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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF TUNISIA

FOR THE PERIOD FY 2016-2020

April 19, 2016

Maghreb Department
Middle East and North Africa Region
International Bank for Reconstruction and Development

International Finance Corporation

Multilateral Investment Guarantee Agency

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ABBREVIATION AND ACRONYMS

AfDB	African Development Bank
ALECA	Accord de Libre-échange Complet et Approfondi
ASA	Advisory Services and Analytics
BB	Bank Budget
CBT	Central Bank of Tunisia
CPF	Country Partnership Framework
CSO	Civil Society Organization
DCFTA	Deep and Comprehensive Free Trade Agreement
DELP	Desert Ecosystems and Livelihoods Program
DFID	Department for International Development (UK)
DPL	Development Policy Loan
DPR	Development Policy Review
E4C	Education for Competitiveness
E4E	Education for Employment
ECD	Early Childhood Development
EFF	Extended Fund Facility
ENBCV	National Survey on Household Budget, Consumption, and Standards of Living
ENDA	Enda Inter-Arabe Microfinance Institutions
ENPE	*Enquete Nationale sur la Population and l'Emploi*
F&M	Finance and Markets
FSAP	Financial Sector Assessment and Performance
PPP	Public-Private Partnership
SBA	Stand-by Arrangement
SDG	Sustainable Development Goals
SOB	State-Owned Banks
SORT	Systematic Operational Risk-Rating Tool
TEEP	Tertiary Education and Employability Project
T&C	Trade and Competiveness
TAV	Tunisia Airport Concessionaire
UGTT	General Labor Union
VAT	Value-Added Tax
WBG	World Bank Group
GEF	Global Environment Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOJ	Governance, Opportunities, Jobs
IsDB	Islamic Development Bank
IDD	Integrity Due Diligence
IEG	Independent Evaluation Group
IFI	International Financial Institution
INS	National Institute of Statistics
IPF	Investment Project Financing
ISN	Interim Strategy Note
JSDF	Japan Social Development Fund
MDICI	*Ministère du developpement, de l'Investissement et de la Coopération Internationale*
MIC	Middle-Income Country
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
ONAS	National Sanitation Utility
P4R	Program for Results
PARES	Higher Education Reform Support Project
PEFA	Public Expenditure and Financial Accountability Diagnostic
PIU	Project Implementation Unit
SABER	Systems Approach for Better Education Results
SCD	Systematic Country Diagnostic
SOE	State-Owned Enterprise
SPL	Social Protection and Labor
STEG	Tunisian Electricity and Gas Company
TA	Technical Assistance
TF	Trust Fund
UTICA	Union of Industry, Trade and Handicrafts
WDR	World Development Report
UNDAF	UN Development Assistance Framework

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EXECUTIVE SUMMARY

1. **This Country Partnership Framework (CPF) for Tunisia, prepared jointly by IBRD, IFC and MIGA, covers the period Fiscal Year (FY) 2016 through FY 2020.** It is anchored in the Government of Tunisia's September 2015 *"Note d'Orientation Stratégique"* and the WBG's October 2015 Strategy for the Middle East and North Africa Region. It is underpinned by WBG analytics, including the June 2015 Systematic Country Diagnostic (SCD), which outlined Tunisia's post-revolution development challenges and identified the deep-rooted causes of social unrest that are threatening stability and cohesion. Reflecting the international commitments made at the September 2015 G7 meeting, the program proposed in this Country Partnership Framework represents the continued efforts of the WBG to support the Government of Tunisia in meeting its development challenges.

A. Economic Outlook

2. **The strong economic performance of the first decade of the 2000s enabled the country to experience rapid poverty reduction.** However, these gains proved unsustainable due to high youth unemployment, elite capture, and persistent inequalities.

3. **An ambitious economic reform agenda** was designed immediately after the 2011 revolution but the overriding challenge for the Government is to press ahead with these reforms in spite of current difficulties.

4. **For Tunisia's immediate economic outlook, the WBG forecasts that GDP growth will rebound modestly to 1.8 percent in 2016 from the low base of 2015 (0.8 percent) before recovering toward 2.5 to 3 percent in 2018.** The social tensions that marked 2015 and early 2016, as well as the combined effects of the three dramatic terrorist attacks, further negatively affected economic activity in 2015. The forecast assumes a positive scenario of accelerated reforms, reinforced security, and a moderate acceleration in external demand.

B. Tunisia's Key Development Challenges

5. **The Systematic Country Diagnostic identified three key development challenges: (a) macroeconomic stability:** The macroeconomic and fiscal environment exhibits large vulnerabilities that, if not addressed through deep structural reforms, will prevent the country from achieving its full growth potential; **(b) cohesion and security**: Restoring security and cohesion are prerequisites for setting Tunisia on a new growth trajectory. The 2016 budget shows increased expenditures to combat terrorism; however, attaining longer-term stability and social cohesion will require continuous measures to address the economic and social exclusion of large segments of the Tunisian society; and **(c) improved governance:** Five years after the revolution, the governance environment is still challenged and characterized by limited accountability, poor service delivery, and the lack of effective means for citizens to participate in the definition of official policies and actions. An improved governance environment is a prerequisite for achieving equitable and inclusive growth.

6. **The SCD also identified two key drivers of poverty reduction and shared prosperity**: (a) promotion of private sector-driven job creation, by simplifying regulations, improving access to credit, and improving the efficiency of the banking system; and (b) increased equality of opportunities and increased resilience, through transparent policies that reduce skills mismatch, increase employment protection to facilitate industrial stability, sustainably strengthen the social protection system, address spatial inequalities, and target institutional failures that generate unequal opportunities.

C. Government Program and Medium-Term Strategy

7. **The Government's "*Note d'Orientation Stratégique*" outlines Tunisia's development vision for the next five years.** Its main premise is that Tunisia will maintain its strong partnerships with the international community; rely on the private sector to lead economic growth and job creation; and promote a vibrant civil society. Technical ministries and regions are in the process of preparing their five-year sectoral plans based on this vision, for which financing will be sought during an international donor conference in late 2016.

8. **The Note is underpinned by analytical work carried out for the SCD that advocates for a structural transformation of the economy toward higher-value added sectors.** It presents a new development model based on the promise of a new social contract under which the state is expected to provide a level playing field to ensure inclusion and equal opportunity. The Note consists of five pillars. **Pillar 1, Good governance,** includes fighting corruption and easing administrative barriers to economic participation, to increase opportunities for success for all citizens. **Pillar 2, Shifting to a hub economy,** focuses on increasing productivity for competitiveness and positioning Tunisian businesses in global value chains. **Pillar 3, Promoting human development and social inclusion,** emphasizes quality education, women's participation in economic and political activity, improved health outcomes, and a state-of-the-art social protection system. **Pillar 4, Tackling regional disparities and achieving the ambitions of internal regions,** by building economic infrastructure and supporting entrepreneurship in lagging regions. **Pillar 5: Promoting green growth for sustainable development,** aims to ensure the sound utilization of natural resources, with emphasis on rationalizing water and energy consumption while promoting modern agricultural systems that guarantee food security.

D. The WBG Program

9. **The CPF program consists of three pillars. Pillar I focuses on strengthening economic and fiscal management and improving the business environment** for private sector driven job creation and innovation. The initial aim will be to complete the economic reforms initiated following the 2011 revolution. Pillar II focuses on reducing disparities between coastal and lagging regions in terms of economic opportunities and living standards. Pillar III emphasizes increased social inclusion and targets WBG assistance to particularly vulnerable segments of society, with the aim of helping to build greater citizen trust and promoting skills development, transparency and accountability—all core elements of a renewed social contract. The CPF will be implemented through the existing portfolio and a series of new operations, including a Development Policy Financing (DPF) series aimed at supporting the implementation of key reforms such as the Investment Code, Competition and Bankruptcy legislation, and further efforts to promote investor friendly government procedures.

10. **The WBG will help Tunisia address climate change challenges using an integrated approach.** This will cover both Tunisia's mitigation and adaptation agendas using a mix of analytical work and lending operations.

E. Principles of Engagement

11. **The CPF marks a strategic shift in WBG engagement.** In support of the Government's objectives and in keeping with the findings of the SCD, the Tunisia program is characterized by a greater focus on those left behind; an increased focus on civil society especially youth; and adaptation of the WBG's global knowledge to the local context. At the macro level, the Bank will support the strengthening of core institutions and systems needed to create healthy checks and balances, including strengthened local governments and CSOs; as well as cross-cutting policies fostering transparency and accountability such as access to information, public consultation, and petition policies.

12. **Alignment with the new MENA strategy, which centers on promoting peace and stability in the region by responding to the underlying causes of conflict and violence, implies fundamental changes in both the means and ends of WBG engagement.** Wherever possible, projects under implementation as well as new operations and analytical work under preparation will reflect the principles of building greater citizen trust, providing more effective protection of the poor and vulnerable, promoting inclusive and accountable service delivery, and supporting a stronger private sector that creates jobs and opportunities for all Tunisians.

13. **Governance and gender are foundational issues and will be addressed in a holistic and integrated manner across the CPF.** The Bank will support consolidation of the country's new governance framework and strengthening of governance institutions such as parliament and local governments. The gender lens will be applied to all operations and analytical work to ensure that women benefit equally from interventions. The gender impact of operations will be assessed during preparation. The financial sector program will include components that increase women entrepreneurs' access to financial services. Policy dialogue will be in line with the WBG gender strategy.

F. Risks and Mitigation Factors

14. **The strategy faces several risks and has built-in flexibility to allow for appropriate responses**. Risks to implementation include deterioration of the security situation, capacity constraints, political economy and governance challenges; and macroeconomic and debt sustainability risks. To mitigate these risks, the WBG will put all engagements through a political economy filter, and therefore be less likely to concentrate on areas where there is insufficient political buy-in or limited potential for success. In addition, by using a combination of development policy lending, investment and results-based financing, and analytical work, the WBG will be better equipped to address the challenges and demonstrate impact and results. Bringing in public and private partners whenever possible (including development partners, CSOs and academia) will help encourage greater Government accountability for project implementation. Finally, at the project level, the "readiness for implementation" filter will be strictly applied to ensure tangible and quick results on the ground following Board approval.

FY16-FY20 COUNTRY PARTNERSHIP FRAMEWORK OF TUNISIA

I. INTRODUCTION

1. **This Country Partnership Framework (CPF) for Tunisia, prepared jointly by IBRD, IFC and MIGA, covers the period FY16 through FY20.** It was preceded by the WBG's Interim Strategy Note (ISN), prepared in a context of political and economic uncertainty in Tunisia and covering an indicative program of support for 2013 and 2014. The ISN was preceded by the earlier Bank-IFC joint Country Partnership Strategy (CPS), which covered the period FY10-FY13.

2. **The CPF is anchored in the Government of Tunisia's September 2015 *Note d'Orientation Stratégique* and the WBG's October 2015 Strategy for the Middle East and North Africa Region.** It builds on extensive discussions with a wide range of stakeholders, and is underpinned by WBG analytics, including the June 2015 Systematic Country Diagnostic (SCD).

3. **The CPF is organized along three interdependent pillars aimed at addressing**: (a) **jobs**, by restoring business environment conducive to sustainable economic growth and private-sector-led job creation; (b) **lagging regions**[1], by reducing regional disparities; and (c) **vulnerability**, by increasing social inclusion. In addition, the foundational issues of governance and gender equity will be integral to all WBG initiatives under the CPF.

II. COUNTRY CONTEXT AND DEVELOPMENT PROSPECTS

A. Political Context

4. **Following the 2011 revolution, Tunisia went through a political transition that led to the adoption of a new Constitution in early 2014, followed by orderly presidential and parliamentary elections in late 2014.** These achievements were due in large part to the role of the country's robust civil society and particularly to the work of the Tunisia National Dialogue Quartet, which was awarded the Nobel Prize for Peace in October 2015 "for its decisive contribution to the building of a pluralistic democracy in Tunisia in the wake of the country's 2011 Revolution." [2]

B. Recent Economic Developments

5. **Five years after the Revolution, the population has yet to see the promised economic transformation or tangible economic dividends of democracy.** To address the economic effects

[1] Lagging regions, or *zones defavorisées*, are defined using a regional development index (*indice de développement regional*) that contains 18 governorate-level variables. A simple average is taken based on these 18 variables and a threshold is established below which a governorate is considered a lagging region. Variables include education attainment levels, unemployment rate, percentage of households with piped water, child mortality and gender disparities, among others. According to recent *indices de développement* the following governorates are considered *zones defavorisées:* Zaghouan, Kébili, Gabès, Mahdia, Medenine, Gafsa, Béja, Tataouine, Kef, Sidi Bouzid, Siliana, Kairouan, Kasserine, and Jendouba.

[2] The Quartet was made up of the General Labor Union (UGTT); the Confederation of Industry, Trade and Handicrafts (UTICA); the Human Rights League; and the Order of Lawyers. Press release at http://www.nobelprize.org / nobel_ prizes/peace/laureates/2015/press.html).

of cronyism, monopoly and exclusion, a fairly ambitious economic reform agenda was designed immediately after the 2011 revolution; but implementation of the agenda was delayed and did not begin to accelerate until 2015. As a result of reform delays and social unrest, the economy during 2011-2015 performed below pre-2011 levels: GDP growth averaged 1.4 percent, compared to 4.4 percent during the previous 5 years; the gross investment rate averaged 22.5 percent of GDP, compared with 24.6 percent; export growth averaged 2.2 percent annually, compared with 5.1 percent; and unemployment averaged 16.2 percent, compared to 12.7 percent (see Box 1).

6. **The slower than anticipated pace of economic reform combined with a weak global economy and several shocks have weakened Tunisia's economic performance.** While Tunisia showed some resilience to the 2008 financial crisis, growth plunged after the revolution and has since recovered only modestly. A short-lived rebound in 2012 did not lead to a sustained recovery, as investment after the revolution started to decline and consumption leveled off. In 2013 and 2014, real GDP growth stood at 2.3 percent year-on-year. Expansion in the services and administrative sectors was offset by a declining extractive sector and a stagnant manufacturing sector. External demand has remained low, reflecting stagnation in the Eurozone, while domestic demand has slowed as a result of tighter macroeconomic policies. The social tensions due to slowness of reforms that marked the first half of 2015, as well as the combined effects of the three dramatic terrorist attacks, further negatively affected economic activity in 2015, with growth reaching a mere 0.8 percent. The fiscal deficit increased from 2.7 percent to 5 percent of GDP between 2010 and 2014, and the public debt from 42.8 percent of GDP to 49.4 percent during the same period. Current account imbalances have risen since 2011, due to the inability of net service imports, notably tourism, to offset the widening trade deficit.

Box 1: Unemployment in Tunisia Pre and Post Revolution

Unemployment stands at 15.4 percent nationally in 2015, down from its peak of 18.9 percent in 2011 (12.5 percent men and 22.6 percent women), due in large part to ad hoc civil service and parastatal recruitments after the revolution. However, these types of recruitment cannot be sustained. Further, graduate unemployment is staggeringly high at around 31.2 percent, as is unemployment among women, whose labor force participation is only 28 percent—despite the fact that gender equity is embedded in the new Constitution. Although graduate unemployment rates have fallen since 2012, when 33.2 percent were unemployed (47.5 percent women and 20.6 percent men) 30% of new graduates are still out of work nationally. This figure rises to 31 and 48 percent in the less developed central and southern regions of the country.

7. **Since the revolution, the Government budget has been increasingly focused on increasing current expenditures rather than investment, leaving little room for growth-enhancing projects.** After the fiscal deficit peaked at 6.8 percent of GDP in 2013, the Government engaged in fiscal consolidation. The bulk of the adjustment came from reductions in capital spending, which reached a record low in 2015 (4.7 percent of GDP, compared to 6.6 percent in 2011 and 7.7 percent in 2010). The wage bill continued to increase until 2014, despite the freeze on salaries, because of net new recruitments (limited to security forces, teachers and health workers). The Government's recent decision (September 2015) to increase wages (to address social peace and preserve civil servants' purchasing power) starting in 2016 by an equivalent of 0.6 percent of GDP (a general increase of 5 percent) could jeopardize the necessary slowing of recurrent spending growth.

8. **Considerable fiscal risks exist and need to be addressed. Subsidies on energy and food are a huge fiscal burden, representing approximately 16 percent of total spending in 2014.** Declining international oil prices have helped reduce energy subsidies from 7 percent of GDP in 2014 to an estimated 0.5 percent of GDP in 2015, and provide an opportunity to hasten energy subsidy reform. As of 2014, Government has a new system of automatic adjustments to petrol prices. Fiscal risks and contingent liabilities of state-owned enterprises (SOEs) are also increasing, as demonstrated by the rise of external debt of public enterprises (which is guaranteed by the government) to 34 percent of total external government debt (10 percent of GDP) by end 2013. To address these issues, the Government is initiating a more transparent fiscal risk management framework that includes improved monitoring of cross-subsidies, audits, a requirement for the largest SOEs to prepare consolidated financial statements, and an improved governance framework for public enterprises. The necessary stabilization of the macro-fiscal situation will require continued action on SOE restructuring, including the rationalization of civil servants employed by these companies.

9. **The banking sector faces significant challenges, owing to the fragile post-revolution economy and the legacy of the previous regime.** Between 2010 and 2014, the average capital adequacy ratio of the banking system declined from 11 percent to 9.7 percent, as a result of (a) an increase of non-performing loans (NPLs), from 12.5 percent before the revolution to 16 percent in 2014; and (b) an increase in the provisioning ratios, from 44 to about 60 percent. Six banks—which cover 42 percent of the banking assets—fell below the new minimum capital requirements in 2013 (down to three banks in 2014, all state-owned). State-owned banks (SOBs) are in the most vulnerable position due to more limited capital buffers (despite their recapitalization in 2015), higher NPL ratios and lower profitability. Increasing SOBs performance will require the Government to privatize these SOBs in the medium-term. In addition, other factors such as the economic slowdown, depreciation of the dinar, the security situation, and the development of the informal economy have been putting downward pressure on banking system liquidity, prompting the Central Bank of Tunisia (CBT) to inject liquidity in the system. CBT refinancing operations reached 4.6 billion dinar in January 2016 (5.3 percent of GDP), down from 5.7 billion dinar in June 2015.

10. **Many of the structural weaknesses of the Tunisian economy have arisen, paradoxically, from the country's once apparently successful economic model, which brought prosperity but was built on state dirigisme and produced distortions and unsustainable dichotomies.** These distortions and dichotomies had several dimensions: (a) in the economy, between the more dynamic exporting offshore sector and the protected and stagnant onshore sector, where vested interests shielded key sectors from competition; (b) spatially, between the thriving coastal regions and impoverished interior areas; (c) in the political sphere, where there is a lack of public accountability; and (d) in the labor market, as the public sector could not continue to absorb the large number of university graduates thus leading to growing unemployment rates and job insecurity. As a result of these and other factors, the economy became increasingly stuck in a low productivity equilibrium, which contributed to social unrest.

III. MACROECONOMIC PROSPECTS

11. **Tunisia has emerged from the post-revolution transition with an economy that, without concerted reforms, is no more likely to lead to durable and inclusive economic success than in the past.** Some of the proximate causes of the 2011 revolution—including concerns about lack of jobs, corruption and elite capture, persistent inequalities, and insecurity—are resurfacing, as illustrated by the January 2016 social unrest.

12. **Tunisia's immediate economic outlook is subject to the lingering impact of the security shocks and social tensions that marked much of 2015 and early 2016.** The WBG forecasts that GDP growth will rebound modestly to 1.8 percent in 2016 from the low base of 2015 (0.8 percent) before recovering toward 2.5 and 3 percent in 2017 and 2018, respectively. This forecast assumes a positive scenario of accelerated reforms, reinforced security, movement controls across the borders with Libyan and Algeria, and a moderate acceleration in external demand[3]. Inflation is expected to further decelerate to 4.5 percent a year, on average, in 2016-18. The lower international energy prices will have limited pass-through to consumers due to the existence of administratively set prices; and the impact of these lower prices on external balances will be further offset by gradual depreciation of the Tunisian dinar.

13. **Low external demand and large fiscal imbalances have weakened Tunisia's external position.** Despite growing fiscal pressures, current spending continues to increase, and this increase will be exacerbated by the announced wage increase starting in 2016 (with the wage bill standing at 13.3 percent of GDP in 2015). The fiscal deficit increased from 2.7 percent of GDP to 5 percent between 2010 and 2014, and will remain close to 4.4 percent of GDP in 2016. The public debt rose from 42.8 percent of GDP to 49.4 percent during the same period, and reached 52.1 percent by end-2015. Current account imbalances have risen since 2011, as the widening trade deficit could not be offset by net service imports, notably tourism, due to the uncertain political and security situation. Following a request from the Government, the IMF has initiated the preparation of an Extended Fund Facility (EFF) to tackle the growing balance of payments and macro imbalances. Meanwhile, a more flexible stance in the exchange rate policy, together with heavy reliance on external financing from international financial institutions (IFIs), has helped to preserve an acceptable level of international reserves[4]. The trade balance will improve only moderately over the medium term, but the outlook for the balance of payments is likely to benefit from the gradual recovery of trade in services. Consequently, the current account deficit is expected to decline gradually toward 7.5 percent of GDP by 2018. International reserves are projected to stabilize at around 4 months of imports of goods and services.

14. **While public and external debt have remained at acceptable levels in the view of international investors, both could worsen markedly if reforms are not implemented or if the economy were to be affected by new fiscal, exchange rate or security shocks.** Prudent debt management and sustained growth reduced public debt from 52 percent of GDP in 2005 to 42.8 percent

[3] The forecast for 2016-18 is based on a slow recovery in manufacturing and services starting in 2016 but reduced agricultural exports in 2016, a very moderate recovery of FDI in 2017 as well as a stagnation in workers' remittances in 2016 (after the drop in 2015) and a slow recovery starting in 2017 The forecast is also based on the following assumptions: (i) oil Brent price in 2016-2018 of, respectively, US$35; $38 and $40 per barrel; (ii) growth in Europe of 1.9 percent, 2 percent, and 2.1 percent respectively for 2016-2018; (iii) inflation in Europe of 1.02, 1.25 and 1.41 percent in 2016-2018, respectively.

[4] In January 2015, Tunisia launched a US$1 billion sovereign bond without guarantees from the international community, demonstrating strong international investor confidence in the country.

in 2010, of which almost 25 percent was foreign debt. However, public and external debt started to increase again in 2011 as a result of the response to the post-revolution economic crisis and downturn. A recent IMF debt sustainability analysis[5] found that if measures to reduce government deficit and debt accumulation are not implemented, public debt could reach around 63 percent of GDP by 2020, while significant negative growth shocks to the primary balance would increase it further to about 68 percent of GDP by 2020.

15. **In sum, there is an urgent need for systematic and sustained implementation of reforms aimed at addressing the macroeconomic imbalances and unlocking the country's economic potential.** In that respect, the launch of negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union in October 2015 offers an important opportunity to anchor Tunisia's future economic and regulatory reforms. The aim of the agreement is to improve market access opportunities and the investment climate. The DCFTA will include provisions on a full range of regulatory areas of mutual interest, such as trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, investment protection, public procurement and competition policy. Liberalization of trade in services and establishment of trade in agriculture will also be covered. This suggests that the agreement may help accelerate the implementation of economic reforms.

Table 1. Selected Macroeconomic Indicators, Actual and Projected, 2010-2018 (%)

FISCAL YEAR	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual					Est.	Projected		
Real GDP growth rate (%)	3.0	-1.9	3.9	2.4	2.3	0.8	1.8	2.5	3.0
Inflation (CPI, period average)	4.4	3.5	5.1	5.8	4.9	4.9	4.5	4.5	4.5
Unemployment rate (end of period, %)	13.0	18.9	16.7	15.3	15.0	15.3			
Gross domestic investment (% GDP)	24.9	23.6	24.3	22.0	21.0	20.1	20.3	20.7	21.4
Total revenue (% of GDP)	23.1	24.7	23.2	23.7	23.9	23.0	23.4	23.3	23.1
Total expenditure and net lending (% of GDP)	25.8	28.0	28.7	30.5	28.9	27.5	27.8	27.5	27.1
Current expenditure (% of GDP)	18.1	21.4	22.7	24.9	23.2	22.8	22.9	22.6	22.0
Wages and salaries (% of GDP)	10.8	11.9	12.3	12.6	12.8	13.3	13.9	13.8	13.5
Capital expenditure and net lending (% of GDP)	7.7	6.6	6.0	5.6	5.7	4.7	4.9	4.9	5.0
Fiscal balance (excl. grants and exceptional receipts, % GDP)	-2.7	-3.3	-5.5	-6.8	-5.0	-4.6	-4.4	-4.2	-4.0
Structural fiscal balance (excl. exceptional receipts, banking recapitalization costs, % GDP)	-3.5	-3.3	-5.7	-5.1	-4.1	-4.0	-3.8	-3.4	-2.9
Public debt ratio (% of GDP)	42.8	44.5	44.5	45.8	49.4	52.1	54.3	55.5	56.3
Current account balance (% GDP)	-2.8	-7.4	-8.1	-8.6	-8.9	-8.7	-8.0	-7.8	-7.5
FDI, net (% GDP)	3.5	2.5	3.6	2.4	2.3	2.3	2.4	2.5	2.7
Official reserves (months of imports)	5.4	3.4	3.9	3.4	4.0	4.1	3.9	4.0	4.1
External debt ratio (% of GDP)	52.3	49.0	49.4	56.4	54.4	61.7	64.7	66.3	65.0
Debt service ratio (% of GNFS exports)	10.6	11.7	11.7	12.0	8.9	12.3	12.3	17.2	13.3

Source: National authorities, IMF and Bank staff calculations, Bank staff projections.

[5] *Staff Report for the 2015 Article IV Consultation, Sixth Review- Stand-By Arrangement,* IMF, September 2015.

IV. POVERTY REDUCTION ACHIEVEMENTS AND CHALLENGES

16. **The strong economic performance during 2000-2010 enabled the country to experience rapid poverty reduction (see Annex 2 for detailed analysis of poverty trends and regional disparities).** GDP growth trickled down to households, and household final consumption growth closely followed that of GDP, averaging five percent during the decade; according to national accounts, poverty incidence declined substantially during the period: poverty rates in 2010 stood at 15.5 percent, compared with 23.3 percent in 2005 and 32.4 percent in 2000[6]. The extreme poverty rate was estimated at 4.6 percent for 2010, compared with 7.6 and 12.0 percent in 2005 and 2000, respectively. This improvement was driven by an extensive system of subsidies, transfers and social protection, which contributed—despite great inefficiencies—to keeping the cost of basic necessities affordable for the poor and protecting them from shocks. Further, sustained investment in key infrastructure contributed to open access to basic services for the poor. Tunisia also performed well, although uneven geographically, on most development indicators, improving along key non-monetary indicators of deprivation over the decade. Economic growth and public investments in human development contributed to impressive improvements in school enrollment, infant and maternal mortality rates, and child malnutrition rates at the national level, while contributing to improved access to services, such as water source and sanitation facilities (Table 2).

