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Tunisia Country Program Evaluation FY2005–13

EVALUATION OF THE WORLD BANK GROUP PROGRAM

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Tunisia Country Program Evaluation, FY05–13

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Abbreviations

AAA	analytical and advisory activities
AFD	*Agence Française de Développement*
ALMP	Active Labor Market Program
ANETI	*Agence Nationale pour l' Emploi et le Travail Indépendant*
APC	*Approche par compétence*
ASSP	Agriculture Support Services Project
BIAT	*Banque Internationale Arabe de Tunisie*
CAS	country assistance strategy
CASPR	Country Assistance Strategy Progress Report
CD	Country Director
CDD	community-driven development
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CPE	Country Program Evaluation
CPF	country partnership framework
CPR	Congress for the Republic
CPS	country partnership strategy
CSO	civil society organization
DAC	Development Assistance Committee
DP	development partner
DPL	Development Policy Lending
DPR	Development Policy Review
ECAL	Economic Competitiveness Adjustment Loan
ENDA	Inter Arabe Institution de Microfinance
ESW	economic and sector work
EU	European Union
FDI	foreign direct investment
FSAP	Financial Sector Assessment Program
GAC	governance and anti-corruption
GBO	*Gestion par objectif*
GDP	gross domestic product
GEF	Global Environment Facility
GNFS	goods and nonfactor services
GO	governance and opportunity
GOJ	governance, opportunity, and jobs
GTZ	German International Cooperation
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICL	Integration and Competitiveness Development Policy Loan
ICR	Implementation Completion Report
ICT	information and communication technology
IFC	International Finance Corporation
IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFI	International Financial Institution
IMF	International Monetary Fund
INAS	*Instance Nationale d'Accréditation en Santé*

ABBREVIATIONS

INS	National Institute of Statistics
ISN	Interim Strategy Note
LMC	Bachelor Master Doctorate
LMD	Licence Master Doctorate
M&E	monitoring and evaluation
MENA	Middle East and North Africa
MFN	most favored nation
MIGA	Multilateral Investment Guarantee Agency
MPEF	Maghreb Private Equity Fund
MSME	micro, small, and medium enterprises
NEF	National Employment Fund
NGO	nongovernmental organization
NPL	nonperforming loans
NRM	Natural Resource Management Project
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
ONAS	*Office National de l' Assainissement*
PAQ	*Programme d' Appui à la Qualité*
PBB	performance-based budgeting
PER	Public Expenditure Review
PFM	public financial management
PPP	public-private partnership
PSD	public sector development
QAG	Quality Assurance Group
SME	small and medium-sized enterprise
SONEDE	Société Nationale d'exploitation et de distribution des eaux
UNICEF	United Nations Children's Fund
VAT	value-added tax
WHO	World Health Organization

All dollar amounts are in U.S. dollars unless otherwise indicated.

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Overview

Tunisia Country Program Evaluation

Highlights

From FY05 to FY13, the World Bank Group program in Tunisia aimed to support government in: (i) strengthening the business environment, improving competitiveness, and increasing the global integration of the Tunisian economy; (ii) improving skills and employability of its citizens; (iii)promoting social and economic inclusion; and, particularly since 2011, (iv) improving voice, transparency, and accountability. Between FY05 and FY10, the program was mostly Bank-driven. Since 2011, the International Finance Corporation (IFC) has taken a more active role in Tunisia, complementing Bank efforts.

The nature and type of Bank Group-client relationship during the period under evaluation greatly impacted the relevance, design, and success of the strategy. Between FY05 and FY10, the Bank Group's work in Tunisia was mediated through its relationship with the Ben Ali regime, which despite its shortcomings was highly regarded by the international community because of Tunisia's relatively positive economic and social development. That relationship was broadly characterized by tight government control and, particularly after 2007, relative passivity on the part of the Bank. The government mediated the Bank's interaction with stakeholders, prevented dissemination of some economic and sector work (ESW), and blocked some key work—for example, public expenditure review (PER) and investment climate assessment (ICA)—which impacted the Bank's reputation as a provider of independent analysis, notwithstanding the quality of analytical and advisory activities (AAA) actually produced. After 2007, the Bank chose to not challenge or make public its increasing concerns about governance issues or its policy divergence with the government on a number of critical reforms, notably in relation to the financial and private sectors that were pervaded by rent-seeking behaviors. Yet the Bank continued to set ambitious objectives in these sectors knowing that the lack of government buy-in to first-order reforms would undermine the achievement of relevant Bank Group objectives. Project design was often flawed because critical bottlenecks identified in ESW were not addressed—many of the operations delivered change that was necessary but insufficient to accomplish Bank Group objectives without supporting reforms to remove core obstacles (for example, the dichotomy of the onshore-offshore regime and regulatory issues in the financial sector). Early in the period, the Bank flagged risks associated with domestic political turmoil, but that critical risk was not referenced in the country partnership strategy

(CPS FY10–13) that was terminated in January 2011 as a result of the revolution. The Bank's reticence may have been intended to keep business lines and dialogue open with a regime that had little need of Bank assistance, having attained investment grade status in 2007, but at a reputational cost. Overall, the outcome of the Bank program prior to 2011 is judged unsatisfactory.

Since 2011, the Bank Group has had a more robust relationship with authorities managing a difficult transition. The Bank responded rapidly to the interim government's request to help define and support priority socioeconomic actions (2011 Governance and Opportunity Development Policy Loan [GO DPL]). IFC ramped up its engagement with six new investments and provided advisory services designed to help implement critical reforms supported by Bank development policy lending (DPL). The Bank Group took a leading role in coordinating donors, worked closely with the International Monetary Fund (IMF), and strengthened its partnership base in Tunisia. Overall, the country team has been responsive in adjusting strategic direction and flexible in light of the evolving political context. All Bank operations explicitly include governance issues, particularly measures to increase voice, transparency, and accountability. The integration of gender into strategy and plans is one of the four guiding principles of the interim strategy note (ISN) FY12–13, although challenges persist in translating this aspiration into the design of specific measures. The use of multisector DPLs, underpinned by sound analysis, helped focus support, reinforce coordination across donors, and generate enhanced responsiveness to the government's needs. But improved streamlining and timetabling of measures would have been useful, particularly by mid-2012, when growing complexity and volatility in the political context was apparent. The Bank may have been overly optimistic in its assessment of the government's commitment to reform, which is not evident even at the time of this writing. The concept note for the second tranche of the Governance, Opportunity, and Jobs Development Policy Loan (GOJ DPL, September 2013) takes account of the very slow pace and poor quality of reforms and backtracks on initial optimism. The high quality development policy review (DPR) of October 2013 makes a strong case for the required elements of the reform agenda, and the Bank Group is now making strong efforts to reach out and inform (through TV and radio, for example) a broad range of stakeholders on required reforms. Relevance and design of the Bank Group program post-2011 is judged satisfactory.

The Independent Evaluation Group (IEG) proposes a number of sequentially ordered recommendations to strengthen ongoing Bank Group efforts in Tunisia. First, the risk assessment exercise for the forthcoming CPS could usefully develop scenarios that take account of volatility in the political economy and allow for flexibility of response should risks materialize. Second, until the political situation stabilizes, the Bank could focus its efforts on galvanizing public support for reforms. For example, it could use the rich analysis of the 2013 DPR to help inform and build capacity among a broad base of stakeholders, such as trades unions, think tanks, civil society organizations (CSOs), and Parliament, to raise awareness and gradually build ownership of the reform agenda. Taking account of capacity and other constraints, the Bank Group could prioritize and sequence first-order policy reforms (that is, investment code, competition law, and labor market rigidities) while building government ownership and capacity on how to roll out the reform agenda.

Context

During the first decade of the 2000s, Tunisia was regarded as a stable country with one of the most successful economies in the Middle East and North Africa (MENA) supporting significant development progress and comparatively liberal social norms. However, beneath the veneer, dissent fermented caused by gaping regional imbalances in prosperity and equality, increasing unemployment that disproportionately affected young, educated people, and general frustration at the stultifying hold of a highly centralized, corrupt government. That dissent flared into revolution in early 2011, resulting in the overthrow of the old regime and heralding what has become known as the Arab Spring. The transition remains fragile and the political context volatile as many of the challenges from the old regime persist.

Purpose and Approach

IEG's Country Program Evaluation (CPE) covers the period FY05–13. The period spans three World Bank Group country strategies and one progress report. It also covers the last years of the Ben Ali regime and the transition to a new political dispensation following the revolution of January 2011. The CPE aims to reflect on past performance to inform the preparation of a new Bank Group strategy for Tunisia.

The evaluation follows IEG's standard methodology for CPEs (appendix B) with objectives and activities organized on a pillar basis. It is important to note that we pay particular attention to the political context in which the Bank Group operated in Tunisia during the evaluation period because of the inordinate level of influence it exerted over the attainment of strategic objectives; however, based on available evidence, we make our assessment not of the politics of the situation but as follows:

- For the period up to the revolution, the evaluation assesses the overall achievement of Bank Group strategy based primarily on the Country Assistance Strategy (CAS) FY05–08 and with reference, as relevant, to the aborted CPS FY10–13.
- For the post-revolution transition period, the evaluation assesses only the relevance and design of the Bank Group's ongoing program (ISN, FY13–14), to include the 2011 Governance and

Opportunity (GO) DPL and 2012 Governance, Opportunity, and Jobs (GOJ) DPL.

Evaluation findings and ratings are respectively presented across the pre- and post-revolutionary period at the overall, strategic, and programmatic levels. More detailed findings organized under pillar headings follow that cut, as relevant, across the entire evaluation period.

Overview of Relationship between the Bank Group and Government in Tunisia, FY05–13

Any meaningful consideration of the World Bank Group's engagement with Tunisia during FY05–13 must be filtered through a lens that takes into perspective the external authorizing environment and the changing realities of the working relationship between the Bank Group and government.

The external authorizing environment pre-2011 was characterized by high regard and support for Tunisia among the international community based on the relative strength within the region of the country's economic performance and social progressiveness, despite known issues, particularly regarding governance.

From the start of FY05 to the fall of the Ben Ali regime (January 2011), the government dominated the relationship with the international community to the extent that it mediated contact with other stakeholders, restricted the dissemination of reports considered sensitive, and operated an effective veto on issues the Bank Group could subject to ESW, even where these were critical to the achievement of Bank Group objectives.

In assessing Bank dialogue with government in Tunisia prior to 2011, it is important to note differences in the Bank's approach within that period—that is, between FY04–07 and FY08–10. Toward the end of 2003, the Bank began to challenge the government on governance issues. Initially this was associated with the lack of transparency in the awarding of a contract that resulted in the Bank refusing to disburse the information communication and technology (ICT) tranche of the third economic competitiveness adjustment loan. The country director at the time continued to challenge on governance issues, for example, by drawing attention in the CAS FY05–08 and Country Assistance Strategy Progress Report (CASPR) FY07 to the lack of accountability, political interference, special treatment of certain individuals, and other issues that threatened to undermine progress. In May 2005, the Bank convened a high-level conference in Tunis, gathering government officials and representatives of nongovernmental organizations (NGOs) and the private sector to openly discuss governance issues. And in 2007, the Bank hosted an open forum on governance and anti-corruption (GAC).

However, following strong rebuke from the government and a period of associated declining engagement (slow disbursement and no pipeline), the Bank (under a new country director) decided to reengage and to desist from openly challenging on governance-related issues, despite their impact on development potential and progress. CPS FY10–13 failed to identify the import of risks associated with these issues.

During FY05–10, this tense and restricted official dialogue with the government negatively impacted the potential realization of key Bank Group objectives. As explained in the following section, it also meant many of the supported operations would deliver change that was necessary but not, by definition, sufficient to achieve Bank Group objectives.

The nature of the Bank Group's engagement with the government in the post-revolutionary context has dramatically changed, reflecting a radically different sociopolitical context. In the past, there was stability but little transparency and openness; now there is volatility and increasing degrees of transparency driven by significant levels of openness and participation, presenting a different type of challenge for the World Bank Group in Tunisia. That said, the commitment of the new government to the vision of a more open economy underpinned by the removal of market distortions is yet to be actively demonstrated.

I. Assessment of World Bank Group Strategies

Based on an assessment of a range of factors, the evaluation considers overall achievement in the pre-revolutionary period (prior to 2011) ***unsatisfactory.*** For the post-revolutionary period (post-2011), our assessment finds relevance and design ***satisfactory***.

Overall Achievement Prior to 2011

Bearing in mind the overarching proviso regarding the nature of, and limitations inherent in, the relationship between the government and the Bank Group prior to 2011, Bank Group strategies throughout the period were relevant and well aligned with the government's development objectives, reflecting an emphasis on job creation (which was an increasingly pronounced priority), and enhancing education toward the realization of a knowledge-driven economy. IFC engagement prior to the revolution was limited because of the prevailing business environment. Its highly selective support aimed to promote private-sector-led growth, notably through investments made in transport (for example, public-private partnerships for building and modernizing an airport) and the financial sector (support to the *Banque Internationale Arabe de Tunisie*). The Bank Group and the government were in agreement, at least rhetorically, on the principal instrumentalities for achieving development objectives: stable macroeconomic environment, open trade regime, a business-friendly environment, a dynamic private sector, an efficient financial sector, and a more relevant and efficient education system. In reality, government practice and behavior effectively acted against many of these objectives.

However, despite their broad relevance, Bank strategies lacked focus. The Bank chose to continue to engage in sectors in which key bottlenecks could not be removed because the government was unwilling to engage in first-order reform (for example, competition framework, duality in the onshore and offshore sectors, and the regulatory framework in the financial sector). Given a relatively limited funding program, Bank strategies tended to be all-inclusive, resulting in a policy agenda that was too broad and that lacked depth and focus. Unable to persuade the government to tackle first-order, core bottlenecks, management focused attention on second-order issues, which meant, by definition, that targeted results at country level could not be achieved. A better approach could have been to first challenge government to engage in priority reforms—AAA recommendations—and then to more narrowly define strategic priorities over a three- to five-year period in sectors in which it was possible to foster government buy-in.

Although development objectives were broadly relevant, the design of activities to meet them was inadequate. In that regard, the most significant flaw in the Bank Group's efforts to implement its agenda was that critical bottlenecks and issues identified in ESW were not addressed. In implementing budget support operations, conditionality focused on less critical, ancillary issues that had little on-the-ground impact. For example, instead of persistently challenging the government to level the playing field between onshore and offshore activities, and drastically reduce the scope for ad hoc state interventions in business activities, the Bank chose to support ancillary measures such as strengthening the Competition Council, and developing unique identification numbers for firms. In policies supported by Bank operations to foster employment, very little was achieved for the same reason, that is, failure to tackle fundamentals.

Institutional development objectives often were not met, especially in sectors where there was no commitment on appropriate policy reforms (for example, reducing state controls on agriculture, allowing greater private sector participation in infrastructure, and so on). The failure to institute deeper levels of change undermined the potential sustainability of investments.

Other weaknesses were evident such as too many conditions in policy-based loans (making it difficult to prioritize) and too much emphasis on processes and inputs (holding consultations, conducting reviews, preparing action plans) with less attention paid to the quality of content. There was also an overreliance on draft legislation and decrees rather than their implementation. Insufficient attention was paid to ensuring legislation "had teeth" or that the implementing authorities had the financial resources and the institutional capacity to follow through.

The lack of focus and the deficiencies in design were exacerbated by results frameworks that proved inadequate to monitor the impact of Bank Group strategies. They contained too many indicators (including some that were of little relevance) to allow for effective monitoring, particularly where the availability of reliable and regularly produced data was limited. In some cases, indicators were not well-defined or measurable, and in other cases, baseline values were not always available. Nor was it always clear how indicators were used to measure progress (or lack of it) with a view to program modification.

Within this broad framework and context, and allowing for the above provisos, the Bank Group's strategy (and the program it supported) was flexible in design and in practice. This flexibility was necessary to respond to anticipated shocks (such as the intensification of competition from greater integration with the world economy), and unforeseen shocks (such as drought, the international financial crisis, and recession in Europe). It was also necessary to take account of emerging new knowledge, and to accommodate new requests for assistance from the government. Flexibility was built into the Bank's and IFC's programs and use of available instruments (for example, AAA, investment loans, budget support, equity, debt financing, and advisory services). The Bank adapted its approach under CAS FY05–08 to shrinking demand from Tunisia (FY07–08), but was able to quickly ramp up assistance in FY09 when Tunisia faced financial crisis.

With one notable exception, the Bank Group was generally successful in identifying risks (for example, the impact of the global recession, continuing instability in the region, and poor rainfall). The FY05–08 CAS and its FY07 progress report also flagged the risk of domestic political turmoil, likely to be caused by resentment in the population arising from their exclusion from meaningful participation in the democratic process and the lack of freedom of expression. In view of later developments, this was prescient. But that critical risk was not identified in the 2009 CPS (FY10–13) because of the Bank's reluctance to more directly challenge the government on this and other issues to keep dialogue and business channels open.

On the other hand, the Bank approach to minimizing the impact of risk was insufficient. Mitigation mostly consisted of pressing the government to accelerate reforms to create new jobs and promises to provide technical assistance and economic analysis. In view of Tunisia's long-standing vulnerability to external shocks and the relatively large proportion of the population that was economically vulnerable (especially in rural areas), a more robust risk assessment strategy might have been expected to focus, for example, on mainstreaming some form of unemployment insurance and/or cash transfers targeted to the poorest families.

Prior to the revolution, the Bank maintained good cooperation with other bilateral donors—notably *Agence Française de Développement* (AFD) and German International Cooperation (GTZ)—and multilateral donors, such as the African Development Bank (AfDB) and the International Monetary Fund (IMF), that play a significant role in Tunisia, including close cooperation with the European Union (EU). Donor partners collaborated in the design of some budget support and provided significant funding in terms of cofinancing, or parallel financing. However, government reluctance to share information and to work in concert with stakeholders and the donor community posed obstacles to more effective donor partnership.

The Bank Group also tried to engage various nongovernmental stakeholders. Consultations were organized with representatives of nongovernmental organizations, parliamentarians, civil societies, trades unions, women's groups, and private entrepreneurs. This was facilitated by the set-up of a World Bank office in Tunisia in 2005. However, as confirmed through interviews, most official interactions were intermediated through the government and did not reflect independent views, although this is not acknowledged or reflected in the strategy documents.

The Bank completed a number of high-quality pieces of ESW including, for example, in-depth analytical work on issues like the impact of global integration on the economy, as well as DPRs that provided a synthetic overview of the economy and summarized the rationale for reforms in various areas. Short, just-in-time policy notes were also prepared at the government's request. Close collaboration between AAA teams and mid-level and technical staff in the administration resulted in relatively high skill transfer and capacity building payoffs. Some of the activities carried out in the pre-revolution period benefited the post-revolution engagement since many of the issues addressed therein (such as the work on fiscal transparency, procurement, onshore-offshore integration, and revision of the investment code) span the two periods.

But prior to 2011, the government was highly selective in its use of recommendations and operated an effective veto on some issues the Bank Group wanted to address, even where these were critical to Bank Group priorities. For example, no public expenditure review (PER) was undertaken and, despite suggestions in some work that governance issues hindered private investment, no satisfactory analytical or empirical basis was established with which to make a persuasive argument. The fact that some topics were placed off-limits by the government had a direct impact on the quality of the knowledge agenda. Some interviewees suggested the Bank's quiescence in this and other matters, such as the lack of dissemination of reports considered sensitive by the government, have caused the Bank Group reputational damage regarding its capacity to deliver independent, objective analysis.

Although overall CAS level objectives were overly ambitious, actual operations supported by the Bank were largely undemanding of government with regard to the required scale and pace of reform. In a number of crucial areas, either nothing was attempted (because the Bank Group was persuaded by the government that the timing was not right), or the pace of proposed reforms was very slow, reflecting the government's piecemeal approach. An example is the offshore-onshore dichotomy identified in the early 2000s as a major impediment to greater private investment.

Conclusion FY05–10

One of greatest concerns in relation to the FY05–10 period was the inherent contradiction between what the Bank knew about what needed to be done to achieve development objectives and what it did. The Bank's capacity or appetite to challenge the government, particularly between 2007 and 2010, was weak, resulting in a poorly focused program that failed to achieve significant change. Yet the Bank continued to set ambitious objectives in the known absence of buy-in from the government to engage in first-order reforms or to remove core obstacles to development in, for example, the private and financial sectors, both of which were crippled with government interference and rent-seeking behavior.

Taking all of the above into account, as well as the more detailed analysis of Bank contribution to outcomes presented in chapters 3, 4, 5, and 6, we rate the overall achievement prior to 2011: **Unsatisfactory.**

Relevance and Design Since 2011

In the immediate aftermath of the revolution, the Bank Group responded rapidly to the interim government's request to help define and support priority socioeconomic actions through the quick-disbursing 2011 Governance and Opportunity (GO) DPL. After 2011, the IFC ramped up its engagement in Tunisia with six new investments—in health care; micro, small, and medium enterprises (MSME) finance; and the oil and gas sectors—valued at $94 million, bringing its committed portfolio in the country to $235 million. The IFC's work in microfinance is promising. It continues to support the microfinance institution, ENDA, to help increase lending to microenterprises, especially those owned by women.

The Bank and IFC are working closely together. IFC is providing advisory services to help implement critical reforms supported by Bank DPLs. For example, the IFC is complementing Bank efforts to promote a business-friendly investment climate through advisory projects focused on regulatory reform, investment code, debt resolution, education for employment, and support to MSMEs.

The Bank Group also took a leading role in coordinating donors. DPLs were developed jointly with the EU, AfDB, and AFD. Joint supervision missions were organized to assess implementation progress, and the Bank Group mobilized global expertise, significantly scaled up technical assistance, and harnessed trust funds to pilot new employment and social services programs in lagging regions. It also worked closely with the IMF, most recently in preparing the joint Financial Sector Assessment Program (FSAP) in 2012.

More broadly, the Bank Group strengthened its partnership across a broad base, engaging in free and open consultation with a wide range of stakeholders, most notably in preparing ISN FY13–14, and more recently in reaching out on required policy reforms through a variety of media (including television and radio).

Overall, the country team has been responsive in adjusting strategic direction after the revolution and demonstrated flexibility in view of the evolving political context, taking note of the significant shift in government priorities and the short time horizon of the Constituent Assembly Government. Although many measures are similar to those pursued in the past, they are now coupled with the explicit inclusion of governance issues and, in particular, measures to increase voice, transparency, and accountability. Increased emphasis is placed on gender issues such that one of the four guiding principles of the ISN FY12–13 is "integrating gender" into new activities to maintain and advance the role of women in Tunisia through the political transition. However, challenges persist in realizing this principle in practical terms. Women's participation in World Bank projects is limited, and gender based indicators included in Bank supported trust funded projects are restricted to a simple count of female beneficiaries. Our research (see appendix L) suggests a need for the World Bank Group to encourage women's participation at both the local and national level, and to integrate a gender-targeted approach to reduce regional disparities in health care and provide equal access to employment and other economic opportunity through market linkages.

The Bank Group did well to consolidate support into multisector DPLs, avoiding any dilution of support; reinforcing coordination across donors; facilitating the prioritization of tasks; and better responding to the government's needs. The first DPL was introduced under particularly difficult circumstances and benefitted from strong analytical underpinnings based on work undertaken in the pre-revolution period. But improved streamlining of measures would have been useful, particularly by mid-2012, when the Bank Group was aware of the growing complexity and volatility of the political context. The timetable for the implementation of certain measures could also have been more realistic.

The Bank may have been overly optimistic in its assessment of government's commitment to reform, and of its understanding of what would be required to implement the bold reform agenda—there is little evidence, even today, of government commitment to the vision set out in the DPLs. The Concept Note for the second tranche of the GOJ DPL (September 2013) takes account of the very slow pace and quality of reforms caused by the combination of limited government commitment, a lack of governing and management competence, and a difficult transition environment that absorbed much of the new government's attention. Taking all these factors into account, the country team proposes to split the originally intended disbursement of the second operation into two separate, equal operations. The most important reforms to remove bottlenecks in the business environment and labor markets are pushed forward to the third DPL in the series.

Conclusion FY11–13

The recently produced Concept Note of the GOJ DPL acknowledges the lack of results so far and has backtracked on initial optimism. The Concept Note proposes continued budget support for Tunisia despite the lack of progress on the reform program, and has effectively deferred the realization of core reforms until a proposed third tranche. The high quality DPR (October 2013) makes a strong case for the required elements of the reform agenda. The Bank is now making strong efforts to reach out and inform (for example, through TV and radio) a broad range of stakeholders on required reforms.

The Bank Group is to be commended for having moved so rapidly to provide sustained development assistance and for having closely monitored implementation in this high-risk environment. The Bank Group has also provided high quality analytical work to guide the postrevolution reform agenda, in particular the recent DPR, and has made strong efforts to reach out to stakeholders on required reforms. That said, the team was overly optimistic in assessing the degree of government buy-in and capacity to engage in the GOJ 2012. In addition, the ISN FY13–14 fails to set out alternative plans to guide Bank Group engagement in a changed political economy, should risks materialize. The ISN could have provided risk mitigation guidance to indicate at what point the Bank Group should refrain from providing additional budget support without core reform. Taking all of the above into account, we rate relevance and design for the post-2011 period: ***Satisfactory***.

II. Assessment of Bank Group Support by Pillar, FY05–13

Bank Group support to Tunisia from FY05 to FY13 is organized under four pillars: (i) Strengthening the business environment—improving competitiveness and deepening integration of the Tunisian economy; (ii) improving skills and employability; (iii) promoting social and economic inclusion; and (iv) improving governance—strengthening public sector management, voice, participation and accountability.

STRENGTHENING THE BUSINESS ENVIRONMENT, IMPROVING COMPETITIVENESS, AND DEEPENING INTEGRATION OF THE TUNISIAN ECONOMY

Bank objectives under this pillar were to foster private-sector-led growth supported by the provision of assistance under a number of headings referenced below.

Maintaining Macroeconomic Stability

Despite severe external shocks (for example, financial crisis, war in Libya) and internal turmoil leading up to and beyond the revolution, Tunisia was able to sustain moderate economic growth and preserve macroeconomic stability. Inflation was moderate, and despite strains in recent years, the budget deficit and current account deficits were within manageable limits. Public debt and external debt, though high by international standards, are both sustainable and within acceptable bounds.

However, going forward, in view of the recent widening of the fiscal and current account deficits, the space for flexibility in fiscal and monetary policies is increasingly constrained. Inflationary pressures will limit the scope for monetary expansion. Public sector wages and subsidies now account for almost 70 percent of total expenditures, making fiscal consolidation even more challenging. The level of foreign exchange reserves fell to 3.1 months of goods and nonfactor services (GNFS) imports by the end August 2013.

The Bank made a useful contribution to macroeconomic stabilization. By making available substantial financial resources for budget support at critical times (2009, 2011, 2012) and by leveraging additional funding to fill the financing gap, it allowed the government to adjust to adverse external and internal shocks. The Bank's strategic framework and its analytical work also played an important role in developing a common understanding of an appropriate macroeconomic framework and the challenges ahead. The Bank's continued engagement in the context of the DPLs ensured regular monitoring of macroeconomic developments.

However, the macroeconomic achievements of the recent past should not be allowed to hide serious and persistent underlying structural problems, notably: stagnation in private investment; growth vulnerability and regional disparity; high unemployment; and the recent deterioration in the composition of spending and widening of deficits. As is evident from the experience in Tunisia during the evaluation period as a whole, positive headline figures taken at face value can mask significant challenges, many of which can impinge on the poor and vulnerable (for example, regional disparities and a poorly targeted social assistance program, despite significant spending).

- **Deepening Global Integration**

Under the impetus of the Accession Agreement with the EU, import tariffs on industrial goods were reduced to zero by 2008. Most favored nation (MFN) tariffs were also reduced, though a substantial gap still remains between the average MFN import tariff and the duty-free imports from Europe. Customs clearance and border crossing procedures were streamlined, and access to preshipment export finance and insurance was enhanced. These and other developments contributed to increased foreign direct investments (FDI) and export volume during most of the period, though both slowed down after the revolution. Tunisian exports also became more diversified in terms of both products and markets, although market share dropped in the EU, and the share of Tunisia's exports to the United States and fast-growing Asian markets remains low.

Certain aspects of Tunisia's export performance are an ongoing concern, including an overreliance on simple assembly of imported intermediary inputs that offer few higher-level employment opportunities. Almost all of the export growth in recent years was due to the entry of newly established, foreign-owned firms. Small exporters are less likely to survive and hardly ever grow to become larger companies.

The Bank Group was a strong supporter of government strategy to facilitate global integration and increase exports, providing budget support complemented by specific export promotion projects. High-quality analytical work was also undertaken to identify the main policy priorities. Although the EU was the driving force behind dismantling the import tariff regime with Europe, the Bank played an important role in assisting exporters to exploit opportunities arising from greater integration by enabling more firms to access export markets, improve their access to finance, and reduce trade transactions and the cost of logistics. The Bank supported greater openness to the global economy, but there were important policy areas (pointed out in the Bank's analytical work) where it could have pressed harder for reforms. This was particularly the case in relation to the continuing detrimental duality between the offshore and onshore regimes.

- **Competitiveness and Business Environment**

The government's commitment to a vibrant private sector was highly ambivalent for much of the evaluation period. The private sector suffered from discretionary and ad hoc state intervention, and the state retained significant control of sectors such as agriculture, infrastructure, and banking. After the revolution, the investment climate has not improved—private sector investment in gross domestic product (GDP) remains low (about 13–14 percent) since 2005.

Core issues holding back the private sector (for example, ad hoc intervention, overregulation) were explicitly referenced in the CASPR from FY07. Yet the policy agenda pursued through budget support for more than a decade did not address key issues; instead, it focused on less-fundamental matters. In effect, the Bank supported government-led measures despite knowing that these alone could not address the most important constraints, notwithstanding the realization of certain positive developments such as simplification and acceleration of value-added tax (VAT) reimbursement, and the set-up of a one-stop window to facilitate business registration.

- **Improving the Efficiency of the Financial Sector**

The Bank supported a range of initiatives to strengthen and stabilize the financial sector through a series of DPLs and AAA. The IFC complemented sector-wide reforms with funding to individual, private, and commercial banks to enable them to increase their deposit base and lending to small and medium-sized enterprises (SMEs) and with funding to ENDA, the only private microfinance institution in the country.

Results were disappointing by the end of 2010. Critical reforms to instill financial discipline and accountability were not implemented. Predictably, efforts to reduce the volume of nonperforming loans (NPLs) through periodic, partial bailout repeatedly failed. Either the implementing agencies were unwilling to enforce prudential rules—in part because of political interference—or they simply did not have adequate capacity to do their job. There was virtually no on-site supervision of banks, and the capacity of the central bank to supervise and enforce prudential regulation remained weak throughout the period.

Prior to 2011, the Bank continued to set ambitious targets to improve the efficiency of the financial sector, but at the same time failed to challenge the government on the implementation of core reforms to restructure state-owned banks and enforce financial discipline and accountability. This reform agenda would have reduced the heavy hand of the state in the financial sector, so the lack of government buy-in is unsurprising. Without that buy-in, the Bank did not alter its objectives; instead, it focused on reducing the volume of NPLs through partial bailout, an exercise that it would repeat without core reform of corporate governance. Since 2011, the Bank has been pushing for the implementation of good corporate governance rules for credit institutions (strengthening the prudential and regulatory framework) and restructuring of state-owned banks.

Probably the only exception to an otherwise negative assessment in this arena is the IFC's involvement in the microfinance sector. Its support to ENDA, Tunisia's only microfinance institution, contributed to a significant expansion in activities that benefitted vulnerable sections of the population, including women and relatively less well-off entrepreneurs.

- **Modernize Infrastructure Services to Increase Quality and Efficiency**

Although the Bank was not a major player in the infrastructure sectors, it supported government objectives by funding investments in specific sectors through its sector investment loans, by promoting sector reforms through DPLs, and through the provision of some useful AAA.

A number of measures adopted to liberalize the ICT sector, especially in recent years, had a positive impact, resulting in a huge increase in the use of mobile phones (118 percent penetration rate in 2010 versus 32 percent in 2003). The elimination of restrictions and controls on Internet access after the 2011 revolution greatly increased freedom of information. But despite progress, competition is weak and prices remain high as Tunisia Telecom dominance in the sector continues to hinder real competition. Countries with much lower per capita income than Tunisia have more telecom operators and lower charges to customers.

In the transport sector, the Bank's policy recommendations to allow more private sector participation or to give more autonomy to state parastatals found no traction with the government. The physical investments made through a two-phase investment project (rehabilitation of commercial berths in ports, and expansion of bus depots and repair facilities for urban transport) contributed to some improvement in services. But without policy and institutional reforms, it is not clear if these improvements, especially in urban transport, are sustainable.

Increasing the Competitiveness and Productivity of Agriculture

Limited progress was achieved in reforming and liberalizing the agriculture sector. Import tariffs on agricultural imports remained high, and exports were subject to quotas. Little progress was made in improving competitiveness and productivity. Productivity in agriculture was low by international standards and low in comparison to other economic sectors within Tunisia itself. The Bank completed an Agriculture Policy Review in FY06 (updated in FY09) and an agriculture finance study in FY12. Recommendations to further liberalize the sector were, for the most part, not acceptable to the government.

There is little data available to substantiate the extent to which the Agriculture Services Support project (FY01–08) objectives led to higher quality, cost-effective services that respond to farmers' needs. In any case, it is unlikely the project had a significant impact on competitiveness given the absence of complementary policy reforms to improve incentives, and continuing state control of marketing. Two water sector investment projects had little impact on improved irrigation intensity or agricultural productivity because of the absence of a supportive policy environment. Even the sustainability of the physical and institutional improvements is questionable without critical reforms to strengthen the financial and economic viability of water supply agencies (for example, pricing and cost recovery, privatization and/or autonomy of water supply agencies).

IMPROVING SKILLS AND EMPLOYABILITY

The development of the education sector and the achievement of enhanced employability among young people was a top priority for Tunisia and the Bank during the evaluation period.

Overall results are disappointing from a quality and employability perspective, particularly given the very significant levels of public resources that Tunisia invested in the education sector.

In both basic, secondary and higher education, Bank analytical work provided rich analysis, but Bank lending placed too much emphasis on the engineering dimension of reform (notably infrastructure and pedagogic reforms) at the expense of policy measures to improve the education governance framework (notably the incentives framework and monitoring and evaluation [M&E]). The lack of progress on the institutional dimension of reform partly explains, as discussed further below, why most of the other policy measures supported by Bank projects failed to deliver expected results.

- **Improving Basic and Secondary Education**

Bank objectives in basic and secondary education were to assist the government in (i) broadening access and completion rates, (ii) improving inclusiveness and the quality of education (notably through the introduction of an ambitious pedagogic reform—"the skill-based approach") as well as more diversification at the secondary level, and (iii) improving school management.

Enrollment in both basic and secondary education improved considerably, as did the overall completion rate at the primary level. But repetition and drop-out rates (particularly among boys) at both the second cycle of basic education and the secondary level persisted. High drop-out rates represent an acute problem and are, in part, associated with the abolition of the former access examination system that regulated progression from one level of education to another. Dropping this system resulted in a growing heterogeneity in ability among post-primary students that was not addressed by appropriate supportive measures.

Efforts were made to further develop equal schooling opportunities (for example, the Priority School Program, the Kindergarten Program, and the integration of disabled children). Field interviews noted a number of flaws in the design of these programs, but without a sound monitoring and evaluation system, it is not yet possible to report on learning outcomes. The ambitious pedagogic reform program *Approche par compétence* supported by the Bank encountered resistance from teachers unions and was never extended to the second cycle of basic education as envisaged in government strategy and in the Bank project. The government initiated new programs to diversify secondary level curricula and develop more learning tracks with links to technical and vocational training, but these programs still have very limited application. More importantly, the government discarded any national examination that would have provided an external, systematic, and rigorous measure of quality in basic education, and that may have helped assess the impact of reforms introduced and fine tune policy decisions.

Proposed reforms in school management to improve school performance made limited progress. The main reform was to introduce a more decentralized decision-making and management process in schools, and strengthen the role of parents and the community in school activities, notably in the preparation of school-based improvement plans. But teachers unions were very reluctant to involve communities in school management. The implementation of the school council concept lacked strong official endorsement.

- **Improving Higher Education**

The Bank assisted the government through the Second Higher Education Reform Support Project (2006) that aimed to: (i) increase capacity and efficiency in expanding access to meet growing demand; (ii) improve the quality of education; and (iii) strengthen institutional performance.

At the third level, the gross enrollment rate increased, and internal efficiency improved as the average time taken to obtain a traditional or applied degree decreased. This was mostly attributable to the introduction of the new credential system that reduced the number of years needed to obtain a diploma.

The Bank provided assistance to the government to revise higher education curricula to match international norms and become more relevant to labor market needs. As a result, Tunisia quickly introduced the License/Maitrise/Doctorat (LMD) system (the standard Bachelor-Master-Doctorate system) and launched professional degrees, including bachelors- and masters-level degrees co-constructed with the private sector. But the private sector quickly encountered difficulties in working with universities that lacked incentives and overall flexibility to adequately manage these innovations. In addition, the pedagogic skills of third-level teachers had not been developed in parallel with the introduction of new courses and curricula. The Bank is now providing support to groups of teachers in several thematic areas (for example entrepreneurship, soft skills, and teaching languages) so that once trained, they can coach their peers. Overall, the implementation of the new system was overly focused on the basic implementation of the LMD degrees without providing for accompanying measures (such as evaluation, the provision of credit for past experience, or adequate in-service training) that would have helped drive the overall dynamic and coherence of this ambitious reform. No independent assessment has been undertaken since the introduction of the LMD system, and assessments of beneficiaries (students and employers) have been postponed.

The Bank provided assistance toward improving institutional performance—for example, efforts were made to strengthen national evaluation with a view to improving the quality and relevance of tertiary education. But because of protracted delays, the new evaluation agency (set up as part of a prior action of the 2011 GO DPL) is not yet operational. The Bank-supported higher education project also worked at the university level and successfully introduced a new resource transfer mechanism, *Programme d' Appui à la Qualité.* or PAQ) to help improve academic quality and institutional performance. The PAQ project led to various innovative initiatives and gave university departments a firsthand experience of autonomy. That said, 2011 and 2012 surveys on university governance show that universities in Tunisia are lagging within the region in terms of autonomy, participation, and accountability.

- **Improving Employability**

The past decade produced a significant increase in the number of young people with improved educational credentials, but limited employment prospects. A recent analysis (DPR 2013) found graduate skills and competences are not well aligned with those in demand by the private sector. There is, in fact, a shortage of unskilled and semiskilled workers in the labor market, and a surplus of technicians and professionals with skills and qualifications not in demand, resulting in unemployment and underemployment among well-educated young people.

PROMOTING SOCIAL AND ECONOMIC INCLUSION

The Bank contributed to fostering social and economic inclusion by providing assistance to the government in a range of areas set out and reviewed below.

- **Poverty and Regional Disparities**

Based on updated poverty line estimates, the share of population in poverty declined from 23.3 percent in 2005 to 15.5 percent in 2010. The share of population in extreme poverty fell from 7.6 percent to 4.6 percent in the same period. Not only did poverty decline, but growth, on aggregate, disproportionately benefitted the poor—the Gini coefficient confirms inequality in consumption expenditures declined over the period. While overall poverty and inequality declined, the gap between the richer coastal and the poorer rural areas persisted and even widened in some regions. This gap was especially marked between Grand Tunis and the rural northwest, but was also evident between the central-west and southwest regions. We note, however, that neither absolute nor interregional poverty alleviation was among the explicit objectives of Bank Group strategies.

More recently, in collaboration with AfDB, the Bank has been providing technical assistance to the National Institute of Statistics (INS) to improve its institutional capacity to measure and analyze trends in poverty. The updated methodology developed through this collaboration and new household survey data for 2010 provide a better understanding of regional disparities and the characteristics of the poor. In addition, two other Bank technical assistance projects support the INS in conducting a household survey to analyze the socioeconomic status of households across the country. This work contributes to building analytical capacity at the INS.

- **Improving the Coverage, Quality and Financial Sustainability of Social Protection and Pension Systems**

Tunisia has an extensive system of social protection. Taken as a whole, the government spends about 25 percent of GDP on social sectors (including social protection, health, and education). This includes an array of programs such as universal food and energy subsidies, unconditional cash transfers, and subsidized provision of basic services such as health care. Expenditures on basic food, energy, and transport subsidies paid through the budget represent about 5 percent of GDP, of which about two-thirds is spent on energy products (liquefied petroleum gas, gasoline, diesel, and so on). However, the existing energy subsidy program is inequitable and regressive, with higher income households benefitting as much as 40 times more than poor households. The same is true, to a lesser extent, of food subsidies. Tunisia also has a generous, nominally targeted cash transfer scheme for the poor and vulnerable, but because of deficient targeting, almost 42 percent of the poorest households do not receive any cash assistance. Moreover, eligibility criteria are opaque and subject to manipulation. At the request of the post-revolution government, the Bank is providing support to help improve targeting for unconditional cash transfers.

The Bank did not play much of a role in designing or implementing social safety net or pension systems in Tunisia, although pension reform was on the Bank's agenda during the CAS (FY05–08), and the Bank planned AAA to support the launch of reforms in 2008. No action was taken because of government reluctance to embark on reform, and the same was true, until recently, for reform of the subsidy program. In recent months, the Bank and the IMF are providing technical assistance to the authorities to (i) assess the welfare and social impact of reforms for each energy product, and (ii) help design an effective cash compensation program to protect poorer households from energy price increases following the proposed reform of energy subsidies.

- **Facilitating Employment through Effective and Well-Targeted Active Labor Market Programs (ALMPs)**

Despite the high priority given to job creation, the unemployment rate increased during the period, reaching a peak of 19 percent in 2011 before declining to 16.7 percent in 2012. The increase in unemployment was partly a consequence of skills mismatches as well as incentives that fostered enclave-style growth in an offshore regime largely divorced from the rest of the economy.

The government ran a number of programs to create jobs and alleviate unemployment, but implementation was patchy and suffered from weaknesses in design and institutional capacity. These programs were funded through the National Employment Fund (NEF). Until 2009, the bulk of funding went into regional employment programs and microcredit programs that lacked a governance structure, quality assurance mechanisms, and an M&E system. After 2009, the emphasis shifted to ALMPs administered by the employment agency, *Agence Nationale pour l' Emploi et le Travail Indépendant* (ANETI).

Prior to 2010, the Bank had no lending program in Tunisia in the area of labor market institutions and regulation. Its contribution was essentially programmatic, analytical, and advisory assistance (PAAA), a multiyear program of studies (based on the MILES framework), technical assistance, and capacity building. This work had almost no influence on labor market policies which, for the most part, ran contrary to the thrust of Bank recommendations.

The Bank provided budget support operations (employment DPL FY10, GO FY11, and GOJ DPL FY12) to restructure existing ALMPs, strengthen institutions implementing them, and encourage private sector and third party participation in training provision and coaching. Streamlining ALMPs was initiated to strengthen efficiency. In 2011, the NEF (formerly used as a source of arbitrary patronage under the president's office) was brought under the control of the Ministry of Vocational Training. In 2012, a decree was adopted that provides for, among other things, a legal framework to monitor and evaluate ALMPs and allows civil society and the private sector to identify and implement public works and regional employment programs financed by the fund. Steps were taken to strengthen the institutional capacity of ANETI, including its capacity for facilitating out-migration. Some improvements were made in collection and computerization of employment data.

However, thus far, Bank supported interventions have had marginal impact on the ground at best. The AMAL program (supported by GO DPL), which was designed to involve insertion into waged employment, turned out to be unconditional cash transfers for the educated unemployed, with little benefit in terms of acquisition of relevant skills or jobs. The bulk of the unemployed, who are unskilled, were left out of these schemes. The pilot of the two new streamlined ALMPs (formerly five) designed to support training and first-time employment has yet to begin. Institutional capacities at all levels lagged. The Bank's program has not yet addressed other important issues that prevent firms from hiring, such as the rigidities in the labor code and the high level of taxes and contributions associated with hiring labor.

- **Improving the Coverage, Quality, and Financial Sustainability of Health Care**

Tunisia continued to make good progress in terms of health outcomes overall. Life expectancy at birth improved from 73 years in 2004 to 75 years in 2010. The infant mortality rate declined from 20 to 15 (per 1,000 live births) in the same period. Immunization coverage for diphtheria, pertussis, and tetanus (DPT) and measles was expanded, and malnutrition was reduced. However, the problems impacting the health sector at the start of the period under review remain largely unaddressed. Wide regional disparities in health outcomes persist, reflecting continuing inequities in health care facilities between rural and urban areas, and between the rich and the poor—in 2010, rural maternal and infant mortality was estimated to be almost double that of urban areas. There is no evidence that the quality of health services has improved, especially those provided by the public sector. Nor was progress made in health care financing. For example, funding by social health insurance funds that cover only those employed in the formal sector accounted for almost 88 percent of health expenditures in 2011, up from 42 percent in 2005.

The Bank played a modest role in the health sector during the evaluation period. Its contribution mainly took the form of analytical work on health sector issues, and technical assistance to strengthen institutional capacities and hospital accreditation. The Bank's AAA was relevant and of good quality, but it had very little impact on actual policies. Health sector reforms were included in the GO DPL (FY11) and GOJ DPL (FY12).

To improve the quality of health services, an institutional framework was created under the DPLs for empowering citizens and civil society to participate in monitoring the implementation of social programs, including health care services. Also, the government instituted an auditing, evaluation, and certification system of quality in the health sector using standards set by international accreditation bodies. The measure also established an autonomous national authority for managing the evaluation and accreditation of health services delivery, which has yet to launch any accreditation processes.

To improve access to basic health care services in underserved areas, steps were taken to create national outreach services to expand free access to care based on a participatory approach, consisting of the provision of a basic package of health, education, and social protection services. Although the relevant staff has been hired, institutional constraints and lack of leadership have hindered the expansion of outreach services and better access to health care in underserved areas. More broadly, there is little data to suggest any marked improvement in coverage, service quality, and financial sustainability of health services, or improved hospital efficiency. The quality of health care services remains patchy, with wide disparities in access and quality between the richer coastal areas and the poorer rural hinterland.

To encourage increased private sector investment in health care and improve access to good quality health services, the IFC invested $8.2 million in equity in a private company for building and operating high quality health clinics in various parts of the country, including underserved areas (2012). It is too early to assess the financial viability of these investments.

- **Improving Access to Basic Services for Underserved Communities**

The poverty gap between the richer coastal areas and the poorer rural hinterland was aggravated by disparities in access to basic infrastructure and other factors. In 2005, the urban population had near universal access to safe drinking water and sewerage systems, but only 50–60 percent of the rural population had access to improved water sources, and 40 percent had access to modern sanitation. Similarly, access to all-weather roads and public transport services were universal for the urban population, but a large part of the rural population lacked adequate road access and had few public transport options.

Despite regional imbalances and associated concentration of poverty, regional development was not a focus in the CAS FY05–08 or the CPS FY10–13 and, until recently, the Bank's program did not reflect the importance of addressing regional disparities in infrastructure.

In the water and sanitation sectors, six Bank-funded projects were active during the review period. These funded augmentation of critical infrastructure (for example, building water pipelines and waste water treatment plants). Through new investments, partly funded by Bank projects, significant gains were made in extending access to water and sanitation; however, implementation of reforms to promote water conservation and sustainable delivery of water and sanitation services was disappointing, despite Bank advice and recommendations. Most water supply and sewer works continue to be provided by parastatal companies at the national level, whose financial performance declined because of the failure to raise tariffs. They continue to rely on budget subsidies to maintain services. Similarly, tariffs on water for irrigation remained substantially under cost, encouraging wasteful use of water and inefficient agricultural production.

The Bank's interventions in the ICT sector, discussed earlier, had some impact on the availability and quality of mobile and Internet services, including in rural and remote areas, though lack of a more competitive framework weighs heavily on tariffs.

Several ongoing and newly approved community-driven development (CDD) projects sought to improve basic infrastructure services in rural and underserved areas. Some Bank projects in regional development and natural resource management (for example, Fourth Northwest Mountain and Forest Area Development Project) contributed to building more community roads, water tanks, and other infrastructure. But these community-driven gains are small and localized in relation to the overall level of need. Moreover, it is not clear if the infrastructure created can be maintained without ongoing funding and reforms to strengthen institutional capacity at the local level.

Natural Resources Management

Despite decades of government efforts, overexploitation and inadequate land management have led to significant resource degradation (particularly severe in some parts of the country such as the northwest, central-west, and the south) caused by a combination of natural and manmade factors.

There is no evidence that the process of overexploitation of water and land resources or the accompanying degradation has been reversed, despite improvements in certain areas. The expansion of crops and arboriculture, overgrazing, and a detrimental use of machinery continue to accelerate land degradation. Overgrazing rates are estimated at 78 percent in central Tunisia and at 80 percent in the south. The conditions in some regions are much worse than those suggested by the average. Erosion, caused mainly by water in the north and center, and by wind in the center and south, results in the loss of an estimated 13,000–23,000 hectares of topsoil per year. Water resources in all three regions, but especially in the center and south, are at risk from salinity, which further exacerbates the losses. In other better-off areas, efforts to increase water tariffs for drinking purposes and irrigation were not sustained, and there is no evidence that irrigation efficiency has improved, or that wasteful use of water has declined.

