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EVALUATION OF THE U.S.-TUNISIAN AID RELATIONSHIP, FY 1957-84

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PREFACE

This study analyses the main bilateral issues affecting the aid relationship between Tunisia and the U.S. during 28 years of U.S. economic aid after Tunisian independence in 1956. The sources used were: (1) unclassified materials available in Washington; and (2) interviews with Americans who had previously served in Tunisia. This study complements an AID evaluation of U.S. aid to Tunisia undertaken in 1980 ("Assessment of Tunisia's Development Efforts and AID's Contribution," by Annette Binnendijk) which assessed the cumulative impact of AID projects in six main sectors. Other evaluations of various aspects of the U.S. aid experience in Tunisia have also been drawn upon.

The scope and depth of this study are limited by gaps in the availability of unclassified AID and PL 480 documents, by lack of access to classified documents, and by the lack of a field visit and interviews with Tunisian participants in the aid process. Except where otherwise stated, the conclusions drawn are my own, based on the materials and interviews available and on my own service in Tunisia as USAID Economic Advisor, 1963-68.

I wish to thank those who shared with me their knowledge and views on the U.S. aid experience in Tunisia, as well as Ernest Carter of Checchi and Company and Devorah Miller of AID, who assisted me in gathering material and data for this study.

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SUMMARY

During the 28 year period, FY 1957-84, covered by this study, Tunisia and the U.S. have shared the primary objectives of maintaining Tunisia's political independence and pro-Western orientation and its economic survival and development. These goals have been met to date, due in part to $1 billion in U.S. economic aid (AID plus PL 480). U.S. aid was particularly important in assuring Tunisia's economic survival during the difficult post-Independence years of 1957-61. During the 1960's U.S. aid probably accounted for up to one-sixth of Tunisian growth. U.S. aid has been variable but relatively minor since FY 1972, partly reflecting Tunisia's improved economic situation and large inputs of non-U.S. aid.

There have been two distinctive features to the continuing U.S.-Tunisia aid relationship: (1) the supply of aid has been episodic in nature, has tended to dominate the aid dialogue, and has prompted special efforts by both sides to assure greater continuity; and (2) despite basic U.S.-Tunisian differences concerning the optimum roles of the public and private sectors, the U.S. has made only modest attempts to change Tunisian policies, mainly by financing activities benefiting the private sector.

Questions regarding the supply of aid have been especially important in Tunisia because of the difficulties created by application of changing worldwide AID policies to Tunisia irrespective of political and economic conditions. The greatest economic damage resulted from the earliest policy shift. Almost immediately after making a $180 million Long-Term Commitment to the Tunisian Plan for 1962-64, all AID procurement was tied solely to U.S. sources, greatly restricting aid deliveries to Europe-oriented Tunisia. The result was a substantial shortfall in the Commitment and a foreign exchange crisis in 1964.

A few years later, a worldwide policy shift eliminated aid to tourism, which in Tunisia had proved to be the most successful U.S. effort to promote new private enterprise. During and after 1969, when there was a

change from a "socialist" to a more conservative government, the U.S. failed to take any initiative to promote the private sector, largely due to AID pre-occupation with a phase-down of aid and the worldwide policy shift to a Basic Human Needs approach.

U.S. underestimation of the Tunisian desire for U.S. aid and their ability to secure it by political means has resulted in intermittent aid since FY 1972. Working through a Joint Commission, Tunisia secured a resumption of AID lending in FY 1977 after a phase-down during FY 1973-76. AID then decided to cease aid in FY 1981 as part of a "Golden Handshake" aid package. However, Tunisian lobbying convinced Congress to continue aid on an annual basis for three years and ultimately secured Administration agreement to continuation of AID funding at an expanded level. U.S. aid has special political importance to Tunisia, which views it as tangible evidence of U.S. support of Tunisian independence and political stability in the face of potential threats. Despite difficulties posed by shifts in aid policies, bilateral political relations remained good throughout the period.

The U.S. has largely accepted Tunisia's general development policies in deference to its sensitivity regarding its independence and sovereignty. Dialogue and program activities have been the principal means used to influence Tunisian policies. Although only limited changes have been sought, dialogue has been judged to have been fairly effective, due to Tunisian pragmatism and flexibility, when necessary, behind the public facade of independence.

U.S. influence has declined with Tunisia's decreased economic dependence on U.S. aid but Tunisian interest in maintaining aid and the political relationship has generally assured receptivity to U.S. ideas and proposals. The need to follow changing worldwide AID policies, rather than being able to respond to specific country conditions, has limited opportunities for U.S. influence, which has also been handicapped by frequent difficulties, uncertainties and discontinuities in the supply of aid. These have acted to shift the dialogue focus away from development goals and policies to questions of U.S. inputs.

In attempting to exert influence, the U.S. has not directly threatened to withhold aid, although some negotiations have been prolonged to obtain minimum terms. In 1972, further U.S. degree training was in doubt until "degree equivalency" was finally assured through high-level intervention.

In the area of greatest policy differences, the U.S. has not directly challenged the large role played by government firms, agencies, controls and subsidies in Tunisia's mixed economy. The U.S. has tried to promote private sector activity primarily through aid-financed projects, credits and imports, plus PL 480, Title I sales agreements. Only a few modest attempts to influence Tunisian policies have been made, with limited success. The U.S. has also exerted some indirect influence through the World Bank.

Tourism during the 1957-67 period is the most positive example of U.S. influence and assistance. AID has also assisted the private sector by encouraging and financing projects in agricultural and industrial credit, business management, infrastructure, training and housing. Aside from credit, most activities benefited both private and public enterprises, in keeping with the priority AID goal of the 1960's of increasing overall production.

Although PL 480, Title I sales agreements have included "self-help" provisions since FY 1967, it was not until 1981-84 that they were successfully linked to a major policy change: the opening up of fertilizer distribution to the private sector. This recent success contradicts the general U.S. experience that U.S. influence declines with the duration of PL 480 programs. An analysis of the commodities (chiefly wheat and soybean oil) delivered under PL 480, Title I and of relevant government policies concludes that Title I did not contribute to disincentives to domestic production but that government consumer subsidies helped cause wheat consumption to rise even faster than production.

During the early years of the aid program, the U.S. mainly used local currency allocations to attempt to influence Tunisian policies and

programs, particularly in regard to credit for private farmers and businessmen. There is no way of knowing what the Tunisians would otherwise have done, but some net U.S. contribution seems likely.

During FY 1957-72, U.S. influence was used to minimize the U.S. aid burden by (1) encouraging Tunisia to seek, and other donors to provide, substantial non-U.S. aid, and (2) requiring financial austerity measures of Tunisia in connection with AID program loans during FY 1962-71. The first effort proved very successful but only after basic French-Tunisian differences were settled in 1965. A previous AID evaluation found that considerable U.S. influence was exerted on Tunisian financial policies through unpublicized program loan negotiations, accompanying dialogue and cooperation with the IMF and IBRD. The program loans were also used to make commodities available to the private sector and to liberalize import procedures.

During resumed AID lending in FY 1977-81, U.S. influence focused mainly on a large rural development program jointly developed for an area in Central Tunisia. The U.S. had only modest success in overcoming Tunisian political reluctance to change policies and programs to benefit the truly poor and to promote regionalization and local participation. Over the entire aid period, PL 480, Title II programs have been the largest aid component and have provided the greatest direct, short-term benefit to Tunisia's poor, mainly through work relief and child feeding.

Overall, U.S. influence in Tunisia has been handicapped by shifts in worldwide AID policies and questions concerning the supply of aid, which have tended to dominate the aid relationship. Under the circumstances influence has been most effectively exerted through long-term programs genuinely desired by the Tunisians. This has been the case with most long-term training, the business management school at the University of Tunis (15 years of aid), tourism (10 years) and housing (since 1966). The only significant success from PL 480, Title I sales agreements has resulted from close, multi-year collaboration with the government in reaching its objectives in a specific area.

I. INTRODUCTION

This paper analyses the nature and consequences of the U.S.-Tunisian "aid relationship" since Tunisian Independence in 1956. The focus is on how bilateral policies and actions affected the supply of aid and how the U.S. attempted to influence Tunisian policies and programs, with emphasis on the changing nexus between the public and private sectors. These subjects were chosen because (1) the uncertain supply of U.S. aid dominated bilateral discussions during most of the period and led to special U.S. and Tunisian efforts to assure greater certainty; and (2) the greatest developmental policy difference between the countries has been the relation of the government to the private sector.

During the years covered by this study, the U.S. and Tunisia have shared the common goals of maintaining Tunisia's independence and pro-Western orientation and its economic survival and development. These objectives have been satisfactorily served to date, partly by U.S. provision of $1 billion in economic aid. Tunisia has also had the same President (Habib Bourguiba) and political relations with the U.S. have been good throughout the period.

Yet, despite this overall stability, U.S. aid has been episodic, going through several distinct phases: unplanned majority aid (FY 1957-61), an unmet "Long-Term Commitment" but steady high aid (FY 1962-72), a near phase-out (FY 1973-76), and a final burst of development aid (FY 1977-84), followed by Congressionally-mandated economic support grants (FY 1982 to present).

Why have these swings occurred? Has U.S. aid varied more with changes in the Tunisian economy and policies, or with shifts in U.S. worldwide aid policies? What devices have been attempted, on both sides, to assure more continuity in U.S. aid obligations? Why is the Long-Term Commitment of 1962 viewed as a failure? How have the Tunisians been able to "re-start" aid twice in the past ten years? What have been the effects of uncertainty and discontinuity on U.S.-Tunisian relations?

AID attempts to influence Tunisian policies and programs constitute another set of issues addressed by this paper. Emphasis is on the area of greatest difference: the optimum roles of the public and private sectors in industry and agriculture. In Tunisia's "mixed economy," government firms, organizations, controls and subsidies have played a large, continuing role. Has the U.S. directly challenged or largely accepted this policy? What means have been used to effect changes, with what results? What was the U.S. reaction to the shift in 1969 from a "socialist" to a more conservative government, caused by a farmer revolt against compulsory producer cooperatives?

Has U.S. influence varied solely with the size and share of the U.S. aid program? What have been the effects on influence of AID policy and program shifts? Formal conditions were attached to the program loans of the 1960's; what did these accomplish? PL 480, Title I sales have been large in Tunisia; have their "self-help" conditions resulted in any major agricultural policy changes? How did Tunisia and the U.S. cooperate to secure large amounts of new, non-U.S. aid in the 1960's?

These aspects of the "aid relationship," concerning the supply of aid and attempts to influence Tunisian policies and programs, form the main focus of this paper. The Tunisian situation and policies are covered in Chapter II. The U.S. response and changes in the aid relationship during the four main phases of U.S. aid are discussed in Chapter III. U.S. policies and programs to enhance the role of the private sector in industry and agriculture are addressed in Chapter IV, which also examines whether PL 480, Title I sales acted as a production disincentive. The overall impact of U.S. aid on Tunisian growth and equity is estimated in Chapter V. The PL 480, Title II program is not examined in detail in this paper but its continuing contribution to alleviating poverty is noted in Chapter V.

II. TUNISIAN ECONOMY AND POLICIES

A. Situation at Independence

Tunisia inherited a difficult economic situation in 1956. Per capita income (GDP) was only about $130. The budget and trade balance were in deficit. Most of the 3.8 million population lived in rural poverty. Literacy was only 25%. Most of the past growth had occurred in the urban modern sector, from which the French were rapidly departing. Investment fell from about 20% of GDP in 1951 to around 10% in 1956-59. Growth slowed to little more than the two percent rate of population increase. Unemployment rose and refugees from the Algerian war streamed into the country.

French budgetary aid ceased abruptly in early 1957 over Algerian war issues. Aid was later resumed, reaching $18 million in 1958, or more than the budget deficit of $11 million. But interruptions followed, making French budgetary aid a minor and uncertain factor through 1964. Only the onset of U.S. aid in FY 1957 avoided a serious deterioration in the economy. Further disruption was also avoided by the French decision to continue to pay for several thousand teachers and some technical assistance in Tunisia throughout the various political crises.