Table 2: Key Social Indicators 1990-2015

Indicators	1990	2000	2010	2015
Primary school enrollment rate (%)	92.4	95.6	98.7	99.5
Progression to secondary school (% of primary)	-	75.3	74.5	99.0
Ratio of girls-to-boys in primary & secondary education (%)	83.5	97.6	101	105
Prevalence of malnutrition (Stunting %)	-	16.8	10	2.1
Infant mortality rate (per 1,000 live births)	40.3	24.7	14.8	16
Maternal mortality ratio (per 100,000 live births)	130	84	48	44.8
Access to improved water source (%)	81	90	96	
Access to improved sanitation facilities (%)	74	81	94	
Life expectancy at birth (all/women)	70/72	73/75	75/77	74.9/77.9

Source: World Bank World Development Indicators

17. **These decade-long gains in poverty reduction and human development remained fragile and unevenly distributed**, however. Despite the overall reduction in poverty rates during the decade, the probability of falling into poverty remained substantial for the many households whose consumption levels in 2010 were just above the poverty threshold, making them vulnerable to shocks such as employment loss or hikes in the prices of essential goods. Moreover, wide regional disparities persisted and even increased. In 2010, poverty rates ranged from a low rate of 8-9 percent in the Center East region and Grand Tunis to a high of 26 and 32 percent in the North West and Center West regions, respectively. Extreme poverty became more concentrated than before: the poorest region of the country—the Center West was home to more than 40 percent of the extreme poor living in the country. Remote and rural areas also lagged in human development indicators: (a) children were more than twice as likely to be stunted (13.6 percent in rural areas versus 8.1 percent in urban areas); (b) fewer women received prenatal services or treatment for high-risk pregnancies (88.2 percent in urban vs. 79 percent in rural areas); (c) maternal mortality rates were much higher than the national average (48 percent national level vs. 65 percent in rural area deaths per 100,000 live births); (d) school repetition and drop-out rates were higher (20.1

[6] Revised estimates. See Annex 2 for more details.

percent repetition and 12.7 percent drop-outs in Kasserine at the upper secondary level compared with 17.3 and 9.3 percent, respectively, at national level); and (e) levels of employment ranged between 20-22 percent in interior regions to around 7 percent to 11 percent in coastal areas (2013).

18. **This pattern has persisted since the revolution** and actually worsened in some regions, where social and economic exclusion is increasing[7] due to lack of investment and unemployment, and for certain groups especially the youth—challenges exacerbated by the instability in neighboring countries. This exclusion of large segments of Tunisia's youth population from the country's social and economic mainstream has created a breeding ground for radicalization and extremism.

19. **These challenges have made the need for international support to Tunisia more urgent. Tunisia's efforts to achieve stability and democracy is a regional and global public good.** International partners are particularly keen to ensure that Tunisia's stability is not undermined by terrorism in the country or in other parts of the world. This is truer than ever after the November 2015 Paris terrorist attacks.

20. Reflecting the international commitments made at the September 2015 G7 meeting, the program proposed in this Country Partnership Framework represents the best efforts of the WBG to assist the Government of Tunisia in meeting its development and security challenges.

V. SYSTEMATIC COUNTRY DIAGNOSTIC: DRIVERS OF POVERTY REDUCTION AND DEVELOPMENT CHALLENGES

A. Overarching Issues

21. **The June 2015 Systematic Country Diagnostic (SCD)** identified three overarching issues that are essential for the success of Tunisia's development efforts: (a) macroeconomic stability; (b) cohesion and security; and (c) improved governance. The SCD also identified two key drivers of poverty reduction and shared prosperity: (a) promotion of private sector-driven job creation; and (b) increased equality of opportunities and reduced vulnerability.

22. The issues of overarching importance for the success of Tunisia's development efforts are discussed below.

B. Macroeconomic Stability

23. **As noted above, Tunisia's growing macroeconomic imbalances** are major obstacles to accelerating growth and putting the country on a sustainable economic development path. The macroeconomic environment exhibits large vulnerabilities that, if not addressed through deep structural reforms, will prevent the country from achieving its full growth potential. Fiscal consolidation should be based on increasing tax revenues through reforms and reduced spending, particularly on fuel subsidies, where the Government has taken encouraging steps. On the spending side, the increase in the wage bill as a share of GDP needs to be contained through public administration modernization.

[7] The National Institute of Statistics estimates that poverty in regions may be at 20 percent.

C. Cohesion and Security

24. **The Government's main challenge is to restore security.** This is a prerequisite for restoring economic activity and investor confidence, which is needed to put the economy on a new growth trajectory. The economic slowdown following the revolution led to reduced foreign exchange reserves, a 50 percent drop in tourism revenues, and a higher current account deficit. Foreign direct investment (FDI), already low prior to the revolution, has been further affected by the worsening security situation in 2015-2016. The Government is addressing this challenge by increasing the budgets of the Tunisian ministries of defense and interior, which together rose by 15 percent in 2015, to support strengthening of intelligence and border protection. The 2016 budget also shows increased expenditures to support a multifaceted national strategy against terrorism that involves security, prevention, cultural and development components. Attaining longer term stability requires continuous measures to tackle directly economic and social exclusion of large segments of Tunisian society.

D. Improved Governance

25. **Improving governance is critical for achieving sustainable growth and reducing poverty.** Some progress has been achieved since the revolution in areas such as a gradual increase in citizen participation, freedom of press, and improved access to information. Yet Tunisia still faces challenges related to: (a) weak rule of law; (b) excessive centralization of decision making, with regions still lacking the autonomy and resources needed to forge a local development dynamic; (c) low level of citizen participation in political, economic and social matters, particularly on the part of youth and women, and in rural areas; (d) restrictions on economic participation[8], with a web of regulatory favoritism that minimizes competition and constrains broad-based private sector development; (e) a high level of petty corruption and bribery[9]; and (f) weak institutional capacity. Since the revolution, there has been little change in these aspects of the governance environment, which is still characterized by limited accountability, poor service delivery, and the lack of effective means for citizens to participate in the definition of policies and actions. Improving the governance system will require a two-pronged approach focusing on long-term gains while creating an environment favorable to short- to medium-term improvements. These improvements will require a holistic and balanced approach that addresses institutional weaknesses across sectors while in tandem engaging more proactively with new actors such as grassroot youth and women lead CSOs, while strengthening formal accountability mechanisms and processes.

VI. DRIVERS OF POVERTY REDUCTION AND SHARED PROSPERITY

26. The SCD found that the key drivers of poverty reduction and shared prosperity are private sector-led job creation and improved access to opportunities.

[8] The Unfinished Revolution: Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians, World Bank 2014 (May). http://siteresources.worldbank.org/INTMENA/Resources/TunisiaDPR.pdf

[9] Illicit Financial Flows from the Developing World: 2004-2013, Global Financial Integrity 2015 (December). GFI, a non-profit research and advocacy organization located in Washington DC, estimates that the amount of illegal money lost from Tunisia due to corruption, bribery, kickbacks, trade mispricing, and criminal activity between 2000 and 2008 was, on average, approximately two percent of GDP (about US$1.2 billion) per year.

Key Driver 1: Promote Private Sector-Driven Job Creation

27. Reforms of the business environment and financial sector have great potential to create growth and increase private sector employment and inclusion. Removing the barriers to entry and competition would substantially improve the performance of the Tunisian economy and boost the ability of productive firms to grow and create good quality jobs. The removal of barriers should start with sectors with high potential for job creation—notably manufacturing, health services, transport, energy and telecommunications—to open up investment in these sectors. In particular[10]:

- **The regulations and procedures hindering private sector activity** should be dramatically simplified, which would reduce room for discretion in their implementation and level the playing field for all private sector actors.

- **Access to credit, particularly for firms with no credit history and limited collateral (mostly MSMEs and startups), should be improved through reform of the banking sector and development of alternative sources of financing.** Greater access to credit will enable resources to be channeled to the most productive projects and increase the amount of financing available to the private sector for investments[11].

- **To improve the efficiency of the banking system and competition** within the sector, priority should be given to strictly enforcing banking regulation, revising the procedures to deal with banks in financial difficulty, and restructuring state-owned banks, through a technical partnership and/or partial/full privatization, with a view to upgrading their governance and management in accordance with international best practices.

- **Increasing financial inclusion** (access to and usage of formal financial services) and closing the gender gap in access to financial services[12] is critical to improve individual and household welfare and spur small enterprise activity.

Key Driver 2: Improve Equality of Opportunities and Increase Resilience

28. **To address the needs of the significant numbers of unemployed youth and contribute to shared prosperity, an integrated and cross-cutting jobs strategy should be put in place that links two sets of policies:** (a) policies that facilitate the creation of new private sector jobs; and (b) policies that support increased productivity, while reducing the skills mismatch in the labor market. The Government can play an active role in supporting the development of high-potential sectors by fostering horizontal linkages and addressing coordination failures. For example, policies to improve the overall business environment would need to be complemented by targeted interventions to create jobs in specific sectors and regions, without risking that these sectors too would be captured by the elites.

[10] Competitive Industries and Innovation Program (CIIP).
[11] Better performance in the banking sector could increase the level of credit to the private sector by at least 10 percent of GDP, which could generate in excess of US$10 billion in additional investments in the economy over the next 10 years, corresponding roughly to an additional 38,000 additional jobs per year. Tunisia Development Policy Review 2012.
[12] Global Findex (2015) shows 21 percent of females over 15 years of age, 34 percent of males over 15, and only 17 percent of the bottom 40 percent have an account at a financial institution.

29. **These job creation policies will need to be accompanied by reforms to incentivize formal employment.** The focus should be on reducing taxes on labor and other labor costs, while guaranteeing adequate income protection to workers. Employment protection legislation plays a critical role in facilitating industrial stability, the build-up of firm-specific human capital, and innovation. Moving forward, it will be important to accompany the targeted investment policies with employment policies (reduced bias against hiring young first time entrants to labor market and greater flexibility of hiring and laying off workers) fostering greater job creation, and employment protection[13].

30. **To support the most vulnerable groups, it will be essential to have effective, transparent, and sustainable social protection systems that can be easily scaled up.** Strengthening Tunisia's social protection system is a necessary complement to pro-growth and macroeconomic stability-type reforms to ensure that the poorest and most vulnerable are not left behind. The equity and effectiveness of Tunisia's social protection system has always constituted a core aspect of Tunisia's development model. Improved targeting of the existing model—focusing on redistribution of benefits—would allow better protection of the poorest and reduce inequality and social tensions.

31. **Efforts toward more inclusive growth are enhanced by policies aimed at addressing spatial inequalities in access to high-quality basic services and infrastructure, and by targeting institutional failures that generate unequal opportunities.** Increasing access to quality basic services (notably water, health and education) in lagging areas will improve people's employment opportunities and quality of life, and ultimately contribute to sustainable long-term economic growth. Improving the governance, institutional and regulatory frameworks would incentivize private investment in service provision, thereby reducing inequalities across regions. This process should be strengthened alongside implementation of decentralization and local control of resources.

32. The findings and recommendations of the SCD regarding poverty reduction and shared prosperity are further elaborated in Box 2.

[13] Reducing the tax wedge, rationalizing redistributive arrangements, reforming dismissal procedures, and reducing discretion in the setting of the minimum wage.

Box 2: SCD - Main Conclusions and Recommendations for Poverty Reducation

The SCD identified the following key drivers and constraints to poverty reduction and shared prosperity:

- Business environment:
  - ***Contestability and competition:*** Government regulations and actions in Tunisia are distortive of market development and generate unintended barriers to competition, which have far-reaching implications for the performance of the economy.
  - ***Political connection, economic performance, and unequal opportunity:*** Heavily regulated market access has become a smokescreen for rent extraction by politically connected firms, which receive privileged access to certain lucrative activities. There is also significant evidence of tariff and tax evasion, which hampers competition and gives a strong unfair advantage to larger and better-connected firms.
- **Banking and financial sector:** Limited access to finance among MSMEs and households, low levels of financial intermediation, and limited financial sector regulations have prevented Tunisia's financial sector from efficiently allocating resources toward the most productive projects, often to the advantage of politically connected firms and sectors, which receive preferential treatment by public banks.
- **Employment and social policy:** There are also important variations in labor market outcomes and access to jobs across gender and regions; but in general, private sector employment does not serve as a channel for poverty reduction and shared prosperity. A comprehensive and integrated jobs strategy is therefore essential for fulfilling the new social contract.
- **Social protection, equity, and resilience:** An extensive system of subsidies, transfers and social protections has, despite great inefficiencies, helped to keep basic necessities affordable for the poor and protect them from shocks. In the context of limited fiscal space, increasing the targeting and efficiency of these programs is a priority going forward.
- **Governance and institutions:** Governance in Tunisia had been characterized by a strong executive with limited checks and balances, allowing elite capture to flourish through administrative favoritism, repression of dissent, and economic and political exclusion of the vast majority of the population. Since the 2011 revolution, successive Governments have introduced some reforms to address governance gaps, enhancing civil and political rights and taking steps to address elite capture and other forms of corruption. However, progress has been limited and legislative gaps remain.

VII. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

A. Government Program and Medium-Term Strategy

33. **Following the 2014 presidential and parliamentary elections, President Essebsi appointed a President of Government who led the preparation of a concept note for the 2016-2020 development plan.** The resulting *Note d'Orientation Stratégique* outlined Tunisia's development vision and strategic orientation for the next five years. Its main premise is that Tunisia will maintain its strong partnerships with the international community and (a) rely on the private sector to lead economic growth and job creation, and at the same time (b) promote a vibrant civil society. Technical ministries are in the process of preparing their five-year sectoral plans based on this vision, for which financing will be sought during an international donor conference in 2016.

34. **The *Note d'Orientation Stratégique* is underpinned by analytical work carried out for the SCD that advocates for a structural transformation of the economy toward higher-value added sectors.** It presents a new development model that aims at achieving more "economic

efficiency based on innovation and partnership, social inclusion and sustainable development." Achieving these objectives requires improvement of the business environment and progress in the implementation of major reforms, including modernization of the administration, revision of the procurement system, promulgation of a new Investment Code, improved equity of the tax regime, and implementation of a proactive policy to boost public-private partnerships.

35. **The *Note d'Orientation Stratégique*'s** overarching objective is to create an enabling environment conducive to implementation of economic reforms, coupled with good governance. The Note has five pillars:

- **Pillar 1:** Good governance. The Note acknowledges that Tunisia is at a turning point in changing its development model and formulating a new social contract for fair and equitable growth based on inclusion, shared prosperity and voice (Box 3). In order to increase its chances of success and accelerate this shift, the first pillar focuses on governance issues such as fighting corruption and easing administrative barriers to economic participation, to increase opportunities for success to all citizens.

- **Pillar 2**: Shifting from an economy characterized by low value-added productivity and low-wage jobs to a "hub economy." This would require positioning the economy in global value chains, building larger-scale infrastructure and logistics capabilities, fostering innovation, promoting investment, increasing productivity for competitiveness, and promoting employment. This pillar seeks to put private sector investment at the heart of growth and job creation while strengthening the efficient delivery of public services.

- **Pillar 3:** Promoting human development and social inclusion. Quality of education is a key priority to improve employability and help match skills to labor demands. Strengthening women's rights will also be critical, especially in terms of female participation in economic and political activity. From a social inclusion perspective, actions will be taken to improve health outcomes (especially in lagging regions), improve living conditions through social housing, institute a state-of-the-art social protection system, and make pension and health insurance schemes more sustainable.

- **Pillar 4:** Tackling regional disparities between internal and coastal regions and ensuring development ambitions of internal regions. The Government is committed to attracting investments in lagging regions by building infrastructure, including roads, ports, railways. In parallel, considerable efforts will be made to support micro-finance institutions and entrepreneurship in lagging regions, while also scaling up skills enhancement programs for young would-be entrepreneurs. Government is working on a regional development funding mechanism. Most importantly, efforts are underway to prepare for local government elections as a means of improving living conditions and the regional and local level – this process is underway with the delineation of regional and municipal boundaries.

- **Pillar 5:** Promoting green growth for sustainable development. The Government's first objective under this pillar is to ensure that development is not only spatially balanced but also environmentally sustainable. The sound utilization of natural resources will be a key consideration, with emphasis on rationalizing water and energy consumption while promoting modern agricultural systems that guarantee food security.

Box 3: Tunisia New Social Contract for Fair and Equitable Growth

The implicit social contract that governed Tunisia under the previous regime promised: employment for many and guaranteed employment-based income for unionized workers and heads of households; access to capital for a few connected individuals and enterprises; social services for all; a path to the middle class via education; and social and political stability achieved by autocratic fiat—all with the understanding that citizens would stay away from meaningful political participation, be accountable to the state for individual actions, but not demand accountability from the state. The 2011 revolution, however, showed that the old contract was unsustainable and highlighted the elite capture of the economy, the high level of unemployment (including for the educated), the huge public sector wage bill, and corruption and systematic exclusion. The Quartet's Nobel Prize celebrated the demise of the political side of the old social contract. The focus now needs to shift to the economic side, through development of a modern economy led by the private sector with a level playing field for all—an economy inclusive in its reach to Tunisians in all regions. As elaborated in the SCD, Tunisia now faces three critical challenges: (i) jobs; (ii) lagging regions; and (iii) vulnerability. The *Note d'Orientation Stratégique*, reflects the consensus of Tunisian society on these issues. This is also consistent with the orientations of the October 2015 WBG MENA Regional Strategy. There is broad agreement on the need to create an environment in which the private sector creates jobs rather than protects its rents; where Tunisians, regardless of where they live, have an opportunity to improve their lives; and where the near-poor are protected from shocks that could push them into poverty. To achieve this, the relationship between citizens and the state needs to change. Under the new social contract, the state will be expected to provide a level playing field so that small and medium enterprises can grow and create jobs; so that teachers, doctors and other public services providers are accountable to students, patients and citizens; and where state assistance to lagging regions and the vulnerable is provided in a way that empowers affected citizens to take control of their lives.

B. Proposed WBG Country Partnership Framework

36. **The CPF embodies the WBG's new approach to development in Tunisia.** This new approach is based on the lessons of the revolution; the findings of Bank's analytical work, in particular on governance; and on broad-based consultations with citizens, including women, youth, and residents living in disadvantaged areas. It is characterized by:

- **Greater assessment of the political economy of reforms,** using existing and new analytical work to determine their feasibility, pace, and potential impact.
- **Greater focus** on lagging regions, especially on the youth and women residents of the lagging regions.
- **Increased focus on community engagement and inclusion of civil society organizations in consultations.**
- **Greater balance** between flexibility and reputational risk to ensure the Bank Group's credibility and the success of its interventions.
- **Continued joint IBRD-IFC-MIGA and Global Practices solutions that apply global knowledge, particularly in key sectors.**
- **Adaptation to the local context.** Understanding the political, cultural and social context within which interventions take place will be critical, especially in the post-revolution environment. The governance filter will be rolled out to ensure that new products are designed with an understanding of opportunities and risks in the local context and lead to Tunisia-specific solutions.

B1. Lessons from ISN Completion Report, IEG Evaluation, and Stakeholder Consultations

37. **The proposed Country Partnership Framework draws on lessons learned from past WBG engagements in Tunisia.** The lessons were drawn from the Completion and Learning Review (CLR, January 2016), which covered activities under the Country Partnership Strategy (CPS) for the period FY10-FY13 (No. 50223-TUN), and the Interim Strategy Note for the period FY12-14 (No. 67692-TN). The CLR proposes a number of lessons to consider in designing the CPF.

38. **In addition, the CPF is based on the Country Program Evaluation (CPE)**[14] carried out by the Independent Evaluation Group (IEG), which evaluated the Bank's activities in Tunisia from FY05-13.

39. **Of particular relevance for the proposed CPF, the IEG report discussed the Bank Group's lack of consistency in challenging the Government on governance issues in the pre-revolution period.** It criticized the Bank's tendency to overlook the effects of a system based on privileges, and its failure to perceive that its engagement may have contributed to perpetuating social and economic exclusion. Until 2010, Tunisia was heralded as a role model for other developing countries by the World Bank and the IMF, and the World Economic Forum repeatedly ranked Tunisia as the most competitive economy in Africa. In fact, the shortcomings of Tunisia's economic model were largely visible already prior to the revolution. While World Bank reports during this period regularly detailed the regulatory failures, barriers to entry, and privileges of the old system, these were often masked in bureaucratic language that did not get to the heart of what was clearly a system being strangled by its own corruption. In retrospect, the Bank has learned that, in its effort to remain engaged and help the poor, it can far too easily overlook the fact that its engagement might perpetuate the kinds of economic systems that keep poor people poor.

40. **The lesson that the Bank must emphasize,** for itself and its partners, the critical importance of the right to access to information, transparency, and accountability as part of a pro-poor development agenda, is reflected in the CPF.

Key lessons from both the CLR and the CPE include:

- The Bank Group should listen to the voices of citizens and reach out to a broad base of stakeholders, including trades unions, think tanks, entrepreneurs, civil society organizations, and parliament, to create a consensus and coalition for reform;
- It is important to continue to inform all stakeholders, including resistant vested interests, about the benefits and progress of reforms;
- Analytical work can play a critical role in facilitating discussions about difficult issues;
- The Bank Group should support the Government in building ownership for and rolling out the reform agenda, including through institutional capacity building as necessary[15] ;

[14] Independent Evaluation Group, *Tunisia Country Program Evaluation,* February 14, 2013. http://ieg.worldbank.org/Data/reports/chapters/tunisia_cpe_updated.pdf

[15] GOT has defined a communications strategy as part of the launch of the 2015 Note d'Orientation Stratégique.

- The Bank Group should emphasize to stakeholders that reforms take time and results need to be realistic and modest in a volatile political environment;

- The assistance program must be flexible to respond to emerging challenges;

- IFC should continue to implement its strong Integrity Due Diligence (IDD) and sponsor background checks in order to ensure that it is not engaging with Tunisian private sector groups that are politically connected;

- The Bank's support should focus on carefully sequenced first-order policy reforms, taking into account capacity and other constraints inherent in the transition period;

- The Bank Group plays an important role in mobilizing and coordinating donor support.

B2. Overarching Framework of the WBG Strategy for Tunisia

41. **Peace, economic recovery and stability are essential preconditions for ending poverty and boosting shared prosperity in Tunisia, and will inform all aspects of the WBG program.** Tunisia remains vulnerable to economic and security shocks, and the Government is under intense pressure to rebuild trust with its citizens. This CPF acknowledges that progress toward the WBG goals of reducing poverty and boosting shared prosperity cannot occur without stability. The CPF is anchored in the MENA Regional Strategy (Box 4), which takes as a point of departure the need to confront the underlying causes of conflict and violence, including exclusion and economic injustice, while seeking to mitigate their immediate consequences. The CPF's main premise is that Tunisia will not be able to transition into a higher value added economy and new development model unless fundamental changes are made to the current social contract with greater opportunities and citizen trust, inclusive and accountable service delivery with a vibrant private sector that creates jobs and opportunities for youth.

Box 4: The WBG MENA Strategy: Economic and Social Inclusion for Peace and Stability

The WBG's new MENA Strategy is centered on promoting peace and social stability in the region by responding to the underlying causes of conflict and violence with development interventions that foster inclusion and shared prosperity. The four pillars of the strategy are:

Renewing the social contract – to generate a new development model that is built on greater citizen trust; more effective protection of the poor and vulnerable; inclusive and accountable service delivery; and a stronger private sector that can create jobs and opportunities for MENA's youth;

-*Regional cooperation* – particularly around regional public goods and sectors such as education, water, and energy so as to foster greater trust and collaboration across MENA countries;

- *Resilience* – to refugee and migration shocks by promoting the welfare of refugees, internally displaced persons (IDPs), and host communities by focusing on building trust and building their assets; and

- *Reconstruction and recovery* – through a dynamic approach that brings in external partners, leverages large-scale financing, and moves beyond humanitarian response to longer-term development wherever and whenever conflict subsides.

The strategy relies heavily on deepening and expanding partnerships with national, regional, and global actors, especially the Islamic Development Bank.

The WBG will continue to expand its investment in the region, but the core focus will be on leveraging and mobilizing global resources to meet the extraordinary financing needs of the region through innovative mechanisms. The Bank's knowledge work, including its Reimbursable Advisory Services (RAS), will be of prime importance in informing and mobilizing support for the strategy, and will lead (rather than follow) the lending program.

The CPF is also aligned with the Sustainable Development Goals (SDGs) of ending poverty, fighting inequality and injustice, promoting human development; and with the United Nations Development Assistance Framework (UNDAF) for 2015-2019, which focuses on democratic governance, sustainable economic development, social protection, and the equality of all citizens.

42. **The CPF reflects the World Bank Group's commitment** to support the renewal of Tunisia's social contract (first pillar of the MENA Strategy) by building greater citizen trust, providing more effective protection of the poor and vulnerable, promoting inclusive and accountable service delivery, and supporting a stronger private sector that creates jobs and opportunities for all Tunisians.

43. **This CPF marks a strategic shift in WBG engagement.** While many areas of engagement in the CPF reflect continuity, implementing the new MENA strategy implies fundamental changes in both the means and ends of WBG engagement. Wherever possible, projects under implementation as well as new operations and analytical work under preparation will be adjusted to ensure closer alignment with the newly identified strategic priorities. The three pillars of the CPF are elaborated below.

Consultations

44. **Extensive consultations with citizens, business groups, and development partners helped to inform the design of the CPF.** Two phases of stakeholder consultations were held in Tunis and various Governorates, with participants from the private sector, academia, and civil society. The Bank also conducted online consultations through its website and engagement on social media (see Box 5). Discussions with development partners were held in October 2015 about the Bank's program and opportunities for collaboration.

Box 5: The CPF Consultation Process

The CPF process began in January 2014, with consultations between WBG country staff and representatives of the Government, parliament, and civil society. Consultations for the Systematic Country Diagnostic (SCD) were also held during this period, and fed into the formulation of the CPF. A web platform for the CPF/SCD consultations provided an interactive mechanism that was used to share the minutes of each consultation. Separate CPF consultations were also held with key stakeholders in leading and lagging governorates, including local and regional government representatives, political parties, youth groups, civil society, private sector representatives, and academics. The Bank also consulted with development partners participating in the framework, and with the United Nations Country Team.

As a result of these extensive consultations, the thematic orientations of the CPF have been aligned with concerns of Government and civil society. In particular, there was strong consensus on the need to address the most binding constraints identified in the SCD. These include the need to:

- Support Tunisia's democratic transition by accelerating the pace of economic reforms
- better coordinate WBG support to lagging regions
- increase civil society involvement in the economic debate with Government
- increase Government's accountability for delivering on the new social contract—specific mention was made of the *Conseil National de Dialogue Social*, newly created for this purpose

The consultations indicated that the population expects the WBG to bring international best practice to bear in addressing Tunisia's economic challenges, while also being cognizant of local political economy considerations. Solutions should be derived in consultation with local stakeholders and ensure that:

- the Bank Group's analytical work is more strategic than in the past, with simpler messages aimed at generating consensus among stakeholders on prerequisites, actions, and timing of reforms
- there are more intensive consultations with civil society on issues such as decentralization, public financial management and administrative reform, and the youth agenda
- the mechanisms and opportunities for consultation are more systematic
- the Bank Group strengthens its technical field presence.