The Bank's AAA provided the necessary analytical underpinning for reforms and sought to enhance local institutional capacity to mainstream environmental factors and improve implementation of resource management practices.

The Bank's contribution was small but useful, and was largely provided in the form of projects for rural development and integrated natural resource management in parts of the country that were especially vulnerable to resource degradation. Support for water resources management was also provided through water sector investment loans. Vegetation and forest coverage in project areas was increased, and there was a significant expansion of land treated for soil erosion and conservation. Investments were made to protect soil and water quality. Associations of ultimate beneficiaries were given more responsibility in managing the use of water and land, and were helped by Bank technical assistance in strengthening their capacity. However, there is insufficient data to assess the extent to which measures have actually reduced the rate of natural resource degradation through, for example, slowing down soil erosion or dam salinization. Moreover, the sustainability of some of the gains achieved is in question as local institutions remain weak and financially vulnerable without strong commitment to raise water tariffs to provide stable revenues. Failure to raise water tariffs for drinking and irrigation remains problematic, undermining efforts to conserve water and improve irrigation efficiency.

IMPROVING GOVERNANCE: STRENGTHENING PUBLIC FINANCE MANAGEMENT, AND VOICE, TRANSPARENCY, AND ACCOUNTABILITY

The Bank's objectives under this heading are to reduce the governance gap to foster growth and productivity and enhance public service delivery. Bank interventions have focused on strengthening public financial management, notably through performance-based budgeting and more efficient procurement procedures. More recently, the Bank has provided support to enhance voice, transparency, and accountability.

- **Improving Public Spending Efficiency through the Introduction of Performance-Based Budgeting Reforms**

The performance-based budgeting (PBB) reform effort initiated by the government in 2005 has been delayed and protracted. Given the tendency to centralization in the Tunisian administrative culture, this could have been anticipated. In that regard, at the initial stages of proposed PBB reform, the Bank could have better teased out the political dimension and commitment to reform before committing technical assistance resources. The Bank could also have tried to engage the government on key measures, such as those identified in the 2004 Country Financial Accountability Assessment (CFAA) Report, that would have constituted a more immediate entry point to strengthen demand for real accountability from the executive, while meeting conditions required for the successful introduction of PBB.

Nevertheless, the Bank's persistence in providing high quality technical assistance on PBB since the mid-2000s was appreciated by public servants interviewed for the evaluation, particularly in relation to: instilling the principle and culture of PBB; designing the encompassing master plan to define and prioritize the various building blocks linked to PBB; and in providing guidance for the preparation of the budget program, annual performance projects, and reports. Pilot ministries (representing two-thirds of total budget expenditure) are now preparing budgets on a programmatic basis, but budget execution has not yet evolved accordingly.

PBB reform remains fragile and potentially reversible. Significant challenges have to be overcome to transform Tunisia's administrative culture and to amend its centralized, hierarchical and input-oriented work methods.

- **Improving Procurement Reforms**

Before 2011, the procurement process was overly bureaucratic, lengthy, and lacked transparency. The Bank prepared a country procurement assessment review (CPAR) in FY04 but its recommendations were largely ignored. After the revolution, a consensus emerged that procurement processes were inefficient, impeding the effectiveness of public expenditures, and therefore in need of reform. Building on prior analytical work, the Bank provided relevant assistance on the procurement agenda through budget support, technical assistance, and analytical work. In a first step, the government adopted immediate measures to simplify procedures supported by the 2011 GO DPL. In 2012, the government prepared an action plan based on an in-depth self-assessment of procedures (using the Organisation of Economic Co-operation and Development Development Assistance Committee [OECD DAC] methodology). The Bank is providing assistance for the implementation of this action plan, including capacity building and preparation of a new procurement code (prior action GOJ-2 DPL).

- **Strengthening Voice, Transparency, and Accountability**

Until the revolution, Tunisia suffered from weak levels of external transparency and accountability, as attested by the 2008 global integrity report and the multidimensional Governance Index, which noted a sharp deterioration in voice and accountability since 2005. In the ISN (FY13–14) the Bank recognized it had not adequately advocated and acted on some of the serious governance, transparency, and accountability issues that weakened citizens' voice, and undermined economic performance and the opportunity for Tunisian citizens to more fully participate in economic activity.

The revolution and fall of the Ben Ali regime brought striking change in government objectives and strategies regarding the implementation of democratic reforms. Two governance missions undertaken by the Bank in February and October 2011 helped the government shape a governance agenda and informed the content of DPLs. The 2011 GO DPL proposed a program of immediate emblematic measures focusing on greater transparency, accountability, and participation. The programmatic 2012 GOJ DPL strengthened some measures implemented in the first phase, and aimed to lay the foundations for more inclusive and accountable social services and more transparent public governance.

To strengthen citizen voice, the Bank assisted the government in removing the key restrictive and discretionary provisions of the law that impeded the establishment and operation of associations. This led to a blossoming of associations (for example, NGOs and think tanks) that now participate in public debate. The government opened up the Internet, leading to the creation of a vibrant Internet space used by the private sector and civil society; it began monitoring the performance of public services with online surveys and scorecard systems. To consolidate the benefit from these reforms, it will be important to rapidly institutionalize participatory processes for monitoring at the local level as initially envisaged.

The extent of transparency and accountability in economic and social policies is improved, but it is taking longer than expected to change former administrative practices and culture. For example, despite the implementation of progressive legislation on openness, proactive dissemination of information by ministries is limited, and the government is not yet monitoring statistics on the rate of satisfactory response to requests for information by the public.

The government launched reforms to simplify administrative procedures, procurement regulation, and financial controls with World Bank Group technical assistance. Yet the implementation phase of the simplification of the regulatory environment for investment has not started, although background work began two years ago. The volatility of the transition period has created uncertainties and fears among civil and public servants, many of whom are reluctant to accept greater personal and/or professional responsibility by taking advantage of simplified measures

Overall, our assessment is that Bank contribution in support of political and economic governance reforms were in line with and relevant to government strategy and broader public demand during this period of historic change in Tunisia. Bank assistance was particularly valuable in helping to shape a reform agenda and in ensuring most of the reforms designed and implemented with its support under the ISN relied on consultative processes and/or participative implementation. However, the overall governance reform agenda was overly ambitious, particularly given the Bank's awareness and understanding of the volatile context and lack of experience of the new government during the transition period.

Lessons and Recommendations

Our assessment of how the Bank Group responded to and managed the difficult circumstances encountered in Tunisia from FY05 to FY13 essentially frames the evaluation's lessons and recommendations. In that regard, we find the Bank's response prior to 2011 (the IFC had minimal involvement during that period) to be inadequate across a range of dimensions, but most critically in the following respects:

- The Bank failed to robustly and persistently challenge the government, particularly after 2007, to: (i) engage in necessary reform; (ii) allow for more open engagement with other stakeholders and informants; and (iii) to consent to the undertaking of analysis critical to the achievement of Bank objectives, and to allow for greater dissemination of AAA actually carried out.

- It failed to direct its lending operations based on what it knew from AAA and other intelligence with a view to ensuring a more meaningful pursuit of objectives.
- After 2007, the Bank failed to report honestly on the deterioration of the situation in Tunisia and the dysfunctional nature of its dialogue with the authorities prior to revolution.

After 2011, the Bank Group has been more effective in its engagement in a risky and volatile context, and IFC has become increasingly active in complementing the Bank's efforts.

Key lessons identified are:

- The strategy design requires exercising strategically informed choice and calls for balance between comprehensiveness and selectivity in defining country strategy. This is particularly important in the case of economies and societies in transition where capacity is limited and crisis management is a day-to-day reality.
- The experience in Tunisia suggests that where there are clear policy issues holding back performance, the Bank should seek to address these through DPLs. But to be effective and maintain intellectual credibility, the Bank may have to decide whether it should pull away from an issue, or revise its objectives and targeted outcomes to make it clear it has low expectations whenever there is no buy-in from government to address the most critical bottlenecks. Achieving institutional development objectives without an appropriate policy framework and client buy-in is unlikely to work.
- It is important to ensure the financial and institutional capacity of relevant agencies to implement Bank-supported legislative change. In the case of legislation impacting the private sector or citizens, there is an important need to ensure the availability of well resourced, independent redress mechanisms to make certain the legislation "has teeth."
- It is critically important to undertake candid risk assessment and to develop appropriate risk mitigation strategies, for example, through the identification of exit strategies where political risks materialize.
- It is important for the Bank to protect its reputation for honest, unbiased, and high-quality reporting and analysis. A secure analytical base is critical to the overall coherence and potential efficacy of Bank strategy and programs. Facts must be reported as they are, and important policy differences must be made known not only to the government, but to the Bank's shareholders and the broader community of stakeholders.

The following recommendations—which should be read as a series in sequence—are proposed to strengthen ongoing Bank Group efforts to improve performance in support of reform in Tunisia.

1. **Conduct political economy analysis to better manage risk in a volatile environment.** The evaluation recommends the forthcoming country partnership framework (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 prespecified 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 results framework.
2. **Galvanize public support for reform.** 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 to enhance the capacity of stakeholders to raise awareness and gradually build ownership of the reform agenda, thereby helping overcome resistance to change from vested interest.

   In Tunisia's case, building on the 2013 Development Policy Review (DPR), the Bank Group could give specific examples of how certain public policies have hurt the majority of Tunisian stakeholders. For example,

   (i) Show how the lack of a competitive environment led to higher prices (for example, transport, ICT services) and how competition is critical for fostering jobs.
   (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.
   (iii) Raise awareness about the leakage of subsidies to the nonpoor and show the current system is inequitable and inefficient.

3. **Selectively and carefully sequence first-order policy reforms (based on the political economy analysis) in designing Bank Group strategy, taking into account capacity and other constraints inherent in the transition period**.
   In Tunisia, priorities could be to:

   (i) Ensure a level playing field through adequate investment code and competition laws.
   (ii) Tackle unemployment through reducing labor market rigidities and taking a strategic approach to youth employment from both the demand and supply sides.
   (iii) Reform the current subsidies system.

4. **Build government ownership and capacity on how to roll out the reform agenda.** 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.” Then, (i) provide actionable actions 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.

Management Action Record

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
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. 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	**Conduct political economy analysis to better manage risk in a volatile environment** 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.	**Agree**	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. 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

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.			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. 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. 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

			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.
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. 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	**Galvanize public support for reform** 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. <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 : **(i)** Show how the lack of a competitive environment led to higher prices (e.g., transport, ICT services) and how	Agree – this effort is ongoing.	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

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.	competition is critical for fostering jobs. **(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. **(iii)** Raise awareness about the leakage of subsidies to the nonpoor and show the current system is inequitable and inefficient.		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.
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. The need for strategic selectivity is even more critical in the case of economies and societies in	**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**. In Tunisia, priorities could be to: **(i)** Ensure a level playing field through adequate investment code and competition laws. **(ii)** Tackle unemployment through reducing labor market rigidities and	Agree – this effort is ongoing.	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

transition that have more limited capacity, and that have to engage in crisis management on a day to day basis. 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.	taking a strategic approach to youth employment from both the demand and supply sides. **(iii)** Reform the current subsidies system.		successfully negotiated in June 2014. 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

			priorities under the forthcoming CPF.
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. 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	**Build government ownership and capacity on "how to" roll out the reform agenda.** 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". But this is insufficient in isolation and, as such, it will be essential to: **(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	Agree – this effort is ongoing.	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.

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

1. Purpose and Country Context

1.1 Tunisia is a coastal middle-income country in North Africa with a mostly urbanized population of 10 million. Until early 2011 and the events that precipitated the Arab Spring, Tunisia was generally regarded as a stable country, despite political power being concentrated with the president. It is one of the most successful economies in the Middle East and North Africa (MENA), known for its progress on development, comparatively liberal social norms (including uncommon levels of gender equality for the region), and large middle class.

1.2 This chapter presents a brief sketch of recent history and political development in Tunisia, and summarizes significant socioeconomic developments prior to and after the 2011 revolution. The role of development partners and the interaction of the World Bank Group with its partners in Tunisia are also reviewed before the chapter closes with a summary of the objectives, methods, and limitations of the evaluation.

Country Context Prior to 2011

1.3 Tunisia gained full independence from France in 1956, resulting in the appointment of Habib Bourguiba as the country's first prime minister. A year later, Bourguiba became president of the Republic of Tunisia and established a highly centralized presidential system. In 1974 he was made "president for life" by constitutional amendment. In 1987 Bourguiba was ousted by his then-rime minister General Zine El Abidine Ben Ali, who subsequently ruled Tunisia as president until ousted in January 2011.

1.4 Ben Ali initially moved to introduce liberal reforms, but pulled back on the reform agenda following a strong showing from Islamic activists during the 1989 elections. In response, he instituted repressive measures against the Islamic Ennahda party and subsequently barred it from participating in the 1994 elections. Running uncontested and endorsed by all then-legally constituted opposition parties, Ben Ali drew nearly 100 percent of the vote, a feat he repeated in the 1999 elections. His party, the Constitutional Democratic Assembly, won all nonreserved seats in the national assembly (a token 19 seats were reserved for candidates of opposition parties). A constitutional amendment in May 2002 permitted the president to run for more than two terms and provided Ben Ali with judicial immunity during and after his presidency. The president was duly reelected in both the 2004 and 2009 elections.

1.5 During Ben Ali's 23 years in office, a formidable dictatorship operated behind a pluralistic facade. The regime exercised tight control over the media and imposed extensive and sophisticated Internet censorship. The judicial system was manipulated and lacked independence—the regime had majority control of Tunisia's Superior Council of Magistrates, which nominates, assigns, and disciplines the country's judges. Political opposition was systematically repressed.[1] The combination of fear, repression, and the inability to mobilize effectively neutralized meaningful dissent in Tunisia.

1.6 At the same time, the relative success of Tunisia's economy; its achievement of investment grade status (2007) and the presence of a large middle class; its close ties with the EU; and other progressive developments (notably in terms of gender parity) meant Tunisia was regarded and admired as a stable, successful country. Paciello (2011) notes that social policy in Tunisia had been used for decades by Ben Ali's regime as a tool for cementing legitimacy and control. As the economy grew, this practice was fueled by significant levels of expenditure on health, education, and social welfare that resulted in the emergence of a sizeable middle class, improved living standards for many, and an overall reduction in income poverty. However, the capacity of a deeply manipulated economy to continue to deliver such benefits began to wane in the 2000s, and that capacity was further impacted by the global economic crisis (2009).

1.7 Beneath the veneer, there was growing anger and dissent fueled by gaping, regional imbalances in prosperity and equality; increasing unemployment that disproportionately affected young, educated people; and general frustration at the stultifying hold of a centralized, corrupt regime that increasingly served the exclusive interests of a small and powerful elite.

The Revolution and Recent Political Developments

1.8 In that context, a series of events began that irreparably disrupted the status quo. On December 17, 2010, a 26-year-old, college-educated fruit vendor named Mohamed Bouazizi set himself on fire in Sidi Bouzid as an act of protest against bureaucratic corruption at the municipal level. By the time Bouazizi died from his burns (January 4, 2011), protests against the regime had flared throughout the country. Ben Ali quickly lost his grip on power and fled with his family to Saudi Arabia (January 14, 2011). His prime minister, Mohammed Ghannoushi, announced his intention to organize early elections and usher in a new government, but protestors demanded the ouster of the old regime in its entirety and continued to protest until Ghannoushi announced his resignation (February 27, 2011).

1.9 Meanwhile, a national unity government was formed, and free and fair elections for the new Constituent Assembly were held in late October 2011. Ninety percent of the 4.1 million registered voters participated. The elections handed victory to the once-banned Islamic party, Ennahda (41 percent of seats in the Constituent Assembly). Ennahda formed a coalition with two secular parties, the Congress for the Republic (CPR) and Ettakatol, the social democratic party. A second interim government was then appointed by the Constituent Assembly and given the task of writing the new constitution.

1.10 But the transition remains fragile because of deepening political divisions between the Islamist and secular parties. There have been social unrest and repeated delays in the preparation and adoption of the constitution,[2] with tensions exacerbated by the assassination of two opposition politicians (in February 2013 and July 2013), and the recent overthrow of Egypt's president Mohamed Morsi. Political tensions have arisen around several controversial issues, such as the role of religion and the status of women in the new constitution. The ruling party decided against using Sharia Law as the basis for the new constitution, but designated the role of women as "complementary" to that of men, fueling widespread opposition (see appendix L). The second assassination precipitated a political crisis leading to a seven-week suspension of the National Constituent Assembly and calls for the resignation of the prime minister. Following dialogue initiated by trades union and other leaders in civil society, agreement was reached in late September between Ennahda and the opposition to begin negotiations for finalizing the constitution and electoral laws, and to set a date for a general election.

A Glance at Economic Development over the Last Decades[3]

1.11 After independence, Tunisia transitioned gradually and successfully from a natural-resource–dependent economy to a more market-based, diversified, and globally integrated model. At independence, the economy relied on raw materials, notably oil, natural gas, and phosphates. As reserves depleted, the government sought to develop manufacturing and tourism while investing heavily in human resource development. Through this period, a dirigiste economic system entailed control of investment and prices, protected trade, and the distribution of generous subsidies to enterprises. The oil boom of the 1970s also helped finance a higher level of investment, notably in manufacturing. The creation of a liberal offshore regime attracted European investors and led to the creation of new, export-oriented industries (including textiles and clothing).

1.12 As oil prices declined and production dropped in the 1980s, macroeconomic imbalances grew until the mid-1980s, when the government decided to pursue a program of stabilization and adjustment supported by the World Bank and International Monetary Fund (IMF). The program called for prudent macroeconomic management and resulted in a decrease in fiscal deficit and inflation. In the 1990s, government sought to accelerate growth and further diversify the economy through deeper integration into the world economy. In 1995 Tunisia was the first country in the region to sign an association agreement with the European Union (EU). The agreement called for phased establishment of a free-trade zone for manufactured goods from 1996 to 2008. Today, trade in these goods is duty free with the EU, the Greater Arab Free Trade Area, and a large number of bilateral partners. These trade liberalization policies helped Tunisia penetrate new markets in manufacturing (mechanical and electrical engineering), and led to some improvements in total factor productivity[4] in the mid-1990s. These reforms led to economic diversification and to Tunisia being among the fastest growing economies in MENA, with annual average GDP growth of 5 percent for decades, accompanied by a steady increase in average per capita income.

1.13 Since the 2011 revolution, the sociopolitical situation has remained volatile because of a range of factors that includes uncertainty about the economic outlook related to the euro crisis, the lingering impact of the Libyan crisis, and persistent social tensions. Tunisia's banking sector, already performing poorly before the revolution, was further hit by economic downturn—notably the sharp downturn in the tourism sector—and remains fragile. The interim government sought to ease social tension and boost economic recovery after the crisis through a mix of fiscal and monetary measures, announced a large stimulus package, and formulated an economic and social emergency plan (consisting of 17 measures across sectors, from security to employment and regional development). Despite this policy response, the economy contracted by 2 percent and unemployment increased to 18.9 percent in 2011.

1.14 The Tunisian economy embarked on a moderate recovery in 2012 (3.6 percent overall GDP growth) and unemployment receded to 16.7 percent as of the end of 2012. But recovery remains weak and GDP growth is estimated at 3.2 percent in 2013 (against a target of 4 percent). Social tensions continue to weigh on the transition, with repeated strikes and sit-ins disrupting strategic export sectors. Soaring world food and fuel prices have led to inflationary pressure (6.4 percent at the end of April

2013) and increased the cost of state subsidies from a planned 4 percent to 6 percent of GDP in 2012. The fiscal space to meet pressing needs has been reduced, and deterioration in the composition of spending is a cause for concern (civil service wages and untargeted fuel and food subsidies accounting for almost 70 percent of total expenditures). A wider current account deficit (7.3 percent of GDP in 2011), coupled with a defense of the exchange rate, resulted in a 20 percent loss in reserves in 2011, despite important bilateral and multilateral budget support. A recent debt sustainability analysis (2012) indicates the space for fiscal expansion is rapidly closing, and that debt sustainability will be significantly affected by the level of GDP growth. The political crisis has, in turn, reduced Tunisia's debt rating below investment grade. In face of lower reserves and increasing external needs, Tunisia signed a stand-by agreement with the IMF in June 2013.

A Glance at Sociodevelopment[5] over the Last Decades

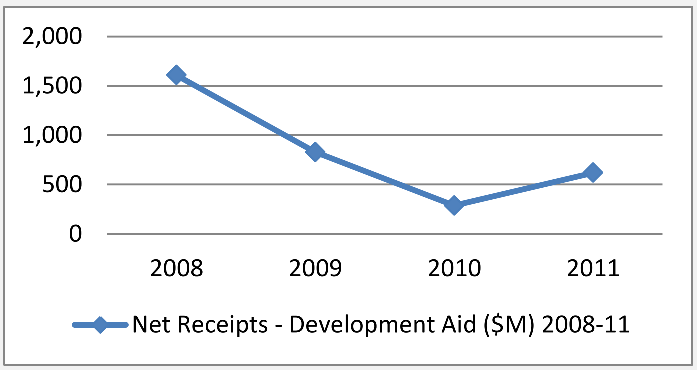
1.15 Tunisia made sound progress on social development during the evaluation period, though many challenges remain to be addressed. The incidence of poverty dropped from 32 percent in 2000 to 23.3 percent in 2005[6] and to 15.5 percent in 2010. Although overall poverty and inequality declined, glaring regional disparities persisted,[7] notably between the richer coastal and poorer rural areas. Many social indicators improved significantly, reflected in an increase in the net enrollment rate in primary education (from 92.4 percent in 1990 to 98.7 percent in 2010) and progression to secondary school (from 38.4 percent in 1990 to 74.5 percent in 2010). Health outcomes also improved, indicated by an increase in life expectancy at birth (from 70 years in 1990 to 75 years in 2008), and a drop in the maternal mortality rates (from 130 per 100,000 live births in 1990 to 56 in 2010) and infant mortality (from 40 per 1,000 live births in 1990 to 14.8 in 2010). Access to basic services (water, sanitation, electricity) is near universal in urban areas. Overall, Tunisia is on track to achieve most of the Millennium Development Goals, with the exception of reaching the targeted rate of reduction in maternal mortality.

1.16 The quality of public services continues to be problematic. For example, the quality of education needs to be improved, as learning outcomes are low compared with international benchmarks at grades 4 and 8. The rapid expansion in secondary education saw a worsening in performance and higher drop-out rates. Health outcomes show spatial disparities, with mortality and health conditions lagging in underserved regions compared with urban areas, unequal expansion of health insurance coverage, and growing dissatisfaction with public services.[8] Similarly, access to water and sanitation lag in underserved regions. In rural areas, only 50–60 percent of the population has access to safe drinking water and only 40 percent to modern sanitation, compared with near-universal access in urban areas.

Role of Development Partners

1.17 Development aid declined in total net receipts between 2008 and 2010, largely as a result of Tunisia achieving investment grade status (2007) and its transition to middle-income country status. Aid increased, however, after the revolution (see Figure 1.1)

Figure 1.1. Net Receipts in Development Aid to Tunisia, 2008–2011



Source: Based on OECD, 2013.

1.18 Among DAC (OECD Development Assistance Committee) countries, Tunisia's interaction with France dominates, but there is fairly consistent interface with countries such as Germany, Italy, Japan, and others. Among the multilateral agencies, Tunisia's interface with the Bank, the AfDB, and the EU is pronounced. A more detailed description of donors' cooperation is provided in appendix D.

1.19 The largest bilateral ODA commitments were made to social infrastructure and services (36.6 percent) and economic infrastructure and services (27.8 percent) between 2007 and 2011 (see table 1.1).

Table 1.1. Bilateral Official Development Assistance Commitments by Purpose, 2007–11

Sector	2007	2008	2009	2010	2011	TOTAL	
	$m	$m	$m	$m	$m	$m	(%)
Social Infrastructure and Services	269.9	136.4	406.6	143.8	306.7	1,263.4	(36.6)
Economic Infrastructure and Services	42.3	344.7	175.8	372.9	25.5	961.2	(27.8)
Production Sectors	153.1	137.8	75.0	9.5	74.5	449.9	(13.0)
Multisector[a]	73.9	219.0	10.2	29.2	286.9	619.2	(17.9)
Program Assistance[b]	0.2	108.4	0.1	0.0	0.0	108.7	(3.1)
Action Relating to Debt	1.6	0.9	0.0	0.0	0.0	2.5	(0.07)
Humanitarian Aid	0.3	0.1	1.2	0.8	13.1	15.5	(0.45)
Other	6.9	4.6	5.3	8.9	7.2	32.9	(0.95)
Total	**548.2**	**951.9**	**674.2**	**565.1**	**713.9**	**3,453.3**	

Source: Based on OECD, 2013.

a. Multisector lending supports projects operating across sectors.
b. Program assistance is non-project-driven assistance provided to alleviate policy- and/or resource-based impediments to development.

Evaluation Objectives, Methods, and Limitations

1.20 The purpose of IEG's Country Program Evaluation (CPE) for Tunisia is threefold and seeks to:

- Inform preparation of the next country partnership strategy through lessons learned from World Bank Group engagement with Tunisia during the evaluation period.
- Fulfill an accountability function by comparing outcomes against Bank Group plans as outlined in successive country strategies prior to the revolution, and assess Bank Group flexibility and adaptability in the post-revolution and transition period.
- Identify lessons that may have broader applicability and utility for World Bank Group engagement in middle-income countries and/or in countries undergoing systemic political transition, where risk management can be particularly challenging.

1.21 The evaluation team conducted a literature and desk review of country program and project documents, and sector and thematic background papers. The team also organized a learning week in the Center for Mediterranean Integration to interview Bank Group managers and staff (presently and previously engaged in the program). Findings from these sources were triangulated with feedback obtained from a broad consultative process including interviews with government counterparts in Tunisia (present and past officials), relevant experts in the research community, civil society organizations, and private sector representatives (including beneficiaries of IFC investments). The team supplemented this analysis with a review of the entire portfolio of AAAs[9] and feedback from social media (including Facebook engagement with the general public on matters such as the private sector, employment, and education).

1.22 The preparation of the CPE was affected by challenges associated with heightened political tensions and continued social instability during the evaluation. Despite senior staff turnover since 2011, the evaluation team was able to meet with a large number of Tunisian officials and former policy makers who were counterparts for specific tasks undertaken by the World Bank Group prior to 2011, as well as representatives and stakeholders from the private sector, academia, NGOs, and the media. It proved more difficult to access institutional memory of the analytical work undertaken by the Bank prior to 2011, primarily because before the revolution, the government was reluctant to extend consultation and dissemination beyond inner, official circles.[10]

1.23 The CPE reviews the World Bank Group's development assistance to Tunisia from FY05 to FY13, essentially the period since IEG's last Country Assistance Evaluation was completed in FY04. Ratings are specifically based on an assessment of the extent to which objectives set out in World Bank Group strategy documents were both relevant and achieved. The evaluation does not rate overall development progress for Tunisia, nor does it rate World Bank Group performance in institutional terms.

1.24 For consistency and as an organizing principle, the team used the standard methodology for CPEs (see appendix B). In that regard, the report is organized around pillars (described in chapter 2) and their ratings, based on the achievement of objectives set out in the strategies agreed on with Tunisian authorities. Only one of these strategies was completed (CAS FY05–08), one was prematurely terminated because of the revolution (CPS FY10–13), and one is ongoing (ISN FY13–14). Reflecting this, the core assessment of the achievement of objectives focuses on the first strategy (CAS FY05–08) and, where relevant, the second (CPS FY10–13)—that is, an overall development effectiveness (outcome) rating is provided for each pillar limited to an assessment of the Bank's contribution to the achievement of objectives prior to 2011.

To be forward-looking and with a view to adding value to the forthcoming CPS for Tunisia, we also pay significant attention to the ongoing strategy, despite the short time frame elapsed, and the limited number of activities that took place (only the 2011 Governance DPL is completed). The evaluation team ensured all objectives of the current ISN (FY13–14) are covered in the report, even though the availability of documentation to help assess the efficacy of certain objectives was patchy, especially in relation to the voice, transparency, and accountability reforms that began in 2011. Acknowledging the short implementation time frame to date, but recognizing its importance going forward, we assess and rate only the relevance and design of the Bank's program for the post-2011 period, which consists of, in particular, the GO and GOJ DPLs , the ISN FY13–14, AAA, and trust-funded operations.

1.25 The assessment takes several factors into consideration: how well the World Bank Group managed the country relationship under the relatively volatile conditions that prevailed in the aftermath of the Arab Spring, as well as its responsiveness to the priorities set by the interim government; the quality of cooperation with other donors and its partnership with civil society; the relevance of the World Bank Group strategy; and the design of its budget support and knowledge program. This analysis also allows us to identify lessons pertinent to program management in the context of systemic transition and attendant risks.

1.26 Chapter 2 presents and discusses the Bank Group's assistance strategy and program before and after the revolution. It also provides an overall rating for results and achievements prior to the revolution based on our analysis of the overall strategy and its constituent pillars (presented in subsequent chapters of the evaluation report), and an overall rating of Bank partnership with the government, its engagement with other stakeholders, and the relevance of the Bank program since 2011.

1.27 Chapters 3–6 discuss detailed results for each of the four pillars derived from the World Bank Group's three strategic documents during the FY05–FY13 period. The final chapter highlights key lessons and makes recommendations to strengthen future World Bank Group assistance to Tunisia. It also highlights more generally relevant lessons associated with Bank Group engagement in a challenging political economy arena (Tunisia before the revolution), and lessons associated with Bank Group engagement in a volatile period of transition (post-revolution Tunisia).

2. Assessment of Overall World Bank Group Strategy

World Bank Group Strategy

2.1 The Independent Evaluation Group's (IEG) Country Program Evaluation covers World Bank Group support to Tunisia between FY05 and FY13. The period spans three strategic frameworks developed in consultation with the government. The strategies set the direction of the Bank Group's program of lending and other support to Tunisia during the evaluation period as follows: the International Bank for Reconstruction and Development (IBRD) CAS (FY05–08) approved in June 2004; the IBRD CPS (FY10–13) approved in November 2009; and the joint IBRD/International Finance Corporation (IFC) ISN (FY13–14) approved in May 2012. The first two strategy papers were developed during the Ben Ali regime. The CAS was fully implemented, but the CPS was aborted after the revolution in January 2011. The ISN reflects the priorities of the new government formed after elections in October 2011.

2.2 **The strategic frameworks span two distinct periods in Tunisia's recent past (pre-and post-revolution).** This had significant bearing on program design and implementation, reflecting the changing nature of the relationship between the Bank Group and the government of Tunisia as time passed. It also bears on the approach to evaluation, requiring analysis both within and across periods to reflect the dynamic of significant change and upheaval. In addition, the evaluation period includes the onset and ongoing effects of other crises—the food, fuel, and global financial and economic crises that also served to recast the nature of the relationship between the Bank Group and the government.

2.3 **Table 2.1 lists the pillars supporting the respective strategic frameworks and illustrates the most marked change in strategic emphasis during the period, which is the post-revolution focus on voice, accountability, and transparency**. Otherwise, allowing for variation in pillar definition, the broad scope of Bank Group focus has not changed significantly during the evaluation period, providing a degree of stability from an evaluation perspective. In that regard, we grouped the various pillar headings to allow for an integrated and more coherent approach, also taking into account the shifting political and economic dynamic evident across the evaluation period (see table 2.2).

Table 2.1. Strategic Pillars in the CAS FY05–08, CPS FY10–13, and ISN FY13–14

World Bank Group Strategy Documents	Pillar 1	Pillar 2	Pillar 3
CAS (FY05–08)	Strengthen the business environment	Enhance skills and employability of graduates and labor force	Improve the quality of social services through enhanced efficiency of public expenditure
CPS (FY10–13) *canceled in 2011*	Growth, competitiveness, and employment	Sustainable development and climate change	Improving the quality of public services
ISN (FY13–14)	Laying the foundation for renewed sustainable growth and job creation	Promoting social and economic inclusion	Strengthening governance: voice, transparency, and accountability

2.4 **The four grouped pillars in table 2.2 cover a wide range of sectors and activities,** from macroeconomic stability, the business environment and infrastructure (Pillar 1), to quality and relevance in education (Pillar 2), to health and social safety nets (Pillar 3), and to improving public financial management and enhancing the general accountability, transparency, and accountability of public institutions (Pillar 4).

Table 2.2. Grouped Pillars for the Country Program Evaluation, FY05–13

Pillar 1	Pillar 2	Pillar 3	Pillar 4
Supporting macroeconomic stability; strengthening the business environment; improving competitiveness; and deepening integration of the Tunisian economy	Improving skills and employability of graduates	Promoting social and economic inclusion	Strengthening governance through improving public financial management and fostering voice, transparency, and accountability

Assessment of Overall Strategy

2.5 In describing the period up to the revolution, the two strategy documents paint a picture of the country and the nature of the Bank Group's dialogue with the authorities that is in stark contrast to the one portrayed in the ISN FY13–14.

2.6 It is important for context to understand the external authorizing environment that influenced the size and shape of the World Bank Group assistance program in Tunisia prior to 2011, and to appreciate the general view on the effectiveness of government development policies and programs during that period. Broadly, Tunisia was perceived by development partners and key stakeholders as one of the few countries in the region that had potential for further rapid development, and as a role model for other countries in MENA with regard to economic and social progress. Tunisia demonstrated steady, and in some cases impressive, social progress on key development indicators (including gender equality) that was not seen elsewhere in the region. Although it was perceived by many as a repressive regime, there were few, if any, examples of democratic participative governments in MENA. At the same time, Tunisia was led by a government that was closely aligned with important geo-strategic and security interests of key stakeholders, so preserving stability in Tunisia was implicitly an important objective for these stakeholders and partners. These positive views likely affected the Bank's assessment of what was being achieved by the government, and may have influenced the Bank's propensity to be hard-nosed in its negotiations with the government.

2.7 The CAS FY05–08 and CPS FY10–13 suggest an economy that performed reasonably well with regard to growth, poverty alleviation, and widespread access to basic social services. However, prior to FY11 the Bank became increasingly aware of significant deterioration in governance and the broader political climate that represented a real threat to the achievement of its development objectives at country level. During that period, the Bank adopted two radically different approaches (FY05–07 and FY08–11) in response to these issues.

Box 2.1. Bank Stance on Governance from 2004 to 2007

A major turning point in the Bank-Tunisia relationship occurred in late December 2003, when the Bank decided that it would not disburse the Information and Communications Technology (ICT) tranche of the third economic competitiveness adjustment loan (ECAL III). The Bank's view was that Tunisia had not provided satisfactory evidence that the award process granting the second GSM license was conducted in a transparent manner. The timing of this event was particularly symbolic for Tunisian authorities, who were preparing to host the 2005 World Summit of Information Society (WSIS). In an attempt to move past evident tensions, the government requested World Bank support for an ICT project (which is reviewed in the CPE). As a gesture of goodwill, the government also agreed to the establishment of a World Bank office in Tunis. This presence in the field allowed the Bank to get a better, firsthand sense of the situation in the country and the realities in the field through more regular contacts with partners, civil society, and stakeholders.

The Bank made another bold statement on governance issues in its 2007 country assistance strategy progress report (CASPR), referring to the issue of state capture. Governance concerns were intensely discussed with Tunisian authorities (including discussions between the Bank's then-Regional Vice President and Tunisia's prime minister and its Minister of Development and International Cooperation). In the face of the Bank's determination to retain paragraph 12 in the CASPR (see box 2.2), the government of Tunisia sent a counter-letter to the Bank, requesting that it be annexed to the CASPR (which would become a public document).

The Bank also raised governance concerns in several fora, including its discussion of Tunisia's National Plan in an international donor conference; in a regional, high-level conference on governance, trade, gender, and employment held in Tunis in May 2005; and in an open forum on GAC in Tunis in the spring of 2007.

2.8 Since 2004 the Bank began to challenge the government and position itself as the most visible and vocal critic of governance and business environment issues in Tunisia. The Country Director (CD) at that time courageously drew attention to misgovernance in the CAS and the CASPR, despite the absence of hard evidence. The government did not permit the Bank to undertake analytical work in this regard. In 2007 the CD reached out to academics and representatives of civil society to publicly air these concerns, and many of these stakeholders were appreciative of the Bank's efforts in this regard. However, the government strongly disagreed with the Bank's assessment and asked the Bank to annex its detailed comments to the CASPR.

2.9 From FY07 to FY10, the Bank's new team consciously adopted a different approach. As noted by the CD who took over in 2008, the government was ready to freeze relationships with the Bank and "there were no more projects in the pipeline." New lending in FY06–07 ($103.4 million per year) was lower than foreseen in the CAS ($200–300 million per year) because of the availability of other financing sources, slow progress on reforms, and deteriorating relations with the authorities. In these circumstances, the new team decided not to not openly challenge the government on governance issues (of which it was well aware) and reengaged in business. The CPS FY10–13 illustrates the change in approach. It praised the authorities and their overall approach to development and downplayed the muted criticism expressed in the earlier CAS and in the 2007 CASPR. As evidenced through field interviews conducted for this evaluation, this new approach proved to be quite damaging to the Bank's reputation.

2.10 The Bank Group was less than open in its reporting of the quality of its dialogue with the government prior to the revolution. Strategic documents expressed full satisfaction in that regard. However, in interviews, Bank staff and management said the government did not allow free access to independent members of civil society and effectively mediated all interactions and consultations. There was no clear acknowledgment in the strategy documents that the government refused to allow the World Bank to undertake important studies (on governance, investment climate assessment, public expenditure review, regional dimensions of poverty and inequalities, and so on), or that the government refused to engage in discussion on governance issues. Field interviews with Bank Group officials suggest that after 2007, the Bank Group may have chosen not to publicly air its differences with pre-revolution governments to maintain good relations and rebuild a robust lending pipeline. However, as confirmed by senior government civil servants interviewed for this evaluation, the Bank's unwillingness to provide a frank assessment was detrimental in at least two ways. First it allowed the government to continue to pursue suboptimal policies. Second it discouraged independent Tunisian analysts and thinkers, and allowed the government to counter criticisms by referring to the "convergence" of its views with the Bank's. The opportunistic approach to reporting damaged the Bank Group's reputation for unbiased analytical work.

Box 2.2. Excerpt on Governance Concerns Prior to 2008

CAS FY05–08, excerpt from paragraph 19

"Weaknesses in economic governance, in particular regarding the predictability and transparency of the regulatory framework and limited market contestability, constitute an important constraint to private investment. Strong government interference in the economy and the strategy of providing generous privileges for selected sectors run the risk of locking the country into threatened activities, such as textiles and clothing, which may leave Tunisia ill-positioned in the face of stiffer international competition. Discretionary intervention by the government, low levels of public accountability, voice and participation contribute to weakening the investment climate and strengthening the hand of "insiders," mostly in the absence of strong competitive forces. This contributes to reducing market contestability and discouraging risk-taking by less well-connected entrepreneurs. Examples of lack of transparency and predictability of the regulatory framework include: the process for obtaining prior authorization for private sector investments in the sectors where private investment is restricted and for majority ownership of Tunisian firms by foreign investors; the practice of limiting the amount of VAT reimbursements to non-exporting firms (onshore sector), which are submitted to the unpredictability of tax controls; the absence of sufficient safeguards for taxpayers facing tax controls and the absence of administrative appeal processes for taxation matters; the inconsistency by which auditing rules are applied to firms which borrow significant amounts; and the absence of a legal framework on concessions which would clarify the rules of engagement for private firms participating in infrastructure investments."

CASPR FY07, excerpt from paragraph 12)

"On this fourth indicator, accountability of the public sector, Tunisia fares poorly and has made no recent progress. The MENA 2007 Economic Developments and Prospects composite index for public sector accountability ranks Tunisia in the bottom quartile worldwide for current status and in the bottom half worldwide for progress since 2000. Numerous studies have shown the importance of public sector accountability for business confidence, effective public service delivery, and investment, growth and employment creation. In addition to its broad effect on economic development, a public sector that shows low accountability can be associated to the weak level of private investment and is likely to aggravate one of the constraints identified in the CAS …"

"Although Tunisia ranks well on a number of competitiveness and business climate indicators, special treatment of well-connected individuals is a growing concern of the Tunisian business community and may partially explain the low level of domestic private investment. Beyond its effect on investment, weak public sector accountability, and the resulting limited involvement of beneficiaries with public service providers, is likely to reduce the effectiveness of public service provision."

2.11 In contrast, the ISN FY13–14 emphasizes high levels of unemployment and poverty, especially in rural areas, and inequality in access to basic social services. It suggests that corruption and nepotism were rampant before the revolution and that the investment climate was weak, and it questions improvements identified in the Doing Business survey. Assuming the accuracy of the pre-2011 scenario as reported in the ISN, the Bank Group's assessment of the socioeconomic and political economy landscapes, as set out in previous strategic documents, was way off the mark.

2.12 The following sections review the Bank Group's assistance strategy and program before the revolution (FY05–10) and after (FY11–13). Part 1 (FY05–10) contains the core assessment of the achievement of objectives in CAS FY05–08, and as much as is relevant, achievements associated with the prematurely terminated CPS FY10–13. Part 2 (FY11–13) addresses Bank reengagement with Tunisia after the revolution and the ongoing ISN FY13–14. The fact that the strategy is ongoing means it is not possible to assess achievement; instead, as previously explained, we have assessed the relevance and design of the Bank Group program for this recent period, taking a range of factors into consideration (for example, quality of analytical work, instruments used, collaboration with development partners, consultation, policy conditionality, timetable of measures, and so on).

2.13 The review undertaken below operates at the broad strategic level and, as such, is structured under a number of headings that include: alignment of strategy with government development objectives and approach; cooperation with other donors; participation of nongovernment stakeholders; the role of AAA; risk assessment and mitigation; institutional development; monitoring and evaluation; realism in Bank Group strategy and reform programs; and policy conditionality. Details on the Bank Group's engagement under each pillar are provided in chapters 3, 4, 5, and 6.

2.14 At the end of Part 1, we provide an overall rating for achievement of strategic objectives between FY05–10. At the end of Part 2, we provide an overall assessment of the relevance and design of the Bank Group program between FY11 and FY13.

PART 1: REVIEW OF STRATEGY, FY05–10 (CAS FY05–08, CPS FY10–13)

- ✓ **ALIGNMENT WITH GOVERNMENT STRATEGY AND SELECTIVITY**

2.15 **The main development objectives in the World Bank Group's strategies throughout the period were well aligned with the government's own development objectives. The main goal was to create conditions for rapid and sustainable growth with the objective of reducing poverty and creating jobs for an increasingly educated work force in a knowledge-driven economy.** IFC's engagement prior to the revolution was limited because of the aforementioned governance issues in the private sector. IFC management rightly chose to be highly selective because of the prevailing business environment and focused its investments in transport (for example, public-private partnership [PPP] for building and modernizing the airport) and in the financial sector (support to Banque Internationale Arabe de Tunisie [BIAT]). IFC invested in the first Tunisian SME fund (Tuninvest) in the early 1990s and then in several regional funds (Maghreb Private Equity Fund [MPEF] 1, 2, and 3) with Tuninvest.[11] This partnership paved the way for the development of more regional SME funds (Intage, emerging capital partners, or ECP) and Tunisian funds (Altermed, United Gulf Financial Services, or UGFS, and so on). Other objectives of the Bank Group included improving access to, and the quality of, public services (health, education, water and sanitation, and transport), and strengthening the system of social protection by making it more efficient and financially viable. For its part, the IFC was involved with microfinance in Tunisia since 2007 (support to Enda Inter-Arabe, also called Enda), to help the organization increase lending to microenterprises, especially those owned by women. The Bank Group's program also addressed issues of natural resource management, especially of scarce water resources and climate change. These goals did not change very much over the period, though job creation became the primary challenge in later years.

2.16 **These development objectives were appropriate given initial conditions and forecast challenges**. Tunisia performed reasonably well in the period leading up to the CAS (FY05–08), manifest in a robust rate of GDP growth, improvement in most indicators of social development, and poverty reduction. But strains were emerging. Given the pattern of development (driven by exports of low-value-added products in the enclave offshore economy with limited backward and forward linkages to the rest of the economy), economic growth was insufficient to absorb the growing labor force. Unemployment remained above 13 percent since 2000, and the rate of unemployment was even more pronounced for the educated youth. Though extreme poverty had significantly reduced, there was still a relatively large part of the population, especially in rural areas, that lived just above the poverty line and was extremely vulnerable to fluctuations in agricultural performance. It was clear these trends in unemployment and poverty were likely to be exacerbated by the growing competition arising from the progressive opening of the economy to EU imports.[12]

2.17 **The government and the Bank Group also agreee on the principal issues to be addressed to achieve development objectives. Both viewed a dynamic private sector as the engine of growth**. A stable macroeconomic environment, an open trade regime, and a business-friendly investment climate were seen as important for fostering private sector growth. The Bank strategy also noted the importance of financial sector and transport sector reforms for, among other reasons, ensuring that private investors were not disadvantaged by lack of access to finance and transport services. Consistent with the strategy of transforming Tunisia into a high-value-added knowledge-based economy, the Bank emphasized the importance of reforms in the education sector to create a work force suitable for a knowledge-driven economy. The emphasis on improving the delivery of essential public services also formed part of Bank strategy. All of the above were relevant, important, and necessary components of the overall development effort.

2.18 **However, precisely because the strategies were so far-ranging, they lacked focus—almost everything in the economy was covered under the pillars. This lack of focus and failure to be selective likely diverted attention or concentration of focus from the more critical issues (see more details in chapter 3 to 6).** The Bank chose to continue to engage, and pursue essentially unachievable objectives, in sectors where key bottlenecks could not be removed because the government was unwilling to engage in first-order reform (for example, competition framework and duality in the onshore and offshore sectors, regulatory framework in the financial sector). As discussed below (in the section on policy conditionality), since the strategy papers covered everything, the supporting policy agenda was also too broad and lacked depth and focus. A better approach could have been to first, challenge the government to engage in priority reforms per AAA recommendations, and second, define strategic priorities more narrowly over a 3–5 year period in sectors where the Bank would have been able to foster government buy-in to engage critical reforms. The Bank could have put maximum resources into these areas to achieve specific targets, leaving other issues to be pursued in subsequent strategy periods.

✓ POLICY CONDITIONALITY

2.19 Although the Bank's strategy was well aligned with the government's development objectives and correctly identified the intervention areas needing reform to achieve key development objectives (integration, private sector development, and so on), the policy agenda to implement the strategy, primarily through a series of DPLs, was flawed.

2.20 **The most significant flaw is that critical bottlenecks and issues identified by the Bank's ESW were not addressed, and the Bank's conditionality focused instead on ancillary issues.** For example, instead of aggressively pushing for leveling the playing field between onshore and offshore activities, and significantly reducing the scope for ad hoc state interventions in business activities, the Bank chose to support ancillary measures such as strengthening the Competition Council, developing unique identification numbers for firms, expanding the range of activities that did not require prior authorizations, reducing minimum capital requirements for businesses, and so on. These measures were implemented but had very limited on the ground impact because the real bottlenecks were not addressed. In the financial sector, too much attention was devoted to repeatedly reducing nonperforming loans (which are largely symptomatic of poor lending decisions and/or underlying problems in the real sector), and until recently, nothing was done in relation to restructuring or privatizing the borrowing entities to ensure the core problem (governance) did not recur. The same pattern is also evident in policies supported by Bank operations to foster employment.[13] Not surprisingly, little was achieved in the past 10 years with regard to the key development outcomes identified in the Bank's strategies.[14]

2.21 Instead of engaging in repetitive lending in sectors dominated by rent-seeking activities, where the potential for the achievement of desired or stated outcomes or significant change was zero, the Bank may have been better advised to protect its reputation and to cease lending in these sectors. The Bank rightly adopted this strategy when it decided to take privatization off the table from FY05 to FY07 on the grounds that support would have likely led to the transfer of public assets to the "well connected" individuals or "insiders" referred to in the CASPR. In other sectors, the Bank could have chosen to concentrate on raising public awareness of relevant issues, and provide evidence and analysis that would have supported those who sought to challenge misgovernance. As one informant noted during an interview: "If the Bank had been more critical about it, rather than telling this miracle story, it would have helped those who were criticizing the system."

2.22 **There were a number of other concerns in the design of policy conditionality.** First, the imposition of too many conditions in policy-based loans made it difficult to separate more important conditions from those that were less important, thereby diverting limited implementation capacity. Second, too much of the policy conditionality related to processes and inputs (holding consultations, conducting reviews, preparation of action plans, and so on) and less attention was paid to the actual content of these submissions, which were often found to be lacking in critical aspects, having negligible impact on the problems they were expected to solve.[15] Third, there was too much reliance on draft legislation or decrees and less on how laws were being implemented,[16] despite general acknowledgement of weakness and lack of independence in the judicial system. A review of disbursement conditions in policy-based loans during the review period showed that at least half of the disbursement conditions involved submission of draft legislation or decrees to the National Assembly. In addition, insufficient attention was paid to ensuring the legislation "had teeth" or the implementing authorities had the financial resources and institutional capacity to follow through.