Tunisia inherited several economic disparities, mainly between an educated urban middle class and the illiterate rural poor but also between middle-class farmers on the richer agricultural lands (in the North and coastal regions, or "Sahel") and the marginal farmers of the arid Center and South. There were few rich Tunisians in business or agriculture. There were many Tunisian merchants but few manufacturers. The wealthiest farmers were French, who owned most of the rich wheat lands in the North. These various internal differences were frequently summarized as the "North-South" disparity.

B. Government and Politics

Since Independence in 1956, the Tunisian Government has been headed by President Habib Bourguiba, with cabinets drawn from a single party: the nationalist independence party called the Neo-Destourian (New Constitution) Party. The party preceded Independence and until recently, has been the sole official party, regarding itself as the instrument of the popular will, and the government as its agent. The government initially had a very thin layer of competent policy-makers and administrators, but has greatly increased its capacity. Corruption has not been a major problem, due to party ideals, but there has been some increase since Independence.

The government and party have had two general goals. The first has been independence and self-sufficiency. Politically, this has meant getting rid of the French military presence (1957-64), building good relations with the U.S. as its de facto guarantor of independence in the face of possible threats from Algeria and Libya, and appearing "non-aligned" in international affairs, while actually being moderate and pro-Western. Economic independence has been sought by first eliminating French businessmen and landlords and then achieving growth without loss of independence. The latter has meant seeking maximum aid from many diverse sources. In practice, survival initially (1957-64) meant dependence solely on U.S. and French aid.

The second general objective has been to reshape society in line with party goals: ridding the country of exploitive colonial elements; alleviating poverty and rural-urban and North-South differences; providing universal education; and promoting growth, employment and social and economic modernization. In practice, the government and party have been ambiguous in their commitment to alleviating internal disparities. The educated middle class has dominated both organizations and reaped the major benefit of most government measures.[1] The commitment to education has been faithfully carried out (perhaps excessively at the university level). Education has always been the largest budget item, accounting for 20-30% or more of total expenditures in the 1960's and early 1970's and 15% in 1980.

C. Economic Policies

From the beginning of aid, the U.S. and Tunisia have had different philosophies and prescriptions regarding the roles of the public and private sectors in the Tunisian economy. The Tunisians have believed in a much stronger role for the government, in part reflecting a one-party state in which the party views the government as agent for achieving its social goals. The government's desire to industrialize, combined with the perceived "commercial mentality" and ignorance of manufacturing of the entrepreneurial class, also played a role. Finally, the Tunisians inherited from the French a highly centralized, interventionist-type government and a number of public and parastatal enterprises and agencies. To these were added other enterprises, banks, and farms, as well as general control functions, as the difficult process of decolonization and Tunisification unfolded after Independence.

Although their party doctrine has included very general economic goals and means, the Tunisians have prided themselves on being pragmatic and eclectic rather than dogmatic and doctrinaire. While policies and emphases have gone through phases, in practice the Tunisians have had a mixed economy and the overall role of the government (except for briefly in 1969) has not varied greatly. (Investment in public and mixed-ownership enterprises in all sectors greatly exceeded private investment in the 1960's and has been nearly equal to it in recent years.) The government's attitude toward the role of the private sector has varied more, but uncertainty regarding the proper role, rather than outright hosility, has usually been an element in the government attitude.

Economic policies have gone through three general phases: (1) an initial period (1956-60) in which the government favored domestic private enterprise while reacting to the shocks of decolonization; (2) a "socialist" phase (1961-69) marked by ambitious plans, large government investments, and an abrupt end caused by a farmer revolt against compulsory agricultural cooperatives; and (3) a moderate phase (late 1969 to the present) that has been more favorable to domestic and foreign private investment.

The differences between these periods should not be exaggerated. The same president with the same general philosophy has been in office throughout. The government has always played a major role in the economy through public enterprises, parastatal agencies, subsidies, and controls on prices, marketing and trade. The rhetoric has always changed more than the reality.

Even in the 1961-69 "Ahmed Ben Salah socialist period" (when he rose from planning minister to economic super-minister and dominated policies) there were eclectic elements: private enterprise was encouraged in tourism; private investment rose in manufacturing (after 1965); and some efforts were made to entice foreign investment. At the time of Ben Salah's downfall in late 1969, the government repealed the unpopular laws regarding compulsory cooperatives but left intact all other interventions and controls. Only gradually were policies modified to favor private enterprise, and only recently has any significant liberalization taken place in the agricultural sector. Existing large private enterprises have usually had a close political relationship with government and have generally been sheltered from competition through protective tariffs and licensing and investment controls.

Since the first development plan for 1962-64, the government has continued to use four and five-year plans as general guides to policies and government spending. Annual economic budgets are used to integrate short-term policies.

D. Dependence on Aid

Maximum foreign aid has been sought to support a high level of investment and social spending. While initially dependent solely on U.S. and French aid, the government since 1965 has been successful in securing substantial aid from a wide variety of sources.

AID was initially (1956-59) sought to finance modest budget and trade deficits and provide drought and refugee relief. In 1960 the government began a rapid expansion in its expenditures, for development and social

purposes, and imports rose rapidly. The trade deficit, which had been only about $11 million in 1958-59, or 7% of imports, grew rapidly to about $100 million in 1961-63, equal to nearly 50% of imports. This shift to high investment (up from 10-12% GDP in 1958-59 to 20-27% in 1962-65) marked the beginning of a decade of extreme dependence on foreign aid, since domestic saving rose very slowly and foreign private financing was very limited.

During 1960-64, U.S. aid was equal to nearly 20% of fixed investment but was insufficient to avoid a foreign exchange crisis in 1964. The situation then eased as the government moderated its investment program and began to receive significant non-U.S. aid. In 1970, total aid financed 42% of fixed investment, but rapidly improving economic conditions and higher domestic saving reduced the foreign aid share by 1975 to only 15%. In 1980, foreign aid financed about 12% of investment.

The evolution of non-U.S. aid is examined in the final section of the next chapter in the context of U.S./Tunisian cooperation toward this objective and the U.S. attitude toward Tunisian actions which resulted in interruptions of French aid during 1957-64.

While publicly emphasizing its independence from foreign influence on its political and economic policies, the Tunisian government has in practice proven fairly flexible and pragmatic in dealing with donors. U.S aid has had a special significance to Tunisia because it has been viewed as tangible evidence of U.S. interest in Tunisia's continued independence and political stability in the face of potential internal and external threats.

III. U.S. AID AND INFLUENCE

This chapter examines the nature of the U.S.-Tunisian aid relationship during the four main phases of U.S. aid, focusing on general issues and apparent conclusions. Key public/private sector issues are specifically addressed in Chapter IV, for which this chapter serves as background and introduction. The overall impact of USAID on growth and equity are estimated in Chapter V.

This chapter also concentrates on AID assistance, while Chapter IV discusses the role of the PL 480, Title I program in the context of agricultural public/private sector issues. No analysis is attempted of the PL 480, Title II program, which was a complex and largely separate humanitarian and relief program that was seldom involved in the aid relationship issues addressed here.

This chapter begins with an overview of U.S. interests and aid policies in Tunisia and of the total FY 1957-84 aid program. The aid relationship in the four main phases is then examined in detail. A final section addresses U.S.-Tunisian cooperation in regard to obtaining non-U.S. aid.

A. U.S. Interests and Policies

U.S. Interests. Tunisia's importance to the U.S. arises from its location and political orientation. It has never been considered "vital" to the U.S., but it is more important than many more remote or smaller LDC's. The general U.S. objective has been to maintain an independent, non-communist, pro-Western government.

The U.S. has never sought military bases in Tunisia but has not wanted any held by an unfriendly power. In the 1960's, there was concern that the Soviets might secure bases and influence in Algeria. Since then, the main threat has been viewed as coming from Soviet-armed Libya, which attempted to start an insurrection in 1980. During FY 1982-84, Congress was more impressed by this threat than the Administration and earmarked economic

support grants for Tunisia, despite a lack of any request for such funds. Only minor U.S. military assistance was provided Tunisia until FY 1976, when military credit sales of $10-15 million p.a. began. To help modernize Tunisian forces in the face of a perceived threat from Libya, credit sales were increased to $95 million in FY 1982 and have since remained at a high level.

The other main U.S. interest has been Tunisia's role in international diplomacy: as a moderate pro-Western country active in the UN, in Arab and African affairs, and in the Third World generally. Since a serious deterioration in economic conditions might possibly lead to a more radical, less friendly government, this U.S. interest has played a role in justifying aid to promote "political stability." After the "food riots" of January, 1984, the Administration considered the threat to internal security sufficient cause to change its policy to favor continued aid to Tunisia.

The U.S. has not had any significant economic interests in Tunisia. Trade and investment are small, and Tunisia is not the source of any strategic minerals.

Given the U.S. interest in friendly relations with France, the U.S. has tried to play a neutral but helpful role in French-Tunisian relations. This factor has not been very important since the first ten years of independence, when there were succesive crises in French-Tunisian relations.

During the 1960's, U.S. aid to Tunisia was justified in part by an itnerest in having Tunisia succeed as an example to other Third World countries of moderate, pragmatic, non-communist economic policies. As indicated in the text, no concrete evidence was found that this was more than wishful thinking.

U.S. Policies. Aid decisions regarding Tunisia were taken within the framework of the global aid programs of the time. These programs had their own legislative and administrative criteria. During the 1960's production increases were emphasized, while the primary goal of the 1970's was meeting "basic human needs." Encouragement of the private sector has always been

an objective but its program emphasis has varied considerably. Aid decisions regarding Tunisia reflected both the effect of these changing criteria and the importance of U.S. interests in the country. During FY 1957-76, Tunisia's economic situation, development policies, and aid from other donors played a more important role in determining the volume of U.S. aid. Since FY 1977, however, political factors have been more influential.

U.S. aid policies regarding Tunisia can be viewed as having had three general goals: (1) ensuring economic survival, development and growth toward self-sufficiency (at least with respect to U.S. aid); (2) influencing Tunisian economic policies toward these goals; and (3) maximizing other donor aid so as to minimize U.S. aid costs. During the 1960's, the U.S. gradually became more involved in trying to influence specific economic policies, directly and through the IMF and IBRD. Direct influence mainly took the form of policy dialogue, although written conditions were introduced in connection with program loans. During the resumption of AID lending in FY 1977-81, U.S. influence mainly took the form of agreeing on specific programs. "Self-help" conditions have been used in PL 480, Title I sales agreements since FY 1967.

B. Overview of Aid Program

1. Brief History

U.S. aid to Tunisia began in FY 1957, shortly after Independence in March 1956. With the suspension of French aid in 1957, AID obligations (including program grants) increased rapidly to a peak of $45.7 million in FY 1960 (equal to over $150 million in 1984 dollars). PL 480, Title II grants also increased to a peak of $65 million in FY 1961. PL 480, Title I sales began in that year and increased to a peak of $20.2 million in FY 1968.[2] (See attached Table 1.)

A second phase began in 1962 when the U.S. made one of its first "long-term commitments" of aid: $180 million for the period of Tunisia's first development plan, 1962-64. While U.S. aid (AID and PL 480, Title I)

fell short of the commitment, which was not repeated, this marked the beginning of a sustained U.S. aid effort (averaging about $45 million per annum) which lasted through FY 1972. Program loans of $10-15 million per year were the main AID instrument during this period, for both resource transfer and limited policy influence.

A third phase (covering FY 1973-81) began when Tunisia's rapid growth and status as a middle income country caused it to have a low priority in AID's new "basic human needs" approach. During FY 1973-76, AID obligations were limited to $2-3 million of technical assistance per year. At the same time, PL 480 aid fell sharply, partly due to good harvests. However, Tunisia successfully resisted the sharp phase-down of 1973-76. In FY 1977, project loans were resumed and AID grants and Title I sales were increased. The U.S. then decided that FY 1979-81 should be the final phase-out period for AID funds and extended a "Golden Handshake" program focussing on the rural poor of Central Tunisia.

