.2 billion dinars of the investment effort which is more heavily weighted in favor of directly productive projects, 60 percent versus 40 percent previously. In developing its strategy the Government has placed overriding emphasis on the role of the non-agricultural industrial sector as the primary source of growth and the principal field for employment creation, both being determined by the level of investment involved. The agricultural output has been regarded as not being a function of investment, but rather one of effective demand and weather conditions. Moreover, little consideration has been given to its potential labor absorptive capacity and to measures needed to check rural migration.

15. In agriculture, the livestock and fisheries subsectors are to receive a somewhat higher allocation, and greater emphasis is given to projects in dryland farming and to providing technical and extension services. However, an important irrigation component is retained with a commitment to several new projects. These should be postponed until the anticipated returns of past investments have been demonstrated. In industry, private and foreign investment in textiles are expected to make this subsector the principal growth pole and substantial State participation is expected in mining and mineral transformation, petroleum, and cement industries. The transportation sector will receive some belated and overdue investments in preparation of a major restructuring to be undertaken in the late 1970's. Continued rapid growth is expected in tourism with the State limiting its intervention to the provision of infrastructure.

16. The Plan calls for domestic savings to finance 80 percent of total investments. The mission was unable to ascertain the likelihood of meeting this objective as preparation of the relevant material had not yet been completed. Prospects for external financing seem promising with exports of goods and services projected to grow at 8.3 percent per year

and imports at 9.7 percent. The remaining average deficit of some \$113 million, plus \$73 million for debt-amortization, would be more than offset by a projected annual inflow of external aid of over \$243 million resulting in a net addition to reserves of some \$56 million per year. These assumptions would be consistent with a debt-service ratio of about 16 percent over the next decade, after taking into account the probably change in the grant element, some hardening of debt terms, and presupposing a continuing policy of restrictive private borrowing from abroad.

17. Overall the mission noted a more thorough approach to the current planning exercise and an investment mix more realistically related to the production needs and capacities of the economy. The critical factors in implementation are likely to be the state of project preparation and the adequacy of policies and institutional development which will be achieved, especially in areas where the private sector input is preponderant. The mission, however, was disappointed to find that no progress had been made in incorporating objectives other than the growth of productive capacity into the formal planning mechanism. The creation of employment, pursuit of more equitable income distribution and greater regional equilibrium were regarded as mere by-products of the investment process. Furthermore, original hopes of using the Plan document as a vehicle of achieving major reforms in agriculture and education are unlikely to materialize.

V. Income Distribution, Regional Development and Employment.

18. The post independence period has seen growing inequality of income, an imbalance in the pattern of land ownership and the concentration of economic activity in Tunis and the coastal towns. In broad terms, beneficiaries of economic growth have been those Tunisians possessing access to education and scarce productive assets such as land, capital and credit. These include incumbents of high levels jobs in Government, State enterprises and public institutions, the owners of large fertile land holdings and a relatively large group of employees in the modern urban sector. The group of persons who have failed to derive much benefit from growth generated since Independence include the greater majority of the farming population particularly in the arid and semi-arid areas, employees in the rural sector, and the urban and rural unemployed.

19. The Government objective of raising minimum family incomes from the 1961 average of 25 dinars per head to an average of 45 dinars per head by 1971 has not been realized. Government estimates indicate that in 1971 about 40 percent of the population received incomes below this target even after imputing the value of social services provided by the Government.

While average real per capita income increased by 2.5 percent per annum, real earnings in the modern sector rose by as much as 50 percent over the same period, suggesting that real earnings for the bulk of the population have declined significantly. For one-third of the total population, that is about 1.5 million, living in the underprivileged areas of the Center and South, real income per head is estimated to have decreased by as much as 25 to 30 percent between 1962 and 1970. The situation has been considerably improved in 1971 and 1972 by the receipt in the rural areas of workers' remittances and by the higher level of personal disposable incomes deriving from increased agricultural output.

20. Growth in the 60's was concentrated in the urban and coastal areas of the country. Wide disparity between the resources, potential development prospects, and employment opportunities have led to substantial migration from rural to urban areas and from urban areas overseas. This migration has deprived rural areas of prime age and skilled workers, increased urban unemployment and retarded the upgrading of the urban labor force. In addition, the emigration of workers to Europe is skimming off skills already in short supply in Tunisia.

21. Although reliable information on resources, employment and income patterns by region is not readily available, it is evident that regional disparities in standards of living are high. Regional resources are not generous but they have not been inventoried nor fully exploited, nor are the possibilities of regional activity being maximized. The alleviation of the shortage of water which is probably the single most important constraint on the development of the poorer regions, is not being vigorously pursued; for example, the results of a UNESCO multi-disciplinary study of subterranean water resources in the Sahara region was made available to the Tunisians in April 1972 but has not yet been followed up.

22. The country's productive activity is largely focused on Tunis and to a lesser extent other coastal towns. Production from the less developed areas almost inevitably finds its way to Tunis via the national marketing agencies, and local requirements of these regions frequently have to be met from Tunis. The Government, State agencies, and larger public and private enterprises have their headquarters in Tunis. Local Government is virtually non-existent. The "Gouvernorats" are representatives of the Central Government without discretionary powers, and could hardly play a pivotal role in initiating economic activity.

23. Information on employment is limited and incomplete. The Bank mission estimates that a total of 132,000 new jobs were created during the ten-year period 1962 - 1971. This is less than the increase in the male population of working age and the number of females seeking work. The mission also estimates that out of a labor force of the order of 1.4 million in 1972, 14 percent (or 200,000) were unemployed, and 29 percent (or 400,000) were under-employed. During the period of the Fourth Plan, the male labor force is expected to increase by about 163,000. New jobs for men are expected to amount to some 86,500 while emigration is expected to absorb 60,000, leaving an addition of 16,500 to the number of unemployed. Jobs for women are expected to increase by approximately 30,000, implying a decline in the proportion of the economically active female population.

24. Employment creation has not been accorded high priority in the past, and as mentioned previously, the Four year Plan is not seeking employment creation as a prime objective. No attempt is being made to guide investment towards labor intensive technology, and little effort has yet been made to provide unskilled labor, and students with high school or university qualifications, whether drop-outs or graduates, with the professional and vocational training needed to prepare them for the types of employment available. Employment projections are merely an aggregate of the employment needs arising from the project content of the Plan.

25. The Bank mission will develop detailed proposals for an employment and income distribution strategy.

#### VI. Mobilization of Savings and Resource Allocation.

26. Mobilization and allocation of resources remain a key concern in Tunisia. The Government's proposals for the financing of the Plan have not yet been finalized. The high ratio of gross national savings to GNP (about 21 percent in 1972) is a particular feature of the last years of exceptional growth in GNP and Government revenue. The 1960's were characterized by a moderate improvement in overall performance. However, important shortcomings existed in the coverage and incidence of taxation, the efficiency and savings performance of State enterprises, the utilization of domestic borrowing, the development of financial intermediaries and market operations. These shortcomings were aggravated by an inappropriate intervention by the Government in price determination. Problems in resource mobilization and allocation are likely to persist during the forthcoming Plan period, but for different reasons, which stem from the insufficiency of measures to assure a freer interplay of market forces, from the projected increase in the rate of personal consumption and from the need, as yet not clearly recognized, for a significant increase in Government current expenditure on services to private industry and agriculture.

The present tax system is ill-equipped to perform the tasks of fiscal policy, such as revenue raising, demand management, encouragement of investment, full employment and income redistribution. In general, no serious attempt has been made by the Government to assess whether or not the present tax system would be able to yield Government revenue requirements in the future, nor to carefully analyze the overall revenue elasticities of the system. The achievement of a more progressive tax structure should be a major concern in planning tax reform. Although important improvements have been made in the tax administration and in tax collection in the past decade, a greater distribution of the tax effect and an extension of the range and diversity of techniques of taxation are overdue.

27. The Government has under active study a number of proposals for tax reform. These aim at introducing a value added tax in lieu of existing turnover and production taxes in a form which would facilitate the extension of the tax base and a lowering of tax rates. The proposed income tax reforms are based on the recognition that existing taxation is too limited, discriminatory in its incidence and that rates are too high. However, they fall short of changing from the present schedular income tax system which applies differential rates to different forms of income, to a unitary income tax with a single progressive rate. A similar reform is required in the field of corporate taxes providing for lower taxes on retained profits and taxation of capital gains. Taxes should also be more effectively collected on agricultural incomes and on those of other self-employed persons. Moreover, in the interest of productivity, a land value tax based on the production potential of the land should be introduced.

28. The Government is now carrying out a program to improve general performance and profitability of State enterprises and studying a package of measures designed to facilitate the mobilization of financial resources for the private sector.

#### VII. Agricultural Development.

29. Agricultural growth has been negligible during the 1960's, but has made a large jump in 1971, and again in 1972, as a result of favorable weather conditions. The stagnation during the 1960's can be attributed (a) to weather conditions - rainfall during the 1960's was some 30-40 percent below that in the previous decade - (b) to the disruptive effects of cooperativisation and (c) to investments with long gestation periods that have so far remained unproductive. The demise of the cooperative system has left a vacuum. The Government is now slowly and painfully putting together the elements of a new agricultural development strategy, although its approach remains fragmentary. The imminent completion of the Fourth Plan presents the risk that more fundamental considerations will be overlooked, and that isolated investment decisions will determine the Government's policy in a number of critical fields in the years ahead.

Due to its slow-yielding and not directly productive nature and other constraints, such as land tenure problems and inadequate extension services in irrigated areas, the heavy investment in agriculture in the 1960's has not yet had a significant impact on output. This raises the question whether investment on the pattern of the past should not be halted until a realistic reevaluation has been made and the ability to utilize existing investments has clearly been demonstrated.

30. In irrigation, the major question then is to which extent further investment should rather go into on-farm development than into infrastructure and whether intensive cultivation will find a market at home or abroad. Despite the priority given to irrigation, output of fruits and vegetables has remained virtually unchanged since 1966. There is no clear evidence as yet that Tunisia can produce the right crops, at the right time and at competitive prices, for European markets which are dominated for eight or nine months of the year by large scale, highly developed and sophisticated producers in countries such as Italy, Spain, Portugal, Morocco and Israel.

31. In rainfed agriculture, an effort should be made to promote forage production, tree cultivation, livestock and poultry development, and the exploitation of subterranean water resources in the South. The limited possibilities to export high-value commodities should be explored and marketing institutions be created. Extension and agricultural research services, credit facilities and land registration programs should be expanded concurrently.

32. Regional distribution of agricultural investments remain an issue. In terms of productivity the greatest potential seems to be in the North where the level of development is already higher than in the less populated areas of the Center and South. However, given the growing concern for rural migration, unemployment and underemployment, these areas ought to benefit from a concerted investment effort to permit the standard of living to catch up. The question is whether Tunisia can afford to forego high-yielding investments in an effort to stem the population exodus from the poorly endowed regions.

33. The "Terres Domaniales", comprising 850,000 hectares of the most fertile land in the country, still remain under State control. The Government plans to sell or otherwise dispose of some 350,000 hectares and whilst there are sufficient potential buyers among the landowning class, it is by no means assured that they would make the most intensive use of this land.

The long term future of the remaining 500,000 hectares is still not clear. At the official level, at least, the Government remains committed to the view that agricultural land can be used most productively when managed and operated on a large scale implying a retention of the land under the control of the State or large landowners.

34. Land tenure in irrigated perimeters remains an issue. Land reform laws provide for ceilings on the size of individual holdings in irrigated perimeters which, however, are largely ignored. These ceilings permit cumulation of several holdings in a single family. The mission noted an unwillingness to accept that irrigated land requires intensive cultivation which is unlikely to be achieved by a landowner possessing as much as 50 hectares. Because of oversized holdings only 45 percent of the land equipped with irrigation infrastructure in the lower Medjerda Valley is fully used, while on the remainder rain-fed cultivation continues.

35. In general, with land at such a premium and in such short supply and with the problems of migration, unemployment and underemployment in rural areas, the issue of land utilization and land and water management can no longer be left unresolved. Apart from legislating for lower ceilings and enforcing these, consideration should be given to the adoption of a land tax based on potential production from land. This would provide a sanction on the misuse or under utilization of land and this tax should be progressive on the size of holdings.

36. Despite the difficult climatic conditions and limited availability of good land, there is scope to increase productivity, employment and incomes in the agricultural sector. This could be achieved partly through the redistribution as family sized farms of the "Terres Domaniales" and other inefficiently used irrigable land. There is also scope for switching from production of traditional crops with low labor requirements (such as barley, which needs about 30 man days per hectare, per year) to a combination of crops and livestock which have a higher labor content, and also yield higher returns (for example, forage crops need about 100 man days per hectare, per year for cultivation, and generate secondary employment in livestock raising).

#### VIII. Industrial Development.

37. In industry the new development strategy introduced in 1970 is based on private initiative. It puts primary emphasis on export industries, where foreign private industries would be expected to make a major contribution in the form of finance, technical know-how, and overseas marketing. The Tunisians hope that foreign private investment will serve as a catalyst and that cooperation and emulation will lift Tunisian industries from a semi-artisan status to one of export competitiveness.

Tunisian private enterprises are small, inexperienced and, if not over-protected, at least largely insulated from competition and outside influence. The family enterprise is prominent and there is a preference for obtaining finance through personal relations rather than through banks and public borrowing. In the case of State enterprises, whilst financial and managerial reorganization has been initiated, there are other substantial problems, technical limitations of the original investment, poor choice of technology, obsolete plant, inappropriate scale of operation and inadequate supply of local raw material which pose serious obstacles to effective modernization, and which have not yet been seriously examined.

38. In the next four years, growth is likely to be achieved in the petroleum, phosphate and textile sectors. The increase in phosphate production would depend on the prior rehabilitation of existing mines. Beyond this, progress in expanding manufacturing industries might be slow. It will depend largely on the Government's ability to organize a strong promotional infrastructure which can not only mobilize foreign and domestic participation in new ventures and in subcontracting, but can also provide a catalyst for reorganizing and rationalizing existing plant, particularly in the mechanical and electrical engineering industries. Moreover, rational industrial development based on export-industries and private initiative can only be achieved within the context of a market-oriented economic environment; this is an objective to which the Government is officially committed but on which action to follow up the initial round of measures is still outstanding. From a political and social point of view, regionalization of industrial development will be important. There is a growing concentration of industry in the Tunis area, and possibilities of promoting regional projects should be more forcefully explored. One possibility for encouraging industrial development outside the Tunis area is the establishment of industrial zones and estates in the poorer regions.

#### IX. Education and Health.

39. Improvement in the standard of living coupled with the promotion of equal opportunities was one of the main objectives of the 1961 Ten Year Prospectives. In seeking to achieve this, the country has made very large outlays for human resource development, representing up to 52% of the annual current budget, and almost 30% of capital expenses. Most of these expenses have been directed at providing universal and free education and improving public health. However, the results of the programs have fallen short of these objectives. This is largely due to the absence of an economic or manpower analysis on which to base an integrated human resource investment strategy.



40. In education the past effort is at first glance impressive, with primary schools located in the remotest villages and secondary schools with boarding facilities in most small towns. Yet 30% of the primary school age group receive no schooling and a further 30% drop out before completing the cycle. The curriculum is heavily biased toward academic subjects more suited to the needs of the minority of students entering secondary education than to the real needs of the majority who have to graduate into active employment with little further education. Furthermore during the past decade, the emphasis of investment in education has been on secondary and higher education, with little weight given to expenditures on courses and institutions seeking to match manpower requirements. The present situation shows a serious excess of secondary and university graduates seeking white collar jobs who cannot find employment or only at low salaries.

41. After years of delay and vacillation, an outline of the principles of reform of the educational structure has been prepared by the Ministers of National Economy and Planning. These are to form the basis for the work of a cabinet level study group to elaborate reforms, with a view to gearing the educational system to manpower requirements. This could lead to major policy and structural changes at all levels of education with emphasis on primary and vocational education and a reduction in secondary and higher education to match manpower demand with those qualifications. There is yet no assurance that workable conclusions will be reached or implemented. The second IDA educational project includes the financing of an educational planning team which is being selected by UNESCO and is just becoming operational. It is attached to the Ministry of National Education. ILO has had a manpower team in the field for more than a year which is attached to the Ministry of Planning. Both groups hold out the prospect of guiding planning into the right direction, but much will depend on the extent of the Bank's supervision of the UNESCO educational team, its direction of work, its integration into the Government's policy formulation machinery, and its close cooperation with the ILO manpower group.

42. In the health sector, expansion since independence has been rapid. The system remains oriented towards the provision of curative rather than preventive medicine, with concentration on large-scale hospital units. Staff resources and equipment required to operate them are largely inadequate and available service potential is underutilized. Whilst expenditure on health service has expanded, complementary expenditure on sanitary infrastructure and services has been virtually nil, except in some of the larger towns. Local authorities and communes lack financial and staff resources.

43. A national population planning program started in 1964, and received strong support from the political leadership. Its short-comings are described together with the on-going IDA project in Section G.3 of this brief.

## FOREIGN ASSISTANCE, EXTERNAL DEBT AND AID COORDINATION

1. Tunisia has benefitted by a high level of external official aid since 1962 (see Attachment I). During 1963-1972, it amounted to about US\$957 million (in terms of actual disbursements) of which 32 percent was in grants, including foodstuffs and technical assistance, and 68 percent in loans. The major donors have been France, United States, Germany, Canada, Sweden and other EEC countries. Official loans have come from bilateral sources for 87 percent (mainly USA, France, Germany, Italy and Kuwait) and from multilateral sources for 13 percent (primarily the Bank Group and to a lesser extent the African Development Bank). However, there has been a considerable increase in the proportion of multilateral aid over the period from about 5 percent in 1963-1967 to 19 percent in 1968-1972. Program loans represented 40 percent of total disbursement, and project loans 60 percent; the largest share of project loans was for irrigation infrastructure, transport and communications and tourism. Most aid has been obtained on concessionary terms; in 1971, average terms of borrowing from bilateral sources were 1.5 percent interest and 26 years maturity including 6.7 years grace, while 5.9 percent interest and 27 years maturity including 5.8 years of grace applied to multilateral sources. Borrowing, on conventional terms, from private sources by Government or by enterprises with a Government guarantee, amounted to about US\$400 million over the decade; it was in the form of suppliers' credits (mainly French) and loans by private banks (mainly Italian and French); in 1971, average terms were 6.4 percent interest and 7 years maturity. There was virtually no other external private borrowing.

2. Tunisia's debt burden is relatively high. According to preliminary estimates, total outstanding external public debt at the end of 1972 amounted to about D490 million (\$1,020 million), equivalent to 48 percent of GDP, 66 percent of which had been disbursed. However the maturity structure and terms have continued to improve since 1969 when the Government started to limit borrowing from private sources; the proportion of outstanding debt at the end of 1971 was 60 percent from government (62 percent in 1968), 17 percent from multilateral sources (11 percent in 1968), and 23 percent from private sources (27 percent in 1968). As a result of this policy and due to the rapid increase in exports receipts, the debt service ratio declined from 26.7 percent in 1968 to 17.2 in 1972. Preliminary objectives of the Fourth Plan are to keep the ratio of external debt to GDP below 50 percent and to reduce to about 20 percent the share of investment financed from external sources. This share averaged 35 percent in the decade 1963-1972. Moreover, the Government in future intends to be more selective on the conditions of external borrowing and to give preference to project aid over program aid. Nevertheless, in the long term overall aid requirements will remain high.

### Aid Coordination

3. There is evidence that aid has been received in amounts which exceed Tunisia's ability to utilize it effectively. Coordination on the Tunisian side is weak. The responsibility of the Ministry of the Plan for scrutinising requests and evaluating results is not clear and is liable to be seriously challenged by the originating ministries. The economic mission

mission held discussions in Tunis with the USAID mission and the embassies of France, Germany, Italy, Belgium, Canada, and other bilateral donors of lesser importance. Embassy officials (except for the French) expressed disquiet at the lack of cooperation of the Government in the field of project identification and aid coordination. This corroborated the mission's own experience that in many cases aid was not allocated to Tunisia's economic priorities.

4. As Chairman of the Consultative Group for Tunisia, the Bank plays an important role in the contacts between the Tunisian authorities and the donor countries. Its meetings, held since 1963, provide a forum in which issues such as Tunisia's economic policies and problems, external aid requirements, problems in preparation and technical assistance, and coordination can be discussed. We expect to step up our reporting to the Consultative Group on aid flows, with a view to demonstrating the need for greater coordination among the donors and within the Government. We also hope that lists of pre-investment and technical assistance projects can eventually be prepared for the Consultative Group, in addition to the regular capital investment project list. Coordination by the Bank with individual donors on specific projects has often occurred in the past and is expected to increase in the future. Joint financing has been undertaken with the Kuwait Fund and KfW, and parallel financing with Sweden. In the future, joint financing is envisaged for the Irrigation Development project in FY 1975. In addition, we hope to integrate bilaterally-financed technical assistance in other Bank financed projects such as the Sedjenane Livestock and Rural Development Project.

TUNISIA

FOREIGN ASSISTANCE 1963-1972

	Total 1963-1972 (ten years)			Percentage distribution
	Million of Dinars	Million of Dollars		
A. Total disbursed public aid of which:	482.9	956.7	100.0	
Grants:	153.7	306.5	31.8	100.0
Food aid	40.7	81.2		26.5
Equipment	13.3	26.5		8.6
Financial aid	17.1	34.1		11.1
Technical assistance	82.6	164.7		53.8
Official loans :	329.2	650.2	68.2	100.0
USA	148.4	293.1		45.1
France	32.7	64.6		9.9
Germany	29.8	58.8		9.0
Italy	28.0	55.3		8.5
Kuwait	22.7	44.8		6.9
Eastern European countries	8.1	16.0		2.5
Sweden	4.5	8.9		1.4
Other countries <sup>1/</sup>	11.9	23.5		3.6
IBRD/IDA	42.0	83.0		12.8
BAD	1.1	2.2		0.3
B. Total disbursed private lending of which :	205.3	403.8	100.0	
Suppliers credits	125.7	247.3	61.2	
Commercial credits	36.3	71.4	17.7	
Financial credits	43.3	85.1	21.1	

<sup>1/</sup> Canada, Netherlands, Denmark, Spain, United Kingdom

Source: Tunisia, Ministry of Planning

AGRICULTUREA. Recent Experience

1. Over the past decade and more, Tunisia has made very substantial and important investments in the types of infrastructure which can support a viable agriculture -- setting in place the physical equipment to irrigate about 100,000 ha, an excellent road system linking the countryside to the towns, a well-equipped and well-staffed research organization, a largely literate population, a good stock of mechanical farm equipment and a reasonable number of people familiar with its care and use. In addition, there is strong demand for agricultural commodities, both domestically and abroad, new varieties of wheat are being introduced and some new land remains to be exploited. There are problems associated with land tenure, but they are not the problems which arise from grossly unequal land distribution and the attendant landlord/tenant relationships which are found in some other parts of the world. Putting all these factors together, there is good reason to think that Tunisia may be on verge of a genuine improvement in the level of agricultural performance -- a shift from the slow and uncertain growth patterns of the past. What has been lacking thus far is the catalyst which can initiate such a change, and in this context the possible change in private attitudes makes this unknown an important one. Other factors obviously are present as well, and weather may continue to be a dominant one among them, but the Government now seems convinced that the main catalyst to bring about important change should be the private sector, and policies and actions should be oriented toward broad support of the initiative likely to come from that quarter.

2. The role for agriculture in the future must reflect the fact that the resource endowment for agriculture in Tunisia is neither large nor uniformly good. The northern half of the country, particularly certain areas along the coast, has the most fertile land and a climate and rainfall pattern suitable for agricultural development. This portion contains the bulk of the population and is the location for most economic activities. The southern half, by contrast, is semi-arid to arid and has few resources for agriculture. The sparse population there consists of nomadic pastoralists concentrated around a few oases or coastal towns. About one-third of the total area of the country (5.3 million ha) is cultivated, and another one-fifth (2.4 million ha) is in forests and extensive pastures. Slightly under half the total area (7.3 million ha) is classed as "unusable land" (see Table 7.5).