✓ **INSTITUTIONAL DEVELOPMENT**

2.23 The Bank's program consisted of a number of sector-wide investment loans that sought to improve access to basic public services such as potable water and transport, or to improve or expand a range of support services to make the agriculture sector more productive. A second objective of these loans was to strengthen institutional capacity to make institutions financially viable and enable them to improve delivery of services.

2.24 Although most projects were helpful in improving access to basic services, institutional development objectives were often not met, especially in sectors where there was no government commitment on appropriate policy reforms (such as reducing state controls on agriculture, revision of irrigation and water charges, allowing greater private sector participation in transport, and so on).

✓ **FLEXIBILITY OF STRATEGY**

2.25 **Within this broad framework, the Bank's strategy (and the program it supported) was flexible in design and in practice.** This flexibility was necessary to respond to anticipated shocks such as the intensification of competition from greater integration with the world economy, and unforeseen shocks such as drought, the international financial crisis, or the recession in Europe. Flexibility was also necessary to take account of emerging new knowledge and to accommodate any new requests for assistance from the government.

2.26 Typically the program was specified (with regard to concrete operations and AAA) for the initial year or two. For later years in the planning periods, an indicative list of projects was identified, which was to be developed in line with emerging priorities. The Bank's program offered a range of instruments that could be deployed to support development objectives. These included different types of AAA (technical assistance and ESW, ranging from in-depth economic analysis of specific issues of interest to short and focused just-in-time policy notes) and different kinds of loans (investment loans and budget support). The design of the Bank's strategy and program allowed for different reform trajectories, and for scaling up the program when bold reforms were undertaken and scaling down when the pace of reforms was not satisfactory. IFC also provided a range of instruments to assist the private sector. These included financing of equity, different kinds of debt financing, and advisory services. All these instruments were used in varying proportions throughout the period, depending on opportunities presented.

2.27 The Bank's program was also flexible in practice, as can be observed from the considerable divergence between the initial program reflected in the strategy documents and the actual deliveries.[17] The Bank adapted its CAS program to shrinking demand for its funding when Tunisia was able to access the private capital markets in 2007–08; but it was able to quickly ramp up its assistance in 2009 when Tunisia was faced with financial crisis. Again, when the post-revolution government took charge, the Bank was able to quickly adapt its program to new priorities (see more detail in part II of this section).

2.28 Flexibility was also shown in redesigning components of several on-going projects that were experiencing implementation problems.[18] In some of the policy-based DPLs, the Bank showed flexibility in its willingness to grant waivers when conditions for tranche release were not met, and in modifying its conditionality when required.[19]

✓ **COOPERATION WITH OTHER DONORS**

2.29 **Prior to 2011, the Bank maintained good cooperation with other bilateral (notably AFD and GTZ) and multilateral donors (AfDB, IMF) who play a significant role in Tunisia**. There was also close cooperation with the EU. This played an important part in the development of the Bank's strategy and in ensuring its program was harmonized with the programs of other development partners and reflected the relative strengths of different institutions. Donor partners collaborated on the design of some budget support and provided significant funding through cofinancing, or parallel financing (see appendix D). There was general appreciation of the quality of the Bank's analytical work, which informed other donors' strategies. The Bank's experience in implementing complex projects across the globe was also recognized: in some projects funded entirely by donor partners, the Bank was asked to ensure proper implementation.

2.30 **However, government reluctance to share information and to work in concert with stakeholders and the donor community, posed obstacles to more effective donor partnership.** The 2007 CASPR acknowledged this, noting that the government's preference for bilateral relationships with each donor did not provide the opportunity to develop joint analytical work and harmonize financing procedures as much as initially envisaged.

✓ **PARTICIPATION OF NONGOVERNMENTAL STAKEHOLDERS**

2.31 **The Bank made efforts to engage various nongovernmental stakeholders in developing its country strategy.** Typically, as reported in the strategy documents, consultations were organized with representatives of nongovernment organizations, parliamentarians, civil society, trades unions, women's groups, and private entrepreneurs to identify key issues in their respective areas of expertise. The strategy documents suggest views expressed were taken into account in strategy formulation.

2.32 **However, as confirmed through interviews, most of these interactions were intermediated through the government, and did not truly reflect independent views**. Collaborative work proposed by the government was directed towards preferred institutions, when better qualified institutions were available. As discussed below, one major objective of AAA—to inform and involve the broader public—was not met.

- ✓ **ROLE OF AAA**[20]

2.33 **The Bank produced high quality analytical work prior to the revolution, further enhanced in its relevance and application following the decision of the CMU to base the country economist in Tunis**. Tunisian authorities reviewed all proposals for AAA made by the Bank and often suggested topics and themes for analysis. This resulted in the completion of a number of high quality economic and sector work (ESW) during the period including, for example, in-depth analytical work on issues like the impact of global integration on the economy, as well as policy reviews (DPRs) that provided a synthetic overview of the economy, and summarized the rationale for reforms in various areas. In addition, the Bank prepared short, "just in time" policy notes at the government's request on various aspects of the economy. Most of these were topical and were highly regarded by government and donor partners. However, the analytical program lacked a credible political economy analysis in the country pre-2011. Such analysis would have been very valuable given the difficult environment and political resistance to reforms.

2.34 **Notwithstanding the range and quality of work carried out by the Bank, Tunisian authorities were committed to a piecemeal adoption of advice (tailored heavily to suit local social and political circumstances) that lacked strategic coherence.** Nevertheless, the findings of some of the ESW contributed to the formulation of the Bank's policy agenda that it promoted through the DPLs and sector loans. Overall, there was close coordination between budget support, technical assistance, and AAA. Other studies were used by the government to develop its own thinking,[21] and underpinned various development plans, notably the DPRs.

2.35 **By and large, close collaboration of mid-level and technical staff in the administration with the AAA teams meant the skill transfer and capacity building payoffs of AAA tasks to Tunisia were relatively high.** Overall, there was an "active engagement in the definition of the tasks and methods of analysis; generally close cooperation in carrying out the task, leading to capacity building; a careful reading of the final product by the client/partner."[22] Field interviews confirmed significant transfer in capacity-building, notably on performance-based budgeting, procurement and statistical analyses. But the close collaboration and detailed discussions held between task teams and cooperating officials did not extend beyond government circles, and even within the government, problems often arose caused by lack of communication or outright competition among the various involved agencies.

2.36 **Problems arose when the Bank proposed analytical work that included components the government considered politically sensitive, in which case the proposal was typically altered or rejected**. As a result, in some critical areas that were germane to Bank Group objectives, the Bank did not undertake in-depth work. One of the areas in question was the determinants of domestic private sector investment. Although some work hinted that governance issues may be the cause of sluggish private investment, there was no satisfactory analytical or empirical basis for making a persuasive argument[23]. A second aspect that seems to have been particularly neglected was the quality of public spending (capital and current expenditures), as was, more generally, the efficiency of public institutions. The Bank did not conduct a public expenditure review over the entire evaluation period. As the period was characterized by relatively low levels of investment and declining efficiency of investment, more analytical work to explain the declining efficiency of public investment would have been useful. The same may be said for the overall quality of public expenditures. Perhaps a third area where more work could have been done was in relation to the informal sector[24] that was, in some ways, most vulnerable to arbitrary intervention and harassment by public officials[25] (see chapter 3 for more detail). This sector is likely to remain important in the foreseeable future. Yet very little is known of its contribution to the economy, its role in poverty alleviation programs, its vulnerabilities, and how the sector can be mainstreamed into the more formal economy.

2.37 **The fact that some topics were placed off limits by the government had a direct impact on the quality of the knowledge agenda**. As the Regional Chief Economist put it to the QAG Panel (2007): "If the Bank agrees not to mention or examine certain topics deemed sensitive by the government, while thinking that these topics pose potentially large economic problems deserving immediate attention, how serious are we?" For example, guarded, diplomatic references to governance issues can be found in most AAA studies, but the issue was not addressed directly, pointing to a fundamental weakness in the nature of the Bank's dialogue with the government. Field interviews confirmed this as evidenced by various comments noting: "too much economic diplomacy";, "a window dressing approach at World Bank and IMF to present results"; "the Bank is careful not to hurt and was too complacent with what was going on in the country"; "the Bank was not critical enough of how things evolved in Tunisia. One should expect more criticism."

2.38 While the Bank was correct in soliciting the government (client) views on any proposed analytical work, and in responding to requests for studies/analysis, it, perhaps, went too far in effectively giving government a veto on "legitimate" topics for independent assessment, particularly where these were critical to the Bank Group's own objectives. The evaluation team recognizes that a PER or ICA cannot be conducted without collaboration with the government. Our concern is that the Bank didn't publicly recognize that it was prevented from conducting these critical analyses, and didn't revise its strategic goals accordingly. For example, the Bank continued to include as a key goal of the strategy the improvement of the quality of social services through enhanced efficiency of public expenditure, knowing that PER, which is key to key to help build capacity to prioritize public spending, would not be conducted. The same is true in relation to the objective to improve the business environment without an ICA survey (conducted by the Bank using the standard methodology).

2.39 **The weakest dimension of the AAA program, as delivered, was its dissemination**. The government was very sensitive to criticism, actual or implied, and reluctant to approve or encourage contacts with and dissemination to other, nongovernment stakeholders. A number of reports deemed sensitive were never disseminated. The situation was exacerbated by lack of transparency and the paucity of professional associations or NGOs independent of the government. As noted in the QAG report (2007), the authorities claimed to be inclusive in consultation, but invitees to consultation, both inside and outside the government, were often "quasi-official position holders" who were unlikely to present contentious views. As noted in one field interview: "When the problem became evident, the Bank didn't say anything and continued to put money in the country. The Bank was well aware but didn't alert the authorities, or the reports were hidden. In any case, the Bank should have made the documents public. I hope they will be more transparent with us and tell us what's wrong in our institutions." Prior to the changes made to Bank policies on openness, one recognizes it was more difficult for the teams to widely disseminate reports given the political context. Instead, the Bank often used the channel of regional reports to convey its views regarding the issues of misgovernance in the region. For example, the 2009 regional report explicitly addresses systems of privilege in the region, calling for governments to reduce rent seeking and to foster ease of market entry and competition; reduce arbitrariness in policy implementation; simplify regulations to help minimize discretionary behavior; and, increase transparency and access to information to improve accountability for all public institutions that interact with the market.

✓ RISK ASSESSMENT AND RISK MITIGATION

2.40 **The Bank Group's strategy identified various risks that could jeopardize development outcomes and the Bank Group program**. These included external factors such as the impact of global recession (which would seriously impact demand for Tunisian exports and tourism receipts), and poor rainfall (which had a significant adverse impact on agricultural production). Risks also included domestic factors such as the government's unwillingness or inability to stay the course of reforms, and inadequate institutional capacity to deliver reforms. In addition to risks from exogenous shocks and the slow pace of reforms, the CPS also mentioned the slow implementation of Bank projects caused by delays in procurement. The FY05–08 CAS also flagged the risk of domestic political turmoil likely to be caused by resentment in the population arising from their exclusion from meaningful participation in the democratic process, and the lack of freedom of expression. In view of the later developments, this was prescient, but the risk was not even considered in the CPS FY10–13, a reflection either of poor judgement or too much deference to the sensitivities of the government of the day.

2.41 **While, in most instances, the Bank Group managed to identify risks that could undermine the objectives of its program, typically its discussion on how to minimize the impact of risks was inadequate**. Mostly its approach consisted of exhorting the government to accelerate reforms to create new jobs, and promises to provide technical assistance and economic analysis. In view of Tunisia's long standing vulnerability to external shocks, and the relatively large proportion of the population that was economically vulnerable, especially in rural areas, a more robust risk assessment strategy might have been expected to focus, for example, on mainstreaming some form of unemployment insurance and/or cash transfers targeted to the poorest families.

✓ MONITORING AND EVALUATION

2.42 **The results framework proved inadequate to monitor the impact of the strategy.** The importance of having a good system for monitoring progress towards achieving the various development objectives was recognized in all strategy documents. Typically the strategies included a Results Matrix that identified selected indicators and targets, which were to be monitored; however, in practise, their utility was limited for several reasons. First, there were simply too many indicators, including some that were of little relevance. The large number of indicators made it very difficult to regularly monitor them, even if it made sense to do so, and if up to date supporting data were available. Second, in several cases, indicators were not well-defined or measurable, and when indicators were meaningful and measurable, baseline values were not always available. Finally, it was not clear how the indicators were used to measure progress (or lack of it) with a view to modifying the program, which is the essential purpose of the monitoring and evaluation framework.[26] Many of these drawbacks were recognized by the Bank at different times.[27] Yet the problems persisted.[28]

✓ **REALISM IN BANK STRATEGY AND REFORM PROGRAM**

2.43 **The Bank was prudent in its assessment of macroeconomic prospects and the ability of the government to implement reforms**. Table 2.3 shows the Bank was fairly accurate in its assessment of macroeconomic trends during the FY05–08 CAS period. However, this realism faded in the context of projections made in the CPS FY10–13. These were overly optimistic, not simply because of the impact of the unanticipated 2011 revolution, but as also evidenced by weak performance in 2010.

Table 2.3. Realism of Macroeconomic Forecasts

Indicators (%)	CAS Projected FY05–08	CAS Actual FY05–08
GDP Growth	4.9	5.1
GDP Deflator/CPI	2.5	4.2
GDI/GDP	24.5	23.7
FD/GDP	−3	−2.6
Ext. Bal./GDP	−3.1	−2.4

Source: World Development Indicators and CAS FY05-08
Note: FD=fiscal deficit; GDI=gross domestic investment; GDP=gross domestic product

While overall CAS level objectives were overly ambitious, actual operations supported by the Bank were largely undemanding of government in terms of the required scale and pace of change and associated reform. In a number of crucial areas, either nothing was attempted (because the Bank was persuaded by the government that the timing was not right), or the pace of the proposed reforms was very slow, reflecting the piecemeal and gradual approach of the government. This was the case for example for the offshore-onshore dichotomy identified in the early 2000s as a major impediment to greater private investment[29] as well as reforms to raise productivity in the agricultural sector, promote restructuring of state owned enterprises and banks, and reforms to reduce rigidities in the labor market.[30]

2.44 All of these thematic reforms were necessary in pursuit of development objectives, but were deemed too politically sensitive by the government. But, the Bank was unable or unwilling to convince the government that cautious incrementalism and state intervention would not suffice. The assessment report of the 2000 CAS concluded, "...the Bank has been responsive to government demands but, by the same token, may have lost out on opportunities to push the government to fulfil its own potential by arguing for deeper reforms in difficult areas." In the period up to the revolution, the Bank continued to be relatively passive, and may, as a result, have forgone further opportunities to argue for or encourage necessary reform.

2.45 On the other hand, the Bank could have been more realistic in the implementation of some of its investment projects. A large number of projects were completed with substantial delays, caused in part by the Bank's overestimation of the implementation capacity of the executing authorities. Delays were also caused by complicated procurement procedures within the country, and insufficient understanding in the administration about procedures for procurement for IBRD projects.[31]

✓ OVERALL RATING FOR FY05–10 (CAS FY05–08, CPS FY10–13)

2.46 The above analysis of the broad strategic approach for the period FY05–10 finds the objectives of the Bank Group program were well aligned with government objectives, that the Bank Group was flexible and responsive in its approach, and that it produced some high quality AAA. Our analysis also found M&E to be inadequate to monitor the impact of the strategy, and institutional development was weak in sectors where there was no government commitment to relevant policy reforms. We also concluded that the Bank Group approach failed to adapt or revise objectives to take account of the binding external environment. A better and more realistic political economy analysis could have provided valuable insight to better assess political resistance to reforms and reorient the World Bank Group program accordingly.

2.47 Perhaps the greatest concern regarding Bank performance throughout the FY05–10 period was the inherent contradiction between what the Bank knew about what needed to be done to achieve development objectives, and what it did. As discussed in detail in Chapters 3 to 6, major objectives were relevant in the broadest sense but were not supported by adequately designed operations and, as such, were bound to fail in the prevailing environment (see rating for achievement of sub-objectives under each pillar in table 2.4). The Bank's capacity or appetite to challenge the government on first-order reforms linked to governance issues was weak yet it continued to set overly ambitious objectives (for example, improving the business climate, financial sector efficiency) in sectors that were subject to endemic distortion and rent-seeking behaviors. Instead of electing to engage in almost all sectors with ambitious targets, the Bank program could have been more selective and have focused on sectors / areas where it may have been easier to foster and secure government buy-in in pursuit a more realistically achievable policy agenda. Furthermore, especially after 2007, the Bank Group appears to have adopted a particularly subservient role vis-à-vis government, and was relatively passive in accepting the mediation of its engagement in consultation, accepting an effective veto on the type and nature of studies related to the principle objectives of the Bank Group, and being relatively passive regarding the lack of dissemination of AAA work it carried out. There was a lack of honest reporting on the situation and the difficult relationship with the client. For example, the risks associated with the lack of voice/transparency mentioned in the CAS FY05–08 and CASPR FY07, were not referred to whatsoever in the risk analysis included in the CPS FY10–13.

2.48 Taking all of the above into account, and noting this strategic level assessment is further supported by specific, sector-related evidence set out in Chapters 3, 4, 5, and 6, we rate the overall achievement Unsatisfactory (see table 2.4 for a detailed breakdown of ratings across sectors that underpins our overall rating for FY05–10 period and box B.1 in appendix B for additional information on the rating methodology).

Table 2.4. Summary of World Bank Group Program Ratings

World Bank Group Objectives	World Bank Group Ratings, FY05–10
Strengthening the business environment, improving competitiveness, and deepening integration of the Tunisian economy	**Moderately Unsatisfactory**
Maintaining macroeconomic stability	Satisfactory
Deepening integration into the world economy	Moderately Satisfactory
Improving the business climate	Unsatisfactory
Improving the efficiency of the financial sector	Moderately Unsatisfactory
Modernizing infrastructure services	Moderately Unsatisfactory
Improving the competitiveness of agriculture	Unsatisfactory
Improving access, quality, and efficiency of the education sector	**Moderately Unsatisfactory**
In basic and secondary education	Moderately Unsatisfactory
In tertiary education	Moderately Unsatisfactory
Improving socioeconomic inclusion	
Improving the coverage, quality, and financial sustainability of social protection and pension	Moderately Unsatisfactory
Facilitating employment through effective and well-targeted active labor market programs	Unsatisfactory
Improving the coverage, quality, and financial sustainability of health care	Moderately Unsatisfactory
Improving access to basic services for underserved communities	Moderately Unsatisfactory
Improving the management of natural resources	Moderately Unsatisfactory
Improving Governance	
Improving public spending efficiency through performance-based budgeting reforms	Moderately Unsatisfactory
Improving procurement	Moderately Unsatisfactory

Box 2.2. Building a Counterfactual: Could the Bank Have Remained Engaged Differently?

By adopting a slow moving approach that failed to tackle major obstacles, and by not clearly voicing its disagreements with government policies, the Bank damaged its reputation. This evaluation suggests an alternative course of action for the Bank could have been to opt not to provide support in sectors or policy areas where government interference and rent-seeking prevented the implementation of relevant, core reforms, which in turn blocked the achievement of targeted, sustainable outcomes.

The evaluation does not suggest the suspension of all activities, but rather that the Bank could have adopted a different approach that involved more focused, and selective lending in areas where the Bank had secured government commitment for critical reforms, coupled with AAA in other, more problematic areas through which the Bank could have contributed to the development of broader awareness of the required reforms to help Tunisia make the transition to a knowledge based economy as called for by all National Development Plans. Below are a few examples of areas in which the Bank could have been active and that may have led to meaningful reform.

The Bank could have focused some of its effort on improved targeting of the poor through the FMAP and other social benefit programs, rather than investing seven years trying to improve quality of care.

In the education sector, the Bank could have provided AAA and/or lending to underpin, advocate and/or implement a more coordinated approach across the various tracks of the education system—the general, technical, and professional—at the college and secondary level with the development of complementarity with higher education (notably, the creation of bridges between the different cursus (*passerelles*) and the integration of on-the-job training into curriculae (*validation des acquis de l' experience*). This could have favored the development of practices through which cooperation could be fostered between enterprises and education at the secondary/college and higher levels. These types of approaches have been applied with some success in other countries in the region (such as Egypt before the revolution).

In the infrastructure sector, the Bank could have experimented with small scale, pilot approaches that would have been less politically risky. For example, in the case of sewerage, the Bank could have piloted an approach with the National Sanitation Utility (ONAS) to move from short term maintenance contracts with private operators, to longer term contracts where private operators carry out investments necessary to keep the service at the same level, or even to carry out upgrades[32]. In the telecom sector, the ICT project could have attempted to monitor telephony prices with a view to drawing attention to price disparities and possibly starting a discussion on competition while the ICT project was still going on. By contrast, in the transport sector, it is more difficult to imagine reforms that could have been owned by the government at that time[33].

In the agriculture sector, where the Bank engaged in project work that had limited impact (without institutional reforms), the Bank could have remained engaged solely on the knowledge agenda by, for example: offering grants for study tours to various stakeholders to allow them to see how other countries that faced similar issues went about solving them (for example on issues of food security); organizing in-country seminars to discuss findings from these study tours, which would serve to disseminate global experiences, and solicit feedback from a broader cross-section of stakeholders. In so doing, the Bank would have made use of one of its major assets, its global reach and experiences; strengthened its credibility; and enabled a cross section of Tunisian society to explore other possibilities in a nonthreatening way while remaining fully engaged in trying to shape development thinking. In this way, the Bank team could also obtain a deeper understanding / appreciation of the Tunisian position, their fears and the actual political economy options open to stakeholders.

PART 2: REVIEW OF STRATEGY FY11–13 (ISN FY13–14)

2.49 This section assesses the relevance and design of the Bank Group program since 2011, following the revolution and the reengagement with Tunisia. It focuses on key aspects of the Bank Group's approach after the revolution including, among other things, collaboration with other development partners, and partnership with civil society. As the strategy is ongoing, there is no assessment of the overall achievement of objectives.

✓ THE BANK'S IMMEDIATE RESPONSE POST REVOLUTION

2.50 **In the immediate aftermath of revolution, the Bank Group engaged rapidly and intensively in Tunisia's transition**. The Bank Group responded rapidly to the interim government's request to help define and support priority socioeconomic actions in line with the new political dispensation. In FY11, the lending pipeline was consolidated and streamlined into the quick-disbursing Governance and Opportunity (GO) DPL designed to: (i) rapidly address the interim authorities' resource constraints; and (ii) support reform priorities, including measures to promote governance, transparency and accountability, and alleviate the social impact of the economic downturn.

✓ COLLABORATION WITH DEVELOPMENT PARTNERS

2.51 The donor community, led by the Bank Group, is to be commended for its ability to move so rapidly and to provide sustained development assistance in this high risk environment. The IFC established field presence for the first time in Tunis in 2012, in colocation with the World Bank, strengthening the capacity for enhanced collaboration (see para. 2.58 below). The Bank succeeded in fully engaging other key DPs and leveraged additional resources to support the core package of policy reforms in the period immediately after the revolution. Its $1.3 billion program (3 percent of GDP) was developed jointly with the EU, AfDB, and AFD, who contributed US$850 million in cofinancing to the overall amount. Joint preparation of DPLs consolidated policy dialogue with the government. Though support was provided in the form of parallel financing, all cofinanciers participated in the design, and in joint supervision missions to assess implementation progress of the common policy matrix. The Bank Group mobilized global expertise and significantly scaled up technical assistance to support the new reform program, particularly in the areas of access to information and for short-term employment programs. The Bank Group also mobilized trust funds to pilot new employment and social services programs in lagging regions, and it worked closely with the IMF, most recently in the preparation of the joint FSAP (2012). During field interviews, representatives of the

AFD and EU emphasized the excellent cooperation between the Bank Group and their respective institutions.[34]

- ✓ **PARTNERSHIP WITH CIVIL SOCIETY AND PRIVATE SECTOR**

2.52 **The Bank Group also strengthened its partnership with civil society and the private sector**. Following the revolution, the Bank was able to solicit considerable input, on an open and free basis, from a broad range of stakeholders with which it had minimal and restricted previous contact. These included local officials, parliamentarians, and representatives of civil society organizations (CSOs), youth and women's groups, student and private sector organizations and others. The Bank Group received valuable input on development priorities such as youth employment, governance, health and education, social safety nets and in relation to the preparation of analytical work and operations, such as the DPLs.[35]

- ✓ **RELEVANCE OF THE BANK'S STRATEGY AND PROGRAM (ISN FY13–14)**

2.53 Overall, the country team was responsive to adjusting strategic direction after the revolution, and showed flexibility in view of the evolving political environment. The ISN (FY13–14) took note of the significant shift in government priorities following the revolution, and the short time horizon of the Constituent Assembly Government, whose mandate is expected to come to an end in 2013. Similar to the Bank Group's program in the pre-revolution period, the ISN seeks to promote private sector-led recovery and job creation.[36] The strategy also emphasizes the importance of reforming regulations governing the labor market to create incentives for job creation in the formal market. The interventions proposed (for example, measures to improve efficiency of ALMPs) were not novel and were, in fact, similar to those included, unsuccessfully, in strategies since the mid-1990s. What was new in the ISN was their coupling with the explicit inclusion of governance issues, and in particular measures to increase voice, transparency, and accountability. These included plans to improve access to information and social accountability, and to increase transparency and accountability of institutions. The post 2011 focus on voice has included an emphasis on gender, and our research (see appendix L) suggests a need for the World Bank Group to encourage women's participation at both local and national levels, and to integrate a gender-targeted approach to reduce regional disparities in healthcare, and support equal access to employment and other economic opportunity through market linkages.

2.54 **After the revolution, women's issues have been at the forefront of public debate because of the divided opinion of religious and secular factions on the social status and political participation of women (see appendix L)**. The ISN FY13–14 emphasizes the Bank Group's commitment to maintaining and advancing the role of women in Tunisia.[37] The integration of a gender dimension into new activities (both projects and analytical work) was one of the four principles of engagement referenced in the ISN,[38] which also suggests the IFC will "increasingly focus on women and youth in access to microfinance,"[39] (reflected in IFC's work on microfinance with Enda). The gender dimension will also be reflected in partnerships such as the Arab Network for Social Accountability (ANSA) where women and youth groups will be involved through regional partnerships with other stakeholders, such as CSOs, government, media and the private sector.[40] The ISN FY13–14 also mentions encouraging active participation of women in town hall meetings where local authorities and citizens discuss health, education and employment services. At this stage it is too early to assess the effects of ongoing strategies other than to note that challenges persist and the participation of women at the local level remains low.

2.55 **An adequate blend of instruments was proposed to implement the ISN** including IBRD policy-based and investment operations; GEF trust funds, and other trust funds administered or funded by the World Bank; and analytic and advisory services, including an investment climate assessment and PER, long denied by the previous regime. Given the worsening international and domestic economic outlook and the need to support cross-cutting reforms, the Bank planned to commit a large share of Tunisia's IBRD envelope through budget support using the DPL instrument. Therefore, the 2012 GOJ DPL, a follow-up to the 2011 GO DPL, was the centerpiece of the program. Though it is still too early to assess their full development impact, it is possible to assess the design of these operations.

2.56 **Despite the challenging business climate, the IFC has ramped-up investment.** Since the revolution, IFC has made six new investments amounting to about $94 million bringing its committed portfolio to $235 million (see appendix E para 13 to 14). IFC supports investment in priority areas. For example, IFC has also invested in infrastructure and health care, though the lack of clarity of the underlying policy framework is likely to impact performance. IFC is also supporting a financial fund focusing on SMEs[41].

2.57 **IFC is working closely with the Bank notably to promote a business friendly investment climate and stabilize the financial sector**. IFC is implementing several advisory projects on several regulatory reforms supported by the Bank DPL (investment code, regulatory simplification, and bankruptcy law). IFC is also providing support on debt resolution mechanisms, education for employment (E4E), microfinance, and support to MSMEs.

✓ ASSESSMENT OF THE DESIGN OF DPLS

2.58 **The evaluation team concludes the Bank Group's decision to consolidate Bank support into a multisector budget support operation was appropriate.** This avoided a dilution of Bank support; reinforced coordination across donors; facilitated the prioritization of tasks; and better responded to the government's needs, while taking into account the fact that the new government was overburdened in the aftermath of the revolution. However, given the nature of the reform program, which included a sequenced set of measures that require changes in the culture and practice of the administration, it would have been more appropriate to have implemented a programmatic approach rather than starting with a single tranche DPL.[42] This would have had the benefit of upfront agreement on the pace and timing of reforms. That said, we recognize there were pragmatic reasons underpinning the decision to opt for a single tranche DPL. First, it allowed the Bank respond in record time to the government's request for budget financing. Second, the budget support (adopted in May 2011) was negotiated with the interim government, which was due to be in place for only a few additional months (until October 2011).[43]

2.59 **The design of the operation benefited from strong analytical underpinnings.** The analytical program undertaken prior to the revolution had made recommendations that went unimplemented but which, in most cases, remained valid after the revolution. Program design also benefitted from the conclusion of a rapid, post-revolution assessment mission that focused on governance and financial sector issues to gather updated data and evidence,[44] identify the most pressing needs, and prioritize the reform agenda.

2.60 **The Bank picked up prior actions that were (i) relevant in response to immediate needs arising during the transition period; and (ii) that could be implemented relatively quickly given the short time horizon of the then government**. Both operations were well aligned to government objectives, focusing on measures[45] to promote private sector development for job creation and, at the same time, dealing with issues of immediate importance such as: improved delivery of social services, especially in remote areas; and strengthening of the social safety net, including assistance for the unemployed. Cutting across all areas, priority was given to improving governance, in particular by improving the availability of information and bringing in more transparency and accountability to the workings of the government. The 2012 GOJ DPL, building on measures initiated under the 2011 GO DPL, launched a number of processes/measures (GOJ 1 prior actions) to be firmed up under more ambitious and in depth reform[46] (GOJ 1 expected results and suggested GOJ 2 prior actions). The overall program was expected to lay the foundations for a more competitive business environment and more inclusive and accountable social services by the end of 2013. Overall, the operation supported a coherent set of reforms well suited to the post revolution transition, notwithstanding some design deficiencies that are referenced below.

2.61 **The overall program identified critical reforms but could have been better streamlined**. The issue of streamlining is perhaps even more important during the transition period given the limited implementation capacity of the government as it responds to a wide range of pressing, socioeconomic challenges. The ICR for the GO DPL noted the Bank's positive response to the high level of ambition of the interim government, which was intent on using the transition window of opportunity to launch numerous reforms. This was an appropriate response by the Bank in the immediate aftermath of revolution. But, by mid-2012, the Bank was aware of the growing complexity and volatility of the political context. In that regard, it would have been more realistic and manageable to focus the 2012 GOJ DPL on a restricted number of concrete and bold measures, rather than embracing policy issues in too many areas, despite their broader relevance in the post revolution context. In some cases the timetable for the implementation of certain measures within the 2012 budget support program could also have been more realistic in order to take into account the real difficulties Tunisia is now facing (multiple changes in government, an Assembly that is not entirely functional[47], public disaffection in many parts of the country). In pushing this ambitious reform agenda in the context of ongoing volatility, there was a risk that only marginal changes be proposed in the amended legislation that would not meet targeted outcome. This risk was ultimately realized in the context of most initial draft legislation or decrees proposed by government (procurement, competition, investment code). This led the country team to recently review the design of the DPL to modulate its support in face of the lack of progress made in 2013 under the difficult political climate.

2.62 In some cases, the Bank Group approach could have (i) been more selective, and (ii) better identified prior actions to monitor the impact, if any, of initial measures. Instead of always ensuring the realization of expected results, the Bank sometimes expanded a pilot approach without credible evidence to support generalization, or moved to other policy issues. For example, the launch of a systematic, participatory, measurable and visible reform to simplify administrative procedures turned out to be the launch of a review of existing regulations and procedures. This included a commitment to deliver concrete reforms in the areas of taxation, customs and tourism within six months of the review (that is by November 2011). To date, nothing has happened; instead of ensuring that the cost/time of administrative procedures are reduced for tax/customs (that is, seeing the process through to delivery), the Bank supported the adoption of a decree to launch a participatory review of formalities and regulations in nine other ministries as a prior action of the GOJ DPL. Two years later, the process has been launched in all ministries with, as yet, no demonstrable results on the ground.

2.63 In other instances, the Bank Group has followed-up well. For example, the 2012 GOJ1 DPL selected prior actions to follow up on implementation of measures related to (i) effective access to information, and (ii) the redesign of the AMAL Program that were supported but not effectively implemented under the 2011 GO DPL.

- ✓ **RISK ASSESSMENT AND RISK MITIGATION**

2.64 **The ISN identifies key internal risks** such as ongoing social and political tension, delayed economic recovery, and financial sector instability as well as risks associated with ongoing government ownership and implementation capacity in Tunisia. External risks, such as the difficult transition in Libya and projected increases in oil and food prices are also identified.

2.65 The risk mitigation approach includes assisting the government in the design of a robust reform program that maintains stability and lays the ground for private sector growth. It also envisages quick-disbursing financing and leveraging budget support. IFC's program will set out to restore investor confidence. The Bank Group will also work with the authorities and the IMF to build resilience in the financial sector.

2.66 **However, the ISN did not spell out specific, alternative plans to guide the Bank in its engagement in a changed political economy should those risks materialize (as they ultimately did).**

✓ **OVERALL RATING OF RELEVANCE AND DESIGN FY11–13 (ISN FY13–14)**

Box 2.3. Understanding the Ratings of World Bank Group Programs, 2011–13

Rating the program going forward is a new approach for IEG.

What is the rationale for this forward looking approach?

Since most activities supported through the 2011 and 2012 DPLs are still ongoing and some have hardly been initiated, it would be premature for this evaluation to attempt to rate achievement of outcomes; however, the approach paper for the evaluation indicated that specific attention would be paid to the relevance and design of the Bank Group Program after the revolution, with particular reference to the ISN FY13–14. The rationale was to conduct in-depth coverage of World Bank Group engagement after the revolution in order to provide forward-looking inputs on the management of the ongoing program.

What is the basis for the proposed ratings?

The following dimensions have been taken into account in rating the relevance and design of the Bank Group program since 2011: engagement with the government, DPs and civil society; Bank and IFC collaboration; the quality and relevance of the analytical programs and dissemination efforts; the relevance of the ISN and quality of the consultation process; the relevance of objectives and design of the DPLs; and risk assessment and mitigation.

What is not rated?

The October 2013 concept note for the second tranche of the 2012 DPL candidly reports on the limited progress made since 2011 on most targeted reforms, especially given political stalemate in 2012. The relatively poor results achieved so far under the 2011 DPL and the first tranche of the 2012 DPL are discussed through chapters 3 to 6 noting that these results (or lack thereof) are not taken into account in the proposed rating for the post-2011 period. For the post-2011 period, that rating focuses exclusively on the relevance and design of Bank engagement and operations.

2.67 **The donor community, led by the Bank Group, is to be commended for having moved so rapidly to provide sustained development assistance in this high-risk environment.** The Tunisian country program operates under very difficult circumstances wherein social unrest and political instability pose a continuing challenge.

2.68 The Bank Group has capitalized on a sound analytical program (carried out in the pre-revolution period) complemented by rapid, targeted missions (most notably on governance issues) to help the government identify critical bottlenecks and prioritize the reform program in the transition period. Field interviews confirm the authorities' appreciation of how the Bank Group has been flexible in supporting new priorities, and in the manner in which it took the lead with other donors to provide guidance and budget support. Field interviews are also supportive of the Bank Group's engagement with civil society.

2.69 The Bank Group has also done well in consolidating efforts through the DPL mechanism and in securing the support of other donors in this respect. Notwithstanding best efforts, the ongoing program faces challenges that have been outlined earlier—some elements of over ambition given the lack of governing or management ability and limited commitment to reform of the postrevolution government, unrealistic timetabling given the difficult transition environment that has absorbed much of the government attention, and challenges related to the specification of policy conditionality.

2.70 Taking all of the above into account, and noting this strategic level assessment of post-revolution program relevance and design is further supported by specific, sector-related detail set out in Chapters 3, 4, 5, and 6, we rate overall relevance and design for this period **Satisfactory.**

Table 2.5. Rating the Relevance of World Bank Group Programs Since the Revolution

Dimension Assessed for Relevance Post-2011	Rating
Swiftness of response	Highly Satisfactory
Coordination with donors (analytical, design joint lending, joint supervision)	Satisfactory
Bank-IFC collaboration	Satisfactory
Reaching out to stakeholders (ISN, ESW)	Satisfactory
Quality of AAA work	Satisfactory
Relevance of objectives of ISN and DPL	Satisfactory
Relevance of design (DPL)	Moderately Satisfactory
Quality of supervision and reporting (DPL, AM, and CN)	Highly Satisfactory
Risk mitigation	Moderately Unsatisfactory
OVERALL RATING	**Satisfactory**

Source: IEG

3. Strengthening the Business Environment, Improving Competitiveness, and Deepening Integration

Introduction

3.1 The principal goals of the government's economic development plans throughout the period were to generate dynamic economic growth and create employment. Enhancing the competitiveness of the Tunisian economy and fostering the development of an efficient private sector were considered to be critical to achieving these objectives. Private sector development and increased competitiveness were also important components in all of the Bank's strategy documents.

3.2 The evaluation will assess the Bank Group's contribution to the six areas it identified in its CAS FY05–08 as most important for fostering economic growth led by a dynamic private sector, as follows: maintaining macroeconomic stability; deepening global integration to promote competition and improve productivity; improving incentive systems and securing transparency and predictability of the regulatory framework to increase domestic competition and promote the private sector; making the financial sector more efficient for mobilizing savings and channeling credit to efficient enterprises; improving the delivery and efficiency of infrastructure services by public and private firms (including ICT, transport, and water/sanitation); and increasing the competitiveness and productivity of agriculture.

Maintaining Macroeconomic stability

Background and Context

3.3 Through the 1990s and early 2000s, Tunisia's macroeconomic performance was good. Prudent macro policies helped improve access to international financial markets. Tunisia was among the few emerging market borrowers that had investment grade status. While the macroeconomic performance as reflected by these indicators was satisfactory, the growing rate of unemployment (15 percent in 2004), and stagnant levels of domestic private investment (14 percent of GDP), were emerging as real issues of concern.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.4 Preservation of macroeconomic equilibrium to promote economic recovery continued to be an important objective of the government and the Bank during the review period (FY05–13). The partnership between the government and the Bank as expressed through the various strategy documents, as well as in the Letters of Development Policy (LDPs) accompanying the DPLs, reflected a common understanding of an appropriate macroeconomic framework. This framework typically outlined key macroeconomic objectives and targets (for example, expected growth of GDP and exports, the rate of investment and savings, the rate of inflation, current account and fiscal deficits, and the levels of public and foreign debt). For the most part, the Bank (jointly with the IMF) focused on fiscal policies and public debt management to achieve fiscal consolidation and reduce the burden of public debt[48].

RESULTS

3.5 **Overall, macroeconomic performance was satisfactory**. Despite severe external shocks (for example, financial crisis, war in Libya) and internal turmoil leading up to the Revolution and after, the country sustained moderate economic growth, and preserved macroeconomic stability. Inflation was moderate, and, the budget deficit and current account deficits were kept within manageable limits. Public debt and external debt, though high by international standards, are both sustainable and within acceptable bounds taking into account plausible assumptions of key economic parameters. The government allowed some depreciation of the real effective exchange rate, which helped Tunisian exporters maintain their competitiveness through a period of increased global integration and adverse external shocks. A recent IMF analysis noted that as of 2012, the Tunisian dinar was slightly overvalued, but broadly in line with medium term fundamentals.[49]

3.6 However, going forward, in view of the recent widening of the fiscal and current account deficits, the space for flexibility in fiscal and monetary policies is increasingly constrained. Inflationary pressures will limit the scope for monetary expansion. The expansionary fiscal policy has resulted in 2013 in larger wages and subsidies (almost 70 percent of total expenditures) which will make fiscal consolidation even more challenging. The level of foreign exchange reserves fell to 3.1 months of goods and nonfactor services (GNFS) imports by end August 2013. The unfavorable international climate and growing external debt will require prudent fiscal management.

3.7 A more detailed analysis of macroeconomic performance is provided in appendix F.1.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.8 **The Bank contributed to the objective of preserving macroeconomic stability in four ways. First, in its engagement with Tunisian policymakers in the context of the preparation of Strategy Papers, a mutually agreed upon medium-term macroeconomic framework was articulated,** which provided the broad trajectory of key macroeconomic variables that government was committed to achieve. The broad orientation of policies recommended by the Bank to preserve macroeconomic stability and external competitiveness (prudent fiscal and monetary policies, competitive exchange rate) was largely maintained throughout the period.

3.9 **Second, in terms of specific reforms to strengthen macrostability, the DPLs focused on measures for achieving fiscal consolidation** (by increased revenue mobilization and expenditure saving) and improving the public debt management system. As a result, some progress was achieved in simplifying tax rates, broadening the base of the VAT and in reducing some tax exemptions and preferential tax regimes. Less success was achieved in rationalizing public expenditures. In 2010, wages, subsidies and transfers, and interest payments continue to absorb more than 75 percent of budget revenues, leaving little space for capital expenditures and discretionary spending.

3.10 **The third important contribution made by the Bank was to provide urgently needed budget support financing at critical times,** especially in recent years when Tunisia was faced with adverse external and internal conditions and recourse to private capital markets had become costly. The program of policy reforms agreed on by the Bank and the government in the context of the DPLs provided an umbrella not only for channeling Bank resources, but also for attracting financing from other official sources and IFIs.[50] This support provided space to the government to implement policy reforms that allowed it adjust to adverse conditions without imposing unnecessary hardships on the population.

3.11 **Finally, the Bank's analytical work, especially the DPRs (2008, 2010) made a useful contribution to the formulation of the macroeconomic framework underlying various economic development plans.** It also provided the rationale for fiscal consolidation and the policies required to achieve that objective. Other Bank support included the strengthening of the government's medium term expenditure planning through the introduction of a rolling, medium-term budget framework, allowing the authorities to factor in medium-term risks and opportunities stemming from the evolution of the international and domestic environments (See chapter 6).

CONCLUSIONS

3.12 Overall, macroeconomic performance was satisfactory and, as noted above, the Bank made a useful contribution to these results. The macroeconomic achievements of the recent past should not, however, hide some serious underlying structural problems. First, economic growth, though satisfactory, was not good enough to make a serious dent in unemployment, which increased from 14 to 19 percent 2005–11 before declining to about 17 percent in 2012, the highest among Arab countries (including Egypt, Jordan and Morocco). One important reason for this was stagnation in investment. Gross domestic investment stayed almost flat at 25 percent of GDP between 2001–05 and 2006–10. Even more significantly the contribution of private investment has not increased since 2000, hovering about 14 percent of GDP. Second, economic growth remains extremely vulnerable because of overdependence on European markets and on rainfall. Third, regional disparities (between the growing coastal region and the stagnant hinterland) widened. Together with growing unemployment, this increased social tensions, creating pressures on the government to spend more on populist welfare programs. Fourth, fiscal discipline was often achieved by cutting back capital expenditures that adversely impact on future growth prospects. These structural issues are discussed further in this report.

3.13 **Rating For Bank's Contribution FY05–10***: Satisfactory*

Deepening Global Integration

BACKGROUND AND CONTEXT

3.14 In 1995, Tunisia became the first country in the MENA region to sign an Association Agreement with the EU, marking a major step in opening the economy to international competition. A process of gradual tariff reduction on EU imports was initiated. The government put in place generous fiscal and financial incentives in the "off shore" sector to attract FDI and boost exports. .

3.15 Despite this progress, the foreign trade regime was distorted. The onshore regime remained severely constrained by significant state interventions, and high tariff and nontariff barriers to non-EU imports. MFN tariffs remained high, as was their differential with respect to preferential tariffs applied to imports from the EU. Some items remained subject to import licenses or technical specifications, particularly consumer goods that competed against locally produced equivalents manufactured by "developing" industries (for example, textiles). Imports of several products, such as drugs, cereals, coffee, and tea, were monopolized by state trading boards or public enterprises. Agricultural trade remained subject to high import tariffs and nontariff barriers. Furthermore, there was very limited liberalization of services.

3.16 Foreign trade was heavily concentrated on a few products and on the European market. More than 40 percent of total exports in 2003–04 were concentrated in clothing and textiles and 75 percent of Tunisian exports went to the EU (notably France, Italy and Germany). The share of exports to North America was less than 1 percent.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.17 Greater integration with the world economy and promotion of exports remained a key government objective throughout most of the evaluation period as reflected in various Plan documents and the Bank's strategies. Increased competitiveness and greater global integration were among the prime objectives of the CAS FY05–08, and key outcomes included an improved incentive regime and transparent regulatory framework to promote foreign investments and exports. One of the pillars of the Bank's strategy in the CPS FY10–13 was Growth, Competitiveness and Employment in which a key target area was the promotion of greater integration (including global integration in services) and growth of the private sector.

RESULTS

3.18 **Tunisia made satisfactory progress during the period to open up the economy to international trade**. Effective integration with the EU led to a significant reduction in tariffs faced by Tunisia's largest trading partner. Duties from third countries have also been reduced, but remain high. The substantial wedge between the duties on imports from the EU and those from third countries may be leading to diversion of trade and providing an incentive for fraud (origin of product). Global integration was also strengthened by reducing transaction costs through improving basic trade facilitation (by reducing inefficiencies in port logistics, customs clearances and quality and safety controls). Despite these improvements, logistic costs still remain high and inhibit exporting. In particular, there is a shortage of large modern warehouses, logistics platforms, and efficient providers of logistics services Progress in liberalization of services was slow (especially transport) but some progress has been made recently in the Information and Communications Technology (ICT) sector.

3.19 **Overall, these policies contributed to a steady increase in the volume of foreign investment as well as in exports until 2010.** However, more than 50 percent of FDI inflows to Tunisia go to the energy sector while FDI inflows into manufacturing go predominantly to the low value-added textile and clothing and mechanical and electrical sectors. Furthermore, FDI inflows are mostly in the offshore sector, which is largely disconnected from the rest of the economy therefore limiting technological spillover effects. Also, FDI were concentrated in the coastal area and therefore didn't contribute to regional development. Although Tunisian exports became more diversified during the period under review both in terms of products and markets, much of the production for export tends to be simple assembly of various more or less sophisticated imported intermediary inputs, which generate low value-added and few jobs for skilled workers. Almost all of the export growth in recent years has been due to entry of newly established, foreign-owned firms. Small exporters are more likely to die and hardly ever grow large. The contribution of domestically owned firms to export growth was close to zero.[51]

3.20 Additional evidence is provided in appendix F.2.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.21 **Overall, Bank economic analysis and reports were relevant and of good quality.** The Bank undertook several studies that contributed to identifying key problems in the foreign trade regime and provided the analytical underpinning for some of the reforms supported by the Bank in the area of trade policy. The Bank also provided technical assistance to strengthen the capacity of trade analysts in the Ministry of Trade and Finance to build and use analytical tools for trade policy analysis and to properly evaluate the potential effects of the trade reforms to be implemented. The Bank also provided financing for technical assistance to the Ministry of Transport to assess the adequacy of logistics infrastructure and services and to develop an action plan to improve its efficiency.[52] These AAA were also useful to the government in developing reform ideas as well as to the Bank in the design of policy conditionality for DPLs. For example, the programmatic content of the ICL drew heavily on previous World Bank studies analyzing constraints to Tunisia's competitiveness, notably the Global Integration Report of 2008.

3.22 **Policy reforms to support global integration were provided throughout the evaluation period**. The development objectives of the ongoing Second Export Development Project (FY04) were to improve access to export markets and finance, and enhance the efficiency and performance of trade clearance processes, including customs operations and technical controls, thereby making trade logistics more efficient. The ICL DPL (FY09) supported policy interventions focusing on reducing tariffs; promoting convergence to EU product and quality standards; and reducing time and cost to international trade. The DPLs approved after the revolution did not explicitly address global integration issues, but included measures to open up the telecom sector to foreign and domestic investors[53].

3.23 **Bank interventions in promoting trade integration led to some positive developments** such as: the achievement of a revision of the Customs tariff regime resulting in the reduction of the number of customs tariff rates from 9 to 5 including the tariff rate "zero"; a decline in the simple mean of MFN import duties from 21.7 percent in 2009 to 17 percent in 2010; better alignment of standards and quality norms applicable to imports to best international practice. Other developments included streamlining of technical control clearance procedures resulting in a time saving for technical inspection services authorizations and a reduction in the average time taken to obtain port clearances from 5.6 days in 2008 to 3.6 days by end 2010.[54] Customs clearance and border crossing procedures were also streamlined to save time and cost. Exporters benefited from the Market Access Fund (FAMEX) and the Pre-Export Finance Guarantee facility established under the Export Development project that contributed to an estimated increase of exports of US$500 million by end 2011.[55]

CONCLUSIONS

3.24 **Overall, some progress was made during the period in opening up the economy to international trade.** The Bank played an important role in assisting exporters in exploiting the opportunities from greater integration by enabling more firms to access export markets, improving their access to finance, and by reducing trade transactions and logistics cost.