A fourth phase began in FY 1982 when AID requested no further funds for Tunisia. Congressional mandates, however, required the obligation of $11.5 million in Economic Support Fund (ESF) grants (used for various projects) during FY 1982-84. For FY 1985, AID proposed an ESF grant of $3 million "to support the phase-out process" but Congressional committees earmarked $20 million and forced AID to drop its phase-out goal. AID has requested $22.5 million in ESF for FY 1986. Title I sales have remained at $9-15 million per annum during FY 1982-85, but Title II grants are being phased down from $4.5 million in FY 1981 to zero in FY 1986.

2. Composition of U.S. Aid

The U.S. has obligated one billion dollars in economic aid to Tunisia during the 28 years FY 1957-84. PL 480 has comprised 54%, with Title II grants being the largest single program element.

	$million	Percent
AID		
Grants	206.8	20.8
Loans	248.6	25.0
Total	455.4	45.8
PL 480		
Title I	223.9	22.5
Title II	315.7	31.7
Total	539.6	54.2
GRAND TOTAL	995.0	100.0

Of the $445 million obligated by AID, program aid has been particularly important, comprising 48 percent of the total, or well over half if adjusted for inflation, since it all occurred during FY 1957-73. ($39 million in AID Housing Guaranties are not included in the table below nor in attached Table 1.)

	$million	Percent
Program Aid		
Grants	95.4	21.0
Loans	121.5	26.7
Total	216.9	47.7
Project Aid		
Grants	111.4	24.4
Loans	127.1	27.9
Total	238.5	52.3
AID TOTAL	455.4	100.0

In nominal terms, 77 percent of AID obligations occurred during the first 16 years of the program, FY 1957-72. The annual average of $22 million for this period is 2.5 times the average for the subsequent 12 years,

FY 1973-84 (see Profile of Aid in attached Table 2). In real terms, average annual aid for the earlier period would be over five times that of the later, phase-down period. PL 480 aid was also concentrated in FY 1957-72, though to a lesser extent.

Agriculture has dominated sector aid, particularly in recent years. Industry, power, and transportation were important in the early years. Complete obligation data by field of activity is available only for FY 1957-71, which accounts in nominal terms for over half of total project aid (both grants and loans; see Table 3 for details).

AID Project Aid, FY 1957-71	$million	Percent
Agriculture	50.3	30.6
Industry	26.1	20.0
Transportation	27.4	21.0
All Other	26.5	20.3
TOTAL	130.3	100.0

Agriculture accounted for 73 percent of all other project loan obligations, which occurred during FY 1977-81. The remaining loans were for rural health and water supplies.

Of the $237 million obligated for over 300 AID projects through FY 1983, only five completed projects amounted to more than $10 million each (even when similar or closely related projects are combined). Only two active projects call for expenditures of over $10 million.

Completed Projects	Expenditure Period	Expenditure[1] $Million	
Oued Nebana Dam	1960-71	16.2	
Family Planning	1977-82	13.7	
Electric Power	1964-75	13.5	
Tunis Airport	1961-75	11.7	
Roads & Equipment	1959-81	11.7	
Active Projects			**Obligation $million**
Small Farmer Credit	1978-84	13.8	18.2
Central Tun. Rural Dev.	1979-86	7.2	21.0

1 Equal to adjusted net obligations for completed projects and to expenditures through FY 1983 for active projects. Amounts may exclude some small related TA projects.

C. FY 1957-61: Aid in Search of a Rationale

1. U.S. Position

The initial U.S. intention upon Tunisian independence in March 1956 was to proceed slowly and to provide only modest technical assistance and food relief. While favoring Tunisian independence, the U.S. had not played an active role nor committed itself to any aid. It was assumed that continuation of large French aid and trade benefits would assure economic viability and achieve the main U.S. interest of a pro-Western, non-Communist state. The first exploratory U.S. aid team was sent in December 1956 and a Bilateral Agreement was signed in March 1957.

The abrupt cessation of French budgetary aid (over Algerian war issues) in early 1957, however, created a vacuum which only the U.S., as the Western donor of last resort, was willing to fill. While Tunisia was of relatively minor importance to the U.S. on the global scale, it continued

pro-Western stance was considered sufficiently valuable to justify $8 million in special program (commodity) aid in FY 1957. At the time this was considered temporary aid, pending resumption of French budgetary aid. An initial $0.5 million in technical assistance was also obligated. Poor harvests in 1956-57 led to $8.8 million in PL 480, Title II shipments for famine relief and child feeding in FY 1957.

This reactive patterns of U.S. aid persisted, on an increasing scale, during FY 1958-61 as French disinvestment continued and the economy stagnated. While hoping for French capital assistance to take over the main burden, the U.S. increased all types of aid rapidly (see Table 1). Worsening conditions caused actual obligations to exceed projected amounts in each year. Total obligations by AID (and predecessor agencies: MSA, ICA and DLF) rose rapidly to peak levels of $45.7 and $37 million in FY 1960-61. Program grants accounted for about two-thirds of the obligations except in FY 1961, when large project loans were made. PL 480, Title II did not increase significantly until FY 1961 when it ballooned to $65 million, partly to feed numerous Algerian refugees. Title I sales began in FY 1961, but remained relatively small until FY 1967.

2. Tunisian Position

Tunisian officials were generally pleased with the multiple forms of U.S. aid, particularly food aid (largely wheat) which was unavailable elsewhere. Though Tunisia would have preferred the French practice of cash budgetary aid, it soon adapted to the local currency counterpart programming and attribution exercises required by U.S. commodity aid (in the form of program grants and PL 480, Title I sales). The public Tunisian position of brooking no intervention in internal affairs was preserved, while behind-the-scenes adjustments were made to accommodate U.S. desires and modalities regarding projects and local currency allocations.

There was, however, tension regarding approval of the first loan projects in FY 1958-60. The Tunisians were impatient for tangible evidence of Tunisian-U.S. cooperation with respect to development and applied political

pressure to secure approval of two of the first project loans ($6.25 million for a pulp plant and $18 million for a dam). U.S. aid officials wanted more studies and better justification for loans; in practice, the projects proved to be poorly planned.[3]

3. U.S. Rationale for Aid

The U.S. was basically in the position of making a virtue of necessity. The first Congressional Presentation (CP) of aid for Tunisia (in early 1957, for the proposed FY 1958 program) presented a mixture of vague security and political justifications: NATO interest in Algeria, the U.S. air base in Libya, the need to associate Tunisia with the Free World and check Soviet influence, and the related desirability of Tunisian political and economic stability. However, a long-term U.S. development goal was emerging as early as 1957. While trying to secure a resumption of French budgetary aid, the U.S. foresaw two phases of involvement: (1) short-term aid to avoid massive unemployment and a deterioration in living conditions; and (2) "a longer-range attack on the barriers to the best use of Tunisian resources." It was claimed that establishment of a field mission would have a substantial impact on the Tunisian plan "about to be developed."

In fact, the Tunisian Government wad divided over the virtues of planning and continued to react to the shocks of French disinvestment and poor harvests, so that no plan was developed until 1961. By 1960, the wave of independence in Africa led to a new U.S. rationale: Tunisia as an "example to the emerging African and neighboring Arab states in their economic and political evolution" (FY 1961 CP). This was to prove a popular and long-lasting justification.

However, while Tunisia was active in international politics, and its votes in the UN were considered important to the U.S. (FY 1962 CP), this study found no concrete evidence that Tunisia's internal economic and political policies had, through force of example, any significant or lasting impact on any of the emerging African and neighboring Arab states. This

subject has not merited academic study, and references to Tunisian influence mention only its international posture and diplomatic efforts.

4. U.S. Influence

Throughout its aid history in Tunisia, the U.S. has exerted its influence primarily by dialogue on specific development issues. The U.S. exerted some influence through project selection but (as noted) Tunisian pressure in the early years forced approval of two dubious projects. No formal "performance" or "self-help" conditions were attached to any of the aid in FY 1957-61.

The general nature of the U.S.-Tunisian dialogue has been well described by Andrzej Krassowski, who wrote a history of the 1957-67 aid relationship.[4] He notes that fruitful dialogue required a common interest in development and U.S. acceptance of the status quo, except as voluntarily changed by the Tunisians. Since Tunisia was a one-party state, aid officials found themselves, through their questions and comments, playing the role of a "loyal opposition" on development matters. As U.S. involvement shifted to a long-term commitment after 1961, the dialogue could be viewed as taking place within a framework of partnership for development. U.S. interest in general economic policies and specific projects gradually extended to all relevant macro and sector policies and institutions.

U.S. influence during FY 1957-61 was limited by the reactive nature of much of the aid and by the U.S. desire to restore France to the role of major donor. Some specific influence was exerted through the joint allocation of local currency generated by the $79 million in program aid obligated during FY 1957-61, though purely Tunisian allocation of total budgetary resources would probably have been fairly similar. The U.S. helped promoted the Title II "Food for Work" program that began in 1959 and later became massive. The U.S. encouraged long-term development thinking but the Tunisians did not formally adopt planning until early 1961. The U.S. helped to restore French-Tunisian diplomatic relations in 1958 but subsequent French budgetary aid proved sporadic and limited. In general, the

U.S. had little or no influence on Frecch aid decisions, which were governed by political factors arising out of the Algerian war, the remaining French military presence in Tunisia, and the emotionalism characteristic of post-colonial relationships.

D. FY 1962-72: Commitment and High Aid

1. Plan and Commitment: FY 1962-65

a. Theory in Search of a Practitioner

A remarkable coincidence of thinking about the role of national development plans took place in Tunis and Washington in 1961, leading to a U.S. $180 million commitment to a Tunisian three-year plan quickly developed for 1962-64. By January 1961, Tunisia had a new cabinet oriented toward national planning and was hurriedly developing a Ten-Year "Perspective Plan" for 1962-71. The new Minister of Planning, Ahmed Ben Salah, was to play a dominant role in shaping economic policies in the next eight years.

In March 1961, President Kennedy announced that countries having satisfactory development plans and the capability to implement them would be eligible for long-term aid commitments. In May, President Bourguiba -- Kennedy's first head-of-state visitor -- came to Washington with the draft Perspective Plan and was able to convince Kennedy and others that Tunisia could probably meet the general criteria. Bourguiba promised to draw up a Three-Year Plan for 1962-64. This was quickly done upon his return, a special U.S. team (the Patterson mission examined it, and in December 1961, their recommendation was made public: a U.S. commitment of up to $180 million in AID funding, equal to half of the Plan's projected foreign exchange gap. In October 1962, the commitment was formally made for the three years FY 1963-65, despite the U.S. view that an additional year (CY 1965) would be required to achieve Plan targets.[5]

The U.S. commitment (one of only a few made) was part of the new administration's attempt to put U.S. aid and LDC development on an expanded,

long-term, more rational basis, in place of the ad hoc, year-to-year aid programs justified on changing economic, political and security conditions. The commitment to Tunisia had several caveats: Congress had to appropriate annually sufficient worldwide funds, and each project or program had to abide by AID's rules and procedures, including the new criteria for Development Loans, which were stricter than for the Supporting Assistance program grants that Tunisia had been receiving. The figure of $180 million represented half of the estimated foreign financing needed to carry out the Plan. Tunisia, with U.S. and IBRD support, was expected to secure the other half from France and new European donors.

In practice, the projected commitment level of $60 million p.a. was over-ambitious in terms of worldwide Congressional appropriations and Tunisia's relative importance to the U.S., as well as the advent of tying procurement to U.S. sources only. AID obligated only $73.2 million in FY 1963-65; Tunisia voluntarily agreed to include PL 480, Title I sales of $23.6 million under the Commitment, leaving a shortfall of $83 million for FY 1963-65. (These figures are based on the data in Table 1 and include a $6.8 million FY 1963 Supporting Assistance program grant that was technically outside the Commitment.) To fulfill the Commitment, AID would have had to more than double its obligation rate (from $24.4 to $52 million p.a. on average). Even if there were no constraints on project and program loans (see below), such a large increase was almost certainly incompatible with AID's overall availabilities and Tunisia's relative importance.

