AFRICAN DEVELOPMENT BANK GROUP

TUNISIA

COMPETITIVENESS SUPPORT PROGRAMMES I AND II

Project Performance Evaluation Report (PPER)

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

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ACRONYMS AND ABBREVIATIONS

$ US	:	United States Dollar
€	:	Euro
ADB	:	African Development Bank
ANF	:	Agence nationale des fréquences
ASAP	:	Agriculture Structural Adjustment Programme
ATB	:	Arab Tunisian Bank
BCT	:	Banque centrale de Tunisie
BDET	:	Banque pour le développement économique de la Tunisie
BH	:	Banque de l'habitat
BIAT	:	Banque internationale arabe de Tunisie
BNA	:	Banque nationale agricole
BNDT	:	Banque nationale pour le développement touristique
BS	:	Banque du Sud
BT	:	Banque de Tunisie
BTA	:	Bon du Trésor assimilable
BTC	:	Bons du Trésor cessibles
BTEI	:	Banque tuniso-émiratie arabe d'investissement
BTKD	:	Banque tuniso-koweïtienne de développement
BTNB	:	Bon du Trésor négociable en bourse
BVMT	:	Bourse des valeurs mobilières de Tunis
CC	:	Conseil de la concurrence
CERT	:	Centre d'études et de recherche des télécommunications
CGA	:	Comité général des assurances
CJO	:	Cimenterie du Jebel Ouest
CMF	:	Conseil du marché financier
CMSB	:	Commission de modernisation du secteur bancaire
DB	:	Doing Business
DGA	:	Direction générale des assurances
DGP	:	Direction générale de la prévision
DGRPA	:	Direction générale des réformes et de la prospective administrative (Primature)
DT	:	Tunisian Dinar
DWF	:	Davos World Forum
EFRP	:	Economic and Financial Reform Programme
EP	:	Public Entreprise
EPP	:	Para public Entreprise
EU	:	European Union
EUAA	:	European Union Association Agreement
FDI	:	Foreign Direct Investment
FREP	:	Fonds de restructuration des entreprises publiques
FTZ	:	Free Trade Zone
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross Domestic Product
GSM	:	Global System Mobile
IBCA	:	Intervest bancshare Corp (Fitch Rating Corporate Group)
IBRD	:	International Bank for Reconstruction and Development
IME	:	Industries mécaniques et électriques
IMF	:	International Monetary Fund
INT	:	Instance nationale des télécommunications
ISAP	:	Industrial Sector Adjustment Programme

ITC	:	Information technology and Communication
ITHC	:	Industries du textile, de l'habillement et du cuir
M	:	Million
MC	:	Ministère du commerce
MDCI	:	Ministère du développement et de la coopération internationale
MFA	:	Multifiber Agrement
MTC	:	Ministère des technologies et de la communication
MUA	:	Million ADB Units of Account
NPL	:	non-performing loan
OCIEM	:	Observatoire de la compétitivité de l'économie marocaine
OECD	:	Organisation commune de développement économique
ONH	:	Office national hôtelier
OPCVM	:	Organismes de placement collectif en valeurs mobilières
PAC	:	Programme d'appui à la compétitivité
PCR	:	Project Completion Report
PPA	:	Purchasing Power Parity
PPER	:	Project Performance Evaluation Report
PSO	:	Public Sales Offering
R & I	:	Rating & Investment, Inc.
RMC	:	ADB Regional Member Country
SAP	:	Strutural Adjustment Programme
SICAF	:	Société d'investissement à capital fixe
SICAV	:	Société d'Investissement à capital variable
SNDP	:	Société nationale de pétrole
STB	:	Société tunisienne de banque
STICODEVAM	:	Société interprofessionnelle de compensation et de dépôts en valeurs mobilières
SVT	:	Spécialiste en valeurs du Trésor
UA	:	African Developoment Bank Unit of Account
UIB	:	Union internationale de banque
US	:	United States
UTICA	:	Union tunisienne de l'industrie, du commerce et de l'artisanat
VAT	:	Value-added Tax
VSAT	:	Very Small Aperture Terminal
WTO	:	World Trade Organization

PREFACE

1. Tunis has gone from the stage of a country essentially dependent on primary product exports (hydrocarbons, phosphate, agricultural products) at the start of the ‘80s, to one deriving its resources from manufactured product exports and services. To do so, it firstly focused on the export of textiles, electrical and mechanical equipment, and food industry, tourism (and related activities) and agricultural produce (olives, grain and wines). Now it is endeavoring to raise its potential by increasingly focusing on the knowledge economy. It has embarked on a long process of far-reaching transformation of its economy, with the aim of achieving substantial and enduring growth, on the strength of greater private sector participation alongside the public sector. It has also opted for a liberal economy, open to the rest of the world.

2. Building on these fundamental options, Tunisia has undertaken a series of economic and social reforms to modernize its economy. The signing of an agreement of association with the European Union (AAUE) in July 1995 led it to deepen the implementation of reforms starting from 1997, including the stabilization of the macroeconomic framework and the consolidation of the bases of the economy, in order to strengthen competitiveness. The reforms undertaken made possible the passage from a protected, centralized and administered primary economy to a diversified and liberal economy, more competitive, drawing on a more dynamic private sector. Such a sector, having been enabled to face the competition, is required to play a dominant role in the production and distribution of goods and services. The State has thus been increasingly confined to its traditional oversight functions and arbitration of the economic mechanism. Based on these options, the establishment of the free Trade Zone (FTZ) in March 2008, within the framework of the AAUE will allow for concretization of the will to open up to the external world, particularly the European market.

3. Despite the positive results obtained during the different programmes implemented, including the stabilization of the macroeconomic framework and the improvement of the regulatory, financial and fiscal environment, the reforms undertaken require consolidation. Their implementation should be continued, deepened and accelerated, in conjunction with the civil society and private sector partners, so as to maximize the benefits from the opening up to the world market.

4. This report has been prepared following a mission for evaluation of the performance of the Competitiveness Support Programmes (PAC and II) conducted in Tunisia from 28 June to 13 July 2006. It draws on the appraisal and completion reports for these programmes and also on: (i) the information available at the Bank; (ii) the information and documentation collected during the mission; and (iii) the discussions and exchanges with the Tunisian authorities, as well as the Resident Representatives of the World Bank and the European Union in Tunisia.

RATING

1. Relevance	Satisfactory
2. Attainment of Objectives and Results	Satisfactory
3. Efficiency	Satisfactory
4. Impact on institutional development	Satisfactory
5. Sustainability	Satisfactory
6. Global performance Indicator	Satisfactory
7. Performance of the Borrower	Satisfactory
8. Performance of the Bank	Satisfactory

BASIC PROGRAMME DATA

I. Competitiveness Support Programme I (PAC I)

Preliminary Data

1 Loan Agreement Number	B/TUN/PRO-APP/COM/99/65
2 Borrower	Tunisian Government
3 Beneficiary	Tunisian Government
4 Executing Agency	Ministry of Economic Development and International cooperation

A. The Loan

1-Loan Amount	UA 100 Million
2. Interest Rate	Fixed rate of 7.025 % for the 1st tranche (USD) Fixed rate of 5.980 % for the 2nd tranche (USD)
3-Repayment	In thirty (30) equal and consecutive payments, starting from the sixth year, from the date of signing of the loan agreement.
4-Grace Period	5 years
5-Date of Negotiation	February 1999
6-Date of Approval	March1999
7-Date of Signing	April 1999
8-Date of Entry into Force	September 1999

B. PAC I Data

1.	Total Cost		:	Not applicable
2.	Financing Plan	Foreign Currency		Local Government
	ADB (MUA)	100		Not applicable
	IBRD (M$)	160		
	EU (M€)	80		
3.	Effective Date of First Disbursement		:	20 July
4.	Effective Date of Last Disbursement		:	30 May 2001

C. Performance Indicators

1.	Overruns	:	none
2.	Delay in relation to schedule of implementation	:	none
	-Delay in entry into force	:	none
	-Delay relating to completion date	:	none
	-Delay relating to last disbursement	:	none
3.	Status of implementation of programme	:	completed
4.	Institutional performance	:	satisfactory

D. Missions

Missions	Number of Missions	Number of Persons	Composition	Person/ Weeks
1-Identification	01	03	One economist One Financial Analyst One Economist/Financial Expert	06
2-Preparation	01	03	One Economist One Financial Analyst One Economist/Financial Expert	06
3-Appraisal	01	03	One Economist One Financial Analyst One Economist/Financial Expert	06
5-Supervision Monitoring	3	03	1 Industrial Economist 1 Industrial Economist 1 Industrial Economist	04
6-PCR	01	02	1Financial Analyst 1Economist/Financial Expert	02

E. Disbursements

- Total disbursed	:	MUA 100
1st tranche	:	MUA 50 disbursed in two tranches as follows:
	:	UA 43,572.004 on 20 July 1999 and
	:	UA 6,427.996 on 20 September 1999
2nd tranche	:	MUA 50, on 31 May 2001
- Amount Cancelled	:	0
- Unutilized Balance	:	None

CURRENCY EQUIVALENTS

Currency	At Appraisal in November 1998	At Completion in June 2001	At Performance Evaluation in July 2006
1 Unit of Account	1	1	1
I DT	1.4954	1.82040	1.95932
1 €	NA	1.47904	1.16367
1 $ EU	1.40835	1.25423	1.47937

II. Competitiveness Support Programme II (PAC II)

Preliminary Data

1 Loan Agreement Number	2000130000017
2 Borrower	Tunisian Government
3 Beneficiary	Tunisian Government
4 Executing Agency	Ministry of Development and International Cooperation

A. The Loan

1-Loan Amount	216 Million Euro
2. Interest Rates	Fixed rate of 5.745 % for the first tranche (€) Fixed rate of 4.832 % for the 1st floating tranche (€) Fixed rate of 4.664 % for the 2nd floating tranche €)
3-Repayment	In thirty (30) equal and consecutive payments, starting from the sixth year and from the signing of the Loan Agreement.
4-Grace Period	5 years
5-Date of Negotiation	November 2001
6-Date of Approval	November 2001
7-Date of Signing	November 2001
8-Date of Entry into Force	December 2001

B. PAC II Data

1. Total Cost : Not Applicable
2. Financing Plan — Foreign Exchange — Local Currency
   - ADB (M€) 216 Not applicable
   - IBRD (M€) 281
   - EU (M€) 80
3. Effectiveness of First Disbursement: 28 December 2001
4. Effectiveness of Last Disbursement: 10 August 2004

C. Performance Indicators

1. Overruns : none
2. Delay in relation to implementation schedule : none
   - -Delay in entry into force : none
   - -Delay relating to completion date : none
   - -Delay relating to last disbursement : none
3. Status of implementation of programme : completed
4. Institutional performance : Satisfactory

D. Missions

Missions	**Nber of missions**	**Nber of Persons**	**Composition**	**Person/ week**
1-Identification	01	03	1 Economist 1 Financial Analyst 1 Economist/financial Expert	06
2-Preparation	01	03	Economist Financial Analyst Economist/financial Expert	06
3-Appraisal	01	03	Economist Financial Analyst Economist/Financial Expert	06
4-Supervision monitoring	02	02	An Economist Financial Analyst	04
5- PCR	01	02	1 Financial Analyst 1 Financial Economist	02

E. Disbursed

- Total disbursed 180 M€ out of 216 M€ envisaged

1st tranche : 108 M€, on 28 November 2001
2nd tranche
1st floating tranche : 36 M€, on 21 January 2004
2nd floating tranche : 36 M€ on 10 August 2004
3rd floating tranche : cancelled
- Amount cancelled : 36 M€, on 3 July 2004
- Unutilized Balance : None

CURRENCY EQUIVALENTS

Currency	At Appraisal in June 2001	At Completion in November 2004	At Performance Evaluation in July 2006
1 Unit of account	1	1	1
I DT	1.8204	1.85005	1.95932
1 €	1.47904	1.17671	1.16367
1 $ EU	1.25423	1.49878	1.47937

EXECUTIVE SUMAMARY OF EVALUATION

1. Objectives and Scope

1.1 The overall objectives of the Competitiveness Support Programmes, PAC I (1999-2001) and PAC II (2002-2003) were to lay the bases of a competitive economy and enable sustainable growth of the Tunisian economy. The specific objective was to render capital allocation more effective and to consolidate private sector development. These programmes have been co-financed by the Bank, the World Bank and the European Union. A common matrix of measures was used. A third phase of the Programme (PAC III) is under implementation on the same terms.

2. Implementation Performance

2.1 With the release of the first tranches of financing, the entry into force and start-up of the PAC programmes went smoothly, since the Government ensured that the time table was respected. The programmes did not encounter any financing problems, and nearly all the commitments were honored. However, a part of the loan corresponding to the floating tranche for the ITC sector was cancelled owing to the lack of transparency in the issuance of the GSM license. The effect of this cancellation has however been limited and has not hampered the implementation of the reforms in this sector. Generally speaking, the loans were disbursed in accordance with the agreed procedures and on schedule.

2.2 The programmes were coordinated by MDCI, which has confirmed skills and experience in the relevant areas. This is why the programme management did not encounter any institutional problems.

2.3 The performance regarding implementation was satisfactory.

3. Performance Evaluation

Methodology and approach

3.1 Based on the information gathered and the discussions with the parties carrying out the reforms, the performance evaluation has involved assessing the outputs using the established criteria (relevance and quality at entry, efficacy, efficiency, impact, sustainability, global performance rating and performances of the borrower and of the Bank). The evaluation of the objectives and results focuses on the period under review, 1999-2003, with comparison of the ex ante situation to the prevailing ex post situation.

Relevance of Objectives and Quality at Entry

3.2 The objectives and programmes are in conformity with Tunisia's 9th and 10th Development Plans as well as the Bank's strategy. Despite their number and range, the measures are clear, well targeted and feasible. Their common feature is a gradual approach. The relevance is deemed satisfactory.

Attainment of Objectives and Results (Efficacy)

3.3 All the measures of the two programmes have been carried through. The authorities' prudent macroeconomic management of the reforms has resulted in improved macro-economic economic performances corresponding to the basic principles: sustained economic growth,

declining inflation, stable real exchange rate, stable and sound fiscal position, controlled monetary aggregates and stable and well-managed balance of payments position. These results correspond to the renewal of the business climate, the continued State withdrawal from the real sector, the consolidation of the banking sector and improved functioning of the rest of the financial sector. These have been made possible by restructuring the insurance sector and the rationalizing the financial market. The efficacy is satisfactory.

Efficiency

3.4 The sound donor coordination made it possible to react rapidly to the events of September 11 2001 by raising the initial loan amounts by 50% and scaling down the performance indicators and relaxing the tranche disbursement conditions. Overall, the reforms have been properly managed by MDCI and the different agencies concerned with the reforms, in conjunction with the private sector and the civil society.

3.5 The initial objectives of the programmes were adopted and achieved on schedule, apart from a few delays that did not affect the continued implementation of the reforms. The funds, the expertise and the time invested in the Programme yielded concrete results. Despite the intense internal and external exogenous shocks, the initial budgets were not exceeded. The funds committed over the period have been effective, since they have made it possible to gradually transform the country's economy. The level of performance is satisfactory.

Performance of the Borrower

3.6 The Borrower has maintained a stable macroeconomic framework and implemented sector reforms with the support of the three donors. It has taken steps to facilitate the implementation of the measures and resolve problems or areas of dispute. The authorities' determination to bring about reform resulted in rapid loan effectiveness, however, the Borrower did not transmit the programme monitoring and the completion reports to the Bank. The performance is on the whole satisfactory.

Performance of the Bank

3.7 The Programme is in accordance with the Bank's country strategy aimed at supporting the 9th and 10th Plans. The PAC appraisal and the setting up of loans were conducted jointly with the co-financiers of the programmes. Information was constantly exchanged throughout the programme implementation and the supervision missions were conducted jointly. In monitoring the measures, the Bank was firm, able to take delays in its stride, especially where they did not compromise the reforms envisaged. The Bank however disbursed the 2nd tranches late in comparison with the World Bank. The performance is thus overall satisfactory.

Impact of Programmes

3.8 MDCI's implementation of the reform programmes without interruption since 1987, and with a stable staff situation, contributed to strengthening its analytical capacities and to the internalization of the reforms conducted. The sector reforms were implemented by selected institutions, thereby afforded the opportunity for their own restructuring and strengthening.

3.9 The development plans underpinning the PACs had a social content that was meaningfully taken into account, with the result that a maximum number of people reaped the benefits of economic growth. The PACs thus contributed to strong and sustainable growth, geared to gradual integration of the world market and which should ultimately increase the income of the average Tunisian to the level of the OECD countries. The performance with regard to the impact is satisfactory.

Sustainability

3.10 The sustainability of the reform outputs stems from the authorities' determination to consolidate them. In that regard, there has been no weakening of the authorities' commitment to upgrade the economy so as to be able to meet the commitments made concerning the opening up to the world market. From the macroeconomic standpoint, the increased diversification of the productive system has had the effect of stabilizing the framework, despite powerful exogenous shocks. At the sector level, the reforms undertaken, particularly the settlement of the public enterprises'' doubtful debts, the liquidation of enterprises in debt and consolidation of the regulatory and legal framework bode well for long-term sustainability. In addition, the gradual approach to privatization has made it possible to build the consensus needed for their extension and to attain the objectives. The opening up of the ITC sectors introduced competition in the mobile phone branch, allowing for its sustainable growth, with a substantial decrease in the national and international communication costs. The performance is considered satisfactory.