3.25 **However, there were a number of important policy areas where the Bank could have pressed harder for reforms.** These were pointed out in the Bank's analytical work, but were not followed up seriously in the policy conditionality of the various DPLs. The most glaring area was the continuing duality between offshore and onshore regimes. It is not clear why the Bank did not press for a more aggressive timetable for eliminating the generous fiscal incentives that the government continued to provide offshore exporters. While there may have been a case for these incentives when the offshore regime was first established (1972) in order to overcome the import-substitution bias until that time, maintaining these incentives more than 40 years later seems unjustified, and may be contributing to propping up inefficient export activities in the offshore sector. A second duality related to the trade regime characterized by duty free imports from EU partners and relatively high duties on imports from nonpreferential (MFN) partners. As pointed out in the Bank's ESW, this is likely to have led to trade diversion (and fraud) in favor of inefficient imports. Finally, though the Bank's analytical work highlighted the importance of promoting services exports, this area did not get the attention it deserved in the Bank's policy priorities.

3.26 **Rating For Bank's Contribution FY05–10:** ***Moderately satisfactory***

Improving Competitiveness and the Business Environment[56]

BACKGROUND AND CONTEXT

3.27 **Through the mid-1990s and early 2000s, efforts were made to strengthen the competitiveness and productivity of domestic enterprises to enable them to compete effectively in a progressively more open economy**. The World Bank supported many reforms, discussed further below, and including: the creation of a one-stop window (*guichet unique*) to facilitate business registration and start-ups in manufacturing; and the establishment of *mise à niveau* program targeted at the modernization of industrial infrastructure by adopting new technology, promoting quality and training workers.[57] A Competition Law, enacted in 1990 and amended in 1995 and 1999, abolished margins on retail prices. The burden of social security contribution for employers was reduced. Selected public enterprises were privatized, including two cement companies. The telecom sector was partly opened up for participation by the private sector.

3.28 **Despite these and other measures, the private sector was highly constrained.** Deregulation was mostly only on paper, and the private sector, especially onshore, remained subject to ad hoc, discretionary actions by the state that discouraged investment. Competition Law was ineffective, and the judicial process too long to fight such interventions. Though several of the Doing Business indicators suggested Tunisia was doing better in relation to other countries during 2000–05, this improvement did not translate into increased private investment flows. Between 2000 and 2005, the share of domestic private domestic investment in GDP fell by two percentage points. Overall, private domestic investment in Tunisia (about 13–14 percent of GDP) was significantly lower than the levels achieved in high growth comparator countries (closer to 25 percent).[58]

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.29 The government recognized that strengthening competiveness and promoting the growth of the private sector was necessary for faster economic growth and for creating jobs to keep pace with a growing labor force. This goal was reflected in the 10th and 11th Development Plans.

3.30 The Bank's strategy documents largely shared this vision and there was broad congruence regarding measures required to achieve this objective. To promote competition and improve the business climate, the common strategy called for structural reforms to reduce regulatory barriers and administrative procedures; close the incentives and regulatory gap between on shore and off shore regimes; reform the tax system; and improve access to financing and key physical infrastructure.

3.31 However, there was one particularly important issue on which serious differences emerged between the Bank and the government during the CAS and CASPR periods (2005–08). The Bank's assessment was that private investment was being constrained by poor governance (lack of transparency and accountability). The government contested this assessment, and, as a result, the agenda for reform supported by the Bank during the period under review failed to address this critical aspect head on. Reform of governance was ultimately included in the reform agenda after the Revolution in 2011.

RESULTS

- ✓ IMPROVING THE INVESTMENT CLIMATE

3.32 **Overall, there is no clear evidence that the investment climate improved over the period.** According to the World Bank's Doing Business surveys and the World Economic Forum's Index of Competitiveness, Tunisia's overall ranking with respect to ease of doing business improved throughout the period. However, the ISN FY13–14 raised questions about the accuracy of Doing Business indicators in assessing the investment climate in the circumstances prevailing in Tunisia prior to the Revolution. Apparently, access of interviewers was guided by the government, directly or indirectly, towards offshore private companies. Consequently, the indicators largely reflect the conditions in the off shore regime.[59] Secondly, the ISN noted the Doing Business survey may be an accurate reflection of business regulations de-jure, but they do not accurately reflect the very difficult *de facto* business environment characterized by ad hocism in the onshore sector.

3.33 Other studies and surveys also point to a more downbeat assessment of the investment climate. A 2008 survey of 851 enterprises conducted by *Institut d'Economie Quantitative* (IEQ) pointed to the heavy handed and pervasive influence of the state, and to the lack of serious reforms in the onshore sector. Similarly, the Bank's MENA Regional report on private sector development concluded the business environment in most MENA countries, including Tunisia, was perceived to be based on privilege and unequal application of the rules of the game and had resulted in less competition.[60] As noted in the ISN FY13–14, Tunisia's governance problem revolved around issues such as discretion in the application of laws and regulations, inefficient procurement processes, rigged privatization, declassification of public land and assets and improper use of public banks. These were the binding constraints on domestic private investment.

3.34 Field interviews with private entrepreneurs confirmed the investment climate had indeed deteriorated since 2005. A general lack of direction about economic policy, a growing paralysis in governance, and increased petty corruption in all areas of public-private interface were making it increasingly difficult for private businesses to operate.

✓ PRIVATE INVESTMENT PERFORMANCE

3.35 Given this environment, it is not surprising that domestic private investment was slow to respond. The share of gross private investment in GDP remained low (about 14–15 percent of GDP), and more or less stagnant through the last decade. The poor performance of domestic private investment is in contrast to the growth of FDI (largely in the offshore regime).

3.36 Additional evidence is provided in appendix F.2.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.37 The World Bank Group approved a series of DPLs to improve competitiveness and address constraints to private sector development complemented by IFC specific investments and advisory services in support of the private sector.

✓ IBRD SUPPORT

3.38 Several analytical studies were completed during the period to review the performance of Tunisia's manufacturing and services sector and SMEs, and to identify policy and institutional constraints to improving private sector competitiveness and productivity. The 2008 report on *Tunisia's Global Integration:*

Second Generation of Reforms to Boost Growth and Employment highlighted the importance of reforms in the onshore regime, labor market reforms and liberalization of service industries (telecom, transport). Reforms of the policy and regulatory framework for promoting competitiveness and private sector development were also one of the focus areas of the *Republic of Tunisia Development Policy Review: Towards Innovation-Driven Growth* (World Bank 2010). The Bank also completed a study to identify the reasons why SMEs continued to face difficulties in accessing finance. Most Bank reports were relevant and of good quality, though many of the recommendations of these reports relating to PSD (unlike on trade policy) did not find their way into policy commitments and concrete actions.[61]

3.39 **During FY05–09, policy reforms to support competitiveness and private sector development were provided through the Economic Competitiveness Development Loan (ECAL-4 FY05) and the ICL (FY09).** The focus of these efforts was to expand the scope of private sector activity (for example by restricting the scope of prior authorizations), simplify business regulations and discourage anticompetitive practices. Since then, and especially after 2011 when a new interim government took office, Bank support for private sector development has focused on improving governance. Increasing transparency and accountability in the government's interface with the private sector were important elements of the reforms supported by the Governance and Opportunity DPL (2011) and the Governance, Opportunity and Jobs DPL (2012).

3.40 **Some measures were taken to improve the business environment but overall the business environment continues to suffer from lack of competition and large bureaucratic burden.** Progressively over the period, the ambit of the private sector, especially in the onshore regime, was expanded by restricting the scope of prior authorizations that were required for private investment. The creation of new businesses was supported by reducing the minimum amount of capital required at registration, increasing the number of companies benefiting from accelerated VAT reimbursement, and increasing VAT reimbursement to 100 percent by 2008. The VAT rates were rebalanced and the top rate eliminated. Other measures were also implemented, including amendment of the Competition Law to strengthen the power of the competition council and the creation of an improved and more transparent market information system (through the adoption of the law on Registry of Commerce with effective online access and of the approval of an action plan for the establishment of a unique identifier for businesses that would be used by the National Institute of Statistics, the tax authorities and the social security authorities[62]). A draft law was prepared by the government amending the urban and regional development code to reduce the time required for businesses to acquire industrial land, but no improvement was visible on the ground.

3.41 **Although the Bank had identified the most binding constraints on the private sector before 2011** (for example, the onerous burden of regulations and the ad-hoc nature of the state's interventions in the onshore sector), **its policy agenda did not address these issues and, instead, focused on less important issues.[63]** For example, Bank operations failed to open market access (including by reducing foreign ownership ceiling in many sectors), clarify legal guarantees to investors, reduce procedural complexity and uncertainty in the investment framework**.** It is only after 2011, that Bank DPLs supported some measures in the area of governance and its interface with the private sector.

- To reduce compliance costs and arbitrariness in the government's dealings with the private sector, a systemic, participatory, measurable and visible reform was initiated (with IFC support) to simplify administrative procedures and red tape, and reduce discretion and arbitrariness. In 2011, the government committed to deliver concrete reforms within a short, specified period although progress has been very slow to date.[64]

- In 2012, the Bank supported preparation of the new investment code (with IFC technical assistance) to clarify market access rules, investors' rights and guarantees, and revise fiscal and nonfiscal incentive regime (GOJ-2 DPL trigger). The Bank is also supporting the revision of the legal framework for competition to reduce ad hoc discretionary decisions, restrictive product market regulation and increase enforcement (GOJ-2 DPL trigger). Donors are working closely with the government to help address significant shortcomings in the draft documents prepared by the government.

- Other measures were taken to establish an electronic registry (to simplify registration), to reform Tunisia's bankruptcy regime (to simplify the process of restructuring firms and liquidating insolvent ones) (GOJ-2 DPL trigger), to prepare a draft law on PPP (to better leverage funds for financing investment projects). Technical assistance was provided to help open up the ICT sector to foreign and domestic private investment to improve competitiveness.

✓ **IFC SUPPORT**

3.42 **The IFC supported private sector investment in the manufacturing and energy sectors as well as in infrastructure and health**. To facilitate private investment in infrastructure, and absorb the anticipated expansion of tourism following the Open Skies Agreement being negotiated at the time (2008–09) with the EU, the IFC provided funding to *TAV Tunisie*, a special purpose company established to build a new airport at Enfidha, upgrade the Monastir airport and operate both on a 40-year BOT concession. This project was the first PPP in the air transport sector in Tunisia and remains the largest IFC investment in the country. The IFC also invested in selected private high-tech companies in the oil and gas sector and in the electrical machinery sector. To encourage private investment in the health sector, the IFC contributed equity (equivalent to US$9.23 million) to a private health care holding company (FY12). The objective is to develop good, state of the art health care clinics in Tunis and in underserved areas in Tunisia to encourage health tourism from neighboring countries (Libya, Algeria) as well as cater to patients in less developed regions of the country (See Chapter 5).

3.43 **With respect to IFC investments, their overall development impact on promoting the private sector and tourism has, to date, been marginal at best.** That said, the evaluation team recognizes it is too early to assess the return of most of these equity investments (as most of them are less than three years). IFC's investment in the airport expansion project was adversely affected by the decline in tourism traffic following the recession in Europe as well as continuing uncertainty arising from the revolution and its aftermath. The baseline combined traffic at Monastir and Enfidha was 5.2 million passengers in 2010 (targeted traffic was 5.6 million), but traffic decreased by 42 percent (to 2.3 million passengers) in 2011. Despite a pick up from that level, by 2013 traffic levels were still 16 percent below baseline. Amendments to the concessions agreement were made, but the financial equilibrium of the project is still to be achieved. In hindsight, it is clear the starting assumptions for the project—a steady increase in traffic caused by robust growth in Europe and a stable social and political environment at home—did not hold. The expectation that this project would serve as a model PPP and encourage other PPPs in infrastructure has not yet materialized. But despite these shocks, the airport is still operating and the sponsor remains committed to the project The IFC's investment in the electrical machinery sector was hurt (2011–12) by the continuing recession in Europe that adversely affected automobile manufacturers and their demand for printed circuit board imports from Tunisia. Nevertheless, the company recovered in 2013, improved its corporate governance with IFC support, and was able to raise additional equity in the market. Finally, the two oil and gas companies are also not yet doing well financially, with negative net incomes and liquidity problems. Until drilling is completed and the "first oil" is found, the project is likely to incur losses. Since IFC invested in the sector, other DFIs (EBRD, EIG, AfDB) have invested (or are considering investing) in this sector.

3.44 **Post revolution, the IFC provided expertise in assisting the authorities design a new Investment Code, and in helping to prepare a plan to reduce the burden of excessive regulation on private businesses (see above joint work with the Bank in support of the reforms supported by the DPLs)**. The IFC's contribution to the revision of the Investment Code was appreciated though questions were raised during field interviews conducted for the evaluation about the lack of effective debate and input from the private sector. The initial draft investment code had key shortcomings notably the lack of strong measures to address the onshore-offshore dichotomy. The much delayed project to identify the most burdensome regulations on private sector activity is still underway. Consultations with the private sector were further postponed in September 2013 until the political situation improves.

CONCLUSIONS

3.45 **Until 2010, although some measures were taken to improve the investment climate and promote the private sector, these did not address the most binding constraints on private investment and were largely ineffective. So, not surprisingly, the private sector stagnated during the period.** For the most part, the Bank's analytical work had identified core issues holding back the private sector. Yet the policy agenda that the Bank pursued through its budget support over more than a decade did not address these key issues. For example, among the main constraint that has continued to stifle the private sector is the complex legal and regulatory framework in the onshore sector and the arbitrary and ad-hoc implementation of rules and regulations. The CAS FY05–08 identified poor quality of governance, and in particular the lack of transparency and accountability, as a major reason for the continuing low level of domestic private investment. Although the Bank had strong anecdotal evidence that discretionary and arbitrary state interventions were holding back private initiative in the onshore sector, it did not have a strong analytical or empirical basis for this conclusion because the government would not permit analysis of these issues. Not surprisingly, without any analytic basis, the Bank's diagnosis about the stagnation of domestic private investment was strongly rebutted by the government.

3.46 **The Bank may also be faulted for not following through on its diagnosis, however fragile its analytical underpinnings.** Even though the CAS and the CASPR had identified arbitrary state interference and anticompetitive behavior as among the main constraints to private sector development, these issues were not addressed head-on in subsequent DPLs that addressed issues of competitiveness and private sector development. Instead, the approach was more of the same, that is, as in the past, the

2007 ECAL4 instituted change at the margins rather than at the core of the issues in question. The same approach was adopted in the 2009 ICL. In the area of PSD, the loan addressed marginal issues and ignored the real problems. Under the loan, the scope for prior authorizations was to be reduced further; the Competition Council was to undertake assessments of the regulatory and competitive framework in two service sectors; an action plan for the establishment of a unique identification number for businesses was to be adopted and the information in the Registry of Commerce was to be updated; and a law was to be adopted to reduce the time necessary for businesses to acquire industrial land (which did not happen). This was the extent of the Bank's agenda for private sector development five years after it identified heavy handed state interference as a major problem.

3.47 After more than 10 years of planned reform and roughly $450 million of lending in support of PSD objectives (FY00–10), the Bank could have drawn a line in the sand, at least with respect to lending to support PSD. The Bank's flexibility, typically regarded as strength, in this instance was a weakness. In 2009, when the opportunity arose to negotiate more meaningful conditionality when the country faced a severe financial crisis and needed financial support and endorsement from the IFIs, the Bank failed to do so. It would have helped if the Bank had been more forthright in its loan documents about the reasons why more meaningful conditionality was not included in the ICL. An honest admission of divergence of opinion between the Bank and the government would have helped understand why the Bank's views were not reflected in policy conditionality.

3.48 **Rating For Bank's Contribution FY05–10:** ***Unsatisfactory***

Improving the Efficiency of the Financial Sector

BACKGROUND AND CONTEXT

3.49 In 2004, the financial system in Tunisia was the second most developed in the region, with assets comprising about 90 percent of GDP (after Morocco's with assets equivalent to 155 percent of GDP).[65] Commercial banks dominated the financial system accounting for close to 70 percent of its total assets. The four, state owned banks, serving "strategic" sectors (agriculture, housing, microfinance, and tourism) accounted for 30.6 percent of total financial system assets, and private banks another 39.1 percent.

3.50 **Financial sector reforms were an important component of the government's reform agenda since the early 1990s.** The World Bank supported many of these reforms (for example, amended central bank [CB] Law to promote market-based CB interventions, revised banking law consistent with international best practice, settled nonperforming loans), most recently through a series of ECALs of which ECAL 2 (FY99) was devoted solely to improving the soundness, efficiency and competitiveness of the banking sector. A Financial Sector Assessment Program (FSAP) was completed in 2002 in collaboration with the IMF.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.51 Throughout the evaluation period, the development of an efficient financial sector was viewed by the government as an important instrument for accelerating economic growth and generating employment**.** Post revolution, reforms to improve the banking sector's operation and stability, and increase its resilience to external shocks (such as restructuring and recapitalization of state banks, and stricter regulations) were included in the interim government's medium term economic recovery program adopted in 2012. Other proposed financial sector reforms include diversification of banking services, including Islamic finance and international banks, new legal and institutional frameworks for microcredit organizations and development of the insurance sector.

3.52 **Financial sector reforms were an integral part of the World Bank Group's program in Tunisia during FY05–13.** The CAS FY05–08 program was designed to support the government's efforts to strengthen the banking sector by enforcing provisioning targets; strengthening the protection of creditors' rights in bankruptcy; reinforcing existing credit registry and improving financial information about borrowers. The CAS FY05–08 also sought to support the government's goals in the nonbanking sector by promoting the development of life assurance and the secondary market for government securities. In the CPS FY10–13, the proposed reforms in the financial sector included measures to increase stability in the banking sector, improve the regulatory framework for microfinance, and increase access to finance, especially for micro and small and medium enterprises (MSME). In the ISN FY13–14, priority financial sector reforms included the restructuring and recapitalization of state-owned banks, the introduction of stricter regulation requirements, the strengthening of banking supervision procedures, and the establishment of a financial crisis preparedness monitoring framework.

RESULTS

3.53 **The financial sector continues to suffer from critical weaknesses caused by the vulnerabilities of state owned banks and weak supervision.** The share of NPLs in total loans outstanding (13 percent in 2012) exceeded the target rate of 10 percent and real improvement may have been much less significant.[66] Provisioning improved from 47.4 percent of NPLs in 2005 to 60 percent by the end of 2011 but this remain much lower than targeted (at least 70 percent). Progress in product innovation and quality service was generally low, even if the situation varied across banks. The regulatory framework did not provide a level playing field—some banks were allowed to carry out their activities without meeting risk management standards and key regulatory requirements. Competition in the sector was also distorted by the heavy and often discretionary involvement of the state. Poorly performing public banks are provided with recapitalization by the state, when needed, without changing their governance structure. Contestability in the Tunisian banking system was limited**.** Foreign entry was allowed only on condition that new banks buy distressed institutions at prices that represented significant barriers to entry. Greenfield banks were generally not allowed.

3.54 **As such, little progress was made in achieving the development objectives of proposed reforms in the financial sector**. **A key objective of financial sector reforms was to promote greater financial intermediation by encouraging mobilization of domestic savings in financial institutions, and improving the access of credit to the productive sectors, especially the private sector. On both these counts, results were disappointing.** Saving mobilization (measured either by the share of quasi money or broad money in GDP) increased only marginally. The performance of the financial sector was also unsatisfactory in relation to credit allocation. The share of domestic credit in GDP and the share of credit to the private sector during 2005–11 remained both below what it was in 2000–04.

3.55 Reforms in the financial sector also sought to enlarge the role of the capital market and nonbank financial institutions in mobilizing and allocating savings. Here too, results were disappointing. As observed in the FY12 FSAP, capital markets did not play a major role in mobilizing savings and financing the real economy**.** Funds raised in the capital markets represented only 2 percent of GDP compared with private sector credit of 65 percent of GDP in 2010. The sovereign bond market met the minimum size requirements for inclusion in global indexes, but remained underdeveloped and illiquid. The equity and corporate bonds primary markets remain small and the secondary market lacks liquidity.

3.56 Additional evidence is provided in appendix F.4.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.57 Support to the financial sector was provided in the form of analytical and diagnostic studies to identify reform areas, policy-based loans to help the government implement financial sector reforms, technical assistance to strengthen key financial sector institutions and lending in support of the reform agenda. Complementing these efforts, the IFC provided financial and advisory services to major commercial banks as well as support to the only private sector entity (*Enda Inter-Arabe / Enda*) providing microfinance to small entrepreneurs.

- ✓ **IBRD SUPPORT**

3.58 **During the review period, a number of analytical studies and sector assessments were carried out in relation to the financial sector** including two (FY06 and FY12) Financial Sector Assessment Programs (FSAPs) carried out in collaboration with the IMF, analytical studies/policy notes on the financial sector and financing of SMEs, as well as short notes on governance issues in private and public banks. The FY12 FSAP notes 20 of the 27 policies and institutional reform recommendations of the FY06 FSAP were not implemented in full, and a majority were not implemented at all. Field interviews with central bank officials suggest appreciation of the quality of the Bank's economic analysis of the financial sector in general and about the FSAPs in particular. However, there was concern that implementing such a large program of reforms placed a significant burden on the capacities of the central bank, which needed to be enhanced.

3.59 **Financial sector reforms were addressed through the ECAL 4 (FY05) and ICL (FY09).** One of the main objectives of ECAL 4 was to reinforce the financial sector's capacity to finance growth, by supporting initiatives to reduce the level of nonperforming loans, further strengthening the regulatory framework for bank intermediation, and fostering development of contractual savings, especially in the insurance sector. The reforms under the ICL DPL aimed to reduce the volume of NPLs in the banking system and increase the provisioning of bad loans. Other reforms included measures to strengthen venture capital firms, deepen the stock market and improve the performance of the microfinance market. In FY11–13, financial sector reforms focused increasingly on weak corporate governance in banks. The reform agenda in GO DPL pushed for implementation of good corporate governance rules for credit institutions based on international best practices. The thrust of reforms supported by the GOJ DPL was on further strengthening the prudential and regulatory framework for banks, and on identifying the critical problems and risks in the three state owned banks whose portfolio quality was deteriorating in recent years. These policy based loans were accompanied by an APL for a Micro, Small and Medium Enterprises (MSME) Development Project in FY12 with the objective of improving their access to finance and enabling otherwise creditworthy MSMEs to sustain operations in the face of adverse exogenous factors (Libyan crisis, political uncertainty in Tunisia)[67].

3.60 Overall, until end 2010 despite the Bank's contribution to the implementation of reforms referenced below, this did not lead to significant improvement in the state of the banking sector (as set out in the earlier results section). Despite repeated efforts to reduce the portfolio of NPLs since the late 1990s, their share remains high and above target. In fact, the Bank identified but could not address the core constraints that led to the vulnerability of the financial sector (that is, state interference, weak supervision, absence of risk management system). There was no buy-in from the government to reform state owned banks, which were used by the regime for connected lending. This led to improper sequencing of reforms, where the Bank lent repeatedly to stabilize the financial sector thereby supporting bailing out the state-owned banks rather than first addressing the core factors leading to the repeated, periodic building up of NPLs.

3.61 After 2011, the Bank supported measures to deal with the governance failures notably in state owned bank (36 percent of the credit market). New and improved prudential regulations (Sept 2012) were put in place requiring all banks to implement stricter rules, though there are doubts about their implementation, especially in state owned banks (GOJ-1 DPL trigger). Strategic and financial audits of the three public banks were initiated with substantial delays, and results are expected in the first quarter of 2014 (GOJ-1 DPL trigger). These audits should help inform the strategy to restructure state owned banks. The central bank issued good corporate governance rules for credit institutions based on international best practices and introduced criteria for the selection of senior management and members of the board[68].

3.62 The insurance sector was strengthened by enhancing the autonomy of the insurance supervisor. To increase competition in the sector, foreign investors were allowed to become majority owners in the capital of insurance companies.

3.63 In the securities market, a law was adopted enhancing the sanction powers of the securities market regulator, increasing sanctions for securities offences, and setting a framework for individual savings management. However, the stock market remains relatively small, with capitalization of only about 21 percent of GDP (compared with 60 percent in Morocco, and 93 percent in Jordan). The law governing venture capital companies (*Sociétés d'Investissement à Capital Risque*), and mutual venture funds (*Fonds Communs de Placement à risque*), was amended in order to strengthen venture capital firms. A new law to regulate the microfinance sector was approved recently.

- ✓ **IFC SUPPORT**

3.64 The IFC complemented macrofinancial sector reforms by assisting specific private banks in increasing their client base and introducing improved business practices. In FY04, the IFC provided a 10 year subordinated loan of about US$65 million to enhance the capital base of BIAT (*Banque Internationale Arabe de Tunisie*), the largest private commercial bank in Tunisia. The main objective of the funding was to enable the bank to attract more deposits and increase lending at competitive rates to SMEs. The IFC also provided advisory services to strengthen the bank's positioning in the retail and small business market, and improve the quality of its services. More recently, in FY13 the IFC invested about US$48.3 million in equity in AMEN bank, the second largest private bank in the country. The objective of this equity infusion was to enable the bank lend more to SMEs and to expand its operations abroad. Advisory services were also provided to improve corporate governance and risk management practices. Commercial banks were also highly appreciative of the quality of expertise provided by the IFC and found their advisory services beneficial.

3.65 **The IFC also played an important role in promoting the growth of microfinance in Tunisia**. In FY08, it provided a US$2.7 million local currency loan to ENDA, the only private microfinance institution in the country servicing the microfinance needs of disadvantaged groups, such as women and the poor. By strengthening the funding base of ENDA, a non-deposit-taking institution, the project's objective was to expand its growth and outreach. In FY13, the IFC approved another US$6.5 million local currency loan to ENDA to improve its liquidity. The IFC is also providing advisory services on improving corporate governance, product development and risk management to enable ENDA to strengthen its operations and prepare for its transformation from a microfinance NGO into a microfinance company under the new microfinance law.

3.66 **The results of IFC's investment in private banks are mixed.** While there is no doubt IFC's advisory services have helped BIAT improve corporate governance and operational and risk management practices, it is not clear if the development objectives of the IFC's engagement (to increase the deposit base and increase lending) was met. In field interviews, the BIAT management accepted that the bank's performance with respect to deposit mobilization and lending to the private sector broadly conformed to the economy–wide stagnation reported earlier.

Moreover, as of June 2012, the BIAT was in breach of important financial covenants of the agreement with the IFC[69], including covenants for preventing lending to connected clients. The investment in AMEN bank is too recent to access its results.

3.67 IFC's involvement with ENDA was very positive. IFC's participation in ENDA's financing encouraged other international investors and, by 2012, ENDA had developed financial relations with eight local banks and four international investors, significantly enriching its funding. This, in turn, allowed ENDA to significantly enlarge its microcredit operations. Its outreach increased from 26,000 clients in 2006 to 210,957 in June 2012, servicing almost 50 percent of the existing microfinance borrowers, up from 16 percent in 2006. IFC's advisory services also helped ENDA scale up its offer to women entrepreneurs, improve its portfolio quality and optimize product design to better respond to the needs of its vulnerable target group. The expansion in ENDA's activities is likely to have had a positive developmental impact on the vulnerable sections of the population and on job creation. Almost 68 percent of clients are women, and more than 60 percent live below the national average income. ENDA's success in helping fight unemployment and poverty also played a role in the promulgation of the microfinance law, which seeks to formalize the microfinance sector and regulate microfinance activities.

CONCLUSIONS

3.68 **In terms of the overall development objectives, the results are unsatisfactory.** There was no improvement in either the financial system's capacity to mobilize domestic savings or in its capacity to increase lending to creditworthy borrowers, especially in the private sector. The role of the nonbanking sector is marginal. As several surveys have pointed out, poor access to credit and its high cost continue to remain prominent constraints to the growth of private enterprises. This negative assessment of reforms in the financial sector is in line with the Bank's own assessment[70].

3.69 **Not enough attention was devoted to improving governance, and enforcing financial discipline and accountability, in the financial system**. This was especially true for state owned banks where poor performers were bailed out by state recapitalization without changing governance practices or implementing real restructuring. Also, too little was done to reduce the state's direct interventions in the financial sector. The state continued to play a critical role directly through state-owned banks and, indirectly, through state-owned enterprises, which are important clients of all commercial banks. Moreover, banks with good connections to the state apparatus were allowed to carry out their activities without meeting regulatory requirements or risk management standards. Such interventions further undermined competition and confidence in the financial system.

3.70 **Reforms were also subject to flaws associated with improper sequencing.** Efforts at improving the health of the banking system by reducing the volume of NPLs through partial bailout by the government were bound to fail, if these settlements were not accompanied or preceded by implementing strict measures to improve corporate governance and financial discipline. Without these measures it is not surprising that NPLs remain high, despite periodic settlements since the mid-1990s.

3.71 In conclusion, in the pre-revolution context, dialogue between the Central Bank of Tunisia and the World Bank on core banking sector reforms proved ineffective given the level of corruption and cronyism that affected the banking sector. The Bank tried, unsuccessfully, to engage the government on certain core issues (for example, credit bureau, Basel II regulation, governance, secured lending, and so on); instead, the Bank stayed engaged in the sector by supporting less critical and sometimes cosmetic measures that were agreed to with the authorities.

3.72 **Probably the only exception to an otherwise negative assessment was the IFC's involvement in the microfinance sector**. Its intervention in ENDA contributed to a large expansion in its activities benefitting vulnerable sections of the population including women and relatively less well-off entrepreneurs, and creating jobs.

3.73 **Rating For Bank's Contribution FY05–10**: ***Unsatisfactory*.**

Modernizing Infrastructure Services to Increase Quality and Efficiency

3.74 Improving the quality and access of basic infrastructure served two of the important objectives of the government throughout the period. The first was to strengthen the competiveness of the economy (including agriculture) by providing good quality critical infrastructure (ports, railway, urban transport, ICT, irrigation). The second was to improve quality of life of the population across the country, including in remote areas, by providing access to safe drinking water and sanitation. This section deals primarily with the first of the two objectives.

Information and Communications Technology (ICT)

BACKGROUND AND CONTEXT

3.75 **Since the late 1990s, the government designated ICTs a priority development sector**. Until the mid-2000s, the government had undertaken several measures aimed at enhancing the diffusion of ICT among enterprises and consumers. These included development of an electronic payment platform (e-dinar) and of e-procurement, dissemination of ICT in trade facilitation programs and policies (Tunisie TradeNet), expansion of access to Internet services (PubliNet), especially in the rural areas, and making PCs affordable for the population at large. In this field, Tunisia was ahead of comparable countries in the region.

3.76 The government also implemented measures to reform the telecommunications sector underpinning the broader ICT sector. In 2002, it expanded competition in mobile telephone services, by awarding a second operating license to a private operating company, and authorizing new Internet service providers. The government also enacted a new telecommunications law. Despite these improvements, the reform of the ICT sector was behind schedule relative to Tunisia's commitments under the World Trade Organization (WTO).

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.77 A central objective of Tunisia's 10th Development Plan (2002–06) was to foster the emergence of a knowledge-based economy. To this end, the Plan envisaged large increases in the role of the ICT sector. The 11th Plan (2007–11) was less specific about the ICT sector, but it noted the movement toward an information society as being a key contributor to improving education and enhancing employment and included telecommunications and computing among the sectors that will require substantial investments. The 12th Plan (2010–14) singles out ICT as one of the promising sectors that support growth and can help make Tunisia a regional financial and business center.

3.78 **The World Bank Group's objectives in the ICT sector were consistent with the government's.** The CAS FY05–08 identified the need to modernize infrastructure services to increase their quality and efficiency, and to open investments to the private sector. The World Bank Group objectives for ICT in Tunisia were also consistent, with one exception, with the 2001 World Bank Group-wide strategy. The one exception was the 2001 World Bank Group-wide objective to improve rural communities' access to information infrastructure which was not incorporated into Bank strategic framework for Tunisia. It is unclear whether the decision to omit reference to rural communities was the Bank's alone or it was consensual with the government. In practice, however, Bank operations did support rural ICT access (Chapter 5). The World Bank Group objectives in ICT became even more focused and specific in the CPS FY10–13, which viewed further expansion of the ICT sector as part of a strategy to make the services sector more competitive. A key objective of the current ISN FY13–14 is to improve access to information and social accountability. To this end, the Bank intends to continue to support the government in further liberalizing Internet hosting activities, developing e-participation tools in government websites, and establishing channels through which citizens can communicate their views concerning the quality of public services and the government's performance.

RESULTS

3.79 **A number of measures adopted, especially in recent years, to liberalize the ICT sector and allow more competition had a positive impact.** The huge increase in the use of mobile phones and, to a lesser extent, increased access to the Internet means consumers and businesses are substantially more integrated than in the past. The opening of the sector to private providers has resulted in more options and better quality services for users.

3.80 **A significant result, especially in the context of the country's changed political situation, is the huge increase in the access to information of all kinds, via the Internet or mobile phones**. Fixed and mobile penetration reached 118 percent in 2010, up from 32 percent in 2003, and higher than the 109 percent target.[71] The elimination of restrictions and controls on Internet access after the 2011 revolution greatly increased freedom of information. This is expected to result in a large increase in the number of Tunisian websites. It also should have a positive impact on job creation, especially among young skilled ICT professionals, digital content and graphic creators, as well as specialists in the management and updating of websites.

3.81 **Another important result was the increase in investment by private operators,** which rose from 35.2 percent of ICT sector investment in 2003 to 72 percent in 2010 (against a target of 65 percent). During the period, infrastructure for e-security was enhanced and a start was made in e-governance. Improved access to mobile phones and Internet had other, broader impacts. For example, in the judicial arena, litigators and lawyers have the opportunity to monitor progress of their cases and can access information online about the courts in different regions of the country. Public administration has benefited from easier exchange of views and information at the central, regional and local levels, made possible by improved telephone and Internet services.

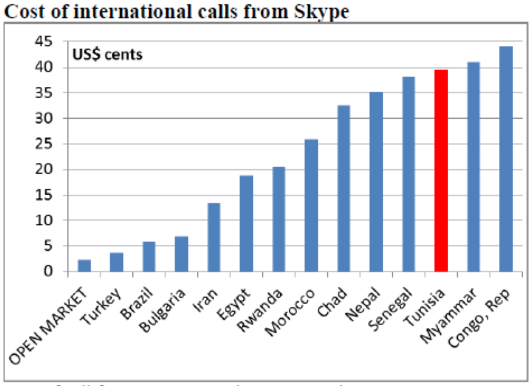
3.82 **Despite progress, competition is weak and prices remain high.** Tunisia has comparatively lost ground in the last ten years in the area of broadband Internet, and especially Ultra-Fast Broadband (UFB), when compared with countries like Bulgaria, Romania, and Turkey. Tunisie Telecom (TT) continues to be the dominant player in the sector. It enjoys monopolistic power as the sole owner of submarine cables for international telecommunications and of the domestic national connection infrastructure. This restricts entry. Countries with much lower per capita income than Tunisia have more telecom operators than Tunisia (for example, Egypt has seven operators). TT charges high prices for the use of its facilities, hindering the private sector's capacity to compete as it faces higher operational costs. As shown in Figure 3.1, the cost of international calls from Skype (from the US) to Tunisia is higher than practically all countries in the region, and is comparable to low-income or least-integrated economies in the global market, such as Senegal, Myanmar and Congo Republic. A decision by the National Telecommunications Authority in September 2012 to open up access to the landing stations of international communications cables (currently controlled by Tunisie Telecom) creates the conditions for an increased competition and reduction in international telecommunications prices.

Figure 3.1. Telecom Sector Performance

Comparative statistics on international communications

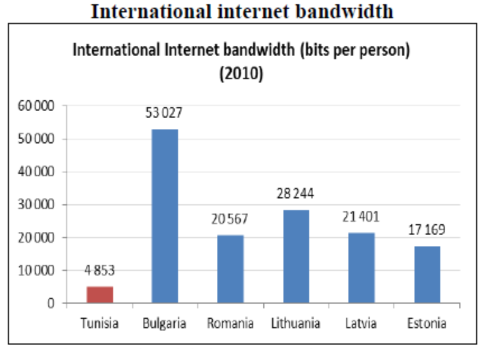
	Year of Liberalization	Per capita communication in 2010 (minutes)	Cumulative growth 2004-2010
MENA average	2006	181	10%
AMU average	2006	48	11%
Eastern Europe average	2002	73	8%
Tunisia	Not yet	25	1%

Cost of international calls from Skype



Cost of call from US to countries. *Source*: Skype

International internet bandwidth



Source: Telegeography Globalcomms Database, Sep. 2011 (prices and World Bank Development Indicators database (international bandwidth)

Source: DPR, 2013.

3.83 Additional evidence is provided in appendix F.5.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.84 The Bank was well positioned to assist Tunisia improve its ICT sector. It maintained an extensive ICT dialogue with government over many years, and had wide international experience, including in countries of special relevance to Tunisia, such as Morocco, Algeria, Egypt, Jordan, and Lebanon.

3.85 World Bank Group support to the development of the ICT sector was provided through lending and AAA. Bank lending for ICT during the period was limited to one project, the ICT Sector Development Loan (FY05). Its objectives were to assist the government in promoting the development of the ICT sector by supporting institutional and sector reforms; improving e-security mechanisms; and developing e-government applications. ICT reforms were also pursued in the GO DPL (FY11) and the GOJ DPL (FY12). The Bank supported the ICT sector through technical assistance projects that provided knowledge and training and that assisted in implementing ICT applications to solicit user opinion about the quality of health care services being provided, with the objective of using this feedback to improve services (see Chapter 5) .

3.86 **The Bank's support enabled important sector infrastructure to be created and institutions strengthened.** Budget support operations supported the government in implementing a number of measures (see appendix F.5.), which contributed to the development of the ICT sector while enlarging citizen access to information. Technical assistance was also useful to help strengthen institutional capacity (see box 3.1). However, the Bank was less successful in its efforts to encourage elimination of constraints that impede the achievement of a well-functioning and competitive ICT market. The ICT project did not include telecom prices as an indicator although the inclusion of such an indicator would have helped gauge the level of competition in the market. The Bank is now monitoring prices as an impact indicator of proposed policy measures in the context of the follow-up DPL.

Box 3.1. Bank Technical Assistance in the ICT Sector

There were workshops and technical assistance on competition in the telecommunication sector, local loop unbundling, and interconnection tariffs. Assistance was provided in granting eight licenses to three operators, and assistance to the Tunisian Internet Agency helped create domain names in Arabic characters. As of January 2011, 28 domain names in Arabic had been registered. A national backup center was operationalized, offering the government its first cyber security infrastructure and a large backup capacity. A Computer Emergency Response Team (CERT) was created with 16 specially trained team members, and about 178 auditors were certified by the National Agency for Computer Security (*Agence Nationale de Sécurité Informatique*) by the end of 2010.

Two e-government portals were established. The e-Justice portal was already operational by 2010 but the portal for the culture ministry is not yet open to the public. An e-Disability activity was operationalized, and it provided digital courses to disabled students (particularly children with mental or hearing disabilities). Training was provided to the regulatory authority on topics ranging from tariff regulation to new 3G technologies and cost accounting.

Transport

BACKGROUND AND CONTEXT

3.87 While transport infrastructure and services were considered to be good by regional standards, the efficiency of the sector, as reflected in the cost of logistics, was low. Logistics costs amounted to 20 percent of the GDP, compared with 15 percent in Turkey and 10 percent in Europe. The main cause of the high cost was the role played by the state in the provision of transport services through inefficient state owned enterprises in railways, ports and inter-urban transport. These services accounted for 70 percent of overall domestic transport activity. Lack of effective regulation was another significant contributor to high costs.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.88 The government recognized that the transport sector needed to modernize and become more efficient in support of a more competitive and dynamic economy. The 10th Development Plan listed transport as one sector that should aim to increase the efficiency of investments through the promotion of private investment and envisaged transport (and especially the modernization and strengthening of the road network) as a key aspect in the government's regional development strategy. The 11th Plan noted the importance of efficient transport services for the promotion of exports and greater integration into the world economy, and the need for investments in a deep water port and a new airport at Enfidha. The 12th Plan underscored the need to develop infrastructure through the adoption of a national program to upgrade the industrial zones, create new zones, enlarge the transport network and establish logistic zones according to international standards.

3.89 **The World Bank Group objectives and strategy have largely reflected government priorities**. Improved delivery/efficiency of infrastructure services by public and private firms was necessary to support the development of a more competitive, internationally integrated private sector (CAS FY05–08). The CAS listed several activities in the transport sector, lending as well as nonlending, that it intended to carry out in support of that outcome. The CPS FY10–13 followed broadly the same approach and expressed the Bank's willingness to support projects in the sector if the government expressed an interest in borrowing from the Bank for the transport sector. The ISN FY13–14 noted the importance of the transport sector to foster social inclusion (See Chapter 5) but also to expand tourism (notably the need for opening up the air transport system). In practice, the formulation of the strategy documents left ample room for setting project or AAA objectives in the sector, especially since there was no explicit document laying out a Bank strategy in the transport sector in Tunisia.

RESULTS

3.90 There was little significant progress towards improving competitiveness and global integration in the sector, but where progress was achieved, it is associated with limited improvements in port efficiency. There was some improvement in expanding the role of the private sector in the provision of transport services, especially in ports and urban transport. No gains were made in improving the railways, which continued to receive substantial subsidies, even greater in the last two years following the major drop in phosphate traffic, which is of particular significance.

3.91 Additional evidence is provided in appendix F.5.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.92 **The Bank played a very limited role in the transport sector.**[72] The only ongoing Bank transport project during the CPE period was the Transport Sector Investment (TSI)[73] APL, which consisted of phase 1 (closed in 2005) and phase 2 that was approved in 2001 (closed in 2009). After 2009, the World Bank Group has only been engaged in AAA activities in relation to transport. The objectives of the first phase (TSI-1, implemented largely prior to the CPE review period) were to promote better and cheaper transport services, with a special focus on the port and railway subsectors; strengthen overall transport sector management to permit faster growth and enhanced international competitiveness of the Tunisian economy; and to reduce transport-induced pollution. After TSI-1, the needs for transport modernization focused especially on urban and rail transport. The railways are crucial to the export of phosphates, a key contributor to the Tunisian economy[74]. Moreover, because urban transport and railways traditionally receive about 90 percent of all transport subsidies, reducing transport costs was critical for fiscal stability and ultimately for stronger economic growth. A more efficient urban transport system was also expected to result in a reduction of fuel consumption that would lower the country's import bill.

3.93 Overall, as explained below, the Bank projects and technical assistance were not successful in achieving institutional objectives.

✓ PORTS

3.94 The rehabilitation of commercial berths in Bizerte and extension of the breakwater at Gabès, increased port capacity and improved efficiency of operations. The adoption of the port landlord model and the abolition of the longshoremen were significant achievements. The Bank was instrumental in setting out the strategy for reorganizing ship handling services in all ports (with the exception of Rades) through the merging of private port operators in a single private company, allowing more effective competition with the state owned company *"Société Tunisienne d'acconage et de manutention"* (STAM). However, other reforms that were expected to follow, such as breaking the monopoly of STAM at the Radès port, were stalled. The modification of port tariffs and prices for port services did not happen.

- ✓ **RAILWAYS**

3.95 SNCFT financial performance improved following restructuring and introduction of compensation for public service obligations (PSO) in 2002, under the TSI-1. However, delays in formalizing the PSO contributions and sustained decline of freight traffic reduced the expected gains. A big drop in phosphate traffic in 2011, following the world economic crisis and events in Tunisia, led to cost recovery dropping to 36 percent, almost half of a few years earlier. SNCFT remains financially fragile and should be further reformed to reinforce competitiveness and commercial mindset.

- ✓ **URBAN TRANSPORT AND ROADS**

3.96 Substantial physical investments to improve urban transport were completed, including bus depots and repair facilities at four locations. The Bank did not lend directly for the roads sector, though it provided funds for short, community-type rural roads in two mountain and forest development projects (see Chapter 5). On the institutional side, there was some progress in bringing private sector participation into public bus transport services in Tunis, and also into inter-urban services. Staff redundancy was carried out and 1,277 staff (40 percent more than expected) benefitted from the project's severance program. In other areas there was little progress. The expected urban transport reform that included provisions for the financing of urban transport activities with compensation for public service obligations, was not carried out as the necessary legislation was not passed. An AAA on urban transport finance, prepared at the request of the Ministry of Transport (MOT) to serve as an input for a strategy to further develop viability and financing mechanisms for urban transport, did not lead to any reforms because of government reluctance of to grant autonomy to transport parastatal companies.

CONCLUSIONS

3.97 Though the Bank was not a major player in infrastructure, it supported government objectives by funding investments in specific sectors through its sector investment loans and by promoting sector reforms through DPLs. In some areas useful AAAs were also provided. Overall results are disappointing.

3.98 Some progress was made in the ICT sector where a number of measures were adopted, especially in recent years, to open up the sector but the reform agenda is largely unfinished as *Tunisie Telecom* continues to benefit from a quasi-monopoly in the sale of international lease lines which translates into very high prices and inhibit Tunisia competitiveness. In the transport sector, there is not much to show by way of reforms, largely reflecting government's reluctance to allow a larger role for the private sector, and its unwillingness to grant more autonomy to state owned companies. The most significant contribution to improving competitiveness and global integration was the (limited) improvement in port efficiency.

3.99 **Rating For Bank's Contribution:** ***Moderately unsatisfactory***

Agriculture and Irrigation

BACKGROUND AND CONTEXT

3.100 In 2005, the agriculture sector contributed about 12 percent of Tunisia's GDP, accounted for 18 percent of employment, and 10–11 percent of total merchandise exports to the economy. Tunisian agriculture is largely rain-fed and semiarid, vulnerable to vagaries of weather. Irrigated agriculture constitutes 8 percent of total arable land or about 15 percent of land under annual crops. Irrigation is important not only because water is scarce and rainfall highly variable, but also because it consumes about 80 percent of mobilized water resources. In addition, irrigated output is important as it contributes to about a third of agricultural GDP and 20 percent of agricultural exports by value. The sector is dominated by smallholders, with 75 percent of farms averaging less than 10 ha. The four most important products in terms of volume are wheat, olives, milk, and tomatoes. Tree crops (olives, dates, citrus) have been the main agriculture exports. Tunisia has a comparative advantage in the production of fruits and vegetables.

3.101 **The state continued to play a major role in controlling prices and through marketing interventions**. The importation and marketing of cereals continued to be monopolized by the monopoly *Office des Céréales* (OC), which controlled prices and margins. Prices and margins for noncereals (for example, fruit and vegetables) were also subject to informal price controls. Tariffs on agricultural and food imports remained high by regional and world standards. For agricultural exports, the government negotiated quotas with the EU under the Association Agreement to promote exports of fruits and vegetables for which Tunisia has comparative advantage. For these (for example, olive oil, fruits and vegetables), taxes were eliminated, although there was still substantial control in other ways.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

3.102 The government's key objectives for agriculture, irrigation and the rural sector remained broadly similar throughout the 10th (2002–06) and 11th (2007–11) NDPs namely increasing competitiveness and exports; improving the efficiency of irrigation and the sustainability of natural resource use; and reducing poverty. However, the chief preoccupation has been to ensure food security for maintenance of social stability. This concern has dominated policies in the agriculture sector, notwithstanding the high resource cost entailed and the erosion of competitiveness.

3.103 **The World Bank Group's objectives and strategy were primarily derived from the government's, but there were important differences.** Important objectives included increasing productivity and competitiveness of agriculture and exports (not just agricultural growth rate or exports); improving food security (and not just food self-sufficiency) by focusing on areas of comparative advantage (and not at any cost); sustainable management of natural resources; increasing efficiency of irrigation water use and management systems and improving the sector's adaptation and resilience to climate change.

RESULTS

3.104 **There was no appetite for major liberalization of food prices and marketing during the period under review, as the government sought to keep food inflation low to maintain social peace and political stability in the wake of adverse external shocks and internal political disturbances.** The *Office des Céréales* (OC) remains the sole importer of cereals except for barley. It still controls all the prices and margins from farm production to final sale. The market for collection and storage of cereals has been opened recently to selected private brokers (*mandataires agrées*) that operate at prices and margins determined by OC. Prices of other noncereal, basic consumer items (for example, vegetables oils, sugar, dairy products), are no longer directly controlled, but OC still has to be negotiated with. Fruits and vegetables for which prices are supposed to be market determined are also controlled in an ad hoc manner. There is also strong protection of agricultural goods at the border (beef, lamb/mutton and wheat), domestic price controls for agricultural goods (cereals, milk, sugar beets and tobacco), and subsidies on agricultural inputs (chemical fertilizers, pesticides and water). While these measures protect producers against fluctuations in world prices, they do not provide the necessary incentives to be competitive.

3.105 **Largely as a result of the poor policy environment, agriculture is characterized by low profit margins with prices informally capped by the**

government directive and declining terms of trade for the sector[75]. Productivity of major commodities is low, and for decades there have been no significant long-term upward trends in cereals yields (which fluctuate sharply subject to rainfall).[76] Agricultural productivity is significantly lower than in other sectors in the country, and also with respect to other countries with a large agriculture sector.