Actual U.S. aid decisions during FY 1963-65 were little influenced by the Commitment, which was viewed as a non-binding, upper-limit target based on optimistic assumptions. Although Tunisian officials continually used it privately as a talking point, they correctly sensed that a public confrontation would not be profitable. State Department officials sympathized with the Tunisian view but could not rebut the AID position that Tunisia submitted few good project proposals and that program loans were severely constrained by the advent of tying. The Commitment shortfall did not inhibit AID officials from attempting to influence Tunisian economic policies (see below).

The joint U.S.-Tunisian goal of greatly increased non-U.S. aid was frustrated during the Commitment period, mainly by poor French-Tunisian relations. In 1962, Tunisia, at U.S. suggestion, secured IBRD agreement to try to form a Consultative Group (CG) of Western donors, as was being done for other major aid recipients. Since at that time, only the U.S., France, and the UN were regular donors, the Tunisian move was aimed mainly at securing new aid sources, parallel to its ongoing bilateral efforts. Due to French intransigence, heightened by Tunisian nationalization of French farms in 1964, the IBRD was only able to hold informal discussions until the first formal CG meeting in Paris in December 1965. By the end of 1965; however, the IBRD had made its first loans, and capital aid had been pledged by Kuwait, West Germany, and Italy. Because of the urgency of the foreign exchange situation, non-U.S. program aid was especially sought but amounted to only $10 million p.a. during this period.[6] When the foreign exchange situation became acute in 1964, the U.S. urged Tunisia to turn to the IMF, resulting in September 1964 in a 20 percent devaluation and IMF funds tied to a Standby Agreement covering stabilization measures.

b. The Tunisian Plan

The 1962-64 Plan consisted of only broad goals and policies and end-year targets. A GDP growth rate of six percent was to be generated by a rapid increase in investment, which in fact did rise from 20% of GDP in 1962 to 26% in 1964. However, most of the initial increase occurred in housing due to special low-cost domestic credits. Very few productive projects had been identified for the Plan. Most of the investment was in long-term infrastructure and public enterprises. The share of purely private investment in manufacturing fell to 11% in 1965, reflecting in part a reaction to the more interventionist, socialist policies of the government under the economic leadership of Ben Salah.

The Tunisian Plan had a number of weaknesses in execution. Financial planning and controls were not instituted. Implementing machinery was weak and handicapped by a shortage of technicians and, except at the highest level, of qualified administrators and policy-makers.[7]

Aside from involving the IBRD and IMF, AID made other responses to Tunisian weaknesses:

o An Economic Advisor (the author of this paper) was posted to the USAID in March 1963 to consult regularly with Tunisian economic officials. He convinced the Tunisian Plan Director and U.S. officials of the necessity to integrate all major economic policies and programs on an annual basis through an Annual Economic Budget (AEB). This became a precondition for U.S. program aid in late FY 1965, and the first AEB (for 1966) provided the main focus for dialogue between the GOT and donors at the first full Consultative Group meeting in December 1965.

o Short and medium-term specialists were offered to the GOT in eight broad areas under an "Economic Development Planning Assistance" project. But great difficulty was experienced in recruiting qualified, French-speaking experts. In practice, only one American was provided but one IMF and one Dutch expert also helped to improve budgetary, credit, and national accounting procedures and data.

The deficiencies of the Tunisian plan can be traced in part to the unrealism of the U.S. aid posture in 1961: recipients were encouraged to draw up hasty, optimistic plans to secure large multi-year commitments from the U.S. In execution, the Tunisian Plan involved poor use of some resources and resulted in the acute foreign exchange crisis of 1964 and only slow growth. Higher U.S. aid expenditures in 1963-64 would have eased import restraints and the foreign exchange crisis but, in the absence of productive investment projects, would have resulted mainly in increased public and private consumption. The Plan's main benefit was as an initial "learning experience" that gradually led to more effective policies, plans, projects, and overall administration.

c. Why the Commitment Failed

Even if AID had had sufficient worldwide funds to earmark $180 million for Tunisia during FY 1963-65 it would have proven impossible

to obligate that amount for two reasons: (1) the advent of tying procurement solely to U.S. sources; and (2) an unrealistic expectation that project loans could form the bulk of the obligation total.

Of the two constraints, tying was the more serious. In the latter part of 1962, shortly after the Commitment was made, Congress limited the source of all AID procurement solely to U.S. sources. The impact of this was drastic, since only three percent of Tunisia's imports came from the U.S. Trade was heavily oriented toward Europe, due both to French colonialism and trade preferences and to proximity; machinery, spare parts, and inputs were almost all European; Tunisian businessmen and importers knew very little about U.S. products and specifications. For some time, Tunisian planners did not appreciate the significance of this change, optimistically assuming the U.S. would find ways to carry out the Commitment and meet Tunisia's foreign exchange needs.

The advent of tying constrained both program and project loans but affected program loans most severely due to the limited Tunisian commercial demand for U.S. products. The impact fell first on the $10 million FY 1962 program loan which had been authorized in May 1962. It was not signed until November 1962 and disbursements did not begin until October 1963. Tunisian pressure led to AID agreement to third country barter-type arrangement for part of the FY 1963 program loan, but this was not repeated. The slowdown in aid expenditures caused by tying created a growing "pipeline" of undisbursed obligations that became an argument within the USG for even lower obligation totals.

The balance between project and program lending was an issue throughout the 1960's. At the time of the Commitment, AID/Washington expected project loans to form the bulk of the obligation total. The use of program loans as a development tool (rather than for political/military support) was a new and debatable proposition. The Africa/Europe Bureau of AID (which was headed by a former Vice President of the Development Loan Fund) had a particular preference for project loans, even before the tying of procurement to U.S. sources gave added logic to such loans in the case of Tunisia.

The first Congressional Presentation after the Commitment (in April 1963) proposed only project loans of $25-40 million for FY 1964. No program loan was proposed, on the grounds that (a) Europe was the traditional and more economical source for Tunisia's commodity imports, and (b) European countries would agree to such aid by FY 1964. In practice, project loans proved difficult to arrange. By March 1964, the $25-40 million proposal for FY 1964 had been reduced to $21.6 million. Actual project loans totalled only $10.2 million, and a $10 million program loan was in fact authorized. In total, only $25 million in project loans were authorized during FY 1963-65, equal to less than 15 percent of the Commitment.

There were several reasons why Tunisia was not an easy country in which to arrange project loans: the French had generally provided adequate infrastructure prior to Independence; the GOT had not had to prepare project loan requests under the French budgetary grants system; the few "shelf" projects the GOT inherited (pulp plant, dam, airport, railway, equipment) had been approved by the DLF in FY 1958-60; the U.S. usually limited its financing to direct foreign exchange costs only, ruling out most construction costs; and the GOT was short of budget funds to finance project local costs. Under the present AID project loan policy of liberal financing of local costs on a cash basis, more projects, each of a larger amount, would have been eligible for U.S. project loan financing in the 1960's.

U.S. project loan requirements also strained Tunisia's technical/-managerial manpower constraint. In 1962-64, little U.S. technical assistance was provided for project preparation. This was later changed, although AID project lending remained minor through FY 1976, partly because other donors had fewer requirements. Tying procurement to U.S. sources limited the choice of equipment compatible with the Europe-oriented Tunisian economy. Only largely new, separate operations could be supplied, as was the case for the three large project loans for agricultural, electrical and highway equipment authorized during FY 1963-65.

The Tunisians hoped at the time of the Commitment that program loan: would be used as a residual means of meeting the $180 million total. Give the shortage of project loans, the U.S. would have had to increase progra lending from $12 to $40 million p.a. on average to have fulfilled the Com- mitment. Despite intense political pressure from Tunisia, the U.S. stuc to the position that it was impractical to increase such loans (due t tying) or to use the alternative of a Supporting Assistance cash grant o loan. Use of the latter would have been outside the Commitment (which wa for development aid) and would have jeopardized the favorable image o Tunisia as a development model. Instead (in 1964) the U.S. urged the GO to work with the IMF to solve its acute shortage of foreign exchange.

d. Implications

The main impact of the Commitment was to encourage Tunisian officials to formulate optimistic spending plans based on unrealistic hopes of U.S. aid expenditures. The Tunisians expected that political embarrass- ment, at the least, would force the U.S. to make the necessary obligations. Despite the multi-year nature of the Commitment, aid negotiations took place on a loan-by-loan, fiscal year-by-fiscal year basis, as ordained by Congressional appropriations and AID procedures. The Tunisians only slowly gave up their misplaced hopes regarding the Commitment. The necessity of making a "good faith" effort inhibited American officials from frankly urging Tunisians to plan on lower future aid levels.

Politically, the Commitment was a big plus for both parties when an- nounced, but it gradually became a mutual embarrassment and a source of continual friction. Its political sensitivity in both countries ruled out any public, downward revision. After the U.S. decided in late 1964 not to make a Commitment to the new Tunisian Plan for 1965-68, the 1962 Commitment quickly faded from sight. It was FY 1968 before cumulative U.S. obliga- tions (dating from FY 1963) reached $180 million.

In summary, the Commitment troubled U.S.-Tunisian political relations and had distinct economic disadvantages for Tunisia (unless one assumes

that Tunisia would have received significantly less aid without the Commitment, which seems very unlikely). The excessively high level of the Commitment was based on an overestimate of both Tunisian and U.S. capabilities. The public announcement (in December 1961) of the survey team's recommendation of $180 million served to fix that figure politically. That announcement came just as AID was being organized and its rules and procedures developed. The new officials viewed the Commitment device as experimental and chose to make a "good faith" effort.

One action that was not taken could have made a large difference: an AID request of Congress to exempt procurement under the Tunisian Commitment from the new tying restriction. It is not clear that this was seriously considered: it would have required precognition of the actual difficulties encountered. In any case, the Administration had (shortly after the Commitment was made) accepted worldwide tying as a necessary price to pay for Congressional support of the expanded AID programs. It would have been awkward, at best, to have gone back to Congress to ask for an exception (and for Tunisia only?). It was easier to view the Commitment as a hopeful target and tying as an unfortunate AID procedure covered by the caveats in the Commitment.

The obvious lesson is that commitments that are not commitments can do more harm than good. If they have to be subject to serious change (as in the case of tying) they can be misleading and politically embarrassing (as in the case of Tunisia). Commitments should be used very sparingly, with as much attention to possible long-term disadvantages as to short-run advantages. Geveral understandings can work as well on a year-by-year basis as on a formal, multi-year basis, as proved by the 1981-84 experience with PL 480, Title I in Tunisia, as discussed in Chapter IV, Section C.

2. U.S. Influence, FY 1962-72

U.S. influence was greatest during the period of sustained development aid, particularly in regard to short-term financial policies which addressed Tunisia's difficult balance of payments situation during the

1960's. The following sections treat both policy and program influence, except for public/private sector issues.

a. Policy Influence

(1) Evaluation of FY 1962-68 Experience. The relation of program lending to U.S. policy influence and "leverage" in Tunisia during FY 1962-68 was studied by AID in 1968-70 as part of an overall evaluation of "The Use of Program Loans to Influence Policy."[8] It found that the U.S. exerted considerable policy influence in Tunisia through program loan negotiations and accompanying dialogue. "Leverage" was exerted by the size of the total U.S. program (including PL 480), but program loans provided the prime opportunity to discuss policy matters in this period. The IMF annual conditions in its Standby Agreements (from 1964 on) complemented AID program loan provisions and, unlike the IMF, AID was in residence to guarantee observance of the joint targets.

Tunisian drafting of the Annual Economic Budgets from 1965 on provided another opportunity for influence: for example, in September 1966, U.S. officials were able to persuade the GOT to pull back from investment targets that would have breached the IMF agreement.[9] However, the formal "joint reviews," begun under the Commitment and continued with the program loans, made little contribution, since influence was most effectively exerted behind the scenes, one-on-one or in small groups.