B3. Objectives and Activities Supported by the WBG Program

45. **Tunisia's post-revolution transition is struggling to achieve the expected socio-economic outcomes, due to multi-dimensional governance, institutional and structural challenges.** The Bank will support the Government in addressing these challenges through a program consisting of three pillars. Pillar I focuses on strengthening economic and fiscal management; trade and competitiveness; and an improved business environment for private sector job creation, innovation and entrepreneurship. The initial aim will be to complete the economic reforms initiated under the previous strategy, while complementing these measures with concerted support (including from both IFC and MIGA) for private sector investment. Pillar II focuses on reducing disparities between coastal and lagging regions in terms of economic opportunities and living standards. Pillar III emphasizes social inclusion and targets WBG assistance to particularly vulnerable segments of society, with the aim of helping to build greater citizen trust and promoting skills development, transparency and accountability—all core elements of a renewed social contract.

46. **The CPF will be implemented through the existing portfolio and new operations. Governance is the first foundational theme of the SCD and CPF.** It will be applied throughout the WBG's program using an integrated approach aimed at: (i) consolidating the country's main institutions and its transition towards a more open and inclusive governance mode; (ii) adapting and modernizing its core public institutions and systems; as well as by (iii) improving the governance and performance of public services and programs at the national and local level. Gender is the second foundational theme, and will be addressed across the CPF, through: (i) gender focus for all new operations and analytical work; (ii) assessment of the gender impact of existing operations; and (iii) policy dialogue and awareness raising in line with the WBG gender strategy.

Pillar 1: Restoring an Environment Conducive to Sustainable Economic Growth and Private Sector-Led Job creation

47. **The WBG program will support: (**a) strengthened macroeconomic and fiscal management; (b) improved enabling environment for private sector competitiveness; and (c) fostering sound financial sector development.

Objective 1.1. Strengthened macroeconomic and fiscal management

48. **The WBG program will support the adaptation and modernization of key economic and fiscal policies and institutions** in order to promote more inclusive, private sector-led growth and increase the performance of public services and programs. Tunisia's key economic and fiscal institutions have been weakened by operating in a crisis management mode since the revolution and are subject to important changes induced by: (i) the new constitution mandating a more open and citizen centric management and increased decentralization; (ii) the new organic budget law introducing programmatic and performance based budget management; and (iii) pressing social and employment demands in the context of strong fiscal constraints and an increased digitalization and automation of public financial management systems. These changes require an important adaption of the functions, organization, human resource and systems of the Ministry of Finance for which WBG support has been sought. The oversight and corporate governance of SOEs needs strengthening, building on the Government's initial efforts and lessons learned with state-owned banks. If the political environment permits, the reform of these key economic and fiscal institutions

and SOEs would be a good opportunity to rethink the dual role of the State in the delivery of goods and services and as regulator. The Bank intends to support such reforms in a modular way, in close cooperation with its main development partners, through a mix of financial and technical assistance. This engagement will complement the Bank's support for strengthening the overall and sector governance frameworks to prevent elite capture.

49. **Ensuring macroeconomic stability and improving security following the 2015 terrorist attacks are prerequisites to improving investor confidence and furthering the development agenda.** In the context of the fiscal risks linked to increased Government spending on security, as well as economic and social development risks stemming from regional disparities, the Bank's assistance will help ensure macroeconomic stability, with the focus of this assistance adjusted throughout the CPF period to respond to evolving needs. The immediate areas of focus will be: (a) fiscal and macroeconomic risk analysis and identification of policy responses, including more proactive external debt management; (b) design of medium-term fiscal and macroeconomic scenarios; and (c) ongoing dialogue with authorities to promote policy reforms for sustainable, resilient and inclusive economic growth, including pension, public administration modernization, fiscal, social protection, labor market, and customs reforms.

50. **The proposed CPF program would include a Development Policy Financing (DPF) series aimed at supporting: (**a) the completion of key reforms initiated during the political transition and whose full implementation is essential for achieving the economic and social objectives of the new Government; and (b) the design and implementation of reforms in key areas likely to emerge in the Government's upcoming five-year plan for 2016-2020.

- **Completion of key reforms includes support for: (**a) adoption and implementation of the Investment Code, and Bankruptcy Law; and implementation of the Competition Law and the Organic Law on Access to Information; (b) restructuring and strategic partnership of three state-owned banks; and (c) key reforms in the ICT sector, with a view to improving access to and quality of ICT services.

- **Newly envisaged but central reforms include[16]:** (a) public administration modernization; decentralization, and public financial management (b) revision of the State's role in the economy (including SOE reform); (c) boosting productivity and entrepreneurship; (d) jump-starting development in lagging regions; (e) youth inclusion; and (f) tax reform.

51. **Finally, the CPF will aim to provide a stronger and more strategic framework for a regional approach to fragility,** which is impacting the Tunisian transition. Current analytical work that will inform the regional framework includes an assessment of the impact of the Libyan crisis on trade, service delivery, services, subsidized goods consumption, and remittances; as well as on financial flows in some sectors, particularly tourism.

Objective 1.2. Improved enabling environment for greater private sector competitiveness

52. **The WBG will advocate for modernizing and simplifying key laws and regulations that hinder private sector activity, with a view to leveling the playing field and reducing room**

[16] To include performance-based budgeting, review of organizational structure, systematic monitoring of investments through an upgraded management information system (MIS), and revised job descriptions.

for discretion. Fairness in the regulations and in the way they are applied is critical for the success of private sector-driven growth and inclusion. The WBG will support implementation of the Investment Code reform (pending parliamentary approval), with a view to establishing a more level playing field between firms operating in domestic markets and those that export. Exports will continue to be promoted by facilitating access to international markets, rather than through a continuation of privileged tax enclaves that distort the market. Also aligned with this objective of fostering private sector development, the WBG will help facilitate public-private partnerships (PPP) in sectors that enhance competitiveness, such as ICT, energy and water desalinization.

53. **In addition, to support Tunisia's new economic model,** which will be based in part on service and sector value chains, the WBG will address specific competitiveness constraints affecting the development of value chains with the highest growth potential. The policy changes necessary to move away from low growth and job creation will need to be accompanied by interventions that address market and government failures in specific value chains. The WBG will aim at generating consensus between the public and private sectors about the most binding constraints to productivity growth, and design interventions to connect individuals and enterprises to new jobs and business opportunities in value chains with high potential.

54. **International trade, value chain linkages, and regional cooperation will be supported through operations aimed at facilitating export development and technical assistance.** The WBG will continue to support international and regional (MENA-wide) integration through existing operations related to improving port efficiency, cargo transport, customs, export regulations, and the value-added tax (VAT) regime. Trade between Tunisia and Algeria will be supported through technical assistance aimed at trade facilitation and customs collaboration. Finally, the WBG will remain ready to support the negotiations for the Deep and Comprehensive Free Trade Agreement with the EU (ALECA).

55. **IFC stands ready to facilitate greater private investment and expand its footprint in Tunisia if clear steps are taken to increase private sector participation in the economy.** While multiple reforms to improve the investment climate were initiated over the last few years (several with WBG technical assistance), effectiveness and implementation progress have been delayed. Some areas of policy reform that the Government of Tunisia could implement with the Bank Group support in order to facilitate greater private sector investment include (a) approval and implementation of an Investment Code that improves market access for private investors by streamlining or eliminating authorization and reducing limitations on foreign participation in key economic activities; (b) implementation of a legal framework for public-private partnerships, and promotion of buy-in by stakeholders; (c) divestments of state-owned banks; and (d) rapid and effective implementation of the renewable energy and other energy legislation enabling the creation of independent power producers (IPPs).

56. **The WBG will support implementation of the Digital Tunisia national strategic plan, which seeks to accelerate the installation of ultra-fast broadband throughout Tunisia to improve the country's attractiveness for private sector investors.** With improved ultra-fast broadband access, the WBG will focus on policy reforms linking technical assistance with the ICT components of the upcoming development policy loans. IFC's recent investment in a regional operator (SAB *Méditerranée*), with operations in France, Tunisia and Lebanon, is the first engagement in the ICT space. IFC will explore opportunities to partner with investors and

operators to finance private sector components of Digital Tunisia, and will also explore direct and indirect investment opportunities focused on the roll-out and sharing of broadband and tower infrastructure, data centers, and early-stage technology-enabled venture capital investments. Through its ongoing advisory project, IFC will continue to support the ICT federation to improve youth employability in the sector.

57. **Finally, given Tunisia's long-term challenges in accessing gas for power production,** which impact its competitiveness, the WBG will support the Government with analytical work to better assess the situation and identify least-cost options for power generation. Possible financial support could be considered accordingly.

Objective 1.3. Fostered sound financial sector development

58. **The WBG will continue to pursue implementation of key reforms in Tunisia's financial sector to promote economic growth and employment creation.** Interventions will aim at building a diversified and inclusive financial sector through: (a) support to the Government in restructuring state-owned banks and developing partnerships, with a view to possibly facilitate a gradual transfer towards private sector management; (b) expanding access to financial services for MSMEs, with a focus on women and youth entrepreneurs; (c) strengthening selected components of the financial sector landscape (insurance, private equity, export finance, microfinance); (d) developing capital markets; and (e) improving financial infrastructure and the legal/regulatory framework (including debt management, credit reporting, secured lending, digital finance). The engagement will specifically target financial inclusion issues for disadvantaged groups (youth, women, lagging regions).

59. **WBG support for improving the competitiveness of the private and financial sectors will continue through high-impact advisory services and key IFC investments in value-added sectors.** WBG advisory services will be provided within the new integrated WBG Global Practices for Trade and Competitiveness (T&C) and Finance and Markets (F&M), and will focus on improving sector competitiveness, as well as on legal and regulatory frameworks for secured transactions and business exits. In addition, as market opportunities arise, IFC will continue its investments in trade finance, microfinance, SME banking, SME equity funds, specialized debt restructuring institutions, financial inclusion and financial technology-related investments. More specifically, IFC will continue to support the microfinance institutions to enhance their outreach to underserved segments of the population and help them cope with a changing market environment, socio-economic and regulatory conditions, and new technologies. IFC will also seek to support the transformation of microfinance organizations into more financially viable financial institutions, as well as provide advisory services for establishing green field microfinance institutions to encourage new entrants into the microfinance sector. Finally, IFC will look to support banks in the area of non-performing loan (NPL) management, and to introduce new products such as Sustainable Energy Financing, drawing on regional expertise in this area to support climate-friendly lending by the financial sector.

Pillar II: Reducing Regional Disparities

60. **The WBG will help to further the Government of Tunisia's goal of reducing the gap** in economic opportunities and living standards across regions through a package of analytical and financial support aimed at leveraging, consolidating and expanding its already existing

engagement in this area. The CPF program will pursue two complementary objectives in lagging regions of (a) improving access to and quality of services, and (b) enhancing economic opportunities.

Objective 2.1. Improved access to and quality of services in lagging regions

- **The WBG will assist the Government** in addressing the urgent need to improve access to and quality of services, in both the disadvantaged neighborhoods of Tunisia's rapidly growing cities and the country's deprived rural areas. This assistance will include:

- **Strengthening decentralized service delivery** by (a) establishing a system of performance-based fiscal transfers to local governments; (b) strengthening the back-office functions of local governments to improve their ability to deliver local services and infrastructure; (c) developing tools and platforms for citizens to participate in prioritization and monitoring of local service delivery investment, management, operation and maintenance; and (d) encouraging women's participation in municipal councils.

- **Maximizing the impact of existing programs that address service delivery in lagging regions** by (a) identifying coordinated delivery mechanisms based on lessons from successful on-going operations in country; and (b) creating synergies in monitoring and reporting aligned with the ongoing Government program of decentralization and local development.

- **Increasing private sector participation in basic service delivery.** IFC will continue to focus on infrastructure financing through both PPP advisory services and investments, building on its support to the national sanitation utility. It will also actively seek investment opportunities with regional players such as the ICT firm SAB Méditerranée. MIGA will seek to scale up its guarantee support to foreign investors/lenders, and IBRD will work on the business enabling environment for private investment. IBRD will consider renewing its water sector engagement through an FY18 operation subject to satisfactory performance of the on-going operation in the sector. The upcoming water operation would strengthen the institutional framework including financial sustainability of rural water and sanitation utilities to help address the growing threats of water insecurity in a context of climate change and growing demands. IFC stands ready to support the Government in bringing private investment into key sectors such as power (including renewables), water, and transport (including economically viable ports and logistics centers), drawing on its experience in other parts of the MENA region where successful PPP transactions have taken place. The implementation of a new legal framework for private renewable energy projects (beyond self-production schemes), combined with STEG's willingness to support such projects, and/or the revival of IPPs by STEG, would provide significant opportunities for IFC-supported private investments in this area.

Objective 2.2. Enhanced economic opportunities in lagging regions

61. **Realizing the economic potential of disadvantaged regions depends on the** development of their comparative advantages, leveraging agglomeration dynamics, and reducing the constraints imposed by distortive pre-revolution policies. To bridge the widening gap between

coastal and lagging regions, (in addition to the current $578 million of financial commitments for lagging regions), the WBG will provide financial and technical support towards:

- **Strengthening value chains in growth sectors such as agribusiness,** eco-tourism, agro-forestry. With the majority of lagging rural area jobs in agriculture, the Bank will provide advisory and financial services aimed at improving agricultural productivity through enhanced farming approaches and the creation and strengthening of value chains. In addition to agribusiness, support will focus on natural asset-based sectors such as agro-forestry—a key sector contributing more than 50 percent of revenues to poor rural households. Additionally, the Bank will support the Government's efforts to accelerate the growth of regional clusters of firms, such as fisheries in Bizerte and Tabarka.

- **Increasing the productivity of scarce water resources in terms of job creation and growth through improvements in irrigated agriculture.** Irrigation utilizes approximately 80 percent of Tunisia's water resources but is in need of modernization of technologies, institutions and policies in order to realize its potential as a key driver of better overall management of both surface and groundwater resources (including reuse of treated wastewater), more accountable and financially sustainable service delivery approaches, as well as diversification of agriculture towards higher value production which can serve as the basis of job creation and exports.

- **Improving connectivity and logistics infrastructure, to enable lagging areas to benefit from agglomeration dynamics in leading urban centers.** In transport, activities under this pillar will focus on: (a) improving road network infrastructure, to reduce transport costs and mitigate delays; (b) strengthening the institutional capacity of road and urban transport institutions for planning, managing and maintaining transport assets and services; and (c) improving road safety.

- **Devising and implementing a more integrated approach to regional development and climate change.** The WBG will support the Government's efforts to operationalize the components pertaining to lagging regions defined in its *Note d'Orientation Stratégique*, including through (a) promotion of spatially blind policies in areas such as agriculture, investment regulations and subsidy reform, where past policies have increased the welfare and growth gaps between lagging and leading areas by introducing distortions in consumption and economic opportunities; (b) development of territorial planning approaches aligned with Tunisia's plans to decentralize economic decision making and investment planning to local governments using to an extent possible participatory development approaches; and (c) climate change. The technical assistance and analytical work to be carried out during the first part of the CPF will be oriented toward developing an integrated programmatic approach in selected regions, to be piloted in the outer years of the CPF.

Box 6: Contributing to addressing Climate Change Challenges

Bank Support to Tunisia's Mitigation Agenda:

In its Intended Nationally Determined Contribution (INDC) which Tunisia presented at COP21 contribution, Tunisia proposes reducing its greenhouse gas emissions across all sectors (energy; industrial processes; agriculture, forestry and other land use; waste) in order to lower its carbon intensity by 41 per cent in 2030, relative to the base year 2010. Mitigation efforts will particularly center on the energy sector which will reduce its carbon intensity in 2030 by 46 per cent compared with 2010 by promoting efficiency measures which should allow primary energy demand to decrease by some 30 per cent by 2030 compared to the baseline. The INDC aims to intensify the CO2 absorption capacities of forestry and arboriculture by stepping up reforestation and by consolidating and increasing carbon reserves in forest and pastoral environments. The carbon footprint for agriculture will also be improved by using practices that generate fewer emissions, such as optimizing the diets of domestic animals, promoting biological agriculture or conservation oriented agricultural practices.

In terms of energy efficiency, the Bank is supporting analytical work on future energy mix taking into account that domestic production of gas, which fuels the large share of electricity, will sharply decline after 2020. Ongoing programs in lagging regions (Fourth Northwest Development Project and Natural Resources Project) as well as the planned Lagging Regions Operation (FY18) include measures to support reforestation, improved land management and introduction of practices such as conservation tillage. An ongoing project (Northern Tunis Project) and a joint IBRD-IFC initiative to support PPPs for extension of sanitation services will improve the management of wastewaters and reduce the energy footprint of the provision of water services.

Bank Support to Tunisia's Adaptation Agenda:

In terms of adaptation, the INDC highlights Tunisia's vulnerability to the global warming anticipated in the region and the corresponding implications of major increases in temperature, reduced precipitation and rising sea levels. The socio-economic and environmental impact will particularly affect water resources, agriculture, natural and artificial ecosystems, the coastline, health and tourism. With some 385 m3 of renewable blue water resources available per year and per capita, Tunisia is already experiencing extreme water scarcity which threatens to constrain future growth, employment and poverty reduction. This situation is expected to be exacerbated by climate change over the coming years, with the decrease in conventional water resources estimated at about 28 per cent by 2030. The decline in surface waters would be approaching 5 per cent by the same year with further freshwater reductions resulting from the salinization of coastal aquifers due to sea level rise.

The Bank's program directly supports Tunisia's adaptation priorities. Ongoing analytical work on agricultural sector and El Nino impacts in Tunisia are assessing options for farm level climate resiliency, and the existing and planned projects in the lagging areas of Tunisia are introducing improved water management techniques. In terms of irrigation, a PPIAF grant and planned FY18 project will support improvement of the efficiency and productivity of irrigation management and climate smart agricultural practices through private and public sector approaches in a context of more rationale overall water allocation and recycling of "wastewater". In terms of water security for Tunisia's growing cities, ongoing (Tunis Water Supply) and planned programs (FY18) will help strengthen more sustainable, integrated approaches to water security in Tunisia's cities through institutional reforms combined with demand management and supply augmentation from conventional and non-conventional sources.

62. **The projects supporting the Lagging Regions agenda are shown in Table 3.** They constitute an integral part of Government's on-going response to address regional social tensions.

Table 3: Ongoing IBRD Loans Supporting the Government's Lagging Regions Agenda

IBRD Projects	Net Commitments US$ Millions	Closing Date	Program Focus
ONGOING PROGRAMS FOR PILLAR II: REDUCING REGIONAL DISPARITIES			
Second Natural Resources Management (IPF)	36	12/31/2016	The project aims at improving access to basic infrastructure and means of production in lagging regions; and improving management of natural resources, using a participatory approach.
Fourth NW Mountain & Forest Area Development (IPF)	42	06/30/2017	The project aims at improving the socio-economic conditions of the rural population and promoting better protection and management of natural resources.
Urban Dev. and Local Governance (P4R)	300	12/31/2019	The overarching goal of this project is to help the Government implement the decentralized service delivery aspect of the new constitution. It aims at strengthening local governments' performance in delivering municipal infrastructure, and improving access to services in targeted disadvantaged neighborhoods.
Road Transport Corridors (also listed under FY16 Pipeline) (IPF)	200	12/31/2020	The operation will help reduce transportation cost and time and improve road safety by rehabilitating selected road corridors between lagging regions and more developed areas.
Total	578		

***Note*: IPF=Investment Project Financing; P4R=Program for Results**

Pillar III: Promoting Increased Social Inclusion

63. **Overarching Objectives: The WBG will continue broad engagement with all stakeholders, and will support:** (a) increased citizen involvement, particularly of young men and women, in public affairs and development activities; (b) increased opportunities for young people; and (c) improved coverage of social programs to reduce inequality of opportunities and vulnerability for groups at risk.

Objective 3.1. Promoted participation, transparency and accountability

64. **Tunisia is becoming the frontrunner in the MENA region in fiscal transparency**. A new online portal launched recently in coordination with the WBG, called *Mizaniatouna* ("Our Budget") is making it easier for Tunisians to scrutinize government spending. The portal is a single point of entry for all financial information generated by the Tunisian Government since 2008 and helps citizens understand where their government's money goes, how it is spent, the evolution of the budget deficit and public debt, and what public subsidies actually cost.

65. **The WBG will support the Government's continued progress toward transparency and increased civil society involvement in public affairs through** (a) implementation of the Government's Open Government commitments and policies; and (b) its engagements with a broader stakeholder base:

- **Implementing Tunisia's Open Government commitments and policies.** The WBG will continue its support to the Government's efforts to promote fiscal transparency, citizens' access to information, and public and private sector consultation and participation, with the aim of strengthening voice and accountability.

- **Engaging with a broader stakeholder base. The WBG will participate in various civil society organization platforms.** The National Council for Social Dialogue created in December 2015—consists of representatives from government ministries, trade unions, as well as the employers' Union of Industry, Trade and Handicrafts (UTICA). As this National Council for Social Dialogue becomes more organized, the Bank will use it as a consultation mechanism to ensure that differing views are taken into consideration as Government implements more "state of the art" labor market, pensions, social protection and subsidy reforms. The WBG will also seek opportunities for youth to engage constructively and actively in the design, implementation, monitoring and evaluation of investment projects.

Objective 3.2. Increased opportunities for young men and women

66. **The WBG will promote increased opportunities for youth through:** (a) technical and financial support to improve the quality of education outcomes and employability of graduates; (b) interventions to improve the entrepreneurship ecosystem; (c) support for the Government's efforts to design and implement a comprehensive approach to youth inclusion; and (d) support for youth-driven development as a way to foster inclusion and build trust in public institutions.

- **Job creation and improving the quality of education outcomes and employability of graduates.** Despite slight improvement, the overall quality of education remains relatively low, particularly in lagging regions. Within the framework of the WBG-Islamic Development Bank (IsDB) regional Education for Competitiveness Program (E4C), the WBG will participate in the ongoing dialogue on pre-tertiary education reform and provide financial support, through the General Education and Skills Project (FY18), to improve the quality, relevance and governance of education, and create foundations for better links between education and employers' needs. This program will be coordinated closely with that of improving private sector competitiveness. Support to tertiary education will focus on improving the employability of graduates through scale-up of the successful competitive grant funding initiated under PARES 2. The Tertiary Education and Employability Project (TEEP) will aim at (a) enhancing university graduates' hard and soft skills to make them more employable in current and future job markets, through partnerships with private sector and employers; (b) supporting degree programs in high-demand areas such as languages, computer aptitude, innovation, and self-employment opportunities; (c) improving student services; and (d) providing specific support to young universities in lagging regions. IFC will continue to support the ICT federation to improve youth employability in the sector. IFC will also continue to support early-stage ICT-enabled innovative ventures through direct and indirect venture capital investments and training programs.

- **Improving the entrepreneurship ecosystem.** The focus under this area will be four-pronged: (a) guide the education system toward innovation and entrepreneurship (see Objective 1.2); (b) provide training and support on soft and business skills and

entrepreneurship to youth and women, including in lagging areas; (c) help the Government become more responsive to innovative and entrepreneurial employees; (d) facilitate innovation in key clusters with economic potential. The WBG will also seek to mobilize funds to support entrepreneurship by encouraging the development and commercialization of innovative ideas (via business plan competitions and seed/early stage grants); and by supporting the different players in the entrepreneurship ecosystem. Both the WB and IFC will work closely with financial institutions through lending and advisory services to promote MSME finance. These interventions will specifically target unemployed youth by providing them with market-relevant skills and opportunities to engage in entrepreneurial activities.

- **Supporting the Government's efforts to design and implement a comprehensive approach to productive youth inclusion,** based on the findings and recommendations of Bank 2014 analytical work Tunisia: Breaking the Barriers to Youth Inclusion. The WBG will work with the Government and consult with civil society to identify the most vulnerable segments of youth and priority disadvantaged areas to be covered by a national program for economic inclusion. This program aims to build on existing community driven development types of government programs.

- **Supporting youth-driven development as a way to foster inclusion and build trust in public institutions.** The Bank will support measures such as youth-led community development initiatives and youth-friendly services, with youth engagement in outreach and service delivery, peer to peer mentoring, and virtual access to youth inclusion services. In communities where youth are concerned about security and law enforcement, local initiatives will engage youth groups in dialogue with local institutions with respect to protection of rights, access to legal services, and initiatives to counter radicalization and violent extremism. The Bank will also support the establishment of a Youth Forum, through which youth can engage on a variety of issues and express their views on how to design the best responses to their various concerns.

Objective 3.3. Improved and more equitable social programs

67. **The pre-revolution social contract was unable to protect the poorest and most vulnerable, or to ensure equal opportunities to all Tunisians.** Considerable disparities in poverty rates still persist across regions, urban and rural areas, and age groups, and inequality of opportunity is significant in health and education. In addition to addressing these gaps with the programs on investing lagging regions and private sector competitiveness, the WBG will support the transition towards more effective, efficient and equitable social safety nets through:

- **Policy dialogue and support to the Government in addressing the short-term challenges of the deterioration of economic and social indicators and possible subsidies reform.** The WBG will continue to support the Government's efforts to (a) develop better targeted, more responsive safety nets with greater coverage; (b) enhance the coverage and sustainability of the pension system; and (c) address inequality of opportunities in access to basic education and health services, particularly in lagging regions.

- **Technical and financial support to the longer-term agenda, as the Government strives to lay the foundations for more effective, efficient and equitable social sectors.** The WBG will support efforts in four core areas—safety nets, human capital, social security, and pensions—through the Human Development DPL planned for FY18: (a) to reduce the fragmentation of safety nets and make the system more efficient and coherent, a renewed targeting system based on a robust social registry, including the development of a common social identifier, will be used for all social protection programs; (b) human capital development will be supported through education and health strategies and programs aimed at ensuring equal access to quality services (including early childhood education), and through improved governance and accountability mechanisms as part of the new social contract; (c) pensions and social security, including old age security, will be improved and made more sustainable through pension and health insurance reforms.

68. **The details of the proposed CPF** lending program and advisory services and analytics (ASA) are shown in Tables 4 and 5.

Table 4. World Bank Indicative Lending Program FY16-18

Proposed Programs	US$ Millions	FY	Program Focus
PILLAR I: RESTORING AN ENVIRONMENT CONDUCIVE TO SUSTAINABLE ECONOMIC GROWTH AND PRIVATE SECTOR LED JOB CREATION			
Governance, Opportunities and Jobs DPL	500	FY16	The program will support continued implementation of ongoing economic reforms to ensure these reforms yield maximum impact and boost investor confidence. Other reforms are in the areas of public financial sector, ICT, inclusive and accountable social services and increased accountability of public governance.
Development Policy Loan	500	FY17	The series of operations will support policy and institutional actions related to implementation of the new Investment Code, tax reform, and public-private partnerships. *To be prepared in collaboration with IFC work on investment climate and PPP agendas.*
State-Owned Bank Restructuring P4R	250	FY17	The operation will support Government's efforts to address the weak regulatory regime and poor corporate governance standards of state-owned banks (*in coordination with the IFC*). The operation may also support financial inclusion activities.
PILLAR II: REDUCING REGIONAL DISPARITIES			
Road Transport Corridors	200	FY16	The operation will help reduce transportation cost and time and improve road safety by rehabilitating selected road corridors between lagging regions and more developed areas.
Forestry and eco-systems	100	FY17	This operation aims to develop forest and rangeland value chain products and promote integrated landscape management.
Water Sector Operation	150	FY18	To improve water services for the most vulnerable in lagging regions. The operation will include policy pre-requisites to help SONEDE move towards financial sustainability.
Irrigation Sector Operation	150	FY18	This project aims to improve water security and productivity through enhanced management of surface and groundwater irrigation and more responsive service delivery in support of agricultural value added and employment.

