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.