3.106 **Internal price controls and inadequate support services continue to undermine incentives for quality production for export.** Although the government has taken measures to help upgrade the agribusiness sector (such as creating the Bizerte technopole in 2010), distortions in the business environment prevent the development of an export-oriented industry. As has been frequently pointed out, Tunisia is unable to fulfill its EU quotas in crops for which it has a strong comparative advantage (for example, fruits and vegetables). For example, only 79 percent of the quota for olive oil was fulfilled and 60 percent for oranges. At the same time, the country is subsidizing and using its scarce water resources in the production of commodities for which it has no comparative advantage.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

3.107 **The Bank's contribution to the agriculture sector was limited.** The Bank undertook four pieces of AAA during this review period. The Agricultural Policy Review (FY06) analyzed key challenges faced by the rural sector such as natural resource management and water pricing, rural unemployment, competitiveness of agriculture, and delivery of agricultural support services. This was followed by two updates in FY09, and an Agriculture Finance Study in FY12. These reports made the case for further liberalization of the sector and investment in research and extension, coupled with food assistance targeted to the poor and vulnerable, and a food reserve. They also underscored the importance of a good policy environment to enable improved financing of the sector to contribute to better productivity. The recommendations of the studies to further liberalize the sector were, for the most part, not acceptable to the government and, so far, have had little impact on policy.

3.108 **The only agriculture sector project supported, the Agriculture Services Support project (ASSP, FY01–08), was conceived as the first phase of a ten-year program for developing largely demand-driven agricultural support services, essential for promoting a competitive agriculture**. Specifically, the development objectives of ASSP were to assist the government in implementing its national program for the development of agricultural services. The project also sought to support the growth of high quality, high value added and sustainable agriculture, through improved market access and the strengthening of agricultural producers' organizations and services. Only the first five-year phase of the program was completed.

3.109 **The contribution, if any, of the ASSP project to improving competitiveness is unclear.** The project did not succeed in achieving one of its main objectives, namely developing viable organizational structures capable of representing the needs and interests of farmers.[77] The ASSP did not do much to improve the quality of agricultural services (agricultural research, extension services, plant and seed protection and certification, and livestock and animal health) delivered by public and private institutions and producer organizations, although some positive results were achieved, such as, better documentation of agricultural research, improvements in the coverage of livestock vaccinations and the animal identification system, and laboratory upgrades, all of which contribute to enhancing Tunisia's capacity to meet international standards for the export of agricultural products, control the quality of agriculture inputs, and improve animal health diagnostic capacity. However, despite the improvement in laboratory equipment and capabilities, EU accreditation for laboratories is still not achieved, jeopardizing the gains from meeting international export quality standards[78]. The project also failed to pass the "litmus test" of creating private extension services that farmers would be willing to pay for[79].

3.110 Two water sector investment projects, WSI I and II, also addressed the key issues of increasing the efficiency of water use and related agricultural productivity through institutional change. Progress was to be achieved by raising tariffs and by delegating management responsibility for irrigation schemes to water user associations. Water tariffs remain extremely low. All infrastructure investments are provided free of charge to farmers. No progress has been made over the last four years in that regard, despite technical assistance work carried out by the various donors involved in WSII project on new tariffs. The post 2011 political uncertainties have further undermined whatever progress was achieved by the irrigation users associations which are currently in total disarray[80]. Since irrigation is by far the largest consumer of water, this obviously results in significant inefficiency in water uses by these groups of agricultural development.

3.111 Overall, the contribution of water sector projects to improving productivity in agriculture was undermined by lack of farmer support services; problematic marketing of irrigated production; poor access to credit; and land tenure problems. Irrigation intensity remained low, leading to lower than expected rates of return to project investments. Rural development and natural resource management projects (discussed in chapter 5) also addressed issues relating to improving productivity of land in an environmentally sustainable way.

CONCLUSIONS

3.112 The Bank was not a major player in the agriculture sector. Yet the ambitious objective stated in the CAS was to increase the competitiveness of agriculture while enhancing social and environment sustainability. This outcome was not achieved. The recommendations of the Agricultural Policy Review in FY06 (updated in FY09) to further liberalize the sector were, for the most part, not acceptable to the government. Consequently, it is not surprising that over the period under review; very little progress was made in improving the competitiveness and productivity of the agriculture sector. The Bank continued to lend to the sector despite the inadequacy of the enabling environment to support the realization of objectives.

Rating for Bank's Contribution: ***Unsatisfactory***

4. Education Policies: Improving Skills and Employability

4.1 Education has been a priority for Tunisia since the country gained independence in 1956. During the evaluation period, that emphasis continued. Education is regarded as key to improving competitiveness, increasing employment, and to gradually positioning Tunisia as a knowledge based economy in support of the principal goals of the government (to boost employment and diversify the economy).

Background and Context

4.2 **Prior to the evaluation period, Tunisia had already made significant advances in enrollment and completion rates in basic education. By 2000, Tunisia had resolved most issues related to access to primary education.** In 2005, 97 percent of children aged 6 to 11 years were enrolled at school, well on track to reach relevant Millennium development objectives. Improvements in primary enrollments and in completion rates in primary education led to a rapid increase in demand for both the second cycle of basic education ("*collège*") and secondary education ("*lycées*"). Net enrollment reached 75.5 percent for the 12 to 18 year old age group in 2004/05. In that year, completion rates were much higher for girls than for boys in both basic (62.8 versus 41.9 percent) and second level education (62.2 versus 48.2 percent).

4.3 **However, the quality of the education system remained a concern. Results for Tunisian Students who participated in the Third International Mathematics and Science Study (TIMSS 2003) and in the Program for International Student Assessment (PISA 2003) show Tunisia ranked close to the bottom.** For example, the results of the PISA test in mathematics indicated that less than 25 percent of Tunisian students performed above Level 2 (scale runs from lowest level 1, to highest level 6) compared with most OECD countries where at least three quarters of students perform at or above level 2.

4.4 **The increase in the secondary level student population, and the opportunity to automatically gain admittance to the public university system with the baccalaureate, contributed to a tripling of the numbers at third level between 1995 and 2005**. The supply side accommodated increased enrollments through: (i) an increase in the student teacher ratio (from 11:1 to 22:1); (ii) the expansion of short, professionalized cycles, and Higher Institutes of Technology (ISETs) (from 10–23 percent of students over 1998–04) ; and (iii) improved flexibility in the pedagogic system with the introduction of a modular credit system that allowed students to repeat failed subjects rather than the entire academic year, as was previously the case. These reforms led to an increase in the internal efficiency of higher education; however, the system continued to rely heavily on state expenditure with negligible progress made in improving cost recovery, thereby raising questions regarding the overall sustainability of the system in the face of continued expansion of the student population. The government passed a law in 2000 in support of the development of private sector institutions, but the private sector response was tepid.

4.5 **Despite the significant investment in education in Tunisia, graduates from secondary and tertiary levels faced persistent challenges on the labor market, primarily related to a mismatch between graduate skills and labor market requirements.** In 2004, 46 percent of university graduates were unemployed or still searching for a job 18 months after having completed their diploma. The situation for women (25.8 percent participation rate) was far more difficult than for men (76 percent participation rate). A 2004 tracer study showed that graduates of ISETs and professional programs enjoyed greater success rates than other undergraduates in finding employment[81].

The Government's and World Bank Group Objectives

4.6 The 10th National Development Plan (NDP, 2002–06) clearly defines education as a determining factor in fostering the emergence of a knowledge economy. Similarly, the 11th NDP (2007–11) lays out the goal for Tunisia to establish an information society and a knowledge-based economy with a focus on the development of human capital.

4.7 At primary and second levels, the government continued to implement the reform program launched in 2000 called "The School of Tomorrow" (*Ecole de Demain*). The program focused on a wide range of measures spanning, for example: new curricula, teaching and learning methods; professionalizing the teaching profession; decentralizing the education system and greater levels of parent and community involvement; making the education system more equitable and inclusive; and modernizing schools by integrating new information technologies into curricula and management.

4.8 For tertiary education, the government developed a comprehensive strategy to respond to the challenges of the system with reference to expanding access; improving the knowledge, competency and skills of graduates; and improving the institutional performance and autonomy of universities. It also developed a program for higher education reforms for the period 2006–14 (PDESAQ) *Programme de Développement de l'Enseignement Supérieur et d'Appui à la Qualité,* which sought to improve access, cost-efficiency, and relevance, and to enhance the employability of graduates as well as the overall financial sustainability of the system.

4.9 **The development of the education sector was one of the Bank's top priorities for Tunisia during the evaluation period.** The CAS FY05–08 aimed to enhance the skills and employability of graduates towards the realization of a knowledge economy. This was to be achieved through improving the quality, relevance and financial sustainability of the education sector. The employment challenge was central to the CPS FY10–13 that aimed at increasing employability from two perspectives: (i) improving the alignment between the needs of the labor market and the supply of skilled personnel; and (ii) supporting reform of the labor market. After the January 2011 revolution, the Bank's objectives in the ISN FY13–14 focused primarily on supporting the new government's priorities, especially in terms of structural reforms and employment.

4.10 The following sections review the policy reforms undertaken in Tunisia to improve access, quality and efficiency in basic, secondary and tertiary education and to improve overall employability of secondary schools and university graduates.

Improving Basic and Secondary Education

RESULTS

4.11 This section reports on progress made (subject to the availability of official statistics) from 2005 to 2013 to: (i) broaden access and completion rates in education, (ii) foster inclusive basic education, (iii) improve the quality of education and diversify secondary education through pedagogic reforms, and (iv) improve school management.

✓ BROADENING ACCESS AND COMPLETION RATE

4.12 **Between FY05 and FY13, notable progress was made in enrolment in both basic and secondary education.** Net enrolment increased for all age groups, but enrolment rates for girls are higher both in the second cycle of basic education and secondary education, with the differential increasing as children get older.

4.13 This was accompanied, on the one hand, by improvement in completion rates at primary level, and, on the other, by persistent repetition and drop-out (particularly among boys) at the second cycle of basic education, and at secondary level. While the completion rate in basic education has increased from 51.9 percent in 2004–05 to 60.7 percent in 2009–10, completion rates in secondary education have been volatile. Between 2004 and 2005 and 2009 and 2010, the completion rate at second level decreased from 54.8 percent to 53.7 percent, which was well below targeted rates, noting these rates of completion were impacted during the period by changes in the Baccalaureate examination. In the second cycle of basic education, drop-out and repetition rates from public schools remains high. The high rates of drop-out and repetition represent an acute problem and are associated with the abolition of the former access exam that regulated entry from primary to college and from college to secondary education. This development resulted in a growing heterogeneity in ability among post-primary students presenting more complex pedagogical challenges that were not addressed by appropriate supportive measures. A gender assessment of the overall evolution of the completion rate is a source of concern with boys significantly underperforming. In 2010, the completion rate for girls exceeded that for boys by 18 percentage points in basic education (69 percent versus 51 percent), and 15 percentage points (60.6 percent versus 45.3 percent) at secondary level. Drop out and repetition rates were twice as high for boys as for girls in the second cycle of basic education. As outlined in appendix L, the issue for women in Tunisia is not related to access to or benefit from education per se, but is more to do with access to employment.

- ✓ **FOSTERING INCLUSIVE BASIC EDUCATION**

4.14 **The government made an effort to further develop equal schooling opportunities but, without a sound monitoring and evaluation system, it is not yet possible to report on the impact of these efforts on learning outcomes.** The government implemented specific programs to integrate vulnerable children into mainstream schools. It extended the priority school programs (PEPE) targeting poor children in both lower and upper basic education. Also, since 2000, the government decided to create a preparatory class for children before they enter primary school. Interventions were focused in rural or urban areas where kindergarten programs were not provided by NGOs (association) or the private sector. Through the evaluation period, the Kindergarten program was expanded with classes established in low-income areas such that 83 percent of children are now attending kindergarten. There are no studies that provide evidence regarding the impact of this program, although the program was held up as a success by some officials from the Ministry of Education. The government has started a program in 2003–04 to progressively integrate children with disabilities into mainstream schools.

- ✓ **IMPROVING THE QUALITY OF EDUCATION AND DIVERSIFYING SECONDARY EDUCATION**

4.15 The government introduced reforms to improve the quality of primary and secondary education, and respond to the needs of the increasing diversity among students in secondary education, but failed to monitor and assess their impact.

4.16 **First, the government attempted to revise education curricula to make them more relevant to the needs of the economy**. A generalized competency-based learning approach, *Approche par compétence* (APC), was introduced at primary level in 2005–06, and teachers were trained in the new curricula and teaching methods. In practice, this new methodology triggered resistance from some teachers and school inspectors, and some of them felt they didn't receive enough support to successfully implement the APC methodology. The implementation of these reforms (the introduction of the APC methodology and related teacher training) was never properly monitored, and no recent evaluation has been conducted to measure the impact of these new pedagogic programs on learning in primary school and to fine-tune the introduction and support to this important education reform. The introduction of APC was not generalized in the second cycle of basic education as initially envisaged, and this led to a break in the curriculum and in teaching and learning methods between the first and second cycle of basic education.

4.17 **Second, the government initiated new programs to diversify secondary level curricula and develop more learning tracks with links to technical and vocational training,** but these programs still have limited application.

4.18 **Third, the Ministry of Education also launched the creation of "*Instituts des Métiers de l' Education et de la Formation*" (IMEF) to improve the quality of the initial education of teachers, enhance the orientation and selection process of candidates and develop in-service training programs.** However, strong concern was expressed during field interviews regarding the shortening of teachers' pre service education (to a few months). Our interlocutors believed the current training to be inadequate in terms of providing teachers with necessary skills.

4.19 Tunisian Students continue to underachieve as measured by international tests. When the government opted for the automatic progression of students from primary to secondary education, it was decided to implement a national assessment at Grade 4 to measure the quality of student attainment. The test was eventually implemented for the first time in 2005; however, data on results was not made available at the time, and a national assessment test has not been carried out since.

Tunisia now relies exclusively on international tests to assess the relative quality of learning in basic education[82]. Tunisia became one of the first countries in the region to participate in the "trends in International Mathematics and Science Study" (TIMSS), which is conducted every four years, and the Program for International Student Assessment (PISA), which is conducted every three years. The results of the TIMMS showed some minor improvement between 2007 and 2011, but, overall, learning outcomes are low, with fewer Tunisian students passing the low international baseline for 4th and 8th grade in mathematics and science than the international average. Similarly, PISA results (2012 compared with 2006) show some progress, especially in mathematics, although Tunisia is ranked in math in the lower segment of the 65 participating countries (57th). Until recently, the results of these tests were not broadly disseminated or discussed and were known only to a few education policy specialists in Tunisia.

- ✓ **IMPROVING SCHOOL MANAGEMENT**

4.20 Reforms in school management to improve school performance made limited progress**.** The main reforms were to introduce a more decentralized decision-making and management process in schools, and to strengthen the role of parents and of the community in school activities, notably in the preparation of school-based improvement plans. But teachers unions were very reluctant to involve communities in school management. The Ministry did not monitor and enforce the establishment of schools councils (no data are available to indicate how many schools have a school council open to parents and community participation). Staff (school directors and teachers) prepared school based improvement plans often without consultation with parents and the community.

4.21 Additional evidence is provided in appendix G.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

4.22 Supporting the achievement of near universal completion of primary education, improving the quality of teaching and learning and modernizing the sector were important objectives of the World Bank Group program in Tunisia. Support was provided in the form of a two phase adaptable program loan (APL) in support of the "School of Tomorrow" national education reform. The purpose of the Education Quality Improvement Program (EQUIPII) (second part of the APL) was to promote excellence in teaching and learning in an improved pedagogical and physical environment, and ensure that all children are provided with equitable and adequate opportunities to access education at all levels of the school system. The project supported policy measures to enlarge access to vulnerable children, to improve the quality of basic education and teaching methodology, diversify the secondary curricula and improve school management. The project objectives were highly relevant to the government's reform priorities and the Bank Group strategy.

4.23 **Available evidence suggests overall performance is disappointing**. Some progress was made in fostering enrollment as well as completion in primary schools but, as discussed below, critical constraints remain such as the need to reduce drop-out rates, improve the quality of education, and diversify secondary education to improve employability of a more diverse student population.

- ✓ **BROADENING ACCESS AND COMPLETION RATE**

4.24 Bank Group projects may have contributed to the achievement of near universal enrolment in primary education by promoting programs that ensure equal access to education, but, as noted in the ICRR, attribution is somewhat tenuous

- ✓ **FOSTERING INCLUSIVE BASIC EDUCATION**

4.25 The EQUIP project supported programs to ensure that vulnerable children in low income areas or with special needs could access education. But, the project's M&E system failed to include relevant output and outcome indicators to measure the implementation progress of these "inclusive education" programs.[83]

4.26 **The project helped extend and strengthen the priority schools program (PEPE) in primary schools and college**. This included the implementation of a pilot program to transfer funds to schools in PEPE to enable them implement their school improvement scheme. A 2007 study financed by UNICEF indicated that 16 percent of the lowest performing PEPE schools in 2000 were among the top performing schools in 2007, and 47 percent were obtaining results around the national average. Though the pilot program showed the benefit of letting schools manage additional funds on the basis of a school improvement fund, the program ended after project closure. In field interviews with government officials, several gaps were identified in program design and implementation, such as: (i) the program initially introduced by the CNIPRE as a pilot, was extended too rapidly; (ii) the study defined entry "criteria" for schools to be given priority classification but failed to define exit criteria; (iii) the principle of "positive discrimination" was not well understood, and the program was badly managed with poor coordination between the national, regional and local level, and weak partnership between the school, civil society and the family; and (iv) there was an excessive focus on infrastructure and most of the teachers who benefitted from specific training at the inception of the program left the system between 2008 and 2012. It seems that initial encouraging results were not sustained over time. The Ministry of Education is now thinking about how to design a more effective roadmap to relaunch the PEPE program in schools and colleges.

4.27 **The project also supported a program to progressively integrate children with hearing, visual, motor, and mental disabilities into mainstream schools**. In field interviews, government officials indicated that teachers and school heads felt neither the training nor the resources they received were adequate to allow them meet the needs of disabled children. Other factors that limit the integration of children with disabilities include weaknesses in the orientation process, insufficient, or total absence of monitoring of learning progress, as well as behavioral resistance by some education staff and parents towards the integration of children with disabilities. Some rigidity in the design and choice of schools participating in the program was also evident.

4.28 **The EQUIPII also contributed to the rehabilitation of kindergartens** to address the needs of children in low income regions. Technical support included rehabilitation, training of trainers, and development of adapted programs.

- ✓ **IMPROVING THE PHYSICAL AND PEDAGOGICAL ENVIRONMENT FOR LEARNING**

4.29 **The EQUIP project increased infrastructure capacity** by building multipurpose classrooms in 200 primary schools, and by building and equipping new secondary schools in existing colleges.[84] EQIPII also contributed to the modernization of schools by renovating 771 primary schools and 331 colleges.

4.30 Strengthening of the quality and relevance of primary and secondary education has been a core priority of the World Bank's support to the EQUIP project. The project aimed to provide support to develop textbooks and teaching materials that would help introduce the skills-based approach (APC) to teaching and learning in basic education, and to extend the approach to the second cycle of basic education. In parallel, the project intended to modernize the teaching of languages and sciences as well as the introduction of optional studies in the second cycle of basic education to strengthen children 'aptitude to follow more diverse secondary education programs. This was coupled with training for trainers, principals and teachers on the definition of skills, as well as the provision of equipment to facilitate teaching. The project financed a study to modernize and decentralize teacher training and design in-service training, and also made some contributions to introduce Information and Communications Technology to allow teachers and students to use new technology in their teaching and learning activities.

4.31 In fact, the application of the skills based approach in primary school faced strong resistance from teachers, as well as schools inspectors who were not sufficiently involved in the reform. Field discussions with various stakeholders noted a number of flaws in the design, sequencing and implementation of the APC reform as well as the lack of sufficient preservice education for new teachers. As a result, though the Bank assisted in the design of some elements of the program for college-level primary education, the skills based approach was never generalized at that level. As earlier noted, the grade 4 national examination, which should have accompanied the pedagogic reform to allow decision makers to have quantifiable and informed analysis on reform implementation, was not implemented as initially envisaged[85].

4.32 Field interviews also underlined that the design of the reform was, in part, flawed by government unwillingness to provide more autonomy to schools and teachers. Indeed, one key factor in the potential of success of the APC reform would have been teachers' ability to provide "remediation" for kids falling behind in their learning process. But the reform failed to systematically provide teachers with the means to provide this, and, in fact, the whole system remained rigid and centered on the role of the inspector without a national assessment system to measure the impact of the reform on learning outcome.

- ✓ **DIVERSIFYING SECONDARY EDUCATION AND STRENGTHENING ORIENTATION POLICIES**

4.33 **The Bank also provided technical assistance to implement new technological options in secondary schools**. The diversification of the second cycle of basic education and secondary education represents an important component in efforts to ensure that education streams fit the increasingly diverse student population, and became more relevant to the needs of the labor market. However, results in this area have been disappointing as confirmed by field interviews with the private sector, unions and the National center for Pedagogic Innovation and Research in Education (CNIPRE). The private sector was not involved in the choice of the programs offered, and did not mobilize to contribute to the design of new curricula. UTICA, the employer union, noted the lack of a clear vision of a coherent and complementary structure for the education system as a whole (general, technical and vocational education). The CNIPRE noted that the new technical programs were poorly conceived and implemented. All stakeholders concur that the lack of a well-structured complementarity between general, technical and vocational education is a binding constraint in the reform process. They also noted the risk attached to effectively demoting vocational and technical education, treating them as a lower form of education taken by those who were not capable of coping with the standard secondary education stream—this is particularly noteworthy in the context of the skills mismatch referred to elsewhere in this report.

4.34 **The Bank also provided technical assistance to strengthen capacity in career information and guidance.** It helped set up a center (CRIO) to provide information and guidance to students on career paths and education programs. Field interviews with government officials noted that this interactive platform should have been established on an independent basis rather than located within the Ministry of Education given that the effective functioning of CRIO requires a flow of information between several Ministries (for example, higher education, employment, social affairs) and that, in Tunisia, ministries tend to work in "silos," making it difficult for the Ministry of Education to pilot this ambitious initiative. The project also attempted to develop school's capacity to provide career information and guidance. However, the number and capacity of orientation counselors and professors in charge of orientation within colleges remain insufficient to effectively address student needs. Furthermore, the monitoring system of the orientation service at the Ministry of Education mainly focuses on inputs (such as, number of meetings, information campaign) and lacks any tools (such as student surveys) to monitor the quality of service delivery or the impact of this orientation policy.

- ✓ **STRENGTHENING SCHOOL MANAGEMENT**

4.35 One objective of EQUIPII was to extend a decentralized and modern management system for schools and institutions. It envisaged the involvement of communities and parents in school life and the set-up of schools improvement schemes that would be supported by a regional M&E system. The ICR noted the grant program for pilot schools participating in the priority school program was successful in helping communities in disadvantaged areas participate in school management. The program demonstrated the importance of parents 'participation in the life of school and the importance of allowing schools to manage supplemental resources in line with school development plans. Despite this initial finding, the grant program stopped at project closure. Overall, the development of school autonomy lacked strong endorsement at the ministerial level. Support at that level would have been necessary to help overcome resistance from Teachers Unions. As a result, the systematic implementation of school councils, which were critical element to improvement in the quality of education, failed to be realized.

Improving Tertiary Education

RESULTS

4.36 In 2008, a new law was passed to introduce reforms aligned with the Higher Education Strategy. The new framework introduced institutional, managerial and technical reforms in the higher education system to address some of the key constraints. However, implementation has been slow—most of the important application decrees have yet to be passed or were passed only after the revolution. Some preliminary results are presented below relating to increasing capacity and efficiency in expanding access, improving the quality of higher education, and strengthening institutional performance.

✓ **INCREASING CAPACITY AND EFFICIENCY**

4.37 The government had planned to improve access by expanding or renovating higher education institutions while encouraging private sector involvement and strengthening distance learning. But, in fact, there was a slower than projected increase in the numbers of students enrolled in tertiary education, followed by an annual decrease of 2 percent in the number of students enrolled since 2009. This is primarily the result of demographic transition (fewer students), a slight decrease in the number of baccalaureate recipients, and the impact of the introduction of the LMD system - degree system (Bachelor/Masters/PhD) - with fewer years[86] now required to obtain a diploma. The involvement of the private sector in tertiary education remains negligible as attested by the very modest increase in the private, higher education market share (from 2.4 percent to 5 percent, 2009–12) and the low level of private sector involvement in dual courses or in any governance structures of higher education institutions. The number of courses in distance learning has increased from 391 in 2008 to 538 in 2013.

4.38 **The internal efficiency of the tertiary sector improved (2006–09) as the average time taken to obtain a traditional or applied degree decreased with the introduction of the new degree structure.** Student/teacher ratios have improved from 19:1 in 2006 to 13.3:1 in 2013 following a decrease in the student population and an increase in the number of teachers (from less than 17,000 in 2006 to 22,400 in 2012), but this evolution masks important disparities between regional universities and disciplines.

✓ **IMPROVING THE QUALITY OF HIGHER EDUCATION**

4.39 **Tunisia has now aligned its higher education curricula within the framework of the Bologna Process[87], but this reform has not yet met expectations in terms of better aligning education / training with labor market requirements**. The government introduced curricular modifications that gradually moved the new degree structure to a degree system equivalent of the LMD system. In order to reinforce the relevance of Licenses and Masters to the needs of the labor market, two kinds of diplomas were introduced: (i) the traditional general License and Master (*License Fondamentale and Master Recherche*); and (ii) the License and Masters linked to specific professional activities (Applied Bachelor and Professional Master) chosen by roughly two thirds of students. Field interviews noted that the transition process moved too rapidly and reform was rushed into application in 2006 with insufficient prior preparation or communication with stakeholders on the reform objectives.

4.40 In order to better address labor market needs, the reform had targeted the joint development of curricula with enterprises. Initially, the initiative was well received by the private sector where there was need for qualified staff; however, "fatigue" linked to a number of difficulties encountered in program implementation (due notably to weaknesses in organization and logistics within universities and the accreditation process) quickly set in among entrepreneurs. Universities lacked incentives to promote joint development of curricula, and also lacked overall flexibility to manage these types of nontraditional diploma courses. On the private sector side, there was also some discontinuity in the allocation of professional staff to the university program, with associated deficiencies in pedagogic supervision. Overall, within this difficult environment, the number of Licenses developed in partnership between the universities and the productive sectors reached about 50 bachelor's degrees in 2012 (against a target of 80 bachelor degrees).

4.41 Universities recognize some positive aspects of the move towards the LMD system, such as facilitating the mobility of students planning to study abroad and improving transparency in selection criteria at master's level. However, the reform was not accompanied by measures to introduce the possibility for greater student selection below the master level. The baccalaureate remains sufficient for free admission at University, other than in a few specialized fields (medicine, architecture, and engineering sciences). This situation continues to weigh on the quality or preparedness of students. A large segment of students choose fields such as humanities, social sciences which are associated with high repetition and failure rates as well as limited labor demand. Overall, the implementation of the new system focused on the implementation of the LMD degrees but with no accompanying measures (such as student evaluation, the provision of credit for past experience [*validation des acquis de l'expérience*],[88] adequate in-service training, and so on) that would have enhanced the overall dynamic and coherence of this ambitious reform.

4.42 **Tunisia does not yet have an effective quality assurance system for public or private institutions or for professional disciplines and programs**. During most of the evaluation period, the higher education evaluation system was under the responsibility of the National Evaluation Committee (CNE), established in 1995. Universities have to produce an annual auto-evaluation since 2006 that should be submitted to an external evaluation every four years (World Bank PARES Aide Memoire 2012).The CNE conducted 113 external evaluations of university department/schools *("établissements")* since 2007/08 and also helped the ministry assess the "University business plans" ("*projet d'établissement*") in 2008–09, prior to the elaboration of their five year "contract" with the Ministry. Unfortunately, CNE didn't monitor the implementation of its recommendations, and there were no incentives for institutions to follow up on these evaluations to improve quality. The National Authority for evaluation and quality promotion, *l'instance Nationale d'Evaluation, d'Assurance Qualité et d'Accréditation (IEAQA)*, was legally established in 2008, but the government waited until 2012 to adopt the decree to make it operational. The IEAQA is now expected to be operational in early 2014.[89]

✓ **STRENGTHENING INSTITUTIONAL PERFORMANCE**

4.43 **Little progress was made in improving the autonomy, accountability and participation of Tunisian Universities.** The Universities are among the least autonomous in the region despite the fact that greater autonomy is a top priority in improving the quality and relevance of their education services. In 2000, Universities were granted some independence in order to allow them develop curricula and programs, to pay staff and hire contractual staff and to manage procurement and contracts. However, universities complain that, in practice, the Ministry has continued to control financial management, procurement and even self-generated resources through extended *a priori* controls. The 2008 higher education law opens the way to grant greater autonomy to universities. But, in fact, given the complexity of eligibility criteria, none of the universities were able to seize the opportunity offered by the law to adopt a new status ("*Etablissement public à caractère scientifique et technologique*, EPST") more in line with business law *("legislation commerciale").* This remains a major obstacle in moving towards greater autonomy and improved performance. Studies undertaken in 2011 and 2012 on the governance of Universities in Tunisia and in the region (Algeria, Lebanon, Egypt, Morocco and Palestine) confirm this assessment. Tunisian Universities have among the lowest levels of autonomy and accountability over both years. One noteworthy positive change is that, since 2011, the university president, vice presidents, faculty deans and institute directors are elected by academic staff for a 3 year period (that can be renewed once).

4.44 Additional evidence is provided in appendix G.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

4.45 **World Bank analytical work on higher education helped identify key bottlenecks in the education sector, but Bank Group lending did not lead to the timely implementation of the most critical recommendations that sought to improve quality and adequacy with a view to better aligning higher education with labor market needs**.

4.46 **In 2005, the World Bank undertook analytical work related to Tunisia's Higher Education Strategy.** Despite the government's reluctance to approve and/or facilitate client participation and consultation with other key stakeholders, the World Bank produced a thorough and insightful quantitative and qualitative analysis of the situation facing the higher education sector. The analysis informed the need for reforms in certain areas (notably decentralization and the role of the private sector). The report's conclusions and recommendations provided a sound and implementable set of policy improvements, though more explicit recommendations on financial issues would have been useful[90]. The report, including its financial simulation model, was delivered to the team in charge of preparing Tunisia's 9th Development Plan, but there was little broader dissemination of the report and no public debate on the many sensitive issues it addressed. The ESW also helped design the second higher education reform support project.

4.47 **In 2010, the Bank also financed a Development Policy Review (AAA): *Towards Innovation-Driven Growth.*** The review analyzed different studies on the mismatch between the skills of graduates and the needs of the labor market, and made some relevant policy recommendations to address this issue, such as, giving more autonomy to universities and engineering schools so that they can more easily focus on producing the new skills needed in the economy, promoting strong private involvement in education, and reinforcing direct collaboration between University researchers and private firms.

4.48 **During FY05–13, higher education reforms were addressed through the second higher education reform support project (FY06).** The main objectives of the project (restructured in 2011 and extended to end 2013) were to support the implementation of the PDESAQ program that aimed to develop higher education with an emphasis on: (i) increasing capacity and efficiency in expanding access to meet growing demand; (ii) improving the quality of education; and (iii) strengthening institutional performance.

✓ INCREASING CAPACITY AND EFFICIENCY

4.49 **The Bank contributed to the expansion of access to the public higher education system.** Because of a more limited increase than anticipated in the number of students enrolling, the government cancelled the construction of four out of eight planned universities.[91] Despite delays in the construction and delivery of equipment, these components are expected to be in place by end 2013. The project had also programmed support to private higher education institutions as well as the development of distance education, but little progress was achieved. The 2001 law included several financial incentives to encourage private sector involvement; however, in practice, the implementation of the law was hindered by rent-seeking behavior that was endemic under the Ben Ali regime (PARES AM May 2011). Also, the process for accreditation of courses discourages innovation by private institutions. Field interviews noted that, in order to receive accreditation, private institutions had to replicate the curricula of public institutions.

✓ **IMPROVING THE QUALITY OF EDUCATION**

4.50 **Overall results to improve the quality of education are disappointing as the main reforms targeted in the 2008 law were not implemented**. The 2008 law on higher education signaled a break in the governance model, with a move towards greater autonomy for Universities and the implementation of quality assurance mechanisms to improve the relevance and quality of education services. However, most of the relevant decrees were not implemented[92]. As a result, the governance model didn't evolve much in practice. It continued to be characterized by the quasi-monopoly of the state over the financing and the delivery of education services, and centralized management of resources. Nevertheless, the project supported some ad-hoc measures to improve the alignment of education programs with market needs.

4.51 The project provided some support to modernize the higher education system, notably to adapt curricula to international standards. But questions remain regarding the impact of this new system given that no independent evaluation has been undertaken and beneficiary surveys (students and employers) have been postponed. The new system includes a number of professional Bachelor level degrees. The overall involvement of the private sector remains insufficient in an overly centralized system, where universities lack the incentives and flexibility to promote nontraditional diplomas or other courses. As a result, the private sector and the education sector continue to operate largely in isolation from each other. Another concern is that professors' pedagogic skills have not evolved in parallel with the introduction of this new cursus. In order to remedy gaps in the training of trainers/teachers, the project is also carrying out a program to train a group of professors on several thematic areas (such as entrepreneurship, acquisition of soft skills, pedagogic skills, teaching languages). The idea is these professors would then be responsible for coaching their colleagues leading, ultimately, to an increase in the employability of students (*Programme intégré de formation des formateurs* – PRIFF). This activity is just starting so it is too early to measure its impact.

4.52 In order to reinforce the quality and relevance of programs and diplomas at the university level, the Bank has also encouraged the creation and strengthening of Quality Units within universities (as called for by the 2008 legislation). Broadly representative committees were set up to fulfill this function but, in most instances, the committees are not adequately involved in quality management. Bank staff noted that these committees would need to be revitalized and their mission broadened in order for them to play an effective role in the reform process.

4.53 **The project also assisted the government in strengthening evaluation at national level in order to improve the quality and relevance of tertiary education. Initially, the project provided support to the former evaluation committee (CNE).** However, evaluation reports were of disparate quality, delivered with significant delays and therefore of little use. As noted earlier, the national evaluation committee didn't monitor recommendations made in these reports, and no synthesis report has yet been prepared. As a result, the process was discontinued in 2011. Bank assistance focused on accelerating the transformation of the former National Evaluation Committee into an autonomous agency in charge of evaluation, quality assurance and accreditation. But the authorities kept postponing the implementation of this autonomous agency, which was signaled in the 2008 higher education law. The decree setting up this national authority (GOJ-1 DPL trigger) was published in September, 2012 but the entity is not expected to be operational before early 2014. Therefore, it is too early to assess how effective this new institution will be in providing information on education quality to the various stakeholders (notably the students and the employers) to help inform their decisions.

✓ **STRENGTHENING INSTITUTIONAL PERFORMANCE**

4.54 **The Bank Group has provided institutional support to the ministry and universities to help strengthen management capacity.** The Bank attempted to help the government respond to the challenge of higher education autonomy, performance based budgeting, and better orientation policies. There has been little observable impact to date. Without the adoption of a new governance model, results are limited. For example, by end 2009, all universities had prepared, for the first time, a business plan, and had signed a four-year contract[93] with the Ministry of Higher Education. For this highly relevant development to be successful, it requires a simultaneous move towards greater decentralization, and strengthened management capacity within the Universities. But, in practice, the ministry has not monitored contracts to assess how universities contribute to the overall higher education strategy while meeting their targeted objectives. Overall, it does not appear to be ready to shift from a controlling to oversight role and it.

4.55 Since 2009, the Bank has provided technical assistance to the Ministry of Finance and other pilot line ministries (including the Ministry of Higher Education) to help them move towards a performance based budgeting system. Since 2009, all universities (13) are preparing their budget on a programmatic basis, but this has remained a pilot exercise, as the organic law on performance budgeting is not yet passed. Nevertheless, for the first time in 2013, the MESR is expected to present and discuss its programmatic budget during the budgetary conference (see chapter 6).

4.56 **The Bank also provided some advice to the government to help better monitor student orientation and placement in order to reduce the mismatch between employment and education with a view to improving students' employability**. In 2006, the Bank financed a follow-up survey on higher education graduates' professional integration 18 months after completing their diplomas. The survey designed a methodology to monitor graduates' professional integration in the labor market and analyzed, in particular, the relevance and matching between skills and jobs. The study recommended that universities develop cursus in line with the labor market needs, design mechanisms to adjust the student flows in terms of the labor market needs, and provide as needed short-term active support to students in line with international good practices to help them find a job. Also, in 2008, observatories were created within universities. In theory, a key attribution of these observatories is to conduct analysis and surveys on professional insertion and make recommendations to improve matching between training and employment. The Bank has made recommendations to revitalize the role and better operationalize these observatories[94].

4.57 **At the University level, the Bank project successfully introduced a new resource transfer mechanism directly to the investment budget of universities to improve the academic quality and institutional performance of institutions**. This program is contributing to making higher education institutions more responsive and accountable for their investments, while building their capacity to operate in a more decentralized environment. Tunisia's higher education strategy had noted concern regarding the "rigid, centralized, line-item basis from the MoHE, with little accountability for education outcomes or institutional performance." To address this issue, the Higher Education Strategy (2004) proposed to transfer financial resources through mechanisms with incentives to improve academic quality and institutional operations. The Bank project designed an innovative program, *Programme d'Appui à la Qualité* (PAQ), which provides competitive block grants directly to universities to support the strongest university proposal for quality improvements in teaching and learning; and management capacity grants to each university to strengthen institutional management and help them make progress towards autonomy[95]. This program benefited from additional resources when the project was restructured in 2011 and further included grants to: (i) support the newly created higher education institutions in the poorer regions in order to mitigate the potential weaknesses in pedagogic quality; (ii) foster the emergence of innovative curricula that will improve the employability of students; and (iii) provide research grants directly to universities' research centers. The program includes a well-thought-out monitoring system to assess the impact of the investment made with the grant awards.[96] Since this "quality program" was launched in 2006, 50 projects have been financed, 36 to foster quality improvement in teaching and 14 to improve university management capacity.

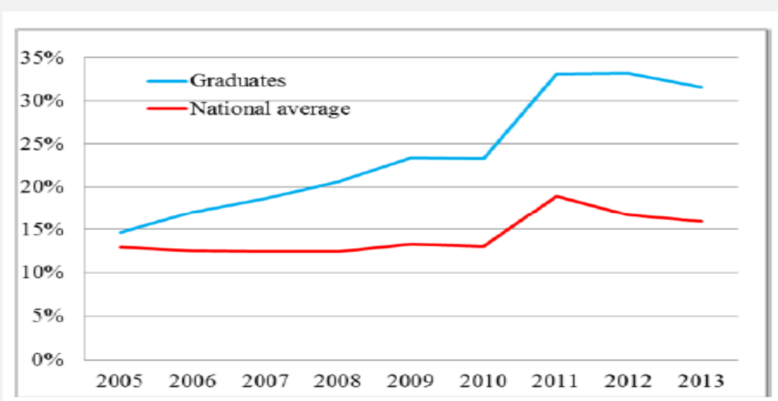
4.58 It is too early to assess the impact of these projects as most of them are still ongoing. Field visits by World Bank staff (2010–13) to assess implementation of some of these proposals, concluded that projects were very diverse,[97] of good quality, well aligned with higher education priorities and in some cases already starting to generate benefits in terms of improving teaching quality, strengthening capacity (notably in terms of project management) and increasing the motivation of students and professors. Field interviews noted that the PAC project for teaching and learning led to various innovative projects and has enabled University departments to gain a firsthand experience of autonomy. However, in its June 2013 aide memoire, the Bank noted some concern about the sustainability of this initiative and emphasized that the functioning of the system can't be sustained on a benevolent basis. An external assessment is to be launched in 2013 to measure PAQ impact on students and teachers' satisfaction as well as on employability.

Improving the Employability of Students

RESULTS

4.59 This section briefly presents key developments on the employability of graduates of the education system and on persistent skill mismatches that are evident over that period.

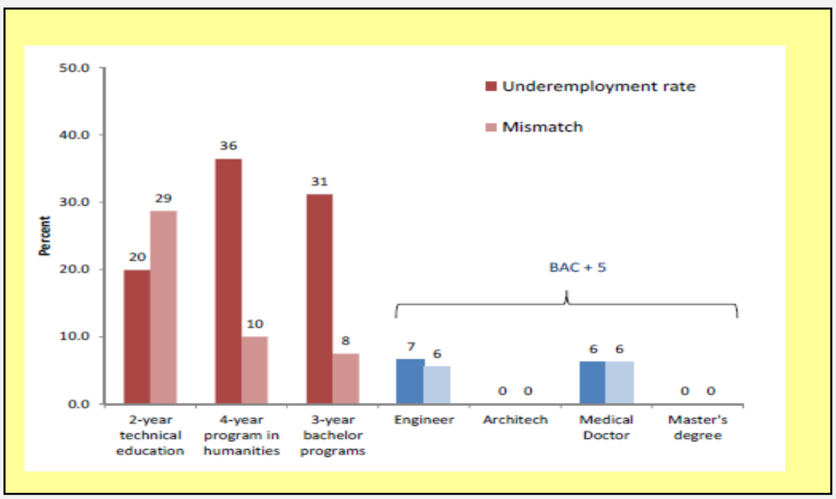
Figure 4.1. Unemployment Rate among Graduates



Source: National Institutes of Statistics.

4.60 **The above referenced trends and analysis indicate that graduate skills and competences are not aligned with those in demand by the private sector**. This situation is prevalent in the MENA region where more than one third of employers (the highest in all developing regions) identify skill shortages (both technical and soft skills) as a major constraint to business operations and firm growth. A 2007 tracer survey[98] and the public employment agency (ANETI) administrative data confirm that graduates of humanities and technical education programs, which constitute the large majority of all graduates, face significant difficulties in finding employment. Using the 2011 labor force survey, the 2013 DPR analyzed the occupational structure of employment creation against the skills and qualifications of the available pool of unemployed. Results indicate a shortage of unskilled and semiskilled workers and a surplus of technicians and professionals, which results in underemployment of educated workers in the private sector. In addition, those who found employment often do so under precarious working conditions such as being "underemployed," working in a different field to the one in which they are qualified, or earning lower wages[99] than their qualifications would ordinarily merit.

Figure 4.2. Employment Outcomes by Type of Diploma



Source: DPR 2013 (Tunisia's tracer survey from graduates of 2004).

4.61 A gender analysis shows that despite high unemployment rates for Tunisian women, the rate of female labor force participation (includes employed and those actively looking for work) is particularly high for tertiary-educated women, increasing from 54.6 percent in 2000 to 60.1 percent in 2010. However, the unemployment rate is twice as high for these women. This is the trend for many MENA countries maybe because, despite fewer job opportunities, women with higher levels of education are willing to search longer for jobs hoping for a higher return on their educational investments. At the same time, labor force participation rates for women with no education or primary or secondary education decreased between 2000 and 2010.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

4.62 Bank support to improve employability targeted both the supply and demand side to address the structural mismatch between an increasingly skilled labor force in a labor market/economy dominated by low-skilled, low-level productive activities.

4.63 To create a robust demand for labor, the Bank supported interventions to foster economic growth and create a more knowledge driven, high value added economy. One critical obstacle to this was the poor business environment in Tunisia. Chapter 3 reviewed Bank Group activities to improve the business environment and concluded the Bank was unsuccessful in its efforts to tackle the main hurdles linked to the overburdened regulatory environment, the on/off shore dichotomy, and government interference. Efforts to address these issues since 2011 have stalled in the political stalemate, and have been further postponed to 2014.

4.64 On the supply side, the Bank supported efforts to improve the quality of education to empower the work force to meet the demands for high quality labor in an increasingly knowledge-driven economy. As discussed above, the Bank attempted to improve the quality of the education system and to engage the private sector in the design of education programs; but results have been disappointing. The failure to provide more autonomy to schools and universities has weighed down on the relevance and quality of education programs. The education system remained overly centralized and the automatic enrolment in university after the baccalaureate in fields where there is little demand from the labor market continues to fuel the mismatch between labor and supply.

4.65 The Bank is also supporting policies to address distortions in the labor market and improve employment services provided by the employment labor agency ANETI. These interventions, discussed in chapter 5 have not been successful so far.

Conclusions

4.66 **Bank objectives were aligned with those of the government, and consistent with government strategies in basic, secondary and higher education.** Over the evaluation period, there was considerable continuity in Bank assistance reflecting its relevance to addressing key challenges at the forefront of the government agenda, such as: achieving the MDGs; and improving quality in education and strengthening qualification levels in the labor force to match the transformation of the Tunisian economy towards a knowledge-based economy. Critically, Bank objectives also sought to bolster financial sustainability as Tunisia faced a rapid increase in the number of students in secondary and higher education, adding to the very high level of public spending on education (7 percent of GDP in 2005).

4.67 **Overall, results are disappointing given the very significant levels of public resources that Tunisia has invested in the education sector (one of the highest in the world).** The performance of Tunisian students continues to rank at the lower end in international test (for example recent 2012 PISA), and an increasing number of highly educated young people have limited prospects for finding employment.

4.68 Successful education reform requires implementation of a package of measures that includes careful engineering (for example, infrastructure, pedagogy/teaching capacity, financial resources and management), adequate incentive structures for both the public and private sectors (ranging from rewards for performance to equitable access), and public accountability (taking the "voices" of multiple stakeholders into account)[100]. The World Bank's analytical work in basic, secondary, and higher education, took these various factors into account, providing a rich analysis to guide the reform process and improve the overall governance system in education. However, Bank Group lending, in responding to client specific demand, was clearly unbalanced along these three dimensions. Too much focus was put on the engineering dimension (notably infrastructure and pedagogic reforms) at the expense of policy measures to improve the education governance framework (notably the incentives framework and M&E).

4.69 Bank lending attempted to include measures to foster parent and community participation as well as University autonomy, but government ownership of these reforms was lacking. The lack of implementation of this critical leg of the reform package ("the institutional dimension") may explain why most of the other policy measures supported by Bank Group projects failed to deliver expected results. Prior analysis of the political economy could have helped to better anticipate resistance to change such as that met with regard to greater autonomy for universities and a more participatory approach in schools. Such analysis could have provided guidance on how best to design policies/reform/projects to induce buy-in from government and lead to more tangible results. Furthermore, as mentioned by all stakeholders, the lack of an adequate M&E framework proved to be an obstacle to monitoring results, fine tuning policies, and measuring the sustainability of the reforms introduced in the education sector.

4.70 **Tunisia is at the earliest stages of coordinating general secondary education with TVET, and this axis will be increasingly important in order to better align labor force skills (supply) with employer needs (demand)**. Although the Bank recognized the relevance of technical vocational education and training as a critical input to enhancing alignment with skills needed on the labor market, it did not provide support in this area other than to review the government strategy in TVET, and to undertake an impact evaluation of TVET on employment (2007)[101]. Those said, other donors (especially European Union and AFD) were strongly involved in supporting technical vocational education and training (TVET).

4.71 In higher education, Bank analytical work helped identify key bottlenecks, but the reforms supported by the Bank to instill more autonomy in the system, and better align education training with labor market requirements, have yet to produce results on the ground. The government has been lagging in the implementation of the most important provisions of the 2008 law with particular reference to the provision of more autonomy to universities and the setting up of a National Evaluation Agency. The Bank project supported a new resource transfer mechanism that led to various innovative projects to give University Departments a first experience of autonomy, but there is some concern on the sustainability of this model at project closure.

Rating For Bank’s Contribution: ***Moderately unsatisfactory***

5. Social and Economic Inclusion

Introduction

5.1 Over the past decades, Tunisia was known for relatively liberal social norms, a large middle class, and gender parity supported under the law. By 2010 more than a quarter of the seats in the national parliament were held by women. Economic growth was inclusive and between 2000 and 2005, poverty dropped from 32.4 percent to 23.3 percent.

5.2 Despite these positive developments, a number of critical weaknesses were evident including: persistent regional inequalities; increasing unemployment; and inefficiencies in government spending that have financial sustainability implications. The exposure of lower-income groups to the consequences of these weaknesses threatens past achievements and raises concerns about the inclusiveness of future growth.

5.3 This chapter assesses Bank Group contribution in : improving the overall effectiveness of social protection programs (including a brief overview of trends in poverty and inequality followed by a review of subsidy and pension programs), alleviating unemployment, improving health care, addressing inequities in access to basic infrastructure (including water and sanitation, roads and ICT) and finally improving the management of natural resources (arable land, forests, and groundwater) that holds the key for sustainable and equitable growth in the longer term.

Improving the Coverage, Quality and Financial Sustainability of Social Protection and Pension Systems

BACKGROUND

5.4 The Tunisian economy grew at an average of about 4.5 percent per year over 2000–05**.** There was a significant reduction in poverty, which declined by an average of 6.4 percent every year over this period. The reduction in extreme poverty was even sharper, falling by about 8.7 percent per year over 2000–05. The poor benefited from growth—per capita consumption of the poor (lowest quintile) grew at a faster rate (2.5 percent) than the per capita consumption of the rich (highest quintile). Despite evident progress, significant challenges remained. Pockets of concentrated poverty and inequality were present across regions and socioeconomic groups. The poverty gap (compared with greater Tunis) increased in the northwest and central west over 2000–05. There was extensive rural-urban migration with some 15–20 percent of young males leaving to find work in urban areas. Significant proportions of the population remained economically vulnerable, with a growing proportion of this group living in urban areas (50 percent in 2000, up from 43 percent in 1995).