Proposed Programs	US$ Millions	FY	Program Focus
PILLAR III: PROMOTING INCREASED SOCIAL INCLUSION			
Youth Productive Inclusion Project	60	FY17	The operation will support economic inclusion of the most vulnerable segments of youth and priority geographical areas (lagging regions and disadvantaged suburban areas).
Development Policy Loan	500	FY18	In addition to supporting critical macro-economic reforms, this operation will focus on making the social protection system more efficient and coherent, and improving pension and social security systems.
Tertiary Education and Employability Project	70	FY16	The operation aims at enhancing university graduates' hard and soft skills to meet the needs of the job market, through partnerships with private sector firms. It will support degree programs with strengthened skills in areas such as languages, computer aptitude, innovation, and self-employment capabilities; better student services; and specific support to young universities in lagging regions. *To be prepared in collaboration with IFC.*
General Education and Skills	100	FY18	The Bank's engagement will support the Government's efforts to improve to the overall quality of education services, to improve learning outcomes and develop more relevant skills, especially among the least-advantaged populations.
Total	$2.6 billion		

Note: For well-performing projects which are aligned with the CPF, the Bank may also provide additional financing; e.g., a US$25 million operation is planned to support Tunis wastewater management.

Table 5: WBG Proposed Advisory and Analytics, FY16-FY18

Proposed ASA	FY	ASA Focus
PILLAR I: RESTORING AN ENVIRONMENT CONDUCIVE TO SUSTAINABLE ECONOMIC GROWTH AND JOB CREATION		
Public Expenditure Review	FY17	Analysis of expenditures in the health, education, and social protection sectors in the context of service delivery decentralization.
Country Gender Assessment	FY18	Follow-up on Gender WDR and explore options to apply new WBG Gender Strategy to Tunisian political economy context.
Public Administration Modernization	FY18	Advice for modernization, including revised job descriptions and rationalized deployment of civil servants.
Libyan Crisis Impact Assessment	FY16	Assess impact of the crisis on trade, service delivery, services and subsidized goods consumption; as well as, in some sectors, particularly tourism, on financial flows and remittances.
Investment Climate Assessment	FY17/FY18	Evaluate the business environment, benchmark its quality across countries in the region, identify key constraints to increasing firm productivity, and identify policies to alleviate obstacles.
Support for implementation of Digital Tunisia	FY18	Provide technical assistance for ICT sector reforms, support implementation of Digital Tunisia through the MENA Transition Fund and support donor collaboration on ICT.
PILLAR II: REDUCING REGIONAL DISPARITIES		
Agriculture Assessment	FY17	Modernize the agriculture sector and stimulate jobs in lagging regions.
Lagging Regions Study	FY17	Help identify innovative approaches for service delivery in lagging regions.
Road Maintenance Study	FY17	Study to assess the road maintenance needs.

Proposed ASA	FY	ASA Focus
PILLAR III: PROMOTING INCREASED SOCIAL INCLUSION		
Poverty/WASH Diagnostic	FY16	Country Poverty Diagnostic for Water, Sanitation and Hygiene (WASH) services to the poorest 40 percent of citizens.
Education Study	FY17	Assessment of quality of primary and secondary education. Assessment of current challenges to early childhood education.

B4. Foundational Themes

69. **Expected Outcomes:** Under the foundational themes of governance and gender, the WBG expects to: (a) strengthen key public institutions of economic management; (b) support the decentralization agenda; (c) improve men's and women's access to public information; (d) increase men's and women's participation in service delivery; and (e) promote gender goals related to women's participation in the labor force and economic empowerment.

70. **Governance is a foundational issue and will be addressed in a holistic and integrated manner across the CPF, in line with the Government's *Note d'Orientation Stratégique* and the recommendations of the Systematic Country Diagnostic.** Building on Tunisia's achievements since the revolution, the Bank aims to support the Government's efforts to deliver on the promises of the constitution and social contract through: (a) consolidation of the country's overall post-revolution transition and new governance framework; (b) strengthening of its core public sector institutions and systems; and (c) improved access to and quality of core public services. The multi-dimensional nature of Tunisia's governance challenges calls for a holistic and integrated approach across pillars and sectors, while focusing on binding constraints and maximizing opportunities and synergies.

71. **At the macro level, the Bank will support the consolidation of Tunisia's systems by supporting open government policies and fostering transparency, accountability and participation, thereby creating an enabling environment for good governance and more inclusive, private sector-led development.** The Bank will also support the strengthening of core institutions and systems needed to create healthy checks and balances, such as the parliament, local governments and CSOs as well as cross-cutting policies fostering transparency and accountability such as access to information, public consultation, and petition policies. This will be done in Pillar III and contribute to objective 3.1 aimed at promoting participation, transparency, and accountability. At the meso level, the Bank will support improved governance and efficiency of core public sector institutions and cross-cutting public sector management systems that affect all public programs and services, particularly in the areas of public investment and financial management, administrative simplification and public administration modernization, and corporate governance of SOEs and state-owned agencies. This will be done in Pillar I and will contribute to Objective 1.1 aimed at strengthening macroeconomic and fiscal management. At the sector level, the Bank will build on these cross-cutting reform levers to help alleviate governance challenges and constraints within sectors and core social services, which particularly affect the poor and vulnerable. Further, the Bank will help identify and alleviate sector-specific constraints along the service delivery chain, with special attention to the providers of select priority public services. The insights on service delivery constraints and opportunities (positive deviance) gained both through the Bank's sectoral and fiduciary engagement will feed back into the implementation of the governance reforms at the macro and meso levels, using an adaptive and iterative approach.

72. **The Bank will also support Government's priority of a multi-dimensional approach to fighting corruption. This approach will include:** (a) increased transparency and checks and balances in procurement and other public transactions, to reduce opportunities for discretion and corruption; (b) strengthening the institutions dealing with corruption and fostering an anti-corruption chain, including the police and inspection agencies, the Anti-Corruption Commission, and the judiciary; and (c) empowering and protecting whistleblowers while creating a mechanism to receive confidential complaints from citizens and firms. This will be done by strengthening systems and institutions most prone to corruption and capture both at the central and local levels. For example, the Bank's support to reforms in areas such as customs, modernization of MOF, strengthened local governance systems, governance of SOEs and public banks are opportunities to support Government's anti-corruption efforts.

73. **A governance filter will be put in place to ensure that governance awareness are mainstreamed in the core business of the WBG as foundational themes.** This means that institutions and incentives are factored into WBG thinking throughout project design and implementation, with a view to enhancing development effectiveness. The WBG will use innovative instruments to strike the right balance between technical desirability and political feasibility. The proposed governance filter will probe key factors of the Tunisian context likely to have an impact on the effectiveness of operations. Existing and pipeline operations will make use of the ongoing governance reform levers; for instance, on transparency and access to information, public consultation, SOE governance, and public financial management and procurement. This approach (currently being applied to the financial sector operation), will help to maximize synergies, better align incentives, and strengthen the sustainability and development outcomes of the WBG program.

74. **The gender dimension of the CPF will be applied through:** (a) a continual gender focus for all ongoing and new operations and ASAs, including the collection and use of gender-disaggregated performance indicators to assess project outcomes; (b) continuing dialogue on implementation of WDR2012 recommendations, and of the World Bank Group Gender Strategy FY16-23 recommendations applicable to Tunisia; (c) raising awareness of the economic and social benefits of greater gender inclusion; and (d) review of the portfolio to assess the gender equality impact of existing WBG operations, whether they could be strengthened, and whether new operations are needed. Support for youth employment will focus on the constraints young women face in accessing the labor market. The gender focus will also include the planned interventions in higher education and ICT; in business/entrepreneurial skills development; and in regional and inclusion programs. The financial sector program will include components that increase women entrepreneurs' access to financial services for MSMEs, and that help close the gap between women's and men's access to financial services. Support for decentralization, including to infrastructure interventions in lagging regions, will contribute to improving women's mobility, health, and access to services (e.g., water, sanitation), that can reduce the burden of their work in the home.

75. **Going forward, the WBG's gender interventions will focus on** (a) removing the constraints to female labor force participation, and increasing the quantity and quality of jobs (including entrepreneurship) for women; (b) increasing women's ability to access and own productive assets, such as land, natural assets and property, as well as their access to financial services; and (c) increasing access to services (e.g., education and training) that will improve

human endowments, with a focus on women in lagging regions. The WBG program will ensure that women's voices can be heard and shape public policy related to local government decision-making and the design and implementation of social accountability mechanisms. The WBG will also look for opportunities to reduce gender-based violence, e.g., through safer transport planning and design, in complementarity with other partners. The WBG's efforts will be aligned with and benefit from the strong presence in this area of UN agencies and other development partners.

VIII. IMPLEMENTING THE COUNTRY PARTNERSHIP FRAMEWORK

A. Proposed Program and Financing Resources

76. **The CPF embodies a new approach to development in Tunisia, based on the lessons of the revolution**; the findings of Bank's analytical work, in particular on governance; and on broad-based consultations with citizens, including women, youth, and people living in disadvantaged areas.

77. **The proposed program acknowledges the uncertainty of the political and economic environment and is therefore defined only for the first three years.** The program builds extensively on the existing portfolio; some projects will be restructured to better align with Government's *Note d'Orientation Stratégique* objectives to support lagging regions and the lagging regions task force recommendations regarding the analytical underpinnings and linkages of the existing portfolio. Given the need for flexibility, the selectivity will be revisited during the Performance and Learning Reviews to ensure that it remains relevant and useful in determining the outer years of the CPF program.

78. **Country demand for borrowing from the Bank (IBRD) during the CPF period is estimated at up to US$5 billion.** IFC financing to support the private sector can reach up to US$100 million a year, assuming that improvements in the investment climate generate increased investor interest[17]. The Bank's FY16, FY17 and FY18 indicative pipelines are estimated at about US$770 million, US$910 million and US$900 million, respectively (see table 4 for a detailed breakdown). Actual lending volumes for FY16-FY18 as well as future lending volumes for FY19-FY20 will depend on the country's performance, improvements in the investment climate and investor sentiment, IBRD's lending capacity, demand by other IBRD borrowers, and global economic developments. In the outer years of the CPF, it is expected that a higher portion of lending will be provided in the form of Program-for-Results financing (i.e., if targeted results are achieved) to address critical reforms, institutional capacity building, and focus on results.

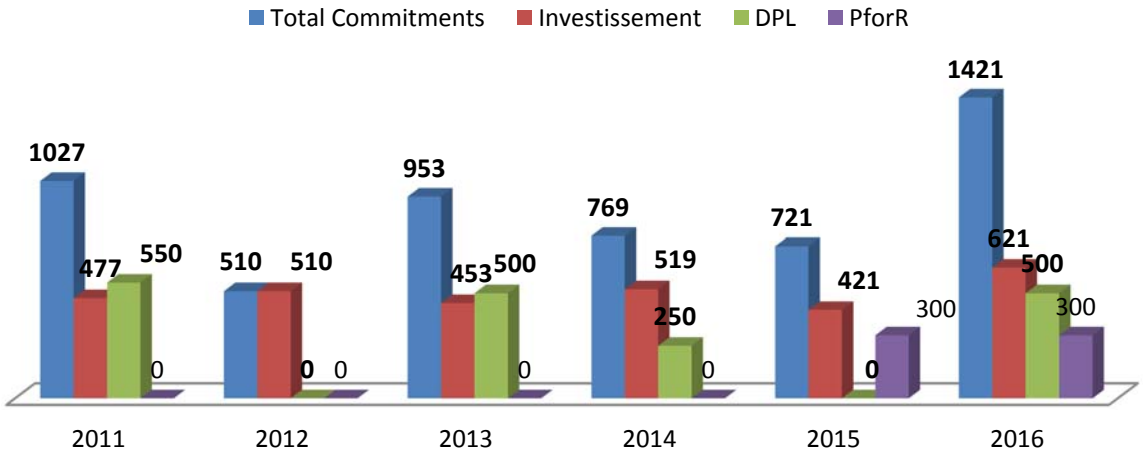
B. Portfolio Management

79. **IBRD's current Tunisia portfolio is composed of ten IBRD projects totaling US$1.5 billion (figure 1).** The portfolio includes a Development Policy Loan approved in October 2015 (US$500 million), a Program for Results (P4R) operation supporting municipal services, approved in

[17] Improvements include: (i) parliamentary approval of an Investment Code that improves market access for private investors by streamlining or eliminating authorization and reducing limitations on foreign participation of key economic activities; (ii) implementation of a legal framework for public-private partnerships and promotion of buy-in from stakeholders; (iii) divestments of state owned banks; and (iv) rapid and effective implementation of the renewable energy legislation enabling the creation of independent power producers (IPPs).

July 2014 (US$300 million); and eight investment operations totaling US$621 million. In addition, the portfolio includes ten grants, representing commitments of US$46 million. Between 2011 and 2015, the Bank carried out high-quality analytical work in many sectors and provided technical assistance using Bank budget and trust fund resources. Major reports included a 2013 Development Policy Review (The Unfinished Revolution: Bringing Opportunity, Good Jobs and Shared Prosperity), a 2012 study on the status of the informal economy (Estimating Informal Trade across Tunisia's Land Borders), and a 2014 report on elite capture (All in the Family: State Capture in Tunisia). Many trust funds were mobilized to support areas where the Bank is engaged; improve capacity building; and pilot innovative approaches for youth, social services and natural resource management. The Tunisia program currently benefits from 57 active trust funds (both Bank and recipient executed) totaling US$60 million, of which around US$25 million (43 percent) remains undisbursed.

Figure 1: Total Commitments (US millions) end FY11-FY16



Note: FY16 reflects situation as of end-January 2016.

80. **IFC's advisory support in Tunisia began after the revolution and have been closely coordinated with the Bank, especially in the area of investment climate reforms and access to finance for MSMEs.** IFC is implementing the Education for Employment (E4E) Initiative which includes partnerships with public and private universities, business associations, and training institutes that contribute to enhancing youth competencies and employability in growing sectors such as ICT.

81. **Since 2011, IFC has also ramped up its investment services in Tunisia with a strategy of restoring investor confidence and facilitating private sector-led growth and job creation.** IFC has invested or committed more in the five years since the revolution than in the ten years before. IFC's total committed portfolio is around US$300 million, including US$124 million mobilized from other investors. IFC has disbursed 97 percent of its commitments following the revolution. The portfolio is diverse, with nine investment clients across key sectors including transportation (airport), SME banking, SME equity funds, microfinance, automotive industry, oil and gas, agribusiness, and health care. In FY15, four new transactions were committed (two regional private equity funds, a regional ICT company, and a Tunisian agribusiness company) and the pipeline for FY16 includes three new investments, in microfinance, banking and agribusiness.

82. **MIGA's portfolio in Tunisia is the third largest in MENA,** with a gross exposure of US$101 million as of March 2016, from one active guarantee in the transport sector. MIGA also supports US$5 million of outbound investment from Tunisia. MIGA's consistent support to foreign investors at a time when the political risk insurance industry's capacity for Tunisia was constrained, contributed to sending a strong signal that MIGA is open for business in the country.

C. Portfolio Performance

83. **The 2011 revolution had a direct impact on portfolio performance,** resulting in slow disbursements and delayed project implementation. The portfolio is currently 45 percent undisbursed (Table 6 below).

84. **A Country Portfolio Performance Review (CPPR) carried out in 2013 identified two broad areas needing close oversight: (**a) project management and efficiency of the project implementation units (PIUs), and (b) fiduciary issues, including procurement and financial management. An action plan was prepared, which included measures to provide adequate fiduciary staff fully dedicated to projects, fiduciary specialists in supervision mission discussions, as well as adequate training of PIU staff on Bank fiduciary procedures. The Bank also established a virtual implementation platform for the various PIU staff to share best practices and troubleshoot on common fiduciary issues. In addition, a joint WBG-Government "deep dive" exercise was recently completed. The deep dive identified the following impediments to effective project implementation as follows: (i) inadequate project preparation delaying implementation; (ii) limited training and capacity building; (iii) limited fiduciary staff in country office; (iv) procurement delays; and (v) limited institutional effectiveness.

85. IFC's Tunisian portfolio has been under stress over the last few years, especially given security incidents in 2015-2016 and their impact on tourism. Of particular concern is the non-performance of a large equity and loan investment in the TAV airport project, which currently accounts for around two-thirds of IFC's total portfolio in the country. IFC and private investors in the project have been in active negotiations with the Government on reaching a resolution satisfactory to all parties and avoiding TAV's insolvency. TAV investors have been impressing upon the Government the importance of avoiding TAV's insolvency in order to send a positive signal to international investors regarding Tunisia's commitment to supporting private investments.

Table 6: Portfolio Summary

Fiscal Year	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**
Active projects (#)	17	17	17	17	16	20	20	**20**
Annual lending commitments ($m)	371	88	592	50	500	427	300	**700**
Net commitments ($m)	865	864	1,016	546	492	820	1,119	**1,467**
Undisbursed balances ($m)	602	471	829	346	273	615	643	**654**
Disbursements in FY ($m)	56	206	65	30	67	37	268	**117**
Disbursements ratio (%)	16.6	23.6	18.5	9.2	19.7	15.1	12.5	18.3

Note: Number of projects, disbursements and commitments include small RETFs <$5m, all other indicators exclude small recipient executed trust funds. *As of end-January 2016

86. **Moving forward, and building on lessons from ongoing and closed projects, a number of actions will be taken to ensure strong implementation and oversight of the CPF.** From a strategy perspective, since CPF results would be measured mainly through on-going operations the "deep dive" exercise mentioned above explored options for restructuring, consolidating, closing existing projects. This would help ensure better alignment and contribution to the CPF results framework. Specifically, under Pillar II, the joint WBG/Government Lagging Regions Task Force is reviewing the complementarities among five ongoing loans and grants in these regions, totaling over US$500 million, to reduce fragmentation and promote a consolidated development approach, including with private sector and other key stakeholder involvement. From a project perspective, portfolio improvement actions include: (a) applying the governance and readiness for implementation filters by ensuring that by the time of negotiations, operational modalities (operational manual; key project staff, including fiduciary staff; first-year procurement plan and work program) are in place; (b) managing the trust fund portfolio more strategically by aligning trust fund resources more directly with identified operational and analytical priorities, increasing the average trust fund size, and reducing the total number of operations; and (c) focusing the ASA program to produce just-in-time short notes that can provide concrete and actionable inputs to sector dialogue.

IX. PARTNERSHIPS, DONOR COORDINATION, AND DIVISION OF AREAS OF ENGAGEMENT

87. **Experience in post-revolution Tunisia confirms the importance of the Bank Group's role in promoting the coordination of donors.** At this difficult juncture in the country's history, the strong donor coordination led by the WBG, with the IMF and other development partners, including UN agencies, as well as the exemplary coordination between the Bank and IFC, has allowed for a steadfast and committed international partnership to help guide the authorities' reform efforts. This partnership has been critical for establishing trust and encouraging the authorities to continue forward. The coordinated partnership with development partners has also allowed for the effective leveraging of development resources.

88. **Collaboration with development partners.** Even before the revolution, the Bank Group took a leading role in coordinating donor responses, and was actively involved with other donors in the dialogue with the Government. As a result, the Bank significantly strengthened its partnership base in the country. The 2014 IEG report on the Bank's performance over the 2005-2012 period noted that all co-financiers participated in joint implementation support missions to assess implementation progress of the common policy reform matrix defined after the revolution. Operational aides-memoire and follow-up notes were sent to the authorities to emphasize pending actions, bottlenecks, and required next steps. The joint missions were appropriately staffed and scheduled. The Bank organized just-in-time technical assistance as needed, and formulated specific operations to support related reform initiatives and foster implementation of the reform program. IFC's program of advisory services was co-financed with bilateral donors, including the United Kingdom, Switzerland, Canada, Japan, Denmark and the Netherlands; and with international financial institutions, including the European Investment Bank and the Islamic Development Bank. IFC maintained an active dialogue and reporting with donors.

89. **The Bank's current program includes partnerships or aid coordination in nearly every thematic area, as shown in table 8.** The CPF is designed to support Government efforts, particularly

those of the Ministry of Development, Investment and International Cooperation, to coordinate assistance from partners while enhancing the effectiveness of sector policies. In addition, the WBG will continue using its convening power to leverage additional resources to support the CPF program. The Bank's convening power has been particularly important with regard to economic policy issues, around which donors have come together to support a unified Government matrix of economic reforms, thereby significantly reducing transaction costs. The Government is currently exploring new donor working groups on key issues, and has started with a first thematic group on lagging regions.

Table 7: Partnership, Donor Coordination, Division of Area of Engagement

THEMATIC AREA	ACTIVITIES	PARTNERSHIP	CPF PILLAR
Economic Reform	Coordination and joint operations in five areas: (a) improvements to the business environment, (b) competition policy, (c) commercial policy, (d) optimizing financing of the economy, and (e) reform of the financial sector	▪ EU, DFID, IMF, AfDB[18] *Joint donor leadership and use of WBG technical assistance and convenient power.*	Pillar I
Governance	Coordination on legislative, institutional and administrative reforms	▪ EU, AFDB	
Micro-finance	Joint programs to support legal and regulatory reform for microfinance development Cooperation on developing financial infrastructure and operations to support inclusive finance Cooperation on liquidity support for Greenfield MFIs and sectoral expansion Donor committee that meets periodically to oversee coordination and determine how to best leverage resources. Committee now working on launching a national financial inclusion strategy.	▪ GIZ, ADA, EIB ▪ EU, ADB *EU/AfDB leadership* ▪ EU, ADB[19] *EU/AfDB leadership on policy*	Pillar I
Infrastructure	Programs to upgrade basic infrastructure in lagging regions	▪ EU, AfDB	Pillar I
Energy	Coordination on promoting an enabling environment for renewable energies and energy efficiency	▪ EU, AfDB, GIZ	Pillar I
Decentralization	A local government e-portal, launched by the Government as part of the Municipal Development and Local Governance Project,* allows greater coordination among donors intervening in this area	▪ France, EU WBG joint leadership with GOT to support lagging regions agenda	Pillar II
Water	Projects geared toward improving access to drinking water	• AfDB, GEF, IDB, FADES, Saudi Fund WBG leadership on urban water supply	Pillar II
Education	Donor support to developing pre-school education and training, higher education and scientific research	• EU, AfDB, UNESCO, OECD	Pillar III
Employment	Programs targeting access to employment by developing skills in regions	• EU, AFDB, GIZ	Pillar III

http://www.collectiviteslocales.gov.tn.

[18] Joint donor leadership and use of WBG technical and convening power.
[19] Under micro-finance, WBG is present in all sub-sectors, including SME and micro-finance—EU leading from policy perspective.

X. MANAGING CPF PROGRAM RISKS

90. **The WBG's new framework for operational risk management** is based on the principle that risks should be assessed based on their impact on achievement of CPF results. A core element of the new approach is to develop and regularly update operational risk ratings by using the Systematic Operations Risk Rating Tool (SORT; see table 9) proactively throughout preparation and implementation.

Table 8: Systematic Operational Risk Rating Tool- Rating for Tunisia Portfolio

RISK CATEGORIES	H: High; S: Substantial; L: Low
Political and Governance	H
Macroeconomic	H
Sector strategies and policies	S
Technical design of project or program	S
Institutional capacity for implementation and sustainability (mainly related procurement challenges)	S
Fiduciary	S
Environment and social	S
Stakeholders	S
Security	H
Overall	**H**

91. **The overall risk to the successful implementation of the CPF program is assessed as High**. The CPF program faces the following risks: security, stakeholders, capacity, political and governance, and macroeconomic.

92. **Security remains the largest external risk. During the CPF period, domestic and regional security is likely to remain volatile.** While the WBG remains committed to supporting implementation in all regions of the country, and development efforts are vital to strengthen security, a significant deterioration in the security condition could affect the effective roll-out of the program in parts or all of the country, and could lead to a review of future interventions. In such a situation, the WBG would discuss and agree with the Government on how to proceed in affected regions. A Security Officer, based in the country office, in charge of monitoring security risks was recruited.

93. **In addition to the security risk, three other major risks could have an impact on the program:** (a) implementation challenges; (b) political economy and governance challenges; and (c) uncertainty around the macroeconomic environment as well as debt sustainability. These risks, if one or more of them materialize, could impact the Government's ability to implement reforms and projects necessary to support its ambitious 2016-2020 development agenda. They also pose a challenge to the country's capacity to attract private sector investments.

A. Implementation challenges

94. **Increased risk aversion, slower decision making, and constrained internal systems could adversely affect the achievement of CPF development objectives.** The WBG has

carefully assessed this risk and put in place concrete mitigation measures to minimize impact on CPF implementation. By putting the engagements through a political economy filter, the WBG is less likely to concentrate on areas where there is insufficient political buy-in or limited potential for success. Second, in sectors such as infrastructure, where, according to the SCD, the private sector should be driving development, IFC will take the lead and IBRD could play a role in sector policy reforms, or come in as financier of last resort. Third, by using a variety of tools to implement the program, including a combination of development policy lending, investment, program-for-results financing, and analytical work, the WBG will be better equipped to address the challenges and demonstrate impact and results. Bringing in public and private partners whenever possible (including development partners, CSOs and academia) will help encourage synergies and greater Government accountability for project implementation. Finally, at the project level, the readiness for implementation filter mentioned above will be strictly applied, minimizing procurement transactions and ensuring that bid packages are ready prior to negotiations, as Government procurement remains a key implementation bottleneck.

B. Political Economy and Governance Challenges

95. **The SCD noted the lack of progress on key governance reforms, and highlighted the fact that improving governance is critical for achieving sustainable growth and reducing poverty.** Tunisia's economy is still functioning along a pre-revolution model, hamstrung by heavy state regulation, with elite capture and cronyism being the norm. The Government will continue to find it difficult to introduce and enforce significant reforms because of obstruction from vested interests, poor institutional arrangements, and an over-centralized, top-down governance model that has fueled the informal economy. A failure to continue to follow through with economic reforms so that they can yield intended results, including boosting investor confidence, would impact the WBG's ability to support the Government's efforts to shift the economic model to one of private sector-led growth. These risks can only be partially mitigated.

96. **Governance reforms are fundamental to achieving the WBG's twin goals and securing the future for Tunisia.** If, during the CPF period, the WBG assesses that the governance environment is deteriorating and/or that the key governance reforms outlined in the CPF are not moving forward, this would likely delay planned engagement and cause the Bank Group to draw back from some areas.

C. Uncertainty around the macroeconomic environment and debt sustainability

97. **The Systematic Country Diagnostic highlighted Tunisia's vulnerability to economic shocks, given the fragility of its economic fundamentals.** The fiscal room for maneuver is less than in the past, given the shocks to key sectors such as tourism and the uncertainty of Eurozone growth. If the macroeconomic risk materializes, it could potentially delay the implementation of reforms and slow economic growth over the next few years. For the Bank, it could mean delays in budget support to influence reforms needed for CPF results. For IFC, continued macroeconomic instability coupled with an inadequate investment climate would adversely impact its ability to mobilize both domestic and foreign private investment. The current program of budget support and technical assistance, supported by a Stand-By Arrangement with the International Monetary Fund, and by ongoing dialogue with the WBG and other donors, are intended to mitigate this risk. However, larger-than-expected negative shocks, such as a fall in remittance inflows; only a mild

recovery, or a decline of foreign direct investment inflows; or a drop in external demand for Tunisian exports, could further undermine the results of these mitigating efforts.

