Statement by Todd Crawford  
Date of Meeting: April 27, 2000  

**Tunisia - Country Assistance Strategy**

**Economic Accomplishments and Challenges:**

1. We welcome the opportunity to discuss the proposed Country Assistance Strategy for Tunisia, a country which has recorded steady growth and improved social indicators through sound fiscal policies and prudent macroeconomic management. Despite these impressive gains, we see a number of challenges ahead.

2. We commend the tremendous improvement in social indicators since 1960 – the decline in the incidence of poverty from 40% to 7%; the rise in life expectancy from 50 to 70 years; the near-100% enrollment rate in primary schools; and the significant improvement in the status of women (including the fact that women comprise nearly one-third of the labor force).

3. Tunisia’s outward-looking economic policies, notably the decision to conclude the EU Association Accord in 1996, present tremendous opportunities as well as challenges. By opening up its economy to the European market, Tunisia has enormous potential for enhanced exports and associated employment and growth. Yet the trade liberalization agenda is incomplete. Tunisia is rated "8" on the IMF's 1-10 scale of trade restrictiveness, and we encourage the Government to revive plans to reduce the average tariff rate from 34% to 25%.

4. Tunisia has the potential to be a major trade and technology hub for North Africa and Southern Europe. However, the key to realizing this potential is to reduce the role of the government in the economy while promoting a more dynamic private sector, building human capital, and improving local infrastructure (transport, telecommunications) to attract private investment and support increased trade.

5. Realizing this potential is essential for Tunisia to address its high unemployment. Officially at 16%, unemployment remains Tunisia’s most serious challenge. The government
cannot continue to be the employer of last resort. The rigid civil service wage bill, at 11% of GDP, is a drain on fiscal resources. We welcome plans for a Policy Note on Employment in this CAS, and hope that broad reforms of the civil service will be undertaken. We commend the Bank and authorities for participatory process with trade unions resulting in passed by-laws to authorize severance schemes and adjust social security benefits – important steps in addressing labor market rigidities.

6. We encourage the government to accelerate the pace of privatization in the year ahead in order to meet or exceed the indicator listed for privatization proceeds. The Government’s heavy involvement in the economy, together with the quasi-fiscal activities by public enterprises, financed by the banking system, are a drag on the economy and have created large contingent liabilities for the government. These liabilities and quasi-fiscal activities liabilities should be brought on-budget. Privatization, notably in banking, telecommunications and transport will also yield much-needed government revenue and introduce technology and competition that will spur further growth and job-creation. We would encourage greater IFC engagement to assist in this effort.

7. Returning to Tunisia’s success in reducing poverty, the Government must consolidate the gains of the past decades by implementing more effective anti-poverty measures, particularly at the community level, and take steps to improve the effectiveness of the social safety net. Toward that end, we look forward to the results of the Update of Social Conditions Note and the Social Protection Strategy Note that will be produced under this CAS. We are a bit perplexed by the reference in Box 1, which notes that "poverty remains primarily a rural phenomenon ... more than 70% of the poor live in rural areas." Yet the CAS notes that Bank Group efforts will shift progressively toward the urban poor and urban unemployment. We would appreciate clarification of this change in focus as noted in the CAS.

8. While creating additional private sector employment opportunities is key to reducing poverty, poverty reduction is also closely linked to reform of the education system. The near-100% primary enrollment rate is commendable. However, the education completion rate is still low. In particular the drop-out rate among girls is troubling. We would welcome additional details from staff regarding the proposed Education Quality Enhancement operation and specific measures to address the retention/completion issue and how the project links to gender equality objectives of the Government.

9. We commend the steps that Tunisia has taken to increase the transparency of policies, including participation in IMF transparency initiatives (publishing the staff report for the 1999 Article IV consultation) and intention to subscribe to the Fund’s Special Data Dissemination Standards by 2000. We hope that the Tunisian authorities continue this impressive demonstration of openness by disclosing this CAS to the public.

Lending Program:

10. We can broadly support the triggers suggested in the CAS, particularly in terms of a reduction in policy-based operations in the event structural reforms slow down. The CAS notes the recent upgrade of Tunisia’s credit rating by Standard & Poor’s, from BBB- to BBB.
Acknowledging Tunisia’s potential ability increasingly to tap the international capital markets, the CAS notes a declining level of resource transfer in favor of non-lending services and knowledge-transfer. We welcome this strategy. However, with Tunisia’s improved access to capital markets, the Bank should rethink the proposed high-case lending scenario. If the Government accelerates its reforms on a broad front, private capital should become available at increasingly more attractive rates. In these circumstances, we would not expect the volume of Bank lending to grow. Moreover, in light of Tunisia’s recent credit rating upgrade, the CAS should have better explained the justification for Bank finance (over private finance) for the proposed Transport Sector Investment II loan.

11. We note that Tunisia’s disbursement performance of investment loans has been weak in recent years. We would welcome insights from staff as to new CAS initiatives to improve disbursement performance and maximize the effect of Bank resources in Tunisia.

12. Tunisia has undertaken commendable reforms of the banking and financial sectors in recent years, largely with the support of the ECAL I and II operations. We appreciate staff’s information regarding distinct new reform objectives in ECAL III but remain concerned that important social safety net reforms will be delayed until ECAL IV. Indeed, as Tunisia increases its access to capital markets, strengthening its social safety net schemes is essential. We also appreciate that the loan will be multi-tranched.

13. We note the reference to a proposed Cultural Heritage Project. We repeat our position that the World Bank’s comparative advantage does not reside in these types of operations.

14. We note that two GEF operations are proposed under this CAS. Given the increasing pressures on Tunisia’s natural resource base due to urbanization and expansion of the tourism sector, we support a policy dialogue with the Tunisian Government on environmental issues. That said, GEF resources are quite limited and their intent is to supplement ongoing efforts of the government. Can staff support the additionality argument in this case?

**Collaboration with the African Development Bank:**

15. We understand that the proposed ECAL III operation will be co-financed with the African Development Bank, as were ECALs I and II. We would appreciate clarification of the division of labor between the two institutions on this ECAL loan. More broadly, what plans are in place for coordination and harmonization of the two institutions' country strategies for Tunisia?

**Conclusion:**

16. In conclusion, Tunisia has the potential for a bright future. We encourage both the authorities and the Bank to stay focused on the reforms that will promote a more dynamic, competitive and resilient private sector. This is crucial to generating the jobs that are vital to continued economic growth and poverty reduction.