The AID policy interest was mainly that of securing financial self-help measures, so as to assure viability of the economy and minimize U.S. aid (see Annex A re types of conditions). The Tunisians cooperated out of necessity, given their financial situation, the lack of alternative aid sources and their desire to maintain friendly relations with the U.S. The turning point occurred in 1965 when investment peaked at 27% of GDP and pledges of non-U.S. aid became important for the first time. Aside from total spending levels, the U.S. did not directly challenge Tunisia's development policies, in keeping with the general aid style of the period. The main AID development goal during this period was to increase production

generally, rather than to attack poverty directly by focusing on basic human needs.

The Tunisian attitude was one of accepting U.S. and IMF financial policy conditions as both necessary and reasonable (i.e., generally in line with the government's own economic analysis and prescriptions). This attitude helped assure compliance, with minor exceptions. The IMF conditions were given some publicity, since their "international, impartial" nature made them more politically acceptable, whereas none was given the AID conditions. The study concludes that U.S. coordination with the IMF and IBRD "greatly reinforced U.S. influence, taking much of the sting out of bilateral interference." [10]

The study found no correlation between size of loans and leverage, either in the Tunisia case or across the countries studied.[11] Program loans to Tunisia varied only between $10 or $15 million p.a. and factors other than performance regarding loan conditions also determined the amount. The legacy of the previous level was always great; political factors often exerted an upward influence; limited aid availabilities and the large pipeline exerted downward pressure. Also, "the U.S. never attempted to establish a credible position with respect to the ultimate instrument of leverage -- the threat of withholding or reducing the loan. At the most, AID prolonged annual negotiations until the GOT agreed to meet AID's minimum terms."[12] See Annex A for the Summary and Conclusions of the AID Program Loan Policy Influence Study.

PL 480 was not used for policy purposes until the first self-help provisions were attached to PL 480, Title I sales in FY 1967 (see section IV, part C).

(2) Policy Influence During FY 1969-72. No study has been made of U.S. aid influence during this final period of program loans. The policy influence study notes that by early 1967, AID was clearly pointed toward phasing out program loans (by FY 1969 if possible) and that the GOT was well aware of this.[13] Nevertheless, for the FY 1968 loan, the GOT agreed to more conditions on a smaller loan (of $10 million). In FY 1969,

AID made no program loan to Tunisia, due to the large pipeline and an overall shortage of funds. Tunisia continued to resist any phase-out of AID loans, with some success. Although proposed at $5 million each in the CPs, program loans of $10 million each were made in FY 1970-71. Fewer formal conditions were attached, in keeping with new worldwide AID policy. For FY 1972, an agricultural sector loan (later counted as a program loan) of $11 million was authorized, keyed to rural development goals consistent with AID's new Basic Human Needs mandate.

AID officials who worked in Tunisia during this period report that high-level dialogue was dominated by the phase-out question, to the detriment of policy influence. U.S. influence also declined as pledges of non-U.S. aid rose rapidly. By 1967 the U.S. had ceased to be the majority donor, although it remained the largest single donor through FY 1972. Moreover, economic conditions improved during this period, partly due to good harvests and the end of the compulsory agricultural cooperatives. The U.S. did not seek any important economic policy changes other than indirectly through the IMF and IBRD. The U.S. did not explicity react to the fall of Prime Minister Ben Salah in late 1969 and the shift away from his socialist policies in agriculture (see Chapter IV). U.S. policy interest had gradually been shifting to the agricultural sector. Changes in Tunisian and AID policies reinforced this trend, leading to the sector loan in FY 1972.

(3) Role of Political Factors (FY 1962-72). Surprisingly, the available literature provides no explicit analysis of the question of the impact of U.S. political interests o AID policy influence and the AID program. A detailed study of classified material (not available to this author) would undoubtedly shed more light. But the program loan policy influence study (originally classified) and the recollections of U.S. officials who served in Tunisia during 1962-72 indicate the following:

(a) U.S. political interests in Tunisia were sufficient to justify a continuation of aid at about the same level, despite AID desires to phase out program lending and, later, all AID loans. However,

it was not sufficient to justify a major increase in aid, even under intense Tunisian political pressure. This became apparent in 1966 when Foreign Minister Habib Bourguiba, Jr., made a special personal appeal to Secretary of State Dean Rusk for a large increase in U.S. financial aid to solve Tunisia's foreign exchange shortage. Rusk reportedly replied in terms of existing AID policy: Tunisia was already one of two African countries and one of seven worldwide in which AID was concentrating its resources (as stated in the FY 1966 CP); the shortage of total AID funds precluded any increase for Tunisia. This rejection had no apparent effect on U.S.-Tunisian political relations.

At the time, there were rumors that some Tunisian officials raised the spectre of a possible shift toward more Soviet Bloc aid that could lead to possible influence on international and domestic policies. But such a shift was both alien to President Bourguiba's political philosophy and unrealistic in terms of Bloc willingness to provide sizeable financial aid, in addition to their slow-moving project aid and negotiated trade credits.

(b) Tunisian willingness to accept program loan conditions and the compromises inherent in a continuing aid dialogue involved at least four factors: (i) the political desire to maintain friendly relations with U.S., viewed as the ultimate protector of its sovereignty; (ii) the lack of an alternative source for the financial (non-project) aid needed; (iii) the GOT's philosophy and practice of being pragmatic and flexible in terms of economic policies and development programs; and (iv) the U.S. practice of keeping its criticisms and conditions private and of relying in part on the IBRD and IMF for economic policy influence. U.S. policy influence declined somewhat with the rapid increase in non-U.S. aid beginning in 1965, but the special Tunisian interest in friendly relations with the U.S. gave AID more influence than might be indicated by the size of the aid program.

(c) The U.S. policy influence "style" during this period was one of dialogue, compromise partnership, and respect for Tunisia's strong feelings about internal sovereignty (as evidenced in its dealings with the French). The U.S. practiced tolerance (without direct

aid) of policies and programs at variance with U.S. political and development ideas, such as the socialist policies of Ben Salah. Persons interviewed felt the U.S. had no practical option in this matter. The program loan conditions addressed financial self-help measures rather than development policy changes. The latter were sought, if at all, on a project or sector basis through dialogue in connection with program activities (see below and Chapter IV regarding "program influence").

In conclusion, U.S. political interests and Tunisian pressure during 1962-72 acted mainly to maintain the existing level of aid in the face of AID desires to reduce program loan amounts. However, these cuts would not have been large in total: probably about $5 million in each of about six years, or a reduction of around $30 million in the $118 million of program loans extended and in the AID total of $214 million for FY 1962-72. PL 480, Title I sales might have been reduced somewhat from their $127 million total, while Title II grants of $155 million would very likely have been unaffected. Thus, the overall impact of political factors during 1962-72 was not large relative to the normal legislative and administrative criteria applied to aid to Tunisia.

b. Program Influence (FY 1962-72)

There is no clear evidence that the U.S. had any influence on the allocation of Tunisian resources, outside of those associated with AID projects and the joint allocation of local currency funds. Early projects aimed at "bottlenecks" in many fields. Beginning with FY 1963, AID attempted to concentrate its resources on four to eight "Goal Plans" within four very broad areas: agricultural production, industrial production, human resource development, and the overall economy and policies.[14] Aside from specific, agreed projects, these internal programming exercises had no obvious impact on Tunisian government planning and investment policies in this period. Krassowski, in his aid history, cites only tourism as a possible example of increased Tunisian investment due to U.S. study and persuasion.[15]

AID's numerous specialists undoubtedly influenced their Tunisian counterparts during project selection, design, and execution, but the lasting significance of these efforts is always difficult to determine. The project summaries and brief "evaluations" prepared for 180 projects completed through 1970, while not explicitly addressing this question, do not present much evidence of any impact beyond the projects themselves.[16] Some projects with program influence potential, such as planning assistance and cooperative advisory services, suffered greatly from U.S. inability to recruit French-speaking experts.

In the opinion of interviewed AID officers who served in Tunisia, the greatest lasting impact came from long-term training of Tunisians and from a few successful institution-building projects, such as the Business Management school at the University of Tunisia (See section IV, B re this project). The impact of training has taken the form of superior knowledge, skills, and American methods introduced over time by Tunisians who have risen to positions of power and influence (not necessarily those for which they were specifically trained). An institution-building agricultural planning project is considered to have had much more impact through the Tunisians trained by it, rather than from the studies and advice given by American specialists.

The "degree equivalency problem" weakened the importance of U.S. degree training throughout the 1960's but was finally overcome in 1972 by the intervention of the U.S. Ambassador and Mission Director with the Prime Minister. Previously, Tunisians returning from the U.S. found their degrees were not recognized by the various French-oriented ministries to which they returned. Repeated AID interventions failed to resolve the problem until the Ambassador pointed out that it did not make sense to continue degree training under these conditions (according to interview sources). This is the only known instance when an implied threat of withholding aid was used to obtain a desired U.S. goal.

No analysis of the use of local currency generated by U.S. aid is attempted here due to its weakness as a means of program influence and the complexity of its many accounts and regulations governing use. AID

officers interviewed agreed that programming of local currency generally resulted in attribution rather than true additionality of resources in specific areas. Much of the local currency was attributed to the local (Tunisian Government) costs of AID projects to assure adequate and timely funding.

E. FY 1973-81: Phase-Down and the Golden Handshake

1. Internal U.S. Disagreement

Although no AID loans were extended during FY 1973-76 and PL 480 amounts fell sharply, this did not represent a deliberate phase-out of loans and a phase-down of PL 480. In fact, AID favored continued small loans, and a string of good harvests largely accounted for the fall-off in PL 480 activity.

In a rare role reversal, the State Department in 1972 proposed "an orderly and progressive phasing out of Tunisia's special dependence on the U.S. for assistance," while AID wanted to continue aid. State wanted to get rid of the uncertainty that was plaguing bilateral relations, while AID wanted to keep its options open. After heated debate, the issue was resolved in favor of "a tighter, more highly structured U.S. assistance program in Tunisia directed towards the orderly resolution of some of Tunisia's core problems within specified times periods."[17] As a middle-income country with a rapidly improving economy in the early 1970's, Tunisia had lower priority under AID's new Basic Human Needs approach, but its rural poverty offered scope for new approaches.

In practice, the debate continued and the U.S. had no clear aid policy during FY 1973-76, reflecting in part AID's lack of specific criteria for middle-income countries with significant areas of poverty, like Tunisia. While the Congressional Presentations emphasized AID's limited goals in agriculture, population and middle-level management training, they also projected an agricultural project loan (of $3-5 million each) for each year, FY 1974-76. The first two fell through because of inability to agree on details with the Tunisians. The latter were in an improved position,

being able to turn to other donors, including new Arab donors, or to use their own growing foreign exchange reserves, which benefitted from good crops and rising commodity and oil export prices. (By 1970, Tunisia had become a small net oil exporter.) The third loan (for FY 1976) was postponed until FY 1977.

2. Tunisian Political Offensive

While the Tunisian Government understood the reasons for a decline in U.S. aid, it was strongly opposed to its termination. Aid not only had a symbolic value, the Tunisians argued, but a U.S. phase-out would adversely affect other donor aid, which the U.S. favored. Dissatisfaction with the uncertain future of U.S. aid led the Tunisians to propose a Joint Commission on Tunisian-U.S. cooperation. This was agreed in November 1974 by the U.S. Secretary of State during a visit to Tunisia. At Tunisian insistence, a sub-commission on economic development was established at the inaugural meeting in May 1975.