4. Conclusions

The Bank contributed to implementing the reform Programmes. The results can be seen and their impact in terms of increased stability of the macroeconomic framework and competitivity of the economy is undeniable. The legal and regulatory framework has also been significantly strengthened, which should make for sustainability of the reform outcomes.

5. Lessons and Recommendations

Lessons

5.1 The programmes successfully carried out major sector reforms: impediments to investment and privatization were eliminated. They contributed to raising the overall competitiveness of the economy, through appropriate sector policies and macroeconomic reforms.

5.2 The success of the reforms is attributable to six principal factors: (i) a good long-term vision of the economy; (ii) the authorities'' clear political will to conduct the reforms; (iii) effective ownership of the reforms and a broad consensus in their favor; (iv) qualified and abundant human resources; (v) effective coordination of the aid from the three programme co-financiers, notably the flexible management of the conditions; and (vi) a stable macroeconomic environment.

5.3 Programme implementation experience has shown the importance of carefully targeting and scheduling the reforms, particularly in the case of successive phases (PAC I, II & III) over a long period.

5.4 The consultation with beneficiaries should be continued and reinforced more globally, with the aim of strengthening the cooperation around the reforms so as to speed them up.

5.5 Five lessons can be noted for the design of future operations: (i) define the conditions that are feasible in the stipulated time frame and eliminate all measures with direct commercial content; (ii) avoid aligning the floating tranches on the sectors; (iii) strengthen and increase the size of the Bank teams conducting missions over the entire programme cycle; (iv) conduct economic and sector studies as a basis for judiciously targeting reforms and clarifying specific aspects of the reforms; (v) be permanently concerned with the Bank's competitiveness, while

remaining responsive, avoid delays and organize quality assistance to governments, so that the Bank may be viewed as more than a simple provider of funds.

Recommendations

For the Borrower

a) Continue consolidating reforms, in accordance with the 11th Plan and speed up their pace;

b) Formulate a long programme for implementation of the reforms, so as to schedule, prepare and accelerate the different phases within a coherent framework;

c) Extend and reinforce consultation with private sector partners, notably to promote a formal consultation framework; and

d) Encourage the Borrower to prepare periodic progress reports as well as completion reports, in accordance with the general provisions of loan agreements.

For the Bank

a) Envisage supporting the reforms as part of a programme approach;

b) Support the dialogue with the authorities, based on specific studies;

c) Increase the institution's expertise and performance in a country, parallel to the performances of its economy, will have recourse to international financial market resources on an increasingly competitive basis; and

d) Review the procedures for examining disbursement supporting documents and render the staff in charge of the programme accountable, therefore more responsive, to avoid delaying other donors.

I. PROGRAMME

1.1 Economic Context

1.1.1 Tunisia is a relatively small country with a population of approximately 10 million inhabitants for an area of 160,000 km², over half of which is in an arid zone. Despite the limited natural resources and a narrow market, it has gone from a country primarily dependent on exports from its primary sector (hydrocarbon, phosphate and agricultural products) at the start of the 80s, to one deriving its resources from manufactured products and services. Tunisia has achieved this through export of textiles, electrical and mechanical equipment and food industry and agricultural products (olives, wine and grain) and tourism (and related activities). It is now endeavoring to boost its potential by focusing increasingly on the knowledge economy.

1.1.2 Tunisia has in fact set out to achieve marked, sustained and lasting growth, based on a rebalancing of the roles of the public and private sectors. It has opted for a market economy, as well as for gradual integration into the global economy. In this context, Tunisia was the first North African country to sign, in July 1995, a European Union Association Agreement EUAA) which entered into force on 1 March 1998. This decision stems from the realization that the narrow domestic market constituted a serious handicap to strong and lasting growth, such as would raise the level of the populations to that of the OECD countries.

1.1.3 By this Agreement, Tunisia in March 2008 took up the challenge of integrating its market into a Free trade zone (FTZ), focusing on the manufacturing sector. Therefore, from 1996, it adopted a policy of accelerated tariff dismantling which it continues to apply, despite problems arising at different points. This policy has enabled it to fast track its commercial integration into the EU market on which it conducts 80% of its exports and 71% of its imports. In addition, it has concluded free-trade agreements with Morocco, Jordan and Egypt. There are prospects with other Maghreb countries (for example within the Arab Maghreb Union -AMU) when the agreements concluded have been implemented. Lastly, the commitments under the GATT and the World Trade Organization (WTO) clinch the world market entry.

1.1.4 The EUAA objectives are to progressively (in the medium and long term) integrate the Tunisian and European economies, through a liberalization of the movement of goods and legislative, social and financial cooperation. It was with a view to successfully carrying out this integration that the Government designed the Competitiveness Support Programme (PAC), to upgrade Tunisian enterprises and assist them in keeping abreast of competition. The PAC moreover pursues and deepens a long process of reforms undertaken since 1987 to meet the demands of competitiveness through global and sector reform of the Tunisian economy. The Bank has supported and aided these reforms from the outset. For example it in 1987, it granted a loan of UA 80 million to support the Industrial Sector Adjustment Programme (ISAP.). In 1989, it also granted a loan of UA 75 million for the Structural Adjustment Programme (SAP). It was established during the SAP that the Tunisian economy had not yet acquired the capacity to cope with shocks of any kind or the meet the requirements of a competitive environment. An Agriculture Sector Adjustment Programme (ASAP) was supported by an MUA 90 loan in 1991. In order to consolidate the outputs of these different programmes, an Economic and Financial Reform (EFRP) was formulated in

1994 and implemented (1994-1997) on a Bank loan of UA 80 million. These four first-generation (1986-1997) reform programmes essentially eased the passage from a centralized and auto centered economy to a market economy. They also prepared the Tunisian economy for the implementation of the second generation reforms (PAC I, PAC II and PAC III), seeking to raise the country's per capita income to the level of the OECD emergent countries.

1.1.5 These new multiform reforms support the implementation of the five-year development plans. They comprise action aimed at favoring the establishment and development of enterprises, notably an improvement in their environment through the stabilization of the macroeconomic framework, human resource upgrading, infrastructure development, and modernization of equipment and rationalization of management. They also concern the development of the private sector, of the banking and financing system, as well as the basic infrastructure and the country's administration. Despite the positive sum of country's outputs in these areas from past development plans, the Government must continue to deepen and accelerate the structural reforms, so as to keep up with the increasing competition and withstand shocks.

1.1.6 These determinative choices have been underpinned with sound and prudent economic policies which have enabled Tunisia, during the 1995-2005 periods, to attain a real average annual growth rate of 5.2% yearly. This growth of the Tunisian economy has been sustained by appropriate social policies which have greatly contributed to the significant improvement of the country's social indicators and a decline in the poverty rate from 40% in 1970 to 4.1% in 2000. However, the unemployment rate (14.3% in 2005) maintained its level, since, despite their high growth potential, the private investments have remained inadequate to make a difference. The other social indicators are however more favorable on the average than those of comparable medium income countries.

1.2 Formulation of Programmes

1.2.1 Toward the set date of March 2008, the Government from 1999 began implementing PAC I (1999-2001), designed as a new generation of reforms that were more systematic, with a particular scope. PAC I was co-financed by the Bank, the World Bank and the EU. The positive results of this exercise encouraged the authorities to pursue reforms, through the implementation of the PAC II (2001-2003), with the support of the same partners. The components and measures of the two programmes were defined based on the priorities of the 9^{th} and 10^{th} Plans. It should however be noted that the implementation of new reforms actually started from 1996, just after the signing of the EUAA with the first phase of the competitivity support programme which did not include the Bank. During this period, the Bank-financed EFRP was under completion (1997).

1.2.2 PAC I and II were set up following a period of consultation and coordination between the Bank, the World Bank and the European Union. The Bank participated in enriching the content of programmes, notably as the lead investor for the PAC I component concerning development banks, an area in which it had confirmed experience in Tunisia (financing of 12 lines of credit, of which 7 with BDET and 5 with BNDT). Also, the Bank carried out a major study concerning the insurance sector, on Japanese grant financing. This study has earned its place as the reference for all reform action in this sector. The Bank's contribution has been facilitated by the joint preparation of the programmes, leading to the common matrix of measures. The World Bank generally assumed the overall lead role for the implementation of the programmes.

1.2.3 At each phase of the Programme, once the donors had decided the measures, discussions or even tough negotiations were held with the Government representatives. These discussions generally concerned the opportuness of the measures, the pace of their implementation, their content, or the need to precede some of the measures by studies. This method was perceived as excessive prudence on the part of the authorities, resulting in a slower pace than the donors wished. For example, the insurance sector reforms proposed right from PAC I were carried forward to PAC II and III. This is a difficult and complex sector whose progress is delayed and characterized by shortcomings, and in which the reforms are essentially slow. They should have been adhered to from the start, in order to avoid the two to three –year delay, which has set back the reorganization, modernization, rehabilitation and impetus of this sector which is so vital for savings mobilization.

1.3 Objectives and Scope of the Evaluation

1.3.1 The overall objective of the Competitiveness Support Programmes, PAC I (1999-2001) and PAC II (2002-2003) is to consolidate the basis of a competitive economy and allow for sustainable growth of the Tunisian economy. The specific objective of the PAC I was to make capital allocation more effective. In 2000, the banking sector had to be de-specialized and the finance sector governed by a new prudential regulation. PAC I had five components: Restructuring/modernization of the banking system; ii) Related reform of public and para-statal enterprises; (iii) Reactivation of the treasury securities market; (iv) Modernization of money management instruments; (v) Strengthening of the Insurance Companies and the Orgnisations de placement collectif en valeurs mobilieres (OPCVM). A sixth component concerning macroeconomic stability was implicit. The specific objective of PAC II was to support private sector development by improving the business environment and finance conditions of that sector and improving the coverage of its non-commercial risks. While consolidating the PAC I outputs, it broadened their scope of implmenatation. PAC II comprised the 5 following components: (i) stability of the macroeconomic framework; (ii) improvement of the private sector environment; (iii) strengthening of the financial sector and consolidation of its outputs; (iv) reorganization of the insurance sector with a view to its liberalization; and (v) reform in the information technology and communication sector. The specific objective of PAC III, currently under implementation, is to contribute to the attainment of an annual average growth rate of 5.2% for the period 2005-2006, through the implementation of three fundamental and interdependent aspects of the Government's economic policy. These facets seeking to promote increased private sector participation in investments under the 10th Plan are: (i) maintaining a stable and responsive macroeconomic framework; (ii) improving the private investment environment and promoting new investment opportunities; and (iii) strengthening the finance sector contribution to growth financing by improved coverage of nonperforming loans of the banking system and through provisions and development of alternative finance sources, such as the capital market.

1.3.2 PAC I, II and III thus have specific objectives that are complementary and closely interlinked; the studies, legislative and/or regulatory texts and institutional strengthening under the first programme prepare the implementation of activities aimed at strengthening the business environment, facilitate the privatization and play of competition, build the private sector potential and concur in strengthening the bases required for increased competitivity of the economy for the subsequent programmes. All the PAC implemented in fact correspond to a non-explicit medium-to-long-term programme approach based on the country development plans.

1.3.3 To facilitate the analysis, the PAC I and II components have been put in five groups (see annex 7) of reforms: (i) maintaining a stable macroeconomic framework; improving the private sector business environment (ii) strengthening the finance sector and consolidating outputs; (iv) reorganization of the insurance sector for its liberalization; and (v) ITCC sector reform.

1.3.4 Implementation of the PAC was expected to help upgrade enterprises and raise the competitiveness of the economy. It was also to generate lasting and sustained growth, reduce external debt distress, notably by a re-ploughing of part of the privatization income and accelerating the increase of the Tunisian exports that have become more competitive. Lastly, the diversification of the productive system and the effect of reforms were expected to help improve protection against external shocks.

1.4 Finance

1.4.1 The PAC have been financed jointly by; the Bank, the World Bank and the European Union. Table 1 shows the amounts approved and disbursed:

Table 1: Financing of PACs (1999-2003)

Donor	Approved Loan or Grant Amount		Loan/Grant Amount Disbursed		Amount Cancelled
	PAC I PACE II FAS II	PAC II PACE III FAS III	PAC I PACE II FAS II	PAC II PACE III FAS III	PAC II PACE III FAS III
ADB (loan)	148 M€	216 M€	148 M€	180 M€	36 M€
World Bank (loan)	188.7 M€.	281 M€	188.7 M€.	236.5 M€	44.5 M€
European Union (Grant)	80 M€	80 M€	80 M€	67.4 M€	12.6 M€

+ The conversions used are those of June 2001 (see the currency equivalents on page vii).

1.4.2 The donors have on the whole fulfilled their financial commitments. However, they have cancelled part of the loans corresponding to the floating tranche for the TIC sector, for a global amount of M€ 94.1.

1.4.3 There are no non-lending activities, in the form of study or technical assistance.

II. EVALUATION

2.1 Evaluation Methodology and Approach

2.1.1 The evaluation is based on the documentation collected from Bank headquarters and the World Bank, EU and IMF representative offices. It is also based on information from the Tunisian authorities particularly the ministries and agencies involved in the PAC implementation. The information gathered was supplemented through discussions with the authorities as well as the staff of the programme co-financing agencies.

2.1.2 The programme was implemented by the authorities, however, in such close collaboration with the three donors that it is difficult to isolate the respective contributions.

2.2 Principal Performance Indicators

2.2.1 The Competitiveness programme appraisal and completion reports set out the main performance indicators in macroeconomic as well as sector terms.

Macroeconomic Aspects

2.2.2 For the period under review, the macroeconomic performance indicators (Annex 10) sought to maintain the stabilization of the macroeconomic framework to ensure rapid growth. To that end, the PAC I programme envisaged a real GDP growth rate of 5.5%, a 3% inflation rate, a budgetary deficit of 2.6% of GDP and a current account deficit of 2.5% by 2000, in accordance with the objectives of the 9th Plan. However, given the events of 11 September 2001, the PAC objectives fell slightly short of the projections of the 10th plan, giving real growth rates of 5.5% for 2002 and 6.0% for 2003, inflation rates of 2.5% for 2002 and 2.7% for 2003, a budgetary deficit of 3.3% of GDP in 2002 and 2003, and a current account deficit of 4.2% of GDP in 2002 and 4.4% in 2003. In addition, in order to better monitor the stability of the macro-economic framework, two other measures were programmed: (i) adoption of a plan of action for dynamic debt management and setting up of an integrated database concerning external debt; and (ii) the establishment of a national tax board (Conseil national de la fiscalité - CNF) primarily responsible for evaluating the fiscal system and its conformity with the objectives of public finance stability. These two reforms were intended, in the medium term, to help manage external debt and the budget balance, sources of constant concern for the authorities. They are also in line with the Development Plan objectives.

Sector Aspects

2.2.3 To a certain extent, the macroeconomic indicators make it possible to appreciate the effects of the sector reforms on the economy, without however distinguishing the impact of any particular measure. The sector performance indicators, more specifically, have a qualitative and rarely quantitative. They concern the adoption and promulgation of legal and/or regulatory texts that have facilitated the performance of institutions (banking sector, insurance sector), competition (ITC, banking sector, enterprises), the emergence and/or strengthening of new financial markets (liquid secondary financial market, ITC market), the establishment or strengthening of more flexible institutions (finance market board, competition board, General Insurance committee, national frequency agency, center for telecommunications studies and research, national telecommunications authority) or relaxed the taxation of firms and the banking sector. The indicators were also proposed to ensure the improvement of the business environment, the effective state withdrawal from the real sector, reorganization and modernization of the enterprises, banks and insurance sector, programming of studies intended to prepare the continuation of reforms into the next phases of the PAC. This series of sector indicators is consistent with the indicators of the 9th and 10th Plans.

2.2.4 The sector objective of PAC I, which was to ensure more effective capital allocation, gave the following sector indicators: (I) adoption of more flexible bank sector prime rates, (ii) the de-specialization of the banking system, and (iii) the emergence of a new prudential regulation for all banking institutions by 2000. There are five expected outputs of this objective: (a) renewal of the legal, prudential and technological environment of the banks; (b) restructured banking system; (c) public or Para-public enterprises privatized/restructured or dis-established; (d) financial market given new impetus; and (e) insurance companies and OPCVM strengthened. The sector indicators are closely linked with the recommended measures.

2.2.5 The sector objective of PAC II was to increase the private sector's contribution to national growth and the competitivity of the economy. The performance indicators defined were: (i) growth of private investment by at least 3% yearly between 2002 and 2003 and (ii) increase of investment rate to 27.7% in 2002 and to 28.7% in 2003. Three outputs were envisaged towards the realization of this objective: (a) improved business environment; (b) improved governance and privatization of enterprises, opening of several public sector enterprises to the private sector and more competitive ITC sector; and (c) greater mobilization of bank resources by the private sector and improvement of capital markets. The growth of private investments and the investment rate, macroeconomic aggregates are however affected by other factors not taken directly into account in the PAC II reform measures: the limited attractiveness of the still rigid labor market, the heavy enterprise taxation, the weight of internal and external indebtedness weighing on the public finances, the sectors that are regulated and not open to competition (transportation, services to enterprises, electricity, water, radio, television), the influence of external factors (European growth, end of the MFA in 2005, international terrorism since 11/09/2001) to name the most significant. The attainment of these indicators is thus does not only depend on the evolution of the PAC II measures.