3. Rainfall has always been an important explanation of agriculture performance. Only two years out of five are expected to have rainfall that is adequate for good crops, and fluctuations around a relatively slow growth rate of 0.8% over the period 1962-1971 reflect this. Years of good rainfall (1962-1965) accompanied a growth of 3.5%; years of poor rainfall (1966-1969) relate to a negative growth of -9.6% per annum. The most recent year, 1971, was a year of good rainfall and was associated with a growth of 11.1%. The fluctuation in rainfall is in contrast to rather stable trends in the use of agricultural inputs over much of the same decade (see Table 7.7). Exceptions

to this have begun to appear in the last two years, particularly with reference to fertilizers (nitrogen use in 1971 appears nearly double the amount for the highest previous year) and spare parts for mechanical equipment.

4. Shifts in the relative importance of crops and livestock have been taking place to a limited degree. Cereals have always played a rather dominant role in the sector, in terms both of the value of production and the area devoted to cereal production. This position is now undergoing change in two respects. First, Durum wheat is the staple of Tunisian diet, and its production has always exceeded that of bread wheat and barley. However, the high-yielding varieties of wheat based on those originally developed in Mexico, and introduced starting in 1967 under a project supported by USAID, are bread wheats. Under the combination of incentives provided by a reduced price differential compared to Durum wheat and the higher yields obtainable with the new varieties, production of bread wheats has doubled at the end of the last ten years. Second, the value of production coming from fruits (including olives) and vegetables appears to be rising slightly relative to cereals.

5. The area under fruit trees has increased from 900 thousand ha in 1962 to 1.2 million ha in 1971, largely from increases in olive, almond and apricot trees. Olive is the most important in terms of volume, value and exports, but is subject to wide fluctuations in production related to rainfall patterns, plus the generally indifferent attitudes toward tree husbandry on the part of many farmers. The olive crop for 1972 is expected to be a record one, however. Citrus has tended to be the second most valuable fruit crop in recent years, but production and yields have been declining due to lack of water for irrigation in the major growing region of Cap Bon, the siting of new plantations on poor soils and, in some cases, lack of care in dealing with planting material, which has served to introduce disease and reduce the capability of the stock of trees. The wine grape production has been declining as a result of deliberate policy to reduce the area devoted to it in the light of market constraints in the former major markets for Tunisian wines, but further reductions in area now seem unlikely. Date production grew fairly steadily up to 1968, following which the trend seems stable at levels below the peak reached in that year. On balance, the role of fruits within the sector does not seem to have altered significantly, although there is some tendency for production from olive, apricot and almond to grow at the expense of citrus and wine grapes.

6. The area under vegetable production has increased from 30,000 ha to 60,000 in recent years, and production itself (with the exception of artichokes) has also doubled between 1961 and 1971. Much of this increase occurred on fields privately irrigated, with one result being a mining of groundwater reservoirs in Cap Bon and Hornag. Yields of potatoes, artichokes and peppers have declined; yields for tomatoes and other vegetables have gone up. Problems for marketing and credit persist in connection with this aspect of production, but the vegetable sub-sector is the only one which shows some indication of increasing its share of value of production coming from agriculture.

7. The livestock situation is less clear, largely because accurate data are difficult to gather. The years 1966 and 1967 seem to have been a high point in terms of volume and value of production. Weather has been one factor since then, but the national (particularly cattle) herd was reportedly reduced by excessive slaughter rates in the wake of intensified efforts to expand the cooperatives during 1969. This is probably being reflected now in the declining trend of production, and attention may again be devoted to building up herd size. By contrast, poultry production shows a marked increase over the past ten years, more than doubling in volume and value between 1962 and 1971. With the exception of goats, which have had a slight increase in the last three to four years, poultry is the only aspect of livestock to exhibit healthy growth.

8. Agriculture's role in foreign trade has been changing. Exports of agricultural origin exceeded imports of agricultural commodities and processed goods until 1966, but in four out of the five years since then imports have exceeded exports. Given the relative stability in the trend of agricultural output over the decade, the loss of exportable surpluses results from the increasing import of agricultural goods due to both growing domestic population and a rapid rise in tourism. The stability in agricultural output (1962-1971) is matched by stability in the export trends. Again, as noted earlier, some shifts have taken place (cereal exports are down, vegetable exports have risen, in certain years olive oil exports are very high), but the overall volume of agricultural exports has followed a steady trend.

#### B. Constraints

9. There are many things which can affect performance in the agriculture sector, and some of these have been noted briefly above. But the real constraints for Tunisia at present are less nature, infrastructure and skilled labor, which happen to be underutilized, but policies affecting investment, inputs and incentives, and the general machinery of policy formation and decision making. Among the incentives are included the broad economic environment which supplies the stimuli, and sets the real opportunities, and to which private initiative does respond. The problems and performance of direct public sector projects (e.g. state farms and agro-combinates) also continue to have a major influence on sector productivity.

10. The Effects of Land Tenure. The main features of the distribution of land ownership in Tunisia are shown in Table 7.5. This shows that a vast proportion of all private farms are less than 50 ha in size, and that nearly two-thirds of the land is in farms within this limit. There is a very small number of large farms (above 500 ha), although the land included in these (271,000 ha) is almost as much as the land comprising the two-fifths of all farms which have less than five ha each (305,000 ha). The distribution pattern is therefore skewed, but not as badly as in many other countries. When one speaks of private sector agriculture in Tunisia, one means mostly small farm units, whether in numbers of farmers or in area covered.

11. Another feature is the importance of the privately-held lands. Out of a total of 5.3 million ha of usable agricultural land (excluding forests and collective land for pastures), 4.5 million ha, or 85%, are privately owned and operated. While this includes a great deal that is farmed using traditional methods, the relative size of this part of the sector gives it a strategic importance in planning sectoral development.

12. Much of the government's attention has been drawn to the operation or disposition of lands which have come under its control following acquisition of former colon properties -- the state farms, the agro-combinats and the cooperatives. This has used a major share of the resources of both personnel and money. In contrast, the task of supporting and promoting the far larger private sector has been under-manned and under-financed.

13. There is very little known about land use, on the extent of tenancy or the conditions under which tenants operate, or on the degree of fragmentation. Out of the 4.5 million ha of private land, only about one million ha are actually registered under a clear title. Another 1.5 million ha are covered by what is called an "Arab Title," which is less precise than an official registration but is reasonably secure. The rest of the land is without title of any kind, most of it used under rights which are recognized within a pattern of traditional exploitation. Continuing redistribution of land through inheritance has led to a great deal of fragmentation, though the exact amount is not known, and in the irrigated areas particularly this creates very complex problems of equitably reorganizing holdings to make possible the operation of the irrigation system. Inability to show clear title to land is also a factor in limiting access to credit. In the case of Tunisia this has probably not been the main reason why small farmers have had difficulty getting credit if they had use for it, but expanding the registration of title to lands would be an important precondition for a more effective rural credit system.

14. Until 1969 there was little urgency in government to resolve questions of land ownership, although a progressive cadastral program, including allocation of titles and re-arrangement, was started in 1964. Priority is given to areas where government development programs are being implemented, OTD lands, or collective lands, but it is clear that at the present rate it will be many years before coverage becomes reasonably complete, even for the most productive areas. As of now, only Nabeul and one-half the governorate of Sousse has been covered. The directorate charged with responsibility for this program has difficulty finding the trained personnel to do the work, and there is not enough allocation to cover the costs of transport and surveying work.

15. Irrigation. The problems associated with irrigation include many which apply to non-irrigated areas as well, but it is useful to place irrigation per se in some perspective and to indicate how the constraints have worked in that special case. Irrigation has for years absorbed a large share of resources allocated to agriculture (about 30% on average), yet the total area which has been equipped for irrigation is about 100,000 ha, or less than



two percent of the cultivated area. Of this 100,000 ha, however, only about half is actually being irrigated at present, and this half is divided between the public sector (30,000 ha) and the private sector (20,000). Moreover, the scope for additional irrigation is not large. River resources are not extensive, and there are problems of salinity in many cases. A Water Master Plan is being prepared for the Medjerda River, but even with the extensive investments required to complete this Master Plan the additional area to be irrigated would be relatively small -- about 50,000 ha. Groundwater sources are already showing signs of depletion in some areas, although there is some possibility that large groundwater reserves may lie under the arid regions to the south, and a pilot project of groundwater development has been started near Gabes. The economic contribution from irrigation can be very substantial, however, -- possibly as much as 30% of the value of agricultural production in 1970/71 came from irrigated areas, and the growing vegetable production sub-sector depends heavily on irrigation. But expansion of new irrigation is not going to occur very rapidly, and meanwhile there is economic waste in the fact that half the areas equipped for irrigation still follow a traditional cropping pattern based on rainfall.

16. The difficulties of getting more of the equipped area under irrigation were recently examined by an FAO IBRD Cooperative Program mission. There is some need for physical rehabilitation of existing systems, but this is apparently a minor aspect. More critical are the low yields, lack of knowledge about irrigation practices, the failure to use modern inputs (due to both supply and knowledge deficiencies), the confused land-ownership pattern which makes it difficult to re-arrange holdings and convince the farmers they will benefit from the re-arrangement, a lack of marketing information and means of access to markets which affects the farmers' perception of their economic opportunities. Credit has not been effectively tied to extension efforts in the irrigated areas, but without markets and with ill-timed input supplies, it is not certain there is any way to use credit economically.

17. There is not much information available on the privately irrigated areas, although it seems well established that there are problems of water management, control of the reservoir levels, salinity and frequently limited knowledge about proper irrigation techniques. Considering this together with the experience in the public sector project areas, the irrigation sub-sector offers opportunity for developmental efforts which could make a substantial contribution to overall performance.

18. Investment. The Government has put much of its investment in the last ten years into major infrastructure works: of the total, 25% for forests and conservation, 29% for irrigation, 15% for plantations, 8% for research and 9% for rural housing; animal production, machinery and equipment accounted for the balance of 14%. In addition, since general Government investment also accounted for 70% of the total investment in agriculture, the share of enterprises has been limited to 30% and of this, private enterprise including co-operatives accounted for only 16%. This has represented a rather heavy concentration of investment in projects of a long term nature and a correspondingly low percentage in projects which are likely to make a direct contribution

to production. Since 1965 the share of private enterprises has been increasing steadily with the exception of the major set back in 1969 due to the stepped up program of cooperativization. Private farmers outside the cooperatives have been slow investors during the second half of 1960 but with increasing confidence in the new policies, private investment may now be expected to increase rapidly. This should assist the Government to change the overall investment mix so that whilst increasing the absolute figure of investment in agriculture over the next plan period, at least 50-60% could be in directly productive activities. This objective will present its own problems of identification and preparation of projects especially in view of the high proportion of current, but nevertheless, developmental expenditures involved in efforts to increase productivity.

19. Agricultural Inputs. Under proper conditions the use of modern agricultural inputs can bring rewarding increases in yields -- a commonplace observation which sometimes obscures the difficulties of bringing about such use. Tunisia has long been exposed to a variety of modern inputs -- fertilizers, quality seeds, modern implements -- but the impact on the sector at present is still limited, largely to the bigger farm units and much of this in the cooperative and public sectors.

20. Experience thus far with the introduction of Mexican variety bread wheats affords some insight to the general nature of the problem, even though this experience relates to only one crop. With adequate rainfall, proper seedbed preparation, sufficient fertilizer, and good standards of husbandry, the new wheat varieties can increase yields by 2-3 times. The larger farms in the cereal zones have, in fact, been able to take advantage of this (about 65,000 ha are being sown in the new varieties), but the small farms have largely withdrawn from a program which had as much as 30,000 ha on small farms in 1970. Small farms reportedly did not find the new inputs gave very different results, but this was because they apparently do not, or cannot, use them properly. For example, seedbed preparation was poor because the animal drawn equipment does not do the same quality job as mechanized equipment on the large farms; they did not apply fertilizers, either because they could not get them or resold them if they could get them; they did not weed their fields properly, and this affected yields adversely. This becomes something of a vicious circle, and breaking it will require imaginative and concentrated efforts to overcome the technical and financial obstacles to wider adoption by small farms.

21. But even for the larger farms, the problem is not negligible. Imports of fertilizers are made by government, by importer/distributor and by organization of farmers themselves directly. Imports of nitrogenous fertilizers have been increasing at about 15% per year, and in 1971 reached 74,000 tons. About 60% of this is used for wheat, and particularly the Mexican varieties, but if the target is reached of 300,000 ha under improved varieties the import of nitrogenous fertilizers will have to more than treble the 1971 level, and this excludes the needs of other crops -- vegetables and certain fruits. It seems doubtful that the present distribution system is capable of handling this increase in volume without special measures to improve it.

22. Mechanization offers its own problems. It is difficult to devise ways to bring the advantages of improved land preparation, cultivation, and land levelling in the irrigated areas to farmers too small to obtain their own equipment, or to be able to finance the hiring of services. For the larger farms there have been problems of maintenance -- until recently the imports of spare parts has been insufficient (the 1971 data show a very sizeable jump in spare parts use), and services of mechanics are reportedly scarce. One does not know the extent to which medium sized farms are mechanized, but it would be surprising if there were not important questions as to the types of mechanized equipment which could be economically employed, and the best means to supply or finance them. It is at this level that possible impact on labor use becomes a critical consideration, and where further study is needed to provide a basis for policy.

23. Supporting Services to Agriculture. A recurrent theme in the above discussion of generalized constraints has been the need to provide specialized information about agriculture, or skilled services, to farmers in the private sector. When one looks at the numbers alone, leaving aside aspects of experience, Tunisia has made an imposing start at providing a cadre of trained agricultural personnel. Best estimates available indicate there are about 700 agricultural engineers (university level training), 3,400 technical assistants (six years of secondary education), 1,200 technical agents (three years of secondary education) and 27,000 trained agricultural assistants.

24. When one considers the organizations dealing with agriculture, and the pattern of assignment and use of the trained manpower among these organizations, there appears to be a prima facie case that overlapping and duplication must occur in certain cases, at the same time there is inadequate technical help available for others. The Ministry of Agriculture itself has nine directorates, of which one deals specifically with extension activities (studies, mass media programs, demonstrations). In the governorates, however, there are only one to two technical assistants/technical agents per delegation (35,000 ha). The Ministry of Agriculture also has supervisory control over five Offices, or parastatal organizations, for direct productive activity (Office des Terres Domaniales, Office de Mise en Valeur de la Vallée de la Medjerda, Office de l'Élevage et des Paturages, Office des Pêches, Cooperative centrale de la Motoculture et de Miso en Valeur agricole), three Offices for Marketing (Office des Céréales, Office National de l'Huile, Office du Vin) and an other organization which is not related to agricultural production directly at all (Société Nationale de Distribution des Eaux). The Ministry also plays an important role in the activities of four large special cooperatives (Cooperative Centrale des Semences, Cooperative Centrale des Semences et Plants Sélectionnées, Cooperative Centrale Oleicole, Cooperative Centrale Nebhana). The major share in the available manpower probably has gone to the Ministry of Agriculture, and to the five offices engaged in agricultural production under one form or another.

25. Extension activities as such did not really get started until 1967. Before that, extension was carried out on a somewhat ad hoc basis, and not concentrated either geographically or by particular problem. In the effort to install cooperatives as the dominant institution in Tunisian agriculture,

there was an understandable tendency to concentrate the trained manpower resources on the cooperatives, and on the state farms and pre-cooperatives from which the cooperatives were to be drawn. The 15-year effort to bring development to the lower Medjerda valley under a special Office created to guide this development also constituted an important claim on available manpower. Changes are starting to be made as discussed below, but until now the dispersion of trained manpower among the many claimant organizations dealing with agriculture (many of them in a direct production capacity), has meant that the typical farm unit was left without the benefit of whatever technical advice and guidance these personnel could give.

26. Credit. The situation with respect to credit should be a reflection of the economics of using it, that is, the ability of farmers to expand commercialized production because they will have surpluses from which to repay their borrowings. The constraints noted above individually, or together in some combination, would probably provide reasons why it may not pay a farmer to acquire credit, or why he may be unable to repay a credit if he were to receive one. The other side of this coin is that without credit it would be difficult for the smaller farms to overcome some of these constraints (e.g., to obtain the inputs, some irrigation improvements). While it is thus possible to examine credit as a specific factor, or constraint, it is clearly part of a larger package. Credit by itself, without some opportunity to use it in ways which would transform agricultural practice, need not be particularly attractive.

27. For the most recent years the bank credit available for agriculture production excluding agricultural processing, has been under 15% of bank credit for all sectors, and this was divided about 30-70 between short term and medium term credit. This, in turn, was slightly more than one-fifth the total value of agricultural production in those years. There is no record of the volume, or the length of term, of credit supplied from non-institutional sources, but the presumption is that this was not a significant factor. The relative adequacy of available credit is thus not possible to measure with any accuracy; while it seems more adequate than in many developing countries, it must be far from optimum.

28. Another measure of credit, and its current role, is its distribution among borrowers. During the last 10 years, more than three-fourths of the institutional credit allocations have been to the public sector and the cooperatives; the private sector received slightly less than one-quarter. Of this latter portion, about 80% was received by large scale farms. The best guess is that this outcome reflects both the difficulty small farmers have in using credit effectively, and a bias in the lending system which largely precludes them from access to credit. Government has been searching for means to remedy this state of affairs, particularly since 1970, and three new approaches to credit for small farms have been launched on an experimental basis since that time. One of these, called "cellules de rayonnement," uses production cooperatives as channels for the distribution of credit in kind of fertilizers, seeds and mechanized services; a second is a supervised credit/extension program (Sbiba and Oued Melise): the third utilizes branch offices

belonging to the Office des Cereales and the large specialized cooperatives as channels for seeds and fertilizers as credit in kind.

29. Price Regulation. The Government formerly intervened directly and on a wide front in the regulation of prices in order to avoid inflation and maintain employment. Since 1970, however, the principle of a new agricultural price policy has been accepted which should aim at encouraging production. The Government has already liberalized the prices of many products. However the system of regulation remains for cereals, dates, sugar, wine and oils. There remain some problems to be overcome in reconciling the need to provide adequate incentives, essential to ensure that other measures of the Government are successful, and in moving towards a new form of equilibrium after such a period of intervention. Between 1961 and 1971 producer prices, excluding special premia, increased by 14% for hard wheat, 25% for soft wheat and 40% for barley compared with 46% for wholesale prices and 54% for industrial imported goods. Given the present pattern of prices it is also doubtful whether increasing final product prices alone will be sufficient to provide the desired incentives in all cases; it may be necessary to supplement this approach by price reductions on and improved availability of, inputs. If the objective is to have a direct impact on production, changes in prices to the farmer should reflect more or less directly the changes in the underlying supply and demand conditions. Greater use could perhaps be made also of differentials reflecting improved quality.

### C. The Role of Agriculture and Some Policy Objectives

30. Agriculture's Role. Largely because of the problem of finding a suitable management and organization for the productive lands originally owned by former settlers, the approach to agricultural development in the last decade has been associated predominantly with the search for a solution to these problems. Adherence to a cooperative system was regarded as providing the most useful way to find such a solution, and the development and expansion of the cooperative system was regarded as a vehicle for introducing major structural reforms into the agricultural sector. As a result, agricultural policies were related only in part to specific economic objectives. Instead of continuing to concentrate on finding a solution to these same problems in a mixed or private enterprise economy, a more productive approach might now be to determine the required levels of output and adjust institutions, policies and incentives to achieve these objectives. This would also have the advantage that the formulation of policies would not be based primarily on the special and historical functions of existing institutions; instead, a more comprehensive approach could be made to develop a production-oriented strategy in which the roles of irrigation, agro-combinats, cooperatives, large scale dry land farming and traditional rain fed agriculture would all be integrated.

31. In the next decade achievement of a 6% annual growth target of the economy is likely to depend on an increase in agricultural output of about 4% per year. Furthermore, any net decrease in unemployment will depend to a large extent on the maintenance of employment in agricultural activities and a halt to rural emigration. This, in turn, will depend on higher rural incomes, exploitation of agriculture's unused potential (for example, in livestock production and in irrigation) and development of complementary rural activities (particularly agro-industries). Even if, from a standpoint of natural endowment, agriculture cannot be considered the leading sector for development and, even if a 4% growth target could not be achieved, agriculture does have an important role to play and it is vital that policies should be drawn up which would ensure that the country would benefit from that role. The major components include:

- (a) Internal demand for agricultural commodities, and particularly for high value items, is strong and should continue so. The Government estimates that the growth in output required to cover the greater part of domestic food requirements for the rapidly growing population and tourism sector would be 3.8% per year. This is reflected in the relative expansion of agricultural imports compared to exports, which indicates opportunities for import substitution (livestock and dairy products, oils, fruit and vegetables, cereals).
- (b) The traditional export of hard wheat may be a thing of the past, but the prospects for olive oil, and better quality wine bottled under supervision in Tunisia, may be considerably brighter. The advantage which Tunisia has in these crops should grow as labor costs in competing countries continue to rise. The North African fisheries are probably under-exploited, although this cannot be said for much of the rest of the Mediterranean, and a large expansion of fishery output should be possible from areas reserved for Tunisia or most readily usable by Tunisia. The European market for fresh fruits and vegetables is something which many other countries in the Mediterranean and Africa are seeking to enter in a significant way. With proper attention to the marketing side, and particularly with reference to quality standards and timeliness and reliability of delivery, Tunisia should continue to share in the European market. Certain items, for example tomatoes and citrus, may experience increasing competition however. Other items -- dates, apricots, almonds may find ready markets abroad.
- (c) Agriculture can contribute to industry as suppliers of raw materials. In 1971 agriculture provided 38% in value added to industrial output through such commodities as esparto grass for paper, fruits and vegetables for processing, hides and skins, forestry production for manufacture of particle board and mining timbers.

- (d) With a majority of the population still living in rural areas and dependent on agriculture, the employment and income distribution aspects of agriculture remain very important. While it is difficult to see how employment opportunities in agriculture can be expanded very greatly, more labor intensive cultivation patterns and greater productivity should raise rural incomes and diminish some of the incentive to migrate to urban areas.

32. Policy Initiatives. The government has moved in a number of directions to provide incentives for private sector activities in agriculture, and thereby reverse the trend which prevailed up to 1969. Taxes and duties on certain items important for agriculture have been reduced or removed; prices of many agricultural commodities have been freed from controls; importation of agricultural inputs and export of agricultural commodities have been opened to the private sector; the guarantee prices for cereals have been somewhat rationalized, although wheat prices still remain above world market prices. It is still early to assess the effects of these changes -- the improved performance of the past two years can also be attributed to other factors as well, and to the weather in particular. But if measures such as these are perceived as opening new opportunities in agriculture, if there is reasonable confidence that the change in policy will not be reversed again quickly, some of the catalytic effect noted earlier may be realized. Additional policy moves, which would complement this effect, are outlined briefly below:

- (a) In recognition of the sizeable proportion of cultivable land held in private hands in holdings of 5 to 100 ha, there should be a reorientation of government activities and resource allocations to give a much greater stimulus to the production possibilities inherent in this part of the sector. Those in the category of 20 to 100 ha are, prima facie, capable of commercial farm operations; those below this may be so with irrigation. This is not the subsistence part of agriculture, but a genuine production opportunity that could be tapped.

Government is moving in this direction -- the OMVVM is to shed responsibilities for operating farm units, and will concentrate on extension, operation and maintenance of the system in all irrigated perimeters in Tunisia; the central Extension Division of the Ministry of Agriculture is beginning to transfer extension personnel to the Offices where they will be used directly with projects for which the Offices are responsible (e.g., in the wheat program under the Office des Cereales). But there is much more to be done on this. The OMVVM needs much more personnel for extension and general support to farmers in the irrigated areas than it now has, or is likely to get under present plans (which includes a 20% budget increase in addition to bilateral support from SIDA and Belgian technical assistance); the important task of making a cadastral survey

and registering land titles can absorb a much larger staff, and this will require both resources to hire them and resources to train them. In a related aspect, there should be resolution of the state farm question -- decision on how best to dispose of lands which now absorb resources (financing and personnel) for continued operation as state farms.