98. **The Government of Tunisia has always been cautious about contracting new debt. While public and external debt were successfully controlled until 2010, debt levels have risen markedly since then, even if they remain sustainable by international standards.** As interest payments on Tunisia's debt increase and a large debt payment comes due in 2017, the Government will need to continue to ensure high rates of returns and value added for IFI financing. The Government has asked the Bank to carry out a debt sustainability analysis to assess possible foreign exchange and other risk mitigation measures.

ANNEXES

ANNEX 1: CPF Results Framework

The CPF acknowledges the uncertainty of the political and economic environment and has a new program defined only for the first three years. It builds extensively on the existing portfolio which is being restructured to be better aligned with the new priorities, particularly the lagging regions agenda. It will be comprehensively reviewed during PLRs and objectives and targets revised as necessary to reflect the evolving program.

Pillar I: Restoring an Environment Conducive to Sustainable Economic Growth & Private Sector -Led Job Creation ----

OBJECTIVE 1.1. STRENGTHENED MACROECONOMIC AND FISCAL MANAGEMENT		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Improved legal framework for Public Financial Management, introducing performance based budgeting: **Baseline (2015):** Organic budget law (as amended 2004); **Target (2017):** New Organic budget law adopted (GBO) (2017) *Share of Central Government development expenditure (investment) in total expenditure (excluding net lending),)* **Baseline (2015):** 17% **Target (2020):** 20%	*Government adopts a medium-term debt strategy aimed at stabilizing public debt and controlling debt servicing:* **Baseline (2016):** No **Target (2017):** Yes	**Ongoing portfolio** • GOJ DPL Series (FY16); • Economic and open governance programmatic TA; • Public Financial Management TA (FY16); • Capacity building of economic institutions; • Investment Authority OECD-IFC project; • Third Export Development Project (FY14) **Pipeline** • New DPL series (FY17 & FY18); • State Owned Bank Restructuring P4R (FY17); • ASA on subsidy reforms (FY17); • TA on civil service reform; • Public Expenditure Review; • Just-in-time Technical Assistance; • Libya crisis impact assessment (FY16).

*"governance" indicators (orange) ** "gender" (blue)

OBJECTIVE 1.2. IMPROVED ENABLING ENVIRONMENT FOR GREATER PRIVATE SECTOR COMPETITIVENESS		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Number of firms benefitting from improved business formalities in terms of reduction in time or cost **Baseline (2015):** 18,100 **Target (2020):** 90,502 *Number of firms benefitting from the export development fund which increased their exports* **Baseline (2015):** 0 **Target (2020):** 1,200	*Percentage of customs payments using computerized system:* **Baseline (2015):** 0 **Target (2020):** 80	**Ongoing Portfolio** • GOJ DPL Series (FY16) • Third Export Development Project (FY14) • Tunisia Investment Climate • High Growth Sectors Value Chain Analysis TA • IFC led advisory (as part of T&C GP) in regulatory simplification, new investment code, bankruptcy law, competitiveness law • ALECA ongoing dialogue; • Informal trade in Maghreb study **Pipeline** • New DPL series (FY17 & FY18) • Additional High Growth Sectors Value Chain Analysis TA • IFC/T&C GP support to investment climate work • Cross-border transport and trade facilitation project (Tunisia/Algeria) (FY17); • Potential IFC South-South investments

OBJECTIVE 1.3. FOSTERED SOUND FINANCIAL SECTOR DEVELOPMENT		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Number of microloans disbursed by participating MFIs (of which disbursed to women) **Baseline (2015):** 769,628 (523,980) **Target (2020):** 1,345,000 (820,000) *Percentage decrease of non-performing loan ratios for three state-owned banks:* **Baseline (2015):** 16% **Target (2020):** 14%	*% of microfinance loans financed by lines of credit to women:* **Baseline (2015):** 50% **Target (2018):** 60% *Increase in the total MSME loans in the portfolios of participating financial institutions:* **Baseline (2011):** 0 **Target (2018):** 13.0%	**Ongoing Portfolio** • GOJ DPL Series (FY16); • SME finance: equity in SME Bank (IFC investment and advisory), SME private equity funds (IFC IS) • Access to Finance for Micro-Entrepreneurs (ENDA micro-finance IFC investment and advisory) • Regional MENA MSME Facility (joint WB/IFC) • IFC investments in regional private equity SME funds operating in MENA and Maghreb. **Pipeline** • State-Owned Bank Restructuring P4R (FY17); • SMEs support through joint IFC-WB “blended finance” facility • Potential IFC support to SME finance & trade finance (advisory and investment) • Potential South-South investments in leasing and insurance • Potential IFC advisory to microfinance transformation and investment and advisory support to a new MFI.

Pillar II: Reducing Regional Disparities

OBJECTIVE 2.1. IMPROVED ACCESS TO AND QUALITY OF SERVICES IN LAGGING REGIONS		
CPF INDICATORS (2020)	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
People benefiting from improved municipal infrastructure (transport and WSS) (of which 40% were female): **Baseline (2015):** 0 **Target (2020):** 500,000 *Number of people benefiting from improved basic rural infrastructure and services* **Baseline (2015): 0** **Target (2020): 100,000** *People benefiting from improved transport infrastructure to urban centers (of which 50% were female):* **Baseline (2015):** 0 **Target (2020):** 339,112 *Number of traffic-related fatalities per hundred million vehicle-kilometers travelled (vkt) on roads improved by CPF interventions:* **Baseline (2015):** 5.3 **Target (2020):** 3.7	*Number of pilot PPP contracts for rural potable water and irrigation awarded:* **Baseline (2015): 0** **Target (2020): 5** *Level of W&S sector cost recovery:* **Baseline (2014): 75%** **Target (2020): 100% (O&M)** *Users satisfied (percent) with water and sanitation services:* **Baseline (2016): 80** **Target (2020): 85** *Number of governorates with improved institutional performance* **Baseline (2014): 0** **Target (2016): 24** *Share of land area under soil & water conservation management (percent):* **Baseline (2014):** 0 **Target (2020):** 7.7	**Ongoing Portfolio:** • Second Natural Resources Management Project (FY10) • Fourth NW Mount & Forest Area Dev PNO4 (FY10) • ONAS PPP (IFC-AFFI) • Urban Dev. and Local Governance PforR (FY14) • Investments: Urban Water Supply Project (FY05) and additional financing (FY14) Northern Tunis Wastewater Project& GEF (FY10) • Pilot public-private partnership (PPP) - ONAS PPP ; • IBRD/IFC TA activities with SONEDE and ONAS; **Pipeline:** • Northern Tunis Wastewater Additional Financing • IBRD lending and PRG to support first regional urban sewerage PPP with ONAS (Tunis North, 0.5 million people) • PPP pilots for rural potable water and irrigation • SONEDE operation to implement financial and institutional sustainability action plan with a potential rural WSS access-dedicated loan from MoA as part of PNSAEP • Tunisia WASH and Poverty Diagnostic • Sanitation PPP investment fund and Partial Risk Guarantee (PRG); • TA for pilot PPP program on rural water supply; • IFC potential advisory and investments in ports, energy, ICT, WSS, and logistics.

**Note.* Unless otherwise specified, all indicators under Pillar 2 are considered as applied to the four regions with the highest poverty concentrations: NW, CW, SW, SE

OBJECTIVE 2.2. ENHANCED ECONOMIC OPPORTUNITIES IN LAGGING REGIONS*		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Reduction in travel time on the roads improved by CPF interventions (weighted average by km of roads): **Baseline (2015):** 0% **Target (2020):** 26.1% *Number of municipalities with enhanced institutional performance (as measured by annual performance assessments):* **Baseline (2015): 0** **Target (2020): 119 (45%)**	*Number of paid work days under CPF supported programs:* **Baseline (2014):** 490,000 **Target (2020):** 1,500,000 *Farmers reached by CPF supported programs (IFC investments):* **Baseline (2014):** 4,780 **Target (2018):** 12,200 *Number of regions with approved multi-sectoral Regional Development Plans:* **Baseline 2015:** 0 **Target (2020):** 4	**Ongoing Portfolio** • Second Natural Resources Management project (FY10) • Fourth Northwest Mountainous and Forested Areas Development Project (FY10) • Oases Ecosystems and Livelihoods (GEF) (FY14) • Institutional Strengthening for Transport Sector Sustainability ESW (FY16); • Road safety study (FY16); **Pipeline** • Forestry and eco-systems (FY17) • Agriculture assessment (FY17) • IFC investment support in the olive oil industry • Road maintenance study (FY17); • TA (Urban Transport, ICT, Ports); • IBRD/IFC TA preparation of Local Development Plans • Institutional Strengthening for Transport Sector Sustainability. • PPP pilot for rural potable water and irrigation • Agricultural competitiveness • Lagging Regions study (FY17)

*Unless otherwise specified, all indicators under Pillar 2 are considered as applied to the four regions with the highest poverty concentrations: NW, CW, SW, SE

Pillar III: Promoting Increased Social Inclusion

OBJECTIVE: 3.1 PROMOTED PARTICIPATION, TRANSPARENCY, AND ACCOUNTABILITY		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Strengthened public sector accountability measured by the increase in the government responses to citizens' requests for information under the new access to information policy. **Baseline (2014):** 532 responses out of 544 requests **Target (2020):** 1980 responses out of 2000 requests *Increase citizens access to and use of the fiscal information through the open budget platform Mizanyatouna*:* **Baseline (2015):** launch **Target:** Number of consultations: 5000 (* "our budget")	*Adoption of a government policy on public consultation* **Baseline (2015):** No **Target (2017):** Yes *Information on public finances is published on the Ministry of Finance website* **Baseline (2013):** Draft budget and budget execution reports not published regularly; public expenditure data not available online **Target (2016):** Draft budget and budget execution reports published regularly; public expenditure data available online	**Ongoing** • National Network of Social Accountability TA; • Regional access to information workshop; • Parliamentary Strengthening TA; • Governance in Social Sectors TA; • Programmatic TA on Open Governance **Pipeline** • Political economy analysis (FY16); • Communicating for reforms TA; • Budget analysis (ESW); and • Establishment of a CSO-WB Platform • Programmatic TA on Open Governance

OBJECTIVE 3.2. INCREASED OPPORTUNITIES FOR YOUNG MEN AND WOMEN		
CPF INDICATORS	**SUPPLEMENTARY PROGRESS INDICATORS**	**WBG PROGRAM**
Students in tertiary education who completed employability-oriented activities **Baseline (2015): 0** **Target (2020): 10,000**	*National Youth forum/council IS operational* **Baseline (2015): No** **Target:** In place (2016) *Number of certifications for students in courses focusing on transferrable skills* **Baseline (2015): 0** **Target (2019): 17,000**	**Ongoing** • Fast E4E MENA (IFC)/Tunisia E4E ICT (IFC) (FY12) • IFC E4E Initiative for Arab Youth; • Employment TA Package; • Third Competitiveness & Export Development Proj CEDP3(FY14); • MSME Project and additional financing/MSME TA; • JSDF Emergency Support for Youth (FY12); • TA to establish formalized national youth council. **Pipeline** • Tertiary Education for Employability Project (TEEP) - (FY16); • Youth productive inclusion operation (FY17) • General Education and Skills operation (FY18) • Youth Forum • Private sector needs & mapping of key sub-sectors/value-chains; • WBG-IsDB regional E4C program; • Education study (FY17); • ESW Youth Analysis follow-up.

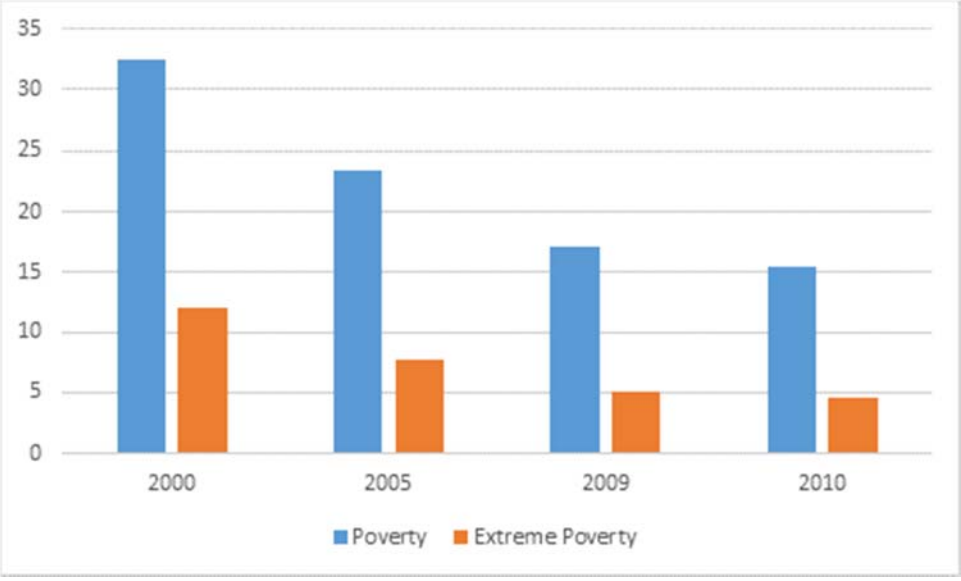
OBJECTIVE 3.3: IMPROVED AND MORE EQUITABLE SOCIAL PROGRAMS		
CPF INDICATORS	**PROGRESS INDICATORS**	**WBG PROGRAM**
Creation of a social registry on "Needy Families and Vulnerable Households" based on an updated socio-economic information **Baseline (2015):** No **Target (2020):** Yes *Common Social Identifier system established* **Baseline (2015):** No **Target (2020):** Yes		O**ngoing portfolio** • Transition Fund Project on Support to Social protection reforms (FY14); • SABER benchmarking of ECD policies and programs (FY16); • Community health JSDF grant; • Health coverage TA; • IFC's equity participation in Amen Santé clinics; **Pipeline** • Multi-sectoral Human Development operation (FY18); • Programmatic ASA on modernization of the SPL System and support to inclusive education and health policies

ANNEX 2: Poverty Trends and Regional Disparities

1. Tunisia made impressive strides in poverty reduction before the revolution, with the poverty incidence falling from 32 percent to 15.5 percent between 2000 and 2010. Declines were consistently observed across regions and in both urban and rural areas and extended to extreme poverty as well.

2. **Post-revolution estimates suggest a very different story. Poverty rates increased in 2011, immediately after the revolution.** In effect, the poverty impact of the revolution has been between 0.9 and 2.2 percentage points[20]. The recovery of GDP and employment in 2012 contributed to reversing the poverty increase of the previous year. In 2015, however, the significant slowdown in economic growth associated with political tensions, terrorist attacks and weaker growth in Europe all contributed to increases in poverty rates (figure A 2- 1).

Figure A2.1: Poverty and External Poverty Trends 2000-2010



Source: World Bank 2016 (forthcoming), Poverty Assessment using ENBCV data and INS estimates of unemployment and CPI; African Development Bank and World Bank 2012, *Mesure de la pauvreté, des inégalités et de la polarisation en Tunisie 2000–2010*

Note: Post-Revolution estimates refer to poverty projections using sectoral GDP, unemployment rates and inflation adjustments. Shadowed areas indicate Bank staff estimates; non-shadowed areas indicate official estimates.

[20] These findings accrue from projections of observed household consumption, reported in the 2010 ENBCV (household survey) and consistently updated to reflect macroeconomic developments in 2011 and 2012. The range of impacts reflects the different assumptions used to project post-revolution poverty rates. Tunisia Poverty Assessment, World Bank 2016.

3. **Moreover, Tunisia has high levels of vulnerability to poverty[21]**. It is estimated that some 46 percent of the population is at risk of slipping into poverty following some kind of substantive economic, personal or collective shock. This is a serious concern, given the country's weakening GDP growth, precariously high unemployment rates, and sociopolitical tensions.

4. **This high vulnerability and increasing poverty, along with regional disparities, contributes to the deterioration of subjective well-being and life satisfaction[22]**. While monetary poverty rapidly dropped in the 2000s to 15.5 percent, a much higher and increasing proportion—30 percent—of the population reported being unhappy. This subjective well-being measure has substantively worsened since the revolution, rising to nearly 40 percent in 2012[23]. The figure has likely risen in 2016 amid increasing poverty, widening regional disparities and potential changes in the perceptions of political and economic stability, public security, quality of public services, corruption, or quality of jobs available in the economy[24].

5. **Poverty in Tunisia is strongly linked with labor, education and agriculture correlates.** In terms of jobs, poor households are three times more likely to have an unemployed head[25]. Unemployment is especially alarming among the highly educated youth, whose unemployment rate of 31.2 percent (first three quarters of 2015) is double the national average. Poor households have notoriously much less access to quality jobs than the non-poor[26].

6. **By sector, non-poor workers are half as likely to work in agriculture as the working poor:** a third of poor household heads work in agriculture, compared to 16 percent of the non-poor. Tunisia's scarce agricultural land areas employ almost 20 percent of the labor force, about one third of whom are women. About 33 percent of the 11.1 million Tunisians live in rural areas, and roughly 50 percent depend on agriculture for their livelihoods and employment. In some lagging regions, close to 80 percent of the rural population depends on agriculture for income and employment[27].

7. **Evidence also suggests strong links between education and poverty and vulnerability.** Almost 50 percent of poor households in Tunisia are headed by individuals with no education (90 percent with no education or some primary education). The most vulnerable population groups are characterized by household heads with no or some primary education. In contrast, the least vulnerable population groups all have heads with secondary or university education. Unsurprisingly,

[21] Based on a recent internationally accepted definition, vulnerable households are non-poor households with a probability of 10 percent or higher of becoming poor. Estimates of vulnerability reported here refer to 2010. Tunisia Poverty Assessment, World Bank 2016.
[22] In Tunisia and other Arab Spring countries monetary poverty dynamics and life satisfaction in Tunisia do not always align. *World Bank 2015 MENA Economic Monitor: Inequality, Uprisings, and Conflict in the Arab World.*
[23] Dang, H. and Ianchovichina, E., Welfare dynamics in the Arab World: synthetic panel analysis using objective and subjective data, mimeo, World Bank 2015.
[24] *World Bank 2015 MENA Economic Monitor*
[25] *Institut National de Statistique* 2012
[26] Poor household heads are also half as likely to have a salaried job in the public sector as non-poor households (and only seven percent of poor household heads have such coveted jobs). Instead, non-poor household heads are four times more likely to work as professionals or mid-level professions than poor heads.
[27] *Poverty in Post Revolution Tunisia: Comparing Cross-Survey Imputation and Projection Techniques.* Cuesta, J. and G. Lara Ibarra (2015), mimeo, Maghreb Department, MENA Region, Poverty Global Practice, World Bank, Washington DC. November 2015.

education along with region and urban/rural location explains about 75 to 90 percent of the observed gaps in access to public services such as quality education and water and sanitation[28].

8. The growth in consumption that led to impressive poverty reduction in the early 2000s did not translate into reduced disparities. Overall consumption inequality between 2000 and 2010 decreased only slightly, with the Gini index going from 0.375 to 0.358. Furthermore, inter-regional inequality substantively increased, with poverty becoming increasingly concentrated in the poorest regions in the country. In 2010, lagging regions concentrated two thirds of the country's poor (up from 58 percent in 2000), despite representing only 30 percent of the population (table A2.1).

Table A2.1: Poverty Rates in Show Wide and Persistent Regional Disparities

	Poverty Rates		Percentage of Poor	
	2000	**2010**	**2000**	**2010**
Tunisia	32.4	15.5	100.0	100.0
Greater	21.0	9.1	14.0	13.6
North East	32.1	10.3	13.8	9.2
North West	35.3	25.7	14.2	19.1
Center East	21.4	8.0	14.4	12.0
Center West	49.3	32.3	22.0	27.7
South East	44.3	17.9	12.9	10.5
South West	47.8	21.5	8.7	7.9

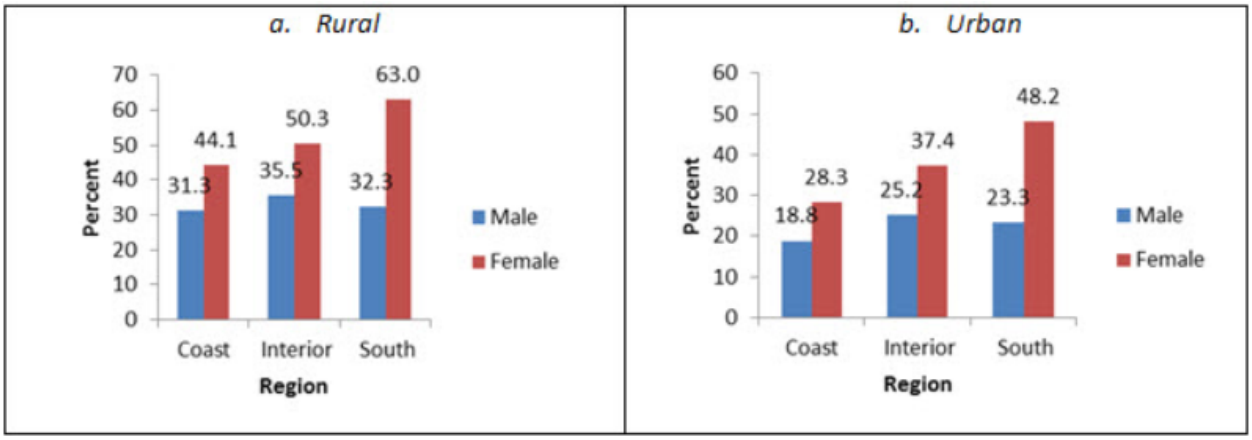
Source: INS and Bank staff calculations.

Note: Lagging regions comprise North West, Centre West, South West and South East. Percentages of the poor are based on population data from INS adjusted from governorates into the regions. Weights from the Household Budget Survey are not applied so there might be slight differences from final results that would be obtained with HBS data.

9. **Unemployment rates also show considerable disparities between regions, and are especially high in the interior rural regions.** One in three young men in rural Tunisia (33.4 percent) is in neither education, employment nor training (NEET), compared to one in five in urban Tunisia. These disparities are even greater in lagging regions (Figure A2.2).

[28] Tunisia Poverty Assessment, World Bank 2016.

Figure A2.2: Youth Rate in Neither Education, Employment or Training (NEET) by Region

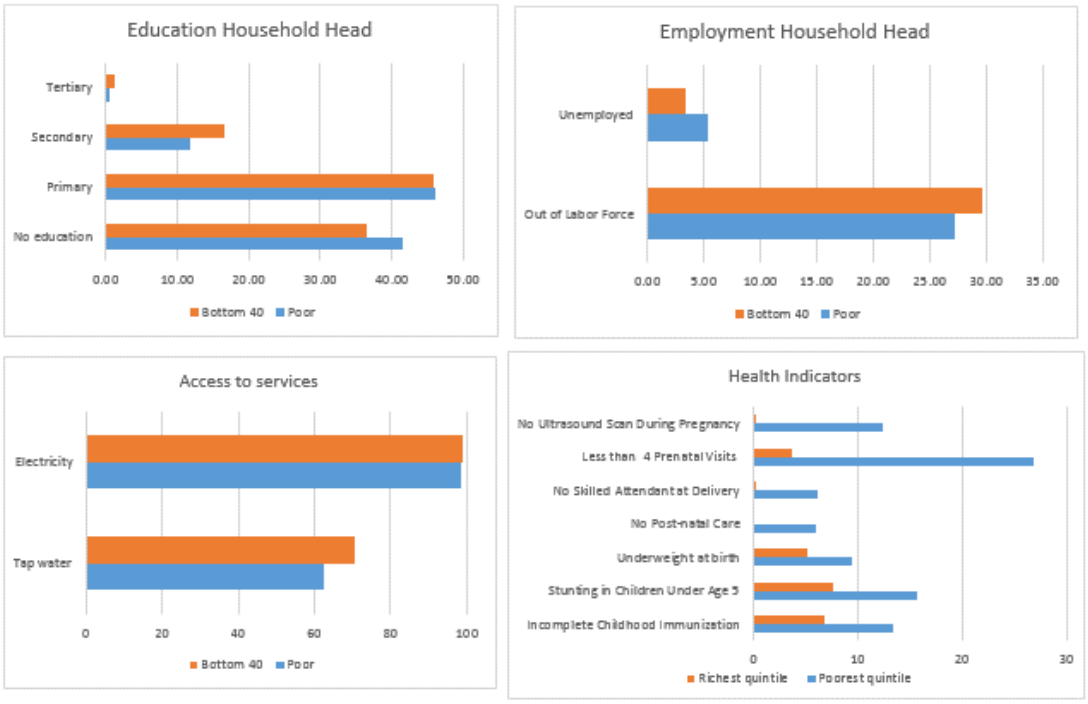


10. **The improvement in human development and in access to some basic services has been substantive but also unequal.** Between 1980 and 2014, Tunisia's Human Development Index (HDI) value increased from 0.486 to 0.721—a 48 percent increase. Recently released evidence from the 2014 Census also confirms that—quality considerations aside—access to electricity and tap water are almost universal in Tunisia. However, sizeable differences in access for water and sanitation services persist between the poor and non-poor (more than 30 percent point gap in access rates to improved water and flush toilets), with marked urban-rural and regional differences. For example, access to flush toilets in the lagging regions does not reach 30 percent of their populations, well below the national average[29].

11. **These trends have not improved in the post-revolution period.** In fact, post-revolution poverty profiles are very similar to those observed before the revolution, and the gaps between the poor and non-poor were not very different (Figure A2.3). Evidence from the 2014 Census again confirms that certain socioeconomic features—such as unemployment (15 percent), access to sanitation (58.2 percent) and schooling (95.8 percent), and car ownership (27 percent)—were only slightly better in 2014 than before the revolution. By gender, 12 percent of poor households were headed by women in 2012, which was proportional to the share of female-headed households in the country (15 percent).

[29] *WASH Poverty Diagnostic*, World Bank 2016

Figure A2.3: Poor and Non-Poor for Education and Employment and Access to Services 2012



Source: World Bank staff estimates using data from household surveys (ENBCV 2010 and ENPE 2012).

ANNEX 3: Tunisia Completion and Learning Review

Prepared in September 2014 and updated in January 2016

Date of Interim Strategy Note:	May 22, 2012
ISN Board Discussion:	June 14, 2012
Period Covered by ISN:	FY2013-FY2014
Period Covered by CASCR in ISN:	FY2005-FY2008 FY13-14

INTRODUCTION

1. **This report is the Country Team's self-evaluation of the World Bank Group (WBG) Strategy for the Republic of Tunisia for the period FY10-FY14.** The strategy presented in the Country Partnership Strategy (CPS) for the period FY10-FY13 (No. 50223-TUN) was revised following the January 2011 Revolution; the adjustments were discussed in the Program Document for the Governance and Opportunity Development Policy Loan approved in June 2011 (No. 61627-TN) and the Interim Strategy Note for the period FY13-14 (No. 67692-TN). This report focuses on the transition period after the 2011 Revolution, and considers: (a) the extent to which the lending and analytical/advisory programs outlined in the strategy documents were carried out; and (b) the WBG's performance in designing these programs and managing their implementation. The primary purpose of the report is to derive lessons learned during the transition period that can be used to inform the design of the next Country Partnership Framework (CPF) for Tunisia. The report draws mainly on the documents prepared by the Government of Tunisia (GOT) and Bank Group staff during the period. It also takes into account the Tunisia Country Program Evaluation covering FY05-13, which was carried out by the Independent Evaluation Group (IEG) in 2014.