III. IMPLEMENTATION PERFORMANCE

3.1 Entry into Force of Loans, Launching and Execution

3.1.1 Overall, the loan effectiveness and start up of the programme implementation through the release of the first tranches were without difficulty, since the Government ensured that the deadlines set were met. This performance was all the more smooth as the Bank and World Bank conditions were the same.

3.1.2 The Programme basically encountered no major problems concerning the release of funds. However, the disbursement of the second tranche of the PAC I required a waiver, since two of the ten conditions turned out to be harder to meet than expected. One of these two conditions concerned the submission to the Chamber of Deputies of an amendment of the code of civil and commercial procedures to facilitate the recovery of classified claims, while the other concerned the merger of Banque tunsiso Emirats Arabes d'investissement (BTEI) and Union internationale de banque (UIB) and the privatization of the resultant bank. Despite this difficulty, the PAC I activities were carried through two months ahead of the 2nd tranche disbursement schedule. Also, the PAC second tranche was disbursed with a waiver concerning the «business environment» component of the programme. Three conditions relating to (i) the adoption of texts for application of the law on companies, (ii) the opening up of 25% of the capital of a public enterprise to a strategic partner and (iii) the adoption of a

strategy for private sector participation in the infrastructure were only partially implemented. The programme co-financiers however deemed the progress made substantial and met the authorities' request.

3.1.3 The implementation of the two competitivity support programmes was overall satisfactory. This performance enabled the continuation of the financing process and the schedules did not suffer any delays affecting the smooth implementation

3.2 Compliance with Costs, Disbursement and Financial Provisions

3.2.1 The programmes did not encounter nay financial problems, and nearly all the donor commitments were fulfilled. Apart of the loan corresponding to the floating tranche for the ITC sector was however cancelled at the request of the authorities, as explained. This situation obliged Tunisia to turn to the international financial market to offset the financing gap created by the resultant shortfall. The mobilization was on sound financial terms, since Tunisia had been favorably rated by the leading international rating agencies. Generally, the loans were disbursed within the projected periods and in conformity with the procedures defined, despite the difficulties the Bank encountered in examining certain justifications, such as the legal texts drafted in Arabic (a Bank working language in accordance with Article 41 of the Agreement establishing the Bank).

3.2.2 Table 3.2 ahead shows that the Bank was the donor that disbursed slowest, therefore the least effective, all things being equal. However, this difference between the Bank and the other institutions, such as the World Bank is explained by several major factors: the World Bank procedures are more flexible and enable the staff to be more reactive; (ii) the justifications are transmitted to the Bank, after being examined and processed by the World Bank; (iii) the legal justifications, transmitted in Arabic, are returned by the Bank to the authorities for certified translation.

3.3 Programme Management, Reporting, Monitoring –Evaluation

3.3.1 The PAC implementation has been coordinated by the Direction générale de la prévision (DGP) of the Ministry of Development and International Coordination (MDCI), as was the case for the previous reform programmes. DGP has qualified staff with confirmed experience in managing Bank projects.

Table 2: Comparison of Partners' Disbursements

	ADB (PAC II) (1)	IBRD (PACE III) (2)	Diff in Months (1) – (2)	EU (SAF III) (3)	Diff in Months (3) – (2)
Signing of the Loan Agreement/ Financing Agreement (EU)	Nov. 2001	Dec. 2001	- 1	May 2002	+ 6
Disbursement of 1st tranche	Dec. 2001	Dec. 2001	0	June 2002	+ 6
Disbursement of floating tranche: strengthening of finance sector	Jan. 2004	Sept. 2003	+ 4	Nov. 2003	+ 2
Disbursement of Floating Tranche: Private sector environment	Aug 2004	Dec. 2003	+ 8	Aug 2004	0
Cancellation of floating Tranche: ITC Sector	Jul. 2004	Dec. 2003	+7	…	…

3.3.2 This experience enabled it to play an active role in the design and implementation of the macro-economic and financial programmes and as a result, the PAC had no institutional problems. DGP set up an effective system for coordination during the preparation, appraisal negotiation and implementation of programmes. Its human resources were an asset in the design as well as the implementation of the programmes. The collaboration between DGP, acting as the executing agency, and the agencies responsible for the various aspects of the reforms (Office of the Prime Minister, MDCI, Ministry of Finance, Ministry of Trade, Ministry of Telecommunications, Ministry of Justice, DGRPA, BCT, CGA, CMF, CC, especially) was smooth.

3.3.3 DGP organized broad consultations with these agencies, with the participation of all the administrations directly or indirectly concerned with the reforms, as well as the professional organizations of the private and public sectors. (Banks, insurance firms, business leaders, academia, etc). However the consultation on the harmonization of reforms was not conducted systematically and in any case was not adequately well organized. It could have strengthened the global perception of the Programme, built greater political and social cohesion around the reforms and facilitated their accelerated implementation.

3.3.4 The lack of transmission of the borrower's reports on the status of implementation of the programme, as required by the general provisions of the loan agreements is a significant omission. Such reports would have facilitated a regular review of the action conducted and rapid reaction to any delays. The authorities deemed that the aides mémoires drafted for the missions somehow palliated this shortcoming, especially considering that neither the World Bank nor the European Union requested these documents. The Borrowers' completion reports on the PACI and II were also not transmitted to the Bank.

3.3.5 In addition, the Bank's action was slowed by the upheaval caused by the security situation in Côte d'Ivoire, resulting in its temporary relocation to Tunisia during the period of implementation of programmes. However, the effective coordination and constant exchange of information with the other two financiers and the frequent contacts with the executing agency somehow made up for this shortcoming. The programmes were jointly supervised, making it possible to strengthen coordination between donors.

IV. PERFORMANCE EVALUATION AND RATINGS

4.1 Relevance of Objectives and Quality at Entry

4.1.1 The objectives of the Competitiveness Support Programme are relevant and consistent with the 9th and 10th Development Plans. The objective of 9th Plan (1997-2001) was to open up the economy to competition while preserving the macroeconomic stability and social progress. The 10th Plan (2002-2006) sought to improve competitiveness in order to facilitate the integration into the global economy, a sustainable increase in economic growth and the consolidation of past outputs, notably the macroeconomic and social stability. To attain these objectives, priority was given to accelerated job creation and reducing unemployment, development of private investment, promotion of knowledge, particularly technological knowledge and improving the quality of human resources. These objectives are also in conformity with the Bank's strategy as formulated in the CSP for the 1997-1998 and 2000-2002 periods and their updates.

4.1.2 The major risks and assumptions identified in the PAC appraisal concerned firstly, the political will without which this type of programme could not be conducted: This was not found lacking. Next, the unfavorable economic situation in the event of an exogenous shock, was identified as a serious risk that could even slow the efforts devoted to the reforms. Therefore, in order to limit the consequences of the events of 11 September 2001, (i) the amount of the PAC II loan was increased to 50%, (ii) the macroeconomic objectives were scaled down and (iii) the conditions for disbursement of the second tranche of the loan were softened. On the other hand, other foreseeable risks relating to the major concentration of trade with the EU, notably the slowing of growth in the EU zone, were not taken into account. In this regard, the Bank could have encouraged the authorities to diversify its economic partners, in the regional as well as international areas. Lastly, drought which continues to pose a risk that could compromise the accelerated economic growth has also not been explicitly taken into account.

4.1.3 With regard to quality-at-entry, 16 of the 19 measures recommended under PAC I were implemented exactly on the loan terms, which were formulated in a precise and operational manner. Two conditions (see annex 8) were implemented outside the stipulated period, given their complexity.

4.1.4 Regarding the 27 PAC II measures, they were overall clear and well targeted and implemented on schedule, with the exception of four of them. Three of these (see annex 8), relating to the "business environment and private investment" component encountered difficulties resulting from the underestimation of their implementation process, which turned out to be longer than expected. The timeframes for these measures were not realistically projected and did not take into consideration certain realities on the ground. The fourth measure concerning the 'ITC sector" component related to the transparency of the competitive bidding for the GSM license to a private operator. The donors were not satisfied that there had been such transparency, and that led to cancellation of part of the loan corresponding to the floating tranche. Indeed, this aspect was revisited through debates during the negotiations and was only grudgingly acknowledged by the authorities, owing to the obvious commercial implications.

4.1.5 In addition, to limit the negative effects of the exogenous shock of 11 September 2001, the second tranch e of the PAC II loan was divided into three floating tranches. The objective of this modality was, given the foreseeable difficulties starting from 2002, to rapidly release disbursement as and when the basic measures of each of the programme components are carried out. Experience has however shown that this division into three did not allow for a global follow-up of the reforms concerning the ITC sector. Indeed, if the floating tranche modality had not been adopted, there would have been more of a chance of the measure relating to procurement of a GSM license following a transparent and competitive process, since there would have been more at stake (slippage of the programme, for example). The cancellation of the said floating tranche led to the abandonment of the systematic examination of other measures relating to the ITC sector component, some of which are however fundamental for the complete opening of this sector. It thus appears that the floating tranche experience did not yield positive results in this case.

4.1.6 A common characteristic of most of the measures is their gradual approach. A more rapid and bolder approach to the reform implementation could certainly have been adopted, however its realization could not be guaranteed, while the reforms would have had

less of an impact on the economy. The more prudent approach was thus preferred and it thus allowed for the Government to be in full control of the programme implementation pace, and only what was feasible was retained, and at the least social cost. The private sector representatives, meeting at the Hammamet Forum (2004) at the invitation of Union tunisienne de l'industrie, du commerce et de l'artisanat (UTICA), indicated the view that certain reforms concerning the investment environment and financing of the enterprise should have been bolder and more rapid. However, overall, the reality of the dialogue and the authorities' commitment concerning the Programme measures seems to have made up for the slow pace of the reforms envisaged. The gradual approach can be seen as the counterpart to the dialogue which imposed the pace of the reform implementation. Nevertheless as March 2008 approaches and the reform culture is now accepted, integrated and solidly established in Tunisia, the reform acceleration recommended by the Government orientation notes for the 11th and 12th plans is being expected and has become urgent.

4.1.7 Lastly, unlike PAC I, PAC II covers a number of areas, some of which are of a very technical nature (accounting consolidation of groups of companies or setting up of an electronic exchange platform, for example) the quality of the expertise provided by the donors therefore becomes a major factor of success of the programme. Balance should thus be struck between the need to conduct the dialogue including all the parties and that of including all major measures in the programme matrix. Such an approach would allow for taking into account the labor factor, which is key factor of competitiveness. Measures for increased flexibility of the labour market and enhanced labor mobility would ensure broader cohesion and even increase the program efficiency. That is a factor affecting the establishment of private enterprises (private investment growth and investment rates). The donors proposed that it be taken into account for preparation of PAC I, II and III, to no avail.

4.1.8 The performance indicators retained are primarily macroeconomic; few measurable indicators were adopted to characterize the efforts made with regard to sector reforms.

4.1.9 Overall, the relevance of objectives and quality at entry are satisfactory.

4.2 Attainment of Objectives and Results (Efficacy)

4.2.1 The authorities have implemented substantially the entire programme and the measures taken. The result is a stable macroeconomic framework and improvement in sector performances in the five areas concerned by the reforms. Overall, the two phases of the Programme have been satisfactorily conducted and have attained the desired development objectives. This Programme has therefore reflected the authorities' desire to reach a higher level in the structural transformation of the economy and its upgrading to render it more competitive, for greater economic opening up to the rest of the world.

4.2.2 On the strength of the reforms, Tunisia obtained the «investment grade » in 1994. The rating agencies gave favorable ratings in 2004 (BBB from Standard & Poor's; Baa2 from Moody's; BBB from IBCA and BBB+ from R&I) which were higher than those given to comparable countries. The Davos World forum ranks Tunisia 30th in 2004-05 (34th in 2002-03) for overall competitiveness (See annex 11). It is ahead of several countries on the five continents and is no. 1 in Africa.

Growth and Maintenance of Macroeconomic Stabilization

4.2.3 The competitiveness Support Programme, like the first-generation reform programmes, included macroeconomic stability as the first component. They therefore supported the fiscal and monetary policies and the underlying exchange rate policies. The authorities'' prudent macro-economic management of the reforms led to improved economic performance s across the indicators defined (Annex 9): sustained economic growth, reduced inflation, stable real exchange rate, stable and sound fiscal position, controlled monetary aggregates and stable and well managed balance of payments position.

4.2.4 This prudent macro-economic policy is reflected in the reduction of the budgetary deficit from an average of 3.7% of GDP between 1991 and 2000 to 3.1% in 2003, then to 2.9% in 2005. The tax receipts were the result of a substantial increase in imports owing to modernization and upgrading of plant. This increase in revenue is particularly remarkable given the context of reduction of tax at entry. The increase in monetary aggregates was brought in line with that of the nominal GDP. The inflation continued to decline going from a 3.4% average between 1996 and 2000 to 2.1% in 2003 and 2.0% in 2004. However, given the increase in raw material prices, notably petroleum, inflation rose to 2.7% in 2005 and was expected to attain 4.6% in 2006, according to the Central Bank of Tunisia (BCT). Lastly, the flexible management of the exchange rate by the monetary authorities allowed for significant rise in the real exchange rate (maintained stable).

4.2.5 The economy largely overcame the shocks caused by the sluggish European growth, four years of drought (1998/99-2001/02) and the events of 11 September 2001 and of Djerba. Indeed, though real GDP growth declined substantially from 4.9% in 2001 to 1.7% in 2002, in 2003, it rose to 5.6%, i.e., to a level higher than the trend of 5.2% observed for the 1997-2003 period. Aside from the events of 11 September, the decline in 2002 was caused by the 11% drop in the agriculture sector GDP owing to the drought and decline in of the manufacturing industries from 6.9% in 2001 to 1.9% in 2002 owing to a decline in the export sector activity (textiles, shoes, IME). Real GDP growth was even stronger in 2004 when it attained 6%, however, it was only 4.2% in 2005, falling short of the targeted 5%. This performance was in an international context that was more difficult than expected, marked by a hike rise in raw material prices, notably that of oil, the end of the Multifiber Agreement (MFA) and limited growth in Europe (1.5%). However, the real GDP growth is estimated at 6% for 2006, in line with the targets of the 10^{th} Plan.

4.2.6 Economic growth was primarily led by exports, which were in fact one of the highly successful aspects of the programme. Their real growth averaged approximately 8% during the 1997-2001 period, beyond the Programme targets. This growth however suffered the effect of the exogenous shocks described above and slumped to 2.1% in 2001, then went up to 4% from 2003. It was 6.1% in 2005. The GDP growth was also driven by the internal demand which was rising at a faster rate. Imports however remained parallel to the export growth rate, affected by the ongoing tariff dismantling and the enterprise modernization.

4.2.7 Despite the role played by the private offshore manufacturing sector, the level of foreign direct investments (FDI) remained low, reflecting the consequences of the exchange rate restrictions and administrative interference. However, the amount of FDI rose in 2002, as a result of privatizations of banks and the ITC sector. The 2006 level of 3 billion dinars (DT), which is 9.5% of GDP (privatization of the public enterprises ENNAKL and STIA and

transfer of 35% of Tunisie Telecom) exceeds the sum of all the FDI recorded between 1987 and 2005 (2.5 billion DT). The investment rate which attained 27.9% of GDP in 2001 trended downward recording 23.9% in 2005. The share of private investment in global investment (53 % in 2003) progressed slightly, but remains below the target of 60% set under the 10th Plan for 2006. It thus appears that the PAC II sector objectives (increase the share of private investments by a minimum of 3% between 2002 and 2003 and raise the investment rate to 27.7% in 2002 and 28.7% in 2003) have not been attained, despite the satisfactory implementation of all the reforms measures.

4.2.8 For 1999-2003, the State budget was marked by the easing of fiscal pressure that caused the decline in tax receipts. However, the budget deficit excluding grants and privatization receipts was contained at 3.1% of GDP in 2002 and 3.2% in 2003 against 3.5% in 2001, due to a major reduction in administrative and capital expenditure and a substantial increase in non-tax receipts. The deficit was financed, essentially through Treasury note issues. The continued budgetary discipline even made it possible to reduce the budgetary deficit to 2.6% of GDP in 2004; however it rose again to 3% of GDP in 2005, mainly due to the increased subsidies granted by the Government with regard to petroleum product consumption, despite a series of upward adjustments of consumer prices. At any rate, the uncertainty concerning the international market demands a strategy and flexible fiscal management. To that end, the National Tax Board (Conseil national de la fiscalité), on which the private sector is represented, devoted efforts to tax reform, including the broadening of the tax base as well as fiscal viability and streamlining, which should ultimately improve the fiscal results.