- (b) Irrigation policy is also in a state of transition, with emphasis initially going to the public sector irrigated areas. This change, or the change reported to be forthcoming, is designed to increase the utilization made of existing facilities, and to this extent it is a long overdue development. Recent discussion of the problem indicates that it is less a matter of physical rehabilitation than it is a need for an integrated approach which will require heightened emphasis on extension, credit to the small farmers in the perimeters, and transport and marketing infrastructure. Beyond this, however, there are the problems of the private sector irrigated areas which are not likely to be covered by this new emphasis. Some of the needs here -- for extension (on water management, new varieties), and possibly for marketing assistance -- are about as great as in the public sector areas. But there is less resistance to using irrigation in these private areas, and therefore improvements in output may be brought about at smaller cost per unit of area. In fact, overuse of irrigation supplies is probably more serious than underuse, and there may be need to take a more positive policy stance toward private exploitation in order to spread the benefits more equitably. Rapid progress in drawing up the three water master plans for the North Center and South respectively, but particularly the northern region master plan, is another priority policy measure. In this context, careful review of certain proposed projects (e.g., Badrouna and Bou Heurtma) may indicate opportunities to defer new investment and thus free resources and staff for use on more pressing problems.
- (c) The rapidly rising demand for livestock products, coupled with the recent decline in domestic output to meet it, points up a promising agricultural opportunity. This implies a shift in policy which would serve to place more emphasis on the needs of this sub-sector than has been true in the past. The efforts to increase livestock production may follow several different paths. For example, the Sedjenane area is now under-exploited for agriculture, yet possesses rainfall and soil attributes which make it technically attractive for livestock. Government is preparing a project for this region which will incorporate settlement and infrastructure features as well, and this preparation work should be pursued vigorously. A second area for livestock is in the northern rainfed cereal-raising areas,



where opportunities for integrated crop and livestock production seem present, but where extension and credit would be highly necessary complements. In this connection, the recent policy freeing forage crops from price controls seems to have stimulated their production, and may contribute to livestock development in general, but for this region in particular. The central region has little scope for agriculture save sheep production -- cereal production is marginal, and with low rainfall even olive production is limited. Sheep raising is being conducted under traditional conditions which lead to serious over-grazing. Carefully planned and administered extension programs, tied with limited provision of irrigation to supply forage supplements, could raise the productivity of sheep raisers. This would open greater income-earning possibilities for a portion of the population which has been closest to subsistence levels, and for whom there are few alternatives. There is also some evidence that livestock production is less economic in irrigated perimeters than other forms of production there, particularly fruits and certain vegetables. Considerable efforts have been spent in the past to encourage farmers to raise livestock on irrigated land in the North, particularly in the OMVVM, but the justification for allocating resources and personnel to promote this end may now warrant thorough review. Finally, the shortage of meat in 1970 and 1971 and the sharp rise in prices which led the Government to fix a ceiling on retail prices and to increase imports significantly serves to underline the urgency of increasing production. The efforts described above, even if pursued energetically, will take time to produce results. In the shorter term, an important contribution might be made by livestock fattening. Extensive tests by FAO in Tunisia have demonstrated that during a 170 day fattening period an average daily increase in weight could be obtained leading to an increase of 120 kg. in the average live weight of slaughtered cattle which in 1970 was 176 kg. There thus seems reason to study further the economies of this type of operation, with particular attention to the problem of supply of feed grains.

- (d) Tunisia has some forest resources, but there does not seem much potential for increasing the direct production contribution from this sub-sector much beyond the present types of activity -- any land which could support an expansion of industrial forestry is already under cultivation. Nevertheless, the floods (and potential flood damage) resulting from erosion associated with that cultivation pose a serious threat to the contribution of the agricultural sector. One move to minimize this would be development of pastures on some cultivated land to reduce the area plowed (which would also be consistent with some of the approach outlined under livestock above). The next priority would be to turn greater attention to the management of watershed areas

near dams built for irrigation and other water uses. Any afforestation activity which now relates to erosion control in such areas is reportedly accidental, and not part of any integrated development plan. The longer term consequences of continuing indifference to this need for watershed management could have serious consequences for the agriculture sector.

- (e) Finally, some attention should be directed toward improvement of the planning apparatus for agriculture development. A planning unit has been established in the Ministry of Agriculture, with support from a US AID contract group, but the role of the Ministry in formulating a strategy for agriculture seems to be relatively minor. This is partly because it will take time to build up a capability for this, but also partly because this type of activity has been overshadowed by greater emphasis on operational matters. A better combination of operational and planning experience appears highly desirable, and steps to bring this about should be a matter of some priority. The problem seems to lie primarily in the fact that the organization and approach to sector development appears to have been dominated by the Ministry's responsibilities for (i) irrigation primarily through OMVVM, and (ii) administration of public land, mainly through the Office des Terres Domaniales, including most direct Government activities in production. These two sub-sectors have attracted a large part of the past development effort at the expense of the larger area of private rain fed agriculture. A number of solutions could be devised to deal with this problem. However the major need is to facilitate the formulation of a comprehensive view of the importance of the agricultural sector within the economy and to appreciate the contribution of this sector as a whole, and to strengthen institutional coordination.

The existing central economic and planning bureau also needs considerable strengthening to be able to collect data, analyze and evaluate policies and provide assistance to the Secretary and the Minister for the formulation of policies. Furthermore, the Ministry of Agriculture might usefully be freed from activities not directly associated with agriculture, such as soil and water conservation, urban and rural water supplies, drainage and sewerage, rural housing construction. Consideration could also be given to assigning another technical ministry the responsibilities for hydraulic engineering, including ground and surface water investigation studies, construction and maintenance of bore holes, dams, canals and other works.

TUN 72-5

FROM: The Secretary

September 29, 1972

CONSULTATIVE GROUP FOR TUNISIA

Attached for consideration by the Consultative Group in connection with the meeting in Paris on October 25 and 26 is a Bank staff memorandum, in English and in French, entitled "Note on Industrial Development in Tunisia", dated September 28, 1972. A copy of Tunisian Law No. 72-38 of April 27, 1972, Establishing a Special System for Industries Producing for Export is attached as an annex. The note should be read in conjunction with paragraphs 58-60 of the Bank Economic Report (EME-51a) dated August 14, 1972, which was distributed to the Consultative Group on August 30 (TUN 72-3).

Participants are reminded to send the names of delegates to the Paris meeting to the Secretary of the Bank as soon as possible.

Distribution:

Executive Directors for:

Belgium	Kuwait
Canada	Netherlands
Denmark	Spain
Finland	Sweden
France	United Kingdom
Germany	United States
Italy	

For Information:

President  
President's Council  
Executive Vice President, IFC  
Department Heads  
Chairman, DAC/OECD  
European Office

International Monetary Fund  
African Development Bank  
United Nations Development Programme  
European Investment Bank  
Executive Director for Tunisia  
Embassy of Switzerland

September 28, 1972

CONSULTATIVE GROUP FOR TUNISIA

NOTE ON INDUSTRIAL DEVELOPMENT IN TUNISIA <sup>1/</sup>

I. Developments since 1960

1. During the last decade, industry comprising mining, petroleum, other energy and manufacturing has grown at a rate of 7.6% per year. In 1971, the sector contributed 24% of GDP as compared with 18% in 1960. Three factors underlie this development: the stagnation of agriculture, the emergence of petroleum production to contribute 6% to GDP in 1971, and active government participation in production. If one excludes petroleum, industry's share has not changed and the average annual rate of growth was 4% for mining and 5.5% for manufacturing. Development moved in two directions: (i) processing of natural resources, minerals and agricultural products, primarily for export, and (ii) import substitution to supply the domestic market with consumer goods.

2. Development of the mining and processing industries was aimed principally at the export market; in particular at superphosphates, phosphoric acid and fluoride derivatives. Apart from canning, there were few new developments in the processing of agriculture produce. Shortfalls and fluctuations in agricultural output, increases in domestic demand (tourism), lack of technical and marketing experience, and problems of land tenure and co-operativization hindered the development of industrial capacity based on the country's agricultural production.

---

<sup>1/</sup>Statistics related to industrial production and development are contained in a number of tables of the I.B.R.D. report, "Current Economic Position and Prospects of Tunisia, No. EMA-51a", dated August 14, 1972, tables 2.1, 2.2, 3.4, 6.3, 6.4, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7 to which reference may be made.

Summary Table

Value added, investment, employment, exports  
by industrial branch

Millions of Dinars

	Value added 1/		Average growth rate, percent 2/ 1960-1971	Gross fixed investment 3/		Gross fixed investment 3/ 1960-1971			Employment (1,000)		Exports 3/		
	1960	1971		1960	1971	Total	Public	Priv.	1960	1971	1960	1971	
Mining	6.3	46.9	20.0	2.8	19.3	150.6	90.5	60.1	..	30	9.4	43.5	
Crude Oil	-	36.8	-	2.0	13.2	114.0	54.0	60.0	..	1	-	28.7	
Other mining	6.3	10.1	4.0	0.8	6.1	36.6	36.5	0.1	..	29	9.4	14.8	
Energy, power and water	5.9	13.8	6.8	-	16.8	72.0	66.1	5.9	..	8	-	-	
Manufacturing	38.4	92.2	5.5	1.8	16.6	156.6	126.4	30.2	..	132	9.1	25.5	
Food processing	22.1	35.6	2.6	0.3	1.4	23.8	18.7	5.1	..	..	2.8	3.1	
Textiles, clothing and leather	6.3	22.5	7.3	0.6	2.7	30.1	22.7	7.4	..	..	0.6	3.3	
Mechanical and electrical	1.2	7.5	14.2	0.2	1.7	42.5	37.3	5.2	..	..	1.5	3.9	
Construction materials and glass	3.3	8.6	7.2	0.2	2.0	18.0	16.4	1.6	..	..	1.0	1.1	
Woodworking	2.0	6.7	7.2	-	0.5	2.8	0.6	2.2	..	..	-	-	
Chemical	1.0	3.2	7.4	0.2	7.0	21.5	16.7	4.8	..	..	3.2	12.2	
Paper and others	2.5	8.1	7.7	0.3	1.3	17.9	14.0	3.9	..	..	-	1.9	
Total industry	50.6	152.9	7.6	4.6	52.7	379.2	283.0	96.2	..	140	170	18.5	69.0
Construction and public works	21.2	56.2	6.1							40	67	-	-
Agriculture	70.8	115.7	0.9	11.1	20.8	257.0	216.2	40.8	..	580	571	23.5	32.8
Other sectors	141.5	324.7	4.8	43.8	100.1	737.1	475.6	261.5	..	266	305	34.8	98.1
<u>Total</u>	<u>284.1</u>	<u>649.5</u>	<u>4.7</u>	<u>59.5</u>	<u>173.6</u>	<u>1373.3</u>	<u>974.8</u>	<u>398.5</u>	..	<u>1026</u>	<u>1113</u>	<u>76.8</u>	<u>199.9</u>

1/ At current prices and factor cost

2/ At constant prices

3/ At current prices

4/ Exports of non factor services and products (D. 8.3 in 1960, 7.2 in 1971) not included above

5/ Government and public enterprises

3. The increase of D125 million in value added in industry between 1961 and 1972 involved investments amounting to some D380 million suggesting a capital output ratio of 3. About D112 million of total investment was in petroleum, D36 million in mining and about D232 million in manufacturing. However, some large investment did (iron and steel, sugar refining and engineering enterprises). Of the D380 million, some D283 million was invested by the State directly and indirectly, D47 million mainly by foreign oil companies and only D50 million by private Tunisians; only four new foreign investments were registered. In 1971, the share of private investment was considerably higher, with D17 million out of a total of D53 million.

4. Results have been mixed. Petroleum production, which began in 1965, rose to 4.1 million tons in 1971 (6 percent of GDP), while output in mining, mainly phosphates (2 percent of GDP) remained virtually unchanged. Growth also occurred in the textile, clothing and leather industry, where value added more than tripled. Food processing which represents about 40 percent of value added in manufacturing stagnated. The most disappointing performance has been in the mechanical and electrical industry where, despite substantial investment, value added has only increased moderately. This was essentially due to investment in a small capital intensive steel mill and in unsuitable engineering plant; moreover, production was spread over many lines at the cost of technical efficiency without a commensurate gain in competitiveness. Chemicals, mainly fertilizers, increased slowly and then levelled off in the face of both marketing and supply difficulties; the remaining branches expanded only moderately.

5. With the emphasis on import substitution in the 1960's, the advantage of scale and economy that comes with specialization and trade were inadequately recognized. There was some export growth, but the expansion of the industrialization process resulted in a more than proportionate increase in imports. Importation of raw materials, semi-finished goods and spare parts increased three-fold from 1960, while the value added of manufacturing industries in the same period little more than doubled.

6. The industrial sector is still relatively small, and enterprises operate on a small scale; the industrial census of 1969 counted about 1,000 enterprises, with only seven enterprises employing more than 1,000 workers, and 142 enterprises employing more than 100. Integration is limited, since most manufactured products involve little domestic processing (food, ceramics, construction material, pulp and paper and lead) or are derived in large part from imported intermediate goods. Industrial activity is concentrated in and around Tunis, which accounts for about 57 percent of all manufacturing activity and 52 percent of industrial employment, the remainder being distributed between Sfax,

Sousse, Bizerte and Gabes.

7. The effect of past policies on employment is not clear due to the absence of reliable information. However, investments in the last decade have mainly been capital intensive and probably have not resulted in a major contribution to employment. Total employment in the industrial sector amounted to 161,000 in 1971 (29,000 in mining and 132,000 in manufacturing) or 16 percent of total employment in Tunisia. On varying assumptions, the increase since 1960 might have been between 30,000 and 50,000 persons. Wage rates are about D30 per month (\$60) for unskilled labor, D50-70 (\$100-\$140) for skilled labor and about D100 (\$200) for a foreman. Social security contributions are about 15 percent of salaries. Labor costs are thus a minor fraction of those in industrial Europe. However, labor productivity in most sectors is low and the qualifications for technical supervision almost non-existent. This is due, among other things, to insufficient labor training and experience, poor quality of materials, tools and equipment, poor organization of the production process and high turnover of qualified personnel due to emigration to Europe.

## II. Industrial Policies and Institutions

8. The development strategy of the 1960's aimed at economic independence and endowed the State with the role of prime mover. With the exception of petroleum, it ruled out recourse to foreign investors, and, at the same time, was unable to rely on Tunisian investors who had neither financial nor human resources. Moreover, the small size of the Tunisian market forced the government to reduce competition in order to prevent atomization of production. Strict import controls, justified by a balance-of-payments deficit, eliminated foreign competition, while compulsory investment approval procedures deterred domestic competition. Price control gave some guarantee to consumers confronted by monopolies. However, for lack of any other reference, prices were standardized on the basis of production costs, plus approved margins. As a result, insufficient effort was made to improve productivity. Lack of training and experience in management contributed to the unsatisfactory performance of many State-owned enterprises.

9. In the general re-orientation of economic policies initiated in late 1969, which was largely motivated by the insufficient growth of the economy and limited impact on employment resulting from large investment programs of the 1960's, the government has given industrial development highest priority. The government is now seeking to formulate a new sector development strategy. It recognizes the severe limitations imposed by a small market, and has identified the reasons for the previous disappointing performance. The government's present objectives

are to increase the efficiency of industrial enterprises, to orient industry toward the export market, to take advantage of cheap, trainable manpower and the proximity and accessibility of the European market. These objectives are to be achieved by (i) encouraging private initiative and investment, (ii) limiting government involvement in the economy to public services and activities where private initiative is lacking, (iii) increasing the efficiency of public enterprises and (iv) encouraging foreign private investment, particularly in export oriented activities.

10. A good start has already been made. The procedure of official approval for industrial investment, particularly for small investments, has been relaxed and accelerated, imports have been liberalized for raw materials, semi-manufactures and spare parts and the borrowing and foreign exchange controls eased. Most export taxes and licenses have been abolished, and the exemption of industrial inputs from turn-over taxes have been extended. These measures have already led to a substantial increase in number and amount of private industrial projects approved in 1971; 440 projects amounting to D25.4 million, compared with 270 projects and D8.1 million in 1970. In textiles and clothing industry, some private investments have been entirely set up for export, including some sub-contracting arrangements.

11. A new law providing special measures for industries producing for export was enacted on April 28, 1972. This provides tax incentives, greater flexibility of trade and foreign exchange regulations for export oriented enterprises, both domestic and foreign; nonresident investors will not be obliged to repatriate all proceeds of their exports, services and other income, but only an amount equivalent to their local currency costs (see article of the law annexed to the present note). This law is an important innovation which should serve to stimulate foreign investors and, to a lesser extent, domestic investors for export oriented activities. Two foreign companies have already started production in Tunisia under the conditions of this new law.

12. In 1970, an Interministerial Commission was set up to review the activities and problems of public enterprises, with a view to reorganizing them financially and to consolidating them; the Commission has completed studies of the hotel company (SHTT), the iron and steel mill, El Fouladh, and the textile company, SOGITEX. A study of the technical and financial reorganization of the phosphate company has been under way for some time but no firm decisions have yet been made. For the steel mill, provision has been made for expanding its output capacity, but further steps are still needed to bring about technical reorganization and rationalization and improvement in management; for the textile company, the measures appear to have met with some success, but no financial provision has been made for re-equipment and new investment. In most cases, the primary need is for improvements in technical operation.



and management and in some cases provision of additional capital to undertake investment for rationalization and modernization.

13. The measures taken since 1969 have had a marked impact on business confidence. At least in part, this is evidenced by an increase in industrial output of 9% in 1971, which is expected to go up to 19% in 1972, which the government expects to drop to a more normal level of between 5-1/2% and 7-1/2% in 1973.

14. Improvements are still needed in the general economic environment in order to encourage the private sector to operate in a competitive market-oriented economy and to enable it to play a leading role in resource development, employment generation and export development. Important now is the complete transformation of attitudes towards protection and competition and changes in the structure of industry. Protection from domestic and foreign competition is still largely assured by the process of administrative approval for investments. Similarly, the system of price determination by reference to production costs, plus approved profit margins, still provides a cover for inefficiency.

### III. Some Conditions for Further Industrial Development

15. The government is presently actively engaged in the elaboration of its development objectives and policies for the Fourth Plan period 1973-1976. Some of the major factors which bear on the government's considerations are outlined below.

16. In the next few years, 1973-1976, expansion of petroleum production, rehabilitation and expansion of the phosphate industry, some increase in private investment and a higher contribution from agriculture, could provide an important impetus to stepping up the rate of growth of the economy. However, neither known mineral resources nor gains in agriculture can alone provide a basis for sustained growth over a longer period and significant new employment. The establishment and the development of a broad based manufacturing industry is therefore important in this respect.

17. Such a development will be a long and difficult process. There are some possibilities of further import substitution, if linked to export as well as domestic outlets. However, the main emphasis will need to be on production for export. Production for export involves a high risk, and it will take time to re-equip existing enterprises to enable them to export more than a minor part of their production. In the short run, and apart from textiles, immediate investment will necessarily be largely concentrated in fuller utilization of domestic resources, mainly petroleum, phosphate and the associated chemical industry, and on expanding

the processing of agricultural produce.

18. Production of crude oil is now 4 million tons per year and could rise to a maximum of about 6.5 million tons by 1974, in the absence of further discoveries. Phosphates have already provided the basis for fertilizer and phosphoric acid production; if the extraction of phosphate can be put on a sound commercial basis, there would appear to be good prospects for further modest development. Much will depend on the speed with which decisions are made on the reorganization of phosphate mining and the extent and pace of development of new capacity for phosphoric acid. The product mix, the scale of operation, the market orientation and the timing will be crucial factors bearing in mind that Tunisia is only a marginal producer. Production of fluorspar for export started in 1965 and is expected to reach 45,000 tons per year in 1972; prospects for developing the fluorspar industry are promising.

19. Foremost amongst development possibilities is the textile industry, especially clothing. Domestic producers have already demonstrated their ability to produce for export, including sub-contracting arrangements with foreign enterprises. Other light consumer industries could also have a comparative advantage, such as agro-industries (providing the resource base is expanded), leather, wood, light electronics, etc. All these industries are labor intensive with relatively small dependence on imported inputs, and are amenable to geographic decentralization. Industrial policy should aim at promoting consolidation, modernization and expansion of existing industries in this category, widening the range of their production, and providing assistance in finding and developing markets.

20. The development of a mechanical and electrical engineering industry could also create employment and provide support to other branches. Despite its present shortcomings, this sector represents a point of common interest to many light industries that might be established in Tunisia and which would call on that sector for their supply of metal products at competitive prices and for many of the external economies on which they would depend for their commercial viability. A broad range of light engineering goods, simple machinery used by domestic consumer goods industry, simple machine tools, engines of various types, electrical products and instruments for various uses could be produced. Many of them can be produced by smaller and medium-sized domestic enterprises, provided experience, technical cooperation and marketing assistance can be provided. In state-owned and private enterprises, reorganization and rationalization of production plant, vigorous management methods, labor training and foreign technical assistance, and participation in investment, are essential conditions for equipping the sector to produce efficiently and in the long run,

break into the export market.

21. In view of the limited financial resources and experience of Tunisian industrialists, the development of a competitive industry in a reasonable period of time will require an infusion under suitable conditions of technical and managerial knowhow, foreign capital and strong government leadership in formulating and implementing comprehensive industrial policy. In accordance with its policy objective of promoting private industry, the government's role would be to establish appropriate institutions and provide the necessary promotional services for two main groups of industry: (i) new export oriented industry to be set up partly in partnership with foreign investors, and (ii) existing and new domestic enterprises, some of which may themselves develop export products. So far, and because of the urgent need of finding a new industrial strategy, the government has focused on the first group and emphasized the promotion of export oriented investment, particularly through the law of April 28, 1972 (see para. 12). Other measures have been taken or are under consideration to encourage foreign investors, and to a lesser extent, domestic investors, to enter this field, including the establishment of an agency for the promotion of investment in export oriented industry, which, in one institution, would concentrate all official contacts with foreign enterprises. Some of the functions that should be attached to such an agency are discussed further below.

22. In non-export oriented industries, government efforts are aimed mainly at rehabilitation of public enterprises and have been slow and mainly limited to financial consolidation, with little progress in formulating long-term development plans. For private industry, administrative controls provide domestic manufacturers with little incentive to rationalize and export. Moreover, little effort has gone into identifying new investment possibilities. Existing institutions in this field of industrial studies need to be strengthened and to become more experienced in market research, in management consultancy, processing, production planning and control; shortage of projects is often a more serious constraint than availability of capital or foreign exchange. Many developed countries in western Europe and developing countries have acquired experience with industrial promotion agencies with varying responsibilities, and Tunisia can benefit from this experience. Moreover, in order to complement existing efforts to encourage investment in export oriented activities, which may be slow in showing results, constructive steps should be taken to reorganize and re-equip existing industries which are of strategic importance to both export and domestic industry, and notably the engineering industries.

23. In less than twelve months, the Tunisian Government has succeeded in enacting a series of progressive legislative measures which, particularly through the April 28 Act of 1972, will provide many of the financial

incentives to stimulate investment. However, the government is now aware that a further substantial and long term effort is still required to improve the economic framework within which decisions are made, to assist in the modernization of existing industrial plants and in the identification and promotion of new investment projects, and to facilitate the mobilization of financial resources. The rest of this paper examines some of the problems.

#### Legislative and Administrative Measures

24. Government policy needs to be further developed in a number of fields. In the interest of efficiency and export competitiveness, further measures are needed to reduce government regulation of prices and investment and provide incentives and assistance to both the domestic and foreign investor. These would include progressive relaxation of import, trade restrictions, further liberalization of prices and in particular, rapid termination of the "cost plus" system of price fixing, the termination of all investment controls except for major investments in key sectors, increased incentives to export, possibly a substantial increase in the export allowance (EFAC account) and some relaxation in the conditions of qualification, subsidies of the prices of certain inputs. Consideration should also be given to finding some means of assisting exporters to develop potential markets in Africa south of the Sahara. If exporters are to compete abroad, a more generous system of export credit may be needed, coupled with export credit insurance.

25. An essential element in the government's policy should be the elaboration of a new approach to industrial protection. This should recognize the need for temporary protection for the establishment of a new enterprise likely to make a major contribution to broadening the industrial base. Such criteria would usually mean that applicants for protection would need to operate on a large scale or be planning capital investment of some magnitude or introducing technical operations of some complexity. Protection should rarely be provided to small scale enterprises whose needs can be met for the most part by favorable investment allowances, tax moratoria, etc. Furthermore, in an export oriented economy, protection needs to be used as sparingly as possible to avoid inflating domestic costs and reducing the competitiveness of agricultural as well as industrial export products. A system of protection based on tariffs rather than quotas can be applied flexibly and authorized for particular enterprises or particular lines of product and for specified periods. In applying for such protection, the enterprise should be made responsible for clearly demonstrating the case for protection and should also be required to show in advance when the operation is expected to become viable and protection can be dispensed with.