5.5 The government continues to play a central role in the social protection through large public sector employment, heavy regulation of the labor market, active labor market programs and social safety nets. An increasing share of the population over 60 years is receiving pension benefits.[102] Concerns about the financial sustainability of the two pension funds pointed to needs for reform. The challenge was to ensure the financing of future pensions without negatively affecting job creation in the formal sector.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

5.6 Consolidating Tunisia's progress in poverty reduction and ensuring that all social groups benefitted from economic development were key features of the government strategy throughout the period. A key objective of the government's 10th Economic Development Plan (2000–06) was to improve living standards for all and expand social protection coverage to 90 percent of the population by 2006. The Plan emphasized the need to reduce development disparities between regions, and government commitment to integrating the regions into the world economy. The 12th Economic Development Plan (2010–14) aimed to strengthen social gains, promote regional integration, and reduce regional inequalities by focusing on infrastructure and committing to the launch of several specific programs in priority regions designed to strengthen solidarity between regions.

5.7 The Bank aimed to support the government objective of improved living standards under the CAS FY05–08 by focusing on improved coverage, quality and financial sustainability of social protection and pension systems. The ISN FY13–14 aims to improve the efficiency of social safety net programs by training INS staff in methodology and poverty analysis, and by improving targeting for social services. There were no specific objectives related to pension, targeted income support or subsidies under Social Protection.

RESULTS

Trends in Poverty and Inequality

5.8 Towards the end of 2011, the INS undertook a comprehensive review of its methodology for measuring poverty in collaboration with the African Development Bank and the World Bank. The objective was to refine the old methodology and make it fully consistent with international best practice. Based on this review, new estimates for poverty at national and regional levels were arrived at for 2000, 2005 and 2010. The new estimate of poverty is considerably higher than that previously estimated although the overall trend, as discussed below, was on a downward trajectory.

5.9 **The new data show a significant reduction in poverty between 2000 and 2010, with the proportion of population below the poverty line reducing from 32.4 to 15.5 percent between 2000–10**. Progress in poverty reduction was better during 2005–10 compared with the first half of the decade (See table 5.1). Economic growth benefitted the poor relatively more, especially in the second half of the decade. During 2005–10, a 1 percentage point increase in GDP growth reduced poverty by 1.8 percent points and extreme poverty by 2.2 percentage points.

Table 5.1. Share of Population in Poverty in Tunisia, 2000–2010

Percent of Population	2000	2005	2010
Below Poverty Line	32.4	23.3	15.5
Below Extreme Poverty Line	12.0	7.6	4.6

Source: INS.

5.10 Even though poverty and extreme poverty declined overall and in every region, inequalities remained. Inequality declined at the national level (from a Gini of 34.4 in 2000 to 20.3 in 2010). But poverty is higher in rural than in urban areas, ranging (2010) from 8–9 percent in the center-east region and Tunis to 32 percent in the center-west region respectively, with pockets of poverty within wealthier regions (table 5.2). Though there is less inequality in consumption expenditures within regions, the gap between the Greater Tunis and poorer regions (in particular north and central-west) has widened. (table H.1.5).

5.11 Additional evidence is provided in appendix H.1.

Table 5.2. Regional Poverty Trends

In %	Poverty			Extreme Poverty			Population
	2000	2005	2010	2000	2005	2010	2010
Tunisia	32.4	23.3	15.5	12	7.6	4.6	23.2
Greater Tunis	21	14.6	9.1	4.3	2.3	1.1	13.9
Northeast	32.1	21.6	10.3	10.5	5.4	1.8	11.5
Northwest	35.3	26.9	25.7	12.1	8.9	8.8	23.3
Central-east	21.4	12.6	8	6.4	2.6	1.6	13.3
Central-west	49.3	46.5	32.3	25.5	23.2	14.3	9.1
Southeast	44.3	29	17.9	17.5	9.6	4.9	5.6
Southwest	47.8	33.2	21.5	21.7	12.1	6.4	

Source: INS.

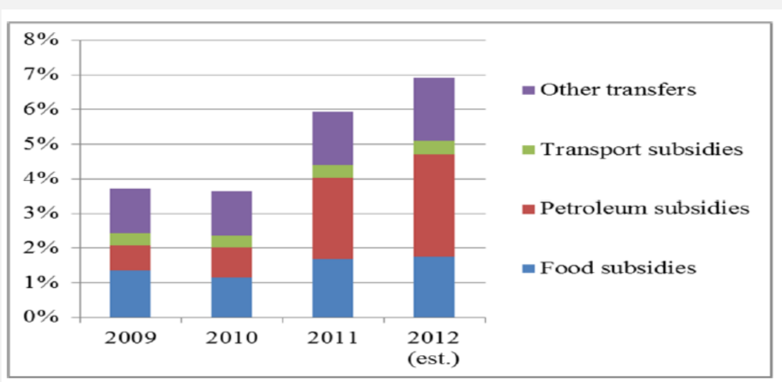
Effectiveness of Social Safety Nets

5.12 Tunisia has traditionally had an extensive system of social protection designed to ensure that all its citizens could support a minimum standard of living, including basic health and education. In addition there were special programs to assist the poor (cash transfers, subsidized health), the elderly (pensions), and the unemployed (active labor market programs, unemployment insurance). Over the years, these programs expanded in scope and coverage. By 2013, public spending on social programs (health, education, and social protection) was about 60 percent of total government spending or 25 percent of GDP.[103] The rest of this section discusses subsidies/transfers and the pension program, two large components of the social safety net.

✓ SUBSIDIES AND TRANSFERS TO THE POOR

5.13 Budget expansion since 2011 has been driven by wage increase and subsidies. In 2012, public expenditures on untargeted price subsidies on basic food, oil products, electricity, and transport were approximately 5 percent of GDP.[104] These are just the direct budget transfers for food and energy subsidies. Implicit subsidies to state owned refineries and electricity producing companies to compensate for the maintenance of low prices for consumers, were another 2.2 percent of GDP in 2012. In 2013, subsidies and transfers account for 24 percent of total expenditures. As illustrated in Figure 5.1 energy subsidies (liquefied petroleum gas for cooking, diesel fuel, and electricity) shot up after 2010 from an average of 0.9 percent before 2010 to 2.8 percent in 2012. In contrast, in 2011, the government spent only about 0.4 percent of GDP on unconditional cash transfers, paid to 7 percent of the population.[105]

Figure 5.1. Transfers and Subsidies (as Percent of GDP)



Source: Ministry of Finance.

5.14 **Untargeted food and energy subsidies were not an effective tool for helping the poor.** The bulk of energy subsidies did not reach the poorest. Highest-income households benefited almost 40 times more from energy subsidies than the lowest-income households. In fact, only 7 percent of the benefits from gasoline and diesel subsidies reached the bottom 50 percent of the population. Food subsidies (except for subsidies on raw grains) also benefited the rich more than the poor. This leakage of subsidies to the nonpoor makes the existing system not only costly but also inequitable and inefficient as a social protection tool.[106]

✓ CASH TRANSFERS TO THE POOR AND VULNERABLE

5.15 The National Program of Aid to Needy Families (PNAFN) manages a cash transfer program and the Free Medical Assistance Program (FMAP) for the poor. Compared with other countries, PNAFN pays generous cash transfers to households, equivalent to about 21 percent of poorest household expenditures (0.5 percent of GDP). However, eligibility criteria for these benefits are not transparent and, as a result, the benefits are subject to manipulation.[107] It is estimated that about 11 percent of PNAFN beneficiaries are relatively wealthy and more than 42 percent of the poorest households do not receive any FMAP or cash assistance from PNAFN.[108]

✓ PENSIONS[109]

5.16 In 2012, roughly 5 percent of GDP was spent on pensions. Tunisia has two publicly managed pension funds, one for public and one for private sector employees, both of which are in serious financial difficulty. A 2 percent deficit is projected for the private sector pension fund by 2018. Only 37 percent of the working population contributes to pension payments at a contribution rate of about 12.5 percent of wages, which is insufficient to pay out pension equivalent to 80 percent of wages after 40 years of contributions. Moreover, the design of the systems encourages early retirement and increases the dependency ratio—the average retirement age is fifty-five. Other perverse incentives include late enrolment and strategic manipulation of wages and promotions, particularly in the public sector, where pensions are calculated as a percentage of the last salary earned (the private sector, in turn, computes pensions as a percentage of the average of last years of salary), resulting in replacement rates that rank among the highest in the world. The schemes are also very fragmented and complex in design, and different groups of workers not only benefit differently, but also have different exposure to risks of systemic default.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

5.17 The Bank's contribution to poverty reduction was primarily through its support to promoting faster economic growth led by the private sector in a competitive, market friendly environment. While the results of this support were disappointing in terms of boosting private-investment-led growth, the Bank's support (in terms of its direct budget support and the cofinancing it attracted) may have helped maintain macroeconomic stability and growth and allowed government maintain its social protection programs.

5.18 **For the past couple of years, the Bank together with AFDB has provided technical assistance to the INS to improve its institutional capacity to measure and analyze trends in poverty**. As part of this collaboration, a review of the methodology used in preparing poverty estimates over the past 15 years was undertaken**.** Based on updated methodology (See appendix H.1.) and new household survey data for 2010, poverty and inequality estimates were revised. This analysis provides a better understanding of the trends in poverty and regional disparities since 2000. In addition, two other technical assistance projects are supporting the INS in conducting a household survey to analyze the socioeconomic status of households across the country (the Socioeconomic Assessment of Peri-Urban Areas, and the Household Survey of Urban Areas). This work is also building analytical capacity at the INS.

5.19 **The Bank addressed rural poverty through its rural development projects** (discussed in detail below). These, mainly CDD projects, sought to improve incomes in the northwest and other remote regions of the country by expanding income earning opportunities, improving connectivity, and creating better rural infrastructure. Poverty in the northwest of the country declined marginally between 2005 and 2010, and much less than in the country as a whole. Although the Bank project had positive, immediate results for project beneficiaries, it is unlikely to have impacted on poverty at regional level. Moreover, the sustainability of the gains for beneficiaries is questionable.

5.20 **The Bank did not play a major role in designing or implementing the social safety net or the pension system**. Pension reform was on the Bank's agenda during the CAS FY05–08, and the Bank planned AAA to support the launch of reforms in FY08; however, these plans were shelved and no further initiatives were taken. The Ben Ali government was reluctant to work with the Bank on social protection as these programs were used by the regime to reward political loyalty. Until recently, nothing was done by the Bank to improve the effectiveness (coverage, quality, financial sustainability) of the subsidy program. The Bank and the IMF are providing technical assistance to the authorities to (i) assess the welfare and social impact of reforms for each energy product, and (ii) to help design an effective cash compensation program to support poorer households from energy price increases following the proposed reform of energy subsidies. Also, the Bank is now providing assistance to the government to review the fiscal sustainability of the social security system with a view to reform the pension system and health insurance.

CONCLUSIONS

5.21 The Bank provided good quality technical assistance on poverty and delivered localized benefits through its CDD project, although longer term sustainability is unlikely given the absence of a relevant, underlying incentive framework. The Bank was unable to influence the reform agenda in relation to key issues such as subsidies, cash transfers, and the pension regime.

5.22 **Rating For Bank's Contribution FY05–10:** ***Moderately unsatisfactory***

Facilitating Employment through Effective and Well Targeted Active Labor Market Programs

BACKGROUND

5.23 By the early 2000s, unemployment had emerged as the foremost economic challenge for policy makers. The workforce was growing at about 2 percent annually, requiring the creation of 75,000 net jobs per year to absorb new entrants to the labor market. But robust economic growth since the mid-1990s was insufficient to absorb labor force growth. By 2004, unemployment (overall average 14 percent) was particularly high among young people (30 percent) and women (18 percent). The average duration of unemployment was 10.8 months for experienced workers, and 21 months for labor market entrants.

5.24 Among the reasons for increasing unemployment was the low employment intensity of economic growth, rigidities in the labor market that discouraged hiring and firing of workers, and the growing mismatch between the education and skills acquired by the educated youth and the needs of the economy (see chapter 4). Continuing demographic pressures, including increased labor force participation by women, and the expected intensification of competition from imports from the EU following the Accession Agreement, were likely to have exacerbated this trend.

5.25 The government played an important role in the labor market. The public sector was a particularly significant employer in a labor market that was highly regulated and the state maintained tight control of vocational training. Active labor market programs (ALMPs) run by the state have long been at the core of Tunisian labor market policy. In 2004, wage subsidies and exemptions from social security were introduced for university graduates. Spending on ALMPs was high (1.5 percent of GDP) but targeting of these programs was inadequate. ALMPs mainly benefitted postsecondary graduates, who accounted for only 6 percent of the unemployed, while the pool of unemployed was dominated by those with primary schooling or less (86 percent of the unemployed).[110] In general, coverage of the unemployed was weak.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

5.26 The main thrust of the government strategy for tackling unemployment was to boost economic growth in order to create sufficient new jobs to absorb a large share of the emerging labor force. This focus on growth remained throughout the review period, increasingly supplemented by ALMPs to create jobs in the public sector or to provide assistance to enable the unemployed to get jobs created in the private sector. The government's 10th Development Plan (2002–06) had employment creation as an explicit target and employment generation remained the highest priority in the 11th Plan (2007–11). Post revolution, the immediate aim of the government was to ensure social peace and security. As in the past, the post-revolution government's economic recovery program also emphasized the importance of rapid economic growth for job creation, but also underlined, for the first time, the need to create short-term employment opportunities for the rising number of unemployed.

5.27 The Bank's strategy reflected the same thinking. The main focus was on growth and job creation, and the private sector was assigned a pivotal role. The strategies also recognized that economic growth would have to be much faster than in the past to absorb the growing number of new entrants to the labor force[111]. Moreover, to benefit from the increasingly young and educated work force, Tunisia's growth would have to come more and more from a high value added knowledge driven economy. The reform of the labor market to facilitate hiring of workers, and strengthening the social safety net programs with the inclusion of some kind of unemployment insurance scheme, were other elements of the Bank's strategy. In order to address immediate short term problems arising from growing unemployment, Bank programs also sought to reduce inefficiencies in existing ALMPS by consolidating them and by strengthening ANETI's employment services and monitoring systems.

RESULTS

✓ TRENDS IN UNEMPLOYMENT

5.28 **Despite the high priority placed on job creation by the government and the Bank, the unemployment rate increased during the period**. Moreover, there was no improvement in the employment situation of young people, or educated new entrants to the labor force. Instead of declining to a targeted 13 percent by end 2006, unemployment continued to increase to a peak of 19 percent (2011), before declining to 16.7 percent in 2012. Most of the unemployed in 2012 (67 percent) were low skilled. Seventy-two percent of the unemployed were under the age of 30. Unemployment among university graduates was 33 percent, and the situation was most difficult for educated women (48 percent unemployment), and for people living in remote areas in the southwest and southeast (28 percent).

5.29 **This poor outcome is not surprising given the failure to boost private investment.** Without serious policy reforms to create a favorable investment climate, domestic private investment stagnated through much of the period at a low level of about 13 percent of GDP (See Chapter 3). GDP growth, which averaged about 4.5 percent during 2005–10, was inadequate to absorb the new entrants to the labor force.

✓ EFFECTIVENESS OF THE GOVERNMENT'S PROGRAM TO PROMOTE EMPLOYMENT

5.30 Until 2009, the bulk of funding from the Employment Fund went into regional employment and microcredit programs. Most of these lacked a governance structure, quality assurance mechanisms, and/or a monitoring and evaluation mechanism/strategy. The impact of programs on employment outcomes for beneficiaries, and productivity gains for firms, remained largely unassessed.

5.31 Starting in 2009, efforts were made to improve the effectiveness of the Fund and the programs it financed. ANETI became the main beneficiary of the Fund's allocations, financing all of its ALMPs including the entrepreneurship program and programs to promote insertion into waged employment. Many programs (insertion into waged employment and regional employment) were consolidated and redesigned. Efforts were made to better align training programs to demand, improve targeting, and to involve the private sector in training and coaching programs.

5.32 In 2011, a new ALMP program (AMAL) was initiated to assist the unemployed. This involved two strands. The first provided high-skilled unemployed youth with a monthly TND 200 stipend (equivalent to US$150) to encourage them to "actively search" for a job through participation in career counseling, training, and internships. The second envisioned assistance to low-skilled, long-term unemployed in underserved areas through monthly income support (100 TDR, equivalent to US$67) and employment services; however, this never got off the ground because of insufficient institutional capacity in ANETI.

5.33 **Implementation of ALMPs was patchy, and suffered from weaknesses in design and institutional capacity**. A 2004 review by the Bank of ALMPS in Tunisia found that they mainly benefited postsecondary graduates and were not well targeted. In 2011, about 405,000 persons (about 55 percent of the registered unemployed) benefited from funding from the Employment Fund.[112] Barely one-third of ALMP beneficiaries were unskilled workers who constituted the bulk (66 percent in 2011) of the unemployed. By the end of 2011, approximately 140,000 unemployed graduates were receiving monthly financial support under the AMAL program. The loose eligibility criteria, and resulting large number of program beneficiaries, turned the AMAL program *de facto* into an unconditional allowance program for unemployed University graduates. The coaching and training components, as well as the paid internships of the program were not implemented because of the limited capacity of ANETI. Between March and December 2011, 193,920 individuals registered with AMAL. Of these 144,536 received the stipend, 6,561 participated in internship programs, 15,422 received skill training, and 6,708 found a job. While some of the programs required firms to hire some proportion of the beneficiaries after program completion, this rule was largely unenforced. As a result, the quality of internships offered by firms was low, and enterprises did not invest in the human capital of the interns. That said, a 2011 independent process evaluation of AMAL (supported by the Bank's employment TA) noted the program contributed to fostering social peace and stability, especially in interior regions.

5.34 In 2012, the AMAL for higher education graduates was replaced by the Employment Support Program (*Programme d'Encouragement à l'Emploi* -PEE), which tightens eligibility criteria to target the most vulnerable unemployed and make the program more manageable. This program is expected to run until December 2013.

✓ LABOR MARKET REGULATIONS

5.35 **Not much has happened on the ground to reduce rigidities in the labor market**. Reforms of the labor market to promote flexibility were largely avoided. Flexibility in formal employment in Tunisia is very limited. For example, Tunisia has the highest difficulty of firing index in the MENA region, which relates to the notification and approval requirements, and existing obligations to reassign or retrain employees. Temporary assignments, labor leasing and the use of temping agencies are forbidden. Furthermore, the majority of workers in Tunisia are not protected against the risk of unemployment, and there is no effective unemployment insurance system in place.

5.36 However, to start a process of building consensus for relevant structural reforms, in 2012 the government launched a national dialogue process with the main trade union (*Union Générale Tunisienne du Travail*, UGTT), and the main business confederation (*Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat*, UTICA), with the support of the International Labor Organization (ILO). A new "social contract" was signed in January 2013 to pave the way for a reform of the Labor Code. Little progress has been made thus far.

5.37 Additional evidence is provided in appendix H.2.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

5.38 Direct Bank support for ALMPs to assist the unemployed and for reforms to improve the functioning of the labor market is discussed here. Other interventions to create a more robust demand for labor (promote private-sector led growth) and improve the supply side (education policies) were discussed respectively in chapters 3 and 4.

5.39 **Prior to 2010, the Bank had no lending program in Tunisia in the area of labor market institutions and regulation. Its contribution was essentially programmatic analytical and advisory assistance (PAAA).** The program identified five areas for Bank assistance, in particular, improvement of labor market information and dissemination, and evaluation of employment programs (ALMPs, including training). Based on this work, an integrated strategy for employment creation covering all dimensions of the MILES[113] framework was to be developed. The detailed recommendations on all aspects of labor market policy were summarized in two policy Notes in 2007 and 2008, revisiting rigid dismissal procedures and severance pay regulations, introducing income protection through unemployment insurance, and streamlining ALMPs. However, this work had almost no influence on labor market policy. For the most part, the set of ALMPs put in place were contrary to the thrust of its recommendations.

5.40 In FY10, the Bank and the EC agreed to jointly support a common policy matrix covering a pro-employment reform program for the next five years. It was expected that the Bank would support the program in the first two years through two single-tranche programmatic DPLs. The FY11 Employment DPL was the first of these. The second DPL was expected to follow in FY12 (with EC support over 2012–14). Following the revolution, the proposed second Employment DPL was dropped from the Bank's program. Instead, labor market reforms were pursued through the GO DPL FY11, and the GOJ DPL FY12, that were designed to reflect the priorities of the new government. The main thrust of reforms since FY10 was three fold: first, to restructure existing ALMPs, and institutions implementing them, to make them more efficient and better targeted; second, to encourage private sector and third party participation in providing training and coaching to facilitate reentry into the work force, as well as in intermediation services; and third, to improve the system of data collection and management to measure and evaluate the impact of the various programs.

5.41 **The reform program supported by the DPLs included a number of positive steps to improve the governance, management, design and delivery of ALMPs but, to date, there has been limited progress made in operationalizing this reform**. The National Employment Fund that worked directly under the President's office (where it was used as a source of arbitrary patronage) was brought under the control of the Ministry of Vocational Training (2011 GO DPL prior condition). Bank technical assistance included an institutional assessment of the Employment Fund, which highlighted structural problems in the organization of ANETI and substantial overlaps in the programs supported by the Fund. The Bank also provided support to the Ministry of Vocational Training and Employment to conduct a process evaluation and a monitoring report for the AMAL program. Based on these diagnostics, the government suspended the AMAL program and adopted a decree in October 2012 (prior action GOJ-1 DPL) to consolidate the five ALMP programs into two streamlined programs supporting training and first time employment. The decree also provides for a legal framework to monitor and evaluate ALMPs. A robust M&E system is not yet in place to assess the effectiveness of ALMP.

5.42 The 2012 Decree allows civil society and the private sector to identify and implement public works and regional employment programs financed by the Fund. The regional participatory public works programs were to be implemented through Civil Society Associations, instead of the regional governments. Technical assistance was provided for designing and implementing a participatory public works plus program. The main objective was to pilot new models for the implementation of public works in Tunisia (which could eventually be scaled up), based on principles of good governance/accountability, civil participation, and human capital development.

5.43 A JSDF grant was mobilized to finance labor intensive public works (emergency income and short term employment) for rural youth in Jendouba, a region with one of the highest unemployment rates in the country. The objective of the project is to provide direct income support to low-skilled and long-term unemployed citizens through their participation in labor-intensive community works that are selected and implemented in a highly participatory manner by civil society associations. Implementation of the JSDF started in late 2012.[114] The JSDF pilot has already introduced important reforms to governance of regional employment programs. For the first time in Tunisia, public works are being carried out by NGOs that are directly responsible for proposing the projects, hiring the workers, and project implementation. This could be an important step towards promoting PPPs for the provision of employment services in Tunisia. The project has also developed a modern online monitoring system designed to help improve program governance.

5.44 **IFC is working with the World Bank in the area of employment and skills development through the regional E4E Initiative for Arab Youth**. The EFE (education for employment) regional NGO, headquartered in the USA, opened a branch in Tunisia in June 2012 and is working with IFC on the E4E program notably in the tourism sector. EFE is implementing a youth formation and placement program, and entrepreneurship training with Universities in collaboration with Intel and Microsoft. Training started in July 2012 and has targeted unemployed young people (10–30-years old) with particular emphasis on the poorest areas. It is too early to assess the outcome of these important initiatives.

CONCLUSIONS

5.45 Bank analytical work examined and identified issues linked to wages and remunerations (including the existence of gender discrimination), rigidity in hiring and firing and other provisions in the labor code, and the problems of job search and school-to-work transition. However, Bank lending did not address important issues that prevent firms from hiring, such as rigidities in the Labor Code and the high administrative and financial hurdles associated with labor hiring. It was acknowledged that these were politically contentious issues and a consensus had to evolve before reforms could be undertaken.

5.46 **Though it is still too early to fully assess the effectiveness of the most recent changes, Bank supported interventions have had a marginal impact at best**. An early impact evaluation of the Bank-supported business plan thesis program (through the employment DPL FY11) for 800 University students found no effect on employment or earnings, and a negligible impact on self-employment. With respect to the GO DPL (FY11), while prior actions were implemented (mainly in the form of decrees), in many cases as earlier discussed, subsequent actions on the ground were not implemented. The initial pilot to roll out the two streamlined

ALMP program in three governorates has not yet started and the establishment of a robust M&E is still pending.

5.47 Over the evaluation period, many of the ALMPs that involved insertion into wage employment turned out to be unconditional cash transfers for the educated unemployed, with little benefit in terms of acquisition of relevant skills or jobs after the completion of the program. The bulk of the unemployed who were unskilled, and likely more in need of financial assistance, were left out of these schemes. Despite efforts to streamline the programs, institutional capacities at all levels lagged behind what was needed.

5.48 **Rating For Bank's Contribution FY05–10: *Unsatisfactory***

Improving the Coverage, Quality and Financial Sustainability of Healthcare

BACKGROUND

5.49 **Compared with other countries with similar incomes and level of spending on health, Tunisia's health sector performed reasonably well in the decade prior to the review period.** Tunisians enjoyed relatively high life expectancy—estimated to be 72 years for males and 76 for females in 2004—low infant mortality at 19 deaths per 1,000 live births, and a relatively low fertility rate of 2 births per woman. More than 80 percent of the Tunisian population is entitled to health care either through a health insurance scheme or a medical assistance program.

5.50 **But there were also weaknesses in the health sector.** There were wide regional variations in terms of health infrastructure, outcomes and utilization. These inequalities were aggravated by the growing financial burden on households, which already contributed more than half of the total health expenditures through direct out-of-pocket payments. The high level of financing paid directly by households represented potential problems both in terms of effective coverage of the system, and financial protection of individual families. Quality of care, especially in underserved areas, was also emerging as a cause of concern. In 2003, a study to gauge users' perception of the technical and service quality of the regional hospitals revealed that only half were satisfied with the quality of care. Dissatisfaction with public sector delivery of health services at the primary and secondary levels was reflected in declining outpatient visits and low occupancy rates in public hospitals (58 percent).

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

5.51 Strengthening social programs and improving the delivery of basic public goods and services to all sections of the population have been among the stated goals of all National Plan documents during the period under review. While the 10th Plan (2002–06) did not explicitly target a specific health sector outcome, the 11th NDP included health sector reforms in one of its five axes, focusing on improving quality of service delivery and efficiency of health care expenditures. Post revolution, the government's focus was to restore economic activity and correct the inequities in access and quality of social programs, including health.

5.52 **The Bank's objectives in the health sector were consistent with government objectives.** The CAS FY05–08 emphasized the need to improve coverage, quality and financial sustainability of health services by introducing hospital accreditation, health insurance reforms, managing expenditure growth, and better regulation of private health providers. The CPS FY10–13 focused largely on improving quality and hospital efficiency, including improving the availability of outpatient and inpatient services and medical goods at hospitals; and building operational and financial management capacity at the central government and hospital level. The ISN FY13–14 sought to improve service delivery in two ways. First, it supported efforts to solicit citizen feedback on the quality of public services, including health, provided at the local level. Second, the Bank supported decentralization and local development by providing assistance in designing performance-based incentives and strengthening accountability.

RESULTS

5.53 **Tunisia continued to make good progress in terms of health outcomes between 2004 and 2010.** Life expectancy at birth improved from 73 years in 2004 to 75 years in 2010. The infant mortality rate declined from 20 to 15 (per 1,000 live births) in the same period. However, the maternal mortality goal of 18.7 (per 100,000 live births) will most likely not be met although skilled birth attendance rates are high. Immunization coverage for DPT and measles was expanded and malnutrition reduced.

Table 5.3. Progress in Health Indicators, 2000–2010

Indicators	2000	2004	2010
Life Expectancy at Birth (years)	73	73	75
Infant Mortality Rate (per 1,000 live births)	25	20	15
Maternal Mortality Ratio (per 100,000 live births)	84	60*	56
Immunization DPT (% of children ages 12–23 months)	97	97	98
Prevalence of Malnutrition (% stunting)**	16.8	12*	10

Source: WDI, unless otherwise indicated.

*refers to 2008 data quoted in DPR (2013); ** DPR (2013).

5.54 **However, these achievements mask serious problems, and many of the issues that confronted the sector at the start of the review period remain relevant now.** There continues to be wide regional disparities in health outcomes and in rates of malnutrition and skilled births attendance, reflecting continuing inequities in health care facilities between rural and urban areas, and between the rich and the poor[115]. Rural maternal and infant mortality was estimated in 2010 to be almost double that of urban areas[116]. Poorer areas have lower service quality; and individuals in lower-income groups, and in rural areas, use health services less often. There is no evidence that the quality of health services, especially those provided by the public sector, has improved. A hospital accreditation system has been launched in September 2013, but so far no accreditation activities have been conducted.

5.55 **No progress was made in improving health care financing during the period, either to make the system financially more viable or to make it more accessible**. Expenditures on health care continue to rise (from 5.6 percent of GDP in 2005 to 6.2 percent in 2011). Total health expenditures per capita increased by 31 percent between 2004 and 2008, considerably more than the Bank's anticipated 10 percent increase. Though government spending on health increased during the period 2005–11, the private sector continues to shoulder 45 percent—out-of-pocket private health care expenditures were about 2.5 percent of GDP in 2011, up from 2.3 percent in 2005.

5.56 Funding by social health insurance funds covered almost 48 percent of public health expenditures in 2011, up from 42 percent in 2005. However social health insurance covers only those employed in the formal sector, estimated at about 68 percent of the population. Private insurance covered only about 10 percent of total private expenditures on health, down from 14 percent in 2005. Thus, most of private health expenditure (90 percent) is paid out-of-pocket at the time of service use, raising concerns about equitable access to care.

5.57 **Health expenditures by the poor are technically covered by the Free Medical Assistance Program (FMAP), but the program reaches only 9 percent of the poor**. Government spending on the FMAP decreased from 25.6 percent to 13.9 percent of public health expenditures between 2005 and 2010. In 2004 it was estimated that low income households spent about 6–7 percent of their income on health care compared with 3–4 percent by wealthier households. There is no evidence that this regressive pattern of health care financing has changed since then.

5.58 **The lack of data makes any performance and accountability assessment impossible**. There is no systematically collected data on quality or costs of health care, and no information is available on the flow of funds within the health sector. The last National Health Accounts (NHA) is from 2004 and 2005[117] and no Health Public Expenditure Review was conducted during the evaluation period.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

5.59 During FY05–13, the World Bank's contribution mainly took the form of analytical work on health sector issues and technical assistance to strengthen institutional capacities and hospital accreditation. But health sector reforms were included in the post revolution DPLs. In 2012, the IFC provided equity to a private company for building and operating health clinics.

✓ IBRD SUPPORT

5.60 **Overall, the Bank's AAA in the sector was relevant and of good quality. However, it has had very little impact on actual policies.** The Bank's Health Sector Study (FY06) identified issues related to inefficiencies at different levels of care. The report highlighted inequity in access; low levels of patient satisfaction in regional hospitals; increasing out-of-pocket spending; and inadequate financial protection for patients. It recommended revisiting the level of government spending on health care to reduce the relatively high levels of out-of-pocket spending; reviewing financing and cost control in social health insurance to ensure financial sustainability; improving quality of care in the public sector; and building information systems and analytical capacity. Recommendations made in the Bank's Health Sector Study are still highly relevant in today's health policy dialogue[118].

5.61 Following from the recommendations of the study, the Bank initiated a program of technical assistance during FY07–09 to maintain sector dialogue and flesh out recommendations in certain areas. Technical assistance included a report on hospital performance and the development of a quality of care strategy at the MoH. One of the Bank's recommendations was to implement a system of hospital accreditation[119]. Following the revolution, the Bank completed a Productivity and Governance Health Sector Policy Note (FY12). The Note suggested the sector has the potential to increase productivity through improved insurance coverage and increased private sector participation, including outsourcing of nonmedical support services. No follow-up has been initiated as yet.

5.62 **The Bank did not have a health project during the evaluation period.** The CAS proposed Bank funding for a health project in FY08, but this was shelved. The health sector DPL, envisaged in the CPS for FY11, was dropped after a new government took office following the revolution. Instead, hospital quality reforms were included in the two multisector DPLs, the GO DPL (FY11) and the GOJ DPL (FY12). The Bank also mobilized funds from several Trust Funds to help implement the reforms passed under the DPLs in the area of social accountability and community health development in underserved regions. Among them is the Tunisia Community Health Collaborative capacity-building program, financed by the Japanese Social Development Fund (JSDF) and the Korean Trust Fund (KTF) for ICT4 Development to support Information and Communications Technology (ICT) for Health Services and strengthen performance monitoring systems. The *long term* objective of the reforms under these two loans was to improve the quality of health care services. The *short term* objective was to increase access of basic health care services in the underserved regions.

5.63 **Prior to 2011, in view of the Bank's limited leverage in the sector, there was very little progress in achieving any of the objectives for the health sector set out by the Bank in its strategy documents**. For example, under the CAS FY05–08, it was expected that a satisfactory, comprehensive health insurance scheme would be in place by 2008. This did not materialize. Expenditures on health continued to rise throughout the period, as did their burden on the individual. There was no visible improvement in health care infrastructure. The hospital accreditation process didn't start (10 percent of regional and university hospitals were expected to be accredited by end 2008), and user surveys suggest high levels of dissatisfaction with quality of care in public hospitals

5.64 **Since 2011, Bank DPLs supported two measures to improve quality of health services.** A decree was passed in May 2011 that created an institutional framework for empowering citizens and civil society to participate in monitoring the implementation of social programs, including health care services (prior action GO DPL). It is expected that, over time, this process will build public pressure on implementing agencies to improve delivery of services. The second measure to improve quality was to institute an auditing, evaluation and certification system of quality in the health sector, using standards set by international accreditation bodies. The measure, which was introduced in September 2012 (prior action GOJ DPL), will require that health facilities conduct routine evaluations of quality based on standards harmonized with those set by international accreditation bodies. The measure also establishes an autonomous National Authority (INAS) for managing the evaluation and accreditation of health services delivery. The main expected result in the short-term is to have (by the end of 2014) at least 10 percent of hospitals that have initiated the accreditation process by conducting evaluations of the quality of service delivery using international standards.[120] In the long term, accreditation is expected to improve and standardize quality of care, to attract more investment, and create more jobs in the health sector.

5.65 The Bank also provided support to assess the quality of health services through ICT4 Development (Korean Trust Fund), a capacity-building program for strengthening performance monitoring systems. Four hospitals pilot-tested customer satisfaction surveys through an online questionnaire completed on a touch screen located in the hospital reception area. Initial findings pointed to low satisfaction with cleanliness, food, and patient reception services (noting the touch screen in question was often not working because of Internet connectivity issues).

5.66 **To improve access to basic health care services in the underserved areas, the program supported the creation (in May 2011) of national outreach services in underserved regions based on a participatory approach**, comprising the provision of a basic package of health, education and social protection services. With this measure, the government aims to create a national outreach services policy to expand free access to care in underserved governorates through services provided outside of traditional fixed facilities, and in local community areas.

5.67 **While it is still too early to assess the long term impact of these measures, not much has changed on the ground to date.** Some administrative changes were made in response to citizen feedback on service quality (for example new health insurance offices were opened), but their impact overall on hospital management and service delivery is not known. Additional personnel were recruited for outreach services. However, institutional constraints and a lack in leadership have hindered the expansion of services and access to health care in underserved areas. At the time of writing, the Health Sector Accreditation Agency (INAS) established by decree in 2012 had not launched any accreditation processes.

- ✓ **IFC SUPPORT**

5.68 To encourage increased private sector investment in health care, and to improve access to good quality health services, in 2012 the IFC invested US$8.2 million in equity in a private company for building and operating high quality health clinics in various parts of the country, including underserved areas. The rationale was to enable Tunisia to not only tap into foreign demand for good (and relatively cheap) health care services (health tourism) but also to improve access to quality care for less well-off regions. Some of the clinics have begun operations. However, it is still too early to assess the impact from this investment. To date, *Amen*

Santé (the Group) is already profitable. Some clinics are profitable, others have just started operations.

CONCLUSIONS

5.69 **The Bank provided good AAA pre-2011 but with little impact on the reform agenda.** More recently, the Bank has supported targeted measures through DPLs and trust funds, but it is too early to assess the long term impact of these. Little on the ground change is discernible at this time.

5.70 **Rating for World Bank Group Contribution:** ***Moderately unsatisfactory***

Improving Access to Basic Services for Underserved Communities (Water, Sanitation, Roads, ICT)

BACKGROUND

5.71 As earlier referenced, there were significant interregional differences in poverty in 2005. Economic growth was more effective in lifting the poor out of poverty in the better off, largely urban coastal areas and less effective in the poorer, largely rural hinterland of the country. This gap was reinforced by differences between the richer urban and poorer rural regions in access to basic infrastructure.

5.72 By 2005, while the urban population had near universal access to safe drinking water and sewerage systems, only 50–60 percent of the population in rural areas has access to safe drinking water, and only 40 percent had access to modern sanitation. Similarly, while access to all weather roads as well as public transport services were universal for the urban population, most of the rural population lacked adequate road access and had little public transport available to them. Access to all weather roads in Tunisia for the country as a whole was less than 40 percent in the early 2000s,[121] and, since little investments in rural roads were made in later years, rural road accessibility has likely remained about the same. The basic infrastructure gap between the coastal areas and the hinterland can be illustrated by comparing the infrastructure in the two provinces of Kasserine (interior) and Nabeul (coastal): the latter had 38kms of highway compared with 0kms in the former; twice the number of railroad stations, almost three times the share of population with fixed telephone lines; and growth in public Internet access at 15 times the rate in Kasserine.[122]

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

5.73 Reducing regional disparities and integrating the regions to the world economy were central objectives of the 10th National Plan. Development of the transport network was considered an essential component in the achievement of this objective. Increasing the supply of potable water, especially in the rural areas, was an important objective for all the plan documents. Water was also an important input to the agriculture sector, which was expected in the 11th Plan to contribute significantly to the export of high value added products. To meet the increased need for water, more investment was needed and the 10th Plan envisaged the opening up of the water sector to private investment. The 11th Plan also envisaged that traditional services, such as provision of water, will improve their efficiency, largely as a result of institutional restructuring and the use of modern technologies.

5.74 Post revolution, the government's economic recovery plan focused on lagging regions. The 12th Plan seeks to promote integration and complementarities between the various governorates. It also envisages strengthening the role of each region in the development of projects and development programs according to their intrinsic potential and their comparative advantages.

5.75 The Bank endorsed the government's objectives of improving access to safe drinking water. The CAS FY05–08 also agreed with the contention in the 10th Plan that public utilities had to become more efficient, and that there was need to enhance private sector participation in water and sanitation. The CPS FY10–13 emphasized the importance of managing water resources in an environmentally sustainable manner.

5.76 Neither the CAS FY05–08 nor the CPS FY10–13 focused specifically on the infrastructure needs of poorer, rural regions. While the Bank emphasized the importance of better infrastructure services for the country, there was no special emphasis on rural areas or on the rural poor. This changed post revolution. One of the three areas of focus of the ISN FY13–14 is the promotion of social and economic inclusion and a driving objective is to improve access to basic services for underserved communities.

RESULTS

5.77 Tunisia is one of the most advanced countries in MENA in many aspects of water policy and investments. Prior to the evaluation period, some progress had been made towards promoting integrated water resource management and community participation, and protecting water and the environment. Low income households paid little before and during the CPE period for the water they used, thanks to low rates applicable at low levels of water consumption[123].

5.78 **Because of new investments, access to improved water source and sanitation services continued to expand for the population in rural and urban**

areas, though sanitation services in rural areas still considerably lag urban areas. Tunisia is on track to meet MDG targets for access to improved drinking water.[124] While the gap between rural and urban areas in access to potable water supply was significantly reduced over the last 5–10 years, there remain substantial regional differences, with the interior north and northwest having coverage of 87 percent while other regions reach close to 100 percent. However, the rural-urban gap in sewerage coverage widened during the CAS period. In 2004, the sewerage coverage rate was 4.8 percent in rural areas and 80 percent in urban areas. By 2008, the coverage in rural areas increased marginally to 5 percent (an increase of 4 percent in four years) while in urban areas it increased to 87 percent by 2006 (an increase by 8 percent in two years).[125]

5.79 **There was also good progress in the treatment of wastewater**. During 2005–12, the percentage of wastewater treated in the areas served by the national utility, ONAS, was consistently above 90 percent, which places Tunisia at the top of the countries in the region. The quality of treated water is also substantially better than before. However, despite significant investments for making treated wastewater accessible to farmers, the reutilization of treated wastewater has stayed near a low 30 percent for much of the period.

Table 5.4. Access to Water and Sanitation

	1990	2000	2010
Access to improved water source (% population)	81	90	94
Access in urban areas to improved sanitation (% urban population)	74	81	85

Source: ISN FY13-14.

5.80 Although tariffs for water and sanitation services in Tunisia (handled respectively by the two utilities the national water distribution utility, Société *Nationale d'exploitation et de distribution des eaux* (SONEDE), and the national sanitation utility, *Office National de l' Assainissement* (ONAS), used to be set at full cost recovery for decades, they were affected by a tariff freeze during the last years of the Ben Ali regime (from 2006 to 2010). Because of this and increases in operating costs over inflation (especially for electricity and personnel), both SONEDE and ONAS have been in a difficult situation over the last five years, with negative net financial results. Water tariffs covered less than 80 percent of cost in 2011–13, down from 88 percent in 2005.[126] Sanitation charges also failed to keep up with costs during the period. A tariff adjustment plan was adopted in September 2010, with a planned annual increase of about 7 percent for both ONAS and SONEDE until 2016, with the goal of allowing them gradually return to financial equilibrium. Despite the difficult political transition, this tariff adjustment program has been broadly complied with by successive governments—three tariff adjustments, each involving a 7 to 8 percent increase, have been granted to date. The failure to raise tariffs not only discourages economical use of scarce water resources, but it also endangers the maintenance of the infrastructure and the quality of service in the future[127].

Table 5.5. Adjustment of Tariffs, 2005–13

Percent	Baseline: 2005	Results: 2011–13
Average water tariff/average cost coverage	88	79
Average sewer tariff/average cost coverage	119	97

Sources: Baseline: CAS 2005–2008; Current: Water-SONED Report, February 2013, Supervision of Loan 7339
Sewer: ONAS Table of Indicators.

5.81 **There was little progress in effecting institutional reforms to increase private sector participation in the sector.** Water supply and sewer services continue to be provided by monopolies at the national level.[128] There is some minor participation of the private sector in the sanitation utility's (ONAS) operations, in the form of five-year management contracts. Private operators manage 3,500 km of the sewer network (out of ONAS' 16,000 km) and 24 treatment plants (out of ONAS' 110). ONAS is preparing to pilot 15–20 year concessions that would allow private operators to make investments.

5.82 **Very little investment went into rural roads to improve the connectivity of underserved regions**. Road projects financed by various bilateral and multilateral agencies have tended to focus on main roads, rather than on roads serving the isolated rural populations.

5.83 **There has been significant improvement in access to telephone and Internet in the rural areas** over the last 5 to 10 years, reflecting the spread of cellular phone services throughout the country. The spread of mobile phones has been particularly beneficial in rural areas given that landlines are hard to find in these areas. Internet access has also spread to rural areas. However, there is a difference in the quality of service between rural and urban areas: most of the rural areas are reached with the older, slower 2G technology, while 3G, which operates at higher speed in data transfer, is being extended in the urban areas.

5.84 The slow progress in bridging the gap between the regions is confirmed by the results of a recent survey that found regional disparity remains a central challenge to social cohesion[129]. Interior Tunisian provinces remain isolated from the coastal and urban hubs of economic activity by distance, infrastructure, and lack of public investment.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

✓ **WATER AND SANITATION**

5.85 **Even though the Bank is not a major player in the water and sanitation sector, it has played an important role.**[130] The Bank takes a leadership role in promoting institutional reforms and encouraging a larger role for the private sector. Also, in its role as chef de file in cofinanced projects, it is responsible for supervising project implementation on behalf of all cofinanciers.[131]

5.86 **The Bank's interventions were relevant as they were aligned with country strategies.** However, for most of the review period, there were differences in views between the government and the Bank on reform priorities, including the role of the private sector, and the pace of tariff adjustments. These differences slowed down implementation of water projects, diminishing their relevance.

5.87 The Bank prepared a water sector strategy published in FY09 as well as several informal background papers in the context of project preparation that were shared with Tunisian officials. The ESW which focused on water supply and sanitation, lacked actionable recommendations and references to best practices in the region and had little impact. This was a missed opportunity to make more progress in furthering the involvement of the private sector.[132]

5.88 Six water projects were active during the review period. Four are still underway and only two of them, the Greater Tunis Sewer and the Water Sector Investment I (WS-I) have closed. In water supply projects, the main development objective was sustaining the reliability and quality of water services. This objective was to be achieved through augmentation, upgrade and renewal of water supply infrastructure, and through enhancing the competitiveness and sustainability of the water utility SONED. In sewerage projects, the development objectives included improving the quality of sanitation services in Greater Tunis; promoting the reuse of treated wastewater in irrigation on a sustainable basis; and enhancing the performance of the national sewer company (ONAS) through strengthening the financial and operational management capacity of the sector. Wastewater projects have aimed at providing an environmentally safe disposal system for treated wastewater that will not be reused in agriculture, and increasing the quantity and quality of treated wastewater made available to farmers to encourage its reuse in agriculture.

5.89 As a result of Bank projects, more water and sanitation infrastructure was put in place, and this helped expand the reach of services in rural and urban areas. Some institutional measures were also implemented to improve water management and the capacity of state agencies was enhanced through training. For example, under the first Water Sector Investment Loan, management responsibility for irrigation was transferred to local water users associations (WUAs) whose operations and maintenance were planned through the member pays principle. However, it is not clear if these associations will survive the political changes now underway, and there is no available evidence that they have so far contributed to improved water management.

5.90 Since 2011, the Bank through sector dialogue has encouraged adoption of a tariff adjustment plan, and its subsequent compliance. The Bank is currently closely assisting SONEDE and ONAS to improve their financial performance through a series of initiatives including: (i) an AFFI-funded TA to support the delegation by ONAS of about 50 percent of its infrastructure nationwide to the private sector through regional PPP contracts; and (ii) a proposed PPIAF-WPP funded TA to help SONEDE identify an action plan for recovering financial health (new tariff structure, improving operational efficiency, corporate reforms). These recent initiatives, which would not have been possible during the Ben Ali regime, represent a significant breakthrough for the level and nature of Bank dialogue in the sector. Yet, what will actually be achieved is uncertain as illustrated by past unrealistic expectations.[133]

- ✓ **ICT**

5.91 The Bank's ICT Sector Development project (FY05) and various DPLs supported the expansion of ICT by facilitating private sector investments and policy reforms (Chapter 3). While these projects and programs did not specifically target improvement of services in rural areas, the strong growth of mobile telephone and Internet services in recent years benefited rural areas as well.[134] The e-disabled component of the ICT project is likely to benefit poorer, more isolated regions.[135] The project served a target population of 16,000 children with disabilities in all 24 governorates of Tunisia, including poor and remote governorates. The ICT team won an innovation grant to assist with developer's engagement at city level, and is trying to reach out and involve second tier cities, including Gafsa.

- ✓ **SUPPORTING BASIC INFRASTRUCTURE THROUGH REGIONAL DEVELOPMENT**

5.92 **Even though the FY05–08 CAS and the FY10–13 CPS did not include regional development issues in their areas of focus, several ongoing and new projects approved during this period sought to improve basic infrastructure services in rural and underserved areas**. For example, the development objective of the third Northwest Mountainous and Forestry Area Development (NWMFAD) Project (FY03–10) was to improve the socioeconomic conditions of the populations in five governorates covering the mountainous and forested areas of the northwest region while ensuring sustainable management of natural resources. The project included construction of rural roads, and the construction of tanks to improve supply of potable water. The follow-up (fourth) NWMFAD project (FY11, ongoing) seeks to improve the socioeconomic conditions of the rural population and promote better protection and management of natural resources in the project area using an integrated participatory approach to community-based development. Improving basic rural infrastructure was one of its goals. Similarly, the project development objectives of the second Natural Resource Management Project (NRM) (FY10; ongoing) is to improve the living conditions of rural communities in the project areas in terms of access to basic infrastructure and services; sustainable increase in the three agencies income;[136] and improve natural resource management practices by fostering an integrated approach to community-based development. It was designed as a follow-up operation to the first NRM project that closed in 2004.

5.93 **It is still too early to assess the impact of ongoing interventions**. Implementation of several ongoing projects including the fourth NWMFAD and the second NRM projects was slowed down considerably by social and political unrest since early 2011. Earlier projects delivered some improvements that is, access to roads was improved in the target areas under the third NWMFAD project that closed in FY10, and access to potable water was improved in the project areas under the third NWMFAD project

CONCLUSIONS

5.94 Though the CAS and the CPS did not contain specific objectives targeted at improving access to basic services for the underserved[137], the Bank undertook several activities designed to modernize infrastructure, and this contributed to expanding access to the rural areas, notably in the water and ICT sectors.