4.2.9 Regarding the balance of payments, the current account deficit remained unchanged within a range of 3 to 4% of GDP between 2001 and 2003. This deficit was essentially financed by borrowing on international financial markets. The decline of about 14% in tourist receipts in 2002 and 5.2% in 2003 was partly offset by transfers by Tunisians living abroad. However, the current account deficit started narrowing from 2005. Indeed the contraction of the current account deficit to 2% of GDP in 2005 is the result of a 12.9% increase in exports and 3% increase in net current transfers which more than compensated for the 7.8% import increase. Also, despite certain fears regarding the effects of the MFA, textile sector exports declined by only 5.8% in 2005, while the high gear electrical and mechanical industry exports, combined with the vigorous recovery of tourism (6.3 million tourists in 2005) made it possible to further narrow the current account deficit. The receipts generated by tourism amounted to 2.56 billion DT. The war in Lebanon whipped up tourism in 2006, with the result that the current account deficit expected to exceed 1.3% of GDP in 2006. The exchange reserves which had decreased to the equivalent of 2 month' imports in 2003, are expected to attain the equivalent of 5.1 months imports in 2006. Lastly, IMF considers that in pursuing the policy of gradual liberalization, it is possible to envisage the total convertibility of the dinar for the medium term, in order to reinforce the competitivity of the economy.

4.2.10 The public external debt rate, which increased from 54.5% of GDP in 2001 to 57.4% in 2003, remained high. This debt ratio further worsened, representing up to 59% of GDP in 2005, but has begun to fall in 2006 and is expected to reach 55.8% during the year. The current level of internal and external imbalance does not make it possible to significantly curb the external debt. It is therefore important to pursue a policy of budgetary discipline to remedy the deficits. For example, IMF considers that maintaining a public deficit of 3% of GDP would make it possible to reduce the debt rate to a level below 50% in the medium term. As a result, it is crucial to accelerate the public finance reforms in order to

attain the objective of reducing the public debt burden. The external debt rate is however even higher, since it takes into account the private debt rate which has risen by some13% in 2002-2003 to approximately 18 to 19% of GDP currently. The external debt is therefore high and poses a challenge for the economy.

4.2.11 More active management of the debt with a view to effectively controlling it is very important. The Ministry of Finance has acquired an integrated debt structure whose mission is to implement the debt absorption strategy. To that end, a single database on external public and private debt has been prepared making monitoring possible. The government intends, from 2006, to use part of the privatization income to reduce the external debt. Priority will be given to non amortized debt, contracted on costly terms. However in the medium term, the public finance restabilization policy will remain the basis for external debt reduction.

4.2.12 Lastly, the increase in the inflow of external funds (exports, privatization) presents an inflationary risk for the economy. To date, the BCT has succeeded in sterilizing a part of surplus liquidity generated by these flows, and broad money increased by over 10% in 2005. Inflation was contained and credit to the economy was increased parallel to the economic activity. However, if these inflows persist, it will be essential to underpin the monetary policy with a more ambitious plan for re-stabilization of public finances, to conduct additional external debt repayments and speed up trade liberalization. It is also important to give the market more leeway to determine the exchange rate and ensure greater flexibility both ways. The need arises for arbitration between the re-stabilization of public finances and the repayment of the debt, to use up any supplementary receipts, for inflation control.

4.2.13 In conclusion, the macroeconomic framework has been maintained stable and strengthened. Three weaknesses persist and continue to raise challenges: (i) weak private investment, despite the great potential; (ii) high unemployment which; and (iii) substantial external debt burden. This component is considered overall satisfactory.

The Environment of Private Enterprise and Privatization

4.2.14 The measures envisaged in this component have been carried out. All the conditions have substantially been met, with the exception of three (see Annex VIII) for which waivers had to be obtained concerning three conditions. This concession however had no major effect on the continuation of reforms of that component.

4.2.15 A study evaluating the private sector conducted in 2000, in the programme context, showed that the public enterprise environment was becoming favorable, if not incentive, given the reduction of a number of constraints to the smooth conduct of business: (i) the complex investment system; (ii) major administrative and tax-related constraints affecting the SME; (iii) telecommunications; (iv) transport; and (v) bank loans controlled by the public sector. Reducing the time devoted to administrative procedures, for example, is tantamount to cutting company production costs: this is therefore an important component for the competitivity of enterprises.

4.2.16 The progress in this regard resulted in Tunisia being ranked in 2004-2005, 32nd (same as for 2002-2003) for competitivity of enterprises and private sector climate by the Davos World Economic Forum and 77th (2005) and 80th (2006) (out of 175 countries) by the World Bank report *Doing Business* for the general business climate.

Administrative Barriers to Investment

4.2.17 In 2005, the business heads considered administrative formalities to be a minor constraint, with a minor degree of intensity of 63%. Indeed, 60% of the some 500 administrative authorizations counted were cancelled or replaced by an a posteriori control process. This process continued through the PAC III implementation: there were 45 authorizations and substitution of terms of reference in 15 additional cases, at end April 2006. The objective of reducing the number of authorizations from 260 to 120 during the 24 months of implementation of the PAC III is possible, since the pace of cancellations appears adequate. However, the cancellations achieved do not really concern the most attractive sectors of activity for private investment, such as communications, services to enterprises and transport. Also, the terms of reference do not, generally speaking, abolish the administrative papers usually requested, but call for them a posteriori, with the result that the authorization accorded only allows the economic operator respite.

4.2.18 The regulatory framework has been improved by the single window, making it possible to facilitate the registration of enterprises and the establishment of start ups in the services sectors and industries. However, much time is still taken: the establishment of a company requires authorizations concerning the environment and employment. The sector regulations are still numerous and hamper the establishment of manufacturing enterprises. B) ranks Tunisia 59th for 2006, 7 places down compared to 2005, which translates a relative loss of competitiveness in relation to other countries and with regard to enterprise establishment.

4.2.19 The reforms made it possible to reduce the sea transport related costs and facilitated port and customs transit of the goods by improving the existing legislative and regulatory framework. The streamlining of customs procedures is in effect and the customs computer system has made it possible to replace a series of documents by a simple system. In September 2005, it was estimated that approximately 25% of all customs declarations were electronically processed as compared to only 1% at early 2005. The processing of transit documents was reduced from 18 days in 1998 to an average of 4 days in 2003 and 45 minutes in 2005; that of the customs documents went from 2-3 days in 1998 to 15 minutes in 2003. However, according to the survey conducted by the Institute of quantitative studies (Institut d'études quantitatives -IEQ) in 2005, 26% of heads of enterprises see the customs and external trade regulations as a major constraint, and consider that the effective periods of customs processing of goods remain long, at 9 days for imports and 5 days for exports. The figures given in Doing Business are different: 18 days for exports and 29 days for imports. DB thus ranks Tunisia 39th in that respect in 2006 (three positions lower than 2005). Efforts are still required to lower the costs relating to external trade.

The Tax Constraint

4.2.20 Enterprise taxation is also being relaxed, for example concerning the amounts and periods allowed for repayment of the VAT owed to enterprises participating in the modernization programme. Between 1999 and 2005, repayments went from 15 to75% of amounts due and the time involved from 6 months to under 30 days. Heads of enterprises however continue to see taxation as a major constraint, with a major degree of severity of 49%, whereas the tax administration is seen as a minor constraint with a minor degree of severity of 61%. DB ranks Tunisia 139th in 2006 (138th in 2005) for global tax payment by a medium-sized enterprise, which places it in the last quarter of the 175 enterprises ranked,

signifying a considerable lag in this domain. The Tunisian enterprise makes no less than 45 payments, representing 58.8% of its profit, compared to about thirty payments in the Region and only about 15 for the OECD countries. The best organized enterprises are those that regularly pay taxes, and they are also the ones to which the bulk of fiscal controls are applied, which seems to be a real paradox. Reforms are ongoing to reduce this constraint. Thus PAC III revisits the issue of the general tax strategy, judiciously focusing it on the harmonization of tax systems between exporting enterprises and those concerned with the domestic market. The programme measures include concrete steps forward, such as the establishment of the national tax board (CNF), including private sector representatives and thus allowing for enhanced dialogue concerning fiscal policy. In addition, the Code of Law and Procedures has been amended to improve the tax administration/tax payer relationship. However, tax constraints remain a great burden for Tunisian enterprises and are factors making progress towards competitiveness.

The Competition

4.2.21 The competition is without doubt playing out better, but it is still influenced by the practices of the centralized economy and the informal trade practices. The 1990 law on competition was amended in 1999, to strengthen the Competition Board (CC), enabling it to process 30 cases in 2005, compared to only 7 up to 2000. However, aspects of the application of this law are still not satisfactory and the CC needs to be further strengthened. In 2005, the business leaders still considered the anti-competitive or informal practices (25 to 30 % of commerce considered informal) as a major constraint to business development. Texts are being drafted to limit this shortcoming under PAC III.

State Withdrawal, Privatization and Private Sector Promotion

4.2.22 For fear of the social implications, notably, the pace of privatization of public enterprises was slow at the start of the reforms. This slow pace is also is also due to the initial lack of regulatory frameworks and limited experience. The first SME to be privatized were those for which parties were already available for takeover. Privatization has now become an exercise perfectly well integrated in the business culture, accepted by social partners and remarkably well controlled by the authorities, who have made it a prime tool for the private sector strengthening strategy. Aside from 2006, which is exceptional owing to the transfer of 35% of the capital of Tunisia Telecom for 3 billion DT, the bulk of the private sector privatization and restructuring during the period under review took place between 1997 and 2003 (85.5% of receipts and 54.8% of operations). These operations concerned increasingly large firms, comprising SME/SMI as well as major enterprises (SNDP), the banking sector (UIB, Banque du sud) and the ITC sector (GSM, Tunisie Télécom) (see Annex 9).

4.2.23 The increase in private investment remains a challenge. Despite the sound fundamental macroeconomic aspects, private investment represented only 20.1% of GDP in 2001 and declined steadily up to 2004 (17,2%), before rising to 17.4% in 2005, a level still well below the economic potential. This was due to several factors: (i) the commercial uncertainty remained high, making the risk also high; (ii) the limited availability of finance and its high cost in the medium and long terms; (iii) the limited opening for private investment, notably in the growth-leading services sector (ITC, services to enterprises and transport); (iv) the maintenance of restrictions to majority foreign holdings in company capital and (v) the presence of obstacles to the quality and transparency of the regulatory

framework. These are largely factors that hamper good economic governance. In addition, the substantial State intervention in the economy and the generous promotion of export and investment in certain activities have for a long time led to specialization of exports (textile, clothing, leather). This promotion has been partly to the detriment of the enterprises operating on the domestic market and those seeking to attain a certain level of quality for their products.

4.2.24 This component is deemed satisfactory.

The Finance Sector

4.2.25 The financial sector is overall well developed, even if the banking sector remains the main sector financing the economy. A sound, dynamic and competitive financial sector is essential, to attain the objectives of economic growth and the creation of employment in the medium term, and to increase the economy's capacity to resist exogenous shocks. Thus, despite the noteworthy progress made since 1999, including the rehabilitation of the banking and insurance sectors, as well as the revival of the financial market, the reform implementation must continue, in order to further modernize the Tunisian financial system and better prepare its integration into the international financing system.

The Obstacle of Non Performing Loans (NPL) of the Banking Sector

4.2.26 One of the key obstacles impeding the finance sector development remains the banks' NPLs, despite the institutional progress made under the banking law (2000), which reorganized, modernized (electronic compensation, telecompensation and balance sheet centralization are operational) and secure the profession (the amendment of August 2002 of the civil and commercial procedures code facilitates the recovery of the NPL), in accordance with international standards, based on a new credit culture and new prudential standards. In addition, BCT in March 1999 instituted rigorous accounting standards: (i) raising the minimum required for the solvency ratio from 5 to 8%; (ii) fixing the banks' equity ratio at least 25%; (iii) limiting the maximum amount allocated to a client; and (iv) instituting, in April 2001, a liquidity ratio (convertible assets/current liabilities) which cannot be less than 100%.

4.2.27 These reforms made it possible to lower the commercial bank NPL level from 45% in 1999 to 24.2% of total commercial bank loans in 2003 (annex 14). The NPL level is therefore still high, raising the cost of banking intermediation and reducing the viability of project rates of return. The asset guarantees required by banks raise financial risks, since they are not very liquid, difficult to recover (slow justice process) and probably overvalued. This has constrained the capacity of banks to finance private investment, while the stock market remains limited. The share of the NPL in total credits decreased to 20.9% in 2005, owing to the good results in the tourism sector, however NPL continue to burden the banking costs. However, as a result of the strict application of the new prudential norms decreed by BCT, the provisioning of NPL, which had decreased from 48.7% in 2001 to 44.1% in 2003, attained 45.8 in 2005. The current efforts to improve doubtful debt recovery are expected to yield substantial results in 2006, given the excellent tourist season. The government should thus pursue a rigorous policy, since the reinforced effectiveness of the banking system will require a significant reduction of the NPL. At the level of the enterprises, the managers continued in 2005 to consider the cost of bank loans as a major constraint, and for most of them, with a major degree of severity. A minority of 29% consider this constraint manageable. This result corroborates the DB application whereby Tunisia, from the standpoint of loan access, held the 101st position in 2006, (96th in 2005) out of the 175 countries rated.

The Effect on the Financial Market

4.2.28 The TUNIDEX which indicates the financial market trend (base 1000 = 1998) stagnated around 1200 between 2001 and 2003 (Annex 10). It has however been markedly declining for the past three years, from 1331.8 in 2004 to 1866.9 in 2006. This indication however reflects the yet modest level of the stock market activities. Its development has been hampered, by the excessive dependency on banking financing, which is easily accessible to the large companies, and also the refusal of this market by a large number of enterprises most of which remain family-owned, and are reluctant to release their control and accept accounting transparency. Therefore, the role of the financial market in financing the economy remains marginal, despite numerous efforts to render it dynamic, notably (i) the rapid increase in the proportion of linked treasury bonds (BTA) to over 50% of the total amount of Treasury bonds, (ii) adoption of measures to integrate the different information systems of the Conseil du marché financier (CMF), in order to strengthen its supervision and (iii) the preparation of a new generation of reforms. The delay in the application of the regulations on breaches relating to stocks (insider trading, for example) and, more generally the slow and gradual application of the regulatory framework, do not encourage investors (Annex 15). The limited scope of the privatization programme (primarily of SME), which to date has not promoted financial market recourse, as well as the limited role of contractual savings and collective investment mechanisms have hampered the activities of the financial markets. An alternative market, less demanding and better adapted to the dominant culture of the Tunisian enterprise, has recently been launched, bearing witness to CMF's dynamic efforts to find solutions for the expansion of the financial market. By all scenarios, the future of the financial market remains linked to the rationalization, turn-around and modernization of the banking sector and the emergence of modern, transparent enterprises playing by the market rules. The financial market is expected to expand with the acceleration of reforms.

4.2.29 The financial sector component is deemed satisfactory.

The Insurance Sector and its Strengthening

4.2.30 The insurance sector has, over the past years benefited from several measures aimed at reorganizing and consolidating the financial balances of the sector enterprises, formulating a modern regulatory framework and making it playing its role, still weak, of savings mobilization and risk coverage. The reform implementation has remained slow in this sector delaying its progress, as seen in its minimal impact on the economy, which has shown major resistance to change. The penetration rate, measured by the consolidated business figures to GDP, was 2% in 2004, up slightly from its 2001 level of 1.64%. It is weak compared to the world average of 8%. The consolidated results of insurance enterprises have showed a net result with a deficit of 29.9 MDT in 2004, against 36.36 MDT in 2001. This deficit is mainly due to the poor performances of the automobile branch (75.1 MDT in 2004 compared to 42 MDT in 2001).

4.2.31 Insurance firms in Tunisia are constituted and governed on the basis of legal provisions limiting the foreign capital and requiring that the capital be held by a majority of national interests. The sector is dominated by private enterprises, which hold approximately 49% of the capital, followed by the public enterprises (35%) and mutual enterprises (16%). This predominance of private interests in the sector has tended to be consolidated, since the start of the reform in 2001. It is also noted that the public enterprises dominate the

automobile and group branches, which show certain weaknesses (obligatory insurance, therefore captive clients), while transport, fire and life branches which make up competitive activities are managed by private enterprises. The market structure remained stable between different branches in the 2001 to 2004 period. It is characterized by a preponderance of the automobile insurance which accounted for 43% of the business turnover in 2004 (annex 17)

4.2.32 The stability of the macroeconomic framework and the growth of the economy have brought about a major need for insurance that has not yet been satisfied. The development of a large middle class is an indicator of the potential resource mobilization and risk coverage potential. The conditions for development of the insurance market have not yet been met. The sector will nevertheless be required, in the near future, to open up to international competition, given the authorities' commitments relating to the WTO and AAUE. Towards the timeframes of these commitments, a sector reform plan has been under implementation from 2001 under PAC II and III. As part of the legal and prudential reform, the authorities thus undertook the adaptation of the prudential rules to international standards. The consolidation of the financial basis of the insurance companies also entailed raising the minimum level of company capital, which practically tripled. The company control procedures, which aimed at consolidating the supply of insurance through management according to the established standards, were also relaxed. The sector reorganization, scheduled for completion at end 2006 also involves reform of enterprises showing major imbalances, liquidation of one enterprise and modernization of management methods, improvement of technical skills and continued strengthening of financial bases of another enterprise. The reform will abolish the regulation disallowing foreign majority capital holding.