### Industrial Financing

26. A precondition of industrial development programs is the provision of finance. The two main sources of industrial finance in Tunisia are Societe Tunisienne de Banque (STB) and Societe Nationale d'Investissements (SNI); they have little promotional activity and provide virtually no technical assistance. These banks would continue to provide part of the resources required for financing new industrial investments, while at the same time there will be a growing need to give further consideration to providing additional financial resources, and easing the special financial problems, particularly in the export sector and in less developed regions of the country.

27. An early concern will be the mobilization of resources for industrial finance. A start could be made by encouraging incorporation of family concerns, broader participation in corporate concerns and bond issues to be placed by SNI and some production enterprises in good standing. For this, consideration should be given to first, the development of procedures and a market for domestic borrowing both long and short-term, and second, a review of the interest rate structure. The latter, at present, does not reflect normal market differentials between long, medium and short-term borrowing, and as long as this continues, it will remain unattractive for lenders to make resources available on other than short-term. At the same time, the role of the banking system in investment promotion and drawing up of financing programs should be reinforced.

### Promotional Machinery

28. The functions of the new investment promotion agency set up under the 1972 Act, have still to be defined by the Council of Ministers, and preliminary proposals appeared to limit its prime responsibility to the evaluation of an investor's entitlement to the incentives provided by the Act and the provision of general advice and assistance to foreign enterprises settling in Tunisia. If the future status of the agency confirms this interpretation, this would not meet the need for promotional machinery either for domestic or foreign investors, and would not provide an adequate solution to such problems as land acquisition, construction of infrastructure and industrial buildings, assistance in recruiting labor force, provision of general and specific training facilities, and the organization of transportation and communications facilities. The role of the projected agency in undertaking market research and project identification and promotion is also not clear.

29. For the new organization to work efficiently, it would need to inspire confidence in its professional and technical capacity. A possible solution might be to endow the proposed agency with the functions

and authority which would enable it to work as an industrial development authority with a broader responsibility and ability to work in intimate contact with private and public enterprises. Such an organization could incorporate all the responsibilities of the investment promotion agency as it is conceived at present but would, in addition, have power and technical expertise to play an active role in the promotion of new industries, both export and domestic oriented, and in the reorganization and rationalization of existing activities. The organization would need to have enough flexibility to make prompt business-like decisions. It should also have the capability to offer competitive salaries to attract and retain qualified personnel, both Tunisians and foreigners. The policy-making board of such an organization might include some government representatives drawn from interested Ministries, but would represent predominantly the private sector, both foreign and domestic, banking institutions and trade unions. The organization would need to be staffed by experienced personnel - foreign when needed - and would include industrial engineers, economists, market researchers, and financial analysts. Its main functions would be :

- (i) to provide a focal point for the planning and implementation of a strategy for industrial development under governmental guidance;
- (ii) to commission market research studies at home and abroad, feasibility studies and the preparation of projects by private consultants, both domestic and foreign;
- (iii) identify, prepare and evaluate possible industrial projects and to interest investors in them;
- (iv) generally promote domestic and foreign investment in industry;
- (v) in accordance with existing legislation and regulations, facilitate access to incentives and to financing for entrepreneurs with worthwhile projects;
- (vi) advise the government on application or termination of "new" industry status which would qualify for some degree of tariff protection for a specified and limited period;
- (vii) provide advisory and extension services and furnish continuing advice and guidance on management, technical and marketing problems either directly or by sub-contracting those services;
- (viii) stimulate cooperation among businessmen, particularly through the formation of partnerships and limited companies;

- (ix) advise, where necessary, on the establishment of industrial estates as a means of physically integrating a number of the above services and promoting geographical decentralization of industrial activities;
  - (x) to coordinate the activities of the specialized agencies such as the Institute of Productivity, the Centre for Industrial Studies, the proposed Centre for Promotion of Exports and the Vocational Training and Employment Office, etc., and where appropriate, employ them as consultants.
- The main functions would be :
- (i) to provide a focal point for the planning and implementation of a strategy for industrial development under governmental guidance;
  - (ii) to commission market research studies at home and abroad, feasibility studies and the preparation of projects by private consultants, both domestic and foreign;
  - (iii) identify, prepare and evaluate possible industrial projects and to interest investors in them;
  - (iv) generally promote domestic and foreign investment in industry;
  - (v) in accordance with existing legislation and regulations, facilitate access to incentives and to financing for entrepreneurs with worthwhile projects;
  - (vi) advise the government on application or termination of "new" industry status which would qualify for some degree of tariff protection for a specified and limited period;
  - (vii) provide advisory and extension services and furnish continuing advice and guidance on management, technical and marketing problems either directly or by sub-contracting those services;
  - (viii) stimulate cooperation among businessmen, particularly through the formation of partnerships and limited companies;

## TOURISM

1. Centrally situated between the Eastern and Western basins of the Mediterranean, Tunisia is the nearest point of the African continent to the hub of the European tourist market in the London-Frankfurt-Paris triangle. The country's 1,050 km of coastline has some of the finest beaches of the Mediterranean with a pleasant climate prevailing for the greater part of the year. Enhancing these natural tourist assets, evidence of Tunisia's cultural past abounds throughout the country: Phoenician ruins dating from the period when Carthage was a major maritime power, Roman aqueducts, temples, and coliseums, Byzantine-inspired mosques, Turkish fortifications along the old Barbary coast and, in all Tunisian towns, ancient Arab "souks" where a variety of imaginative handicrafts are offered. Over the past decade, this wealth of tourism resources has attracted a rapidly increasing number of foreign visitors.
2. Between 1961 and 1972, foreign-visitor arrivals in Tunisia increased at an annual rate of 30 percent, rising from 46,000 to 780,000 -- a performance unmatched by any other Mediterranean country. Although continuous throughout that period, the growth of foreign tourism demand was slowed down in 1969 and 1970 by a combination of political uncertainty, floods and cholera. The average growth rate of arrivals for these two years, was only 11.5 percent. The growth trend regained impetus in 1971 and in 1972, however, when foreign-visitor arrivals rose at the annual rate of 40 percent. International tourism demand developed even more quickly in terms of bednights, with foreign visitors' length of stay increasing steadily over the same decade to the present average of about 10 days. Because of Tunisia's low per capital income, the development of domestic tourism demand was much slower. The number of domestic tourist bednights as a percentage of total hotel bednights has rapidly declined -- from 27 percent in 1963 to 7 percent in 1970.
3. The principal tourist-generating market for Tunisia is Western Europe, which in 1972 accounted for 82 percent of total foreign arrivals; Germany, France and the U.K. are the three top suppliers within this market. As Tunisia lies on the opposite side of the Mediterranean Sea from Europe, about 80 percent of its visitors arrived by air -- the majority at Tunis-Carthage Airport and the remainder at Djerba and Monastir Airports.
4. According to the results of a sample survey undertaken by the "Compagnie Inanciere et Touristique" (COFITOUR) from May to August 1971, beach-oriented and climate-seeking vacationers (as opposed to business traffic) form the majority of Tunisia's foreign visitors. COFITOUR's findings are confirmed by the high percentage of foreign visitors travelling to Tunisia on charter flights or with inclusive-tour groups, and by the



concentration of tourism traffic in the summer months, when more than 60 percent of total foreign-visitor bednights were registered.

5. Although the cost of accommodation and services is lower in Tunisia than in other Mediterranean destinations, the relatively high cost of air travel (even via charter flights) from Western Europe makes a vacation in Tunisia more expensive than in areas which can be reached by car or train. Foreign visitors to Tunisia have higher incomes than those going to, say, Spain, Yugoslavia or Italy's Adriatic Riviera. Indeed, COFITOUR's survey indicates that only 7 percent of foreigners visiting Tunisia in the 1971 May-August season were blue-collar workers, the remainder being professionals or white-collar workers.

6. Systematically overshooting the targets set by various national development plans, Tunisia's accommodation capacity expanded at an annual rate of 25 percent over the last eleven years -- from 4,000 hotel beds in 1961 to about 47,000 in 1972. The capacity created during that period, and almost entirely (95 percent) attributable to private investments, is in the main composed of first-class and tourist-category hotels along the coast. Some tourist villages were built between 1961 and 1972, but their proportion to total accommodation capacity remains at the low level of about 17 percent. Supplementary accommodations (rooms in private homes, camping sites, etc.), which make up a substantial share of other Mediterranean countries' tourism supply, are generally lacking in Tunisia.

7. On the whole, the prospects for the Tunisian hotel industry are favorable. With the low wage and price levels prevailing in the country, the industry is in a good position to compete with its Mediterranean rivals. Full board rates range from US\$7 in tourist-category to US\$20 in deluxe hotels, and in the summer months occupancy levels are generally above 90 percent -- thus supporting the hypothesis of a considerable volume of unsatisfied demand. The Tunisian hotel industry is also benefiting from the economies of scale brought about by the continuous enlargement of the average hotel, i.e. from 56 to 187 beds from 1961 to 1971. At present, one and two-year old hotels, facing the usual difficulties of the run-in period, account for a high 32 percent of Tunisia's total accommodation capacity. As this proportion declines in the future, both the occupancy and profitability of the Tunisian hotel industry should further improve.

8. The rapid expansion of Tunisia's accommodation capacity has resulted in a shortage of trained personnel and in declining standards of service, particularly during the peak summer months. The present gap between supply and demand is bound to widen -- unless hotel training programs now under way are substantially expanded.

9. The tourism sector has contributed more and more significantly to Tunisia's economy. Between 1961 and 1972, earnings from tourism climbed from US\$3 million to an estimated US\$145 million. The steady increase in the average daily expenditure by foreign visitors -- which rose from US\$9 in 1961 to US\$20 in 1972 -- explains why foreign exchange earnings from tourism grew even faster than foreign-visitor bednights. Accounting for 26 percent of total receipts from the export of goods and services, foreign exchange earnings from tourism are now the single most important source of foreign exchange for Tunisia. With regard to labor, in 1972 about 30,000 people were employed by the tourism industry -- about 2 percent of the total in employment. These figures give only a partial picture of the impact of tourism development on employment, however, since hotels represent only a part of the tourist sector. Moreover, it does not take into account the indirect employment effects in other sectors ascribable to tourism demand.

10. The public sector actively, if not always effectively, supported tourism's development during the 60's. Over this period, the original structure of the governmental organization responsible for tourism changed from semi-governmental agency level (the "Commissariat General du Tourisme et du Thermalisme", or CGTT) to ministerial status, and thence (in 1970) to that of an autonomous body (the "Office National du Tourisme et du Thermalisme", or ONTT) under the supervision of the Ministry for the Economy.

11. Over the years, the government has instituted a number of incentives for tourism investments. These incentives include:

- (i) Outright payments (through ONTT) for minor infrastructures, linking up hotel sites with the main infrastructure systems;
- (ii) duty exemption for imported materials required for hotel construction;
- (iii) interest rebates on hotel loans of up to 3 percent on commercial interest rates (which are at present around 9 percent);
- (iv) a five-year exemption from the tax on profits.

The Tunisian hotel investment incentive system shows a number of weaknesses stemming from the haphazard manner in which the benefits have been established -- one at a time, without an overall and rational design. In the first place, it is doubtful whether the various incentives, taken together, are commensurate with actual need or whether the objective of sustained flows of private hotel investments could not be achieved with a different "mix" of incentives, entailing less risk of resource misallocation and/or a lesser cost to the Government. In the second place, investment incentives are granted too indiscriminately -- to all hotels irrespective of their location and/or type. Thirdly, the multiplicity of

laws and regulations regarding hotel investment incentives is such as to render the benefits unclear to potential investors and difficult to administer for Tunisian authorities.

12. The Tunisian Government also assists tourism investors in obtaining hotel sites. All land transfers within the country are subject by law to the approval of regional Governors; a land owner's refusal to sell at a price and for a purpose recommended by one of these regional authorities entails the prospect of the risk of his being prevented from selling his land for any other purpose. The public sector has thus been able to ensure the availability of coastal land for hotel development at reasonable prices (about US\$1 per m<sup>2</sup>). It is questionable, however, whether this indirect, and somewhat empirical method of land control would work in the future as increasing demand heightens the competition for coastal sites.

13. The Government has recently reasserted its interest in tourism development. The transformation of the Ministry of Tourism into the ONTT has proven timely. Combining greater flexibility in decision-making, financing and personnel recruitment with good leadership at both top and intermediate levels, the new organization is far better equipped to perform the multiple tasks imposed by the continuous expansion of the sector. On November 2, 1971, the Council of Ministers approved a series of measures providing, inter alia, for the doubling of Tunis-Carthage Airport's terminal building capacity, for the exemption from customs duties of cars and buses to be used as tourist conveyances, and for reduced gasoline prices for "motorized" foreign visitors. On April 19, 1972, the Council of Ministers approved a draft-law establishing (i) the concept of priority tourism development zones (the practical definition of the tourism zones' boundaries is left to subsequent implementing decrees); (ii) the principle that hotel development in these zones would take place according to master plans and (iii) a public real estate corporation (Agence Foncière Publique) with the primary task of facilitating land transfers from present owners to hotel investors.

14. Spurred by the 1972 tourism boom, Tunisian authorities have advanced to 1976 the 1,500,000 foreign-visitor arrivals target originally set for 1980. According to these revised projections, foreign-visitor arrivals should increase at an annual rate of about 18 percent. The prospects for the further expansion of the tourism supplier market are favorable, and Tunisia's tourism potential is still far from being fully realized.

TOURISM: MAIN DATA AND PLAN PROJECTIONS OF TOURISM GROWTH, 1962-1976

	1962	1963	1964	1965	1966	1966	1967	1968	1969	1970	1971	1972	Projected			
													1973	1974	1975	1976
Annual investment (million of dinars)	3.0	4.0	5.1	6.5	10.6	10.6	12.8	13.8	14.5	19.8	17.8	16.1	24.0	30.0	35.0	46.0
Total bed capacity (beds)	4,077	5,743	7,543	9,616	17,061	17,061	18,786	24,709	31,691	37,185	42,939	49,496	58,196	67,196	75,696	84,000
Employment	1,630	2,297	3,030	3,846	6,825	6,825	7,714	9,883	12,676	14,874	17,175	20,362	23,620	27,200	30,600	34,000
Visitors (thousands)	52.75	104.7	138.2	165.8	218.8	218.8	231.1	330.3	373.0	411.0	608.0	780.0	1,026	1,124	1,284	1,500
Visitor Bednights (thousands)	395	541	694	1,129	1,639	1,639	2,030	3,082	3,406	3,819	5,821	6,777	7,937	9,155	10,320	11,435
Resident Bednights (thousands)	245	211	213	191	222	222	225	262	280	296	296	326	401	462	520	600
Average length of stay visitors (days)	7.5	5.2	5.0	6.8	7.5	7.5	8.8	9.3	9.2	9.3	9.3	8.7	8.7	8.7	8.7	8.7
Tourism Foreign Exchange Receipts (million of dinars)	2.0	3.7	5.4	9.2	13.6	13.6	16.4	22.2	26.1	31.6	53.8	67.8	79.4	91.6	103.2	114.3
Receipts per bed (dinars)	483	636	713	953	798	798	875	931	824	849	1,220	1,369	1,364	1,364	1,372	1,360
Total Merchandise Exports (million of dinars)	48.7	52.9	57.7	62.9	73.5	73.5	78.4	82.8	87.0	95.8	113.3	155.0	149.0	164.0	185.0	203.0
Tourism Receipts as % of Merchandise Exports	4.1	7.0	9.4	14.6	18.5	13.5	20.9	26.8	30.0	33.0	45.9	43.7	53.3	55.8	55.8	56.3

Source: Office National du Tourisme.  
Ministère du Plan "Projection Préliminaire des Investissements du IVième Plan".

PRESIDENT'S BRIEF

Operations Evaluation Division: Activities in Tunisia

The Operations Evaluation Division started last summer an evaluation of the Bank's contribution to development in selected countries through its lending to Development Finance Companies; the object is to learn how policies and procedures of the Bank with regard to such lending for directly productive non-agricultural sectors might be improved in the future. Tunisia and Iran were the countries selected for the in-depth study of the role of the DFC.

The basic parts of the evolution study of the Tunisian DFC, the Societe Nationale d'Investissement, have been:

An analysis of macro-economic factors, consisting mainly of relevant aspects of economic development and economic policies, especially in relation to industry and tourism;

An analysis of the place of SNI in the general context of the country, and in particular in the context of the capital market and the banking system, in the context of Tunisia's needs and uses of resources for investment financing, and finally in the context of the existing economical social policies which SNI takes advantage of, or is trying to influence;

An analysis of the relations between the Bank and SNI and of the impact the Bank has had on the organization and the policies of SNI;

A detailed analysis of some thirty projects financed by SNI in various sectors and regions, including tourism projects, to determine their financial and economic profitability and to evaluate the impact SNI, and, when appropriate, the Bank, have had on these projects.

The study of SNI has been carried out in Tunisia between September 1972 and March 1973. The final report on DFC evaluation is scheduled to be ready at the end of FY '73.

Cleared with Mr. Willoughby

## TUNISIA LONG TERM PUBLIC DEBT PROJECTION

(Calendar years; US \$ Millions)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
<b>National Income Accounts 1/*</b>																						
GNP	921	940	974	1064	1150	1348	1724	2051	2014	2158	2325	2479	2653	2829	3011	3198	3424	3658	3914	4188	4485	4805
Plus: Net Factor Income Payments	23	27	38	46	44	36	29	29	30	34	36	38	38	38	37	37	37	38	40	42	44	47
Equals: Gross Domestic Product	944	967	1012	1110	1194	1384	1747	2080	2044	2192	2361	2516	2691	2866	3048	3235	3461	3697	3954	4230	4529	4852
Consumption	816	816	875	922	965	1158	1416	1634	1677	1774	1891	2013	2158	2310	2468	2632	2804	2990	3192	3409	3641	3890
Gross Investment	264	251	242	225	289	296	382	521	456	488	534	559	602	630	655	676	737	782	835	892	953	1020
Gross National Savings	105	124	99	143	185	190	308	417	337	384	434	466	495	519	542	566	620	668	721	779	843	915
Imports of Goods and NFS	323	318	334	289	341	380	468	590	600	630	675	709	768	821	873	924	999	1070	1152	1241	1338	1444
Less: Exports of Goods and NFS	188	218	229	252	278	310	423	513	511	560	611	654	699	747	798	851	920	995	1078	1170	1273	1386
Equals: Resource Gap - Amount	135	100	105	37	63	70	45	77	89	70	64	56	69	74	75	73	80	75	74	71	66	58
- as percent of GDP	14.3	10.3	10.4	3.3	5.3	5.1	2.5	3.7	4.4	3.2	2.7	2.2	2.6	2.6	2.5	2.2	2.3	2.0	1.9	1.7	1.5	1.2
Domestic Savings - percent of GDP	12.2	14.0	12.1	16.3	17.3	16.3	19.2	21.3	18.0	19.1	19.9	20.0	19.8	19.4	19.0	18.7	19.0	19.1	19.3	19.4	19.6	19.8
Investment - percent of GDP	25.1	23.4	21.5	18.3	21.8	18.3	22.2	25.0	22.3	22.3	22.6	22.2	22.4	22.0	21.5	20.9	21.3	21.1	21.1	21.1	21.1	21.0
<b>Finance of Resource Gap 2/</b>																						
Grants	25	15	20	27	43	46	38	45	23	15	14	12	10	8	6	5	5	5	5	5	5	5
Loans and Credits	118	82	126	101	100	101	136	148	125	124	131	131	135	139	145	150	155	163	173	184	188	191
Bilateral 3/	66	45	75	48	56	50	72	71	60	61	62	63	67	71	75	79	82	89	95	102	106	109
IBRD	1	3	4	5	6	9	14	16	25	22	26	25	27	30	34	37	40	44	48	52	52	52
IDA	2	1	2	5	3	3	5	4	12	12	12	12	10	8	6	4	2	0	0	0	0	0
Suppliers and Financial Credits	49	33	45	43	35	39	46	51	28	28	30	30	30	30	30	30	30	30	30	30	30	30
Total: Gross Disbursements	143	97	146	128	143	147	175	187	148	139	145	143	145	147	151	155	160	168	178	189	193	196
Less: Amortization	25	30	44	48	51	48	52	60	57	58	59	67	75	81	85	87	91	91	94	98	102	107
Equals: Net Inflow	118	67	102	80	92	99	123	128	91	80	85	76	71	66	66	68	68	76	84	91	92	89
Other Inflow (net) 4/	40	60	41	3	15	7	49	22	31	27	21	25	47	59	64	61	72	62	57	52	51	50
Less: Net Factor Income Payments	23	27	38	46	44	36	29	29	31	35	38	40	41	43	43	43	45	47	50	53	58	62
Equals: Resource Gap	135	100	105	37	63	70	45	77	91	73	68	60	76	83	87	85	95	91	92	90	85	77
Imports of Goods and NFS	323	318	334	289	341	380	468	590	612	656	717	768	848	925	1003	1083	1194	1304	1433	1574	1731	1906
Exports of Goods and NFS	188	218	229	252	278	310	423	513	521	583	649	708	772	842	917	997	1098	1213	1340	1484	1646	1828
<b>Memorandum Items</b>																						
Interest on Debt	6	12	15	17	18	21	25	28	29	33	37	41	47	52	58	64	70	76	82	90	97	105
Total Debt Service	33	41	60	65	69	70	77	87	86	91	96	108	121	133	143	151	160	167	176	187	199	212
Average Interest Rate	4.9	3.4	4.0	4.0	4.5	3.3	4.0	4.0	3.7	3.9	4.2	5.6	5.8	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Debt Service Ratio 5/	18	19	26	26	25	23	18	17	17	16	15	15	16	16	16	15	15	14	13	13	12	12
Total Debt Outstanding 6/	283	324	406	451	481	522	557	625	693	758	829	893	953	1012	1071	1134	1198	1269	1348	1434	1521	1606
IBRD Debt Outstanding 6/	1	4	8	13	18	26	39	60	82	100	121	140	162	186	215	246	279	315	353	393	432	469
IDA Debt Outstanding 6/	3	5	6	10	13	16	21	37	49	62	74	87	97	105	111	115	116	115	114	112	111	110
IBRD Debt Service	-	0	1	2	3	3	4	5	7	10	11	13	14	16	17	19	22	25	29	33	37	41
IBRD/IDA Percent Gross Loan Disbursements	2.5	4.9	4.8	9.9	9.0	11.9	14.0	14.2	29.9	28.3	29.5	28.7	28.0	27.6	27.6	27.1	27.3	26.9	27.7	28.3	27.6	27.2
Percent Debt Service	-	0.6	1.4	2.5	3.9	3.8	4.7	6.0	8.1	10.9	11.9	12.7	12.8	13.2	13.5	14.5	15.6	17.1	18.4	19.4	20.3	21.0
IBRD Percent Debt Outstanding	0.4	1.2	2.0	2.9	3.7	5.0	6.8	9.6	11.9	13.2	14.6	15.7	16.0	18.4	20.1	21.7	23.3	24.8	26.2	27.4	28.4	29.2

1/ At current prices. Projections are at 1971 constant prices (1971 base year for projections), exchange rate: Dinar 1 = US\$2.08

2/ At current prices.

3/ Including small amounts from ADB and EEC.

4/ Including net current transfers, direct investment and change in foreign exchange reserves.

5/ In percent of exports of goods and NFS.

6/ Excluding undisbursed.

\* The Ministry of Planning is currently revising the national accounts series for 1960-71. The new series will include changes in absolute values but changes in the relative variations from one year to another are likely to be insignificant. The new series are only available at present for 1970-1971.

For comparability with the new series, 1970 and 1971, and the projections, the ratios of investment and domestic savings to GDP from 1965-1969 have been reduced by 10% each. Where appropriate the adjusted figures have been used in the text.

