

Management Action Record

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<p>The failure to adequately and openly assess and address the reality of the Tunisia's political economy pre-2011, significantly contributed to unsatisfactory performance during that period. Similarly, the ISN FY13-14 does not adequately articulate contingencies that will be put into effect to achieve rapid adjustment of implementation mechanisms and related objectives, should risks materialize.</p> <p>The experience in Tunisia demonstrates the importance of undertaking candid risk assessment and identifying appropriate risk mitigation strategies. It is important that risk assessment rely on ongoing monitoring of the overall political economy complemented, as necessary, by specific analysis of the political economy of reforms in critical sectors supported by the</p>	<p>Conduct political economy analysis to better manage risk in a volatile environment</p> <p>The evaluation recommends the forthcoming CPF should include risk mitigation scenarios based on an ongoing analysis of risks associated with the political economy and conflict, complemented as necessary by specific political economy analysis of reforms in critical sectors. Whenever uncertainty is too great to be handled by pre-specified triggers and contingent responses, these back-up plans could draw on informed assessment of “median value estimates” of selected relevant outcomes. If risk should materialize, the Bank Group would rapidly adjust strategic objectives, implementation, and the results framework.</p>	<p>Agree</p>	<p>Management agrees with the recommendation that ongoing monitoring of the political economy should be part of risk mitigation measures for the forthcoming CPF, and that the Bank Group have contingency plans to facilitate making adjustments to CPF objectives, implementation plans or the results framework, should risks materialize. The country team has some questions as to the utility of a broad brush political economy analysis, given the very fluid situation, and believes such analysis would be more useful by being applied to reforms in specific sectors where the Bank Group is intervening.</p> <p>We note that the ISN program was envisaged over two fiscal years with adaptable annual targets precisely to build in flexibility for potential delays in the reform and investment program due to the difficult social and economic environment in Tunisia during the ISN period. The Bank Group's flexible</p>

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<p>World Bank Group; and explicitly include some sensitivity analysis about the impact of important adverse shocks on the poor and those just above the poverty line.</p>		<p>approach also allowed the institution to adjust its budget support for the reform program under the GOJ DPL series to be aligned with political economy realities of Tunisia in 2013 and 2014, calibrating our financing to the level of ambition and feasibility of reform efforts.</p> <p>Going forward, the introduction of the new Standardized Operational Risk-rating Tool (SORT) and broader risk management framework will play a key role in standardizing and improving the candor of the Political and Governance risk assessments and mitigation measures in Bank Group strategies and operations. Constant monitoring of the political economy, including in specific sectors will also contribute to mitigate the political and reputational risks the report mentions.</p> <p>In the forthcoming CPF, the Bank Group plans to also apply IEG's recommendation to explore possible exit strategy from planned budget support if the pace of reforms or the extent of the reforms implemented justifies changing our instruments blend. However, as noted in the ISN, we would also caution that periods of social and political turmoil and transition — such as</p>
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			<p>encountered in Tunisia during the ISN period — call for budget support to assure macroeconomic stability and the forbearance and understanding of the international community to be flexible in their support.</p>
<p>The evaluation finds the relative isolation of the Bank Group from the broader constituency of stakeholders (e.g., lack of dissemination of key AAA, failure to openly disclose disagreements with the government in Tunisia after 2007 undermining opposition to failed policies) caused reputational damage and probably weakened an already suppressed reform momentum.</p> <p>The experience of the World Bank Group in Tunisia demonstrates the importance of investing in the development of strong links with civil society and other groups with independent views, even if (and perhaps especially when) these are not consonant with government views, or the views of the Bank itself. This is of particular relevance, though</p>	<p>Galvanize public support for reform</p> <p>The Bank Group should reach out to and help inform a broad base of stakeholders, including trades unions, think tanks, other CSOs, and Parliament. This would help enhance the capacity of stakeholders to raise awareness and gradually build ownership of the reform agenda, thereby helping overcome resistance to change from vested interests.</p> <p><u>In Tunisia’s case:</u> The team should continue its effort to reach out to inform the general public using the in-depth analysis contained in the 2013 DPR to explain the failure of the state-led model, and give specific examples of how certain public policies have hurt the majority of Tunisian stakeholders. For example :</p> <p>(i) Show how the lack of a competitive environment led to higher prices (e.g., transport, ICT services) and how</p>	<p>Agree – this effort is ongoing.</p>	<p>Management agrees with and <u>will continue</u> implementing this recommendation, as IEG notes is the ongoing modus operandi. In the case of the 2013 DPR cited by IEG, MENA is implementing an ambitious communications and dissemination plan tailored to specific audiences/target groups, not only to inform the public of its analysis but also to help frame the debate on economic policy and thus build economic consensus going forward. The DPR will be a key input to the Systematic Country Diagnostic (SCD) and the upcoming CPF in FY15. The ongoing ISN has mainstreamed civil society participation into Bank activities. Notable examples include launching a community score card system for citizens to evaluate public services, a communications program on the reforms, community-driven employment and service delivery programs and organizing consultations and exchanges with youth and women’s</p>