2. **In January 2011, a wave of protests ended the 23-year rule of President Ben Ali, and ushered in a new political and economic era.** The Revolution was fueled by widespread anger over lack of social and political inclusion, governance and corruption problems, mounting unemployment, and the rising cost of living. Tunisia entered a period of transition that has lasted over four years. The adoption of a new Constitution in January 2014, followed by orderly presidential and parliamentary elections in late 2014, constituted the most visible achievements of this transition.

3. **The WBG recognized that following the 2011 Revolution, many elements of the 2009 CPS were no longer relevant.** However, the situation was too fluid for the WBG to develop a new strategy, particularly given the short-term horizon of the Interim Government. Immediately following the Revolution, the expectation was that the transition to a new constitution and a new government would be brief, and that a new CPS would be prepared after a new government was elected. In the short term, the WBG adopted a flexible approach and spelled out a program of interventions in the Program Document for the Governance and Opportunity Development Policy Loan approved by the Executive Directors in June 2011. IFC in turn focused on supporting portfolio clients who were encountering difficulties given the political and economic volatility, while selectively supporting new investment and advisory engagements to boost investor

confidence and play a counter-cyclical role. When it became apparent that the transition would be longer than initially anticipated, the Bank Group prepared an ISN to cover the FY13-14 period.

4. **The ISN outlined the Bank Group's program focused on the activities contributing directly and indirectly to the Government's objective of short and medium-term employment creation.** There was a hiatus in the implementation of reforms meant to reduce government spending, tackle double-digit unemployment, and pave the way for a more competitive economy that would attract international investment during 2012-13 as the Government and civil society focused on reaching political consensus and reestablishing security in the country. The ISN noted that while a detailed program was developed, the Government continued to be committed to the structural reforms initiated in 2011.

SUMMARY OF FINDINGS

5. The Completion and Learning Review (CLR) is a self-assessment of the WBG strategy with respect to: (a) the achievement of the development outcomes of the ISN; and (b) performance of the WBG. Given the significant shift in strategic objectives and results frameworks from the CPS to the ISN, the CLR will use the ISN results framework to assess Bank Group's performance.

1.1 - Achievement of Development Outcomes

6. **As shown in the following table A3.1, although significant progress was made in achieving some ISN outcomes, the overall rating is Moderately Satisfactory.** There was progress in all areas of the ISN. Most notably, in supporting macroeconomic stability, all planned outcomes were achieved; substantial progress in improving the business environment, including reforms in the financial sector, has laid the foundation for growth—although ultimately, a business environment conducive to investments will only be achieved with political stability. In improving access to basic services for underserved communities, most targets were achieved or surpassed. There was also progress in strengthening governance, with notable improvements in access to information.

ISN Outcomes

I. Laying the Foundation for Sustainable Growth and Job Creation	**Mostly Achieved**
1. Supporting macroeconomic stability and economic recovery	Achieved
2. Strengthening the business environment and deepening integration	Mostly Achieved
3. Creating an enabling environment for labor market reforms	Mostly Achieved
4. Improving active labor market programs for the unemployed	Partially Achieved
II. Promoting Social and Economic Inclusion	**Mostly Achieved**
5. Improving access to basic services for underserved communities	Achieved
6. Improving the efficiency of social safety net programs	Partially Achieved
III. Strengthening Governance: Voice, Transparency, and Accountability	**Partially Achieved**
7. Access to information and social accountability	Partially Achieved
8. Increasing transparency and accountability of institutions	Partially Achieved

1.2 - Overall Performance of the WBG

7. **The Bank Group showed impressive flexibility in addressing country needs following the 2011 Revolution.** The Bank Group was proactive in addressing problems in program implementation, while IFC actively ramped up its engagements in Tunisia with six new investments amounting to around US$104 million across diverse sectors during 2011-14. IFC established a field presence in Tunisia for the first time in 2012 with the view to increasing business development efforts and along with a highly decentralized investment and advisory teams operating out of its field offices in MENA. IFC's disbursement ratio of funds was high at about 90% for this period, and commendable especially in comparison to other IFIs operating in Tunisia during this challenging time. IFC also developed a strong advisory program for the first time in Tunisia, focusing on the investment climate, financial sector, and skills development. Through a strong collaborative effort, the Bank and IFC strengthened their links with Tunisian authorities, the broader private sector, and with national stakeholders and civil society organizations. The Bank Group, working closely with the IMF, also developed close links with key donors and coordinated assistance to help the authorities develop an ambitious reform agenda. The Bank and IFC programs are closely linked, especially on addressing investment climate constraints, and helped mitigate the risks associated with fiscal mismanagement spelled out in the ISN. The strong, coordinated donor support helped the Government to stay the course during the tumultuous transition period, and contributed to economic stability and fiscal sustainability. The Bank Group also helped with the introduction of key reforms in the governance (including corporate governance) and banking areas by providing critical technical assistance. Given the breadth of the reforms envisaged, it should not be surprising that these have taken longer than anticipated to implement. Bank discussions with the Government are centered on the best approach to implementing the reforms, a radical change with respect to the pre-Revolution discussions with the Government as

highlighted in IEG Tunisia Country Program Evaluation, FY05-13[30]. Bank Group performance is rated Superior.

1.3 - ISN Program Assessment

8. **The Bank Group program under the ISN was designed to promote private sector-led recovery and job creation, with a focus on openness, opportunity and accountability.** The Bank Group framed its support within three areas of engagement: (a) laying the foundation for sustainable growth and job creation; (b) promoting social and economic inclusion; and (c) strengthening governance: voice, transparency and accountability. Details of the ISN outcomes during the period are given in Attachment 1; and details of the ISN program activities are given in Attachments 2 and 3.

AREA 1. LAYING THE FOUNDATION FOR SUSTAINABLE GROWTH AND JOB CREATION. MOSTLY ACHIEVED

Objective 1: Supporting macroeconomic stability and economic recovery. Achieved

The Bank Group program, mainly through the GOJ-2 DPL, helped the Government launch economic reforms that contributed to macroeconomic stability during the transition period that helped the economy recover from the 2011 recession, although at a slower rate than initially expected. GDP growth reached 3.7 percent in 2012 fell to 2.6 percent in 2013, with slower than expected Eurozone performance coupled with the significant impact of Libya's crisis in trade, investment and remittances. Given the security shocks, growth is expected to hover around 0.5 percent in 2015.

9. **With respect to the fiscal situation, Tunisia went into the crisis with a reasonably low level of public and external debt, but both increased by an estimated 6 percent of GDP in 2011-2013 as the Government attempted to meet social and other needs**. The Bank prepared a Fiscal and Debt Sustainability Analysis (DSA) in 2012, in consultation with the IMF, to help the authorities ensure that the response to the economic downturn remained consistent with a sustainable fiscal path. The DSA found that under a prudent growth scenario, the public debt ratio would reach about some 55 percent of GDP by 2017, which is tolerable when compared to standard debt sustainability thresholds.

10. **With support from the Bank, the Government began to take measures to improve budget execution, and in 2011 introduced measures to simplify tendering (including introduction of a one-stage bidding process) and devolve responsibility to line agencies.** Tunisia will continue to need budget support from international partners to stimulate recovery and finance social programs until its commercial borrowing terms improve. The Bank has provided a total of US$1.2 billion in budget support through three Development Policy Loans (DPLs) for the period January 2011 to June 2013. For 2014, a multi-donor package of approximately US$1.2 billion included the Second Governance, Opportunities and Jobs (GOJ-2) DPL and the GOJ-3 DPL, for a total amount of US$750 million; as well as further budget support from the EU in the form of various grants totaling Euro 135 million and macro-financial assistance totaling Euro 200

[30] http://ieg.worldbank.org/Data/reports/tunisia_cpe_app_updated.pdf

million. The IMF has authorized use of the proceeds of the Standby Arrangement (SBA) for budget financing purposes, and an amount equivalent to US$507 million was made available after reviews of the program at end-January 2014. A Public Expenditure Review (PER) was expected to begin during the ISN period but was delayed until the new Government was in place. The PER is expected to start in FY16.

Objective 2: Strengthening the business environment and deepening integration. Mostly Achieved

11. **Business environment.** The Bank Group supported the introduction of reforms to improve the investment climate. These reforms aimed at reducing bureaucratic transactions and processes, increasing transparency and market contestability, and reducing discretion. The Government started a regulatory simplification process in August 2012, which picked up again in late 2013, to reduce arbitrary and discretionary behavior by officials as part of its commitments under the GOJ DPLs. By mid-2014, most ministries had completed assessments of their procedures and recommended simplification of about half of the procedures on the books and the elimination of some five percent of them. The Ministry of Finance piloted the reform and procedures related to customs, export regulations and value-added tax (VAT) were simplified. Furthermore, the Ministry published online its formal procedures and issued a decree formalizing appeal procedures, which help improve transparency of administrative processes. Although the reform program was slowed down by the political stalemate in 2012-13, most ISN targets in this area were met.

12. **The Bank Group prepared analytical work and provided advisory services to help the Government define a growth strategy and reform agenda**. The Development Policy Review (DPR) prepared by the Bank and completed in FY14, and other analytical work prepared during FY13-FY14 (Attachment 3) contributed to this objective. For example, in FY12, the Bank and IFC prepared an Investors' Motivation Survey and an Investment Climate Assessment to better identify private sector constraints to investment, as well as options to improve access to rural finance. The Bank has also prepared a study on informal trade, which is contributing to the policy discussion on trade policy. The analytical work on economic issues has fueled the public dialogue on economic policy, helped to generate buy-in in many sections of society on the need for reforms and informed the elaboration of the reform agenda. IFC also provided extensive advisory services focused on drafting of a new Investment Code, simplification and elimination of excessive business regulations (136 regulations simplified/eliminated between FY12-FY14), modernization of the Bankruptcy Law, and out-of-court settlement of commercial disputes.

13. **IFC's advisory services have also contributed to improving corporate governance framework and practices at three levels**: (a) at *market level* by building the capacity of the Arab Institute of Business Leaders (a Tunisian think tank) to provide corporate governance training to its members and develop studies and publications; (b) at *regulatory level* by supporting the development of voluntary code of corporate governance and also conducting a training for the staff of the Central Bank of Tunisia (CBT), as well as executives of banking institutions; and (c) at *firm level* by providing in-depth advisory services (i.e. corporate governance assessments and board training) to select firms.

14. **The targets of the IBRD Second Export Development Project (EDPII**), which closed in December 2012, related to technical controls and customs declarations were met although there

are indications that the situation in the custom authorities of the ports has deteriorated over the past two years with the frequent changes in personnel. The Third Export Development Project (EDP III) was approved in June 2014 after several months of delay. The ISN target of increased efficiency in port container handling was not achieved during the ISN period (but subsequently in FY15).

15. **Financial sector.** The Bank Group supported reforms aimed at improving the operation and stability of the financial sector. To this end, the Bank and the IMF carried out a Financial Sector Assessment Program (FSAP - assessment of a country's financial system) in 2012, which confirmed that the banking sector faced increasing difficulties as a result of poor risk provisioning, a large non-performing portfolio and weak governance practices, which were carried over from the pre-Revolution period.

16. **In FY12, the Bank and IFC carried out a debt restructuring analysis** - for the tourism sector, which included an action plan for resolving high levels of debt that were negatively impacting the banking sector. One of the recommendations was to create a "*bad bank*" or an Asset Management Company (AMC) to take over the distressed assets of *Société Tunisienne de Banque* (STB). The creation of the AMC was opposed by strong lobbies exacerbated in 2015 by tourism shocks. The 2015 budget included provisions to recapitalize the STB and Government is exploring other options of addressing tourism-related debt. Along with the tourism Debt Restructuring Analysis, the FSAP provided the analytical underpinnings for technical assistance and policy reforms that the Bank, IFC, and the IMF have supported. These have included the introduction of stricter regulations, the strengthening of banking supervision procedures, as well as the restructuring and recapitalization of state-owned banks, a process that is now underway.

17. **The financial sector reform program was part of the first GOJ DPL**. As part of this reform, the CBT introduced stricter prudential regulations for the banking sector, gradually moving towards international best practice. A 2012 circular imposed more stringent prudential ratios on banks, with the capital adequacy ratio increased from 8 to 9 percent - an ISN target which was met. In addition, the Ministry of Finance issued a decree that (a) clarified the division of responsibilities between banks' managements, their boards of directors, and the State as shareholder; and (b) established a transparent and competitive process for the hiring of the future board members. The ISN objective that 18 banks, including the three state-owned banks, appoint independent directors was met.

18. **After a long process, the auditing of the three state owned banks namely the STB, the *Banque de l'Habitat* (BH), and the *Banque Nationale Agricole* (BNA) was completed.** In parallel, the Ministry of Finance and the Central Bank have prepared a strategy for the restructuring of the three public banks and the restructuring strategies approved by newly appointed Boards. Through the regional MSME TA Facility, the Bank has also supported the creation of a credit bureau for the nascent micro-finance institutions and carried out several studies aiming at informing the policy dialogue (e.g, tourism sector debt restructuring, excessive lending rate regulation).

19. **To complement the Bank's efforts in the financial sector, during the ISN period, IFC significantly increased its investments and advisory services in the financial sector to expand**

MSMEs access to finance. In terms of investments: in FY12, IFC committed and mobilized: (i) US$22 million in a regional SME fund (Maghreb Fund III) managed by Africinvest-Tuninvest; and (ii) US$10 million trade facility with Amen Bank (approved, but not activated to date), the second largest private sector bank. In FY13, IFC played an important counter-cyclical role at a time when few investors had funds available for Tunisia: (i) extending a local currency loan equivalent of US$6 million to ENDA *inter-arabe* (ENDA), the largest Tunisian micro-finance institution and; (ii) committing a US$48 million equity investment in Amen Bank, to enable it to lend more to SMEs and to expand its operations. In FY14, IFC invested in two regional SME private equity funds managed by the North Africa Capital Partners and by the Mediterranean Capital Partners to provide equity financing to SMEs in the Maghreb region, including Tunisia.

20. **Jointly with the World Bank, IFC implemented the MENA MSME Facility, which included the following advisory projects**: (i) since 2012, IFC has been providing technical advice to Amen Bank to improve the bank's key pillars of risk management. The project aims to assess the status of governance and progress towards meeting the new CBT standards; benchmark the risk management capability to Basel II standards, design an appropriate risk management framework; develop the Treasury, market risk management and Asset and Liability Management (ALM) functions; and improve the credit risk management practices. As a result, Amen Bank's percentage of loans greater than 90 days overdue decreased from 13 percent in 2013 to 12 percent by June 2014; (ii) IFC has been working with ENDA on Corporate Governance, NPL/Risk Management, Product Strategy, Transformation, and Capacity Building in key areas (MIS and HR). As a result, ENDA has been able to substantially increase its client base, which includes a large proportion of women and vulnerable populations. By June 2014, ENDA had disbursed 347,669 micro loans to women totaling US$220 million; (iii) in FY14, IFC conducted a diagnostic of CBT's credit registry and provided recommendations for modernizing the credit registry. As a result of the diagnostic, IFC provided Advisory Services to CBT with an objective to better utilize the data in the credit registry for supervisory purposes; (iv) IFC organized workshops and seminars with CBT and banks to promote the establishment of a private credit bureau (PCB); a PCB is now being established in Tunisia and will provide critical financial information to banks necessary to develop SME banking; (v) in FY14, and as part of the Arab Secured Transactions Initiative, a joint program between IFC and Arab Monetary Fund, a secured transactions diagnostic was conducted to assess the legal and institutional frameworks for lending against moveable assets in Tunisia, and a final report including findings and recommendations was shared with the CBT; (vi) IFC implemented a large scale survey to understand MSME's needs for financial services and disseminated the findings to commercial banks. The “Market Assessment of the Financial Needs of Very Small, Small, and Medium Enterprises in Tunisia” report was disseminated widely via the organization of banks’ CEO round table in partnership with the Tunisian Bank association (with the participation of the Ministry of Finance and Central Bank) and SME Banking Conferences held in Tunisia and Algeria.

21. **A Bank-financed project to help finance MSMEs was approved in FY12 and additional financing for it was approved in March 2014.** ISN objectives on SME lending were largely met, at end FY14, the entire proceeds of US$50 million were committed with over 200 loans approved coupled with the establishment of procedures for the Microfinance Supervisory Authority.

22. **In coordination with the Bank and the IMF, IFC has provided training and advisory services to promote sound governance practices in the banking sector, in order to improve performance and attract investment.** The Bank has provided similar training to financial sector regulators (banking, insurance, micro finance) and the Ministry of Finance.

23. **MIGA has contributed to deepening integration with Europe through its support to a project involving the financing of a passenger-car ferry in August 2011**. MIGA issued guarantees totaling $217.7 million against the risks of non-honoring of sovereign financial obligations. The project has helped enhance transportation links with Europe by expanding capacity in terms of passengers and cars and shortening transportation time.

Objective 3: Creating an enabling environment for labor market reforms. Mostly Achieved

24. **To build consensus on needed structural reforms of the labor market**, including revision of the Labor Code, the Government launched in 2012 a social dialogue process that included the main trade union (UGTT) and the main business confederation (UTICA), with assistance from the International Labor Organization (ILO). The launching of this dialogue was an ISN target. The dialogue resulted in a "new Social Pact" and action plan signed in January 2013, which paved the way for a reform of the Labor Code. As a follow up, the Government has commissioned studies that will help identify policy options in the areas of social security and labor regulation. Analytical work in the area of social protection included a review of social security sustainability to prepare pension and health insurance reforms, and an institutional assessment of the National Employment 21-21 Program which were completed within the ISN timeframe providing a sound analytical basis for needed reforms.

Objective 4: Improving active labor market programs for the unemployed. Partially Achieved

25. **In 2012, with technical support from the Bank, the Government consolidated the existing five programs financed by the National Employment Funds**, in order to improve the effectiveness of active labor market programs (ALMPs) and develop job insertion programs. Existing ALMPs continue to exist until the rollout of the new programs. The GOJ DPLs supported the dialogue on policy reforms in labor legislation and labor markets.

26. **In 2013, the Bank supported the establishment, in the Office of the Comptroller General, of an independent evaluation system for labor market programs,** a prior action under the second GOJ DPL. To test new approaches to program evaluation, a grant supported development of an online monitoring system for the Community Works and Local Participation Pilot cash-for-work program in Jendouba.

27. **In 2012, the Bank began preparation of a Training for Employment investment project that would expand the private sector's role in training and certifying skills.** However, the Government requested that the Bank replace that operation with a Tertiary Education and Employment project (TEEP) with more focus on higher education and on the establishment of better links to address mismatch between skills of university graduates and job skills needed in the private sector.

28. **In FY13, IFC launched the Education for Employment E4E Initiative for Arab Youth in Tunisia to improve youth employability.** As part of this multi-faceted initiative, IFC signed partnerships with a vocational training institution (ISET Djerba), a training provider (CEFAC), and a business association (IACE) to train youth in management and soft skills under the IFC Business Edge methodology, and hence prepare them better for the job market. By June 2014, 10 trainers were trained in the Business Edge methodology, who in turn trained 129 participants, of which 46 percent were women. IFC also signed a partnership agreement with the ICT Federation to: (a) design and implement labor market information system; (b) design and implement a competency framework for the sector; and (c) create a matchmaking mechanism to better align employers' demands with training offer in the market.
99.

AREA 2: PROMOTING SOCIAL AND ECONOMIC INCLUSION. MOSTLY ACHIEVED

Objective 5: Improving access to basic services for underserved communities. Achieved

29. **The Revolution opened the way for greater participation of local authorities and local communities in the design of economic policies, in decision making, and in delivery of public services.** As foreseen in the ISN, the Bank-financed Second Natural Resources Management Project and the Fourth Northwest Mountainous and Forested Areas Development Project, approved in May and December 2010, respectively, which use an integrated approach to community-based development, have contributed to increased participation and access to services and proven an important instrument in introducing change in the regions. Government policy changes after the Revolution took time to filter to the regions and this, combined with the rotation of personnel at the local level, resulted in a slow restart of the operations. The process of validating project and community structures was completed in the areas covered by the Fourth Northwest Development Project and is underway in the areas covered by the Second Natural Resources Management Project, which is being implemented in one of the poorest regions in Tunisia with high levels of social turmoil. Despite these constraints, all but one of the targets set in the ISN were reached or surpassed. Of the 177 local districts (*Imadas*) under the projects, 157 have Participatory Development Plans, and some 48 percent of the targeted districts have improved infrastructure and social services, more than double the 20 percent target. The targets were also met with respect to the land under water and soil improvement, with 33.6 percent of protected lands (16,000 ha) under soil/water and other improvements, and additional land under soil/water conservation.

30. **Bank-financed operations providing basic services in water and sanitation continued to be implemented, and as planned in the ISN, the sector portfolio was reviewed and some operations restructured to adjust the projects to evolving needs.** Additional financing was approved in FY14 for the Urban Water Supply Project, which aims to improve the quality of services in Greater Tunis, home to about one-fifth of Tunisia's population, and to small urban centers in northern and central provinces. The project is meeting intermediate indicators despite implementation delays: some 1.2 million household water connections have benefitted from rehabilitation and upgrading under the project, and the volume of water billed in targeted cities increased from 103 m^3 per year in 2006 to 186 m^3 per year in 2013. The Second Water Sector Investment Project, implemented by the Ministry of Agriculture, aimed to improve operation of

irrigation systems and access to drinking water for rural households. Over 100, rural potable water systems, benefiting some 81,000 people were created or rehabilitated surpassing project targets.

31. **The Bank has supported work to gradually transfer responsibilities and budget resources from the central government to local governments to enable them to provide services.** Analytical work on municipal governance and finance under the ISN served as an input for defining policies (see Attachment 2). An Urban Development and Local Governance Program-for-Results focused on financing local investments and promoting sector-wide reforms using an innovative "bottom up" approach was approved by the Board in July 2014. Under this operation, the Government will transfer capital grants to local governments.

32. **IFC continued to promote private sector provision in infrastructure and social services, through advisory and investment work**. However, projects have been delayed mainly because of the political transition. IFC expected to pursue investment and advisory services to support renewable energy projects, but this has been delayed because the law on PPPs and on renewable energy were not voted during the ISN period. Nevertheless, IFC was able, jointly with the Bank, to initiate a PPP advisory mandate with ONAS *(Office National d'Assainissement*) under the Concession law, which is expected to increase private sector management from 25 percent to 50 percent of ONAS network. The Bank has also provided assistance to ONAS in this area.

33. **In FY11, to encourage increased private sector investment in health care, IFC committed a US$8.2 million in equity in a private health care company (Amen Santé) i**nvolved in building and operating quality health clinics in various parts of the country, including lagging regions. The rationale was to enable Tunisia to not only tap into foreign demand for good (and affordable) health care services (health tourism) but also to improve access to quality care for less well-off regions. Current operations consist of four clinics with a combined capacity of 330 beds. In particular, Amen Sante invested in two clinics in lagging southeastern (Gafsa) and northwestern (Beja) regions of Tunisia. Amen Santé has 940 employees in Tunisia, of which almost 70 percent are women.

Objective 6: Improving the efficiency of social safety net programs. Partially Achieved

34. **To improve the efficiency of social safety net programs and help refine programs**, the National Statistical Office (INS) reviewed the methodology used in preparing poverty estimates, which had been in use for the past 15 years, with technical assistance from the Bank. The resulting analysis showed that some 15 percent of the population was living below the poverty line, as opposed to the 5 percent estimated before the review. The INS has published the analysis and methodology on its website, an ISN target. The Government has also made available the data on household surveys, which allowed for the preparation of a Poverty Assessment which was completed in FY16.

35. **Bank staff also conducted seminars for staff of the INS and ministries involved in developing safety net programs**, although the number trained was lower than initially planned, as INS was significantly affected by personnel changes and disturbances during the transition. Due to staff mobility and improvements in online training methods, it is expected that assistance will now focus on developing training modules that are Internet based to allow for independent study.

36. **The Government initiated the process of improved targeting of social services**. The process was, as expected, politically sensitive and involved ministries with overlapping functions, which delayed actions, but ISN targets in this area were partially achieved. The Ministry of Interior and Social Affairs updated the eligibility criteria for social services in 2011 and began exploring options for unification of beneficiary databases in 2012, following a Council of Ministers Decision.

37. **The ISN sought to preserve the gains made by women in Tunisia. In its dialogue with Tunisian leaders, the Bank Group consistently underscored the critical economic importance of protecting women's status in the new Tunisian Constitution.** The Bank Group also applied a gender lens to all new operations in an effort to promote women's access to economic opportunities; ensure that all projects had a gender dimension; and to the extent possible, track gender indicators as in the case of the MSME facility, the number of micro-enterprises headed by women. The objective of increasing women's participation in community work in the Social Protection Project, approved in 2013, has been surpassed (grant from the MENA Transition Fund). ISN targets were achieved as over 70 percent of community workers were women, against a 30 percent target. Reforms in the social sectors have been supported by development policy operations, considerable technical assistance provided directly by the Bank, and through trust fund grants for employment under the Social Protection and Community Works programs. IFC's investment in ENDA micro-finance has helped ENDA to substantially increase its client base, which includes a large proportion of women and vulnerable populations. By June 2014, ENDA had disbursed 347,669 micro loans to women valued at $220 million.

AREA 3: STRENGTHENING GOVERNANCE: VOICE, TRANSPARENCY, AND ACCOUNTABILITY. PARTIALLY ACHIEVED

Objective 7: Improving access to information and social accountability. Partially Achieved

38. **Following the 2011 Revolution, Tunisia embarked on a profound transition from secrecy to transparency and access to information**, leading to the adoption of a legal and regulatory framework and a policy of fiscal transparency, which has been broadly supported by the Bank and is part of the dialogue on increasing the transparency and accountability of public policies supported by the DPLs.

39. **The Bank continued to support the full implementation of public sector access to information legislation.** In May 2012, the Government spelled out the procedures for implementation of this 2011 legislation in what is commonly referred to as a "*circulaire*," including standardized forms to request information or file complaints. In addition, Government created the position of information officers as an interface between Government and citizens tasked with responding to citizens' queries.

40. **The Government also made progress on proactive disclosure of information, notably on statistics and public finance.** In September 2012, the Minister of Finance issued a decision on the publication of key information on the budget, which was published on the Ministry's website. The MDTF also supported the development of an "Open Budget" Internet platform in Tunisia, which went live in 2015, in order to facilitate broad access to detailed fiscal data. Most information on household and labor force surveys have been published on the INS website.

41. **The Government also introduced a mechanism for consultation and feedback.** The website received 800 requests, surpassing the ISN target. A mechanism has been established under the Open Governance Partnership Program for consultation on key measures. Currently, the website includes consultations on six topics, including the reform of the judicial system, the establishment of a national health insurance fund, and reforms of the public service.