## Projection Basis

(Compound Rate of Increase in Percent)  
At constant prices

	1965-70	1972-77	1978-85
Real G.D.P.	3.2	7.4	6.7
Consumption	2.0	7.3	6.7
Private consumption	0.3	7.2	6.6
Public consumption	9.1	7.8	7.5
Exports of Goods, NFS	11.0	8.7	7.8
Imports of Goods, NFS	3.6	8.6	7.2
Investment (% GDP)	21.4	22.8	21.2

Europe, Middle East and North Africa  
Region

November 14, 1972

TUNISIA - ACTUAL AND PROPOSED LENDING THROUGH FY78  
(\$ million)

Population: 5.2 m; 2.6% p.a.  
Per Cap. Inc: \$282 (1971); 3% p.a. 1973-77  
Area: 164,000 sq. Km  
Literacy: 55% adult pop. (1971)

Attachement 1  
Page 1

		Through FY68	Actual			Current FY73	FY74	FY75	Program			Total FY64-68	Total FY69-73	Total FY74-78
			FY69	FY70	FY71				FY72	FY76	FY77			
Agricultural Credit I	IBRD				5.0									
	IDA				3.0									
Agricultural Credit II	IBRD						8.0				6.0			
Agricultural Credit III	IBRD													
Agricultural Credit/ Rural Development I**	IBRD					6.0								
Agricultural Credit/ Rural Development II**	IDA								5.0					
Cooperative Farms	IBRD	12.0												
	IDA	6.0												
Fisheries I	IDA				2.0									
Fisheries II*	IBRD										5.0			
Irrigation Development I	IBRD						11.0							
Irrigation Development II	IBRD									9.0				
Livestock I	IBRD					5.0								
Livestock II	IDA									7.0				
DFCs - SNI I-II	IBRD	15.0												
	IBRD		10.0											
	IBRD			10.0										
	IBRD				13.0									
	IBRD						14.0							
	IBRD									15.0				
Education I-II	IDA	18.0												
Education III	IDA						7.0							
Education IV	IDA										7.0			
Industry I - Phosphates*	IBRD						16.0							
Industry II - Textiles*	IBRD								6.0					
Industry III - Unidentified*	IBRD										12.0			
Population I	IDA			4.8										
Population II	IBRD								7.0					
Power I	IBRD				12.0									
Power II*	IBRD						5.0							
Tourism I - Infrastructure	IBRD				14.0									
	IDA				10.0									
Tourism II - Training*	IBRD						5.0							
Tourism III - Infrastructure	IBRD								10.0					
Highway Engineering	IBRD		0.8											
Highways I	IBRD			24.0										
Highways II	IBRD									8.0				
Ports I	IBRD	7.0												
Ports II	IBRD		8.5											
Pipeline	IBRD			7.5										
Railways I	IBRD		8.5											
	IDA		8.5											
Railways II	IBRD							5.0						
Urban Sewerage I	IDA						12.0							
Urban Sewerage II	IBRD										8.0			
Urban Transportation*	IBRD					9.0								
	IDA					7.0								
Water Supply I	IBRD		15.0											
Water Supply II	IDA			10.5										
Water Supply III	IBRD								7.0					
Water Supply IV *	IBRD										9.0			
Operations Program	IBRD					22.0	37.0	38.0	28.0	38.0	34.0			175.0
	IDA					7.0	12.0	7.0	7.0	7.0	7.0			40.0
Total						29.0	49.0	45.0	35.0	45.0	41.0			215.0
No.						2	6	5	5	5	5			26
Lending Program	IBRD	34.0	32.8	10.0	31.5	41.0	22.0	27.0	29.0	21.0	28.0	25.0	34.0	137.3
	IDA	24.0	8.5	10.5	4.8	15.0	7.0	12.0	7.0	7.0	7.0	19.0	45.8	40.0
Total		58.0	41.3	20.5	36.3	56.0	29.0	39.0	36.0	28.0	35.0	32.0	53.0	183.1
No.		6	4	2	3	5	2	5	4	4	4	4	5	16

\* Projects not included in 1971 CPP.

\*\* Included in 1971 CPP as "Irrigation Rehabilitation" I and II.

	Through FY68	FY69	FY70	FY71	FY72	Current FY73	FY74	FY75	Program FY76	FY77	FY78	Total FY64-68	Total FY69-73	Total FY74-78
<b>Other Agencies (CY)</b>														
<u>Multilateral</u>														
African Development Bank	-	2.9	-	-	-	1.0	-	2.0	-	2.0	-	-	3.9	4.0
Other	-	-	-	-	-	-	2.0	3.0	3.0	5.0	5.0	-	-	18.0
<u>Bilateral</u>														
France	n.a.	11.7	21.2	19.5	16.0	15.0	15.0	15.0	14.0	14.0	14.0	37.5	83.4	72.0
Germany	n.a.	4.1	12.1	5.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	43.5	41.2	50.0
United States	n.a.	13.0	40.2	29.3	27.0	26.0	26.0	25.0	25.0	25.0	25.0	117.0	135.5	126.0
Other	n.a.	11.1	22.3	5.2	18.0	18.0	18.0	18.0	16.0	16.0	16.0	82.0	74.6	84.0
IBRD o/s incl. undisbursed	33.7	64.3	75.1	99.2	123.2	157.0	178.1	198.1	209.8	228.5	246.2			
excl. undisbursed	11.2	15.5	21.9	31.6	44.6	63.8	86.3	111.0	132.3	150.1	164.3			
IBRD Gross disbursements	11.5	4.8	7.3	10.9	15.2	22.1	26.5	29.8	27.6	25.0	22.5	11.5	72.3	131.4
Less: Amortization	0.3	0.5	0.9	1.3	2.1	2.9	4.0	5.0	6.3	7.3	8.3	0.3	8.5	30.9
Equals: Net disbursements	11.2	4.3	6.4	9.6	13.1	19.2	22.5	24.8	21.3	17.7	14.2	11.2	63.8	100.5
Less: Interest & Charges	0.7	0.8	1.3	1.8	2.7	4.0	5.4	7.1	8.8	10.3	11.5	0.7	11.3	43.1
Equals: Net transfer	10.5	3.5	5.1	7.8	10.4	15.2	17.1	17.7	12.5	7.4	2.7	10.5	52.5	57.4
IBRD/IDA Gross disbursements	19.9	7.2	10.7	15.3	19.8	27.3	35.5	41.7	39.4	34.0	31.0	19.9	100.2	181.6
Less: Amortization	0.3	0.5	0.9	1.3	2.1	2.9	4.0	5.0	6.3	7.4	8.5	0.3	8.0	31.2
Equals: Net disbursements	19.6	6.7	9.8	14.0	17.7	24.4	31.5	36.7	33.1	26.6	22.5	19.6	92.2	50.4
Less: Interest & Charges	0.8	0.9	1.4	1.9	2.9	4.1	5.6	7.4	9.1	10.7	11.9	0.8	12.0	44.7
Equals: Net transfer	18.8	5.8	8.4	12.1	14.8	20.3	25.9	29.3	24.0	15.9	10.6	18.8	80.2	105.7

Europe, Middle East and  
North Africa Department

October 10, 1972



TUNISIA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

Project & No.	Amount:		Date:		Closing Date	Forecast Date	FY '71	FY '72				FY '73				FY '74	FY '75	FY '76	FY '77	FY '78	FY '79	FY '80
	- Original - - Cancelled - - Net	- Approved - - Signed - - Effective						1	2	3	4	1	2	3	4							
Second Education IDA 44	13.0 1.1 11.9	9/13/66 9/16/66 12/20/66	Orig: 12/31/70 Rev: 12/31/73 Act: -	9/30/70 (1st) 3/31/72 -	10.8 10.9 9.4	10.9 - 9.6	11.1 - 9.7	11.3 - 9.8	11.6 9.9 9.8	11.7 <sup>a</sup> 10.0 10.6	- - 11.2	- - 11.8	- - 11.9	-	-	-	-	-	-	-	-	
Cooperative Farm IDA 99 1/	6.0 2.9 3.1	2/16/67 2/21/67 7/ 3/67	Orig: 6/30/71 Rev: 3/31/73 Act: -	9/30/70 (1st) - -	2.9 2.9 2.2	2.9 - 2.3	3.0 - 2.4	3.0 - 2.5	3.1 - 2.6	- - -	-	-	-	-	-	-	-	-	-	-	-	
Cooperative Farm IIRD 484	12.0 3.9 6.1	2/16/67 2/21/67 7/ 3/67	Orig: 6/30/71 Rev: 3/31/73 Act: -	9/30/70 (1st) - -	5.8 5.9 4.5	5.9 - 4.5	6.0 - 4.9	6.0 - 5.1	6.1 - 5.3	-	-	-	-	-	-	-	-	-	-	-	-	
Second Development Finance IIRD 512	10.0 - 10.0	9/ 1/67 9/14/67 6/ 4/68	Orig: 3/31/72 Rev: 6/30/72 Act: -	9/30/70 (1st) - -	8.2 8.8 8.4	8.8 - 8.8	9.4 - 8.9	10.0 - 9.2	- - 9.3	-	-	-	-	-	-	-	-	-	-	-	-	
Second Port IIRD 573	8.5 - 8.5	11/26/68 11/29/68 4/29/69	Orig: 12/31/72 Rev: 12/31/73 Act: -	9/30/70 (1st) 2/29/72 -	3.6 4.3 3.0	4.3 - 3.3	4.9 - 4.3	5.6 5.0 5.2	6.3 5.7 5.4	7.1 6.0 7.1	7.6 7.1 7.9	8.0 8.2 8.2 <sup>a</sup>	8.1 8.2 8.5	-	-	-	-	-	-	-	-	
Water Supply IIRD 581	15.0 - 15.0	12/ 3/68 1/16/69 6/ 9/69	Orig: 12/31/73 Rev: 7/ 1/71 Act: -	9/30/70 (1st) 1/ 1/71 -	3.0 4.1 1.9	4.1 2.6 2.8	5.0 3.5 3.3	6.1 4.6 4.1	6.7 5.8 4.8	7.5 7.0 7.1	8.1 8.0 8.1	8.9 9.0 9.6	9.6 9.5 11.5 <sup>a</sup>	-	-	-	-	-	-	-	-	
Railway Project IDA 150	8.5 - 8.5	4/29/69 6/ 4/69 9/16/69	Orig: 12/31/73 Rev: - Act: -	9/30/70 (1st) 3/31/72 -	3.5 4.6 2.3	4.6 - 3.1	6.6 - 4.0	8.5 - 4.5	- 5.2 5.6	-	6.9	8.5	-	-	-	-	-	-	-	-	-	
Railway Project IIRD 606 2/	8.5 - 8.5	4/29/69 6/ 4/69 9/16/69	Orig: 12/31/72 Rev: - Act: -	9/30/70 (1st) 6/30/71 -	.5 - -1	.5 - -1	.7 - -1	.8 - -1	4.0 1.5 -2	5.4 3.8 -2	7.2 6.5 -2	7.8 7.0 -2	7.8 7.5 8.4	8.5	8.5	-	-	-	-	-	-	
Third Development Finance IIRD 648	10.0 - 10.0	11/29/69 12/24/69 5/ 5/70	Orig: 12/31/73 Rev: - Act: -	9/30/70 (1st) - -	2.5 3.5 2.8	3.5 - 4.3	4.5 - 4.9	5.5 - 5.9	6.5 - 6.4	7.5 - -	8.5 - -	9.0 - -	10.0 - -	-	-	-	-	-	-	-	-	
Second Water Supply IDA 209	10.5 - 10.5	6/30/70 6/30/70 11/12/70	Orig: 12/31/74 Rev: - Act: -	9/30/70 (1st) 4/ 1/71 -	.2 - -	.6 - -	1.4 - -	2.8 - -	4.2 - -	5.6 1.1 2.4	7.0 2.4 3.9	7.6 3.9 5.2	9.3 9.3 10.5	10.5	-	-	-	-	-	-	-	
Gas Pipeline IIRD 724	7.5 - 7.5	1/26/71 2/25/71 5/12/71	Orig: 12/31/72 Rev: - Act: -	1/26/71 12/31/71 -	1.3 3.0 1.4	3.0 - 2.4	4.5 - 4.1	5.3 - 4.9	6.3 5.2 5.6	7.0 5.9 6.6	7.0 7.2 7.3	7.1 7.3 7.4	7.1 7.4 7.5	-	-	-	-	-	-	-	-	
Population Project IDA 238	4.8 - 4.8	3/23/71 4/ 5/71 12/29/71	Orig: 6/30/76 Rev: - Act: -	3/ 3/71 - -	- - -	- - -	.2 - -	.5 - -	.9 - -	1.7 - -	1.7 - -	- - -	2.0 - -	3.7	4.4	4.7	4.8	-	-	-	-	
Highway Project IIRD 746	24.0 - 24.0	5/27/71 6/ 9/71 10/26/71	Orig: 6/30/76 Rev: - Act: -	5/12/71 - -	- - -	- - -	.9 - -	.9 - -	1.7 - -	2.5 - -	3.9 - -	5.3 - -	6.7 - -	14.9	21.0	24.0	-	-	-	-		
Agricultural Credit IDA 263	3.0 - 3.0	7/ 1/71 7/12/71 1/29/72	Orig: 9/30/75 Rev: - Act: -	5/ 7/71 4/ 4/72 -	- - -	- - -	.1 - -	.6 - -	.9 - -	1.3 - -	1.4 - -	1.4 - -	2.4 - -	3.0	-	-	-	-	-	-		
Agricultural Credit IIRD 779 3/	5.0 - 5.0	7/ 1/71 7/12/71 1/25/72	Orig: 9/30/75 Rev: - Act: -	5/ 7/71 4/ 4/72 -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	2.6 2.5	4.6 4.6	5.0 5.0	-	-	-	-	-		
Fisheries Project IDA 270	2.0 - 2.0	9/14/71 9/24/71 5/24/72	Orig: 12/31/76 Rev: - Act: -	3/30/71 5/31/72 -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	.1 - -	.2 - -	.8	1.5	2.0	2.0	-	-	-		
Fourth Development Finance IIRD 798	10.0 - 10.0	1/18/72 2/ 9/72 4/13/72	Orig: 3/31/76 Rev: - Act: -	12/29/71 - -	- - -	- - -	- - -	- - -	- - -	.2 - -	.6 - -	1.4 - -	2.4 - -	7.0	9.6	10.0	-	-	-	-		
Power Project IIRD 815	12.0 - 12.0	4/ 4/72 4/20/72 N.E.	Orig: 7/31/75 Rev: - Act: -	3/ 7/72 - -	- - -	- - -	- - -	- - -	- - -	.4 - -	2.2 - -	4.2 - -	6.3 - -	10.6	12.0	-	-	-	-	-		

\* Balance indeterminate.  
1/ To be disbursed jointly with Loan 484 TUN.  
2/ To be disbursed after Credit 150 TUN (except interest category)  
3/ To be disbursed after Credit 263 TUN.

G

TUNISIA

STATEMENT OF BANK, IDA AND IFC SUBSCRIPTIONS

IBRD

	<u>Number</u>	<u>Amount</u> <sup>1/</sup>	<u>Percent of Total</u>
Shares*	373	37300	0.15
Paid in capital		3730	
Subject to call		33570	
Voting Power	623		0.22

IDA

	<u>Number</u>	<u>Amount</u> <sup>2/</sup>	<u>Percent of Total</u>
Subscription**			
Initial		1510	
Additional		59.3	
TOTAL		1569.3	0.15
Voting Power	2793		0.34

IFC

	<u>Number</u>	<u>Amount</u> <sup>3/</sup>	<u>Percent of Total</u>
Subscription		133	0.12
Voting Power	383		0.29

1/ In thousands of US dollars of the weight and fineness in effect on July 1, 1944

2/ In thousands of US dollars.

3/ In thousands of US dollars of the weight and fineness in effect on January 1, 1960.

\* 9% portion not yet released

\*\* 90% portion not yet released

April 11, 1973

THE STATUS OF BANK GROUP OPERATIONS  
IN TUNISIA

STATEMENT OF BANK LOANS AND IDA CREDITS  
(as at March 31, 1973)

Loan or Credit Number	Year	Borrower	Purpose	Amount in US\$ millions (less cancellations)		
				Bank	IDA	Undis.
29	1962	Republic of Tunisia	Education		4.9	-
380	1964	Republic of Tunisia	Port Development	7.0		-
449	1966	Societe Nationale d'Investissement	Development Finance Co.	4.7		-
94	1966	Republic of Tunisia	Education		11.9	2.1
484	1967	Republic of Tunisia	Cooperative Farms	6.1		0.3
99	1967	Republic of Tunisia	Cooperative Farms		3.1	0.2
512	1967	Societe Nationale d'Investissement	Development Finance Co.	9.3		
573	1968	Office des Ports Nationaux Tunisiens	Port Development	8.5		1.0
581	1969	SONEDE	Water Supply	15.0		7.9
606	1969	SNCFT	Railways	8.5		7.8
150	1969	Republic of Tunisia	Railways		8.5	
52	1969	Republic of Tunisia	Highway Engineering			
648	1969	Societe Nationale d'Investissement	Development Finance Co.	10.0		1.8
209	1970	Republic of Tunisia	Water Supply		10.5	9.7
724	1971	STEG	Gas Pipeline	7.5		0.4
238	1971	Republic of Tunisia	Population		4.8	4.7
746	1971	Republic of Tunisia	Highway	24.0		23.0
779	1971	Banque Nationale de Tunisie	Agricultural Credit	5.0		5.0
263	1971	Republic of Tunisia	Agricultural Credit		3.0	1.6
270	1971	Republic of Tunisia	Fisheries		2.0	2.0
798	1972	Societe Nationale d'Investissement	Development Finance Co.	10.0		7.1
815	1972	STEG	Power	12.0		9.9
858	1972	Republic of Tunisia	Tourism Infrastructure	14.0*		14.0
329	1972	Republic of Tunisia	Tourism Infrastructure		10.0*	10.0
1	1973	Societe Nationale d'Investissement	Development Finance Co.	14.0*		
Total				155.6	58.7	
of which has been repaid				6.6		
				149.0		
Total now outstanding						
Amount sold						3.0
of which has been repaid						1.0
				2.0		
Total now held by Bank and IDA				147.0	58.7	
Total undisbursed				92.2	30.3	122.5

\* Not yet effective

B. STATEMENT OF IFC INVESTMENTS IN TUNISIA  
(as at March 31, 1973)

Year	Obligor	Type of Business	Amount in US\$ millions		
			Loan	Equity	Total
1962	NPK Engrais	Fertilizer	2.0	1.5	3.5
1966	Societe Nationale d'Investissement (SNI)	Development Finance Co.		.6	.6
1969	COFITOUR (Tourism)	Development Finance Co.	8.0	2.1	10.1
1970	Societe Nationale d'Investissement (SNI)	Development Finance Co.		.6	.6
1973	Societe Touristique Hoteliere RYM S.A.	Tourism	1.7	0.3	2.0
Total gross commitments			11.7	5.1	16.8
Less cancellations, terminations, repayments and sales			3.2	.3	3.5
Total commitments now held by IFC			8.5	4.8	13.3
Total undisbursed			9.7	1.4	11.1

PROJECTS UNDER EXECUTION

Execution of projects in Tunisia has been generally satisfactory, and we have always found a great deal of responsiveness in the Tunisian authorities when discussing project implementation problems and their solutions.

Loans and credits are presently being disbursed for the following fourteen projects:

- Second Education
- Cooperative Farms
- Second Port Development
- Water Supply I and II
- Railways
- Gas Pipeline
- Population
- Highways
- Agricultural Credit
- Fisheries
- Power
- Tourism Infrastructure
- Development Finance Company (SNI)

A brief note on each of these projects follows.

SECOND EDUCATION PROJECT; \$ 13 MILLION CREDIT OF 1966

Description: Construction, furniture and equipment of nine new general secondary schools, three agricultural training centers and extension of six existing general secondary schools; equipment only for an other sixteen existing secondary schools.

Execution: Construction, furnishing and equipping of the project schools have been completed, and US \$ 9.82 million have been disbursed. The three agricultural training centers were dropped at Government's request. Following approval by the Executive Directors in 1971, savings on construction cost in the amount of US \$ 2.08 million were reallocated in 1971 to allow the purchase of equipment for eleven technical schools and for assistance in educational planning to be provided through UNESCO. The equipment for the technical schools is expected to be delivered by October 1974. The appointment of experts for the educational planning unit is under way, but several months behind schedule. Only three out of eight experts have so far been appointed and have arrived in the field. The credit is expected to be disbursed by December 31, 1974.

COOPERATIVE FARMS PROJECT; \$ 6 MILLION CREDIT AND \$ 12 MILLION LOAN OF 1967

Description: The original project covered a) the consolidation of 213 existing cooperatives; b) creation of new cooperatives on 160,000 ha; maintenance of productivity of State land; and d) technical assistance. This project formed part of Ben Salah's 10 year plan to transform 1 million hectares of former settlers' land and marginal small holders' land into production cooperatives. The policy failed in 1969 because farm competent management was not available and farmers increasingly resisted forced participation in cooperatives. After Ben Salah's fall, the project had to be revised, and now covers (a) maintenance of productivity in 218 cooperatives and (b) technical assistance.

Execution: All investments provided for under the revised list of goods have been completed and disbursements are expected to be completed by December 1973. The financial situation of the cooperatives is improving, and an aggregate profit of about D1.6 million was achieved in 1972. The Bureau of Control (the Bank prescribed project unit) is presently preparing an assessment of project accomplishments.

SECOND PORT DEVELOPMENT PROJECT; \$ 8.5 MILLION LOAN OF 1968

**Description:** Expansion of port facilities in the major ports through (a) dredging at La Goulette, Bizerte, and Sfax; (b) purchase of a dredger, a tug-boat and cargo-handling equipment, (c) re-building of a breakwater at Bizerte; (d) construction of a berth for grain carriers at La Goulette with grain silo and pneumatic equipment;

**Execution:** Work has been satisfactorily completed on most of the project items and is progressing satisfactorily on the remaining items. Total cost of the project is now estimated at \$ 13.2 million, as compared to the appraisal estimate of \$10.7 million. The foreign exchange component remains at \$8.5 million. The increased cost is due mainly to unexpected price increases and to soil conditions which delayed construction and required a one-year extension of the Closing Date. The increase in costs does not invalidate the justification for the project, and the loan is expected to be fully disbursed by the present Closing Date of December 31, 1973.

WATER SUPPLY I AND II; \$ 15 MILLION LOAN OF 1968 AND \$ 10.6 MILLION LOAN OF 1970, RESPECTIVELY:

**Description:** The first project consisted of construction of a 130 km pipeline to Tunis (population 700,000); a supply line to the Sahel area (population 400,000) and distribution works in Tunis, Sahel and Hammamet/Nabeul. Sweden provided \$ 5 million for the project; The National Water Company (SONEDE) was created with Bank assistance in connection with the preparation of the project. The second project consisted of construction of supply lines to Bizerte, South Tunisia (first phase), Sfax; Hammamet/Nabeul, Sahel (second phase) and smaller works; Sweden provided \$ 3.5 million for it.

**Execution:** Construction under the first project has accelerated after a late start and is now proceeding satisfactorily; there have been problems in the manufacture of project pipe, and it may be necessary to extend the Closing Date. Total cost of the project is expected to be below the appraisal estimate. Construction and disbursements under the second project have begun.

RAILWAYS PROJECT; \$ 8.5 MILLION LOAN AND \$ 8.5 MILLION CREDIT OF 1969

**Description:** The project includes (a) relaying 352 km of main and branch lines; (b) purchase of 7 main-line locomotives, 10 railcars, 34 ballast cars and workshop equipment; (c) consulting services.

The project was formulated as a result of a UNDP transport survey carried out in 1968/69 under the Bank's supervision as executing agency.

**Execution:** This project has faced difficulties. The problems, mainly financial, were due to (a) non-payment of freight charges by the railway's largest customer, the state-controlled Sfax-Gafsa Phosphate Company; (b) operational deficits due to low rates and fares, and (c) higher than estimated purchase prices of rolling stock. Progress is now being made. The Government has taken over the Phosphate Company's debts to the railways and paid a first installment of \$5.3 million towards the arrears of nearly \$14.5 million. It has also undertaken to reimburse railway losses in 1972 and 1973, estimated together at about \$2.5 million, in addition to its annual contribution of \$2.4 million. On the understanding that tariffs will be increased by January 1, 1974, the Bank and IDA have agreed to a reallocation of the proceeds of the Loan and Credit which has permitted placement of all outstanding orders. Cost increases of approximately \$6 million for items in the original list of goods are being financed by utilizing part of a general line of credit extended by Spain to Tunisia. Completion of the project is now expected by mid-1975. A request to extend the Closing Date is awaited.

GAS PIPELINE PROJECT; \$ 7.5 MILLION LOAN OF 1971:

**Description:** Installation of 300km gas pipeline which carries natural gas from the El Borma oil field to Gabès' electric power plant. The Kuwait Fund contributed \$2.5 million to the project under joint financing arrangements with the Bank.