The third NWFAD project led to some improvement in the target areas. In the water and sanitation sector, significant gains were made in extending access to water and sanitation, but few policy reforms were implemented to improve efficiency and the quality and reach of these services on a sustainable basis. Bank advice to encourage greater private sector participation and periodic tariff adjustment were not supported by the government until very recently.

Rating for World Bank Group Contribution: ***Moderately unsatisfactory***

Improving the Management of Natural Resources

BACKGROUND

5.95 **Tunisia needs to manage its resources well to ensure sustainable improvement in living standards and quality of life of its citizens**. Water is Tunisia's scarcest natural resource. Current availability is 425 cubic meters per capita, compared with a regional average of 1,100 and a global average of 6,600. Already one third of the aquifers are severely overexploited since groundwater supports 66 percent of consumption though it represents only 44 percent of available resources. The quality of land is also poor in many parts of the country. Almost 47 percent of agricultural land is degraded. The amount of arable land per capita, less than 0.3 hectare, is among the lowest in the Mediterranean area. Eight percent of arable land is irrigable, and almost 80 percent is affected to a greater or lesser degree by wind and water erosion and salinity.

5.96 **Since the 1980s, Tunisia has been a pioneer among developing countries in emphasizing environmental conservation and managing its water resources prudently. But despite decades of the government efforts to protect natural resources, overexploitation and inadequate land management have led to significant resource degradation.** As a result of a combination of natural and manmade factors, approximately 20 percent of rangelands have disappeared since 1972. In addition to the agro-ecological fragility of these areas, land fragmentation and unclear property rights have undermined sustainable management of natural resources and its productivity.[138]

5.97 **There are also wide regional variations in the quality of land and availability of water.** The northwest contains agro-ecological areas of strategic importance as they receive 80 percent of the water resources of Tunisia and contain over 50 percent of its forests. The dry center west and arid south are similar to the northwest in that they have a high population density, high level of land fragmentation, high level of resource degradation, and high rural-urban migration. An additional problem in the dry center west has been the overexploitation of underground water leading to salinization. Over exploitation of water reserves in the arid south is caused by over expansion of oasis towns and the deterioration of irrigation systems. As earlier noted, many of these areas are also characterized by relatively high levels of poverty.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

5.98 **The importance of efficient management of scarce water and land resources is recognized in all government plans. However, none of these tried to grapple**

with underlying contributing factors to resource degradation as the government believes it can do so without fundamentally changing the incentive structure. In the 10th NDP (2002–06), improved management of natural resources and rural development were seen as key to reducing poverty. One of the five axes of the 11th Plan (2007–11) emphasized the need for a comprehensive development approach and focused on integrating the environmental dimension into programs, generalization of environment upgrading, increased energy efficiency, improved waste management, and rationalization of natural resources exploitation. The Economic Recovery Program of the post-revolution government also stresses the importance of supporting environmental protection and optimizing use of natural resources.

5.99 **The Bank supported government efforts to improve management of scarce natural resources in the past, and it continued to do so in the review period**. The CAS FY05–08 addressed natural resource management issues in the context of its program to enhance the competitiveness of agriculture through improved management of water resources (in irrigation) and soil conservation. Sustainable development and climate change was one of the pillars of the CPS FY10–13. In this respect, the Bank sought to support policies and programs to promote overall efficiency in the management of the water sector including to develop the reuse of treated waste water for irrigation purposes and to improve land management practices to ease the vulnerability of some of the poorest communities in the face of climate change. Consistent with the priorities of the post-revolution government, the ISN FY13–14 supports integrated rural development, by encouraging participation of civil society groups and citizens in the design of schemes to better manage natural resources.

RESULTS

5.100 **There is no evidence that the process of overexploitation of water and land resources and the attendant degradation has been reversed.** The economic conditions of the northwest, center-west and south continue to lag behind coastal areas, increasing pressures to overexploit whatever resources there are (in terms of forest cover, vegetation. and so on). The expansion of crops and arboriculture, overgrazing, and a detrimental use of machinery continue to accelerate land degradation. Overgrazing rates in central and southern Tunisia are estimated at 78 and 80 percent, respectively. These rates have doubled in the past 25 years in the central region and in the past 40 years in the southern region.

5.101 Current estimates show that about 50 percent of Tunisia's arable lands are already eroded, up from 47 percent in the early 2000s. The conditions in some regions are much worse than the average suggests. Erosion, caused mainly by water in the north and center, and wind in the center and the south, results in the loss of an estimated 13,000–23,000 hectares of topsoil per year. Water resources in all three regions, but especially in the center and south, are at risk from salinity, which further exacerbates the losses. In other, better off areas, efforts to raise water tariffs for drinking purposes and for irrigation were not sustained, and there is no evidence that irrigation efficiency has improved, or wasteful use of water has declined.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

5.102 Useful AAAs were undertaken in key sectors such as water and agriculture to identify constraints and policy priorities, and the Bank also provided technical assistance to build institutional capacity for managing scarce resources, and addressing environmental factors such as climate change.

5.103 **The Bank contributed to efforts to improve the management of natural resources mainly through its projects in the water sector, and in CDD projects for rural development, which dealt in part with land conservation and water management issues.** Water management issues were addressed in the first and second Water Sector Investment projects (FY00 and FY09 respectively). Land and water conservation and management issues were also addressed in the northwest Mountainous and Forestry Area Development project (FY03), the second Natural Resource Management Project (FY10) and the fourth NWMFAD project (FY11). These projects typically included assistance for strengthening institutional capacities to manage resources more efficiently as well as physical investments in water and soil conservation.

5.104 **While it is still too early to assess the impact of some of the ongoing projects on the management of scarce natural resources, a recent project assessment conducted by IEG found a lack of evidence/data to support project objectives.** The FY14 evaluation of the third NWMFAD project (FY03) found that while soil and water conservation works were carried out on a greater number of hectares than planned (for example, a total of 22,251 hectares treated with soil and water conservation works to reduce erosion and increase protection against water runoff), the project failed to measure actual changes in soil loss, siltation of dams, and water recharge. In addition, there was no evidence to assess changes in communities’ natural resources management practices or the incentives for them to maintain soil and water conservation works, rangeland improvements or agro-forestry investments. The ongoing, fourth NWMFAD project is designed to continue the pursuit of relevant objectives and it would clearly be useful if appropriate data was captured to better articulate the Bank’s contribution in that instance.

5.105 Integrated water resources management and conservation of water resources was a primary objective of the water sector projects. To improve demand management, the management of irrigation schemes was increasingly delegated to Water User Associations, which allowed farmers a greater say in how these schemes were managed. The capacity of WUAs was strengthened. Improved water resource management tools and technology was introduced. The water tariff system was reformed to provide stable revenues to irrigation agencies and allow for annual increases in water tariffs. To help water resource conservation, several maps were prepared showing areas at risk of salinization and zones of possible land degradation covering the entire country. About 206 potential sources of water pollution (hotspots) were identified on the maps and an action plan for reducing pollution was set up. Though important gains were made, it is not clear if these are sustainable. The institutional capacity of WUAs is fragile, and needs long term support from government. Irrigation agencies remain financially vulnerable because of the inability or unwillingness to raise tariffs. The reluctance to raise tariffs in turn undermines efforts to improve demand management and irrigation efficiency.

CONCLUSIONS

5.106 Bank projects to improve management of natural resources were undoubtedly useful interventions. However, as of today there is no data on changes in the soil erosion or dam siltation rates to allow assessment of the extent to which the measures have improved ecological parameters in the project areas. There is also no hard evidence that institutions are actually implementing conservation programs more effectively, and it is doubtful whether the gains achieved through the Bank's projects are sustainable without adequate incentives and other reforms that encourage resource conservation.

Rating For Bank's Contribution: ***Moderately unsatisfactory***

6. Improving Governance: Public Financial Management and the Voice, Accountability, Transparency Agenda

Introduction

6.1 In 2003, the Bank found that governance was weaker in MENA than in other parts of the world, and identified what it called a "governance gap" that slowed growth in the region through consequent low private investment and productivity (World Bank, 2003)[139]. Poor governance had also emerged in Tunisia as a crucial issue prior to 2005, but very little empirical or analytical work was undertaken by the Bank on specific forms of misgovernance and its impact on the economy. The 2007 CASPR noted "special treatment of well-connected individuals is a growing concern of the Tunisian business community and may partially explain the low level of domestic private investment." The Bank's country director at the time made efforts to reach out to representatives of the academic community and civil society, expressing concern about economic governance. Many counterparts we met in Tunisia (for example, former members of government, academics) recalled and were appreciative of the Bank's stance at the time. But, as the government expressed strong reservations on the Bank's assessment, the new country team later pulled back and desisted from openly discussing governance issues.

6.2 In previous chapters we concluded the Bank was unsuccessful in its efforts to engage the government in addressing, for example, the creation of a level playing field for businesses or fostering community participation in policy and program formulation. Prior to the revolution, the Bank was likewise unable to engage the government on other issues, such as external accountability towards citizens or Parliament, administrative reform, decentralization, corporate governance, anticorruption policy or legal and judicial reform. Hence, the Bank's engagement in the governance agenda was narrowly defined and centered on public financial management and procurement issues.

6.3 After the revolution, Bank engagement on governance increased on several fronts as the first interim government wanted to signal a clear break with the past and to adopt governance related policy actions to meet expectations for immediate change.

6.4 This chapter reviews Bank interventions in public financial management issues and in the post-2011 transparency, voice, and accountability agenda. The other dimensions of economic governance were addressed in chapters 3 through 5 of this report and are referenced here only because they are relevant to addressing the broader transparency, voice, and accountability agenda.

Public financial management

6.5 The World Bank has taken a keen interest in assisting the reform of Tunisia's public financial management system since the early 2000s. In 2004, the Bank advised the government to restructure its debt management policies and institutions in order to consolidate Tunisia's position as one of the best-quality emerging market borrowers.[140] Over FY04–10, the Bank provided annual technical assistance to help the government undertake a comprehensive reform of its budget structure, rules and procedures in pursuit of improved effectiveness and performance through the implementation of a result-oriented budget approach. The Bank also reviewed Tunisia's procurement system (FY04) with a view to improving the execution of the investment budget, and made recommendations to alleviate and make more transparent heavy and lengthy procurement procedures.

6.6 However, prior to the revolution, apart from engagement in procurement and performance based budgeting reform, the Bank was unable to engage the government in addressing other, important public financial management issues, such as: (i) reviewing public expenditure including the incidence analysis of the high level of budget subsidies; (ii) analyzing the high level of tax spending caused by a complex set of tax reliefs; (iii) instilling more transparency in budget preparation (such as the disclosure of the draft budget prior to transmission to the parliament or public discussion on the budget in the press and civil society) and accountability (such as the disclosure of the audit court reports); (iv) reforming of the complex expenditure control systems heavily concentrated in the office of the Prime Minister; (v) reforming its outdated accounting system (based on cash transactions rather than accruals) and (vi) fiscal decentralization.

6.7 This section will therefore focus primarily on assessing the relevance and efficacy of the Bank's contribution to introducing performance based budgeting and improving procurement procedures.

Improving public spending efficiency through the introduction of Performance Based Budgeting Reforms

BACKGROUND AND CONTEXT

6.8 The 2004 CFAA characterized the Tunisian budgetary system as sound but rigid, legally well-defined and pragmatically managed, with some weaknesses in the budget process, notably excessive controls and weak external accountability. Despite these basic weaknesses, the report concluded it was possible to integrate a performance-based budgeting (PBB) approach into the system, and elaborated on how a PBB system could improve budgeting relations between ministries, audit institutions, and Parliament. The ground for PBB was also laid by the 2003 World Bank DPR, which analyzed deficiencies in the budget system at that time, and proposed the progressive introduction of program/performance budgeting. The actual starting point of the reform was the newly adopted Organic budget law (May 13, 2004) that authorized an indicative programmatic presentation of the budget (Article 11).

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

6.9 Following a 2004 Presidential decision to develop a PBB system for Tunisia, the government's target was to implement the new system by 2009. Yet the commitment to move forward with budget reform and tackle the implications of PBB for government management was shallow even though it featured in successive national development plans.

6.10 **The Bank supported the introduction of PBB to improve the quality of service delivery, an objective that was central to both strategic frameworks (CAS FY05–08, CPS FY10–13) prior to the revolution.** The rationale for embarking on such an ambitious, long term budget reform process was to improve budget outcomes in terms of allocation, effectiveness, and efficiency over the long run. Donors had been pushing for PBB reform and therefore supported the 2004 decision to introduce PBB in Tunisia; however, the extent to which it was appropriate (relevant) for Tunisia to go through the complicated, lengthy and costly process of moving to PBB was not clearly spelled out. Part of the motivation could have been to meet the President's desire to present Tunisia as a modern state without fully factoring in and understanding the system-wide changes implied by this overarching reform.

RESULTS

6.11 Tunisia was the first country in the French administrative tradition to unilaterally opt for in-depth reform of its budget management. The comprehensive budget reforms sought to replace the traditional input-based budget approach with a new result-oriented budget approach, according to which expenditure would be attached to programs with specific outcomes measurable through performance indicators. The outcome of such a comprehensive budget reform effort (encompassing significant change in budget process, administrative structure, and decision making) should be assessed over a long time span. But, even allowing for this, it is fair to say that after seven years of gradual development, PBB reform is still in an experimental and preparatory stage. Many of the elements required for effective overall implementation, continue to be absent.

6.12 **In fact, in responding to the Tunisian authorities' request for World Bank support to design and put in place PBB reform, the Bank could have prepared an in depth cost/benefit analysis, and a more critical assessment of the readiness of the Tunisian authorities to engage in such reform**. The political economy dimension of this reform should have been better taken into account at the inception of this programmatic technical assistance to assess government buy-in. For example, one of the main objectives of PBB is to increase the budgetary powers of parliament (both in terms of budget allocation and budget oversight). But because of the relative powerlessness of parliament, the potential to realize these objectives was limited. Another important objective of PBB is to introduce more flexibility in spending procedures to shift from a system relying on heavy ex ante controls to an ex-post control system so that more accountability is introduced in PFM. Yet, there was no political will to change the complex set of procedures and controls on public expenditure. Similarly, the Court of Accounts was notionally independent but, in fact, effectively adopted positions already cleared by the executive.

6.13 **Building a constituency in support of reform and improving change management proved extremely challenging.** Though the commitment to move to PBB was part of the presidential program in 2004, there was little implementation impetus as reform ownership wavered. The magnitude of the changes requested before embarking on the substance of the reform had escaped all stakeholders. Furthermore, the absence of a proper communication and training strategy during the first five years of the reform, as well as the limited availability of new information technologies (no intranets within the administration) contributed to the slow progress made.

6.14 **Although the reform of core systems has now begun and the piloting of PBB is progressing, the initial decision to push the reform of the organic law to the back end of the reform process has limited the learning from the pilots in the implementation phase.** Though pilot ministries started to prepare their budget on a programmatic basis with associated performance indicators, budget execution did not change because relevant processes were not yet adapted to PBB management. This resulted in some "fatigue" among staff in pilot ministries that invested energy and effort in preparing draft budget, annual performance project (PAP) and annual performance reports (RAP) that have, so far, had no practical application. The government is now planning to work on exception-based changes of the legal framework and management procedures so as to allow for actual PBB experimentation in pilot line ministries before the overall framework is in place.

6.15 Additional evidence is provided in appendix I.1.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

6.16 The World Bank provided assistance on public financial management through the preparation of the 2010 public expenditure financial accountability report (PEFA), and through sustained technical assistance on PBB from FY05–10. A first technical assistance operation, carried out in FY05, produced an overall blueprint for reform and recommended features that became the building blocks of a results based budget system. This was followed by the set-up of programmatic economic and sector work over FY06–08 to help Tunisia develop a PBB system. Expected outcomes were to strengthen budget management through multiyear programming and improve expenditure efficiency through performance based budgeting. As the government's initial and overly ambitious target of implementing the new results based budget system slipped, Bank support was expanded until FY10 in order to provide dialogue/advice and support medium term implementation.

6.17 **The sustained provision of Bank technical assistance was closely coordinated with the European Union (EU) over FY05–10 and was helpful in clarifying the methodological framework and shaping tools**. The technical assistance was attuned to country circumstances while also reflecting lessons from countries that have modernized their budget systems. Tunisian counterparts were appreciative that the Bank remained involved over a long period despite the slow pace of implementation at least until FY09. The programmatic technical assistance was well executed, yet, as noted earlier, the choice that was made to backload legal changes to address the authorities' lack of appetite for immediate change of the law can be questioned.[141]

6.18 **The technical assistance has raised stakeholders' awareness of PBB reform challenges and increased capacity in pilot Ministries.** The technical assistance helped to gradually build understanding of the advantages of the new budget reform process within the pilot ministries, notably the identification of "budget space," and increased autonomy in resource allocations and consistency between resources and goals. The development of these various outputs (for example, reform master plan, operational guide) helped strengthen capacity within the administration as the Bank support involved a significant amount of time working with the pilot ministries and the PBB general directorate at the MOF before producing these products. The evaluation team received very positive feedback during field interviews about Bank assistance in PBB reform.

CONCLUSIONS

6.19 Efforts to introduce and implement a PBB system in Tunisia are now running for seven years, almost half of the 15 years it typically takes to introduce a PBB system and make it fully operational[142]. The top-down approach, together with insufficient training and communication about the reform objectives and expected benefits, as well as the slow rate of reform implementation (incl. institutional arrangements), made it difficult to keep up the dynamic of reform and the commitment of public servants in pilot ministries. Hence, the targeted outcome of the reform to improve expenditure efficiency has not yet materialized.

6.20 In terms of the sequencing of public financial management reforms, the Bank could have first tried to engage the government to address key gaps identified in the 2004 CFAA report (budget cycle preparation and implementation) that would have to be addressed as a prerequisite to the successful introduction of the PBB system. This may have provided more immediate entry points to strengthen the demand for real accountability from the Executive.

6.21 Still, the sustained provision of technical assistance has contributed to strengthening the capacity of pilot ministries that have been preparing programmatic budget and performance reports since 2009. However, no tangible results in terms of budget implementation could be achieved by pilot ministries since the modalities of budget execution did not change to align with PBB principles. The government has acknowledged this issue since 2012, and is attempting to accelerate the pilot experiences by exploring ways to circumvent the constraints imposed by the present laws and regulations.

6.22 At this stage, the reform remains fragile and potentially reversible. Significant challenges have to be overcome to transform Tunisia's administrative culture and to amend its centralized, hierarchical and input-oriented work methods by spreading accountability. The reform has not yet reached a stage where it is possible to demonstrate that central directorates are inclined to accept the new way that involves "more flexibility, more accountability" to improve service delivery, or that internal control institutions are willing to reorient their controls. This is even more the case in the post revolution context, which has created a lot of uncertainty and fears among public servants. In this environment, public servants are increasingly risk averse, and may be disinclined to take more responsibility or to take advantage of more flexibility in managing their budget in exchange for enhanced responsibility. Also, an immense challenge will be the introduction of increased decentralization called for by the PBB reform in order to apply performance based budgeting principles (in terms of accountability and control) to semiautonomous agencies, operation units and regional branches of government.[143]

6.23 **Rating For Bank's Contribution FY05–10:** ***Moderately unsatisfactory***

Improving Procurement Reforms

BACKGROUND AND CONTEXT

6.24 In the early 2000s, overall public expenditures implemented through procurement (including ministries, SOE, local bodies) represented 18 percent of GDP, which shows the significance of the procurement process in the economy as a whole. Given weaknesses in procurement regulations, the authorities developed new regulations over 2002–03 to modify the law governing procurement (dating back to 1989).

6.25 In the 2004 country procurement assessment review (CPAR), the Bank acknowledged some positive developments but underlined the many weaknesses that continued to be present in the new decrees. The revised decree failed to address important issues linked to the length of procedures, excessive prior review, the restricted access to non-Tunisian enterprises, large gaps in transparency and fairness, the absence of an independent recourse mechanism, and many other shortcomings.[144]

6.26 In 2004, the Bank also conducted an Independent Procurement Review related to projects financed by the Bank. The Audit (101 contracts distributed between seven projects) revealed very serious shortcomings: missing documents and absence of archives; delays; short periods between publication of the tender and the dates for opening proposals; serious gaps in complying with regulations and procedures; absence of communication of the results to nonselected candidates; and failure to respect delivery dates as well as absence of transparency.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

6.27 **Prior to the revolution, Tunisian development plans did not mention the need to reform the procurement system,** in spite of the efforts of the Bank and other main donors to put this issue on the reform agenda. As of 2008, the government started to pay more attention to procurement as it tried to manage the impacts of the crisis and introduced new measures in the procurement code to help companies (notably SMEs) cope with the economic crisis. Just after the revolution, as part of the program of immediate governance and social reform, the government included selected measures to reinforce, simplify and increase transparency in public procurement. In 2012, the government adopted a program of economic and social reform that include the building blocks for good governance, notably reforms to address inefficiencies in procurement and contract award procedures.

6.28 On the Bank side, the CAS FY05–08 planned to provide technical assistance on procurement but contained no specific objectives to address procurement inefficiencies. The CASPR FY07 proposed to conduct a procurement review to better understand the reasons behind the increase in procurement delays, but didn't revise the result based matrix to include performance indicators to monitor progresses in improving the procurement system. The CPS FY10–13 aimed at "strengthening the capacity of the public management system," including through procurement reform, to improve service delivery. The CPS results matrix planned to track progress under annual Bank-led Country Portfolio Performance Review (CPPR) but did not include indicators relevant to monitoring progress in procurement reform. The ISN FY13–14 supports reforms to increase the transparency and procedures of the public procurement process to strengthen competitiveness with specific targeted indicators. The targeted indicator to measure progress in streamlining the procurement process is to reduce the time required for the full procurement cycle by 50 percent (which reaches 6 months in 2011) and publish all government contracts awards online.

6.29 Improving procurement is highly relevant as it contributes to the achievement of multiple, interrelated results: (i) increasing transparency, accountability and efficiency of a large part of public expenditures, (ii) speeding up the disbursement of investment expenditure; (iii) securing more open competition inside the private sector and between domestic and foreign firms; and (iv) fighting corruption, cutting red tape for private enterprises dealing with government entities.

RESULTS

- ✓ BEFORE THE REVOLUTION

6.30 Between FY05–10, the procurement process remained overly bureaucratic, lengthy and lacking transparency and accountability, despite the new regulatory framework adopted by the authorities in 2003 and new measures introduced in November 2004 and August 2006.

6.31 **Procurement procedures were so cumbersome that they became an obstacle to budget spending**. Excessive centralization of decision-making power on procurement processes caused considerable delays. Although the operation of the procurement process was decentralized,[145] thresholds for decision making continued to be set at an extremely low level, which meant that most decisions were made at the central level. For example, in 2008, 83 percent of state enterprise contracts were reviewed by the Higher Procurement Commission (HPC). Slow and burdensome procurement procedures greatly constrained the delivery of services and infrastructure (as evidenced by the slow implementation in infrastructure projects targeted under the supplementary budget during the 2008/09 economic crisis).

6.32 **The procurement system failed to prevent political interference and high level corruption and, in fact, the capture of public procurement by the State was a common mechanism used to extract rents**[146]. The contract award decisions by the HPC were subject to approval by the President's office. The report of the National Committee in charge of investigating corruption and wrong doings (*Rapport de la Commission Nationale d'Investigation sur la Corruption et la Malversation,* 2011) revealed the extent to which the Office of the President controlled the work of the HPC (which was attached to the Prime Minister's Office). The latter was effectively turned into a front office for decisions being made either directly by the former President himself or by his close "advisors."

✓ **AFTER THE REVOLUTION**

6.33 **Post-revolution, the government took some immediate actions to revise the legal framework for public procurement to improve the efficiency and transparency of procurement procedures and to shorten the decision-making process without compromising quality**. The immediate decree adopted in May 2011 called for simplification of procurement procedures (incl. increasing thresholds and starting to decentralize the award decision to the contracting entities to reduce the role of the Higher Tender Commission and its specialized commission), revision of procurement processing time, and improved transparency. In June 2012, the government again adjusted the public procurement decree and regulations to further simplify the rules for public procurement for urgent public investment projects.

6.34 **Though it is too early to assess the impact of these initial measures on budget execution, preliminary results indicate some positive results.** The average time for the award of contract (from the transmission of the draft bidding document to the signature of the contract) was cut by half (from 206 days in 2010 to 96 days in 2012)[147]. Transparency has improved. Since June 2012, online publication is mandatory. As a result, all invitations to bid, awards of contract, and decisions of the complaints body are published on the public procurement portal. All contracts are now subject to a one stage bidding process rather than the former two steps procedure that compromised equity and transparency. The 2011 decree set aside up to 20 percent of forecast public expenditures through procurement (public work, goods and services, studies) for small enterprises, but the impact of this measure has not been measured as yet. Also, the government is currently (2013) piloting an e-procurement system in 10 pilot entities (including large public procurement entities such as Ministry of equipment or Ministry of education), with the support of a grant from the Korean Agency.

6.35 **Despite these improvements, significant bottlenecks in budget execution due in part to procurement procedures have continued to hamper the effectiveness of public spending**. This was in evidence in the slow implementation of economic stimulus in 2011 and 2012, which indicates that the reforms adopted have yet to produce the desired results (accelerating investment spending)[148]. A number of factors contribute to these difficulties. Certain behaviors remain unchanged despite regulatory change. Many civil servants are reluctant to take over the greater responsibility granted by the simplification of procurement procedures, especially as in the post revolution context they face increasing contestability. For example, in 2011, though the public thresholds for the procurement commission at the municipal/governorate/ministerial levels have been increased, civil servants continued to send contracts to the higher order commission for decision making.[149] A new procurement procedure was introduced for small purchasing order to provide more flexibility. For these expenditures, purchase commissions ("*commission d'achat*") were put in place within spending ministries to supervise the contracting process for small purchasing orders. But this new procedure has not yet brought the expected benefits.

WORLD BANK GROUP CONTRIBUTION TO RESULTS

- ✓ **BEFORE THE REVOLUTION**

6.36 In 2004, the Bank conducted a country procurement assessment review (World Bank, 2004) that diagnosed the strengths and weaknesses of the procurement system and made specific recommendations to improve the legal framework, procurement procedure and practices, the institutional setting, and overall capacity. At the government's request, the Bank provided financial and technical assistance between FY06–09 to assist the authorities in implementing the Tunisian part of the Union of Arab Maghreb initiative of modernization of public procurement. More specifically, the Bank would provide support for the establishment of a public procurement information system; suggest alternative scenarios to establish a national public procurement management system, and provide training to a core of national trainers. These objectives were relevant to country needs and in line with CPAR (2004) recommendations that highlighted the need to strengthen public procurement institutions and practices through the use of e-procurement and the reinforcement of the institutional capacity of the public procurement system.

6.37 Until 2011, procurement processes for World Bank projects in Tunisia were lengthy and inefficient because of national procurement control mechanisms and procedures, as well as insufficient knowledge about Bank procurement guidelines among implementing agencies. The Country Performance Portfolio Review paid specific attention to procurement processes to help identify practical solutions to alleviate obstacles to the timely implementation of World Bank projects.

6.38 The 2004 CPAR presented a candid assessment of the weaknesses of the procurement system, but the document was never acknowledged or published. Despite that assessment and the Bank's evident appreciation of the many deficiencies in the procurement system, as well as issues in the way laws and regulations were applied, the CAS FY05–08 presented Tunisia as a good candidate for scaling up Bank interventions through further reliance on country systems. Throughout the period, no significant progress was made on streamlining procurement processes or on increasing transparency/accountability in the system. The 2005 IDF grant made no real progress in strengthening the public procurement management system to pave the way for e-procurement,[150] although the ICR noted that some progress was made in building the capacity of trainers.

- ✓ **AFTER THE REVOLUTION**

6.39 After the revolution, a consensus emerged that procurement processes were inefficient, impeding the effectiveness of public expenditures, and therefore in need of reform. Recognizing the extent to which these deficiencies undermined the administration's efficiency, the government requested Bank assistance to reform the country procurement system.The 2011 DPL supported immediate measures to improve the effectiveness, efficiency and transparency of public procurement procedures, and specifically sought to shorten the decision-making process. These measures were informed by the still relevant diagnostic and recommendations contained in the 2004 CPAR. Specific targeted outcomes were to improve efficiency by reducing decision making for noncomplex contracts to three months on average, and to enhance the transparency of the system by publishing the report of the HPC with statistics on how complaints were handled. Since 2011, the Bank has provided technical assistance to help modernize the country's procurement system and enhance alignment with best international practices.

6.40 **Bank support for procurement reform has assisted the post-revolution government in making progress on this front.** The government published a decree in 2011 (prior condition of the 2011 GO DPL), strengthened in 2012 by another decree, to adopt a number of immediate measures to improve efficiency and transparency in procurement. As noted earlier, this led to some improvement in lessening the duration of the contract award process, and in transparency. In 2012, the Bank provided support to the government to complete an exhaustive self-evaluation of its procurement system using the OECD/DAC methodology to benchmark against international standards. The government adopted a detailed action plan in August 2012 based on the findings of this auto evaluation[151] and started to implement it. In 2013, the Bank supported the authorities in revising the procurement code (indicative trigger of GOJ-2 DPL). The initial draft decree produced in June 2013 failed to bring significant modification to the existing public procurement framework and to align with international good practice. The government is revising the draft decree to take into account bank comments.

6.41 Over the entire evaluation period, the Bank primarily assisted the government in reforming the law and regulations pertaining to the procurement system. Field interviews highlighted that not enough attention was devoted to assessing implementation issues. Bad implementation practice often led to overstated costs for the State (notably through amendments and lengthy execution of the initial contract). This was confirmed by the 2011 report of the commission in charge of investigating corruption cases. It provided a multitude of evidence of changes in contracts during the implementation phases of investment projects that resulted in increased costs in favor of the contractor. Field interviews also noted the Bank could have given more emphasis to the need to build ex-ante capacity of public servants to prepare contract specifications (*cahier des charges*), which is a key step for the effective execution of contract. The Bank is now placing significant emphasis on building the capacity of public procurement specialists within the administration. This action is included in the 2012 action plan supported by the IDF.

CONCLUSIONS

6.42 Though procurement weaknesses were identified before and after 2004, the Bank did not succeed in engaging Tunisia in dialogue on procurement reform before the revolution. As such, it was only after the revolution, that the Bank was able to capitalize on the momentum of reform to target specific measures to ensure some progress in procurement.

6.43 It is too early to evaluate the results of the immediate actions taken in the last two years. The real challenge will now be to (i) maintain the momentum for reform despite ongoing political turmoil and financial problems, (ii) change behaviors in the administration to achieve an effective implementation of the new regulation, and (iii) to implement, in a timely fashion, the 2012 action plan for the overhaul of procurement legislation and practice in Tunisia.

6.44 **Rating For Bank's Contribution FY05–10:** ***Moderately unsatisfactory***

The post 2011 Governance Agenda: Strengthening Voice, Transparency and Accountability

BACKGROUND AND CONTEXT

6.45 **Tunisia's pre-revolution political system and the operation of the government lacked transparency and accountability to citizens**. The political system was characterized by an absence of checks and balances, illustrated by the lack of free elections, or conflict of interest legislation as well as the lack of independent review of the executive or legislature, and lack of independence in the judicial system. Freedom House (2005) notes that countries in MENA have historically been among the least free in the world. Tunisia was no exception, noting that press freedom was among the most restricted in the Arab world and freedom of association was repressed, and the country was rated "not free," the lowest rank possible.

6.46 Regarding economic governance, the Heritage Foundation's 2004 Index of Economic Freedom (a scale of 1 to 5, with 5 being "most repressed") assigned Tunisia a score of 2.5 on the question of government intervention in the economy and a 3.0 on the issue of regulation, noting the bureaucracy's slowness and lack of transparency. Regarding corruption issues, "allegations and findings of corrupt behavior were not openly discussed in the news media, given the cowed nature of the press and the regime's determination to cultivate a public image of Tunisia as an investment-friendly state."[152] Transparency International's 2004 Corruption

Perceptions Index gave Tunisia a score of 5.0 on a scale of 1 to 10, with 10 being "clean" (ranked 39th out of 146 countries). This score partly reflects the fact that in the survey, "Industrialists report that businesses do not have to pay bribes in order to succeed and that what corruption exists is petty, taking place at the lowest levels of the bureaucracy." In contrast to this assessment, the same year, the 2004 Freedom House report noted that "many would add that President Ben Ali appears to be using his office illegally to benefit his extended family financially." The composite Governance index noted a degradation of most governance indicators between 2000 and 2005, notably voice and accountability, and the control of corruption.

6.47 **Yet, prior to 2005, the Bank failed to discuss or propose to address Tunisia's poor record on most dimensions of governance and anti-corruption**. The 2003 MENA Governance Report commented upon "the capability of the administration to formulate and implement sound policies, and the respect for institutions that govern interactions between citizens and government." The completion report of the 2000 CAS FY00–02 hinted that the sustainability of CAS outcomes could be affected by pressure for greater democracy and freedom of speech and transparency, which would likely increase and could lead to social tensions if not accommodated. Yet, the report draws no lessons or recommendations from this potential risk.

THE GOVERNMENT'S AND WORLD BANK GROUP OBJECTIVES

6.48 **On the government side, improving governance was not explicitly an objective of its strategies until after the Revolution**. We could find no mention of concepts such as transparency, appropriation, civil society, rule of law or human rights, in pre-revolution government plans, in spite of the fact that one of the pillars of the Barcelona Process (1995) to which Tunisia was a signatory was devoted to the promotion of democracy and human rights. A brief reference to governance can be found in the Development Plan (2010–14), advocating the need for governance and transparency in the field of business and investment regulations.

6.49 **The revolution and the fall of the Ben Ali regime in Tunisia brought about striking change as the government sought to implement democratic reforms** through the introduction of free speech and free elections; freedom to create civil associations, new media and political parties; as well as open access for citizens to the Internet, administrative documents, statistics, and information on public finance management. The Plan produced by the Ministry of Finance in September 2011 refers to the Santiago Principles of good governance and transparency. The government "2012–16 social and economic development strategy" refers to the need to establish political governance through the rule of law, participation, transparency, fairness and accountability. The strategy is based on a reform program ('Governance, Opportunities and Inclusive Development') that aims to strengthen the institutional framework through more transparency and accountability. The program advocates an increased role for civil society in the design, follow-up, and evaluation of public policies, notably with respect to the adequate distribution of resources on social spending and the quality of public services delivery.

6.50 On the Bank side, prior to the revolution, some concerns were expressed in CAS FY05–08 on weaknesses in economic governance with particular reference to "the predictability and transparency of the regulatory framework and limited market contestability," and strong government interference in the economy. More specifically, the CAS noted "discretionary intervention by government, low levels of public accountability, voice and participation, as contributing to weakening the investment climate and strengthening the hand of insiders…. thus discouraging risk-taking by less well-connected entrepreneurs." One of the Bank's objectives at that time was to "call attention to the benefits of a reform agenda in which civil society and the private sector are actively engaged and to accompany Tunisia in transforming challenges, such as stronger economic governance and public sector accountability, into opportunities for increased economic performance."

6.51 The emphasis on the need to address governance issues set out in the 2007 CASPR (and not simply a few ad hoc technical measures), brought about a period of tension in the dialogue with the government with the potential for a decline in the Bank portfolio. The new Bank team reacted by toning down its criticism of the deficiencies in political governance in Tunisia. It is striking that the CAS Completion Report (covering the June 2004–December 2009 period) made no reference to the diverging views between the Bank and the government on the impact of bad governance on Tunisia's economic performance, the related risks, and the lessons that might be drawn in this regard[153]. In turn, the CPS FY10–13 emphasized Tunisia's positive achievements in terms of government effectiveness, rule of law, control of corruption and regulatory quality, but added, prudently, that the country had made less progress in areas of voice and accountability. The CPS failed to identify the lack of transparency and accountability as a specific risk to implementation of the strategy or the achievement of Bank objectives.

6.52 Just after the revolution, the Bank recognized that it had not adequately advocated on some of the serious governance, transparency and accountability issues that weakened citizens' voice and undermined economic performance as well as the prospects for Tunisians to more fully participate in economic activity. It acknowledged how fundamental the issues of transparency, voice and accountability are for shared and sustainable growth, and poverty reduction. The Bank and the new Tunisian authorities agreed on a set of key measures to promote governance, including political governance measures, to strengthen citizen participation. The third pillar of the ISN FY13–14 aims to strengthen Governance, Voice, Transparency and Accountability through objectives that are highly relevant, and well in line with the demands of the revolution.

RESULTS

6.53 Results achieved on governance related issues in Tunisia during the period FY05–13 are contrasted across the pre- and post-revolution periods. Simply put, before the revolution, Tunisia made no progress in relation to economic or political governance.

✓ BEFORE THE REVOLUTION

6.54 The 2008 global integrity report rates Tunisia's performance "very weak" on a number of dimensions. The Governance Index also indicates a net degradation of the rating of voice and accountability between 2005 and 2010. As of 2011, Bank reports and mimeos started to comment openly upon the poor performance of Tunisia across all dimensions of governance and anticorruption in the pre-revolutionary period. Prior to 2011, government anticorruption focused essentially on the fiduciary aspects of public finance management and neglected other forms of collusion and corruption (privatization, sales of state licenses and concessions, loans from public banks, land and construction permits, anticompetition, and rent-seeking behavior).[154] The situation worsened as corruption became pervasive, undermining the socioeconomic environment and ultimately accelerating the path to revolution.[155]

6.55 A detailed description of the governance environment 2005–10 is presented in appendix I.2.

✓ AFTER THE REVOLUTION

6.56 **Within a few months of the revolution, political pluralism was well established, as was freedom of speech, development of new media, and Internet access**. A number of measures were taken to create openness in public administration and to allow the public to file complaints and access information. In 2013, the Ministry of Finance established a Transparency Committee, including civil society stakeholders, to promote financial transparency and open governance. More specifically, the committee is entrusted with the task of ensuring detailed budgets of the State and State owned enterprises (and their execution) are made available for public scrutiny, preparing a Citizen budget, developing a tax culture, and for publishing news about the recovery of stolen assets. The Ministry of Finance has started to post documents related to the budget process. These actions have been complemented by a substantial change in dissemination policies at the National Institute of Statistics (INS), which is now authorized to make detailed statistics and survey results (unemployment, poverty, regional disparities, consumption, private companies' behavior and motivations)[156] publicly available via its website. The government has prepared a new draft organic law to strengthen and ensure sustainability of access policy. All this represents substantial progress as well as considerable change from past practice.

6.57 **The government has also been very active in fighting corruption, but has achieved less progress in strengthening the independence of the justice system.** A National commission was established in January 2011 to investigate corruption and embezzlement under the old regime. Its first report is an exhaustive document describing and documenting, in detail, the system of pervasive corruption that was headed by the former president and members of his family, classifying wrongdoings across a wide range of activities (including real estate, procurement, taxation, media, concessions, and banking and finance).[157] The committee was transformed into a permanent anticorruption agency (*Instance Nationale de lutte contre la corruption*) by the November 2011 Decree-law although, at the time of the evaluation mission (May 2013), the members of the board ("*conseil*") of the agency were still to be nominated. In addition, the government created three special committees[158] to recover assets stolen by the former president or members of his coterie whether these resided inside or outside Tunisia. In parallel (2012), the government established a dedicated task force ("*pôle financier*") within the judiciary ("*Tribunal de Première Instance de Tunis*") to investigate economic and financial cases. In order to strengthen the independence of the judiciary, the government prepared a draft law creating a temporary judiciary Body ("*Instance Judiciaire Transitoire*") in place of the "*Conseil Supérieur de la Magistrature,*" but this has yet to be adopted by parliament.

RELEVANCE AND IMPLEMENTATION STATUS OF WORLD BANK ACTIVITIES

6.58 Before 2011, the Bank's governance-related analytical work was confined to technocratic areas, notably the public financial management agenda (see the first two sections of this chapter) and tended to shy away from areas like encouraging checks and balances on the executive, and greater citizen voice and participation in policymaking. As noted earlier, the dialogue on governance issues was highly restricted before the revolution, as the government exercised tight control over the entire political system.

6.59 **After the revolution, the nature of the relationship between the Bank Group and the government changed, as the Bank Group became a full partner in supporting the new government in its efforts to transition to democracy, notably to promote openness, transparency, accountability and civil society participation**. Two governance missions undertaken in February and October 2011 rightly stressed the importance of strengthening accountability, transparency and participation and informed the governance agenda of the Development Policy Loans. The 2011 DPL and associated technical assistance were "the main Bank instruments to support Tunisia's historic transition in the immediate post-revolution period." The governance related measures of the DPL aimed at improving transparency and accountability in a visible way to respond to the aspirations of the population, and to signal to investors that Tunisia is creating a level playing field for private sector led growth (See box 6.1). The Bank also provided technical assistance to the government to help the Central Bank of Tunisia recover stolen assets in Foreign Jurisdictions. The objective of the technical assistance is to strengthen capacity and provide assistance with foreign counterparts to maximize Tunisia's chances of recovering stolen assets and to use them for economic development.

Box 6.1. Key Main Governance-Related Measures Under the 2011 GO DPL

The DPL prioritizes governance related measures under four priority policy areas as follows:

- Policy Area 1: Governance—to (i) support policy debate by allowing greater public access to government information; (ii) establish a more liberal environment for registration of Internet domain names; (iii) improve the efficiency and transparency of procurement procedures as well as shortening the decision process; (iv) improve administrative services to citizens and strengthen private sector development by improving the regulatory environment
- Policy Area 2: Employment and regional disparities—to improve the accountability and governance of employment programs financed by the National Employment Fund (Discussed in chapter 5)
- Policy Area 3: Financial Sector—to improve the corporate governance of banks (Discussed in chapter 3)
- Policy Area 4: Social Policies—to allow citizens to rate performance by introducing mechanisms for regular monitoring and evaluation by third parties of selected social programs and public services. (Discussed in chapter 5).

Source: 2011 GO DPL.

6.60 As noted earlier, it is too early to assess the impact of these reforms. The paragraphs below discuss implementation of the reforms supported after the revolution through budget support (the 2011 GO and 2012 GOJ DPLs) and related technical assistance to promote transparency, accountability and participation, but provide no ratings on outcome. Overall, some progress was made to improve voice, transparency and accountability although at a much slower pace than initially anticipated and targeted. In response, the Bank has recently proposed to modulate the amount of budget support in line with actual progress achieved in reform implementation (that is, by splitting next tranche of the GOJ DPL into two equal parts).

✓ IMPROVING TRANSPARENCY

6.61 **The Bank has supported a number of measures to improve transparency, with particular reference to:**

(i) Public access to administrative documents: The interim government signed a decree law on public access to administrative documents of public bodies (prior action #1 of 2011 GO DPL). A 2012 circular detailed the rules for the proper implementation of the information decree for example setting out the main categories of information, objective criteria for exclusion, procedures to request information as well as templates for quarterly monitoring and evaluation reports (prior action #8 of 2012 GOJ DPL). The NSI has started to publish information on its website, including the two latest household surveys (1995, 2005), labor force surveys (2007, 2008, 2009, 2010) and national accounts[159]. In parallel, the Bank has helped sensitize civil society organizations (CSOs) on access to information and new social accountability mechanisms. Yet, two years after the adoption of the decree[160], proactive diffusion of information by Ministries has been relatively limited[161], and the government is not yet monitoring statistics on the number of information requests by the public and the associated rate of response. The draft organic law on access to information under preparation, calls for the establishment of an independent information authority that will monitor the implementation of the right to access information.

(ii) Budget and financial transparency: The MoF has issued a decision to strengthen fiscal transparency through public disclosure of budget-related documents[162] (prior action #9 of 2012 GOJ DPL). The government published all documents related to the preparation of the 2013 budget as well as a series of annual reports of the supreme courts prior to 2009, but it is lagging in relation to the provision of up to date information on the settlement laws of the last three years. The government has also launched a website (www.gbo.tn) to publish PBB related documents of pilot ministries. The government has made progress in preparing the citizen budget and an online open budget platform, which will provide a simplified version of budgetary information to better inform citizens. The Bank provided Trust Fund assistance[163] to support the government's efforts for more open government through the use of Information and Communications Technology (ICT) in the public sector to facilitate citizens' participation in public affairs (open data, access to information law, open budget and e-participation).

(iii) Procurement Transparency: The revision of the 2002 procurement decree (Prior Action #3 of 2011 GO DPL) has strengthened transparency. The government is now publishing procurement opportunities and contract awards on its website (see the procurement section above).

(iv) Social policies: The government has published the results of participatory surveys conducted to assess social policies (www.consultations-publiques.tn, Prior Action #8 GO DPL). The Ministry of Health has published health indicators, including expenditure and outcomes for each of the 24 governorates (see ICR GO DPL). The Ministry of Education has not yet published education data by region (PISA and TIMSS). The Ministry of Social Affairs was expected to publish beneficiary demographics data related to the PAFN (*"Programme d'appui aux familles nécessiteuses"*) and the free health care program *("carte de soin gratuit").*

✓ **IMPROVING ACCOUNTABILITY**

6.62 **The Bank has supported a number of measures to improve external accountability and the results focus of government activities, notably:**

(i) Budget and financial accountability: As noted above, the Minister of Finance issued a Decision to request timely public disclosure of detailed public expenditure data to strengthen government accountability (prior action #9 GOJ DPL). The government has developed a formula to inform the allocation of public investment resources based on transparent and objective criteria. Other measures include the adoption of circulars to (i) reduce delays and simplify procedures for the use and provision of commitment appropriation for public investment projects; and (ii) make available to all sector ministries their commitment appropriations, and to compile a list of all commitment appropriations by governorate and by sector so that regional authorities know which projects they are responsible for.

(ii) Simplification of procurement procedures: Immediate measures taken to revise public procurement decree simplified rules for urgent projects and gave more responsibility to public procurement entities through an increase in shopping ceilings, and the establishment of a procurement commission in each procuring entity (prior action #3 GO DPL). Yet, as noted earlier, in the current, post revolution context, public servants were initially reluctant to take advantage of these simplified measures.

(iii) Simplification of financial controls: The government has started to introduce some measures to alleviate ex-ante controls and move towards granting the administration more autonomy to carry out controls ex post. First steps were to reduce redundant controls, but there is still a long way to go to overhaul the control system to make budget officers (*"gestionnaires")* more accountable. The French Ministry of Finance is also providing valuable technical assistance to the government to reform the control system in line with the GBO framework.

(iv) Simplification of the regulatory environment for investment: Many economic activities were over regulated and subject to abuse and discretion. The government issued a circular to institutionalize a systematic time-bound participatory review of administrative formalities against predefined assessment criteria (prior action #4 GO DPL and #1 GOJ DPL). One objective was to strengthen ministries' accountability by limiting discretion and arbitrariness in the administration of rules and ultimately improve efficiency in key regulatory services/transactions. The process started two years ago, but there has been no implementation to date (see chapter 3).

(v) Accountability in the social sectors: The participatory surveys supported by the GO DPL have highlighted the lack of accountability for quality in social services. The GOJ DPL (prior action #6 and #7) supported the establishment of an evaluation and accreditation system to strengthen the governance and quality of health services and higher education. Both accreditation agencies have not yet launched evaluation or accreditation activities. (See chapter 4 and 5).

✓ **STRENGTHENING VOICE**

6.63 **The Bank has supported a number of measures to improve participation as follows:**

(i) Freedom of Association: The Bank provided guidance to the government to remove the key restrictive and discretionary provisions of the law that impeded the establishment and operation of associations. The revision of the law led to a vibrant civil society with a blossoming of diverse associations (NGOs, think tanks) involved in debate on the constitution, economic and social policies. The ICR of the 2011 GO DPL noted that almost 1700 new NGOs were registered between April 2011 and March 2012.

(ii) ICT sector: Some measures were taken to simplify the procedures for registration and hosting of Internet websites (prior action GO DPL #2). This has led to a lively Internet space (including significant social media activity) for consultation and debate involving civil society and the private sector. (prior action #2 GOJ DPL, see chapter 3).

(iii) Listening to the private sector in revising the regulatory environment for investment: The reform to simplify administrative procedures (prior action #4 2011 GO DPL and #1 2012 GOJ DPL) intends to adopt a participatory approach. Consultations with the private have been delayed until the political situation improves.

(iv) Monitoring of performance of public services by civil society, citizens and service providers notably for the social sectors: This has been supported since the revolution by a substantive program of AAA and how-to technical assistance. Initially, the government had planned to institutionalize participatory assessment and monitoring at the local level. Instead, it opted for a centralized approach[164] by launching an online scorecard system (with Bank technical assistance). In April–May 2012, first nationwide online survey of the general quality of 10 public services was conducted[165] *("Le baromètre de Qualité et de Gouvernance"*) as part of Bank technical assistance. A second, rapid household survey (800 households in various regions) followed in June 2012 on the services/benefits from the National Health Insurance Fund (prior action #8 2011 GO DPL). The Bank also supported the establishment of an instant feedback system by users in Tunisia's biggest public hospital, located in Tunis (see chapter 5). Last, the Bank supported through technical assistance a local-level participatory assessment of specific social services conducted by three NGOs in four governorates in the hinterlands. In order to consolidate this reform, it will be important to institutionalize participatory process for monitoring at the local level as initially envisaged. The Bank is rightly following up on this in its dialogue with the government.[166]. Also, the accreditation systems recently established for the education and health sector plan to include participatory monitoring mechanisms based on international best practice.