4.2.33 To increase the demand for the under-subscribed insurances, such as life insurance and capitalization, the insurance code was amended in 2002 to authorize banking insurance and and post assurance (2004) as means of diversification and extension of the distribution networks and reduction of the preliminary expenses. Additional tax exoneration was granted to encourage group life contracts. These efforts were pursued under the 2004 Budget Act through the exoneration in respect of the tax on income relating to insurance «automobile civil responsibility»: 8% in 1999, 8% in 2001, 3% in 2003, 5% then 3% in 2006.

4.2.34 The insurance sector component is deemed satisfactory.

Information Technology and Communication Sector (ITC)

4.2.35 Putting aside the reservations concerning the non-transparent process for the granting of the GSM license, the objectives of this component have without doubt been achieved. (i) a medium and long-term strategy has been formulated for each of the sub-components; (ii) a new regulatory framework has been put in place, compliant with the international standards and regulation agencies' requirements; (iii) the opening up of the Telecom sector to the private sector has been done; and (iv) the 2nd operator (TUNISIANA) rapidly launched its services to the public in December 2002. At the end of the PAC II, two GSM operators were in fact operating in Tunisia. It is clear that the opening up of the GSM segment to competition, which was a direct objective of PAC II, has been carried through. The number of GSM users reached 1.9 million in 2003, and crossed the 5 million mark in 2005, compared to under two hundred prior to 2002. On the average, more than one Tunisian out of two currently has a mobile telephone (Annex 19).

4.2.36 The authorities' commitment to pursue the liberalization of the sector is confirmed by the transfer of two VSAT licenses, one GSM license and 35% of the capital of Tunisie Telecom. Similarly, three regulation units are independent of the Ministry of Telecommunications from the functional and financial standpoints, pursuant to the new law on telecommunications and their implementation decrees. These are: (i) Agence nationale des fréquences (ANF), responsible for the entire range (inalienable from the State control, as a rare resource); Centre d'études et de recherche des télécommunications (CERT), as a standardization and certification agency; and (iii) Instance nationale des télécommunications (INT), an independent organization in charge of the regulation of the sector. These are in addition to the technical and regulatory set-up which favors a substantial opening up of the sector to private investment.

4.2.37 This component is deemed satisfactory, despite the cancellation of the corresponding tranche, owing to the lack of formal validation of reform measures in the ITC sector.

Socio-Economic Impact of Programmes

4.2.38 The results of the reform programmes implemented in Tunisia showed constant progress in the social sector. Indeed, the social dimension has always been counted in the economic plans informing the reform programmes. This is seen in the efforts towards sustainable economic growth and the sharing of its fruits amongst maximum numbers. The substantial growth achieved since the middle of the 1980s resulted in a remarkable reduction of the economic vulnerability and poverty: the proportion of the economically vulnerable decreased from 9 to 6% of the population between 1995 and 2000, while poverty contracted sharply from 13% in 1980-1985 to 4.1% in 2000. Between 2001and 2006, vulnerability and poverty were further curbed as a result of substantial and sustained growth, despite the poor agricultural years. In 2004, the GDP per capita was USD 2 978, which is USD 8255 in purchasing power parity (PPP) terms, compared to USD 1 510 (USD 3 778 in 1990. This improvement in living conditions has brought with it notable social progress.

4.2.39 Nevertheless, the distribution of the fruits of the growth has been relatively disparate, since the 10% highest income is 13.4 times higher than the 10% lowest (9.1 times higher in France, 9.6 in Algeria, 68.0 in Brazil). Moreover the persistent unemployment of about 14.2% in 2003 (13.95in 2006), the low private investment rate (job creating) and the relatively high external debt rate (reducing public investment) weaken the economy's capacities to resist exogenous shocks. The pace of reforms makes for sustainable and high-level growth, based on the gradual integration of the world market, to increase income to a level comparable to that of OECD emergent countries. Currently, the per capita GDP represents approximately 30% of the average income of these countries. At the growth rate of 6.5% envisaged in the last Orientation Note, Tunisia will catch up in some twenty years, all things being equal. The impact on the key socio-economic indicators is thus clear: they are higher than those of countries of the same income tranche. It can be expected that all the Millennium Development Goals will be attained by 2015.

4.2.40 The socio-economic impact of programmes, is satisfactory.

4.3 Efficiency

4.3.1 The PAC have been designed with identical disbursement mechanisms based on a matrix of measures common to the three partners, whose action have been perfectly

coordinated with regard to the preparation as well as appraisal of programmes. This excellent coordination has enabled them to react rapidly to the events of 11 September 2001, by increasing the loan amounts (PAC II) by 50%, scaling down the macro-economic objectives and softening the conditions for disbursement of the floating tranches.

4.3.2 The first tranches of PAC I and II were disbursed on schedule, as soon as the joint monitoring missions verified the progress made. For the other tranches, the coordination was not satisfactory, especially regarding the examination of the supporting documents. The authorities first transmitted them to the World Bank, which processed them before sending them to the Bank, which in turn processed them. It would have been more efficient to send them simultaneously to the three co-financiers, if only to gain time. The method adopted further resulted in additional commitment charges that could be avoided by the Tunisian side.

4.3.3 Notwithstanding the problems relating to examination of supporting elements, the coordination among co-financiers was exemplary. It was in accordance with the HAGAR (for harmonization, alignment and results-based management) which the Bank joined in 2005 (ADB is a signatory of the Paris declaration). This is also seen when it comes to considering the requests for waivers relating to conditions that are not fully met, in light of the indicators decided at appraisal. Such waivers have been discussed and formulated through work sessions involving the staff of three institutions and the Government experts. This consultation made it possible to maintain flexibility as essential criteria for effective implementation of the programme. That method allowed for substantial gains, notably by avoiding the transaction costs and additional commitment charges that would have arisen on Bank and the World Bank loans, had the waivers been refused. This concerted approach of donors has had the effect of raising the credibility of the Tunisia programme co-financiers, and thus facilitating the ownership of the reforms.

4.3.4 Thus the cancellation of a floating tranche relating to the ITC sector is a decision common to the three institutions. This cancellation could have had serious negative consequences on Tunisia's financial balances, had it not been possible for the country to mobilize resources on better terms on the international financial market (except in the case of the EU which gave a grant), owing to the good ratings granted by the international rating agencies. However, there again, the rating agencies based their decisions on the good performances of the reform programme with regard to macro-economic stabilization, economic liberalization and encouraging private investment. The reforms were conducted very seriously and within the time frames, from the mid-1980s. The cancellation of the floating rate by the Bank, seven months (Table 2) after the World Bank had done so, however caused Tunisia to pay additional transaction costs including the additional commitment charges calculated at the rate of 36 M€ for seven months.

4.3.5 Overall, the reforms were well managed by the agencies in charge of the different programme components (macro-economic framework, business environment, banking sector, insurance sector, ITC sector, administrative reform, financial market). Each of the agencies in charge of a phase of the reforms conducted consultations with the private sector and the civil society. The DGP of MDCI has conducted the coordination between these agencies in a satisfactory manner. The initial objectives of the programmes have been adopted and attained on schedule, except for a few delays that have not affected the continued implementation of the reforms.

4.3.6 The Tunisian authorities opted for a fixed global interest rate for the PAC I in dollars and fixed disbursement rates for the euro loan for PAC II. The 1999-2006 period was

largely characterized by floating rates that declined (Annex 20). With the floating rate option for PAC I and II, the gains in comparison to the option selected would have been USD 22.3 million dollars for PAC I and 18.8 million euros for PAC II for the loan period up to 1 August 2006.

4.3.7 The funds, the expertise and the time invested in the Programme have yielded the positive result referred to. Despite the major exogenous shocks to Tunisia during the 1999-2003 period, the budgets were not exceeded. The funds committed were singularly effective, since they made it possible to deeply transform the business environment, the banking and insurance sector and give impetus to the ITC sector and open it up to competition. The public sector has gradually loosened its control of the real economy, limiting its role to regulating it, and in an increasingly indirect manner. The beurocratic rules have been greatly relaxed and emphasis shifted to oversight of compliance with the rules of competition. The economic and financial returns of business ventures have become the rule at all levels of decision making, allowing for selection between alternative investments. By and large, apart from 2002 (when, given the budgetary discipline imperatives for macroeconomic stability, the State was obliged to contain its expenditure, notably by reducing the capital expenditure, with the result that GDP growth fell sharply to 1.7%), the results of the growth over the decade have been very encouraging: 5% yearly average from 1997 to 2006.

4.3.8 On the strength of its prudent macro-economic policies and the implementation of reforms over a long period, Tunisia has been able to increase its access to the international finance markets, and thus to long-term borrowing on relatively favorable terms. Tunisia is among the rare borrowers on the emerging markets that has an investment rating. However, its external debt has remained high compared to that of other countries with comparable investment ratings (BBB-, BBB and BBB+). Since 2002, the country's public external debt amount exceeds 50% of GDP, with the external private debt in the order of 17 or 18% of GDP.

4.3.9 The progress made with the reforms also explains the significant rise in direct foreign investment from an average of 733 MDT during the period (1997-2001) to approximately 1000 MDT for 2002-2006. This particularly concerns the buoyant sectors with high value-add, such as the mechanical and electrical industries and the new information technology. The ITC sector capital goods imports have increased to 16% for 2002-2005 against only an average of 9%t between 1997 and 2001.

4.3.10 The efficiency is considered satisfactory.

4.4 Institutional Impact

4.4.1 The implementation of the reforms coordination by direction générale de la prévision (DGP) over along uninterrupted period and with remarkable staff stability contributed to strengthening the analytical capacities of this department and to the internalization of the reforms. Most of the institutions in charge of the different components were strengthened and restructured to facilitate the implementation of reforms. They acquired more autonomy in their supervisory roles, their missions have been more clearly defined, and in certain cases extended. They received modern facilities and were more appropriately staffed. New heads were often appointed for them and these were persons committed to reform and with long-term visions.

4.4.2 The following examples illustrate the programme's considerable institutional impact: (i) the banking law redefined the mission of BCT, which was restructured in order to

ensure the price stability, in line with one of its primary missions. The programme enabled BCT to institute new prudential standards, establish an information and electronic compensation station and introduce a file on credits to individuals, in accordance with its new rules. It also adopted regulations for the certification of accounts and assessment or rating for any company that contracts commitments beyond clearly specified limits, as well as regulations establishing a new ratio for concentration of major risks; (ii) the programme entailed the adoption of new texts that bolstered the missions of the Conseil général des assurances (CGA) which now plays a fundamental role in the revival of the insurance sector. Not only was a law for amendment of the insurance code promulgated and implemented, but a plan of action with a schedule was adopted to raise the CGA human resource and material capacities; (iii) regarding the Conseil du marché financier (CMF), the recommendations from the study on capital market development and Board organization and information systems are being formulated; (iv) the General Directorate of reforms and Administrative Forecasting, which is under the Office of the Prime Minister now has broader missions. Its capacities have been built up, notably with regard to human resources and modern equipment, and an internet site set up to facilitate the establishment of enterprises; and; (v) in the ITC sector, new specialized and autonomous institutions have established: Instance nationale des télécommunications (an independent organization), amendment of the Telecommunications Code, in order to render the INT autonomous and the Agence nationale des fréquences (under the responsibility of the Ministry of Technology and Communication).

4.4.3 The financial sector reform made possible more efficient utilization of banking sector resources. The plan of action to reduce doubtful debts was a success. It made it possible to reorganize public enterprises, though at a high cost for banks in the long term. The reduction of the NPL (Annex 14) resulted from the government's decision to guarantee its debts. It was a decision based on policy and social rational. The amendment of the civil and commercial procedures code has facilitated the recovery of NPL and placed banks in a more secure position. Also, a new credit culture, new prudential and accounting standards have been instituted allowing for the consolidation of the banking system.

4.4.4 The financial sector reform has also contributed to improving institutional stability to a large extent. BCT has been strengthened, certain banks have been merged, others privatized and modernized, while yet others have been de-specialized. In addition, the UIB and BTEI merger, followed by the privatization of the resultant bank has brought about significant institutional progress. Lastly, the new banking law has increased transparency and good governance of the banks and disallows most of the past practices that fragilized the banking system.

4.4.5 The performance regarding the institutional impact is satisfactory.

4.5 Sustainability

4.5.1 The sustainability of the outputs of the reforms carried stems from the authorities' firm will to pursue them and strengthen them. Indeed, the authorities' commitment to pursue the efforts at global and sectoral upgrading of the economy it has undertaken, and carry through the opening up to the world market has never wavered. This commitment is reaffirmed in the Orientation Note for the 2007-2016 decade.

4.5.2 The sustainability of the macroeconomic plan is attested by favorable trends of the principal indicators: (i) Real GDP growth averaged 5% yearly during the 1997-2006 period;

(ii) the budget deficit was reduced from an average of 3.7% of GDP between 1991 and 2000 to 3.1% in 2003, then to 2.9% in 2005; (iii) inflation was reduced by 3.4% between 1996 and 2000 to 2.1% in 2003 and 2.0% in 2004 (it widened again to 2.7% in 2005 reflecting the increase in petroleum prices.); (iv) the current deficit narrowed from 5.8% in 1992-1996 to 2% in 2005; and (v) between 1996 and 2005, the effective protection decreased from 73% to 26%, the customs duties from 16.7 to 5%, while DFI went from 1.9% to 17.6% of GDP. The stability of the macroeconomic framework has been consolidated despite the effects of exogenous shocks, however attenuated, notably through increased diversification of the productive system. The enterprise reform and modernization made it possible to raise global productivity of factors from 26% during the 1992-1996 period to 45% for 1997-2006 and also to increase the share of services in GDP from 39.2e to 47% during the same period.

4.5.3 In the different sectors, the action undertaken in settling doubtful debts, particularly the liquidation of debt-distressed enterprises' and strengthening of the regulatory and legal framework is expected to ensure the sustainability of the reforms. In addition, the reforms currently underway within the framework of PAC III seek to consolidate the bases for sound and rigorous management in the banking and insurance sectors and to further improve the environment of the private sector. In addition, the gradual approach to privatization has enabled the Government to obtain the political and social consensus required to carry through the different operations. The opening up, though partial, in the ITC sector has brought competition into the mobile telephone branch, affording this activity its current remarkable penetration rate of one GSM line for two inhabitants. This popularization of the mobile phone brought a sharp fall in prices (i) of the CIM card from 150 DT in 2002 to 5 DT in 2006; and (ii) of national and international communication (the cost of 3-minute communication with the United States went from 2.28 DT in 2003 to 1.06 DT in 2004).

4.5.4 The performance and sustainability is satisfactory.

4.6 Rating of the Overall Performance of the Programme

Table 4.1
Assessment of the Programme Performance

Area of Performance	Rating
1. Relevance	Satisfactory
2.Attainment of Objectives and Results	Satisfactory
3. Efficiency	Satisfactory
4. Impact on Institutional Development	Satisfactory
5. sustainability	Satisfactory
6. Overall Performance Indicator	Satisfactory
7. Performance of the Borrower	Satisfactory
8. Performance of the Bank	Satisfactory

The above table presents the detailed summary of assessment of the performance of the programme shown in Annex 3. The overall performance is deemed satisfactory. The eight performance criteria, grouped by category, show limited disparity; the ratings range from 3.0 to 3.5, with the exception of those relating to the monitoring/evaluation indicators concerning the Borrower (lack of monitoring and completion reports) and the Bank (conduct of 2 supervisions of PAC II out of the 5 envisaged), rated 2 and sustainability of the development of the private sector (virtual stagnation of the private investment rate), rated 2.5.

4.7 Borrower's Performance

4.7.1 The Government put in place financial sector reforms with the support of the hree donors and in accordance with financial sector modernization and restructuring programme contained in the 9th and 10th development plans. The authorities have shown determination in the conduct of reforms and have found reasonable responses to certain sensitive aspects, for example the UIB-BTEI merger, by proposing the privatization of the new entity created. The agencies in charge of the different reform programme components efficiently conducted their portions of the project in conjunction with the sector professionals, acadaemia and the civil society. In addition, the Government has ensured compliance with the loan effectiveness conditions, with the result that the deadlines were met. On the other hand, the government did not transmit the programme monitoring reports. Moreover, it transmitted the disbursement justifications, firstly to the World Bank which examined them before they were sent to the Bank. This approach needlessly prolonged the disbursement period and increased the amount of the commitment charges. Lastly the fact of seeking broad political and social consensus over the reforms slowed the pace of implementation, while the absence of transparency in the award of the GSM licence sent a negative signal with regard to good governance.

4.7.2 Despite these shortcomings, the borrower's performance is considered satisfactory.

4.8 Performance of the Bank

4.8.1 The PAC I and II are in accordance with the strategy formulated in the Country Strategy Papers for 1997-1998 and 2001-2002 and their updates. They seek to support the government Programme contained in the 9th and 10th Development plans. The programme evaluation and provision of loans were satisfactorily conducted and within reasonable periods, jointly with the World Bank and the EU. There was a constant exchange of information among the co financiers. In addition, the Bank conducted a study on the insurance sector, which served as basis for the sector reforms. Its long experience in the banking sector (lines of credit) was also decisive with regard to the reforms conducted in the financial sector.