**Execution:** Execution of this project has been satisfactory; operation of the facilities began approximately one month ahead of schedule. Disbursements are slightly ahead of schedule, and are expected to be completed before the Closing Date of December 31, 1973.

POPULATION PROJECT; \$ 4.8 MILLION LOAN OF 1971

Background

Family Planning began in 1964 with the introduction of an experimental program. A national family planning program started in 1968 with the creation of a Directorate of Maternal and Child Health and Family Planning in the Ministry of Health.



The initial demographic targets set out in the Five Year Program 1966-1971 were overly optimistic: to bring down the birth rate from 46 per thousand in 1966 to 36 per thousand in 1971. It was estimated that a total of 300,000 couples would have to be involved in the program of which at least 250,000 would adopt the IUD method. Recent estimates put the birth rate in 1970 at around 40 per thousand. This is some 4 points higher than the official birth rate derived from registered births but then, there is an important under-registration which might be as high as 12 percent. How much of the decrease in the birth rate is due to the national family planning program is difficult to assess for lack of adequate data, but it is unlikely to be large.

The administration of the program underwent several reorganizations: The Directorate for MCH and Family Planning was replaced in August 1971, by a National Institute for Family Planning and MCH. The latter was transformed last March into an Office for Family Planning and Population. The last reorganization, giving the Office a commercial character, allows more flexibility in recruiting qualified staff and broadens the scope of activities from the mere sector of public health into that of other ministries such as Education, Social Welfare, Planning and others, which are represented in a Supreme Council for Family Planning chaired by the Prime Minister.

The most recent developments are the organization of a Family Planning Week in which several Cabinet members made speeches on Family Planning in different parts of the country. President Bourguiba, during his recent visit to the southwest of the country, identified Tunisia's demographic growth as one of the most important constraints on Tunisia's economic and social development, and came out strongly in favor of a vigorous population program.

The achievement of the program have been below the targets set by the initial Five Year Plan. There has been, however, a modest increase in the number of acceptors which now stand at the low level of about 13,000 new acceptors per year. An estimated 6-8 percent of all Tunisian women aged 15-49 are now in the program.

### The Project

The project was appraised by two missions in May and December, 1970. On April 5, 1971, the credit agreement for a population project was signed, which consists of the construction and equipment of four urban maternity hospitals, two rural maternity hospitals, 29 Maternal and Child Health Centers, the extension of a paramedical training school and its post graduate training section. It provides for technical assistance through management consultants for the national family planning program; experts to assist in teaching at the paramedical

training school and fellowships for training key paramedical personnel; the provision of two external review missions to assess the progress and efficiency of the program.

Progress of the management side of the project has been satisfactory. The last organizational change followed closely the recommendations of French management consultants provided to the Government under the project. While a sound basis for the organization of the program is being laid and a new Director has been appointed since January, 1973, the staff of the office has yet to be built up to an effective level, and detailed technical planning of the program has to be made.

On the construction side, the project's implementation has run into problems (mainly of an administrative nature) which together have caused a total delay of 18 months. A most recent problem has been large cost overruns in the project's four urban maternities. As a result total project costs of US\$7.7 million are now estimated to increase by US\$5-6 million. The principal reason for this is an original under-estimate of costs at the time of appraisal. At the time, the PNP Department was not fully operational and the cost estimates computed by a consultant were based on figures provided by local architects who understated construction costs (hoping they be entrusted with the final design and development). In addition, two dollar devaluations, as well as escalation in construction costs since appraisal, have added to the difference between the original cost estimates and the preliminary estimates of the consultant architects. A solution to the problem of capital funds will improve project implementation.

The Bank has asked the Government for its reactions to the findings of the architect consultants. The Government's response is expected in the next month. We are planning to send a mission to Tunisia at the end of May or in early June, to review in depth the project. In view of the cost underestimates it is expected that IDA supplementary funding will be recommended.

#### HIGHWAYS PROJECT; \$ 24 MILLION LOAN OF 1971

**Description:** The project includes improvement, re-surfacing and rehabilitation of 2,195 km of paved roads; reconstruction of 51 bridges and culverts; preinvestment studies for improvement of further roads; technical assistance for improved transport coordination; and study of road transport regulations and taxation.

**Execution:** After a good start in 1971, project execution fell behind schedule for various reasons, such as delays in bidding due to incomplete right-of-way acquisitions and delays in selecting

consultants to prepare detailed engineering. These problems have now been solved, but disbursements remain behind schedule.

AGRICULTURAL CREDIT PROJECT; \$ 4 MILLION CREDIT AND \$ 5 MILLION LOAN OF 1971

Description: The project will help finance through Banque Nationale de Tunisie a credit program for (a) some 850 grain farmers to purchase mechanized equipment; (b) dairy farm improvement, both in Northern Tunisia; and (c) about 18 date-palm plantations averaging 125 acres in Southern Tunisia, providing jobs and housing for 1,000 desert nomad families.

Execution: Execution of this project has been generally satisfactory, and disbursements are on schedule. However, some difficulties may arise in the future if the Government does not take action, as required under the Loan Agreement, to limit competition between Bank/IDA funds and its subsidized agricultural credit agency, FOSDA, and if the Societe Tunisienne d'Industrie Laitiere, STIL, does not improve its execution program. STIL is facing land tenure problems and is showing weakness in the coordination of filled activities. The Government, the agricultural credit bank and STIL are aware of these difficulties, and action to solve them is under consideration.

FISHERIES PROJECT \$ 2 MILLION LOAN OF 1972

Description: The project will provide, through Banque Nationale de Tunisie, credit to fishermen to replace obsolete inshore craft by about 335 fully equipped motorized boats of improved design; technical assistance; procurement of fishing gear and spare parts.

Execution: Delayed at first by the failure to fulfill several conditions of effectiveness on time, and later as a result of difficulties in finding a suitable project manager, execution of the project is finally making progress. However, because of the need to determine the type of diesel engine before completing the design of the boat, procurement procedures had to be changed. The Project Unit has already called for bids for marine diesel engines; bidding for hulls should take place late in the summer. Cost overruns are expected because of increases in fishing boat construction costs, but demand for subloans to purchase project boats remains high because of steady increases in fish prices. The increase in boat costs will result either in the construction of fewer boats than expected under the project or an increase in the contribution of the Government. A forthcoming supervision mission will review the matter.

POWER PROJECT; \$ 12 MILLION LOAN OF 1972

Description: The project includes installation at STEG's new Rhennouch plant near Gabes of two 20 MW gas turbine electric generators and related equipment; construction of 2,150 KV transmission lines and 4 substations; expansion of distribution systems; technical assistance. The Kuwait Fund has contributed \$2.5 million to this project.

Execution: This loan became effective on August 1972 and is proceeding on schedule. Bidding for the major items of the project is in progress.

TOURISM INFRASTRUCTURE PROJECT; \$ 14 MILLION LOAN AND \$ 10 MILLION CREDIT OF 1972

Description: The project is a package of infrastructure works comprising roads, water, sewerage, electricity and telecommunications to be implemented in six zones within a carefully designed environmental framework.

Execution: Due primarily to delays in adoption of legislation establishing the public land corporation to acquire land in the project zones, the loan and credit have not yet become effective. Contracts have been signed with consultants, and other project activities are underway.

DEVELOPMENT FINANCE CO. SOCIETE NATIONALE D'INVESTISSEMENT (SNI)

1. Since its reorganization in 1965 the Bank Group has contributed to SNI's resources in the following manner:

IBRD loans: 5 loans totalling \$49 million. The last one was approved on January 23 (\$14 million).

IFC Investments in SNI's share capital: \$1.2 million equivalent representing 20 percent of SNI's share capital in two investments in 1966 and 1970. IFC is represented on SNI's Board.

2. SNI is a private institution (the public sector only represents 22 percent of ownership). Its purpose is to finance industry and tourism in equity investments and medium and long-term loans.

3. A rapid growth of the company in the late sixties compelled SNI to reorganize its operations and organization. The Bank and IFC have helped SNI in this effort as well as the Caisse Central de

Cooperation Economique which has provided considerable technical assistance. The reorganization is now implemented but major efforts still are required to improve particularly promotional work.

SNI's developmental role in Tunisia is important. To live up to it, the company should, however, be more selective in its financing, provide better assistance to medium and small size projects, and play a more positive role in promoting export-oriented industries. Commitments in 1972 reached a record mark in excess of D 10 million.

The Bank plans to pursue its close association with SNI particularly in light of the review, now in its final stage, by the Operations Evaluation Division of the Bank which will provide an assessment of SNI's operations and of their impact on the Tunisian economy.

PROJECTS UNDER CONSIDERATION

Fiscal Year 1973

Tunis Urban Transport

Fiscal Year 1974

Phosphate Development

Tourism Training

Tunis Urban Sewerage

Livestock and Rural Development in Sedjenane

Irrigation Rehabilitation

Fiscal Year 1975

Central Tunisia Rural Development

Irrigation Development

Sixth Loan to SNI

Water Supply SFAX

Third Education Project

Second Railway Project

## TUNIS URBAN TRANSPORT PROJECT (FY 1973)

This project will be the Bank's first urban transport project. It was appraised in January/February 1973. Negotiations are planned to begin on May 14 and Board presentation is scheduled in June. This is a very tight schedule.

Tunis is the country's center of population, employment and economic activity. The city has been characterized in recent years by rapid urbanization, and increasing dispersal of development. This has been strengthened by the absence of appropriate public policies. Government ministries and decision making are highly centralized on a sectoral basis, and inter-ministerial coordination on investments affecting the growth and development of Metropolitan Tunis is weak. The Government has begun to recognize this situation and in 1972 it took the initial action by constituting the Tunis District, a metropolitan planning and coordinating agency.

The Tunis Urban Transport project consists of:

- a) Technical assistance, jointly financed by the Bank, IDA and UNDP, to strengthen the capacity of the Tunis District to carry out its planning, programming, and coordinating functions, as well as to assist in the preparation of future urban investment projects.
- b) the purchase of 210 buses, to renew the urban fleet of the public transport company, Societe Nationale des Transports (SNT) and to meet its needs for new vehicles through 1975.
- c) Purchase of 26 electric rail cars, signaling equipment and other materials required to renew the North East Corridor (Tunis-La Goulette - La Marsa (TGM) railway line of SNT.
- d) Construction of a new bus depot for SNT.
- e) Improvement of intersections and related signalling equipment for the Municipality of Tunis.
- f) Technical assistance to SNT and the Municipality of Tunis; consultants would also assist the Government to carry out a study of urban development opportunities in Sfax, Tunisia's second largest city. A second urban project in Tunisia, for Sfax and Tunis, should result from the studies being carried out under this project.

Total project cost is estimated at US \$37.3 million equivalent, with a foreign exchange component of \$23 million to be financed by the Bank (US \$16 million) and IDA (US \$7 million).

Unique features of the project are:

- a) Its emphasis on the effective establishment of a metropolitan urban planning authority.
- b) The integration of investments in new improved equipment for SNT with a program to facilitate the movement of traffic in the city and to discourage use of private automobiles. Measures to discourage private automobiles under discussion include establishment of a city service to tow away illegally parked vehicles, controls over the establishment of new or the utilization of existing off-the-street parking facilities and an increase in artificially low automobile insurance premiums.

#### PHOSPHATE DEVELOPMENT PROJECT (FY 1974)

Although Tunisia is a marginal producer of phosphate rock (4 percent of world production) the phosphate industry has an important place in the Tunisian economy. In 1971 mining and processing operations generated value added equal to 10.7 percent of GDP at factor cost and employed about 2.3 percent of the total labor force. Total value of exports of phosphate rock (\$11.6 million), phosphate fertilizer (\$9.7 million), and phosphoric acid (\$0.1 million), amounted to \$21.4 million and accounted for 18.8 percent of total Tunisian exports in that year. In a regional context, the contribution of the phosphate industry is of crucial importance to the poorly endowed Gafsa region in the South, where phosphate production is virtually the only source of employment outside the traditional handicraft sectors and some agriculture in the oasis.

The state controlled Gafsa company, whose production of phosphate rock amounted to 3.1 million tons in 1972 (95 percent of total Tunisian production) has been operating with heavy losses since 1967 mostly as a result of low world market prices due to increased supply of higher grade phosphate from Morocco and increasingly inefficient operations. A serious effort to put the company on a sound economic basis is being undertaken at present; studies and experiments to exploit new deposits and to rehabilitate existing mines have been underway for the last years and the Bank has been called by the Government to review the present situation of the Gafsa company, its prospects and proposals for future development of phosphate and the possibility of the Bank's financial assistance to it. An identification mission visited Tunisia in November 1-15, 1972 and a project preparation mission



in March 14-29, 1973. The project preparation mission's recommendations will be transmitted to the Government upon completion of the analysis some time in May. The preliminary conclusions are that the exploitation of the new deposits of the Sehib is feasible from the technical, financial and economic point of view and that the Gafsa company as a whole could become financially self-supporting in three to five years, provided that a comprehensive rehabilitation program for the existing mines is carried out. Also, market prospects do not appear to be a constraint for the mine development plans.

The major problem in assessing the project feasibility relates to the organization and management of the company. Expatriate personnel will have to be recruited as a result. A problem would be the release of some 2000 workers to result from the rehabilitation. This is particularly important since phosphate mining is practically the only economic activity in the Gafsa region and employment alternatives in the region are limited. The Government should therefore in cooperation with the company immediately launch studies to mobilize potential resources and prepare an investment program which would diversify economic activity in the area and create a more balanced economic and social community. Such studies could be financed under the Bank loan.

We are envisaging to appraise the project this Fall. This schedule will depend on the progress made by the company and the Government in project preparation.

#### TOURISM TRAINING PROJECT (FY 1974)

This project has its origin in the tourism infrastructure project financed jointly by the Bank, IDA and KFW in FY 1972. A weakness in the Tunisian Government's tourism program identified in connection with that project is the inadequate number and training of tourist (principally hotel) personnel. Financing for a project preparation study was included in the Bank/IDA loan/credit and the KFW loan.

The Bank and the Tunisians have agreed that it would be desirable for the International Labor Office to carry out the project preparation study, which will include an assessment of existing tourism training programs and preparation of proposals for the future which will aim at the integration of a wide variety of foreign technical assistance into a concerted national tourism training program. Physical facilities are expected to be included in the project. The lack of financial flexibility on the part of ILO has impeded completion of the administrative arrangements for the study, but we hope to be able to overcome these problems and to have the study completed in time to appraise the project in late autumn, and thus to retain it in the FY 74 program.

TUNIS URBAN SEWERAGE I (FY 1974)

The Tunis metropolitan area is served by a malfunctioning sewerage system and sewage treatment plant. As a result, both raw and incompletely treated sewage is discharged into Lake Tunis, which lies between the city and the sea. The Lake is connected to the sea only by a narrow channel, and there is little tidal movement; as a result, the Lake is insufficiently flushed with sea water. The Lake is also very shallow, warm and highly saline. The environment and the nutrients from sewage discharged into the Lake leads to prolific algae growth; decomposing sewage and algae, in turn, give rise to production of hydrogen sulphide and at the same time provides further nutrients for algae growth, resulting in an intense odor problem for the city of Tunis.

Some short-term measures could reduce the odor, such as harvesting the algae, dredging sewage sludge, artificially aerating portions of the Lake and increasing the flow through the Lake. However, lasting improvement, which could make the near-by areas available for recreational and residential uses, can only be achieved by eliminating the inflow of inadequately treated sewage into the Lake. This requires substantial updating of the sewerage system of the Greater Tunis area.

Several studies, commissioned since 1962, concur in their main proposals: additional master sewers in the downtown area, reconstruction of the main sewage pumping station, expansion and improvement of the treatment plant at La Cherguia and fresh sea water inflow into the Lake. The studies did not include comprehensive economic or financial analysis. Such analysis should determine (a) the choice of the optimum method of disposal (sea outfall or treatment), (b) number and capacity of treatment plants, and (c) responsibility for construction and operation.

For years, the project has been supported by President Bourguiba, who considers the odor problem a national disgrace. The Bank first indicated its interest during preparation of the Tourism Infrastructure Project which will provide sewerage facilities in resort areas. At the Bank's request, a study is now being carried out on the financial and economic aspects of the project. For the detailed engineering we will be able to largely rely on the technical work done in the previous studies. The cost of this study was included in the Tourism Infrastructure Project. A group of French (Coyne et Bellies) and Dutch consultants (ICN) has just started working, and we plan to appraise the project in October, subject to a positive outcome of the study.

Benefits from the project are expected to be prevention of potential health hazards, land reclamation, particularly for Tourism development, as well as eliminating the odor which presently pervades the city. The Bank will press for effective institutional arrangements for construction and operation of sewage facilities. At present, neither the municipal authorities, which operate the urban sewerage systems, nor the Hydraulic Works Directorate in the Ministry of Agriculture, which has general responsibility for the sector, are capable of adequately maintaining existing works, particularly treatment plants, or of constructing additional facilities. The problem will be reviewed in the light of the creation of the "District of Tunis" (see brief on "Tunis Urban Transport Project").

LIVESTOCK AND RURAL DEVELOPMENT IN SEDJENANE (FY 1974)

In recent years the government has become increasingly aware of the rising demand for livestock products and the desirability of increasing domestic production in order to reduce the foreign exchange expenditures in meat and dairy imports. Interest in livestock development has centered on the Sedjenane plain in the north of the country.

The project as originally conceived was oriented only to the development of intensive livestock in the area; however, under the Bank's advise, the Government has agreed to broaden the scope of the project to include a number of investments in rural infrastructure (water supply, electric power, establishment or improvement of local health clinics and feeder roads) which are aimed at a more balanced development of the area. Preparation of the project is being carried out with the assistance of the FAO/IBRD Cooperative Program, and it is expected that the project can be appraised in the fall.

Three problems stand out in connection with the project:

- a) The aptitude of the local peasants for intensive livestock development;
- b) The ability of the Government to carry out the land reform which will be required on the traditionally titled henchirs (tribally owned land) in the project area; and
- c) The necessity to establish an institutional framework for the project that will encompass not only the livestock elements but also the rural infrastructure components. These points have only been discussed in a preliminary fashion with the Government, and will have to be clarified in further discussions within the Bank and with the Government, after the CP project report will have become available in May.

IRRIGATION REHABILITATION (FY 1974)

During the 1960's Tunisia invested heavily in dams and major irrigation infrastructure, with extensive foreign financing. The area equipped for irrigated production amounts to about 110,000 hectares; the area under irrigated crops, however, is estimated to be only about 51,000 hectares. The irrigation rehabilitation project aims at the full utilization of existing irrigation investments in the Nebhana area (financed by USAID) and the lower Medjerda Valley (financed by several bilateral donors), to which the Government is giving emphasis in its 1973-1976 Development Plan.

The project is being prepared with the assistance of the FAO/IBRD Cooperative Program. A report on the Nebhana component has been received; this subproject would provide complementary investments for the intensive development of about 4,800 hectares in off-season vegetables and fruit trees by some 3,500 farmers. In addition to supplementary irrigation works, the project would finance replacement of equipment, repair of existing infrastructures, on-farm development and technical assistance. It includes a fruit and vegetable marketing study which we hope the Tunisians will be able to get underway even before project appraisal (scheduled for late summer or early fall), in order to have a functioning market organization as soon as possible.

Preparation of the Medjerda Valley component has been delayed by the Government's initial desire to include only the Nebhana area in the project. A CP Preparation Mission scheduled for April has been postponed because of the recent floods in the project area. It is now scheduled for the second half of May.

#### CENTRAL TUNISIA RURAL DEVELOPMENT (FY 1975)

This project, which aims at the integrated development of about 200,000 hectares in the Governorates of Kasserine and Gafsa-Nord in Central Tunisia, has its origins in the large (\$55 million) World Food Program project supported by UNDP/FAO technical assistance. The WFP project includes an agricultural development program covering olive and almond tree planting, and planting of spineless cactus and acacias. An FAO/IBRD CP Mission has identified the proposed project, which is expected to be prepared by consultants working with the Tunisian authorities and with the occasional guidance of the Cooperative Program. Under the Bank's advice, the Government has established a task force consisting principally of officials from the Ministries of Planning and Agriculture, to work as the consultants' counterparts.

In its present concept, the project is expected to stabilize and improve livestock production, increase fruit tree planting, encourage other productive activities such as handicrafts and light industry (especially agricultural processing) and improve local infrastructures. It will require resolution of local land tenure problems, probably including consolidation of the present small land holdings into economically viable units, construction of wells and rehabilitation of irrigation infrastructure within the project area. Infrastructure elements which might be included in the project cover veterinarian centers, feeder roads, primary and agricultural schools, rural health clinics and power and telecommunications facilities. An autonomous agency of a type yet to be defined will need to be established to execute the project. It is hoped that the project can become the core of a large regional development effort integrating the considerable foreign assistance available to Tunisia in the project area.

IRRIGATION DEVELOPMENT (FY 1975)

The proposed Irrigation Development Project would be the first major investment to follow from a Water Master Plan for Northern Tunisia financed by Bank grant to the Government in June 1969 and executed by the Italian consulting firm, ITALCONSULT. The water study has confirmed the need to derive greater agricultural benefits from existing irrigation investments in the lower Medjerdah Valley (as the Tunisians intend to do with Bank assistance) and indicated that the first stage of new works, the Sidi Salem Storage Dam would cost about US \$18 million. Technical feasibility studies have confirmed that the construction of the dam, which should assist in regulating the waters of the recently flooded Medjerdah, should not present major difficulties.

There have been delays in the completion of the studies. As soon as these are completed and reviewed by the Bank, probably in September or October of this year, we plan to send a project preparation mission to Tunisia. The scope of the Water Master Plan is large enough that some form of joint financing with other aid donors would need to be envisaged. The Bank raised this possibility in the Consultative Group for Tunisia at its October 1972 meeting. The African Development Bank has already expressed interest.

SIXTH LOAN TO SOCIETE NATIONAL D'INVESTISSEMENT - SNI - (FY 1975)

This will be a repeat DFC operation similar to previous ones.

WATER SUPPLY SFAX (FY 1975 - Contingency List)

Minister Moalla is pushing us for the financing of an improved water supply and distribution system for his home town and surrounding rural areas. Studies are being prepared by the National Water Corporation (SONEDE), and the project could very probably be ready for FY 1974. However, since our next operation in this sector was only scheduled for FY 1976, we have so far not been able to accommodate his request. The project figures on the Region's contingency list for FY 1975.

THIRD EDUCATION PROJECT (FY 1975)

The Government has expressed interest in our continuing support of education and a third project is now contemplated for FY 1975. Its contents are still unknown and will depend on the educational plan which will emerge from manpower requirement

projections being prepared by the Planning Ministry in the context of the preparation of the Fourth Development Plan. The planning unit in the Ministry of Education which is assisted by experts financed under the second education IDA credit is expected to draw up such an educational plan from which a suitable project for Bank/IDA financing could be defined and subsequently prepared. It is expected that this project will provide the Bank with enough leverage to ensure that the educational plan is geared to economic needs, thus departing from the traditional system.

SECOND RAILWAY PROJECT (FY 1975 - Contingency List)

To continue financing part of the Railway investment program, a second railway loan is envisaged for FY 1975, when the first project (FY 1969) will be completed, it may include introduction of door-to-door service, revision of the economic feasibility of certain existing lines and modernization of equipment (project is only on contingency list for FY 1975)

*extra copy*

## OFFICE MEMORANDUM

TO: Files

DATE: April 11, 1973

FROM: Wolfgang E. Siebeck *WES*SUBJECT: TUNISISA - Visit of H.E. Chedli Ayari, Minister of National Economy

Mr. Chedli Ayari, Minister of National Economy, visited the Bank on April 6. He met with Messrs. Benjenk and Hartwich and had meetings in which Messrs. Kalmanóff, Bosson, Billington, Mendoza and myself participated. Following are a few notes on these discussions.