The U.S. had no intention of determining aid policy through the Joint Commission. But political developments in the Middle East made Tunisia appear more important as a "voice of moderation." When confronted with $60 million in Tunisian requests at an October 1975 meeting of the Joint Commission, the U.S. said that its projected FY 1976 $5 million loan was a "first step" in a general commitment to support rural development. This meeting marked the turning point in the resumption of U.S. capital assistance, although the U.S. had no clear plan regarding future aid.[18]

The Tunisians applied more pressure at the October 1976 meeting of the Joint Commission, obtaining a U.S. pledge of a "large measure of support" for the ambitious 1977-81 Five-Year Plan. AID loans (in agriculture and rural health) resumed in FY 1977-78, and PL 480 increased. Together with $20 million in housing guaranties, U.S. obligations (including PL 480) totaled $80.5 million in FY 1977-78, equal to nearly 20 percent of Tunisia's estimate of required external public resources for that period and placing the U.S. once again among the top ten donors.[19]

The shift to a large U.S. aid role was reflected in the FY 1978 Congressional Presentation (CP) prepared in early 1977. Rather than limited goals in a few areas, the general objectives of U.S. aid were now to contribute to "mutually beneficial relations" and support a Mediterranean nation with "constructive policies, both internationally and domestically." The U.S. contribution would be within the framework of the 1977-81 Plan for assuring self-supporting growth in the 1980's. The FY 1979 CP resurrected the rationale that Tunisia served as a "model" for other LDCs although, as in the 1960's, no evidence of external influence can be found. It also emphasized the role of non-U.S. aid from over 25 donors.

3. The Golden Handshake

Still, the U.S. searched for a logical framework for the resumed U.S. aid. In 1978, an AID "Country Development Strategy Statement" proposed a five-year final AID program for FY 1979-83, with PL 480 ending in FY 1981. In preparation for the early 1979 Joint Commission meeting, the Tunisians requested increased aid levels for 1979-81, including $75 million in project aid centering on the projected Central Tunisia Rural Development (CTRD) program that had been jointly studied and discussed since 1977. The U.S. response was to estimate that $50 million in AID obligations might be available, mainly for the CTRD project, during FY 1979-81.

Internally, AID also agreed that FY 1981 would probably mark the end of AID funding, as proposed in a "Small Program Statement" of January 1979. Thus was born the idea of a final AID contribution, or Golden Handshake, beyond which Tunisia would be considered self-sufficient of U.S. concessional aid. The CTRD project was agreed upon in May 1979. AID obligations (for all purposes) totalled $50.9 million during FY 1979-81, including $25.3 million in the final year. PL 480 obligations during FY 1979-81 totalled $47.6 million.

The Tunisians were only gradually told that FY 1981 "might" or "probably" would be the final year for AID obligations. The FY 1981 CP (prepared in early 1980) was the first to speak of "post-aid Tunisian-U.S. relationships," consisting of private and institutional assistance and exchanges.

Although it said Tunisia was approaching independence from concessional assistance, no mention was made that FY 1981 would be the final aid year (GDP per capita in 1979 was $1120.) In 1981, in connection with the FY 1982 CP, AID announced that Tunisia had graduated from the need for AID concessional assistance. PL 480 would continue, with Title II being phased down.

4. U.S. Influence and Specific Issues

In general, Tunisia has had more influence on U.S. aid policy since 1973 than vice versa. However, the special Tunisian interest in the resumption and continuation of AID lending made top-level Tunisian officials generally cooperative in terms of broad program content. Much of the high-level dialogue was spent on phase-out questions during the period. At the working level, relations were poorest during the FY 1973-76 period of limited aid, as reflected in the inability to agree on two proposed agricultural loans. Tunisia's improved foreign exchange situation in the early 1970's, combined with the willingness of other donors to lend, in effect freed Tunisia from economic dependence on U.S. aid. The economy worsened somewhat after 1974, adding somewhat to Tunisia's political interest in restarting AID lending. Also, there was a fortunate coincidence of U.S. and Tunisian interests in attacking rural poverty during 1977-81.

U.S. development policy interest shifted from financial and macroeconomic issues in the 1960's to sector questions in the 1970's. In part, this reflected the change in U.S. aid policy from a macro/planning approach to concern with "basic human needs" in specific sectors. In part, the shift reflected the realities of the aid program: the end of program lending in FY 1971 and the reduced aid levels (particularly in real terms) after FY 1972. The U.S. retained an interest in macro and financial questions but it relied on the IBRD and IMF, rather than its own aid program, for effective influence.

AID program influence was mainly limited to agriculture, population and health, management training, and (during 1977-81) integrated rural development. In agriculture, the U.S. and Tunisia shared the same general

objective of helping the small farmer, and AID programs (particularly $17.3 million in two farm credit loans) helped to translate that goal into useful practice. In health, AID took the lead in "encouraging a GOT policy reorientation towards adoption of more appropriate low-cost technologies that will enable greater widespread rural access to services."[20] Middle-level management training mainly attempted to improve the efficiency of both public and private enterprises and of key parastatal agencies. Some activities that benefited the private sector were undertaken due to U.S. and other pressure (see Chapter IV).

There were three main policy and program issues that troubled aid relations during the FY 1977-81 period of expanded aid. In particular, they impinged on the rural development program jointly developed for an area in Central Tunisia that involved multiple jurisdictions, ministries, agencies, and programs.

a. Attack on Poverty. Although Tunisian policy objectives, particularly in the 1977-81 Plan, called for the reduction of internal disparities, actual policies and programs fell short of a fundamental attack. Several of the AID officials interviewed commented that Tunisia had a government of and for the middle class, which was reluctant to give up its benefits in favor of the truly poor. The U.S. wanted "to assist poor people to become economically self-sufficient" (FY 1980 CP) rather than to provide handouts or superficial help. The final request to Congress for funds (FY 1981 CP) criticized (for the first time) Tunisian economic policies "that now make redistribution with growth difficult." Blame was placed on investment in import-substituting, high-technology industries fostered by quantitative controls on imports and exports, interest ceilings, and wage floors.

b. Decentralization. To reduce the disparities between the developed coastal regions and the impoverished interior, the 1977-81 Plan called for decentralization of services and greater local participation. These elements were to be bnuilt into the ambitious CTRD project. However, the central government did not carry out decentralization and "regionalization" in an effective, sustained manner, as detailed in an AID evaluation

of the administration of the CTRD project.[21] Local participation was very limited, at best, under the Tunisian system. AID took a cautious approach, but did manage to fund a few demonstration activities.

b. Overemphasis on Construction. Despite professed interest in policy changes and innovative techniques to benefit the poor, AID officials found that many Tunisian officials continued to measure project success in their area by the amount of new construction financed by foreign aid. The CTRD project was signed only after U.S. officials, in a face-saving gesture to meet insistent Tunisian demands, agreed to attribute $10 million in counterpart funds to infrastructure in the project area. In another instance, the policy recommendations of a health study were ignored while funds for constructing rural clinics were successfully sought. This in itself represented a partial success since the initial Tunisia request was for an inappropriate, high-tech teaching hospital.

F. FY 1982-85: Congress Continues Aid

1. Tunisian Actions

When the Tunisian Government was unable to convince the Administration to continue AID funding beyond FY 1981, it turned to Congress for help. It based its appear largely on political grounds (the threat from Libya, and Tunisia's useful role in the Arab world) but also stressed its worsening economic situation, its new emphasis on private enterprise and the importance of U.S. aid in reducing regional disparities.[22] The Tunisian Ambassador headed an active lobbying effort which had widespread success, particularly with two senators on the Foreign Relations Committee. At the same time, appeals for varying amounts of aid, based on the Plan for 1982-86, were made to Administration officials.

2. U.S. Reactions and Influence

Congress responded by earmarking $5 million in grant Economic Support Funds (ESF) for Tunisia in both FY 1982 and FY 1983, plus $1.5 million in FY 1984. With Tunisian cooperation, AID allocated FY 1982-84

funds to broad, "umbrella-type" projects in private sector development (mainly business training), technology transfer (mainly graduate training), agricultural research and extension, and emergency housing.

For FY 1985, AID for the first time requested $3 million in ESF, to be added to the technology transfer program. The CP argued, "This continued investment in the human infrastructure of the country, together with continuing efforts to build linkages between Tunisian and U.S. institutions and to stimulate private sector growth and interest in U.S.-Tunisian joint ventures, will support the phase-out process, while also giving evidence of continued U.S. interest in Tunisia's economic progress."

Certain members of key Congressional committees reacted sharply to the phase-out statement and asked the Administration to reconsider its policy. They were particularly concerned with the apparent threat to internal stability raised by the nationwide food price riots of January 1984 and the increased unemployment due to the worldwide recession. State and AID officials subsequently told Congress that the Administration planned to continue aid to Tunisia until about 1990. In the final FY 1985 AID bill, $20 million in ESF was earmarked for Tunisia.

The FY 1986 CP requests $22.5 million in ESF for Tunisia. It presents the aid goal as one of "promoting continued stability in this moderate, pro-Western Arab State." The reassessment of U.S. interests in Tunisia is said to have been prompted by the riots of January 1984. No mention is made of external threats in the request for economic aid.

The major U.S. policy focus during the FY 1982-85 period has been to increase fertilizer supplies through private dealers in order to raise agricultural production. This has been attempted in the PL 480, Title I sales agreements (see Section IV, C). Title I sales continued at around the $10 million level during FY 1982-85, while Title II grants are being phased out, from $4.5 million in FY 1981 to $1.3 million in FY 1984 to zero in 1986.

In recent years, Tunisian policies have placed more reliance on private investment and market forces. This has createdd a more favorable climate for U.S. policy and program influence regarding private sector development. The expanded FY 1985-86 programs are expected to include a number of private enterprise activities.

G. Cooperation Regarding Non-U.S. Aid; FY 1957-84

The desirability of additional non-U.S. aid was much more of a common U.S.-Tunisian goal than a divisive issue throughout this period. In the 1960's, there was a continual dialogue on prospects and tactics, which helped result in a drastic change in Tunisia's aid sources.

From the beginning, the U.S. position was that it was a reluctant major donor and that France and other Western European countries were more logical aid sources, particularly after tying was instituted. When French capital aid was cut off in 1957, Tunisia turned to the U.S. as the Western donor of last resort, as well as its ultimate guarantor of national sovereignty.

Because of Tunisian sensitivities, the U.S. position regarding French aid posed the most delicate problems. The U.S. had very little influence over French aid to Tunisia, and U.S. views and aid were only one factor in Tunisian calculations regarding pursuit of military and economic "decolonization." The Tunisians were willing to risk loss of French aid, though in practice they adopted a sufficiently moderate stance to assure the continued presence of several thousand French-paid teachers.[23]

U.S. officials expressed concern at Tunisian actions that jeopardized French aid during 1957-64 but never threatened to reduce or stop U.S. aid. Perhaps the greatest risk taken by the Tunisians occurred in 1964 when they nationalized all foreign farms in abrogation of a French-Tunisian agreement to turn French farms over to Tunisia on a gradual basis. (Tunisia was impatient to eliminate the last remnant of the colonial period; the farms were deteriorating in anticipation of a future turnover.) The French suspended Tunisia's trade preferences and cut off financial aid that had been resumed

in 1963. This came at a time of acute foreign exchange shortage amid continuing efforts by the U.S., the IBRD, and the GOT to secure French and other participation in a Consultative Group (CG) of donors to Tunisia. The U.S. expressed its concerns informally to the GOT and delayed briefly some aid talks. But active Tunisian diplomacy persuaded the U.S. to go ahead with planned aid. France, despite all the difficulties, wanted a positive long-term relationship with Tunisia. By the end of 1965, Tunisian diplomacy had helped restore the French trade preferences; and U.S., IBRD, and GOT pressure had helped secure French agreement to host the first formal CG meeting.

The U.S. Commitment goal of an equal amount of non-U.S. financing during FY 1963-65 was not met. The FY 1967 CP said that Western Europe accounted for about one-fifth of aid commitments in CY 1965. However, U.S. and Tunisian efforts began to pay off shortly thereafter. The FY 1968 CP reported $175 million in non-U.S. commitments during FY 1963-66, about equal to U.S. obligations during those four years. By 1967, the U.S. had ceased to be the majority donor. Total FY 1964-67 commitments were about $400 million, of which the U.S. made $174 million (43%) and other Western countries $214 million (according to the FY 1969 CP).