42. **The Bank had been supporting reforms in the information technology sector prior to the Revolution and had provided needed institutional support.** Following the Revolution, access to Internet content was liberalized and controls were eliminated. The ISN target for Internet use was met (.TN domains almost tripled during 2010-2013 to reach 22,365 surpassing the ISN target). Open information and accountability has been part of the DPL dialogue. The Bank also provided technical assistance to support increased access to information, information technology support, and the establishment of social sector accountability institutions.

43. **To facilitate public discussion on key economic policy reforms, the Bank supported the production of media products on key issues to be used in a public information initiative**. These included labor market reform and the challenge of job creation; pension reform and implications for the next generation; the Investment Incentives Code and opening up to foreign investment; the cost of cronyism, and regulatory red tape; food and fuel subsidies; and the social protection system.

Objective 8: Increasing transparency and accountability of institutions. Partially Achieved

44. **The Bank has supported initiatives to improve the quality and accountability of social services, and these reforms are an integral part of the policy dialogue under the DPL series.** Objectives were mostly achieved. In 2012, the Government instituted accreditation systems for health and education to promote better governance and improved quality of services. A functioning health accreditation agency was organized and an assessment program was launched. A roadmap for a five-year implementation process for the health sector was validated in October 2012. The operationalization of the education accreditation agency has moved slowly, partly due to delays in decisions about the governance of the accreditation authority. The management of the agency was appointed in July 2013, and it became operational in the first half of 2014, making it possible to achieve the accreditation of 40 programs and three higher education institutions by end 2014.

45. **Improving public procurement is a priority to improve transparency and efficiency of public expenditures, and the Bank has provided technical assistance in changing the legal and regulatory framework.** The procurement process was shortened and the rules for urgent public investment projects were changed in 2011 and 2012, pending a more structural reform of system. In parallel with the initial reforms, the Government, with the support of the World Bank and the African Development Bank, carried out in 2012 an evaluation of its procurement system using the OECD-DAC methodology, and prepared a detailed action plan that was approved by the Council of Ministers in August 2012. In addition, to further support the reform process and address related capacity constraints, the Bank approved a grant from the Institutional Development Fund (IDF). A new public procurement decree that improves transparency, governance and complaint handling, and that clarifies consultants' selection methods, was adopted by the Council of Ministers and published in the Gazette, and went into effect on June 1, 2014. The first electronic public contract through the new e-procurement system (TUNEPS) was signed in October 2014 between

the Agency for Urban Rehabilitation and Renewal (ARRU) and SERVITRA, subsidiary of Servicom Public Works (private group specializing in telecommunications and civil engineering). Several agencies have not yet posted their information and some remote public entities such as municipalities do not yet have access to this portal. Thus, the target that 100 percent of contracts be made public has been partially achieved. The 2012 decree requires that the procurement cycle from the bid submission until contract signing not take longer than 120 days, although the processing of some contracts still takes longer than the prescribed number of days.

46. **A more transparent budgeting process has been established, and ISN targets in this area have been met.** The Bank provided technical assistance in this area. A citizen budget, with a simplified presentation of the budget allocations and process, has been published since 2013. Quarterly and end-of-year budget execution reports, and annual audit reports are also being published, in line with objectives. As mentioned, the online Open Budget Platform, including details on budget data representing detailed budget data since 2008, went live in 2015.

1.4 - Bank Group Performance

47. **The CLR rates the WBG's performance as Superior, based on its contribution to discussions with the Government on the best approach to implementing reforms**. The rating reflects the fact that the Bank Group's performance in this area marked a radical change with respect to its pre-Revolution engagement with the Government, whereby political economy landscape was opaque and coupled the strong vested interests in the country which were not conducive to initiating successful ambitious reforms.

48. **The Bank established a country office in Tunis 2011 and IFC opened its office in 2012.** The Bank team in the field includes the Country Manager, an economist, key technical specialists, fiduciary, and EXT staff. Task team leaders based in Rabat oversaw activities in governance, access to information, employment, and portfolio management and actively supported the Tunis team. Bank staff showed dedication in assisting Government teams, which changed several times during the three transition Governments in the 2011-2014 period. Bank staff provided direct assistance in technical areas such as statistics, service delivery and community development; and in the areas of information and communication, and training in Bank procedures. Bank teams carried a heavy workload, which included administrative work associated with a large number grants channeled through the Bank and executed by both the Bank and government agencies. In addition to the country team based in the Tunis Office, IFC staff from its regional and hub offices were actively involved in business development and portfolio monitoring efforts over the evaluation period.

QUALITY OF PROGRAM DESIGN

49. **Given the protracted and uncertain transition process, the Bank Group prepared an Interim Strategy Note for the FY13-14 period.** The ISN was a joint effort of the Bank, IFC and MIGA and reflected the priorities of the recovery program prepared in consultation with the transition Government in early 2012. The ISN program focused on providing basic services and improving governance in addition to laying the foundation for sustainable growth and job creation. The principles of engagement included flexibility, selectivity, integrating gender into new activities, and broadening consultations with civil society. The ISN results framework included

outcome indicators in key areas, but avoided ambitious structural reform objectives, which was appropriate given the challenging country context. Labor market reform indicators were included in the area of growth, although the program of activities was in fact modest, reflecting the two-year implementation period. The ISN noted that ongoing operations in the areas of water, wastewater and sewerage, which represented a large part of the portfolio, would be restructured as needed. As these operations entail infrastructure investments that take time to yield results, the ISN did not include indicators in these areas. Given the macroeconomic outlook, the ISN envisaged that a large share of Tunisia's IBRD envelope would be used to provide budget support through development policy loans.

50. **The ISN program was envisaged over two fiscal years, with adaptable annual targets to build in flexibility due to the difficult social and economic environment**. The Bank Group's flexible approach also allowed the institution to adjust to political economy realities in 2013 and 2014, and to calibrate its financing to the level of ambition and feasibility of reform efforts.

51. **The monitoring framework was consistent with the ISN timeframe, and only those lending and non-lending** WBG activities and their corresponding outcomes and indicators that were relevant to the ISN areas of engagement were included in the results matrix. ISN monitoring was linked to project monitoring, which was appropriate given the challenges in central policymaking institutions after the revolution. There were regular Country Portfolio Performance Reviews (CPPR) conducted jointly by the Bank and the Government during the period.

52. **The risk assessment framework was relevant and useful, especially in light of the difficulties of forecasting political events. The ISN explicitly recognized the risk that social tensions and political uncertainty could delay reforms**. The ISN also noted the Government's weak institutional structure and provided for technical assistance as required. By contributing to macroeconomic stability, the program helped mitigate risks.

53. **In hindsight, the assumptions under which the first post-revolution "Governance and Opportunities" DPL** was approved in 2011 underestimated the time it would take for stakeholders with different political orientations to reach agreement on the new Constitution and in the election of a government. Although the ambitious nature of the DPLs created its own risks, it is difficult to find precedents for smooth political transitions in highly divided societies such as Tunisia. While the policy agenda set by the DPL series was indeed ambitious, the progress achieved in transparency and communications, banking regulation, and other major reforms would not have been achieved had there not been an ambitious agenda.

54. **The Bank's views as expressed in this assessment are in line with the IEG's 2013 Program Review, which states that "overall, the country** team has been responsive in adjusting strategic direction and flexible in light of the evolving political context. All Bank-financed operations explicitly include governance issues. The integration of gender into strategy and plans is one of the four guiding principles of the ISN for FY13-14, although challenges persist in translating this aspiration into the design of specific measures. The use of multi-sector DPLs, underpinned by sound analysis, helped focus support, reinforce coordination within the Bank Group and across donors, which generated enhanced responsiveness to the Government's needs."

55. **The Bank team notes IEG's** comment that it might have been helpful to streamline the measures envisaged in the policy reform agenda, although this would not have yielded different results, given that: (a) Government inaction reflected the need to focus on political reform; and that (b) the reforms, particularly of the Labor Code, were highly complex. These factors did not reflect on the merits of the economic reform agenda.

WBG RESPONSE

56. **Lending.** In the period since the January 2011 Revolution, the Bank and IFC substantially increased their engagement in Tunisia. The Bank established a full-fledged country office and appointed a Country Manager in 2011 and approved US$1.8 billion between January 2011 and July 2014, of which US$1.2 billion was for budget support. Of the total, US$926.2 million was approved in FY13-14, slightly below the programmed amount. Approval of the two operations in the urban and financial sectors was delayed, but additional financing for the ongoing MSME and Urban Development and Local Governance operations were approved instead. The 2012-2014 political stalemate led to delays in the introduction of economic reform measures, particularly those that involved legislative action. The Bank postponed and scaled back the second DPL planned for 2013, because of lack of progress in agreed policy reforms; the second DPL was approved in April 2014. Planned and actual lending during the FY10-14 period is given in Attachment 2.

57. **As of end June 2014, IFC's committed and outstanding portfolio stood at US$216.8 million and US$109.2 million mobilized from other investors**. During the period FY10-FY14, IFC stepped up its engagement in the country with six new investments amounting to about US$103.7 million in diverse sectors. In FY11, IFC committed US$8.2 million in Amen Santé, a private healthcare provider. In FY12, IFC committed a total of US$41.7 million in three projects: (a) US$21.7 million in a regional SME fund (Maghreb PE Fund III), sponsored by the Tuninvest Group; (b) US$9.5 million equity in Candax (oil and gas sector) ; and (c) US$10 million trade facility to Amen Bank, the second largest private sector bank. In FY13, IFC committed US$6.3 million for micro-finance with ENDA and made an equity investment of about US$48 million in Amen Bank. In FY14, IFC had no direct investments in Tunisia due to the difficulty in attracting investors during a period of political and security volatility. Nonetheless, IFC invested in the country through regional investment funds that target high growth SMEs in Tunisia, Morocco, and Algeria—supporting much needed regional integration. IFC's disbursement ratios were high during this period (about 90%), despite the difficult operating environment.

58. **Advisory Services and Analytics:** Following the Arab Spring, IFC established a field presence in Tunis in 2012 and stepped up its advisory services - a big step forward compared to previous years when IFC had no active AS program, in particular in the area of the business environment. Over the FY11-FY14 period, IFC spent about US$2.3 million in advisory dedicated to strengthening the business environment, in close collaboration with the World Bank and as part of the reforms and prior actions supported by the World Bank-financed successive DPLs. IFC has started implementation of several projects in priority areas of investment climate, corporate governance, and access to finance to MSMEs.. IFC has worked closely with the World Bank in promoting a business friendly investment climate through the implementation of advisory projects focused on regulatory reform (investment code, competition, reform of business formality, regulatory simplification, and bankruptcy law), debt resolution mechanisms, skills, and support to

MSMEs through the MSME TA facility. Work has also started on reforming the investment code (Cooperation Agreement with the Ministry of Investment and International Cooperation signed in August 2012). IFC supported the drafting of a new investment code. The draft investment code presented to *the Assemblée Nationale Constituante* (ANC) was not satisfactory to the WBG, as it only partially addressed the recommendations on market access and the streamlining of the incentives. Subsequent to ISN period and following the 2015 legislative and presidential elections, deeper reforms were discussed with the new government and further enhancements to the investment code which was submitted to Parliament end CY2015. Changes introduced included clearer guarantees to investors and more flexibility in hiring foreign cadres. Through the review of the institutional framework for investment, an assessment and recommendation report for investment promotion and sector development agencies was concluded. In FY13, IFC signed another Cooperation Agreement with the Government of Tunisia to help nine ministries with the process of reviewing all formalities that are imposed on the private sector, and determining which ones should be maintained, streamlined, or eliminated. Regulatory simplification reform is one of the prior actions supported by the recently approved Bank-financed DPL to Tunisia, and this advisory project is a good example of close IFC-IBRD collaboration in the region. In addition, IFC and the World Bank worked as "one team" on the Bankruptcy Law and are jointly implementing the MSME facility, a comprehensive advisory program to support SMEs.

59. **The Bank carried out a considerable amount of analytical work and provided technical assistance with its own funds and with trust fund resources**. IFC also provided considerable advisory services in the banking sector. The country team used this analytical work to inform the economic debate at the time of the Revolution, create buy-in on the need for the economic reforms, and help define the reform agenda.

60. **The Bank Group also leveraged US$44.5 million in grant financing to support technical assistance and research programs in the period following the Revolution**. In FY12-14, Tunisia received 40 grants from 22 donor grant programs. Of these, five grants from three programs, the World Bank State and Peace-building Fund, the Japan Social Development Fund, and the Global Environmental Facility, accounted for 60 percent of the US$35 million in grant commitments during the period. Tunisia also received an Institutional Development Fund grant of US$250,000 to support procurement reform. In hindsight, the large number of grants for small activities made portfolio management more difficult and complicated the Bank supervision efforts in some sectors.

61. **Analytical work** was broad-based. The DPR of October 2013 makes a good case for the underpinnings of the reform agenda. Technical assistance included support for measures being implemented under the development policy operations in the financial sector, social protection programs, and communications reform. Work on the financial sector included, notably: (i) an FSAP, (ii) banking sector corporate analysis, (iii) a banking sector stress test, (iv) a tourism sector debt analysis, and (v) a reserve and asset management capacity building. They contributed to financial sector reforms underway and to the definition of a sector reform program, which is being implemented and which will be supported by the Bank-financed development policy loans. They also contributed to build capacity within the Central Bank. Assistance was also provided for other tasks to prepare the ground for the future such as preparing a decentralization strategy; modeling the poverty and social impacts of shocks; assistance with setting up of a fund to manage the assets

already recovered from the family of the former president. The Bank is also piloting programs in the areas of youth, employment, local development, and employment and support to the Tunisian workers returning from Libya, and community building. Financing from the JSDF and the State and Peace building Fund (SPF) provided support to develop programs in the area of youth employment. The Bank non-lending program completed in FY10-14 appears in Attachment 3.

62. **Portfolio.** Portfolio trends after 2011 reflected the disruptions of the period, as summarized in the table below. The percentage of problem projects increased from 20 to 41 percent over 2011-2013, but declined to 15.6 percent in 2014. The deterioration over 2011-2013 reflected delays caused by political events and changes in the Government (with many new officials unfamiliar with Bank procedures), as well as some changes in project implementing units. Procurement processes also became more burdensome immediately following the Revolution. Improvements in 2014 reflect the closing of old projects; considerable technical support, close portfolio monitoring and follow-up by Bank teams; and improved project execution performance by the new Government teams. In addition, there were 12 activities/projects financed through trust funds (grants over US$600,000 listed in Attachment 4). The performance of the three GEF grants (including Gulf of Gabes Marine and Coastal Resources Protection, Solar Water Heating and Northern Tunis Wastewater Project) included in this group is reflected in the Bank portfolio figures given below. The ratings for outcomes and implementation progress on the eight operations for which information is available as of June 2014 are Moderately Satisfactory or Satisfactory.

63. **IFC's portfolio in Tunisia experienced difficulties due to the TAV Tunisia project which was affected by the downturn in tourism resulting from the financial crisis and events in 2011**. IFC has since attempted to re-equilibrate this concession in a way that is acceptable to the various stakeholders due to the critical role that this PPP plays for the future of PPP programs and overall investor confidence in Tunisia.

Selected Indicators of Bank Portfolio Performance, January 2011-June 2014

Indicator	2010	2011	2012	2013	2014
Number of Projects under Implementation	15	15	12	12	13
Average Implementation Period (years)	4.9	5.1	4.7	4.5	4.6
Percent of Problem Projects by Number	13.3	20.0	33.3	41.7	15.4
Percent of Problem Projects by Amount	14.7	16.2	24.2	60.1	13.1
Percent of Projects at Risk by Number	13.3	20.0	33.3	50.0	30.8
Percent of Projects at Risk by Amount	14.7	16.2	24.2	68.0	21.2
Disbursement Ratio (%)	27.4	19.7	10.7	19.2	14.1

Source: WB Annual Report on Portfolio Performance (except for current FY).

64. **As planned in the ISN, the water and sewerage portfolio was restructured to adjust the projects to the country's needs.** Priority projects included the West Sewerage Project, serving poor communities in Greater Tunis; the Sustainable Municipal Solid Waste Management Project,

piloting public-private partnerships in solid waste management planning at the municipal level and the Northern Tunis Wastewater projects, which are paving the way for the reuse of up to 44 percent of the treated wastewater produced by Greater Tunis.

65. **Bank staff prepared Implementation and Completion Results Reports (ICRs) for the ten projects that closed in the FY10-14 period**. IEG data for FY09-13, the latest available, show that half of the projects were rated Unsatisfactory or Moderately Unsatisfactory. The IEG review of Bank performance before 2011 noted that "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 in the absence of supporting reforms to remove core obstacles" (IEG report[31], page ix).

66. T**he IEG review of the ICR for the FY11 Governance and Opportunities DPL noted that indicators and actions were not as well prioritized as would have been desirable**. The Bank team acknowledges that the documentation should have made clearer the ambitious nature of the DPL reform agenda, and particularly noted that first order reforms such as legislation on competition and labor could take many years to introduce. However, the policy dialogue on these issues with the successive transition Governments is a substantial improvement over the level of discussions with the pre-Revolution Government.

67. **Fiduciary and safeguard management.** Procurement presented a challenge in program implementation, in spite of progress in preparing the legal framework and procedural reforms. Procurement was affected by the changes in personnel at different levels of government, as well as by the risk aversion of civil servants, many of whom were unwilling to expedite procurement transactions. Even agencies with a long experience implementing Bank procedures, such as ONAS, were affected by delays. Financial management in Bank-financed operations appears to have been conducted in line with best practices. Regarding safeguards, a review of all on-going operations was carried out to identify safeguard issues. For social safeguards the main issue pertained to land acquisition and for environmental civil works. In this context capacity building of project entities was carried out and remedies were suggested including identification of specific mitigation measures.

68. **Collaboration with development partners.** The Bank Group took a leading role in coordinating donor responses, and was actively involved with other donors in the dialogue with the Government. As a result, the Bank significantly strengthened its partnership base in the country. The IEG report notes that all co-financiers participated in joint supervision missions to assess implementation progress of the common policy reform matrix. Operational aide-memoires and follow-up notes were sent to the authorities to emphasize the pending actions, bottlenecks, and required next steps. Supervision missions were appropriately staffed and scheduled. The Bank organized just-in-time technical assistance as needed, and formulated specific operations to support related reform initiatives and foster implementation of the reform program. IFC's program of advisory services was co-financed with bilateral donors, including the United Kingdom, Switzerland and the Netherlands; and with international financial institutions, including the European Investment Bank and the Islamic Development Bank. IFC maintained an active dialogue and reporting with donors.

[31] IEG Tunisia Country Program Evaluation, FY05–13

69. **Alignment with WBG corporate goals.** The ISN was fully aligned with the WBG strategic goal of boosting shared prosperity as this was a key demand of the 2011 Revolution. In this context, to signal a break from the past, a separate pillar was defined to begin the process of promoting social and economic inclusion. By supporting reforms that aim at economic recovery and lead to employment generation, while strengthening accountability and efficiency in public service delivery, the ISN contributed to increasing prosperity and enhancing opportunities that can be seized by the less well-off to increase their living standards.

LESSONS LEARNED AND SUGGESTIONS FOR THE NEXT CPF

70. Key lessons learned and suggestions for the next CPF are summarized below:

- **Reforms take time, and objectives need to be realistic and modest in a transition country prone to political volatility and social unrest.** Programs in Tunisia need to take into account the disruptions caused by changes in entrenched political structures. It is also important to take into account that discussions on reforms are taking place with new actors, and that first-order reforms in Labor Law and the Investment Code are difficult to implement in any country. While the ISN itself was not overly ambitious, some operations under the ISN program were.

- **Leave room for flexibility to respond to emerging challenges**. The ISN program was envisaged over two fiscal years, with adaptable annual targets to build in flexibility in case of program delays. This flexibility allowed the Bank Group to adjust its budget support under the GOJ DPL series, and align financing with political and economy realities in Tunisia in 2013 and 2014.

- **It is important to incorporate selectivity principles while deciding on partners and projects.** There is a concern regarding elite capture, making it important to be cautious with private sector players that are politically connected. IFC's selectivity principles in engaging with Tunisian private sector groups that were not politically connected over the previous CPS period served the institution well after the fallouts from the 2011 revolution. This high level of selectivity helped to limit reputational risk and portfolio fallouts from post-Revolution events.

- **The Bank Group should continue to emphasize the importance of informing all stakeholders about needed reforms.** Dissemination of the Bank Group's high-quality analytical work helped inform the economic debate at the time of the Revolution, and has been instrumental in defining a policy agenda for the future and creating buy-in on the need for the economic reforms.

- **The Bank Group's focus** on the most critical short-term priorities helped to pave the way for achieving results in the medium term. For example, support for social dialogue under the ISN has helped to build consensus on future Labor Code reforms.

- **Although consultations with civil society and the private sector are not new to the Bank's work in Tunisia, the groups whom the Bank engaged in the past, such as the business elite, were closely allied with the authorities.** Following the Revolution, the

Bank has been able to solicit considerable input from new stakeholders, including local officials, CSOs, youth and women's groups, private sector, parliamentarians and others, on development priorities and topics of youth employment, governance, health and education, and for the preparation of analytical work and operations, such as the GOJ DPL.

- **Experience in post-Revolution Tunisia confirms the importance of the Bank's role in promoting the coordination of donors.** At this difficult juncture in the country's history, the strong donor coordination led by the WBG, with the IMF and other development partners, including UN agencies, as well as the exemplary coordination between the Bank and IFC, allowed for a steadfast and committed international partnership to help guide the authorities' reform efforts. This partnership was critical for establishing trust and encouraging the authorities to stay the course. The coordinated partnership with development partners also allowed for the effective leveraging of development resources.

- **The choice of lending instruments and financing sources is important.** Experience in Tunisia has shown that the use of the DPL instrument is necessary as a vehicle for policy dialogue and to provide support to ensure macroeconomic and fiscal stability. The DPL was also a vehicle for providing much needed and intensive TA and practical guidance to take forward the many difficult reform efforts. Trust funds helped to provide financing for TA linked to the DPL where there was a financing gap.

- **Tunisia also experienced a mushrooming of small grants for individual activities,** many for innovative tasks such as on youth employment, which had the unintended effect of increasing the supervision burden of Bank staff and transaction costs, with uneven results. The recommendation for the next CPF is to implement greater selectivity in the WBG program and avoid fragmentation.

- **Advisory Services and Analytics (ASA) can play a critical role in facilitating discussions among various stakeholders on complex issues such as rents and privileges.** During the ISN period, the Bank completed a number of high-quality pieces of ASA including, for example, in-depth analytical work on issues like elite capture under the previous regime, as well as the DPR that provided a synthetic overview of the economy and summarized the rationale for reforms in various areas.

ATTACHMENTS

Attachment 1: Tunisia Completion and Learning Review FY11-FY14

SUMMARY OF PROGRAM SELF-EVALUATION			
Outcomes and Outcome Indicators	**Status of Outcomes and Evaluation Summary**	**Bank Group Lending and Non-lending Activities that Contributed to Outcomes**	**Lessons for the New CPF**
ISN AREA I. LAYING THE FOUNDATION FOR SUSTAINABLE GROWTH AND JOB CREATION			
OBJECTIVE 1: SUPPORTING MACROECONOMIC STABILITY AND ECONOMIC RECOVERY (SOURCE: GOJ-2 DPL AND THE IMF STAND-BY REVIEW). ACHIEVED			
Sustain economic recovery. • Fiscal stimulus by Government is supported by Bank and leverages funding from other budget support donors, though joint DPL preparation. Baseline: US$1.3bn (2011) • Emergency procurement procedures are streamlined	• Achieved. GOJ-2 and GOJ-3 DPLs for US$750 million leveraged US$1.2 billion. • Achieved. Government introduced measures to simplify tendering processes and devolve responsibility to line agencies. New procedures called for one stage bidding process. Public procurement decree approved.	**ASA:** • Macroeconomic monitoring. Ongoing • Fiscal and Debt-Sustainability Analysis. FY13 • Public Investment Study. FY14 • Public Enterprise Review. FY14 **Lending** • Multi-sector DPL in FY10, FY12, FY14. Closed: FY10, FY12, FY14. **ASA:** • Macroeconomic monitoring. Ongoing • Development Policy Review FY14	**Lessons learned for CPF FY16-20** • The unprecedented changes in the political landscape make WBG support difficult to program. • Experience in project implementation shows that large changes take time to filter to stakeholders, incl. government officials. • Continued financial support from the WBG needed before the government is able to return to the financial markets.
Promote fiscal sustainability and consolidation. • Fiscal and debt sustainability analysis completed • Public Expenditure Review completed	• Achieved. Fiscal and debt sustainability analysis (DSA) by Bank in coordination with IMF completed in 2012. • Not Achieved. Studies on Public Investment Management and Public Enterprise management carried out instead. Public expenditure review, with other donors to start in FY16		

OBJECTIVE 2: STRENGTHENING THE BUSINESS ENVIRONMENT AND DEEPENING INTEGRATION. MOSTLY ACHIEVED			
Streamlined customs procedures. • Compliance time with selected customs procedures and taxes reduced by 20% Baseline: 3.6 days (2010) • Processing time for a 20 m3 container in port decreased by 1 day: Baseline: 4 days (2010) • Regulatory simplification started	• Achieved. Processing time for selected technical controls fell from 2-11 days to 2-3 hrs. Processing time for customs declarations fell from 3.6 days to 15 minutes • Not achieved Container processing time remained at 4 days. • Achieved - Started in 8/2012 and picked up in late 2013; review of business formalities to streamline procedures and reduce the room for arbitrary and discretionary behavior (GOJ DPL) - As of end FY14 8 of 9 ministries had completed the review and recommended that about half of the 1597 procedures (801) be simplified and 98 eliminated. The Ministry of Finance, which accounts for about a third of procedures, is piloting reform implementation of reforms and has recommended that some 80 percent of its 446 procedures be simplified and some 30 eliminated. As of March 2014, the Ministry had simplified 27 procedures and eliminated four relating to cargo transport, customs, export regulations and VAT. The Ministry has published online an inventory of procedures. Appeal possibilities for citizens have been established by decree, an important step to ensure more transparency in the administrative processes.	**ASA** IBRD • Macroeconomic monitoring. Ongoing • Financial Sector Assessment Program (with IMF) completed: FY12 • Trade Integration Study completed: FY14) • Informal Trade Study completed: FY14 IBRD/IFC • Advisory on Investment code; Bankruptcy Law; AMC Law. IFC supported the drafting of a new Investment code and a review of the institutional framework for investment. • Investment Climate Assessment and Investor Survey. Completed in FY14 • Tourism debt study completed in FY14 which included an action plan for resolving the problems • Two Cooperation Agreements with the Ministry of Investment and International Cooperation were signed. • IBRD and IFC prepared an Investors' Motivation Survey and an Investment Climate Assessment in FY12. **Lending/Investment** IBRD	• Past practices make for slow decision making: decision-making centralized and limited authority and overlapping functions among ministries. • Delays in the political transition affected the country's ability to enact important economic legislation, e.g. in business incentives and labor reform.