Industrial Sector Survey

1. The Minister requested Bank technical assistance for the industrial sector. While appreciating the efforts made by the Bank through the last basic economic mission, he suggested that the Bank mount a special mission to advise on industrial development strategy and in particular look into the need for integration of production in the phoshpate industry as well as the steel industry. In both cases, he believed that Tunisia could considerably gain from expanding its range of processed products. He also felt that Tunisia enjoyed good prospects for expanding its production of consumer goods for export, and that this sector be included in the Bank survey as well.
2. At the same time, the Bank should look in more detail into Tunisia's pricing policies and advise on a general program of reducing administrative price controls. He felt that there might be some merit in retaining differential price controls in some fields, like for instance cheap interest rates for capital investment in sectors in which capital intensive production was preferable whereas high rates should apply in sectors where labor intensive methods were more desirable. He agreed with the basic economic mission's tentative findings that, at the moment, there was little merit in raising the general level of interest rates, given the fact that Tunisia was enjoying a high short-term liquidity and a temporary shortage in effective demand. The Minister agreed that the Bank sector survey for industry should include a close scrutiny of the investment incentive system and the effects of import protection.
3. Concerning the timing of such a survey, he agreed to a date late in the Fall, considering that by then the Four-Year Plan would be available with all its supporting material. (He indicated that the Plan might not be ready as previously hoped by the end of June but rather in "July or later").

.../...

April 11, 1973

9. Sea Transport: Mr. Ayari indicated that Tunisia may approach the Bank for financing of merchant vessels. It was planned to purchase over the Four-Year Plan period: two ore-carriers, one passenger ship, two cargos for containers and one oil-tanker, costing altogether Dinars 20 million. We indicated that the Bank, as a matter of policy, in the past had not financed this type of investment, and was unlikely to do so unless other reasons than pure financial needs could be demonstrated.

c.c.: Messrs. Hartwich, Director, EMENA CP II  
Karaosmanoglu, Office of the Regional VP  
Asfour, EMENA CP II  
Pollan, Projects, EMENA  
Mahoney/Elliott/McDonald, Projects, EMENA  
Thys, Projects, EMENA  
El-Fishawy, Legal  
Kalmanoff, Industrial Projects  
Cash/Bosson, Industrial Projects  
Venkateswaran/Carrere, Urban Projects  
Billington, EMENA CP II  
Mendoza, EMENA CP II  
Elmendorf, EMENA CP II



Project Matters

4. Phosphate: We agreed that a first report on the findings of the project preparation mission, which may be a summary of a full report, should be sent to Tunisia around mid-May, suggesting in detail the measures to be taken by the Government and the phosphate company. This letter should set out a detailed timetable. Mr. Ayari suggested that this communication be available so that the Tunisians could work out their position before Mr. McNamara's visit. We indicated that this may be difficult.
  
5. Urban Transport project: Mr. Ayari indicated that it may be difficult to designate a Director-General for the District of Tunis before negotiations and asked that this not be made a condition. He also suggested that, in future, correspondence with the Ministry of Planning on this project be also copied to him as Minister responsible for regional planning (Aménagement du Territoire). He referred to the Bank's concern about the Government's plan to move the terminal of the suburban railway line (TGM) in order to make room for a new highway and a statue of President Bourguiba. In his view, only intervention at the level of Mr. McNamara could successfully stop these plans from being carried out.
  
6. Urban Sewerage (Lake of Tunis) project: He suggested that Mr. McNamara be briefed thoroughly on the Bank's plan for helping Tunisia in the execution of this project which ranks among the most important in President Bourguiba's order of priority.
  
7. Railways: We reiterated that it had been the Bank's understanding, while approving recent changes in the list of goods for this project, that the Government would introduce new railway tariffs by January 1, 1974. Mr. Ayari agreed, pointing out however, that the SOPRERAIL study on railway tariffs and the study on highway transport cost and transport coordination, the latter two being executed under Bank financing (Highway project), should be available before the Government could take such decision. We pointed out that according to our knowledge the SOPRERAIL study was already available pending signature and payment by the Government or SNCFT of the study contract. Concerning the two other studies, we said that this had not been mentioned in the last communication received from the Minister of Planning. Moreover, we were not sure when the studies (now to be executed by ITALCONSULT) would be ready. Mr. Benjenk indicated that at any rate the Bank would get in touch with ITALCONSULT in order to exact a commitment that the study would be completed within a reasonable period of time.
  
8. Tourism Infrastructure project: Mr. Ayari indicated that because of its innovative nature the draft law on land acquisition by the Agence Foncière had run into serious delays in the National Assembly. We said that Mr. Siebeck hoped to discuss this shortly in Tunis, and that a lawyer may join him.

## OFFICE MEMORANDUM

*Mr Hartwich*

TO: Memorandum for the Record

DATE: October 20, 1972

FROM: Guy de Lusignan

SUBJECT: TUNISIA: Meeting with Mr. McNamara and H.E. Mansour Moalla,  
Minister of Planning, on September 27, 1972

H.E. Mansour Moalla, Minister of Planning, called on Mr. McNamara on September 27. He was accompanied by:

Mr. Mohamed Ghenima, Governor, Central Bank  
H.E. Slaheddine El Goulli, Ambassador of Tunisia to Washington  
Mr. Habib Bourguiba Jr., President of SHI  
Mr. Moncef Bel Hadj Amor, Secretary General of the  
Ministry of Finance and Alternate Governor for the Bank

Present from the Bank:

Mr. Knapp  
Mr. Benjenk  
Mr. de Lusignan

The meeting was characterized by an exposé of Mr. Moalla on Tunisia's economy. Most of the information presented by Mr. Moalla had been analyzed in depth in the last economic report of the Bank and discussed in the last CPP. However, it was extremely invigorating to hear the Minister of Planning presenting Tunisia's performance in recent years and its prospects for further development within the next decade. Mr. McNamara congratulated Mr. Moalla on his exposé at the end of the meeting.

For the record, three major themes could be underlined.

First, Mr. Moalla recalled that over the last ten years, 1962-72, the Government's policy focused on social infrastructure and particularly improvement of the education and health sectors. This resulted in vast investments which, given population growth and weather fluctuations, did not lead to a satisfactory growth rate. On the other hand, for the next decade 1972-81, the policy of the Government, said Mr. Moalla, will be to drastically redistribute investment in order to meet the demand and to ensure greater yields and a more productive and market-oriented economy. The present Plan under preparation for 1972-76 has an objective to invest 60 percent of total expenditures within the four-year period in the non-agricultural productive sectors, i.e. industry and tourism. This does not mean, however, emphasized the Minister, that no effort will be made in agriculture, the objective of the Plan is to maintain a 4.5 percent growth rate in this sector.

October 20, 1972

The second point made by the Minister was that the Government of Tunisia is determined to come to grips with the extremely important problem of population growth and employment. Family planning programs will be intensified, together with the creation of new jobs. With respect to population, the objective of the Government is that Tunisia's population in year 2000 becomes comparable to today's Italian population with a rate of growth of 1 percent per year against 2.2 percent. With respect to employment, Tunisia should actually aim at creating 500,000 new jobs by 1981, but this would require an investment program of 850 million dinars per year, which Tunisia cannot afford. The objectives of the forthcoming Fourth Plan is to double present rate of investment from 250 million dinars to 500 million dinars a year and to create 30,000 new jobs per year. In addition, the Government will have to make arrangements for sending abroad 20,000 workers per year notwithstanding the present immigration flow. The Minister admitted that these objectives were ambitious but he felt that they were attainable. They reflect the changes of the Government's economic policies over the last two years and they aim at taking stock of the achievements of 1971 and of 1972 when growth increased by 9.3 percent and 19 percent respectively.

The last point made by the Minister was in reference to the re-distribution of investment in various sectors of the economy. He elaborated on this point particularly following a question of Mr. McNamara regarding the need for Tunisia to meet the above objectives and to find projects economically justifiable. The Minister assured Mr. McNamara that the preparation of sound projects was of primary concern to Tunisia. In the field of agriculture, for instance, Mr. Moalla was convinced that projects for developing livestock, fisheries and rainfed and irrigated agriculture existed. He felt also that such projects could permit agriculture to increase at a rate of 5 percent per year in years 1972-76. He added that the Ministry of Agriculture would reinforce its planning activities and project preparation activities by creating a research center for agriculture projects. With respect to industry, the Minister of Planning was confident that measures already taken by the Government would stimulate industrial development and particularly the agency for the promotion of investment for export-oriented industries and the proposed establishment of an industrial estates company. He also said that the Government of Tunisia wanted local banks to have more responsibility in promoting private investment.

The meeting ended by Mr. Moalla reiterating to Mr. McNamara last year's invitation of the President of the Republic. Mr. McNamara had at the beginning of the meeting expressed his regrets to have been unable to visit Tunisia as planned; he hoped to be able to respond to this invitation in the course of the next fiscal year.

cc: Mr. McNamara (2)  
Mr. Benjenk  
Mr. Hartwich  
Mr. Siebeck

GdeLusignan/gp

## OFFICE MEMORANDUM

TO: Files

DATE: October 10, 1972

FROM: W.E. Siebeck *WES*SUBJECT: TUNISIA - Discussions with Tunisian delegation  
on September 28, 1972Participants

Bank: Messrs. Benjenk, Hartwich, Thompson,  
de Lusignan, Asfour, Siebeck,  
Mendoza

Tunisian  
delegation: Messrs. Moalla, Belhadj Amor,  
Bouaouaja, Ghannouchi,  
Belkhodja, Ghezal, Riahi

Items Discussed

- Projected overall investment
- Sector priorities
- Projects for FY 1973
- Projects for FY 1974
- Projects for FY 1975
- Problem projects
- Industrial promotion

Projected overall investment

Compared to its present level, total investment in Tunisia is to double over the 4-year period of the Fourth Plan (1973-76), and to reach some \$2,000 million. 20 percent or about \$400 million would be covered by external funds (net of debt service). Of this about \$160 to 200 million, in Mr. Moalla's view, should be committed by the Bank Group (and about the same amount disbursed under ongoing and new projects).

Mr. Benjenk indicated that this was similar to our own projections.

Sector Priorities

Agricultural development and education would receive primary attention. Regional development programs would be devised with the view to preventing migration to urban centers. Unlike ongoing employment programs (in particular the program "La lutte

contre le sous-développement" which would be discontinued) they would generate productive employment and provide better regional income distribution. In addition to productive investment, funds would be required for development of water resources, housing, transportation, electricity and public health installations. First provisions would be made in the 1973 equipment budget.

In the field of education, higher education presents a bottleneck, and a crash program should be devised parallel to long-term planning efforts for the whole sector.

In this connection, Moalla requested Bank assistance for improving statistical services in Tunisia which, at present, are not capable of processing statistical data in a way that would provide the basis for better planning of future investment in agriculture and education. The request for expert assistance was noted, yet discouraged since it would fall under UNDP responsibility, and the Bank did not dispose of appropriate candidates.

#### Projects for FY 1973

In addition to a fourth loan to SNI and the urban transport project, Moalla maintained the request for a second power project. We discussed STEG's plans to opt for gas turbines instead of steam plants which require smaller investment and, because of shorter construction, a later financing, and suggested that the project be left to the Kuwait Fund. In Moalla's view this would be difficult, since the Fund had just accepted financing three fishing ports. He promised to inquire into this upon his return, and it was agreed that if no financing could be obtained from the Fund, the Bank may consider the project.

#### Projects for FY 1974

Concerning on-farm development in the Nebhana and Medjerdah irrigation areas, a rural development project in Central Tunisia, and a livestock project in Sedjenane, it was agreed to discuss the detailed timing on the occasion of the next Consultative Group meeting, presumably in the afternoon of October 24.

For the urban sewerage project (Greater Tunis), a consultant is being selected to review the existing studies and to assess the economic feasibility of proposed alternatives.

Moalla requested the financing of water supply works in Sfax (water supply III), which would include development of new resources and distribution in Sfax and nearby villages. Studies have been made by a German consultant and BCEOM. We indicated that it might

be possible to advance this project to FY 1974, but that we would first like Mr. Thys to look at it during his forthcoming mission in October (Moalla asked that Thys call on him on that occasion).

Moalla welcomed the Bank's readiness to help in preparing a tourism training project and later to finance it. A substantial financial effort was required, and he hoped that necessary provisions in this respect could be made. Mr. Benjenk agreed.

A crash program for higher education has, in Moalla's view, to be prepared irrespective of any long-term planning effort. Present output would have to double during the next Plan period to cover the country's need for doctors, engineers and teachers and new universities would have to be built. We reserved our position and promised an answer for the Paris meeting on October 24.

Domestic consumption of phosphates is expected to rise to 2 million tons by 1976. To maintain present exports while making up for the loss of production resulting from the closing of two mines, new deposits will have to be exploited. At the same time, mines remaining in production will have to be modernized to allow production at competitive prices. Bank assistance to the phosphates sector should, in Moalla's view, not be scheduled later than FY 1974. It was agreed to send a mission as soon as possible, in order to assess the scope for a possible Bank project.

#### Projects for FY 1975

The following projects were mentioned for FY 1975: Execution of the water master plan, a second agricultural credit, a sixth loan to SNT, rural electrification, agricultural development (équipement rural), and a second urban transport project covering Sfax and Sousse, whose preparation could be financed from the first project.

#### Ongoing problem projects

Moalla reported that the proposals made by the last supervision mission to settle the dispute over the railway project (FY 1969) have not been endorsed in a recent meeting of the Council of Ministers. The Government is not yet prepared to envisage a tariff increase without having studied recommendations of two not yet completed studies on railway tariffs and road-user charges, nor to agree to a raise in railway tariffs as a temporary measure to allow the railways to meet recent increases in operating cost. Similarly, the Government is not backing the proposal under which debts of the Gafsa Phosphate Company would be offset against the railway company's debts against the State. Only with regard to the present subsidy it may consider an increase in the next economic budget. The Minister will write shortly, explaining the Government's exact position.

Concerning the Second Education Project (Credit No. 94-TUN), we expressed deep concern at latest developments which could further delay the constitution of the expert group for the Bureau de Planification in the Ministry of National Economy. Moalla will take this matter up with the Education Minister and it was agreed (at the subsequent luncheon) that the possibility of hiring immediately a team leader, without waiting for the other experts to be selected, should be explored.

Industrial Promotion

Moalla reported that statutes for the planned "Agence de Promotion Industrielle" would be issued shortly and would be available at the Consultative Group meeting. The Agence would be set up before the end of the year.

To assist foreign investors who have obtained approval for this project, the government now intends to create (a) an 'Agence Foncière' which would buy up land for industrial development or obtain it by expropriation, develop and thereafter sell or lease it to investors, (b) a service corporation which would provide consulting assistance in hiring labor, and in contacts with the Tunisian bureaucracy, e.g. on licencing of imports, construction works etc. In Moalla's view, IFC should participate in such a venture.

cc.: Messrs. Benjenk  
Thompson  
Hartwich  
Asfour  
de Lusignan (cl. with)  
Haynes  
French-Mullen  
Helmers  
Wyatt  
Thys  
Bouhaouala  
Stewart/Salmon  
C. van Dijk/Wilson  
Mahoney  
Elliott  
McDonald  
Pollan/Coudol/Storch  
Fuchs  
Cash Chardon  
Glaessner/Odone  
Venkateswaran  
C. Hassan/Deveaud

AEE

## OFFICE MEMORANDUM

TO: Files

DATE: April 5, 1973

FROM: A. Edward Elmendorf *AE*

SUBJECT: Tunisia: Visit of Mr. Ben Messaoud

1. Mr. Ben Messaoud, Secretary of State for Agriculture in Tunisia, visited the Bank on April 4. The following were the major points covered during meetings with Messrs. Hartwich, Wapenhans, Siebeck, Haynes, Frank, Billington, Kerghoub and myself:

Flood Damage

2. Ben Messaoud said that 30 to 40,000 Ha of land in the lower Medjerdah Valley had been flooded, and that one or more major bridges may have been seriously damaged. As of March 31, 107 persons had died. Flood damage extended across most of Northern Tunisia, including the Sedjenane plain. Damage to infrastructure might, he thought, require change in the Medjerdah Valley component of the Bank's irrigation rehabilitation project. However, there had been almost no damage in the Nechana Valley, and the heavy rain had been beneficial in the south.

3. Mr. Hartwich mentioned the possibility of a reconstruction loan, which was welcomed by Ben Messaoud. It was agreed that Mr. Siebeck would collect information on flood damage during his mission to Tunisia in the week of April 16, and consult with the Government on reconstruction needs, including the possible reconstruction loan. He would also plan a stopover in Rome for consultations with the FAO/IBRD Cooperative Program, which was sending a mission to Tunisia on April 9 to assess flood damage in the area of the proposed irrigation rehabilitation project.

Urban Sewerage Project

4. Mr. Ben Messaoud said that the consultants preparing the urban sewerage project were at work at Tunis and would complete their report in two to three months. He considered the project on schedule.

Water Master Plan

5. Ben Messaoud said that ITALCONSULT had run into difficulty with the mathematical model and that there would be two to three months delay in completion of the final Water Master Plan. He thought, however, that the problems could be resolved and that the proposed irrigation development project (the Sidi Salem Dam) need not be delayed. On the contrary, he added, the latest floods had demonstrated its importance for flood protection, and this should speed up implementation as well as provide additional justification for this investment.



Sedjenane Livestock and Rural Development Project

6. Ben Messaoud said that project preparation data for the rural infrastructure components of the project had not been completed on schedule for the CP project preparation mission, and would only be available, under present arrangements, in June or July. In order to be able to maintain the project schedule, it was agreed that the Bank would cable the Ministries of Planning and Agriculture, proposing, with Ben Messaoud's support, that consultants should be hired to accelerate the work, and that Mr. Siebeck would discuss this and related matters in Tunisia during the week of April 16.

7. Ben Messaoud saw no point in trying to organize the project under the Governor of Bizerte and was surprised that the CP had mentioned this possibility. While the exact details would need to be worked out, his preference was to create an autonomous office with appropriate managerial and financial flexibility.

8. Ben Messaoud said that the government had just started land clearing on the 1,000 Ha in Sedjenane on which it proposed to commence livestock development in 1973. Extension personnel (one engineer plus 10 Technical Agents) were prepared to begin work, and were receiving support from the German pilot farm. Mr. Ben Messaoud indicated that to his dismay the Ministry of Planning is at present holding up the financing of about 600 Ha as recommended by the FAO/IBRD CP mission in their Back-to-Office report. Mr. Hartwich told him that the Bank might be prepared to consider retroactive financing for this initial phase of livestock development in Sedjenane under the proposed loan or credit.

9. In response to questions, Ben Messaoud said that land reform on the henchirs was beginning with two typical cases. Economic and social data were being collected, followed by a pedological study. These studies would determine the grazing areas to be fixed on the two henchirs. Ben Messaoud was confident that the two typical cases would be instructive enough for the government to be able to carry out land reform on the remaining henchirs in Sedjenane. A calendar for application of the land reform legislation would, he said, be contained in the CP project preparation report.

10. Ben Messaoud indicated that the government regarded the German pilot farm as essential to the project and had requested the continuation of German support. It was agreed that the Bank would contact German officials with a view to working out specific arrangements for integration of the pilot farm, including its technical assistance personnel, into the overall Sedjenane livestock development project to be financed by the Bank.

Central Tunisia Rural Development Project

11. Contrary to the report of the CP, Ben Messaoud said that the government was prepared to use consultants to prepare the project. Financing of their work was not discussed. He indicated that the government had decided to exclude the Sbiba perimeter from the project, because the CP had specifically limited the project zones to 200,000 ha divided equally between the Governorates of Gafsa Nord and Kasserine. Some surprise was expressed by the Bank's staff at this limitation, and it was agreed that the Tunisians would carefully review the areas that they would like to see the project to cover.

12. Ben Messaoud said that arrangements had been made for full time support of project preparation on the Tunisian side by officials from the Ministries of Planning and Agriculture. While he agreed on the importance of integrating the work of all aid donors involved in the area, this was a subject on which Ben Messaoud had no thoughts at the present time.

Smallholders' Credit Study

13. Ben Messaoud said that the Bank-financed study on smallholders' credit needs had been reviewed by the government, and its recommendation to increase the number of extension service and distribution facilities attached to production cooperatives was likely to be adopted. The government would soon suggest to the Bank that it approve the use for this purpose of Dinar funds originating from the sale of surplus agricultural machinery under the revised Cooperative Farm project. (It will be recalled that under the revised Cooperative Farm project the government is committed to deposit, in installments, by March 31, 1974 the proceeds of such sale or a minimum amount of \$2.8 million in an account with the Central Bank. Funds can only be used with the approval of the Bank.)

Cleared and cc: Mr. Siebeck, EMENA CP II

cc: Mr. Hartwich (Director, EMENA CP II)  
Mr. Wapenhans (Director, EMENA Projects)  
Mr. Haynes (EMENA Projects)  
Mr. Frank (EMENA Projects)  
Mr. French-Mullen (EMENA Projects)  
Mr. Billington (EMENA CP II)  
Mr. Merghoub (EMENA Projects)  
Mr. El Fishawy/Mr. Duval/Mr. Maffei (Legal Department)  
Mr. Gerring (EMENA Projects)  
Mr. Courbois (Central Projects)  
Mr. Thys (EMENA Projects)  
Mr. Demoulin (EMENA Projects)  
Mr. Stevenin (EMENA Projects)

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 4, 1973

FROM: William S. Gaud *WSG*SUBJECT: My Trip to Tunisia

I spent several days in Tunisia in late March and early April visiting not only Tunis but also Hammamet, Sousse Nord and Monastir to look at various tourism projects.

In the course of my stay I called on President Bourguiba and spent considerable time with the Prime Minister (Mr. Nouira), the Minister of Planning (Mr. Moalla), the Minister of National Economy (Mr. Ayari), the Chairman of the Investment Promotion Center (Mr. Chelli), the General Manager of the Office National de Tourisme et des Termes (Mr. Azzabi), the President of Cofitour (Mr. Zaanoun), the Chairman of Societe Nationale d'Investissement (Habib Bourguiba, Jr.), the Chairman of Societe Tunisienne de Banque (Mr. Hassan Belkhodja), and a number of other Government officials and businessmen.

There follows a brief discussion of several matters that came up during my trip that you might like to know about.

Sousse Nord

The principal purpose of my trip to Tunisia was to attend a meeting of the Advisory Committee of Cofitour, the tourism promotion company which IFC helped establish in 1969. The other foreign members of the Advisory Committee are the Aga Khan and Howard Clark, the President of American Express Company. The major item of business on the Committee's agenda was a large tourism project known as Sousse Nord.

To date, Cofitour's principal activity has been hotel investments. Neither we nor its other shareholders are happy about this. We have all felt that it should do more to promote other tourist-related activities and that it should engage in large-scale planning in the field of tourism.

Sousse Nord is the one integrated tourism project on which it has been working. With the aid of foreign consultants it has been trying to put together a 13,000 bed project, complete with hotels, a golf course, a marina, etc., estimated to cost around \$70-75 million. Both the Tourism Projects Department of the Bank and IFC have been working with Cofitour on the project, and the meeting of the Advisory Committee was called to review the work that has been done and decide whether Cofitour should proceed with the project.

We all agreed that more work was needed before a decision could be reached as to the project's viability, and that it was beyond Cofitour's capacity to do this work alone. It was accordingly decided to set up a promotion company to complete the study of the project. The stockholders will be Cofitour, SNI (the Tunisian DFC in which IFC is a stockholder), the Tunisian Government and IFC. I was not eager to involve IFC in the promotion company, but both the foreign stockholders and the Tunisians felt strongly that we should be a stockholder and I finally yielded. We are now preparing a "no objection" paper for our Board asking it to approve an investment of up to about \$30,000 in this promotional company.

#### Cofitour

As I have already said, Cofitour's shareholders are not too happy about its performance to date. Its basic problem is inadequate management. Its first President, Mr. Mathari, left Cofitour a couple of years ago to become head of SIFIDA (the African ADELA). There followed a period of some months during which Cofitour was without top management. The facts of life were that the President had to be a Tunisian agreeable to the Government. After a series of rather complicated maneuvers and discussions, the Government (in the person of Prime Minister Nourira) selected the present incumbent, Mr. Zaanoun.

Zaanoun has not proved a happy choice. He lacks energy and initiative and does not give the job his full-time attention. This view is shared by the foreign shareholders and many Tunisians.

The Government is fully aware that this is our view of Zaanoun and I hope that sooner or later there will be a change -- although I fear the chances of its coming soon are not great. If the occasion arises and you feel so inclined it might help for you to tell Nourira that we are disappointed in Cofitour's performance and feel that it needs stronger and more aggressive management at the top. I see no point in your telling this to anyone but Nourira.