Tunisia had a political motive as well as an economic imperative in seeking all possible non-U.S. aid. Tunisia desired friendly relations with a wide variety of countries, mainly to assure support for its independence if threatened, but also to enhance Tunisia's role in world politics. The extension of foreign aid assured continued donor attention. Other donors, as well as the U.S., saw Tunisia as a "model" development country during the 1960's. Sweden, for example, selected Tunisia as one of five aid concentration countries worldwide.

Partly to enhance its credentials as a neutral Third World country and partly reflecting its shift to more socialist policies, Tunisia sought and obtained $48 million in aid commitments from Eastern European countries in 1961-64. To avoid U.S. displeasure, Tunisia did not seek aid from Russia in its initial efforts. This came later, as did aid from China. Commitments from Communist countries through 1982 totalled $420 million,

including $230 million from eastern Europe (see Table 4). Bloc commitments, mainly in the form of trade credits, have required subsequent detailed negotiations and have generally been expended very slowly.

Contrary to its fears regarding the effect of the U.S. phase-down of its aid after 1972, Tunisia obtained increasing amounts from other donors. Annual expenditures by other DAC countries rose from about $40 million in 1965-68 to $115 million in 1972-74 and to an unusual peak of $262 million in 1978. As reported by DAC, U.S. expenditures accounted for less than ten percent of total DAC aid during 1978-82 (Table 4). OPEC countries began substantial aid in 1974. Cash disbursements averaged $67 million p.a. in the first two years, then fell sharply as aid shifted to a largely project basis, before rising to about $56 million p.a. in 1979-81 (Table 4).

Mainly due to its initial focus on French and U.S. aid, Tunisia was slow to approach the World Bank after Independence. In 1963, the Bank began trying to organize a Consultative Group of donors and made its first loan. Bank lending then rose rapidly, from an annual commitment average of $5 million in FY 1963-66 to $30 million in FY 1967-72. Since 1977, the World Bank has been the prime donor, with annual loan authorizations of $150-200 million in recent years (Table 5).

Thus, from a hesitant, difficult beginning in 1961, Tunisia has proved very successful in obtaining a large in-flow of non-U.S. and (non-French) aid that has been largely immune from the wide swings in U.S. obligation levels. This has had both economic and political advantages for Tunisia. One author believes that both the U.S. and Tunisia have benefited from avoiding an overly close and intense relationship, thus permitting more friendly relations than otherwise.[24] Nevertheless, Tunisia has persistently sought the continuation of U.S. capital assistance as a tangible manifestation of U.S. interest in Tunisia's survival in the face of potential security threats and in its continued pro-Western stance. This Tunisian desire has meant that U.S. influence, while diluted by the surge in non-U.S. aid, has remained more important than the size of its program would indicate.

The growing multiplicity of donors during the period of high U.S. aid (FY 1957-72) meant that all donors had increasing difficulty in finding suitable projects and in coordinating aid. Donor coordination, in the form of exchange of program information, was undertaken by the UN Resident Representative and at the meetings of the IBRD Consultative Group. The latter ceased meeting in the early 1970's, during Tunisia's "foreign exchange boom" and the reduction in U.S. aid. But in 1972, the Tunisians hosted a "donors conference" at which numerous donors pledged continued support of Tunisian development objectives. AID, with the only large resident mission other than the UNDP, carried out the most active bilateral coordination of specific project selection and implementation. The GOT gradually improved its own management and coordination of aid and is now rated fairly highly in that respect by IBRD officials.

H. Conclusions

The political objective of U.S. economic aid during FY 1957-84 was met: the independence of Habib Bourguiba's pro-Western government was maintained. U.S. aid almost alone assured economic survival during the difficult post-Independence years of 1957-61. And for FY 1985, the Administration decided to favor expanded economic support aid to Tunisia on the grounds that internal economic conditions posed a potential threat to Tunisia's political stability.

Between these periods, however, the chief goal of U.S. aid was economic and social development that would eventually free Tunisia from dependence on U.S. concessional aid. U.S. pursuit of this goal was handicapped by difficulties created by application of changing worldwide AID policies to Tunisia regardless of specific country conditions. These difficulties included: the tying of aid to U.S. procurement only in 1962, resulting in a substantial shortfall in the $180 million Long-Term Commitment just made; the termination of aid to tourism in 1967, ending AID's most successful effort to promote new private enterprise; the lack of a positive aid response to the shift from a "socialist" to a more conservative government in 1969, largely due to AID pre-occupation with a phase-down of aid and the worldwide policy shift to a Basic Human Needs approach; and the episodic

character of U.S. aid after FY 1972, when development aid was phased down during FY 1973-76, expanded during FY 1977-81 and then terminated.

The tying of aid to U.S. sources only in 1962 had the greatest economic impact on Tunisia, which had hitherto imported very little from the U.S. The slowdown in aid deliveries, coming just after a U.S. Commitment to expand aid substantially, caused a foreign exchange crisis in 1964. Tunisia was less dependent on U.S. aid after 1965 due to rising non-U.S. aid and (after 1970) to improved foreign exchange earnings.

Both the U.S. and Tunisia used special means in attempts to bring greater certainty to the supply of U.S. aid, beginning with the ill-fated Long-Term Commitment just mentioned, which had the added disadvantage of encouraging Tunisians to hastily draw up an over-ambitious development plan for 1962-64. The Tunisians resisted AID plans to phase down aid in the early 1970's, mainly because U.S. aid was viewed as tangible evidence of U.S. support of Tunisia independence and political stability in the face of potential threats. After AID lending stopped in FY 1973, the Tunisians successfully used the device of a Joint Commission (on cooperation in general) to exert political pressure that secured the resumption of lending in FY 1977. AID then tried to phase out with a "Golden Handshake": expanding aid for FY 1979-81, but making it the final aid. Once again the U.S. underestimated Tunisian's ability to successfully exert political pressure. Tunisia was able to get Congress to earmark economic support funds during FY 1982-84 and to secure Administration agreement to expanded aid from FY 1985 on. This series of U.S. failures and Tunisian successes had little or no effect on bilateral political relations, which remained good.

During the period of high development aid, FY 1962-72, U.S. political interests and Tunisian pressure acted mainly to maintain the existing level of aid (in the face of AID desires to reduce program loan amounts) rather than to increase the aid level.

As to U.S. influence on Tunisia's development policies, the U.S. has largely accepted Tunisia's general policies in deference to its sensitivity

regarding its independence and sovereignty. Dialogue and program activities have been the principal means used to influence Tunisian policies. Although only limited changes have been sought, dialogue has been considered fairly effective, since the Tunisians have been pragmatic and flexible when necessary, behind the public facade of independence. The U.S. has not directly threatened to withhold aid, although some negotiations have been prolonged to obtain minimum terms. U.S. influence has declined with Tunisia's decreased economic dependence on U.S. aid but has remained important due to aid's symbolic political significance. U.S. influence has been handicapped by the difficulties, uncertainties and discontinuities in the supply of aid. These have tended to dominate the dialogue, shifting the focus away from development goals and strategies to problems in the supply of U.S. inputs.

Aside from public/private sector issues (discussed in the next chapter) U.S. influence during FY 1957-72 was mainly used to minimize the U.S. aid burden by (1) encouraging Tunisia to seek, and other donors to provide, substantial non-U.S. aid, and (2) requiring financial austerity measures of Tunisia in connection with AID program loans during FY 1962-71. The first effort proved very successful but only after basic French-Tunisian differences were settled in 1965. Considerable U.S. influence was exerted on Tunisian financial policies through unpublicized program loan negotiations, accompanying dialogue and cooperation with the IMF and IBRD (according to a previous AID evaluation).

During resumed AID lending in FY 1977-81, U.S. influence focussed mainly on a large rural development program jointly developed for an area in Central Tunisia. The U.S. had only modest success in overcoming Tunisian political reluctance to change policies and programs to benefit the truly poor and to promote regionalization and local participation.

U.S. program influence was modest, even aside from public/private sector issues. Interviewed AID officers who served in Tunisia believe that long-term training of Tunisians has provided the greatest lasting impact. In 1972, further U.S. degree training was in doubt until "degree equivalency" was finally assured through high-level intervention.

IV. PUBLIC/PRIVATE SECTOR ISSUES

A. General

As explained in Part II. C, the U.S. and Tunisia have had different philosophies and prescriptions regarding the roles of the public and private sectors in the Tunisian economy. The Tunisians have believed in a much more interventionist role for the government through numerous public and parastatal enterprises and agencies, controls on trade and investment and selective taxes and subsidies.

The general U.S. approach has been one of reluctant acceptance of Tunisian policies, while trying to promote private enterprise through aid-financed activities, credits, and imports. There have been U.S. attempts to persuade on specific policies and activities. But (as Krassowski observed for 1957-67), there has been "very little general preaching on the merits of private enterprise," even though some AID documents might give the contrary impression. Given "the delicate nature of any dialogue on the private sector, the discussions in Tunisia have been remarkably unemotional and undogmatic on both sides."[25] The U.S. has presented its views during discussions of general policies and specific program activities. Since FY 1967, agricultural "self-help" policies, including those affecting the private farmer, have been included in the PL 480, Title I sales agreements.

The U.S. program share devoted to directly promoting the private sector has not been large. (Properly classified data to determine the share are not available.) Direct dollar aid has been mainly in the form of AID loans to intermediate credit institutions: one for business firms ($5 million) and three for agricultural credit ($22.3 million). Together these amounted to 21.5 percent of the $127 million in project loans extended to Tunisia (but only eight percent of all loans and program grants extended). Some of the program loans financed commodities and spare parts needed by the private sector. In addition, sizeable local currency amounts were allocated for sub-loans in the early years of the program. Grant aid has financed considerable training and seminars. Indirect aid for the private

sector was provided through FY 1958-69 loans for infrastructure such as highways, an airport, irrigation, and a school of business management.

The aid relationship regarding policies and programs in industry (including tourism and housing) and agriculture are described in the following two sections.

B. Industry and Tourism

1. Tunisian Policies

Since Independence, the Tunisian Government has pursued industrialization as the key to economic growth and reduction of unemployment. During the initial "decolonization" period of 1956-61 the government acquired French-owned enterprises and added some economic controls, while generally favoring private enterprise. In the "Ahmed Ben Salah interventionist phase" of 1962-69, public investment was greatly increased and more controls were added, though private enterprise in the new tourism industry was encouraged. Despite a high average investment ratio (about 22% of GDP) during 1961-70, the economy grew at only a 4.7 percent rate. Part of the blame has been placed on the large components of (a) long-term infrastructure investment (over 50%), and (b) inefficient government and public enterprise investment (75% of the total).[26] In manufacturing, private investment averaged only 20 percent of the total but generated over 50 percent of the value added and over 55 percent of the additional employment in manufacturing during 1962-71.[27]

Since 1969, foreign and domestic private investment have been given more incentives and policy emphasis has shifted from import-substitution to export promotion. The share of private investment in manufacturing rose from a low of 11 percent in 1965 to 35 percent in 1969-72 and to 58.5 percent in 1976-79.[28] However, many controls have been retained, and established enterprises (both private and parastatal, many of them in import processing industries, such as coffee) have remained protected. In recent years, more emphasis has been placed on investment by small and medium-sized private enterprises.

2. U.S. Influence

The U.S. has relied mainly on new program activities to demonstrate the advantages of private enterprise. Specific attempts to influence policies have been few, with only some successes attained. There may also have been some overall impact of the policy dialogue carried on over the years, but that is impossible to assess without interviewing Tunisian officials and businessmen.

a. Policy Influence. Until recently, the U.S. has not publicly aired its differences with the Tunisian Government on public/private sector issues. During the more socialist period of the 1960's, internal AID documents were critical of the interventionist actions and inefficient investments of the GOT. But, as a 1963 document noted, the GOT was extremely sensitive to such criticism. Subtlety, but not avoidance, was suggested for policy dialogue. However, the prospects for success were considered remote.