4.8.2 The teams mobilized by the Bank at all the stages of the cycle of the two programmes were however limited. They comprised one or two persons, generally an Economist and a Financial analyst, whereas the complex questions treated in the PAC required more varied expertise, such as covered by the World Bank terms, made up of staff and consultants. Apart from the insurance sector study, the Bank did not finance any studies that could further facilitate its participation. This shortcoming relating to the expertise provided by the Bank is significant, since the middle-income RMCs such as Tunisia are increasingly demanding on that score.

4.8.3 The recommendations of the PCRs on PAC I & II which were finalized in June 2005 could not be taken into account in the preparation of the PAC II & III, whereas PAC reforms (establishment and strengthening of institutions, legislative and regulatory texts, lightening of administrative procedures, studies and plans of action, programming of mergers and privatization, reorganization of sectors and institutions, etc.) prepare the ground for the subsequent PAC, generating a chain of measures, each leading on to the next: this logic corresponding to a programme approach (implicit) supports the development plans.

4.8.4 The PAC II negotiations took place in a difficult international context following the events of 11 September 2001, with great uncertainty for Tunisia looking outward. The Bank and the World Bank took these uncertainties into account and increased the volume of their loans and lowered their macroeconomic indicators. Regarding the monitoring of measures, the Bank throughout the exercise conducted firm management but flexible enough to take delays into account where these did not threaten the implementation of the programmed reforms. .

4.8.5 This flexibility was further seen in the granting of waivers to the government concerning certain conditions which were deemed to be under implementation and in its view could be considered as substantially fulfilled. On the other hand it showed firmness concerning the granting of the second GSM license, when it was without access to the documents that it had requested in order to verify whether the relevant condition had been fulfilled. However, the Bank took too much time (seven additional months) to take its decision following the World Bank decision for cancellation of the loan amount corresponding to the ITC floating tranche. The two floating tranches were disbursed far behind those for the World Bank, even if they remained within the initially envisaged periods. Ideally, the decisions for release of the second tranches should have been taken in a concerted manner and simultaneously, for the Borrower's benefit and for optimum competitiveness of the Bank, all else being equal.

4.8.6 The Bank's supervision on the ground was inadequate, owing to the cancellation of one joint PAC supervision mission out of three and of three PAC II supervision missions (March and July 2002 and May 2003) out of five. This weakness resulting from the constraints inherent in the Côte d'Ivoire security situation and the temporary relocation of the Bank to Tunisia was compensated for by the other programme co-financiers.

4.8.7 The Bank's performance is nevertheless considered satisfactory.

4.9 Factors Affecting the Implementation, Performance and Results

4.9.1 Though overall satisfactory, the macroeconomic performances during the 1999-2003 period were affected by shocks of internal or external origin, particularly in 2002, and which often raised uncertainties concerning the implementation of the reforms. The factors of internal origin mainly related to repeated drought which affected the agriculture sector results and slowed the reforms. The external shocks that affected the programme are the events of 11 September 2001 which shook the basis of the tourism sector in 2002 and the slowing of growth in Europe which is Tunisia's leading economic partner.

4.9.2 One internal factor requiring particular attention is the still poor private sector reaction in terms of investment. The average investment rate, though rising, does not yet show the impetus which the authorities have sought to give it in order to raise the growth rate to a level that can significantly impact on unemployment. There are also psychological, cultural and religious factors that were not sufficiently taken into account in the approach to certain reform programme components such as: the transformation of the structure of savings (households prefer short-term to long-term placements, since they wish to acess their savings at any time and without delay) and life insurance (the Muslim religion is reserved concerning the aspects of life and death, which are generally seen to be the subject of Divine Will). Family ventures resist capital opening and refuse to comply with account transparency - a

strict precondition for the stock market listing- which partly explains the financial market limitations.

V. CONCLUSIONS, LESSONS AND RECOMMENDATIONS

5.1 Conclusion

The Bank and other co-financiers have supported the government in the implementation of PAC I and II whose measures allowed for: (i) maintaining a stable macroeconomic environment to resist exogenous shocks, notably through a diversification of the productive system ; and (ii) greater competitiveness of the Tunisian economy, particularly the sector performances in the five domains covered by the reforms (business environment, governance and privatization enterprises, telecommunication and information technology, insurance and financial intermediation). The programme success is not only a measure of the authorities' firm determination, but also largely the result of the sound coordination of measures between the co-financiers as well as between the administration, the economic operators, acadaemia and the civil society. However, despite the programme outputs, the government should persevere in pursuing the reforms in order to increase private investments and reduce unemployment and external debt.

5.2 Lessons

5.2.1 Tunisia has succeeded in laying the bases for a competitive economy through the well-coordinated implementation of macro-economic and structural policies and reforms. It has modernized its financial sector and eliminated major impediments to investment and privatization of public enterprises'. The implementation of the EUAA made it possible to engineer the clear opening out of the economy to the external world. The vigorous reforms relating to the business environment, enterprise governance and privatization, telecommunications and information technologies, insurance and financial intermediation have made it possible to significantly improve the long-term competitiveness of the Tunisian economy.

5.2.2 The successes of the Tunisian economy can be attributed to five factors: (i) the authorities' political will concerning the implementation of the reforms, (ii) the ownership and broad consensus at the political level, (iii) abundant and high caliber human resources, (iv) firm support from well-coordinated partners that have shown flexibility in the face of certain constraints not anticipated from the outset.

5.2.3 The programme teaches the importance of properly targeting and scheduling reforms, particularly in the case of successive programmes over the longer term. The programme approach is implicit, though PAC I and II are astride two separate development plans. The Bank and the authorities should, by common agreement, establish a framework for longer term evaluation covering the successive phases of reform.

5.2.4 The ownership of the borrower's reform programme is a major asset for its success. It makes for real commitment of the administration in the implementation of the programme. In the cases of PAC I and II, for example, the programme was initially designed by the Tunisian authorities, who thus invested in its smooth implementation. The role and the quality of the Tunisian administration in the sound implementation of the programme are

noteworthy. Indeed the contribution of stable,d competent and commited teams to the design as well as the implementation of the reforms is an asset for the successful implementation.

5.2.5 The economic and sector studies made it possible to carefully target and gauge the reforms and decide which supplementary studies were necessary to clarify certain specific aspects of reforms. They opened an important channel for continued dialogue with the authorities. It was also a wise decision to complete the preparatory work before initiating the insurance sector reforms. This aspect was given particular attention in the PAC II. It is thus important, in preparing the Bank's annual administrative budget, to provide the necessary resources for sector studies, which are prime instruments for preparation of reforms.

5.2.6 Close cooperation between the three donors has helped improve the programme performance and efficiency. There has been effective coordination between co-financiers, for example through exchange of information and conduct of joint missions throughout, from the programme identification up to the supervision stage.

5.2.7 The experience with regard to privatization of public enterprises and of the financial sector has shown the need for the Bank to be flexible concerning the fulfillment of certain conditions. Thus in accepting partial reform for certain aspects, the co-financiers ultimately obtained the full implementation of the reforms. In other words the patience, perseverance and flexibility paid off in the end.

5.2.8 The conditions should be feasible within the stipulated time frame and the verification criteria very clear. The condition concerning the UIB/BTEI merger is a case in point. A contrario, the formulation of the condition relating to the granting of the GSM license was debatable and concerned a commercial transaction.

5.2.9 The formulation of the conditions including amendments of laws or the voting of new law to be submitted to Parliament should take into account the ramifications of these changes as well as possible difficulties. The Bank should weigh such difficulties and assess them in a flexible manner, as it did for the amendment of the law relating to loant recovery.

5.3 Recommendations

For the Government

a) Continue consolidating the reforms already started and speed up their implementation;

b) Formulate a long-term plan for the implementation of the reforms, in order to supervise the different phases of the Programme and better prepare future phases; take timely measures to secure funding for the required studies. This framework is all the more necessary as the acceleration of reforms has already been programmed by the Government in its last Orientation Note;

c) Encourage the authorities to prepare periodic progress reports on the Programme as well as the completion reports for it, in accordance with the general provisions of the loan agreements;

d) Provide the Bank supporting documents for disbursements at the same time as the other co-financiers; and

e) Seek the advice of the Bank in determining loan interest rates and monitoring their evolution throughout the period.

For the Bank

a) Pursue and depeen the dialogue with the authorities, in order to continue assisting the country in future phases of the programme;

b) Provide increasingly strong technological expertise, as the reforms advance and become more complex;

c) Strengthen the expertise provided throughout the programme cycle and finance preparatory studies intended to give value-added to the Bank's assistance;

d) Establish with the authorities, an evaluation framework over an extended period covering successive phases of the programme, so as to better target the reforms;

e) Formulate feasible conditions within the stipulated time frame;

f) Avoid formulating measures with a technical content which the evaluators are not familiar with, and which could thus cause a bottle necks when difficulties arise;

g) Avoid formulating measures raising commercial issues that could delay the implementation of the reforms;

h) Avoid linking the tranches to sectors, since that could complicate the disbursement mechanisms and would not facilitate the provision of support throughout the reform programme;

i) Ensure that the coordination amongst donors covers, not only the usual missions, but also the examination of documents, particularly the evidence of implementation of measures in order to coordinate decision making (disbursement, cancellation in particular);

j) Ensure the translation of official documents into Arabic, whichis an African working language of the Bank, to avoid any delays;

k) Relax the procedures for examining supporting documents for disbursements and enable Bank staff to be more responsive by making them more accountable; and

l) Advise the RMC authorities in determining the type of loan interest rates to apply and assist them in managing these throughout the period, with a view to minimizing the interest due and enabling the Bank to be more competitive.

ANNEXES

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Matrix of Recommendations

Principal Observations and Conclusions	Recommendations	Responsibility
Formulation and Basis of Programmes		
The social partners involved in the formulation of reform programme	Participatory Approach to be maintained for future	Government
Inadequate Formulations: (i) unclear criteria for loan conditions (ii) problems raised by the technical or commercial measures	Avoid formulations requiring an assessment and not directly applicable	Bank
Insufficient number of staff conducting missions compared to World Bank	Strengthen mission composition with specialized experts (staff or consultants)	Bank
Programme Implementation		
Satisfactory programme implementation with exception of lack of transparency relating to the tendering for GSM (ITC sector)	Avoid measures with commercial content	Bank
Absence of progress and completion reports	Ensure compliance regarding submission of these documents	Government
Inadequate Bank monitoring of programme implementation	Strengthening of monitoring for ongoing programme phase	Bank (Operations Department)
Need to pursue dialogue with authorities in order to continue supporting and deepening the experience	Begin this process even outside missions	Bank
Lack of a longer-term framework for evaluation covering successive programmes	Establish a longer-term evaluation framework with authorities;	Bank
Provide increasingly strong expertise, as the reforms become more complex	Bank support through specific studies	Bank
Tranches linked to sectors complicate disbursement mechanisms	Avoid linking tranches to sectors,	Government Bank
Delayed examination of documents by the Bank, including official documents in Arabic	Closer coordination amongst donors, to examine documents to coordinate joint decisions (disbursement, cancellation in particular)	Bank
Programme performance evaluation		
Certain macro-economic results fragile owing to the economy's vulnerability to exogenous shocks	Speed up reform implementation, strengthen diversification of productive system and bring about budgetary stability for the medium-term	Government
Slow pace of implementation of reforms given the March 2008 target	Continue consolidating reforms undertaken and speed up future reforms	Government
Public deficit remains substantial	Broaden tax base, streamline public expenditure, reduce public debt and wage bill while avoiding reduction in public investment level.	Government
Persistent unemployment	Stimulate private investment at a	

Principal Observations and Conclusions	Recommendations	Responsibility
	significantly higher level to accelerate growth	Government
High degree of protection	Continue reducing customs rates. Continue opening up and speeding up the reforms in that regard	Government
Services not very open to competition.	Continue improving the private sector environment and privatization of public establishments	Government
Poor private investment rate	Improve external debt management	Government
Substantial External debt rate	Continue diversification of finance sources	Government
Banking sector principal source of financing economy	Continue reorganizing the banking sector and strengthening the privatization of public banks	Government
High level of PNP; obstacle to financial sector development	Improve diversification of finance; continued impetus to financial market	Government
Finance market development hampered by excessive reliance on bank financing easier for big companies to access	Consolidate the banking system and improve diversification of finance resources	Government
Inadequate private sector financing	Relaxing of procedures	Government
Rigid Bank rules and procedures	Action in that regard would strengthen the Bank's position in the Programme	Bank
Need for preliminary studies for appraisal of reform programmes to allow for their smooth implementation		Bank

Rating of Performance of Programme

N°	**Indicators**	**Score (1 to 4)**	**Observations**
1	**Assessment of Quality at Entry**	3	Satisfactory
i)	Consistency with country development strategy	3.5	The programmes were in line with the country economic development strategy orientations: strong and sustainable growth and competitiveness of the economy (9th and 10th Plans)
ii)	Consistency with Bank assistance strategy	3	The programmes satisfied the Bank's concern to continue supporting the Government in its reform policy
iii)	Macro-economic policy	3	The structural adjustment policies were justified given the government's concern about maintaining macroeconomic and financial stability and continuing opening up economy to the world market (AAEU) applicable from March 2008)
iv)	Sector policy	3	The sector reform programmes, such those in the private, financial and ITC sectors, were all geared to reform of the economy entailing the entry into force of the EUAA
v)	Public sector reform	3	The sector reform continues ; it aims at state withdrawal from the real sector and making the administration a development administration
vi)	Poverty reduction	3.5	It is a success; poverty has been reduced by more than 4 percent on average; particularly in the rural area
vii)	Social and gender equality aspects	3	Despite measures taken to reduce poverty and unemployment, there has been no great improvement in the job situation, and the unemployment is increasingly affecting the newly qualified youth and women
viii)	Environmental Issues	N/A	
ix)	Human Development Issues	3	The participation of officials of ministries concerned with the reform programmes has helped in building their capacities.
x)	Institutional Development	3	Tunisia has qualified and experienced professionals. The Programme implementation is helping build the analytical capacities of the MDCI and the structures in charge of different areas of reform.
xi)	Quality at entry (including complexity, risks, etc)	3	The appraisal reports were of good quality, the risks were reduced owing to the government's preparedness to implement the reforms; the foreseeable effects of 11/09/01 were taken into account
2	**Attainment of Objectives and Results (Efficacy)**	3	Satisfactory
i)	structural adjustment policies - Macro-economic framework stabilization	3	The macroeconomic balances were restored and stabilized; concerns remain with regard to unemployment (difficult reduction), private investment (falling short of the potential) and very high external debt.
	- Growth	3	Following reforms, GDP growth rate attained 5 per cent for the period under review 1997-2003
ii)	Sector reforms (salient results)	3	Modernization and rationalization of banks, impetus to capital markets and reorganization and restructuring of the insurance sector and boosting ITC sector by opening up to competition. Inflation rate under control; institutional savings progressing as is investment; the current balance of payments is contained; FDI is increasing on the strength of privatizations and the enhanced business environment; national budget continues to show a deficit, though contained.