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<p>clearly more difficult to achieve, in countries with entrenched ruling elites. However, the development of such relationships is critical to the Bank’s reputation, credibility and access to intelligence, and to its capacity to understand and respond to risk.</p>	<p>competition is critical for fostering jobs.</p> <p>(ii) Demonstrate how distortions associated with the labor code, and the social insurance system, contribute to unemployment, job insecurity and inequities, especially for the youth.</p> <p>(iii) Raise awareness about the leakage of subsidies to the nonpoor and show the current system is inequitable and inefficient.</p>		<p>groups, private sector, academia and local officials. Multiple types of other CSO related activities have been supported, ranging from the hosting of a major conference in 2012 with partner CSOs on the reform program; and using instruments such as the Global Partnership for Social Accountability (GPSA) and the Citizens Engagement initiative, to innovative initiatives such as sponsoring a year-long entrepreneurship competition on the radio to help promote a self-employment business spirit in the new Tunisia.</p>
<p>The design of strategies requires the exercise of strategic choice. The evaluation finds the Bank Group failed to be selective in its engagement in Tunisia. This highlights the importance of achieving better balance, underpinned by a secure analytical base (which was missing), in defining country strategy, in line with the institution’s comparative advantages.</p> <p>The need for strategic selectivity is even more critical in the case of economies and societies in</p>	<p>Selectively and carefully sequence first-order policy reforms (based on the PE analysis) in designing Bank Group strategy, taking into account capacity constraints and other constraints inherent in the transition period.</p> <p><u>In Tunisia,</u> priorities could be to:</p> <p>(i) Ensure a level playing field through adequate investment code and competition laws.</p> <p>(ii) Tackle unemployment through reducing labor market rigidities and</p>	<p>Agree – this effort is ongoing.</p>	<p>Management agrees that strategic selectivity is critical for economies in transition which have more limited capacity and tend to be devoted to crisis management. In this vein, we are pleased to note that the ISN committed to delivering very specific reforms consistent with the aspirations of the revolution from the 2011 GO DPL and investment operations onward. One area that the Bank did not manage to get much traction on post-revolution was concrete support to lagging regions. Management is pleased to report that a flagship Performance for Results (PforR) operation focused on the vulnerable in poor peri-urban areas was</p>

<p>transition that have more limited capacity, and that have to engage in crisis management on a day to day basis.</p> <p>The evaluation concludes that whereas the Bank needs to be responsive to the government's requests for assistance in the analysis of economic issues it sees as important, the Bank should not allow the government to exercise an effective veto over its own priorities for economic and sector work, which provides the necessary underpinning of its own strategic positioning and choices.</p>	<p>taking a strategic approach to youth employment from both the demand and supply sides.</p> <p>(iii) Reform the current subsidies system.</p>	<p>successfully negotiated in June 2014.</p> <p>In terms of the three priority areas proposed by IEG for first-order policy reforms to be supported in Tunisia, we confirm that these are part of the Bank Group program under the GOJ DPL series, including promoting an adequate investment code and competition laws; tackling unemployment through reducing labor market rigidities and reforming the current subsidies system (this latter effort is also supported through a Deauville Transition Fund Grant). Apart from scaling up support for the poor and vulnerable in lagging regions, the Bank Group will also need to take a more strategic approach to youth employment under the new CPF. Management believes that while these efforts focused on the business environment and employment are indeed priorities, strengthening governance: voice, transparency and accountability, will also remain a priority reform area in the upcoming strategy. Management also expects to strengthen the Bank Group's support for gender in the forthcoming CPF and to reduce regional disparities in services and economic opportunities. Again, the FY15 SCD will play a key role in informing World Bank Group</p>
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<p>The evaluation finds the achievement of institutional development objectives in the absence of an appropriate policy framework, and client buy-in (such as pertained in Tunisia pre-2011), is unlikely to work—a project driven approach alone cannot substitute for an appropriate incentive environment, or compensate for the lack of it.</p> <p>The experience in Tunisia suggests that where there are clear policy issues holding back performance, the Bank might seek to address these through DPLs, and through narrowly focused operations with clearly defined conditionality that targets key bottlenecks (i.e., those that set the right incentives for the underlying policy framework). If it is not possible to address key constraints in a meaningful way, and in order to maintain intellectual credibility, the Bank has to decide whether it should pull away from the issue or, at least, revise its objectives and</p>	<p>Build government ownership and capacity on “how to” roll out the reform agenda.</p> <p>This will require in-depth interaction with the government to ensure clear definition and mutual understanding of the strategic goals of the “what to do”.</p> <p>But this is insufficient in isolation and, as such, it will be essential to:</p> <ul style="list-style-type: none"> (i) provide realistic, actionable plans to meet the targeted goals, particularly important in the context of a new government that may lack capacity; and (ii) ensure complementarity in World Bank knowledge services, IFC advisory services, and overall lending (including programmatic series of both lending and analytical work) to help implement and sustain results and build capacity 	<p>Agree – this effort is ongoing.</p>	<p>Management agrees with the recommendation of building ownership and capacity for implementing reforms. We also welcome the recommendation that where political economy issues create bottlenecks for implementing reforms more flexible approaches for moving the program forward should be adopted. In this regard it may be advisable for the Bank Group to examine how it approaches measuring results and consider options for revising objectives and outcomes in situations where circumstances are rapidly changing. As mentioned previously, this is the approach taken by the Bank Group in 2013 and 2014 in designing the GOJ DPL series. The Bank Group provided significant technical assistance to Tunisia for the implementation of the reform program in all the sectors supported by the GOJ DPL series. The World Bank and IFC established an exemplary “One World Bank” working relationship, ensuring complementarity of World Bank and IFC advisory and knowledge services in a multitude of different areas, from tourism, financial services, health and education sectors to the whole general thrust of strengthening the business environment.</p>

targeted outcomes to make it clear that it has much lower expectations from its interventions.			
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