



OED REACH

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Based on the *Tunisia Country Assistance Evaluation*.

Tunisia: Joint World Bank-Islamic Development Bank Country Assistance Evaluation

- Tunisia has made remarkable socioeconomic progress. Real per capita incomes expanded, poverty rates declined, and social indicators improved.
- Since 1990 World Bank assistance has supported stabilization and structural reform. The Bank program successfully promoted reforms in the financial, external, rural, and private sectors. The Bank's increased focus on the social sectors was aligned with the MDGs, and Tunisia made excellent social progress. The Bank's overall assistance program had a satisfactory outcome.
- Islamic Development Bank (IDB) assistance contributed to the development of key sectors: public utilities, and agriculture and rural development.
- The evaluation points to shortfalls that pose risks to sustained development progress, in light of heightened international competition, and offers joint recommendations: help the government improve the environment for private investment; enhance the efficiency and quality of social spending; and strengthen institutions and safety nets in the rural sector. Good quality analytical studies should inform future assistance programs.

Background

Tunisia is a lower-middle-income country with a population of 9.8 million. It has successfully shifted from resource-based exports dominated by oil and gas to manufactures and services. Real GDP has grown consistently. With a per capita income of US\$2,000, Tunisians today enjoy more than two-and-a-half times the real incomes of 30 years ago. This rapid growth made possible a remarkable improvement in social indicators and a decline in the poverty rate from 40 percent in 1970 to 4 percent in 2000; the remaining poverty is predominately rural. Tunisia signed an association agreement with the European Union (EU) that provides for free trade in manufacturing in 2008. The EU has been Tunisia's dominant trading partner and the source of 67 percent of capital flows into Tunisia. It also accounts for a large share of Tunisia's tourism market and is home to the largest community of expatriate Tunisians. Tunisia will likely confront heightened competition in the future. Sustaining higher growth, achieving closer integration

with the EU, and improving efficiency of social services will present challenges.

World Bank Assistance during the 1990s

Bank assistance in the 1990s was relevant to Tunisia's priorities, as outlined in a series of national development plans. Based on wide-ranging analytical work, the Bank supported stabilization and structural reforms to foster growth. An increased focus was also brought to the social sectors, in line with the MDGs. The Bank lending program is large, both in per capita terms and as a share of the Regional portfolio. Policy-based lending, in conjunction with various donor programs, amounted to nearly US\$1.0 billion (or 40 percent of total lending) and addressed trade, financial, and private sector development. Investment loans

supported mainly rural and human development projects. With timely support from the Bank and other donors, Tunisia averted a balance of payments crisis in the late 1980s, and proceeded to build a solid record of macro stability and socioeconomic progress. The Bank program, in particular, succeeded in promoting tariff, trade, and financial sector reforms, as well as the removal of disincentives for investment and the privatization of public enterprises and banks.

With Bank support, Tunisia made impressive progress in almost all areas covered by the MDGs. Some of the targets have already been met, and Tunisia is likely to meet others by 2015. The Bank's overall assistance program had a satisfactory outcome and substantial institutional development impact.

While sustainability of achievements is rated likely, the evaluation points to shortfalls that threaten sustained development performance. Both the low rate of private investment and the inefficiency of overall investment indicate that past growth may be difficult to sustain without deeper reform. The government still plays a significant role in economic activity, public banks remain large in terms of assets, and non-performing loans put sustainability at risk. Tariff rates remain above competitors' levels, and more needs to be done to end discrimination against non-EU trade. The overall efficiency and fiscal sustainability of social expenditures should have received greater attention, as spending remains high. Finally, addressing rural sector issues such as land tenure, rural finance, and nonfarm rural development will be important, as these are areas where past Bank assistance programs were less successful.

Islamic Development Bank Assistance

Tunisia is one of the largest recipients of Islamic Development Bank (IDB) assistance, with US\$1.2 billion in project and trade financing and special assistance since 1976. Project financing amounts to US\$355 million and is concentrated in public utilities, agriculture and rural development, and,

more recently, the social sectors. There was consensus in Tunisia on the relevance and efficacy of the IDB program. IDB assistance contributed to an improvement in sanitary conditions for 200,000 people and helped fulfill their needs for potable water. The 11 rural development projects financed by the IDB contributed significantly to improved living conditions for the most disfavored populations through a variety of interrelated economic activities, covering agriculture and basic social services such as rural roads, rural water supply, and agriculture support services. But there is still room to strengthen rural institutions.

The IDB's involvement in the social sectors has been modest and recent. Although human resource development was a top priority for Tunisia, the IDB did not support basic education. It is premature to assess the effectiveness of IDB involvement in tertiary education and health. Nevertheless, enhancing the quality and efficiency of social spending remains a concern.

Recommendations

The review concluded that the World Bank and IDB should:

- Help the authorities improve the environment for private sector development through regulatory and judiciary reforms.
- Strengthen rural institutions to support efficient output and input markets, while maintaining stability through better targeted safety nets.
- Continue support for social sectors and help authorities promote greater quality and efficiency in social programs.

Government and Management Response

Management agreed with OED's analysis and recommendations. The Regional response to the Management Action Record endorsed the main recommendations of the evaluation. The report was sent to the government in February 2004 and no comments were received.



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