N°	**Indicators**	**Score (1 to 4)**	**Observations**
			All these outputs indicate that the sector reforms relating to the business environment and privatization, the finance sector (banks, insurances, financial market) and the ITC sector have been overall satisfactory
	- Labor legislation	p.m.	Labor legislation remains rigid and costly, particularly as regards lay-offs, despite the progress which falls short of the needs. .
	- Procurement Policies	N/A	
iii)	Physical objectives (outputs/results)	S.O.	
3	**Efficiency** - Economic Efficacy	3	The coordination between the Bank , the World Bank and the EU made it possible to boost the reforms; to facilitate resource mobilization from the international financial market ; to increase the FDI; improve external debt management and increase investment to ensure growth of 5% average from 1997-2003
	- Financial rate of return Estimate at appraisal Re-assessment on completion	S.O.	
4	**Impact**	3,0	Satisfactory
	- Business environment and privatization	3,5	The business environment has been altered and several privatizations carried out; the banks and financial institutions have been modernized and reformed in the areas of accounting, management and control. The banking law has been approved and implemented; the insurance companies are reorganized and restructured; the former GSM operator has been restructured and rendered more dynamic in response to the competition; There are new private operators in the sector
	- Banking sector	2,5	
	- Financial market	2,5	
	- Insurance sector	3,0	
	- TIC sector	3,0	
	- BCT	3	The banking law redefines the BCT missions; price stability is its main mission; it has been restructured.
	- CMF	2,5	The Treasury is refinancing itself on the financial market: new texts have been drafted to prepare for the revival of the financial market.
	- CGA	3	New texts have strengthened its missions: it played a fundamental role in the insurance sector revival
5	**Sustainability**	3	Satisfactory
i)	Will and commitment of Tunisian authorities	3.5	The Government is ensuring the implementation of reforms; CIM are held regularly to monitor implementation; they are integrated in the annual budget reforms.
ii)	Measuring competitive potential of the economy	3	Each year, OCIEM assesses the level of competitiveness of the Tunisian economy in comparison with 15 countries including Portugal and Greece; IEQ carries out a yearly Survey on the business climate

N°	**Indicators**	**Score (1 to 4)**	**Observations**
iii)	Private Sector Development	2.5	The private sector participates actively in dialogue with regard to the reforms; that is a guarantee of sustainability
iv)	Poverty reduction	3.5	The challenge to the government is to eradicate the remaining pockets of poverty in the rural areas
v)	Resistance to endogenous and exogenous factors	3	The diversification of the Tunisian economy and implementation of reforms will make it possible to deaden such shocks
6	**Overall Evaluation**	3	Satisfactory
	I. Quality of preparation i) Control, participation of beneficiaries	3 3	Satisfactory The effective participation of beneficiaries is seen in each area of reforms as well as in their preparation and monitoring
	ii) Government commitment	3.5	The government's commitment and determination have been demonstrated
	iii) macroeconomic and sector policies	3	The sector reforms have contributed to maintaining macroeconomic stability, which in turn, given the indicators, fostered a climate of confidence in favor of the changes to ensue
	institutional arrangements	3	The executing agency has been set up (DGP/MDCI)
	2. Implementation Quality I) Assignment of adequate staff	3	The team of staff assigned to the management of the programme was up to its task. It needs to be strengthened by incorporating certain specializations commensurate with the complexity of the reforms
	ii) Performance of management by executing agencies	3 N/A	The performance of the executing agency has been satisfactory, despite the failure to transmit the completion reports.
	iii) Utilization of technical assistance iv) Compliance with schedules and costs	3,5	The different phases have gone normally, the schedules have overall been complied with as well as the costs.
7	**Overall Performance**	3	The overall performance can be qualified as satisfactory since the reforms have significantly altered Tunisia's economic landscape.
	Performance of Borrower **At identification stage**	3	Satisfactory
	i) Conformity of programmes with the government development strategy	3.5	The finance sector reform programmes are in line with the strategies defined in the different economic and social development plans
	ii) Participation of government/beneficiaries	2.5	The authorities have discussed the content of the different phases with the private sector and with the civil society concerning the areas of reform
	iii) Authorities' Commitment	3	The authorities' commitment has never weakened.
	Implementation i) Management performance	3	The agencies and organs managing the programme have overall carried out their mission creditably, with the result that there is substantial institutional capacity

N°	**Indicators**	**Score (1 to 4)**	**Observations**
	ii) Keeping on schedule	3	The programmes have been implemented without any hitches, with the exception of some insignificant delays in implementation of the reforms
	iii) Adequate monitoring-evaluation	2	There was some deficiency with regard to drafting and transmission of periodical progress on reforms reports and completion reports;
9	**Performance of the Bank**	3	Satisfactory
	- At identification stage	3	The Bank has been particularly active, notably in the areas in which it has relevant experience in Tunisia (Development banks); sector study on insurance conducted by the Bank on a Japanese grant.
	- At preparation stage	3	The Bank got involved from the start
	- At appraisal stage	3,5	It was very actively involved. It was able, with its partners, to provide for the effects of the events of 11 September 2001 by increasing the loan amount by 50 percent, lowering the 2002 macroeconomic indicators and relaxing the conditions for disbursement.
	-Quality of coordination with donors	3	The Bank satisfactorily coordinated its activities with those of the World Bank and the EU
	-At the appraisal stage	2	The Bank conducted only 2 supervision missions copmpared to the 5 envisaged and conducted by its partners owing to the events in Côte d'Ivoire and the relocation of the Bank to Tunis.

Annex 4

Factors Affecting the Programme Performance and Results

Factors	Substantial	Partial	Negligible	NA	Remarks
1. Beyond authorities' control					
1.1 International context	X				The lackluster economy of Europe, the lead client, affected the reduction of the demand in Tunisian products and a caused a decline in tourism. The events of 11 September 2001 had a negative effect on the tourism industry and other factors (FDI, external demand)
1.2. Natural occurences	X				The climatic hazards seriously affected the performances of agriculture and thereby, the entire economy
1.3 Performance of the Bank		X			
1.4 Civil war				NA	There was no civil war
1.5 Domestic and regional socio-political instability		X			The Djerba attack had a negative effect on tourism
2. Under the authority of the State					
2.1 macro-economic policy	X				Continued reform made it possible to maintain the macroeconomic framework stable
2.2 Sector policy	X				Sector reform programmes were initiated to make the economy competitive
2.3 Government's commitment	X				The government has collaborated closely with the donors and worked for the successful outcome of the programmes
2.4 Administrative capacity	X				The government showed its competence and experience in the implementation of the programmes
3. Under the authority of the executing agency					
3.1 Management	X				Despite the failure to submit certain implementation reports, the programme management was satisfactory
3.2 Utilization of technical assistance				NA	
3.3 Monitoring-evaluation	X				The monitoring-evaluation was carried out by the Bank which conducted supervision missions throughout the programme period
3.4 Participation of beneficiaries	X				The beneficiaries were involved in the formulation of the reform measures, specifically UTICA and the bank and insurance professionals
3.5 Implementation schedule	X				Implementation remained on schedule so the smooth implementation of the measures was not compromised

Retrospective Logical Framework Matrix for Competitiveness Support Programme (PAC I)

Hierarchy of Objectives	Objectively Verifiable Indicators	Means of Verification	Level of Indicators at Completion	Major Assumptions and Risks Encountered
OVERALL OBJECTIVES A1: Consolidate the base of a competitive economy	GDP Growth rate of 5.5% in 2000; 3 percent inflation rate in 2000; Rate of budget deficit to GDP at 2.6% in 2000; Current account deficit rate at 2.5% in 2000.	Economic Budget Central Bank (BCT)Annual Report Economic Budget	GDP growth rate of 4.7% in 2000 2.9 inflation rate in 2000 Budget deficit to GDP at 2.9 percent in 2000 Current account deficit at 4.2% in 2000.	1999/2000 and 2001/2001 drought
PROGRAMME OBJECTIVE Render capital allocation more effective	More flexible base rates in 2000; Banking system de-specialized in 2000 All banking and finance institutions governed by new prudential regulation in 2000	BCT Annual Report Official Journal BCT Circulars	Amendment of banking law enabling BCT to conduct open market transactions Done. 2000 Banking law instituting universal banking. Done. BCT Circular instituting new prudential standards in 2000	Favorable political situation Authorities' determination to support reforms

Hierarchy of Objectives	Objectively Verifiable Indicators	Means of Verification	Level of Indicators at Completion	Major Assumptions and Risks Encountered
OUTPUTS				
C1. Legal, prudential and technological environment of banks renewed;	New banking law submitted to chamber of deputies in 2000; Adoption of bill for improvement of legal provisions and legal judicial procedures for recovery of credits in 20000 Establishment of an information and offsetting/compensation compensation station at BCT in 2000. 775 MDT of doubtful debts cleared by 2000 at the latest New bank from merger of BTEI and UIB to be privatized in 2000	BCT Annual report Government Communiqué BCT 99 and 2000 Budget act List of BCT certified banks BCT	Done. New banking law adopted in 2000 Waiver obtained in 2000. Condition included in PAC II. Law voted in August 2002. Done. BCT created an information and offsetting/compensation station in 2000. Fait. UIB privatized in 2002 and BTEI become universal bank. STB, BDET and BNDT merger.	Conducting a monetary policy based on indirect instruments for regulation of bank liquidity Conduct of sound budgetary policy.
C2. Banking system restructured	Rate of bad debts in banking system under 15 per cent in 2000. 24 enterprises being liquidated; 20 EPP restructured, liquidated or privatized Emergence of a liquid secondary market for State domestic debt in 2000. Appearance of a rate curve based on market conditions	99 and 2000 Budget act List of public enterprises at Ministry of Economic Development BVMT BCT	Level of bad debts greatly lowered but remaining around 20 percent, is quite high Done. At the end of programme, The said enterprises liquidated or privatized.	
C3. Public or para-statal enterprises privatized/restructured or liquidated	Lloyds recapitalized in 2000 Annual increase of life insurance savings (epeargne vie) figures to over 11 pour cent More professional management of OPCVM in 2000	Annual report of Conseil Mrche Financier	A secondary market emerged, yet to be developed in terms of size as well as liquidity.	
C4. Financial market given new impetus		Direction générale des Assurances (DGA) DGA	Rate curve enriched but incomplete Lloyd recapitalized Done	

Hierarchy of Objectives	**Objectively Verifiable Indicators**	**Means of Verification**	**Level of Indicators at Completion**	**Major Assumptions and Risks Encountered**
C5. Insurance firms and OPCVM strengthened			Done	
ACTIVITIES D1Restructure/modernize banking system D2.Privatze/liquidat/ restructure public enterprises; D3. Modernize the treasury security market D4 Apply a monetary policy based on instruments for direct management of bank liquidity; D5. Strengthen the insurance companies and OPCVM	ADB 100 MUA World Bank USD 160 80 M EUROS	Agreements signed Official Journal Commerce Code		Political will affirmed Social consensus Good technical capacity

Retrospective Logical Framework Matrix for Competitiveness Support Programme II (PAC II)

Hierarchy of Objectives	Objectively Verifiable Indicators	Means of Verification	Level of Completion Indicators	Major Assumptions and Risks
MACRO ECONO-MIC OBJECTIVE Maintain a Stable macro-economic framework Institution building	GDP growth rate of 5.5% in 2002 and 6.0% in 2003. 2.5% inflation rate in 2002 and 2.7% in 2003. Budget deficit to GDP at 3.3% in 2002 and 3.3% in 2003; Current account deficit of 4.2% in 2002 and 4.4% in 2003. Adoption of a plan of action for dynamic management of debt Establishment of CMF	Economic Budget Annual report of Central Bank Budget act Plan of Action Decree of establishment	GDP growth rate of 1.7% in 2002 and 5.6% in 2003. 2.3% Inflation rate in 2002 and 2.3% in 2003 Budget deficit to GDP at 3.1% in 2002 and 3.2% in 2003; Current account deficit of 3.5% in 2002 and 2.9% in 2003 Done. Document entitled "Public debt Management Strategy" was a prepared with the assistance of the World Bank. CMF established	Conduct of a sound economic policy Lackluster European growth Adverse impact of 9/11 2001/2002 Drought
SECTOR OBJECTIVE Increased private sector contribution to national growth and competitivity of economy	Growth of at least 3% yearly between 2002 and 2003 of the private investment. increase in investment rate to 27.7% in 2002 in 28.7% in 2003	BCT annual report Annual report of competitiveness observatory.	3.9% yearly increase in private investment between 2002 and 2003. increase in investment rate to 24.8% in 2002 and to 23.9% in 2003	Social consensus Political stability confirmed
Outputs Business environment improved Improved governance of enterprises. Privatization of enterprises opening of several public enterprises to private sector. Telecommunications and information technology sector competitive	Number of administrative, customs, tax formalities reduced/simplified. Access to intervention system (WEB site) of administration. Reliable information on enterprises. Privatization of Banque du Sud, UIB, opening of at least 10% of SNDP Tunisie Telecom capital to private sector; and Transfer of certain ONH activities to private sector. Increase in number of	Official Journal Texts adopted Central Bank report Bank activity reports Government communiqué Report on study envisaged with support of World Bank and financial assistance of Japan	60% number of administrative, customs and tax formalities reduced and/or simplified. Access to intervention system (WEB site) of administration effective. Reliable information on enterprises in progress. Privatization of Banque du Sud in 2004; of UIB in 2993; opening up of at least 10% of capital of SNDP in 2004 and 35% of Tunisie Telecom in 2006 to private sector; Transfer of certain ONH activities to private sector in 2003, 2004 and 2005. Increase in number of	Authorities' Support of reforms maintained Sound technical capacities

Hierarchy of Objectives	Objectively Verifiable Indicators	Means of Verification	Level of Completion Indicators	Major Assumptions and Risks
Greater mobilization of bank resources by private sector; improvement of capital markets	operators in sector, including 2nd GSM operator; reduction of tariffs for increased competition and better quality services. Greater contribution of sector to GDP. Greater access to bank loans; adoption of plan of action to improve capital markets. .	Government plan of action document CMF Annual report	operators in sector, including 2nd GSM operator; reduction of SIM card prices from 159 DT to 5 DT in 2005, for competition and higher quality services. 5 M of subscribers in 2006 therefore greater contribution to GDP sector Greater access to banking credit effective; adoption of a plan of action to improve in 2002	
ACTIVITIES Submission, adoption of laws by Chamber of Deputies. Adoption of decrees of application; Publication of decrees relating to different measures, decrees relating to different measures, launching of tenders for privatization. Examination and adoption of restructuring plans of insurance companies.	ADB 150 MUA World Bank USD 250 M UE 80 MEUROS	Loan Agreements signed Official Journal BCT Annual Report	Done	Confirmed political will Social consensus Good technical capacities

Annex 7

Definition of 5 Areas of Reform of the Programmes (PAC I & II)

Areas of Reforms	Measures	PAC I	PAC II
Maintaining Stability of Macro-economic Framework	Stable Macco-economic Framework maintained	Y	Y
	Programme of Action of management of external debt	N	Y
	Establishment of CNF	N	Y
Environment of Private Investment and Privatizations	Increased private sector participation	Y	Y
	Relations between fiscal authorities and private enterprises improved	Y	Y
	Streamlining of administrative procedures	N	Y
	Transparency and reliability of information on enterprises improved	Y	Y
	Institutional framework for competition strengthened	N	Y
	Continued implementation of State policy for withdrawal from real and financial sectors and privatization of public/para-statal enterprises	Y	Y
Strengthening of Finance Sector and Consolidation of Outputs	Strengthening of governance of public banks	Y	Y
	Portfolio reorganization for credit establishments and strengthening of provisioning modalities	Y	Y
	Improvement of transparency of information on borrower made available to the credit establishment	N	Y
	Diversification of risk	Y	Y
	Strengthening of role of financial market	Y	Y
Strengthening of Insurance Sector for its Liberalization	Strengthening of legislative and regulatory framework	N	Y
	Elimination of deficit of automobile civil responsibility branch	N	Y
	Elimination of deficit of automobile civil responsibility branch	N	Y
	Reorganization of distressed insurance companies	Y	Y
Reform of Information Technology and Communication (ITC) Sector	Develop an ITC sector policy to promote private sector participation in this sector	N	Y
	Introduction of effective competition in telecommunications	N	Y

Legend: Y = Yes, measure incorporated in PAC (I and/or II). N = No, measure not incorporated in PAC (I and/or II).

Annex 8

Comments on Waivers Granted

1. Comments on Measures Waived under PAC I

1. Condition (iv) relating to the component for bank sector restructuring/modernization required the submission to the Chamber of Deputies of the bill for improvement of the legal provisions and procedures relating to banking debt recovery, whereas that affected the code of societies, the commercial code and the civil code. This called for long consultations, which delayed its submission to the Chamber of Deputies. However, a composite committee proposed a draft text, submitted to the Ministry of justice. On this basis, the Bank deemed that the works were well underway and that condition could be considered as substantially fulfilled. This law was finally adopted by the parliament in August 2002.

2. Concerning condition (vi), relating to the same component, the BTEI and UIB merger turned out to be unworkable, given the divergence concerning the exchange rate parity with the foreign partner shareholder of BTEI. The Government therefore decided to go ahead and privatize UIB. The public enterprise reorganization and restructuring commission (CAREPP) recruited a business bank, to carry out the privatization. The Bank found the arrangement proposed acceptable. The objective of condition (vi) was to continue the State withdrawal form the banking sector. That objective was attained by the UIB privatization.

2. Comments on Measures Waived under PAC II

1. Measure 3, paragraph (i) required providing the Bank proof of the adoption of the texts for application of the law on companies: In that regard, the authorities on 24 December 2003 transmitted to the Chamber of Deputies a bill amending the company code (to strengthen the Code provisions particularly to protect the minority share holders). This amendment seeks to introduce improvements to the code provisions. This disbursement conditions could only be met following the adoption by parliament of the bill for amendment of the company code.

2. Measure 5, required providing the Bank proof of the opening of 25% of the capital of a public enterprise to a strategic partner: Concerning this condition, the authorities adopted the principle of opening the capital of 35% of SNDP capital to a strategic partner and begun in January 2004 by launching a process for the recruitment of a business bank to help conclude this operation. Given the preparatory work required, this condition was actually already underway; the dialogue continued and the delay in implementation of this measure did not compromise either the expected impact or the sustainability of the reforms envisaged.

3. Measure 6, required providing the Bank evidence of the adoption of a strategy for private sector participation in infrastructure. The authorities organized a national workshop in March 2004 to formulate a national strategy based on the study proposals. This study was moreover approved by the Bank. The authorities plan to work out, during PAC III, a strategy based on the recommendations of the study and the said workshop.