#### Export-oriented Industries

In April 1972 Tunisia enacted a law which was designed to induce foreign investors to set up export-oriented industries in Tunisia and thereby take advantage of cheap Tunisian labor on the one hand and Tunisia's access to the Common Market on the other. Both the World Bank and IFC have encouraged and assisted the Tunisians in this, and Laszlo von Hoffmann in particular has had a number of meetings with European banks and business firms to try to interest them in investing in Tunisia.

In the course of my trip the Minister of Planning, Mr. Moalla, suggested that IFC arrange a series of conferences between representatives of the Tunisian Government and foreign investors that would be held in Tunisia and at which the possibility of investments in Tunisia would be discussed. I told the Minister that on the basis of our prior experience and the experience of UNIDO I doubted the utility of such conferences unless there were specific subjects to be discussed. He has agreed to think the matter over further and submit to us a written outline of what he has in mind.

#### Industrial Estates

As one means of carrying out its plans to attract foreign investment, the Government is studying the possibility of setting up several industrial estates. I discussed this matter with Messrs. Moalla and Chelli. They are eager to have IFC assist them in organizing and financing a private company to provide secondary infrastructure and construct and manage these industrial estates once the necessary legislation is enacted. Chelli has promised to send us a feasibility study as soon as he completes it. Meanwhile we have put him in contact with the Singapore authorities, who have set up similar estates in which he is interested and which he wants to see.

#### IFC's Past Investments and Projects under Study

IFC has invested to date in four Tunisian enterprises. The first was NPK, a fertilizer plant with a Swedish sponsor. The plant had rough sledding for several years, but is now doing well because of the worldwide fertilizer picture. The second was SNI, which is quite a good DFC of which Habib Bourguiba, Jr. is now the President. The third was Cofitour and the fourth was the RYM Hotel, which was approved by the IFC Board in March of this year. Attached as Annex A is a list of these projects and a few facts about each of them.

Also attached, as Annex B, is a brief description of three projects which IFC now has under consideration. Two of them I have already mentioned above (Sousse Nord and the industrial estates). The third is a fluorspar project which we hope will be ready for appraisal before long. Not included in the list because we have no specific information on it is one other project which I was told would come to us before long, namely a cement plant to be located at Bizerte.

#### Attachments

Mr. Benjenk  
cc - Mr. Hassan  
Mr. Siebeck

WSGaud:dbb

CURRENT INVESTMENTS BY IFC IN TUNISIA

Company	Object	Share Capital TD million	Ownership	IFC Investment US \$	Management	Comments
Société Nationale d'Investissement (SNI)	Development Finance	3.0	Tunisians: 64.8% IFC: 20.0% Foreign: 15.2%	Equity: 1.2 million	Mr. Bourguiba Jr. President	SNI management is satisfactory. The management team consisting of Mr. Belkhouja and Mr. Fakfak is doing a job under Bourguiba's leadership.
NPK Engrais	Phosphatic Fertilizer	3.3	IFC: 16.7% Foreign: 83.3%	Equity: 1.1 million Loans: 2.0 million (fully repaid)	A.B. Forenäs (Swedish group)	The company has encountered many problems in the past. It is now operating at full capacity (160,000 tons of TSP) and should be able to write off the accumulated losses of the past.
Compagnie Financière at Touristique (COFITOUR)	Tourism Promotion and Finance	5.0	Tunisians: 52.0% IFC: 20.0% Foreign: 28.0%	Equity: 1.9 million Loans: 8.0 million (still unrepaid)	Mr. Zaouan President and General Manager	Cofitour has financed 52 hotels and 3 tourist transport companies. However it has no record in promotion. The company lacks leadership and effective management.
RYM	Hotel	1.4	Tunisians: 50.0% IFC: 10.0% Foreign: 40.0%	Equity: 322,000 Loans: 1,632,000	Mr. Milad President and General Manager & Thomson Holidays LTD.	Hotel under construction.

## List of Industrial Projects under Consideration by IFC

<u>Project</u>	<u>Description</u>	<u>Sponsor</u>	<u>Cost US</u> <u>\$ million</u>	<u>Investment by</u> <u>IFC</u>	<u>Investment</u> <u>by Others</u>	<u>Status</u>
Sousse Nord	Development of a fully integrated tourism complex in Sousse	Cofitour	70-75	N.A.	N.A.	It was agreed that a promotional company to complete the study of the project be established. Cofitour, SNI, ONTT and IFC will be the shareholders.
Industrial Estates	Establishment of three Industrial Estates in Tunis, Monastir and Gabes	Government	120-160	N.A.	N.A.	Mr. Chelli has promised to send IFC a report on the project. The establishment of a shell company to bring the project to the stage of implementation might be needed.
Société Tunisienne de Fluor	Production of 20-30,000 tons of aluminum floride	SNI	12-18	N.A.	N.A.	Reynolds and Monte Edison are interested to join in the equity. The bids for the equipment will be received end May. IFC, thereafter, will complete the project appraisal and agree on the financing.

Mr. Robert S. McNamara

May 4, 1973

William S. Gaud

MAY - 3 1973

My Trip to Tunisia

I spent several days in Tunisia in late March and early April visiting not only Tunis but also Hammamet, Sousse Nord and Monastir to look at various tourism projects.

In the course of my stay I called on President Bourguiba and spent considerable time with the Prime Minister (Mr. Nouira), the Minister of Planning (Mr. Moalla), the Minister of National Economy (Mr. Ayari), the Chairman of the Investment Promotion Center (Mr. Chelli), the General Manager of the Office National de Tourisme et des Termes (Mr. Azzabi), the President of Cofitour (Mr. Zaenoun), the Chairman of Societe Nationale d'Investissement (Habib Bourguiba, Jr.), the Chairman of Societe Tunisienne de Banque (Mr. Hassan Belkhodja), and a number of other Government officials and businessmen.

There follows a brief discussion of several matters that came up during my trip that you might like to know about.

Sousse Nord

The principal purpose of my trip to Tunisia was to attend a meeting of the Advisory Committee of Cofitour, the tourism promotion company which IFC helped establish in 1969. The other foreign members of the Advisory Committee are the Aga Khan and Howard Clark, the President of American Express Company. The major item of business on the Committee's agenda was a large tourism project known as Sousse Nord.

To date, Cofitour's principal activity has been hotel investments. Neither we nor its other shareholders are happy about this. We have all felt that it should do more to promote other tourist-related activities and that it should engage in large-scale planning in the field of tourism.

Sousse Nord is the one integrated tourism project on which it has been working. With the aid of foreign consultants it has been trying to put together a 13,000 bed project, complete with hotels, a golf course, a marina, etc., estimated to cost around \$70-75 million. Both the Tourism Projects Department of the Bank and IFC have been working with Cofitour on the project, and the meeting of the Advisory Committee was called to review the work that has been done and decide whether Cofitour should proceed with the project.



We all agreed that more work was needed before a decision could be reached as to the project's viability, and that it was beyond Cofitour's capacity to do this work alone. It was accordingly decided to set up a promotion company to complete the study of the project. The stockholders will be Cofitour, SNI (the Tunisian SFC in which IFC is a stockholder), the Tunisian Government and IFC. I was not eager to involve IFC in the promotion company, but both the foreign stockholders and the Tunisians felt strongly that we should be a stockholder and I finally yielded. We are now preparing a "no objection" paper for our Board asking it to approve an investment of up to about \$30,000 in this promotional company.

### Cofitour

As I have already said, Cofitour's shareholders are not too happy about its performance to date. Its basic problem is inadequate management. Its first President, Mr. Nathari, left Cofitour a couple of years ago to become head of SIFIDA (the African ADELA). There followed a period of some months during which Cofitour was without top management. The facts of life were that the President had to be a Tunisian agreeable to the Government. After a series of rather complicated maneuvers and discussions, the Government (in the person of Prime Minister Nourra) selected the present incumbent, Mr. Zaanoun.

Zaanoun has not proved a happy choice. He lacks energy and initiative and does not give the job his full-time attention. This view is shared by the foreign shareholders and many Tunisians.

The Government is fully aware that this is our view of Zaanoun and I hope that sooner or later there will be a change -- although I fear the chances of its coming soon are not great. If the occasion arises and you feel so inclined it might help for you to tell Nourra that we are disappointed in Cofitour's performance and feel that it needs stronger and more aggressive management at the top. I see no point in your telling this to anyone but Nourra.

### Export-oriented Industries

In April 1972 Tunisia enacted a law which was designed to induce foreign investors to set up export-oriented industries in Tunisia and thereby take advantage of cheap Tunisian labor on the one hand and Tunisia's access to the Common Market on the other. Both the World Bank and IFC have encouraged and assisted the Tunisians in this, and Laszlo von Hoffmann in particular has had a number of meetings with European banks and business firms to try to interest them in investing in Tunisia.

In the course of my trip the Minister of Planning, Mr. Moalla, suggested that IFC arrange a series of conferences between representatives of the Tunisian Government and foreign investors that would be held in Tunisia and at which the possibility of investments in Tunisia would be discussed. I told the Minister that on the basis of our prior experience and the experience of UNIDO I doubted the utility of such conferences unless there were specific subjects to be discussed. He has agreed to think the matter over further and submit to us a written outline of what he has in mind.

#### Industrial Estates

As one means of carrying out its plans to attract foreign investment, the Government is studying the possibility of setting up several industrial estates. I discussed this matter with Messrs. Moalla and Chelli. They are eager to have IFC assist them in organizing and financing a private company to provide secondary infrastructure and construct and manage these industrial estates once the necessary legislation is enacted. Chelli has promised to send us a feasibility study as soon as he completes it. Meanwhile we have put him in contact with the Singapore authorities, who have set up similar estates in which he is interested and which he wants to see.

#### IFC's Past Investments and Projects under Study

IFC has invested to date in four Tunisian enterprises. The first was NPK, a fertilizer plant with a Swedish sponsor. The plant had rough sledding for several years, but is now doing well because of the worldwide fertilizer picture. The second was SNI, which is quite a good DFC of which Habib Bourguiba, Jr. is now the President. The third was Cofitour and the fourth was the RYM Hotel, which was approved by the IFC Board in March of this year. Attached as Annex A is a list of these projects and a few facts about each of them.

Also attached, as Annex B, is a brief description of three projects which IFC now has under consideration. Two of them I have already mentioned above (Sousse Nord and the industrial estates). The third is a fluorspar project which we hope will be ready for appraisal before long. Not included in the list because we have no specific information on it is one other project which I was told would come to us before long, namely a cement plant to be located at Bizerte.

#### Attachments

cc - Mr. Hassan  
Mr. Siebeck ✓  
Mr. Benjenk

WSGaud:dbb

CURRENT INVESTMENTS BY IFC IN TUNISIA

Company	Object	Share Capital TD million	Ownership	IFC Investment US \$	Management	Comments
Société Nationale d'Investissement (SNI)	Development Finance	3.0	Tunisian: 64.3% IFC: 29.0% Foreign: 15.2%	Equity: 1.2 million	Mr. Bourguiba Jr. President	SNI management is satisfactory. The management team consisting of Mr. Belhocja and Mr. Fakfak is doing a job under Bourguiba's leadership.
NPK Engrais	Phosphatic Fertilizer	3.3	IFC: 16.7% Foreign: 83.3%	Equity: 1.1 million Loans: 2.2 million (fully repaid)	A.B. Forenals (Soc-Hes group)	The company has encountered many problems in the past. It is now operating at full capacity (160,000 tons of TCP) and should be able to write off the accumulated losses of the past.
Compagnie Financière et Touristique (COFITOUR)	Tourism Promotion and Finance	5.0	Tunisian: 52.0% IFC: 20.0% Foreign: 28.0%	Equity: 1.9 million Loans: 3.1 million (still unrepaid)	Mr. Zanoun President and General Manager	COFITOUR has financed 52 hotels and 3 tourist transport companies. However it has no record in promotion. The company lacks leadership and effective management.
RYM	Hotel	1.4	Tunisian: 50.0% IFC: 10.0% Foreign: 40.0%	Equity: 322,000 Loans: 1,632,000	Mr. Milaj President and General Manager & Tunisch Holidays LTD.	Hotel under construction.

List of Industrial Projects under Consideration by IFC

<u>Project</u>	<u>Description</u>	<u>Sponsor</u>	<u>Cost US \$ million</u>	<u>Investment by IFC</u>	<u>Investment by Others</u>	<u>Status</u>
Sousse Nord	Development of a fully integrated tourism complex in Sousse	Cofitour	70-75	N.A.	N.A.	It was agreed that a promotional company to complete the study of the project be established. Cofitour, SNI, ONTT and IFC will be the shareholders.
Industrial Estates	Establishment of three Industrial Estates in Tunis, Monastir and Gabes	Government	120-160	N.A.	N.A.	Mr. Chelli has promised to send IFC a report on the project. The establishment of a shell company to bring the project to the stage of implementation might be needed.
Société Tunisienne de Fluor	Production of 20-30,000 tons of aluminum fluoride	SNI	12-18	N.A.	N.A.	Reynolds and Monte Edison are interested to join in the equity. The bids for the equipment will be received end May. IFC, thereafter, will complete the project appraisal and agree on the financing.

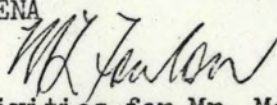
H

# OFFICE MEMORANDUM

TO: Mr. W.E. Siebeck, Chief, Country Programs,  
Division 2C, EMENA

DATE: April 11, 1973

FROM: Marjorie L. Foulon, IRD



SUBJECT: TUNISIA: Information on UNDP Activities for Mr. McNamara's Briefing

APR 11 1973

As promised, herewith is a listing of UNDP large and small scale

Division II C  
Action Info.

project activities in Tunisia.

Tunisia's IPF for the period 1972-76 is \$15 million. It is

expected that the Country Program will be submitted to the Governing

Council at the January 1974 session.

~~WES~~  
FM  
JFF  
GCB  
FL  
YP  
File  
Copies

Attachments

MLFoulon:ml

Large-Scale UNDP Projects - Tunisia  
(On-going Projects)

1. Institute for the Training of Personnel for the Hotel and Tourist Industries, Monastir - ILO - Started January 69 until October 10, 1974  
- \$1,056,300
2. Pilot Tooling Center, Sousse - UNIDO - January 1969 to September 1974  
- \$816,039
3. Intensification of Groundwater Exploitation in Northern and Central Tunis - UN - January 1969 - proposed extension of project to September 1973  
- \$349,770
4. Improvement of Irrigation and Drainage Techniques - FAO - January 1970 to January 1974  
- \$1,156,489
5. Fisheries Survey and Development - FAO - January 1970 to October 1974  
- \$855,100
6. Preservation of Historic Sites and Monuments in the Tunis Carthage Region - UNESCO - January 1971 to July 1973  
- \$955,666
7. Strengthening of the National Metereological Services - WMO - September 1971 to October 1975  
- \$1,087,990
8. Cooperative Agricultural Development in Central and Southern Tunis - FAO - June 1971 to August 1974  
- \$1,366,799
9. Support and Extension of the National Reforestation Research Institute Phase II - FAO - January 1972 to June 1976  
- \$956,400
10. National Productivity Institute Phase II - ILO- January 1972 to July 1976  
- \$1,238,340
11. Evaluation and Planning of Employment Requirements - ILO - January 1972 to December 1974  
- \$296,700

Large-Scale UNDP Projects, Cont'd  
(Proposed Projects)

1. National Center for Industrial Studies Phase II - UNIDO -  
approximately \$400,000
2. Training in Agricultural Studies - FAO -  
approximately \$430,000
3. Assistance to Technical Services of the  
District of Tunis -  
approximately \$800,000



## OFFICE MEMORANDUM

TO: Mr. W.E. Siebeck, Chief, Country Programs, DATE: April 11, 1973  
Division 2C, EMENA  
FROM: Marjorie L. Foulon, IRD *M. L. Foulon*  
SUBJECT: TUNISIA: Information on UNDP Activities for Mr. McNamara's Briefing

APR 11 1973

As promised, herewith is a listing of UNDP large and small scale

Division II C  
Action Info. project activities in Tunisia.

~~WES~~  
FM  
JFF  
GCB  
FL  
YP  
File  
Copies

Tunisia's IPF for the period 1972-76 is \$15 million. It is expected that the Country Program will be submitted to the Governing Council at the January 1974 session.

Attachments

MLFoulon:ml

Large-Scale UNDP Projects - Tunisia  
(On-going Projects)

1. Institute for the Training of Personnel for the Hotel and Tourist Industries, Monastir - ILO - Started January 69 until October 10, 1974  
- \$1,056,300
2. Pilot Tooling Center, Sousse - UNIDO - January 1969 to September 1974  
- \$816,039
3. Intensification of Groundwater Exploitation in Northern and Central Tunis - UN - January 1969 - proposed extension of project to September 1973  
- \$349,770
4. Improvement of Irrigation and Drainage Techniques - FAO - January 1970 to January 1974  
- \$1,156,489
5. Fisheries Survey and Development - FAO - January 1970 to October 1974  
- \$855,100
6. Preservation of Historic Sites and Monuments in the Tunis Carthage Region - UNESCO - January 1971 to July 1973  
- \$955,666
7. Strengthening of the National Metereological Services - WMO - September 1971 to October 1975  
- \$1,087,990
8. Cooperative Agricultural Development in Central and Southern Tunis - FAO - June 1971 to August 1974  
- \$1,366,799
9. Support and Extension of the National Reforestation Research Institute Phase II - FAO - January 1972 to June 1976  
- \$956,400
10. National Productivity Institute Phase II - ILO- January 1972 to July 1976  
- \$1,238,340
11. Evaluation and Planning of Employment Requirements - ILO - January 1972 to December 1974  
- \$296,700

Large-Scale UNDP Projects, Cont'd  
(Proposed Projects)

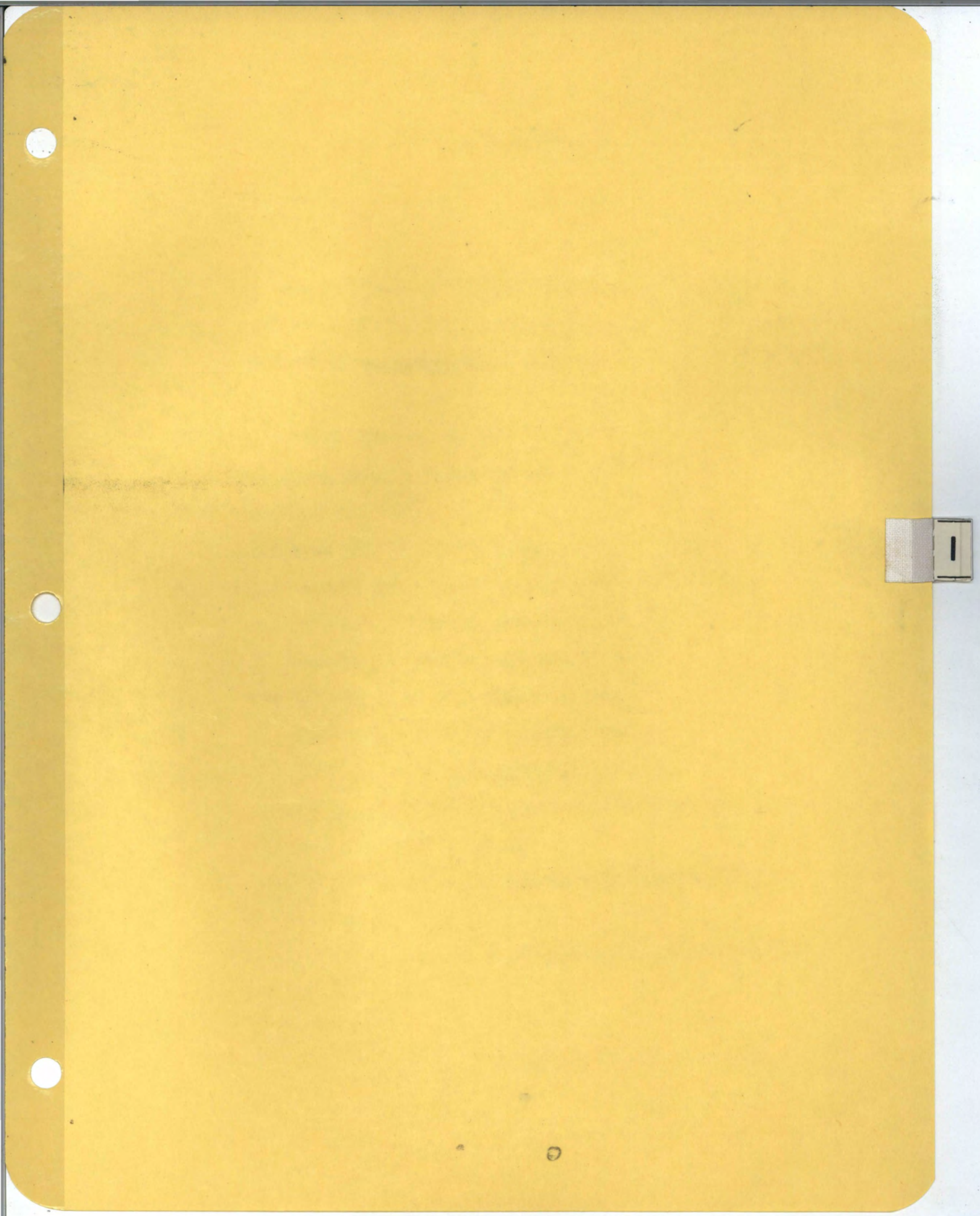
1. National Center for Industrial Studies Phase II - UNIDO -  
approximately \$400,000
2. Training in Agricultural Studies - FAO -  
approximately \$430,000
3. Assistance to Technical Services of the  
District of Tunis -  
approximately \$800,000

Small-Scale UNDP Projects - Tunisia

1. Aeronautical Telecommunications
2. Civil Aviation Training
3. Air Traffic Radar Control
4. Economic Planning and Programming, Ministry of Planning - Assistance in Preparation of Annual Budget
5. Economic Evaluation, Ministry of Planning - Agricultural Economist in Sectoral Planning Department
6. Integrated Research and Development of the Saharan Regions - related to - Cooperative Agricultural Development in Central and Southern Tunisia, a WFP Project and the FAO/SIDA Assistance to the Reforestation Programme
7. Assistance to Leather Industry
8. Environmental Health
9. Malaria Eradication
10. Nursing Education
11. Health Statistics
12. Public Health
13. Postal Services
14. Prevocational Training in Urban Areas
15. Vocational Training in Rural Areas
16. Social Security

Small-Scale UNDP Projects - Tunisia

1. Aeronautical Telecommunications
2. Civil Aviation Training
3. Air Traffic Radar Control
4. Economic Planning and Programming, Ministry of Planning - Assistance in Preparation of Annual Budget
5. Economic Evaluation, Ministry of Planning - Agricultural Economist in Sectoral Planning Department
6. Integrated Research and Development of the Saharan Regions - related to - Cooperative Agricultural Development in Central and Southern Tunisia, a WFP Project and the FAO/SIDA Assistance to the Reforestation Programme
7. Assistance to Leather Industry
8. Environmental Health
9. Malaria Eradication
10. Nursing Education
11. Health Statistics
12. Public Health
13. Postal Services
14. Prevocational Training in Urban Areas
15. Vocational Training in Rural Areas
16. Social Security



## INFORMATION MEDIA IN TUNISIA

### Press

There are four main dailies. The largest is La Presse de Tunisie, which is published in French and has a circulation of 35,000. The second largest is Dar Assabah, published in Arabic with a circulation of 30,000.

The other two dailies are the official organs of the Destour Socialist Party: al-Amal, in Arabic (circulation 20,000), and L'Action, in French (circulation 15,000).

Most of the 20 or so periodicals are published from Tunis, with a couple from Sfax and Sousse. The more notable ones are:

Bulletin Bimestriel Conjuncture and Bulletin Trimestriel, published by the Tunisian Central Bank.

La Tunisie Economique, a monthly issued by the Union de l'Industrie, du Commerce et de l'Artisanat.

al-Fikr, a monthly cultural review in Arabic.

al-Maraa, a fairly serious-minded monthly published by the National Union of Women.

ach-Chaab, a trade union publication issued fortnightly in Arabic.

ach-Chabab, a youth publication issued monthly in Arabic.

### Radio and Television

Radiodiffusion Television Tunisienne, which runs both, is owned by the government. Broadcasts are in Arabic, French, English, German and Italian.

There are nearly 400,000 radio receivers and about 75,000 television sets.

Television was introduced in northern and central Tunisia in January 1966.

By early 1969, transmission reached the entire country except the extreme south. A relay station to link up with European transmissions was built in 1967.