		• Multi-sector DPLs in FY10, FY12, FY14. Closed FY10, FY12, FY14. • Export Development 2. Closed: FY13. • Export Development 3. FY14. • MSME FY12; • MSME AFY14	
Banking sector stabilized. • Capital adequacy ratio increased to 9% (7% tier one) • At least 18 banks, including the 5 largest, have appointed 2 or more independent directors	• Achieved. Capital adequacy ratio increased from 8% to 9%. • Achieved. As of FY15 all banks have appointed two or more independent directors. • Audits of 2 SOBs completed. Third audit completed in FY15. • CBT strengthened banking system prudential regulations. Exposure and connected lending norms tightened (CB Circular of 6/2012). • CBT regulations on bank corporate governance strengthened (2011). Ministry of Finance decree gives more autonomy to public banks (12/2013); uniform bank reporting system in place by 12/2014.		• Progress was made but needs to be sustained. Problems in the banking sector would affect lending to the private sector and could have an adverse effect on the budget, as funds would need to be diverted from priority activities to financing of state banks. • Donor cooperation helped bring about needed reforms for instance in the reform of banking regulations and bank supervision. • The existence of some required international standards in bank regulatory framework helps accelerate reforms.

Increased access to financing for MSMEs. • US$30 million in loans granted to 200 MSMEs. Baseline: 0 (2011) • Establishment of the supervisory body for microfinance activities. Baseline: 0 (2011)	• Achieved. Over 200MSMEs received loans totaling TND 61 million (US$38 million). • Achieved. Decree fixing operational procedures of the Microfinance Supervision Authority and Arêtes relating to business licensing procedures and procedures for aligning existing microcredit associations to new legislation. • Amen Bank's percentage of loans greater than 90 days overdue decreased from 13% in 2013 to 12% by June 2014. • ENDA's Portfolio at Risk (PAR) greater than 30 days improved from 3.73 % in FY13 to 1.74% end FY14.	IFC • Advisory services to financial institutions: Amen Bank, ENDA, BCT (ongoing) • IFC advisory to the CBT to implement a diagnostic and provide recommendations for modernizing its public registry • MPEP3 equity FY12 • oil and gas equity investment • Regional SME fund) managed by Africinvest-Tuninvest FY12 • Local currency loan to ENDA inter-arabe, the largest Tunisian micro-finance institution in 2012. • Equity investment in Amen Bank, to enable it to lend more to SMEs and to expand its operations FY13 • IFC investment in two regional SME private equity funds managed by the North Africa Capital Partners and by the Mediterranean Capital Partners to provide equity financing to SMEs in the Maghreb region, including Tunisia FY14	

OBJECTIVE 3: CREATING AN ENABLING ENVIRONMENT FOR LABOR MARKET REFORMS. MOSTLY ACHIEVED			
Process launched for national consensus for labor market reform • Institutional framework (e.g. a National Commission) set up to discuss labor market reform options • Number of meetings on social dialogue organized jointly by the Ministry of Vocational Training Employment and the Ministry of Social Affairs • The government commissions studies and identifies options for reform in the areas of social security, labor taxation, and labor regulation.	• Achieved. Government launched dialogue with the main trade union (UGTT) and business confederation (UTICA) with ILO support (2012). "New Social Pact" signed in 1/2013 to pave way for labor code reforms. • Not Achieved • Achieved: - Review of social security sustainability to prepare pension and health insurance reforms and an institutional assessment of the National Employment Fund (Fund 21-21) underway under Social Protection Project - Decree reforming National Employment Fund to improve efficiency of active labor market programs approved - Government consolidated 5 new active labor market programs end FY14. - Independent evaluation system under the national controller's office instituted by decree (8/2013).	**ASA**: Employment TA - Social Dialogue. Ongoing **Lending:** Annual multi-sector DPLs (as above) **Trust Funds** Social Protection Support Project (Transition Fund) FY14	• Delays in the political transition affected the country's ability to enact important economic legislation, e.g. in business incentives and labor reform. • Progress was made but the vested interests are bound to delay needed reforms in labor legislation.

Objective 4: Improving active labor market programs for the unemployed. Partially Achieved			
Improving delivery of employment services/intermediation • Number of registered unemployed who receive employment services through private providers. Baseline: 0 • Increase number of ANETI job counselors. Baseline: 1 counselor per 794 job seekers (2009) 100. **Governance and Accountability of Employment Programs delivered by ANETI** • Set up a results-based monitoring system for ANETI programs. Baseline: No monitoring system for results exists. • Increase the number of vacancies registered in ANETI. Baseline in 2010: 176 thousand Develop periodic Monitoring Reports (results-based) for ALMPs delivered by ANETI. Baseline: No periodic reports exist	• Not Achieved • IFC signed partnerships with a vocational training institution (ISET Djerba), a training provider (CEFAC) and a business association (IACE). By June 2014, 10 trainers were trained in the Business Edge methodology, who in turn trained 129 participants, of which 59 (46%) women in different management topics. IFC also signed a partnership agreement with the ICT Federation. • Partially Achieved. An online monitoring system has been developed for the Community Works and local participation JSDF pilot cash-for-work program in Jendouba (not used for all ANETI programs). • Not Achieved. Registered vacancies by end FY14 less than 100,000. This was due to (i) sluggish labor demand and (ii) less prospection efforts conducted by ANETI staff – many of whom had to administer/support new ALMPs in place after the political transition, notably the AMAL program. Partially Achieved. A monitoring report was prepared for the AMAL program.	**ASA**: IBRD • Employment TA. Ongoing • Evaluation of ALMPs (completed FY14) IFC • E4E Initiative for Arab Youth. *Ongoing.* **Lending:** • Annual multi-sector DPLs (as above)	• Overlapping agencies and limited capacity delayed rationalization of employment programs, although political problems appear to have been central in delays.

ISN AREA II. PROMOTING SOCIAL AND ECONOMIC INCLUSION			
OBJECTIVE 5: IMPROVING ACCESS TO BASIC SERVICES FOR UNDERSERVED COMMUNITIES. ACHIEVED			
Better access to basic infrastructure and services in rural communities. • 20% of targeted rural Imadas with improved access to basic infrastructure and services. • Water storage capacity increased by 12,000 m3. • 10% of vulnerable people, incl. women and youth, seeking to start income generating activities (IGAs) have obtained financing. Baseline: 0 (2010).	• Achieved. 89% of targeted rural Imadas have participatory development plans (157 out of 177 targeted); 48% have plans under implementation with completed activities that improve access to basic infrastructure and services. • Mostly Achieved. Water storage capacity increased by 6,480 m3 (or 54% of targeted storage capacity). Improved water supply systems without increased storage capacity are not included. • Achieved. Over 12 percent micro projects planned are being supported. 350 beneficiaries including youth and women trained.	**Lending**: IBRD Fourth North-West Mountain & Forest Area Project. FY10 • Second Natural Resources Management Project. FY11 IFC • Amen Santé equity investment (FY11) • IFC and IBRD jointly initiated a PPP advisory mandate with ONAS (*Office Nationale d'Assainissement*) under the Concession law which is expected to increase private sector management from 25% to 50% of ONAS network.	• CDD programs have taken more time than estimated at ISN as this entailed validation of programs, leadership and government agencies at the local level. Changes after the revolution at the local level lagged behind changes in Tunis.
Better management of natural resources and participatory community development in rural communities. • 33% of land under soil/water conservation. Baseline: 30.9% (2010) • 97 administrative sectors that have their population organized in community development groups and have prepared Community Development Plans being implemented in collaborations with partner. Baseline: 37 (2010).	• Achieved. 33.6 % of land under soil/water conservation. (6/2014) • Achieved. 157 administrative sectors that have their population organized in community development groups and have prepared Community Development Plans. 6/2014.		• Traditional centralization of decision-making under previous governments made transition to participatory local government after the revolution slow, especially in the regions distant from Tunis.

• 75 income-generating activities, which are managed by women and young graduates. Baseline: 0 (2010). • Provision of water and sanitation services	• Achieved. 152 income-generating activities being implemented, of which women manage 32. Most activities managed by women and young graduates. • Achieved. • Under Urban Water project, some 1.2 million household water connections have benefitted from rehabilitation and upgrading under the project, the volume of water sold in targeted cities increased from 103 m3 per year in 2006 to 186 m3 per year in 2014. • Achieved. Over 979 ha of irrigation schemes were created, 10,897 ha irrigation and 21,602 ha drainage systems rehabilitated. The project was severely affected by the difficulties encountered in the rural branches of the Ministry of Agriculture in the past 3 years. Over 100 rural potable water systems benefitting some 81,000 people created or rehabilitated. • IFC equity investment in Amen Sante is helping to improve access to healthcare. In particular, Amen Sante invested in two clinics in underserved southeastern (Gafsa) and northwestern (Beja) regions of Tunisia. Amen Sante has 940 employees in Tunisia, including a majority (646) of women. It has reached 90,000 patients (including inpatients and outpatients).		

OBJECTIVE 6: IMPROVING THE EFFICIENCY OF SOCIAL SAFETY NET PROGRAMS. PARTIALLY ACHIEVED			
INS staff trained in new poverty measures methodology and in core poverty and social protection diagnostics. • 10 INS staff trained in new methodologies. Baseline: 0 (2011) • 10 INS staff trained in core poverty and SP diagnostics. Baseline: 0 (2011). INS to publish methodology for poverty measurement online. • Researchers are able to access information online once the new methodology is launched. Baseline: 0 (2012) **Improved targeting of social services** • Beneficiary eligibility criteria update. Baseline: No update (2010) • Unified database for beneficiary information created. Baseline: 0 (2011) • Monitoring framework for targeting mechanisms created. Baseline: none (2011) • 30% of community workers in Social Protection Project are women. Baseline: 0 (2011)	• Partially Achieved. 5 INS staff trained (3 under poverty training and 2 under social services programs). • Partially Achieved. 3 INS staff trained. • Achieved. Government published poverty measurement methodology on INS external website. • Achieved. Circular updating eligibility criteria by Ministry of Interior and Social Affairs issued in May 2011. • Partially achieved. Two databases unified. And unified database principle agreed by Council of Ministers in October 2012. • Achieved. Circular on developing new targeting strategy based on proxy-means testing adopted in October 2012\ • Achieved. 70% of community workers are women in Social Protection Project	**ASA** • Public investment management Report (FY14) • Public Enterprise Management (FY14)	• Because of staff mobility and improvements in methods, there is a need to develop training modules that are Internet based and allow independent study. • Future progress depends of sustained government commitment given nature of reforms. • Overlapping responsibilities have delayed reforms

ISN AREA III. STRENGTHENING GOVERNANCE: VOICE, TRANSPARENCY AND ACCOUNTABILITY			
OBJECTIVE 7: ACCESS TO INFORMATION AND SOCIAL ACCOUNTABILITY. PARTIALLY ACHIEVED.			
Access to information and to economic and social statistics and surveys. • Clear procedures and contact details to request public information are established and published. Baseline: 0 (2010) • Increased use of the new right to access public sector information: more than 50 official requests made. Baseline: 0 • 2007 and 2009 Labor force surveys are published. Baseline: 0 (2010) • 2000, 2005 and 2010 Household surveys are published. Baseline: 0 (2010) • Detailed national accounts for 400 products published. Baseline: 0 (2010)	• Achieved. Decree law adopted and implemented including consolidation of earlier decrees and introduction of an information commission for complaint enforcement. • A circular from the Head of Government specifies detailed procedures and forms for requests and complaints. • More than 120 staff of Ministries, Governorates, Municipalities, and Public Enterprises trained in provision of information. • Achieved. 800 requests made as of May 2014 • Partially Achieved. Most survey information published. INS web site. • Partially Achieved. Most survey information published on INS website • Partially Achieved. National accounts published on INS website. Most recent information published in 2013 for 2011.	**Lending** • Multi-sector DPLs (as above) **ASA:** • ICT TA • Governance & social sectors TA	

The budget process is more transparent and participatory. • Openness of the budget process, through the presentation and debate of pre-budget statements and the public disclosure of budget proposals. Baseline: 0 (2010) • Greater accountability on budget execution: publication of quarterly, mid-term and year-end budget execution reports. Baseline: 0 (2010) **Private demand of Internet usage met.** • Demand for *.TN domain* increased by 50%. Baseline: 8,000 domains (2010)	• Achieved • An online open budget platform representing detailed budget data since 2008 completed (went live in FY16). Budget circular and proposals are published. As of FY12, customs regulations available on site: http://www.finances.gov.tn • A citizen budget, with a simplified presentation of the budget allocations and process has been published since 2013. • To facilitate public discussion on key economic policy reforms, the Bank is supporting a public information initiative. A Tunisian company is producing media products that inform Tunisians about development policy issues and possible solutions/scenarios, including labor market reform and job creation, pension reform, investment code and foreign investment, the cost of cronyism, regulatory red tape, food/fuel subsidies, and the social protection system. • Partially Achieved. Quarterly and end of year budget execution reports are published. Also published are the annual reports from the Court of Audit. • Achieved. 22,365 domains (3/2014)		

OBJECTIVE 8: INCREASING TRANSPARENCY AND ACCOUNTABILITY OF INSTITUTIONS. PARTIALLY ACHIEVED			
The legal and institutional framework to foster more accountable public institutions and to fight corruption has been revised. • A permanent anti-corruption institution has been set-up and is operational. Baseline: 0 (2010) • A more transparent and performance-based budget process is introduced, with the publication of ministry's performance plans and reports. Baseline: 0 (2010) • The internal financial controls are being revised to integrate a risk-based approach and foster greater accountability of public institutions. Two out of the four main control bodies' mandate and operations have been revised. Baseline: 0 (2010) **All government contract awards are made more available on-line.** • 100% of contract award information available on the website of *the Observatoire National des Marchés*. Baseline: 0% (2010)	• Not Achieved • Circular on 2014 budget preparation, as well as ministerial budgets presented in a programmatic form with performance plans for an increasing number of ministries (education, agriculture, higher education, health). Programmatic budget being rolled out progressively. • Partially Achieved. The mandate of 2 out of 4 main control bodies has been revised but implementation delayed. • Partially Achieved. Some contracts are published, but some agencies have not started posting and others located in remote areas do not yet have access to the system.	**Lending** GO DPL; multi-sector DPLs (as Above) **ASA:** IBRD Procurement Reform TA (IDF). *Completed*	
Procurement process streamlined. • Time for full cycle of procurement process is reduced by 50%. Baseline: 6 months (2011)	• Partially Achieved. 2012 decree requires that full cycle be completed in 120 days, but the data is not available		

E-governance complaint systems for citizens introduced. • GOT websites have an operating feedback mechanism.	• Achieved. Government has improved the disclosure of legal and regulatory information both in substance (quantity of information) and form (individual and searchable text). • The Head of Government's portal includes a site used to communicate on the Open Government process and to carry out consultations on legislation, notably on the draft law on access to information. http://www. consultations-publiques.tn • Agencies, including the Central Bank of Tunisia and the Ministry of Finance have contact references in their websites		

Attachment 2: Tunisia CPS and ISN Completion Report

Planned Lending and Actual Deliveries FY10-FY14 (US$ million)

CPS Program			Status	
FY10	Employment DPL		Postponed to FY11	
	Northern Tunis Wastewater 1		Delivered 6/17/10	52.0
	Community Based Integrated Rural Development		Delivered as 2nd Natural Resources Management 6/17/10	36.1
			Subtotal	88.1
FY11	Employment DPL		Delivered L 7/1/10	50.0
	North West Development 4		Delivered 12/20/10	41.6
	Export Development 3		Included in ISN	
	Skills Development		Included in ISN: Training for Employment	
	Municipal Development 4		Included in ISN: Urban development	
			Governance and Opportunity DPL Delivered 6/21/2011	500.0
			Subtotal	591.6
FY12			MSME Facility Delivered 7/14/2011	50.0
			Subtotal	50.0
	Total FY10-12	280.0	Total FY10-12	729.7
ISN Program			**Status**	
FY13-14	Annual multi-sector DPL		FY13 Delivered as Governance, Opportunity and Jobs DPL 11/27/12	500.0
	Annual multi-sector DPL		FY14 Delivered as Governance, Opportunity and Jobs DPL II 4/29/14	250.0
	Export Development III		Delivered 6/16/14	50
			Urban Water Supply Additional Financing 6/9/14	26.2
			MSME Additional Financing 6/9/14	100.0
			Subtotal FY14 426.2	
	Financial Sector Support		Postponed for FY15	
	Urban Development & Local Governance		Delivered in FY15 (P4R Urban Dev. and Local Governance 300)	
	Training for Employment (replaced with Tertiary Education for Employability - FY16)			
	Policy Based Guarantee (?)			
	Concentrated Solar Power (postponed to FY16)			
	Treated Waste-Water Reuse (postponed to FY16)			
	Total FY13-14	950.0	Total FY13-14	926.2

Attachment 3: Tunisia Completion and Learning Review: Planned & Non-Lending Services and Actual Deliveries FY10-FY14

Planned Non-lending Services and Actual Deliveries (FY10 -14)

CPS Program FY10-13*	Status
Development Policy Review	Completed in FY10
Macro Risks/ Impact of Global Crisis	Completed FY12 (continuous TA)
Regional Report on Cross-Region Trade in MENA	Included in ISN. Completed in FY12
Programmatic ESW Education	Completed FY12 (continuous TA)
SME Finance Study	Completed in FY10 as SME Finance Policy Note
Doing Business	Included in ISN. Completed in FY10 as Investment Climate Assessment.
Competitiveness Poles ESW	Completed in FY10
Assessment of Gov Debt Market and Capital Market Dev.	Included in ISN. Completed in FY12
TA Financial Sector	Included in ISN – Completed in FY 12 as Financial Sector Assessment Update.
Services Sector Development ASA	Ongoing
Employment Programmatic ESW	Ongoing
ALMP (incl. thesis competition)	Completed in FY14
Social Protection ASA	Included in ISN –Ongoing
Youth Exclusion Study	Included in ISN
PEFA	Included in ISN – Completed in FY14.
Not Programmed	FY11 Agricultural Finance.
ISN Program FY13-14	**Status**
Macroeconomic Monitoring	Ongoing
Debt Sustainability Analysis	Completed in FY12
Financial Sector TA	Completed in FY12 as Financial Sector Assessment Program Update and Ongoing TA
Tourism Debt Restructuring	Completed in FY12 (No. ACS977)
DPR for Growth Strategy	Completed in FY14
Investment Climate Assessment	Completed in FY14 (No. 83032-TN)
Investor Survey	Completed in FY13
Global Integration TA	Completed in FY13 as Second Global Integration Study (PRWP 6731)
Evaluation of ALMPs	Completed in FY13
Municipal Finance	Completed in FY13
Peri-Urban Assessment	Completed in FY14 as Bridging the Spatial Divide: Labor Market Outcomes in Urban Tunisia.
Youth Inclusion Study	Completed FY14
Administrative decentralization	Completed in FY13 as L'Economie Politique de la Décentralisation en Tunisie: Etat de Lieux.
Urban Development Options	Completed in FY14.
Governance & social sectors TA	Ongoing
Programmatic Poverty Assessment	Ongoing. Poverty assessment underway
PEFA update & Public Expenditure Review	Replaced with FY14 Tunisia-Public Investment Management (No.ACS7921) and FY13 Public Enterprise Study.

Planned Non-lending Services and Actual Deliveries (FY10 -14)

CPS Program FY10-FY13	Status
Not programmed	FY14. Estimating Informal Trade across Tunisia's Land Borders. PRWP 6731.
Corporate Governance (IFC)	Ongoing TA
E4E Initiative for Arab Youth (IFC)	Ongoing TA
Access to finance for MSMEs: (IFC)	Ongoing TA
PPP infrastructure advisory (IFC)	Completed
Investment in labor intensive and high-added value industries (IFC)	

Note. Technical assistance during the period, mostly financed with Trust Funds, is listed in Attachment 4. Technical assistance outputs in this table are those included in the CPS or ISN non-lending output table.

* The CPS Program for FY10-13 also included the following studies/TA which were not carried out: MENA Flagship Report on PSD; Regional Flagship Report on Financial Sector in MENA; Maghreb Regional Migration Study; Regional Costs of Water Degradation ASA;; Programmatic ESW Energy; Regional Energy Management Incentive (REMIT); Concentrated Solar Power (studies and TA); Low Carbon Transport Strategy ASA;; Performance Based Budgeting TA; TA Public Financial Management (follow up to ROSC Accounting and Auditing); Impact of Climate Change on Coastal Cities – Tunis.

Attachment 4: Tunisia Completion and Learning Review: Planned and Non Lending Services and Actual Deliveries FY10-FY14

Technical Assistance Products FY10-14 (Trust Fund Support)

FY	Proj. ID (ASA)	Name	Date
FY10	P111813	TF ALMP/E2W Pilots and Impact Evaluation	6/30/2010
	P117400	Performance-Based Budgeting PESW	6/30/2010
FY11	P107160	Tunisia- Trade Integration TA	6/30/2011
	P114161	ESMAP Low Carbon Transport Strategy	10/1/2010
	P116108	Implementation Logistics Action Plan TA	6/30/2011
	P119399	Growth & Macro Management	6/2/2011
	P122705	Performance Based Budgeting PESW FY11	6/29/2011
FY12	P122552	ALMP/E2W Pilots and Impact Evaluation Ph2	3/16/2012
	P122874	Public Sector Reform TA	11/1/2011
	P123106	Financial Sector Reform	5/25/2012
	P127794	Public Sector Governance	6/8/2012
	P128637	STAR - Tunisia	6/7/2012
FY13	P130139	ICT Collaboration for Civic Engagement	9/15/2012
	P132264	Asset Recovery in Tunisia	5/30/2013
	P132540	SABER WFD	6/25/2013
FY14	P121039	Low Carbon Action Plan for Transport Sector	1/11/2014
	P126475	ICT Service Delivery Health Sector	9/11/2013
	P126485	Employment TA Package	6/15/2014
	P129821	Strategic Energy Vision TA	6/22/2014
	P129827	Household Survey	7/9/2013
	P143490	Decentralization & M. Finance	6/25/2014
	P145098	Establishment of an AMC	6/30/2014
	P146843	STAR	6/29/2014
	P149013	Advancing global integration	6/30/2014

ANNEX 4: Selected Indicators for Bank Portfolio Performance Management

As of End of January, 2016

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation [a]	16.0	20.0	20.0	20.0
Average Implementation Period (years) [b]	4.5	4.1	4.8	4.4
Percent of Problem Projects by Number [a,c]	41.7	15.4	36.4	30.8
Percent of Problem Projects by Amount [a,c]	60.1	13.3	14.0	6.5
Percent of Projects at Risk by Number [a,d]	50.0	30.8	36.4	30.8
Percent of Projects at Risk by Amount [a,d]	68.0	21.6	14.0	6.5
Disbursement Ratio (%) [e]	19.7	15.1	12.5	18.3
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	117	8
Proj Eval by OED by Amt (US$ millions)	5,675.2	629.4
% of OED Projects Rated U or HU by Number	21.4	50.0
% of OED Projects Rated U or HU by Amt	24.7	93.5

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 5: Operations Portfolio (IBRD/IDA & Grants)

As of End of January, 2016

Closed Projects	142

IBRD/IDA*

Total Disbursed (Active)	726.24
of which has been repaid	13.72
Total Disbursed (Closed)	2,784.38
of which has been repaid	2,670.26
Total Disbursed (Active + Closed)	3,510.62
of which has been repaid	2,683.99
Total Undisbursed (Active)	644.58
Total Undisbursed (Closed)	3.72
Total Undisbursed (Active + Closed)	648.3

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements[a]	
Project ID	Project Name	Development Objectiv	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P119140	4th NW Mount & Forest Area Dev PNO4	MS	MU	2011	41.6	0.0		0.0	15.8	15.3	10.4
P132157	DELP Oases Ecosystems and Livelihoo	S	S	2014	0.0	0.0	5.8	0.0	4.5	-0.5	0.0
P100478	GEF Managing Healthcare Waste and F	MU	MU	2013	0.0	0.0	5.5	0.0	4.0	3.5	-0.4
P118131	GEF Northern Tunis Wastewater	#	MU	2010	0.0	0.0	8.0	0.0	1.8	1.8	1.8
P112568	GEF Second Natural Resources Mgt	MU	MU	2010	0.0	0.0	9.7	0.0	4.8	4.8	0.4
P124341	MSME Financing Facility	S	S	2012	150.0	0.0		0.0	65.6	-23.0	0.0
P117082	Northern Tunis Wastewater	U	MU	2010	52.0	0.0		12.6	31.8	44.4	19.8
P146502	Road Transport Corridors	S	S	2016	200.0	0.0		0.0	199.5	0.4	0.0
P086660	Second Natural Resources Manageme	MU	MU	2010	36.1	0.0		0.0	20.9	20.9	0.4
P132381	Third Export Development Project	MS	MS	2014	50.0	0.0		0.0	43.0	0.0	0.0
P130637	Urban Dev. and Local Governance	S	MS	2015	300.0	0.0		0.0	220.0	0.0	0.0
P064836	Urban Water Supply	MS	MS	2006	64.2	0.0		0.0	29.8	0.2	0.0
P120561	Ecotourism and B. Conservation	MU	MU	2013	0.0	0.0	4.3	0.0	3.2	1.0	0.0
P150950	Third GOJ DPL	#	#	2016	500.0	0.0		0.0	0.0	0.0	0.0
Overall Result					**1,393.9**	**0.0**	**33.3**	**12.6**	**644.6**	**68.7**	**32.4**

* Disbursement data is updated at the end of the first w eek of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

ANNEX 6: IFC Commitment Disbursement and Outstanding Portfolio Investment

As of End of January, 2016
(In USD Millions)

Region(s):Middle East and North Africa
Country(s) : Tunisia

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2008	AlterMed APEF	0	0	3.64	0	0	0	3.64	0	0	3.54	0	0	0	3.54	0.00
2011	Amen Sante	0	0	7.20	0	0	0	7.20	0	0	4.51	0	0	0	4.51	0.00
2013	Amen Bank Equity	0	0	3.26	0	0	0	3.26	0	0	3.26	0	0	0	3.26	0.00
2015	CHO	16.15	0	0	0	0	0	16.15	0	10.01	0	0	0	0	10.01	0.00
2008/ 2013/ 2016	ENDA Inter-Arabe	10.21	5.11	0	0	0	0	10.21	0	10.21	0	0	0	0	10.21	0.00
2012/ 2015	MPEF III	0	0	24.60	0	0	0	24.60	0	0	17.40	0	0	0	17.40	0.00
2013	One Tech	0	0	4.86	0	0	0	4.86	0	0	4.28	0	0	0	4.28	0.00
1991/ 1993/ 1995	SOMOTEX	0	0	0.00	0	0	0	0.00	0	0	0.00	0	0	0	0.00	0.00
2008/ 2009	TAV Tunisie	71.55	7.30	0	32.62	0	0	104.17	83.21	71.55	0	32.62	0	0	104.17	83.21
2015	TAV Tunisie-EQ	0	0	3.08	0	0	0	3.08	0	0	3.08	0	0	0	3.08	0.00
2009	Topic SA	0	0	2.36	0	0	0	2.36	0	0	2.36	0	0	0	2.36	0.00
1998	Tuninvest TIL	0	0	0.00	0	0	0	0.00	0	0	0.00	0	0	0	0.00	0.00
Total Portfolio		97.91	12.42	49.00	32.62	0	0	179.53	83.21	91.77	38.42	32.62	0	0	162.82	83.21

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