Annex 9

Objectives and Results of Macro-economic Indicators (2000-2003)

Indicators	PAC I		PAC II							
	2000		*2001*		**2002**		*2003*		***2004***	***2005***
	Obj.	**Act.**	*Obj.*	*Act.*	**Obj.**	**Réal**	*Obj.*	*Act.*	***Act.***	***Est***
Real GDP Growth in percentage	**5.5**	**4.7**	*5.2*	*4.9*	**4.9**	**1.7**	*5.7*	*5.6*	***6.0***	***4.2***
Real Export growth BSNF, in percentage	**ND**	**6.6**	*9.3*	*12.1*	**5.4**	**2.1**	*6.8*	*4.0*	***3.2***	***6.1***
Increase in inflation (GDP Deflator) in percentage	**3.0**	**2.4**	*2.9*	*2.7*	**3.2**	**2.3**	*2.7*	*2.3*	***2.0***	***2.7***
Gross internal Fixed Capital investment as GDP percentage	**ND**	**27.3**	*26.7*	*27.9*	**26.8**	**25.7**	*27.1*	*25.1*	***24.2***	***23.9***
Budget Deficit as GDP (1) percentage	**2.6**	**3.3**	*2.8*	*3.5*	**2.3**	**3.1**	*2.0*	*3.2*	***2.6***	**3.0** .
Current account deficit as percentage of GDP	**2.5**	**4.2**	*4.3*	*4.2*	**3.8**	**3.5**	*3.2*	*2.9*	***2.0***	***1.3***
External Public Debt as GDP percentage	**ND**	**54.5**	*57.2*	*54.5*	**55.9**	**59.6**	*51.5*	*57.4*	***51.5***	***59.0***
Growth of Private Investment in percentage	**ND**	**15.1**	*14.7*	…	**6.0**	**-4.3**	*11.1*	*-3.2*	***2.3***	***6.5***
Exchange reserves in months of G&S imports	**ND**	**2.5**	*2.2*	*2.3*	**2.9**	**2.7**	*3.0*	*3.0*	*3.5*	*3.7*

(1) Status of social security fund, excluding grants and privatization grants and receipts.

Source: AR and PCR on PAC I & II, IMF

Trend of Economic Indicators, 2001-2006

(Population: 9.9 million; 2004)
(GDP per capita: USD 2 838; 2004)
(Poverty rate: 4.1 per cent; 2000)
(Principal exports: textiles, IME, tourism; 2004)

INDICATORS	2001	2002	2003	2004	2005 Est.	2006 Proj.
Production and Income	(as percentage of annual variation)					
Real GDP	4.9	1.7	5.6	6.0	4.2	5.8
GDP Deflator	3.0	1.8	4.4	1.2	3.9	3.0
Consumer price index	1.9	2.8	2.8	3.6	2.0	3.0
Investments &savings	(as percentage of GDP)					
Gross Investment	27.9	25.7	25.1	24.2	23.9	24.1
Of which private	*20.1*	*18.2*	*17.9*	*17.2*	*17.4*	*18.0*
Gross National Savings	23.7	22.2	22.2	22.2	22.7	22.7
Of which private	*18.7*	*17.4*	*18.2*	*17.7*	*19.1*	*19.4*
Public Finance	(as percentage of GDP)					
Income (grants included)	24.3	24.8	23.9	24.1	24.2	23.9
Expenditure	27.8	27.8	27.0	26.8	27.2	26.7
Budgetary Balance (grants included)	-3.5	-3.1	-3.2	-2.6	-3.0	-2.8
Primary Balance (grants included)	-0.4	0.0	-0.4	0.2	-0.1	0.0
Total Government Debt	62.7	61.5	60.4	59.7	59.0	56.1
Monetary Sector	(as percentage of annual variation, unless otherwise indicated)					
Credit to Private sector	10.3	6.7	4.6	5.3	7.5	6.9
Credit to economy- money (M3)	18.3	1.8	5.5	12.2	21.9	10.4
Velocity (GDP/M3)	1.7	1.6	1.7	1.6	1.6	1.5
	(as percentage of GDP, unless otherwise ind.)					
Goods Exports, f.o.b.	13.6	3.4	17.1	20.6	8.4	4.5
Goods Imports, f.o.b.	11.2	-0.2	14.7	17.6	2.8	6.0
Trade balance	-11.8	-10.1	-9.1	-8.7	-6.8	-7.6
Current account, grants excluded	-4.2	-3.5	-2.9	-2.0	-1.3	-1.4
Current account, official transfers included	-3.9	-3.2	-2.7	-1.6	-0.9	-1.0
DFI	2.2	3.6	2.1	2.1	2.5	9.5

INDICATORS	2001	2002	2003	2004	2005	2006
Total external debt	65.8	67.6	67.2	67.8	67.9	64.1
Gross reserves (USD Billion)	2.0	2.3	3.0	4.0	4.4	6.4
In months of g&s imports	2.3	2.7	3.0	3.5	3.7	5.0
As percentage of short-term debt	55.3	54.7	63.6	75.6	91.8	115.5
Memo Items*:*						
GDP at current prices (USD Million)	20.0	22.4	26.7	29.2	27.3	29.1
Unemployment rate (percentage)	15.1	15.3	14.5	14.2	14.3	13.9
Net petroleum imports (USD Million)	275.0	221.7	328.8	407.1	393.4	425.0
Exchange rate: Dinar/USD (average):	1.4	1.4	1.3	1.2	1.3	...
Effective real exchange rate (annual average, percentage of annual average variation)	-2.4	-0.2	-5.0	-3.4	-4.5	...
Financial index /1	1267.0	1119.2	1250.2	1331.8	11615.1	1866.9

Sources: Tunisian authorities and IMF estimates.

1/ TUNINDEX. (1000 = 1st April 1998), 7 April 2006 data.

Annex 11

2002 & 2005 Competitivity Rating

Country	Global competitiveness Index		Index of competitivness of Enterprises and Business Climate		Index of Competitiveness and Growth	
	2002	2005	2002	2005	2002	2005
United States	1	2	1	1	…	2
Germany	…	6	…	3	…	13
France	15	17	30	12	…	27
Belgium	13	19	25	14	…	25
Tunisia	**34**	**30**	**32**	**32**	**…**	**42**
China	…	32	…	47	…	46
Spain	22	34	25	26	…	23
South Africa	…	36	…	25	…	41
Czech Republic	…	38	…	35	…	40
Portugal	23	40	36	33	…	24
Morocco	…	45	…	46	…	56
Hungary	…	46	…	42	…	63
Greece	…	51	…	41	…	37
Italy	39	56	24	34	…	47
Rumania	…	57	…	56	…	63
Turkey	69	67	54	52	…	66
Poland	51	72	46	57	…	60

Source: 2001-2002 & **2004** -2005 Annual Reports on Global competitiveness. Davos World Economic forum and Harvard University 2003 & 2006.

Annex 12

Constraints to the Business Environment According to Severity (1) in 2005

Nature of Constraint	Degree of Severity of Constraint (per cent)		
	Minor	Moderate	Major
1. Major Constraints			
	30	25	45
. Macro-economic uncertainty	29	17	53
. Cost of Banking Credit	34	30	36
. Access to Banking Credit	17	15	49
. Anti-competitive or Informal Practices	34	22	43
. Labour Legislation	50	19	31
. Labour regulations	32	19	49
. Social Costs	35	26	38
. Level of Exchange Rate	46	18	36
. Exchange Policy	49	15	36
.Tax Rate	51	23	26
. Customs/Extrenal Trade Regulations	44	22	35
. Resolving Trade Disputes through Courts	46	21	32
. Electricity	60	16	25
. Access to Inputs			
2. Minor Constraints			
	63	13	24
. Access to Land	52	24	24
. Employee Training/qualification	61	16	23
; Tax Administration	57	20	23
. Uncertainty concerning regulations	51	27	23
. exchange Regulations	58	20	22
. Transport	55	25	20
. Telecommunications	62	20	17
. Internet	62	22	16
. Telephone	74	10	16
. Water	63	22	15
. Administrative Formalities			

Source: IEQ, Annual Competitivity Report 2005, Summary of Results of 2005 Survey (Business Climate) April 2006.

(1) Degree of severity of constraint, measured by percentage of opinions of business leaders surveyed.

Annex 13

Principal Reform Measures Applied by Banking Sector

Restructuring and privatization: (i) Privatization of two banks: UIB and BS representing 13.5% of the total banking assets; these two transfer operations made it possible to reduce the public shareholding in the banking sector, which went from 36% at end 2004 to 32.5% in 2005, and to increase foreign shareholding in the banking sector, which went from 29.2% to 34.4%; and the transformation of the five mixed development banks into universal banks could provide a basis for new privatization operations.

Reform Update:

- *PROCESSING OF NPLs AND IMPROVED PROVISIONING:*

  Modification of Civil and commercial procedures code: to facilitate the legal sale of goods and therefore cut the debt recovery delays, the civil and commercial procedures code has been modified successively by laws n°2002-82 of 3 August 2002 and Law n° 2005-79 of 4 August 2005 introducing a new system for bidding on property.

  Total Detaxing of provisions: The 2006 budget act provides for detaxing by a rate of 100%, and this will be for the profit made starting from 1 January 2005 up to 31 December 2009.

  Amendment of Law n°95-34 of 17April 1995 relating to enterprises facing economic difficulties: with a view to improving collection of doubtful debts, Law n° 2003-79 of 29 December 2003 was promulgated to modify and supplement Law n°95-34 of 17 April 1995, for the rehabilitation of enterprises in economic difficulty. This amendment seeks to prevent this law from being used as a delay mechanism by recalcitrant debtors and to protect the bank interests.

- *GOOD GOVERNANCE AND TRANSPARENCY*

  Strengthening Transparency: Circular 2001-12 imposed on loan establishments more strict obligations concerning financial information on their clients, particularly that of obtaining financial statements certified by an auditor where the total banking commitments for counterparts exceed 5 MDT, and a recent rating, from a rating agency for non listed companies, even where these commitments exceed 25 MDT.

  Law relating to strengthening the security of financial relations: Law n° 2005-96 of 18 October 2005, relating to strengthened security of financial relations provides for measures to strengthen financial transparency and establish good governance within the enterprises. The principal measures mainly concern:

  Accounting Standards for Consolidation *T*o improve the transparency and the streamlining of the monitoring of group risk, appropriate accounting standards for consolidation have been promulgated by Ministry of Finance decree of 1 December 2003.

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Annex 14

Evolution of Classified Claims and Level of Coverage by Provisions (2001-2005)

Indicators	December 2001	December 2002	December 2003	December 2004	December 2005
Classified Debts in % of Total commitments	21.0	21.4	24.2	23.6	20.9
Rate of Coverage with Provisions (%)	48.7	45.6	44.1	45.1	45.8

Source: BCT, 2006.

Annex 15

Economic Operators' Opinion on the Identification of Certain Factors of Constraint to Development of Financial Market

Factors Identified	*Number of Times Cited*
1. Responsibility of Stock market intermediaries	22
2. lack of transparency of enterprise	19
3. Limited institutional demand	18
4. lack of financial culture	11
5. Preponderance of banks in enterprise financing	11
6. Difficulties from privatization of public enterprises through Stock market	9
7. Inappropriate stock market access	9
8. Bad practices of Banking SICAR	9
9. Inexistence of long savings schemes	9
10. CMF lack of firmness of with parties contravening regulation	8
11.Slow granting of visas and high requirements in prospectus	8
12.Reliability of financial information	8
13.The weight of past and impact of experience on trust	8
14.Distorsions and fiscal problems	7
15.Lack of group legal framework and account consolidation	7
16.Relations between intermediaries and the promoting banks	7
17.Size and means of organization and management of enterprise	5
18.Difficult conditions of admission to rate and price agreement	6
19. Weak market promotion effort	4
20.uncertainty concerning future of enterprises/vulnerability/opening	4
21.Poor or insufficient financial communication	3
22.Impact of monetary policy on rate mechanisms	3
23.no protection of minorities	3
24.Instability of legal texts (SICAR,SICAF benefits)	3
25.Negative experience of foreign investors	3

Source: CMF, Interviews conducted with operators, May 2002

Annex 16

Internal Debt Management Reforms

Management Reforms

Several reforms were undertaken to provide the Treasury with efficient debt management instruments. From 1988, national borrowings and equipment bonds in circulation were abandoned and then gradually refunded. BCT then decided to adopt a new monetary instrument that would come to play a major role in Treasury financing. That was the transferable Treasury bond. (*bon du Trésor cessible -BTC*) to be issued at various terms (13, 26, 52 weeks and 2, 3, 5 and 7 years). The commercial banks are the only participants in the auction being conducted following the Dutch method. For the transition from the equipment bond, whose subscription was compulsory, each bank was required to respect the ratio for utilization of public instruments. Regarding rates, the remuneration was near to that of the market rates and remained practically identical whatever the maturitiy chosen. The choice of maturities depended on the market liquidity. When the Treasury's requirements were reduced, it determined the maturities it found suitable. Otherwise, the banks imposed their maturities and often requested the shortest. This resulted in a very short average domestic debt maturity period and a lack of references for the long-term rates.

Introduction of Liquidity Mechanisms for Treasury bonds

For the BTC there was no actual secondary market, however, the banks developed internal liquidity mechanisms. Each bank had a liquidity contract whereby they transferred the BTC to their clients with an clause for integral reimbursement at a predetermined rate. This did not however imply the transfer of the BTC to the bank client, since the Bank is, in relation to the Central Bank, the sole holder of the BTC. This technique though facilitating the Bank's subscription to the BTC, did not make it possible to assign these BTC the notion of securities, since they remained to some extent a purely bank product that the Banks pass on to their clients subject to an intermediation margin of 0.5%. Moreover, this system exposed the banks to a rate risk, since the clients could at any time request a buy back of their bonds. Owing to the downward trend of rates however, the banks did not suffer losses on their bond portfolios.

Issuance of New Long-term financing Instruments

To add to the range of State bonds, the *bon du Trésor négociable en bourse* (BTNB) a stock market negotiable bond, was introduced in 1993. This instrument had two maturities (5 and 10 years) and was issued monthly, the rates were fixed by the Treasury (9.5% for 5 years and 10.5% for 10 years) and the subscriptions were nominal. A placement commission was paid to the financial intermediaries to encourage them to particpate in these issues. After a rather promising start, the BTNB rapidly lost rating. Firstly their rates were not attractive enough compared to the issues of private companies. Also they could not be assimilated, with the result that there was a multitude of cumbersome and not very liquid lines to manage. Lastly, the investors preferred shorter-term and more flexible instruments, such as the BTC, and BTNB were ultimately swallowed up.

Following the failure of the BTNB, a far-reaching reform was undertaken by the authorities to promote new products to totally restructure the financing of the domestic debt. This reform resulted in the introducton of the *bon du Trésor assimilable* (BTA) with maturities of 5, 10 and 15 years. The BTA corresponds to 1000 DT security. The BTA market is led by *Spécialistes en Valeurs du Trésor (SVT*), who participate in the auctions and oversee transactions on the secondary market through continuous quotations.

Annex 17

Trend of Insurance Business Figures by Branch (2001-2004)

Branch	Figures in MDT			
	2001	2002	2003	2004
Automobile	199,406	231,247	247,968	275,360
Group Health	92,767	95,701	99,670	110,414
Work Accident	0,179	0,006	0,004	-370
Transportation	37,915	47,975	55,577	56,309
Fire	38,496	41,962	50,160	54,266
G.MB. (grêle, mort de bétail)	4,672	3,193	4,289	3,637
R.T.D.	47,233	58, 909	70,516	75,375
Life	40,315	45, 907	46,347	56,493
Credit	5,266	5,078	5,116	6,276
Acceptance	4,559	7,875	6,039	…
Total	470, 809	537,855	585, 686	638,128

Source: Fédération tunisienne des sociétés d'assurances, Annual Reports, December 2004 & December 2005

Annex 18

Insurance Sector Reforms

The insurance sector comprises 18 resident enterprises (of which 14 joint-stock companies and 4 mutuals) and 4 off-shore companies. A dense network of 640 insurance intermediaries (2004), operating as official agents of companies alongside some forty brokerage firms. This network covers all the regions of the country.

Insurance Sector Reforms

The reforms started in 2000, based on the following principles:

1- Reorganization of the financial situation of the insurance firms trhough and audit covering all the companies in the sector;

2- Updating the legal and prudential framework through the amendment of the insurance code based on Law n°02-37of 1 April 2002;

3- The strengthening of the State control over the sector through the transformation of the Direction general des assurances into a General insurance committee (Comité général des assurances) ;

4- The development of under exploited insurance primarily agricultural and life insurances and capitalization:

5- Reform of automobile insurance with the aim of mitigating the shortcomings affecting the existing system of indemnification for corporal injury of accidents victims and thereby restore the financial balance of this branch: Law n° 86-2005, devoted to two fundamental principles: (i) Put in place an appropriate mechanism exclusively devoted to the financing measures for prevention of road accidents; and (ii) institute a new system of indemnification for road accidents;

6- Upgrading of the insurance enterprises: (i) Prepare a more favorable environment for development of the sector; (ii) modernize the management methods, strengthen the financial basis, master the technical and financial skills of insurance firms; (ii) improve the services and adapt them to the needs of the clients.

Annex 19

Key ITC Sector Indicators (2000-2004)

Indicators	2000	2001	2002	2003	2004
Fixed lines Penetration rates (%)	10.0	10.9	11.7	11.8	12.1
Mobile telephony Penetration of (%)	1.2	4.0	5.7	19.3	54.4*
Cost of 3 mn. communication with US	…	…	…	2.28	1.06**
Internet users (%)	2.6	4.1	5.2	6.4	8.4
Facilities for10 000 inhabitants	0.03	0.23	0.35	0.27	0.38
Internet Server Security	…	4	…	13	19
OP for 100 inhabitants	2.28	2.63	3.42	4.04	4.75
Population in Million	9.60	9.70	9.80	9.90	9.94

Sources: ITU, WB, World Market Research Center (Global Insight), EMC, Tarifica (*September & **May 2005)

Annex 20

Trend of Floating Exchange Rates for ADB Dollar and Euro Loans
(1999-2006)