CONCLUSIONS

6.64 **Overall, our assessment is that Bank Group assistance has helped the government shape a reform agenda**. The Bank Group also ensured that most of the reforms designed and implemented with its support under the ISN relied on a consultative process and/or participative implementation**.** This is important in helping the administration move gradually from a closed culture to an open style management, involving active participation from CSOs and the private sector, taking into account their input in policy design and implementation. Overall, the governance-related actions proposed by the Bank were ambitious, no doubt fuelled by the prevailing the political momentum in Tunisia at that time. But, if one takes into account the challenges associated with this unstable transition period, the length of time taken in the procurement process, and the slow pace of changing habits, culture and practice within the administration, the proposed governance related agenda can be considered to be overly ambitious (see more details in chapter 2).

7. Conclusions, Lessons and Recommendations

7.1 Taking all of the research carried out for the evaluation into account, we have developed a series of conclusions and lessons regarding operational and strategic dimensions of Bank Group engagement in Tunisia. We have also arrived at a number of key recommendations that relate, specifically, to the Bank Group's ongoing engagement in Tunisia as well as to its business more generally, including its engagement in countries undergoing systemic political transition.

Overall Assessment

7.2 The Bank Group operated in difficult circumstances in Tunisia both before and after the revolution of 2011. In that regard, a critical issue is how the Bank responded to, and managed the circumstances it encountered in pursuing stated objectives. Our findings in relation to this overarching issue essentially frame the evaluation's lessons and recommendations.

7.3 Most of the Bank Group's engagement in Tunisia FY05–10 involved the World Bank (Bank) with limited IFC involvement. We found the Bank Group response prior to 2011, to be inadequate across a range of dimensions, but most critically in the following respects:

- ✓ its failure to robustly and persistently challenge the government, particularly after 2007, to (i) engage in necessary reform, (ii) allow for more open engagement with other stakeholders and informants, and (iii) to consent to the undertaking of analysis critical to the achievement of Bank objectives, and to allow for greater dissemination of AAA actually carried out; and
- ✓ its failure to direct its lending operations based on what it knew from AAA and other intelligence with a view to ensuring a more meaningful pursuit of objectives.

7.4 Post-2011, the Bank Group has been more effective in its engagement in a risky and volatile context. Also, IFC has taken on an increasingly important role in Tunisia, complementing the Bank's efforts in its work with the government to open up and liberalize the private sector and stabilize the financial sector. The response and engagement of the Bank Group has been vigorous and driven even if somewhat ambitious, and possibly overly assertive in the face of existing capacity and complexity. In the face of political stalemate and limited progress in the reform agenda, the Bank is now proposing to split the second operation of the GOJ DPL into two separate, equal tranches, acknowledging that the National Assembly, which is preoccupied with the formation of a new constitution, will not be able to discuss the laws that underpin the most important reforms (investment code, competition, labor code) originally envisaged under the programmatic series.

7.5 The overall ratings for the two periods subject to evaluation are as follows:

- **Overall achievement prior to 2011 *Unsatisfactory*; and**
- **Relevance and design for the post-2011 period, *Satisfactory*.**

CONCLUSIONS AND LESSONS

7.6 The conclusions below relate almost exclusively to salient aspects of the World Bank Group's engagement over FY05–13. Building on our findings, we have identified a series of lessons as set out below. Although all of these are rooted in our analysis of Bank Group engagement in Tunisia FY05–13, they are applicable to the work of the Bank Group more generally and, more particularly, to the institution's work in volatile political contexts[167].

✓ RELEVANCE OF OBJECTIVES AND SELECTIVITY IN STRATEGY

7.7 **The Bank Group's approach pre-2011 lacked selectivity resulting in a program of activities in which efforts were overly dispersed.** The Bank Group's broad strategic approach pre-2011 was well aligned with government objectives, and was relevant given the problems the economy was facing at the time. For example, the emphasis on greater integration with the world economy and on the role of the private sector was appropriate. However, by attempting to address too many issues at once, strategic focus was lost.

7.8 **Post-2011, the marshaling of efforts under a multisector DPL series helped to achieve focus and to limit the range of activity, making the program as a whole more coherent and manageable.** The Bank Group helped form and inform the objectives pursued by the government (for example, the governance agenda). The team cancelled the CPS FY10–13 after one year of implementation and thoughtfully prepared the ISN FY13–14 to reflect the priorities of the new government. The policy and institutional reforms currently targeted by the Bank are appropriate. The emphasis on an open trade regime, a business friendly investment climate, a stabilized financial sector, and improved labor regulations should, if successfully realized, contribute to achieving greater economic growth and stability overall. This could, in turn, have a knock-on effect on employment growth, opening opportunities for the unemployed, including the large cohort of well educated, currently unemployed youth. The emphasis on broader issues of voice /accountability / transparency and on reducing regional and other inequalities (through reform of agricultural and fuel subsidies, and social protection) should also help tackle poverty and social exclusion. In addition, although Tunisia currently has a relatively progressive legal framework from a gender perspective, our research (see appendix L) suggests particular attention will be required to support and promote gender equality in voice and participation, and in sectors such as health, employment and business support.

7.9 **Lessons**: The design of strategies requires the exercise of strategic choice. The Bank Group's experience in Tunisia highlights the importance of achieving a better balance between comprehensiveness and selectivity in defining country strategy, in line with the institution's comparative advantages. The experience highlights the desirability of having more focused strategy papers that seek to address a few key issues at one time, and that focus most resources on those issues. Other important issues can be referenced and addressed in subsequent strategy periods. This is even more critical in the case of economies and societies in transition that have more limited capacity and that have to engage in crisis management on a day to day basis.

- ✓ **RELEVANCE OF DESIGN OF LENDING AND SELECTIVITY IN THE CHOICE OF BANK TRIGGERS**

7.10 Many of the activities supported through budget support, although relevant, were not adequate to secure development objectives as long as critical bottlenecks identified in Bank ESW (such as business and labor market regulations, onshore-offshore dichotomy, governance of state-owned banks, subsidies and social protection) were not addressed. Failure to persuade and to secure government buy-in to first order policy reform meant conditionality was more likely to focus on ancillary rather than core issues.

7.11 Similarly, the prevailing distorted incentive environment undermined the Bank's investment and CDD projects, and its associated approach to rural poverty reduction, the management of fragile and scarce environmental resources (including water), and institutional building at grassroots level.

7.12 Finally, insufficient attention was paid to ensuring amendment of legislation supported by Bank operations "had teeth," and that implementing authorities had the financial resources and institutional capacity to follow through.

7.13 A much more considered approach has applied post-2011, particularly through the use of the DPL mechanism. A number of DPL triggers are pitched at a level that is likely to impact objectives, subject to satisfactory achievement. Yet, some lack of selectivity and unrealistic timetabling of reforms was evident given that the government is often operating in crisis management mode. More recent documentation produced by the country team in preparation for disbursement of the next tranche of the GOJ DPL is now proposing a sequenced approach to disbursement in recognition of the slower than expected implementation of reforms, and the impact of what is referred to as the political stalemate that Tunisia has experienced for most of 2013. The Bank has chosen to remain engaged through a second tranche with very few "light" triggers, and it has pushed back urgently needed reforms to the third tranche of the GOJ DPL.

7.14 **Lessons:** The experience in Tunisia suggests that where there are clear policy issues holding back performance, the Bank might consider seeking to address these through DPLs. It also emphasizes the importance of keeping operations narrowly focused, and to setting up conditionality to first address key bottlenecks (that is, those that set the right incentives for the underlying policy framework) in any given area. 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 targeted outcomes to make it clear that it has much lower expectations from its interventions.

7.15 Achieving institutional development objectives without an appropriate policy framework and client buy-in is unlikely to work. A project driven approach alone cannot act as a substitute for an appropriate incentive environment, or compensate for the lack of it—an old lesson that bears repeating.

7.16 Also highlighted is the importance of ensuring, in advance, the financial and institutional capacity of relevant agencies to implement legislation. In the case of legislation impacting the private sector or citizens there is an important need to ensure the availability of well resourced, independent, redress mechanisms to ensure the legislation has "teeth."

✓ FLEXIBILITY

7.17 Over the entire period, the Bank Group was flexible and responsive in its approach. That flexibility had many positive aspects to it, including the capacity to provide budget support during the global financial crisis (FY09), and the capacity to respond to the post-revolutionary context with, for example, rapid missions and quick disbursing DPLs (FY11).

7.18 However, pre-2011, aspects of the Bank's flexibility and responsiveness were less positive. The Bank essentially followed the government's lead in most cases, even where it was apparent that the approach adopted was inadequate (as evidenced by bank analytical work and other intelligence). The failure to more vigorously, and more openly, contest or persuade the government to take a different course at that time, as discussed elsewhere, represents a significant shortcoming. In the case of Tunisia pre-2011, the Bank essentially did the government's bidding, even where its own research and intelligence informed it that the activities supported were insufficient to realize development objectives.

7.19 **Lessons:** The experience in Tunisia shows the importance of the Bank remaining flexible in the design of its strategies and work programs, but flexibility must be balanced with firmness to ensure the Bank's credibility, and the success of reforms. Flexibility becomes a weakness that empties Bank interventions of strategic intent where it (i) involves a relatively passive following of government-led initiatives that lack core policy reforms necessary to the achievement of higher order development objectives as set in CPS, or where it (ii) simply means engagement in isolated projects or actions that, although of possible immediate benefit, cannot be sustainable and ultimately contribute to the realization of strategic objectives. This type of "flexibility" is clearly counterproductive and potentially damaging to the Bank Group's reputation. The experience also shows the value of identifying and publicizing 'red lines' that the Bank will not breach in its negotiations with the government.

- ✓ **RISK**

7.20 Prior to 2011, the Bank Group was largely accurate in its identification of risk, with the exception of the CPS FY10–13, which failed to consider the risk of domestic political turmoil caused by population resentment to political interference and lack of participation in the democratic process—that risk had been identified in the CASFY05–08 and FY07 CASPR.

7.21 The Bank was less successful in risk mitigation. In the face of worsening political interference, the Bank continued to do business as usual and failed to grasp the opportunity to include or argue vigorously in favor of meaningful conditionality to improve accountability and transparency when the country needed financial support during the 2009 financial crisis. Also, in view of Tunisia's long standing vulnerability to external shocks, and the relatively large proportion of the population who were economically vulnerable, especially in rural areas, a more robust risk assessment strategy could have insisted on mainstreaming some form of unemployment insurance and cash transfers targeted to the poorest families.

7.22 Post-2011 the Bank encountered a different type of risk associated with political volatility. It has taken on the associated challenge through deep engagement with the government and civil society, collaboration with donor partners, and the use of DPLs as coordinating, stabilizing mechanisms. Yet, though the ISN identified delayed economic recovery, macro stability, fiscal sustainability, financial sector instability and government ownership as well as institutional and implementation capacity limitations, its main mitigation measure was to provide quick disbursing financing and technical assistance with no specific "Plan B" in the event of (ultimately realized) politic stalemate.

7.23 **Lessons:** The experience in Tunisia demonstrates the importance of undertaking candid risk assessment and identifying appropriate risk mitigation strategies. The failure to confront the reality of the 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.

7.24 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 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. Consequently, it is essential that the risk management exercise: (i) proposes alternative exit scenarios where political risk materializes in countries in transition; and, (ii) includes a discussion about the adequacy of social protection programs to mitigate the adverse impact on the poor.

✓ PARTNERSHIP

7.25 Prior to 2011, the Bank tried to engage various nongovernmental stakeholders in developing its country strategy. However, most of these interactions were intermediated through the government, and therefore did not truly reflect independent views. Collaborative work proposed by the government was directed towards preferred institutions, when better qualified institutions were available. Similarly, government reluctance to work in concert with the donor community was an obstacle to efforts the Bank was making to work closely with other donors through shared analytical work and cofinancing of some reforms (notably with the EU, AfDB and AFD).

7.26 Since the revolution, the Bank Group has actively engaged with civil society, and has taken a lead with other donors in assisting Tunisian authorities to shape, finance and closely monitor the reform agenda supported by the DPL series.

7.27 Opportunities for cooperation between the Bank and IFC were limited pre-2011, but since then the two are cooperating closely, particularly in relation to improving the business environment and in reducing financial vulnerabilities that undermine the financial sector.

7.28 **Lessons:** The Bank Group's experience in Tunisia, particularly in the post-2011 period, demonstrates the importance and value of its coordinating role among donors in joint preparation and monitoring of the reform agenda.

7.29 It also 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 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.

✓ AAA AND COMMUNICATION

7.30 The Bank Group produced some high quality AAA throughout the evaluation period. Some recommendations helped inform the Tunisia National Development Plans and Bank supported operations. However, prior to 2011, some of the work that may have helped drive necessary reform (for example, analysis of disincentives to private sector engagement, Bank Investment Climate Assessment carried out with standard Bank methodology, public expenditure review) was not undertaken; and some reports, deemed sensitive by the government, had limited, if any, dissemination, thereby limiting the potential to effect change and develop capacity and knowledge. In certain instances, the Bank accepted an effective veto on the type and nature of studies it could conduct, even where these (for example, governance, PER) were relevant to the achievement of its own principal objectives.

7.31 Over 2008–2010, the Bank chose not to publicly air its differences with the pre-revolution government. However, there was a clear cost in terms of its credibility. Opportunistic reporting damaged the Bank's reputation for unbiased analytical work.

7.32 Post-2011, the Bank Group capitalized on a sound analytical program (including work carried out pre-2011) complemented by rapid, targeted missions (most notably on governance issues) to help the government identify critical bottlenecks, and prioritize the reform program in the transition period. The Bank is also making considerable efforts to reach out to all stakeholders.

7.33 **Lessons:** The Bank is likely to suffer reputational damage where there is a perception that (or where in fact) Bank Group independence is compromised, either through the failure to disseminate learning from AAA undertaken, or a failure to undertake AAA necessary to underpin the achievement of development objectives. Therefore it is important for the Bank to protect its reputation for honest, unbiased and high quality reporting and analysis. Facts must be reported as they are, and important policy differences must be made known not only to the government, but to the Bank's shareholders and the broader community of stakeholders. This lesson reflects the 2007 QAG AAA assessment for Tunisia that highlighted the need to forcefully address the issue of opening the participation in mid-term and end-of-work presentations, and in broadcasting results to a wider audience outside official circles. It is equally important for the Bank to openly report on the quality of its engagement and collaboration (or lack thereof) with government.

7.34 The absence of a secure analytical base on critical issues that have a cross-cutting impact (for example, in Tunisia, the lack of a public expenditure review or independent analysis of governance) and that are linked to the achievement of key objectives, undermines the overall coherence and potential efficacy of Bank strategy and programs. The Bank needs to be responsive to government requests for assistance in the analysis of economic issues it sees as important; but, at the same time, the Bank should not allow government to exercise an effective veto over its own priorities for economic and sector work.

✓ RESULTS FRAMEWORK & M&E

7.35 The results frameworks for CAS FY05–08 and CPS FY10–13 were poorly defined. Their inadequacy was exacerbated by the broad scope of the programs, despite the relatively small scale of available funding. There were too many indicators to allow for coherent tracking. Many indicators were ill-defined, lacked baseline measures and/or did not provide a sound basis for measuring the achievement of objectives. In addition, it was not clear how the indicators were used to monitor progress and propose corrective actions as needed. The ISN FY13–14 provides a more compact and coherent results framework, and significant work has been undertaken with Bank support to improve the quality of available data.

7.36 Also, prior to 2011, in monitoring the implementation of triggers that require amendment to legislation, insufficient attention was devoted to ensuring legislation "had teeth," and was being implemented. Post 2011, the Bank is undertaking close supervision of the DPLs as evidenced through aide memoires in 2012 and 2013 that provide detailed guidance on how to implement targeted reforms. For example, in 2013 the Bank, the IFC, and other donors are providing very detailed comments on proposed draft legislation (for example competition law, investment code, procurement decree) to ensure weaknesses are addressed and to make recommendations to ensure the quality of supported reforms.

7.37 **Lessons:** Where the Bank Group faces a difficult and/or volatile context (as in the case of Tunisia), the results framework takes on even greater significance. It is important that the results framework specify a limited number of measurable indicators of development outcomes, and meaningful and traceable key intermediate indicators (all defined by a baseline and supported by timely, accurate and available data). Moreover, more thought needs to be given on how indicators are to be used in practise.

RECOMMENDATIONS

7.38 The recently published Concept Note for the 2nd GOJ DPL and the 2013 DPR (*The Unfinished Revolution: Bringing Opportunity, Good Jobs and Shared Prosperity*) suggest the Bank Group has absorbed lessons from its engagement in Tunisia over the last decade. The documents provide encouraging analysis and comment regarding the capacity of the Bank Group to work to rectify past shortcomings.

7.39 **The following recommendations are proposed to strengthen ongoing efforts and should be read as a series, in sequence**. The recommendations also resonate with those arrived at in other work carried out by IEG at country, corporate and thematic levels, including lessons drawn in *Assistance to low income Fragile and Conflict-affected States* (FY14); *Knowledge-Based Country Programs* (FY13), *Youth Employment Programs* (FY12), and in other CPEs carried out, for example, for Afghanistan (FY12) and Bolivia (FY06).

7.40 **Conduct PE analysis to better manage risk in a volatile environment:** 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 prespecified triggers and contingent responses, these backup plans could draw on informed assessment of "median value estimates" of selected relevant outcomes. Were risk to materialize, the Bank Group would rapidly adjust strategic objectives, implementation and result framework.

7.41 **Galvanize public support for reform:** The Bank Group should reach out to and help inform a broad base of stakeholders, including trades unions, think tanks, other civil society organizations, 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.

In the case of Tunisia: 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:

(i) Show how the lack of a competitive environment led to higher prices (for example, transport, Information and Communications Technology services) and how competition is critical for fostering jobs;

(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;

(iii) Raise awareness on the leakage of subsidies to the nonpoor and show the current system is inequitable and inefficient.

7.42 **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**.

In the case of Tunisia: priorities could be to

(i) Ensure a level playing field through adequate investment code and competition laws;

(ii) Tackle unemployment through reducing labor market rigidities and taking a strategic approach to youth employment from both the demand and supply sides;

(iii) Reform the current subsidies system.

7.43 **Facilitate and inform the government in building ownership and capacity on "how to" roll out the reform agenda.** This will require in depth interaction with the government to first ensure clear definition, and mutual understanding of the strategic goals on the "what to do." But this is insufficient in isolation and, as such, it will be essential to: (i) provide realistic, actionable plans to meet the targeted goals, which is even more 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) in order to help implement and sustain results and build capacity.

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ENDNOTES

[1] Of the six legally constituted political parties apart from the Constitutional Democratic Assembly, only three—the PDP, the FDLT, and the Ettajdid—were independent and critical of the regime, but they lacked significant influence or power.

[2] The adoption of the new constitution, initially planned for a year after the first elections, has been postponed several times to June, September, and then December 2013.

[3]A more detailed analysis is provided in Chapter 3. See also appendix J.1. Tunisia

[4] Total factor productivity started to increase in the mid-1990s and saw its annual growth rate increase from 1.24 percent on average in the 1990s to 1.4 percent.

[5]A more detailed analysis is provided in Chapter 5 and in appendix J.1. -Tunisia at a glance.

[6] Before the National Institute of Statistics (INS) revised the poverty estimates, the poverty rate was estimated at 3.8 percent in 2005.

[7] Poverty estimates range from a low rate of 8–9 percent in the center-east Region and Grand Tunis to 26 percent and 32 percent respectively in the northwest and center-west regions.

[8] Maternal mortality rates are three times higher in rural areas (70 versus 20 deaths per 100,000 live births). Children are more than twice as likely to be stunted (10 percent in rural areas versus 4 percent in urban areas).

[9] However, for reasons earlier mentioned, the team could not apply the detailed methodology developed for the Knowledge-Based Country Programs evaluation as initially targeted.

[10] The country AAA assessment conducted in 2008 by QAG reported "a number of cases where authorities actively intervened to limit the diffusion of information, or the discussion of findings and recommendations, first and foremost to stakeholders and representatives of civil society outside government; but even, in some cases, to government personnel not directly involved in the task, or to other donors."

[11] Tuninvest is one of the Tunisian companies that branched out into Sub-Saharan Africa, and currently has several offices in Sub-Saharan Africa (the company is now called Tuninvest-Africinvest).

[12] The Tunisian government has signed the FTA with the EU in 1995, committing to remove import tariffs on EU imports by 2008.

[13] For example, the ICRR of the 2011 Employment DPL states: "Previous Bank diagnostics identified several factors in the labor, education and business market that affect employment including (i) oversupply of University graduates and shortages of vocational technicians in the labor market, (ii) rigid employment laws, and (iii) constraints to the expansion of small businesses. However, the DPL program design did not adequately address these weaknesses, and related legal changes were too small to have an impact on efficiency and effectiveness of job entry. The design was also labor supply-side focused as requested by the government, and did not stimulate job creation. The ICR identifies several entry barriers, such as labor market regulations that reduce market flexibility, overinflated entry level salaries of University graduates and centralized wage setting; however the DPL did not address these constraints."

[14] Domestic private investment remains stagnant, efficiency of investments has not improved, economic growth remains well below potential, and most importantly unemployment, which was the central challenge, remains as high at the end of period as it was before the period. The volume of NPLs still remains very high, and there has been no improvement in the financial sector in terms of mobilization of savings and allocation of credit.

[15] To take just one example, one of the 2nd tranche release conditions under the ICL was that the Inter-Ministerial Council shall adopt an action plan to reform the regulatory framework of the services sectors, to be prepared on the basis of a regulatory assessment to be carried out by National Council of Services. As reported in the ICR, this action was carried out, the tranche was disbursed but .”..the action plan resulted to be quite weak and did not lead to any major impact on the regulatory framework).

[16] For example, the Bank sought revisions of Laws/decrees that had been adopted as part of the Bank's conditionality in a previous project. The Competition Law, which was supported by the Bank, was amended three times in the 1990s since its adoption in 1991. Strengthening the Competition Council that was created under the law was part of the reform agenda supported by the Bank's DPLs in the review period. Yet, by all recent accounts, the Law and the Council are totally ineffective

[17] In the period FY2005–08, the volume of lending was significantly lower than what planned. Against a planned base case program of $200 to $300 million a year on average, the total volume of loans delivered was $388 million over four years, averaging $97 million per year. Out of 14 projects planned in the CAS, only 5 were undertaken**.**

[18] About a third of the projects were restructured during implementation to better serve project objectives.

[19] For example, the 2nd tranche of the 2009 ICL was released after a waiver was granted regarding the partial completion of the condition related to a decline in, and provisioning of, nonperforming loans.

[20] This section builds on mission findings as well as a Tunisia AAA assessment undertaken by QAG in 2007.

[21] For example, the 2008 Report on Tunisia's Global Integration: *Second Generation of Reforms to Boost Growth and Employment*, was often cited for its influence on government thinking.

[22] QAG 2007 AAA review.

[23] To date, there is no clear analysis why private investment was sluggish right through the period otherwise marked by a stable political environment, satisfactory macroeconomic policies, and reasonable progress in improving the business climate as measured by Doing Business Indicators.

[24] About half of all wage earners (44.5 percent) work without an employment contract (DPR 2013, chapter 7).

[25] Indeed, it was the harassment and deep frustration of an informal sector worker in a small town that triggered the county wide protests culminating in the Revolution at the end of 2010.

[26] One exception to this general assessment is the monitoring of project disbursements. Here the Bank had clear bench-marks to assess how different components of a project were disbursing, and periodic supervision missions used these findings to modify the scope of the project depending on what was working and what was not.

[27] The CAS Completion Report (2009) notes that “further improvements in the design of the results matrix would be necessary**.** During the course of this assessment of the 2004 CAS, important weaknesses have been noted regarding the choice of indicators and their ambitious nature, which

may not have been the most appropriate in some cases. Data are not available in some cases, in part because the indicator chosen is hardly measurable. Furthermore, some of the indicators added at the occasion of the CAS Progress Report (2007) lacked baselines and targets and other indicators weren't added as planned. Finally, lack of details in the CAS document about the measurement method of each indicator has proved to be a major constraint in many cases."

28 For example, the completion report of the 2011 GO DPL notes that "The results framework proved inadequate to the task of monitoring the impact of the operation. Despite their high numbers, many of the indicators imperfectly capture the institutional achievements towards the PDO. The Bank failed to identify appropriate indicators which went to the core of the changes envisaged by the reforms supported by the program. It also failed to identify realistic targets for the indicators at the design stage. The results framework has several shortcomings: (i) weak links between the objectives of the economic governance reforms and the results indicators; (ii) too many indicators, making it difficult to monitor and collect data; (iii) overly ambitious targets given the unpredictability of the transition process and the limited time frame (one year)."

29 One of the unachieved milestones of the CAS (FY00–02) was that investment incentives for offshore-onshore enterprises be streamlined by CAS completion. Instead, the government proposed the creation of a level playing field between the offshore and onshore sectors through gradual reforms to be adopted by 2008. But, almost 13 years later, very little progress has been achieved in this regard

30 The policy program adopted to deal with unemployment under the 2010 budget support operation failed to address critical bottlenecks. The ICRR concluded that the "Bank prepared and supervised a program that was too modest and not bold enough given the seriousness of the situation in Tunisia. Moreover, the government was hardly interested in the reform and mainly used the DPL program to maintain its status instead of supporting the needs of the large population active in the informal sector."

31 As noted in the CAS Completion Report (2009) ."...delays in implementation have led to slow disbursement and closing date extensions**.** Out of *9* projects that were planned to close during the CAS period, only one closed on its original closing date. Projects were extended from 12 to 36 months. These extensions put the average age of the Tunisia portfolio above the MENA and Bank-wide averages for FY05-08."

32 This is an approach that is under consideration now.

33 The transport sector project active in the CPE period attempted several reforms. Some of these reforms were further pursued by ESW/TA activities. There was strong government resistance at all levels to reform beyond what was achieved (basically, in the ports, abolition of longshoremen monopolies and movement towards establishment of a port Landlord model under the TSI-1 that closed in 2005). Urban transport and railway reform laws were passed, but not implemented.

34 One former senior manager from AFD found the relations with the Bank for the preparation of the 2011 DPL were "exemplary" in terms of coordination, sharing information and allocating roles according to respective value added. The African Development Bank's assessment recognized Bank expertise but had some difference in views in the formulation of some measures in the result matrix.

35 The bank conducted over 25 rounds of consultations in 2011 and early 2012 (See ISN, Annex 2). The Bank Group held consultations specific to the preparation of the ISN with Constituent Assembly government ministers and government officials in Tunis, and with private sector, academic, development partners and local community representative in Tunis, Bizerte, Nabeul and Kelibia.

[36] The strategy emphasized reforms to improve the business environment-by reducing bureaucratic restrictions, increasing transparency and market contestability, and reducing discretion and privileges. Simplifying the investment code to reduce the onshore-offshore dichotomy and move towards a level playing field across the economy was another priority policy area. Also on the agenda was simplification of administrative procedures for business licensing and transactions, and reducing the room for discretion in their application.

[37] Tunisia ISN 2013-14, p. 14.

[38] Tunisia ISN 2013-14, box 1, p. 14.

[39] Tunisia ISN 2013-14, p. 17.

[40] ISN 13-14, p. 22.

[41] One of IFC's recent investments involved the commitment of US$22 million to support a North Africa regional fund focused on investing in SMEs in Tunisia (the 2012 MPEF III Project)

[42] The ICR for the GO DPL recognized that a "programmatic approach would have been more appropriate to support the type of governance reforms which were at the core of the operation."

[43] The interim government put in place in January 2011 was given the task to stabilize the country and prepare the election of a Constituent Assembly and, within a few months (October 2011), a parliamentary election.

[44] In some areas, there was no recent updated information (such as business climate surveys, agriculture and poverty data, public expenditure reviews).

[45] The 2011 GO DPL included measures that responded to: (i) aspirations of the population (for example, access to information, hosting Internet, giving citizens a voice in monitoring public services); and (ii) immediate needs of the population (for the unemployed the AMAL program for both high skilled unemployed and low skilled workers, a basic package in health and Social Protection). These also include the initiation of reforms to foster more transparency and accountability in public services (for example, speeding procurement process, improving transparency of the National Employment Fund, strengthening bank governance and improving private sector regulation).

[46] for example, Revising the competition framework and the investment code

[47] Over 60 laws are pending the parliament's approval.

[48] The IMF played a leading role in advising on monetary and exchange rate policies, in addition to fiscal policies.

[49] IMF Article 4 Report, Appendix II (September, 2012).

[50] For example, the Bank provided US$250 million in support of the ICL (FY2009) reform program which also benefited from support from the European Union (Euro 70 million) and the African Development Bank ($250 million) that provided parallel financing. The reform program of the GO DPL (FY2011) provided a total financial support of US$1.3 billion (approximately 3 percent of GDP) from the Bank, the EU, AFDB and the French Development Agency. The Bank contributed US$500 million. In FY2013, the Bank provided US$500 million in support of the policy program of the GOJ DPL which leveraged another US$700 million from other donors.

[51] Source DPR 2013

[52] The project, *Development of Logistics Services and Infrastructure (FY08)* benefited from funding from the French Ministry of Finance.

[53] Policy reforms to support efficient integration (such as further tariff reductions and simplification) were to be addressed in the CPS through follow-up ICL 2 and ICL 3. Another Export Development Project (third in the series) was also proposed to improve access of finance to exports and to support further improvements in trade logistics. However, these operations were dropped from the Bank's program to accommodate the new priorities of the interim government following the 2011 revolution.

[54] Source ICL ICRR

[55] During field interviews with Tunisian exporters, there was widespread appreciation of the export promotion initiatives taken by FAMEX under the export development projects. However, the performance of the preshipment export finance facility under the project was not considered successful.

[56] In this section, we do not address other important factors (for example, macroeconomic stability, availability of critical infrastructure such as transportation, energy and water supply, and a stable financial system that promotes efficient financial intermediation and lending to the private sector) that influence private investment. These issues are addressed elsewhere in the report.

[57] The real net effect of the *Mise à niveau* program on enterprise performance was not clear.

[58]Source CAS FY05–08 p7.

[59]ISN (2012), para 32.

[60] World Bank (2009). *MENA: Private Sector from Privileges to Competition*.

[61] In field interviews with government officials, there was general praise for the quality of the Bank's reports. The only exception was the study on SMEs, which was seen by some officials as too general and not adequately reflecting Tunisian realities. At a more general level, some disquiet was also expressed about the tendency of the Bank to soft-pedal important issues and not be completely frank and accurate in its reporting in areas where there was disagreement with the government (for example on poor governance).

[62] During field interviews, the usefulness of this exercise was questioned. In any case, the project was shelved when a new government took office in 2011.

[63] To take one example, to promote competition, first the Bank pushed for the adoption of a Competition Law in one of its DPLs. In a subsequent DPL, it wanted that law amended. In another, follow up DPL it sought to create a Competition Council to implement the Law. Another DPL was needed to get the Council to do its work. This whole sequence began in 2000. So far there is nothing to show in terms of results. Yet this was one of the Bank's main policy conditionality's for private sector development throughout the review period.

[64] Under the GO-DPL (FY11), government committed to implementing concrete reforms within six months of loan approval. Yet, nothing had happened by the time the ICR (December 2012) was prepared, almost one and a half years after the loan was disbursed (July 2011) and six months after loan closing (June 2012). Almost an identical commitment was made in the GOJ-DPL in end 2012, with a commitment that concrete measures based on the review would be implemented within nine months.

[65] Source: IMF Working Paper (2007).

[66] The CB issued a circular in April 2011 to allow bank to maintain restructured loans in the sound category to limit the negative impact on provision requirements and solvency ratios. This circular expires in early 2013.

[67] The Tunisian APL was a financial intermediary loan for eligible financial institutions to provide lines of credit to MSMEs. It was approved within the framework of a MSME Facility for the MENA

Region to catalyze financing, risk-sharing and TA to address policy, legal, institutional, capacity, and informational constraints holding back MSME access to finance in the MENA region, and thereby to support improvements in MSME employment, competitiveness, and incomes. The loan is expected to close in 2017.

[68] By end 2012, the guidelines issued by the CBT had been largely implemented. Most banks had at least 2 independent board members, and the newly formalized Audit Committees and Risk Committees were chaired by independent board members. However, it is not clear if a majority of the independent board members have sufficient knowledge or experience to be effective in their role.

[69] These included a lower than targeted risk weighted capital adequacy ratio; a higher single client exposure ratio; and a larger related party exposure. The IFC stopped further business with BIAT in 2008 when a large share (28.1 percent) of equity of BIAT was bought by a well-known business group with close ties to the Ben Ali family. Violation of related party exposure covenant also became evident by end 2011. However, no action was taken by the IFC since it was close to the end of the project and most of the loan had already been repaid.

[70] See draft Project Concept Note for a proposed Banking Sector Restructuring Project, April 2013 (pp 4). Not for attribution.

[71] The high penetration does not mean that, on average, there is more than one fixed and mobile phone per person, but that many people have more than one account, by having sometimes multiple SIM cards (and therefore multiple phone numbers) that are used with one single mobile phone.

[72] This is largely due to the government's preference for other international creditors because of the Bank's higher lending rates and perceived high cost of doing business.

[73] In addition to the TSI, two natural resources development projects (Mountain and Forest Development) financed construction and rehabilitation of rural roads. About one third of the cost of each of these two projects was allocated to rural roads (discussed in Chapter 5).

[74] Phosphates account for between 10 and 15 percent of the country's export earnings depending on the international demand for fertilizer.

[75] Source: World Bank, May 2012: 2.

[76] Because of the sharp and frequent annual fluctuations, only data on long-term trends, spanning several decades at least, can serve as meaningful indicators of productivity.

[77] As noted in the 2013 PPAR "Many of the organizations supported by the project did not represent the interests of their members and the technical assistance provided did not address the organizations real needs and was insufficient for achieving the pilot's objective."

[78] As of 2015 the European Union will no longer accept analysis from unaccredited laboratories as proof of meeting its import standards.

[79] This was put forth in the project appraisal document as a measure for assessing project efficiency.

[80] Since the revolution: farmers refuse to pay anything, arrears accumulate with the national power utility STEG, and the CRDA (regional branches of the ministry of agriculture) often have to set in and repair/maintain for free these installations.

[81] Ninety-four percent as opposed to the average 86 percent (ICR Higher education reform support project, Report 32523)

[82] Tests are conducted at the end of the first and secondary cycle of basic education only for students seeking to enter "*collège pilotes*" and "*lycée pilotes*."

[83] The ICR notes that the Bank team was aware of these shortcomings but was not able to convince the authorities to add to the original framework result indicators to measure specific interventions supported by the project.

[84] 33 secondary schools were built as well as physical sciences (90), biology (70), technical education (90) and history and geography (90) laboratories. (ICR p 33)

[85] The ICR EQIP 2 indicated that the National School Quality Monitoring program was eventually implemented in 2005 but the data was never made available by the government which prevented its use for project monitoring and evaluation. Then the authorities decided to drop this national assessment.

[86] Fewer years refers to the Bachelor and Master in combination with equal 300 ECTS ("European Credit Transfer and Accumulation System") credits, which translate into the envisaged- five years.

[87] The Bologna process is a series of ministerial process and agreements between European countries designed to ensure comparability in the standards and quality of higher education qualifications.

[88] The VAE or *Validation des Acquis de l'Expérience* is a procedure that allows any educational institution to grant degrees partly or totally on work experience.

[89] The CNE has stopped its activities in 2011 as the IEAQA which is now in charge of the former missions of the CNE, was expected to be operational since 2011.

[90] For example, the relevant AAA QAG review noted "the seriousness of the higher education financing gap the government is sure to face without policy changes and its implications (generating cost-recovery) are presented in a misleading way, creating the illusion that the gap can be covered while keeping higher education's budget share unchanged, something that can be done only if donors foot the larger bill."

[91] Funds were reallocated towards the other components of the project, notably to enhance the quality and efficiency of the system.

[92]The decree related to the election of universities president and to the National evaluation committee were adopted after the revolution.

[93] The contract includes general and specific objectives and expected results with regards five strategic axes (training, research, local and international partnership, student life and governance.)

[94] So far, there has been little progress in the recommendations from a recent World Bank study to redesign the role of the "*Planification and programmation*" directorate and the observatories within Universities in order to improve the overall governance framework. (World Bank Aide Memoire June 2013).

[95] These grants support management information, financial management, procurement system, human resource management capacity and nontuition revenue generation related to academic activities. To benefit from the grant, the institution will include a 2 percent counterpart from its own resources.

[96] Disbursement of quality grants are made through three annual tranches after endorsement by the monitoring committee of the annual evaluation report. An impact evaluation of the investments made with the grant award will be submitted by the end of the respective projects.

[97] Projects aims at improving : accreditation process of teachers and programs (14), quality assurance (13), distance learning and information system (11), *co-construction* of bachelors (5), employability and entrepreneurship (14), curricula modernization, teachers' training and new pedagogic equipment (18) as well as the acquisition of computer equipment (19).

[98] Sixty percent of all these graduates are employed 3 years after having obtained their diploma versus 90 percent among BAC +5 graduates.

[99] Thirty percent of all graduates of technical education (BAC+2) are employed in fields unrelated to their specialization, and between 20–36 percent of all graduates in humanities are overqualified for the position they take.

[100] Mourad Ezzine presentation during Learning week (February 2013)

[101] The Bank had provided support to the implementation of the government's MANFORME strategy through the Second Training and Employment project (1996–2003).

[102] Thirty-three percent of the population over age 60 years are receiving pension benefits compared with 15 percent in 1984, and this is projected to increase rapidly (CAS FY05–08).

[103] Nineteen percent of total public expenditures went to subsidies as of 2013, with another 1 percent on safety nets, 3 percent on labor programs (pensions, being contributory, is excluded). As a percent of GDP, approximately 7.4 percent of GDP were spent on social transfers (including 7 percent of GDP on subsidies and 0.4 percent on social safety nets) and 5 percent of GDP on pensions.

[104]These are just the direct budget transfers for food and energy subsidies. Implicit subsidies to state owned refineries and electricity producing companies to compensate them for maintaining low prices for consumers were another 2.2 percent of GDP in 2012.

[105] ISN FY13–14.

[106] Seventy percent of fuel subsidies went to the richest 20 percent of the population. This is equivalent to about 1.9 percent of GDP (energy subsidies were 2.8 percent of GDP), almost four times the cash transfer program for the poor and vulnerable. To put it starkly, the combined cost of gas and gasoline subsidies to the richest quintile (10 percent of the population) is equivalent to the cash transfer program that benefits 133,000 poor families.

[107] Eligibility in 2005 was determined based on visits by local social workers and included criteria such as family size, handicapped, age, capacity to work, and income.

[108]Poverty Study, ISN 2012.

[109]This discussion relies heavily on Chapter 2 of DPR (2013).

[110] CAS FY05–08.

[111] For example, it was estimated that GDP growth would have to be in excess of 6 percent per year to make a perceptible dent on the unemployment rate.

[112] With an unemployment rate of 19 percent in 2011, and a labor force of 3,899,941, the total number of unemployed looking for work was 740,989.

[113] The MILES policy framework is designed to assist national governments to remove (or alleviate) the constraints to the creation of good quality jobs in a manner that addresses the cross-sector interdependence of macroeconomic (M), investment climate (I), labor (L), education and skills development (E) and social protection policies (S). See IEG's comparative assessment of the MILES program in Colombia, Tunisia and Turkey: Earnings Growth and Employment Creation (2009), p. 34.

[114] The public works program is under implementation: 32 projects have been selected, contracts with NGOs have been signed, workers have been hired, and work is underway. A monitoring report of activities conducted is being produced on a quarterly basis.

[115]These data are from governorates of Gafsa and Tataouine, two of the seven underserved governorates in the interior of the country, known as priority regions. It is quoted in the Grant

Funding Request for a JSDF grant for a Community Health Collaborative Project (FY11) in these regions.

[116]For example, the maternal mortality ratio (MMR) estimated in the underserved region of Kasserine (70/100,000 live births) is three times that of urban Sousse (20/100,000 live births), and nearly twice the national average (40/100,000 live births); this disparity has been associated with a dearth of obstetricians and a low use of prenatal services (PAD of GO DPL).

[117] Ministry of Public Health: National Health Accounts in Tunisia 2004–2005. http://www.who.int/nha/country/tun/tunisia_cns_2004-2005.pdf.

[118]The Health Sector Study was rated Satisfactory (positive for strategic relevance, internal quality, dissemination, and likely impact) in an IEG AAA assessment conducted in 2007.

[119]This was not a new recommendation. The 2004 CAS included indicative targets for measuring progress in hospital accreditation.

[120] The accreditation of 10 percent of university and regional hospitals was one of the outcomes the Bank sought to achieve by 2008 (see Results Matrix of CAS). The fact that the Bank was expecting the same outcome in 2014 is just one reflection of the wide gap between the Bank's expectations and limited progress made in the sector.

[121] Peter Roberts et al. 2006.

[122] Tunisia: From Revolutions to Institutions.

[123] Water tariff rates are by brackets and increase with the level of consumption. Since 2005, the higher bracket applies to the whole consumption rather than to the marginal consumption at that bracket.

[124] SONEDE reported to the IEG May 2013 mission that access to improved water source for the urban population had reached close to 100 percent and for the rural population 94 percent.

[125] CAS progress report, table 5.

[126] This is not as good as before, but needs to be put into perspective. Apart from Morocco, no other water or sanitation utility in MENA achieved such levels of cost recovery through tariff (even in Gulf States, where water is hugely subsidized).

[127] Water tariffs are different for different categories of users such as residential, tourism, and small enterprises. SONEDE's price for residential water is identical for urban and rural areas. Other agencies also provide rural water. In rural areas, the final price to the consumer is fixed by the area grouping managing water supply. There is no targeted tariff subsidy for social protection purposes.

[128] In part, this was because of SONEDE's long-held and apparently immutable view, endorsed by many in the government, that it was more competent than the private sector. ONAS has traditionally been more open to the private sector.

[129] World Bank 2012. Tunisia: From Revolutions to Institutions.

[130] Most of the other international development agencies provide larger and cheaper funding. Some of them also provide free financing of TA, which the Bank has not done in recent years for Tunisia's water sector. As a result, for many years it has been difficult for the Bank to get a friendly audience with government officials in the sector.

[131] This is, for example, the case of WSI-2, which is cofinanced by the AFD and the AfDB, in addition to grants from other donors.

[132] The CAS viewed a bigger involvement of the private sector as a way to improve delivery and efficiency of the private sector. It did not elaborate on this, except that it was ready to support improvements to the regulatory framework. Because of its shortcomings, the ESW, while suggesting some models of private sector participation, did not lead to a serious discussion with the government, especially on SONEDE's view of the private sector.

[133] For example, SONEDE forecasted for 2011 that tariffs would cover 94 percent of costs. In practice, it was only 79 percent.

[134] However, unlike mobile phone services that are relatively cheap even in rural areas, Internet services in rural areas are costly.

[135] This component was for assisting governorates to set up computer centers with special facilities to enable their usage by people with various types of disabilities. According to official government data, the disability rate ranges from 0.95–1.4 percent in the coastal areas to up to 2.4 percent in the most remote areas.

[136] The three agencies are the Regional Commissariats for Agricultural Development (RCAD) for the three governorates (Jendouba, Kasserine, and Medenine) targeted under the project.

[137] Access for the underserved, as noted above, is now a specific target area in ISN FY13–14.

[138] These points were already made by the World Bank in the 1982 Ag Sector Survey (Vol 1. Report # 3876-TUN, pp 28).

[139] World Bank (2003). *Better Governance for Development in the Middle East and North Africa. Enhancing Inclusiveness and Accountability.*

[140] Specifically, the Bank recommended that government anchor the strategy in a medium-term rolling macroeconomic and fiscal framework; to formulate an integrated risk management strategy based on appropriate risk benchmarks; to strengthen the domestic government securities market; to reorganize the debt management institutions so as to enable the implementation of an effective public debt management strategy (World Bank, Strategy for Public Debt Management, 2004)

[141] This assessment was not shared by the Budget Directorate—it thought that introducing the PBB approach even without a legal framework was a priority (as early as 2005) given the long lead-in required to instill change in culture and mentality.

[142] See Appui à la gestion budgétaire par objectifs. Jumelage TU10/ENP-AP/F122, *Rapport consolidé de diagnostic et d'orientations,* 26 avril 2013.

[143] These include hospitals and primary care centers, universities, vocational training, and numerous agencies managing specific productive activities.

[144] See World Bank, *Rapport analytique sur la passation des marchés. Projet définitif,* MENA, June 29, 2004.

[145] Procurement commissions exist at the level of public enterprise, municipality, governorate, and ministry.

[146] The 2013 DPR noted that qualitative surveys and a number of newspaper articles confirmed some of these abuses, for example, connected firms may benefit from insider information and preferential treatment in public procurement.

[147] Based on data published on the website of the *Observatoire National des Marchés Publics* (ICR, Governance and Opportunity Development Policy Loan).

[148] The amount of tenders successfully attributed in 2012 substantially increased compared with the average for 2009–11, but the number of tenders remained stable.

[149] The decree was revised in 2012 to make mandatory the use of internal commission (rather than the higher order commission) for orders below the respective threshold.

[150] One year before grant closure (in 2008), the authorities decided to abandon the existing computerized public procurement management system (GESCOMP) and design a new system. The Bank appears not to have noticed the technical weaknesses of the national procurement management system (GESCOMP) to be implemented under the Grant during the project preparation.

[151] The action plan has five pillars : (i) governance, (ii) revision of legal framework, (iii) transparency, (iv) performance and (v) professionalization

[152] Freedom House's 2004 report

[153] The CAS report just quotes that "formal enterprises selling in the domestic market cite what they perceive as anticompetitive practices and unfair competition stemming from privilege, informality, tax and social security avoidance." There is no reference to the lessons for the next CAS on the risks associated with lack of voice, transparency and accountability and how the Bank should adapt its strategy and operations in such an environment. Lessons only refer to the need to better align with government strategy, be more sensitive to the time frame of reforms, adopt a more practical result framework, encourage DPLs, emphasize Bank engagement on employment creation, and build-up robust M&E.

[154] World Bank Tunisia Governance pre-assessment mimeo.

[155] This evolution is not captured in the above index on "control of corruption."

[156] Field interviews noted the need for the INS to have an automatic link with other administrative units producing statistics to foster institutional cooperation with other entities and strengthen the INS capacity.

[157] See "*La commission nationale d'investigation sur la corruption et la malversation*." *Rapport de la Commission Nationale d'Investigation sur la Corruption et la Malversation 2011,* Tunis, 2011.

[158] The first committee in the Ministry of Public Domain in charge of seizing assets stolen from the public domain, the second in the Ministry of Finance to manage seized assets and the third at the central bank to recover assets outside Tunisia.

[159] The 2013 February aide memoire noted that surveys data remain incomplete and the disaggregation of national accounts is not enough detailed.

[160] The time frame gave 2 years (until May 2013) for administrations to comply with the new law.

[161] Ministries have not yet published on their website templates to request information, or the contacts of ministerial staff in charge of monitoring access to information. Quarterly monitoring reports are not available.

[162] (i) the budget circular, a medium term expenditure framework and a prebudget statement, including the macrofiscal perspectives and assumptions underlying the budget, at the beginning of the budget process; (ii) the government and ministries budget proposal before transmission to parliament; (iii) the monthly and year-end budget execution reports; (iv) a citizen's budget, that is, a popularized version of the draft budget (starting from 2014 budget); (v) the Budget Law settlement of year t-1 accompanying the draft budget of year t+1(starting from 2014 budget); (vi) an online open budget platform giving citizens direct access to detailed and timely public expenditure data; and, (vii) performance objectives and reports for pilot ministries delivering key public services (Health, Education, Higher Education and Agriculture).

[163] This grant of an amount up to $150,000 was designed to allow Tunisian officials to visit two countries that are leaders in the field of open government (Brazil and Kenya) within the context of the

Open Government Partnership (OGP), so that GOT could become familiar with best international practices and lessons in this area and for peer-to-peer knowledge and experience exchange. (See World Bank, *South-South Experience Exchange Trust Fund TF0711093).*

164 The ICR of GO DPL noted that the initial approach was changed because of the lack of capacity of local government and the administration's slow adaptation to citizen participation.

165 Feedbacks were received from 9,000 citizens.

166 Aide memoire, Supervision mission of GO and GOJ DPL, February 2013. Reforms under preparation (p 23): The proposed GOJ 2 DPL supports a measure to institutionalize participatory monitoring of performance of public services under the National Controllers Body for Public Services.

167 "The report's recommendations are pitched at a high level in order to leave scope for World Bank Group flexibility and selectivity in its approach to developing a CPF for Tunisia. However, IEG has agreed to explore the possibility of producing an informal Learning Note as input to the process, drawing on the full range of intelligence available to IEG based on its evaluation of World Bank Group engagement in other countries over time."