Except for a then-classified portion of the FY 1964 CP, no criticisms were voiced in the Congressional Presdentations of the period. Tunisia was viewed as a model for its moderate domestic policies. The use of aid funds (mainly counterpart) to finance loans to private firms was noted, but the FY 1966 CP was the first explicitly to say that the U.S. "will continue also to encourage private enterprise."

During the latter part of the FY 1962-71 "program loan influence" period, the U.S. did add private sector statements to the numerous side conditions to which the GOT had to agree (privately) before the loan agreement was signed. For the FY 1968 program loan, AID, under pressure from other U.S. agencies, added "detailed instructions for improving relations with the private sector." The AID mission opposed the addition, and there is no evidence that it had any impact.[29]

Various AID documents of the 1960's indicate that the U.S. had three specific policy objectives in addition to those of program activities.

These were: (1) the improvement of import procedures hampering private firms; (2) the sale of shares in public enterprises; and (3) the drawing up of an investment code.

Some improvements were made in import licensing and customs clearance procedures, partly as a result of specific problems that were exposed during U.S. efforts to channel AID-financed commodity imports to the private sector. The government did not sell its shares in public enterprises in the 1960's but it did convert a state-owned development bank to private control and management with IBRD/IMF assistance. The GOT did finally adopt (of its own volition) an investment code in the early 1970's, one that has some deficiencies from the U.S. point of view.

The U.S. did have some policy influence (beyond program activities) in two areas of cooperation during the 1960's. In tourism, the U.S. helped persuade the GOT to rely heavily on private development of tourist hotels (though government hotels were also built). U.S. influence ended after 1967 when AID abandoned tourism as a program area due to Congressional and other criticism. In housing, the U.S. helped interest the GOT in establishing a low-income housing program financed in part by private funds. Some policy influence has continued to date through the Housing Guaranty Program (see below).

U.S. interest in and ability to influence industrial policies dwindled sharply with the end of high U.S. aid and the advent of AID's Basic Human Needs approach in the early 1970's. This was unfortunate timing because the Tunisian attitude toward private enterprise has been more favorable since 1969.

The start of Congressionally-appropriated grants in FY 1982 coincided with renewed AID interest in, and increased Tunisian receptivity to, promotion of private enterprise. A small "private sector development" project provided $3 million to finance business training and seminars. The AID mission has also stepped up its policy dialogue on the private sector and

claims (in the FY 1986 CP)to have obtained Tunisian commitments to institute a private leasing industry and to reduce high taxes on foreign employees, thus removing an obstacle to foreign private investment. The greatly expanded AID programs of FY 1985-86 will also emphasize private sector policies and development.

b. Program Influence. AID has used a variety of program activities to increase the participation and efficiency of the private sector and to attempt to demonstrate the advantages of private over public activity. U.S. aid also benefited public enterprises and parastatal agencies, through commodity loans and technical assistance and training, in the FY 1957-72 period when AID policy emphasized production increases and the improvement of government finances. Except for housing guarantees and management training, all industry aid was obligated prior to 1971.

(1) Project Loans. The largest contribution took the form of funds allocated during FY 1958-70 to the prime industrial development bank (the Societe Tunisienne de Banque, or STB) to finance loans to private and "mixed" (public/private) firms. A $5 million loan was made in FY 1961. In addition, various (jointly-agreed) releases of counterpart funds (totalling 4.4 million dinars, or over $9 million at then-prevailing rates) were made to an AID Special Revolving Fund at the STB. During FY 1965-69, a number of local currency "Cooley" loans were made directly to small U.S.-Tunisian industrial joint ventures.

There is no way of knowing what funds the GOT and banking system would have made available in the absence of U.S. involvement, but some net U.S. contribution seems likely. The U.S. also deposited its U.S.-owned dinars (which were large in the mid-1960's) at the STB, but the additional lending this made possible went mainly to public sector firms.

The U.S. made one industrial plant Development Loan (of $7.05 million) for a government-controlled, mixed-ownership pulp plant that proved only moderately successful after many initial difficulties. The funds were provided in the three stages during FY 1958-64.

(2) Program Loans. In addition to influence on allocation of the counterpart they generated, these loans (during FY 1962-72) offered the opportunity of directing the commodities financed to the private sector. This was important because private firms suffered relative to public enterprises in the allocation of scarce foreign exchange through import licensing. However, tying to U.S. sources limited U.S. ability to supply spare parts, auxiliary machinery and some inputs to Tunisia's Europe-oriented industry. U.S. efforts to help the private sector were generally frustrated until the FY 1967 program loan agreement stipulated that at least 20 percent of financed imports must go the private sector (defined to include "mixed" firms). Tunisian compliance was remarkable: in 1968, the private share was running at 70 percent.[30] However, the $7-10 million p.a. thus financed (from $10-15 million program loans) equalled only 3-4 percent of Tunisia's total imports at that time.

(3) Infrastructure Projects. During FY 1958-68, AID provided about $37 million in loan financing of infrastructure deemed necessary for development of industry and tourism. These projects benefited both the public and private sectors. Only two were linked to AID's interest in private sector development: the Tunis airport ($12 million) considered crucial to expansion of tourism; and the school of business management at the University of Tunis ($2.1 million, see below). Other loans provided electrical, railway, and highway equipment.

(4) Technical Assistance and Training. AID financed a wide variety of small projects in Tunisia to help develop the private sector, ranging from a demonstration ceramics facility to training of auto mechanics to two industrial development bank advisors. Many of these projects were proposed by AID, usually based on a survey of country needs. AID also financed short-term business and industrial training abroad for several hundred Tunisians in both the public and private sectors, plus a number of seminars and conferences in Tunisia. "Management training" has been the one constant activity throughout the entire aid period. Longer-term academic training was also provided to help fill the gap created by the departure of French business and financial executives and experts.

No systematic evaluation of the impact of these projects has been undertaken. Brief summaries of the physical results of projects completed through 1970 indicate mixed results.[16] For example, the development bank advisors apparently did an excellent job in setting up procedures and training local staff. An FY 1960-63 business career project that sent 48 Tunisians to the U.S. for degree training resulted in only 21 either obtaining degrees and returning to Tunisia or continuing work toward a Ph.D. All AID officials interviewed consider the overall U.S. training program (in all areas) to have been the most cost-effective in terms of increased efficiency, institution-building, and influence of U.S. ideas and methods. This opinion applies to private sector training also.

Government follow-through was lacking in some projects of the 1957-70 period. The GOT agreed to the recommendations of AID-financed specialists to establish an Industrial Development Center and a Management Services Center in the 1962-64 period but never created the centers, presumably due to lack of real interest.

Other AID proposals proved premature and were later implemented by other donors. For example, AID largely failed in its attempts to develop the stock market and establish productivity centers during the 1960's, but the World Bank later assisted the GOT in both developments.

The business management school project at the University of Tunis succeeded because (1) it was desired by the Tunisians; (2) aid was provided over a sufficiently long period (FY 1966-81) to enable adequate institution-building and training of initial and replacement personnel; and (3) the project adapted to unforseen needs and benefits, according to a recent AID evaluation.[31] Graduates go about equally into public and private enterprises.

(5) Tourism. This stands out as a successful area of AID endeavor undertaken at relatively low cost. Beginning almost from the start of aid, U.S. officials encouraged Tunisians to think of tourism as a new foreign-exchange-earning, growth industry. Studies were made and plans were begun for the necessary expansion of the Tunis airport. In FY 1960,

the first airport loan (for $5.4 million) was agreed. Counterpart-funded loans were made available to Tunisian businessmen through the AID Special Revolving Loan Fund (at the STB) and, later, through a government organization that provided both equity and loans for tourist facilities. Training in hotel management was also provided in the U.S.

The government reaction was generally positive: it established an Office of Tourism, headed at one point by the President's son. But it felt that the private sector response alone would be too slow and small-scale. It therefore financed a number of state-owned hotels at key sites. Tourism boomed during the 1960's, but these hotels generally had management and operating problems until management was contracted out or they were eventually sold.

An example of a significant contribution by a single AID mission officer is given by Krassowski. The officer initiated and conducted a survey of the prospects for tourism and of hotels underway, construction costs, and relevant legislation and rules. The GOT adopted and distributed his report as an official handbook for foreign and domestic investors. As noted earlier, tourism appears to be the only important instance in the 1957-67 period when the U.S. through persuasion and programs was able to change Tunisia development priorities and policies.[15] AID activities had to be terminated in 1967, however, when tourism was dropped as an area of worldwide activity.

(6) Housing. The Housing Guaranty program began in 1966 with a $5 million, U.S. privately-funded, AID-guaranteed loan to provide housing to 700 middle-income families. The project demonstrated the feasibility of mortgage financing on harder, less-subsidized terms and of using private contractors (through problems were experienced).

In 1972, a second, $10 million loan financed low-income units built by the parastatal building corporation, which was also assisted in planning a satellite community. The GOT was encouraged to create (in 1974) a National Housing and Savings Bank which in its first five years raised over 100 million dinars (nearly $250 million) in savings for housing.

In 1977-78, $20 million in loans were provided for various purposes, including the institution of slum "upgrading", in lieu of slum clearance, and the reduction of subsidies. This led in part to creation of a parastatal shelter upgrading agency.

In 1979, a $50 million loan program to increase construction in the poorer towns of the interior was approved. However, this program has not been executed due to the rise in U.S. interest rates. In 1983, $4 million was reprogrammed as a loan for repair and reconstruction of homes lost in a flood. This was combined with $1.75 million in ESF grants, which were used in part for grants and interest subsidies to low-income beneficiaries. The remaining $46 million has been reprogrammed (but not expended) to finance part of a $144 million GOT project to upgrade slum drainage and improve sites and services in small towns. The World Bank and Kuwait will also finance part of the costs.

In addition to $39 million expended in loans to date, the AID housing program has provided $1 million in technical assistance, training, and small urban grants. The regional housing office in Tunis has recently been focusing its efforts on improving the land acquisition and development process, working with a Tunisian agency.[32]

Overall, the housing program appears to have had considerable policy and institutional influence in the field of government-sponsored housing, without great impact on the private sector.

(7) Foreign Private Investment. This has been a continuing interest of AID and (insofar as U.S. investment is concerned) of the Embassy in Tunis. A variety of small activities have been undertaken (trips by U.S. businessmen in the 1960's, various meetings) but no concrete evidence was found that these had any significant impact on investment or policy changes. At the same time, Tunisia has become much more open to and interested in foreign investment since 1972, when AID sharply phased down its program and shifted to a Basic Human Needs approach.

C. Agriculture

1. Tunisian Policies. The main Tunisian objectives have ostensibly been to increase agricultural production, income and employment and achieve balanced trade (or "self-sufficiency") in agricultural products by reducing imports and increasing exports. However, a subsidiary goal, that of providing cheap food to urban consumers, has dominated actual policies from the start. To achieve this goal, many producer prices have been kept artificially low, middlemen have been replaced by state agencies or had their margins tightly controlled, and key retail prices have been subsidized. As a result, production has been discouraged and consumption encouraged, with both patterns distorted by variations from commodity to commodity between controlled and world market prices.

To compensate the farmer for low prices, his inputs of fertilizer, pesticides, seed, credit, water, and some machinery have been subsidized (and/or had their prices controlled) by state agencies. However, these subsidies have benefited farmers very unevenly. Financial and management problems of the state agencies have caused shortages of annual crop inputs when most needed. Low interest rates and tolerance of high default rates have encouraged the use of credit for non-productive uses, including consumption. And only about 15 percent of farmers receive credit, despite a long-standing goal of making it available to all.

These problems have been endemic, to varying degrees, to Tunisian agriculture since Independence. Low urban food prices have been politically very important. Attempts to raise them (by reducing costly subsidies) have led to protests and, in January 1984, to food riots nationwide.

Another continuing goal of the government has been reduction of so-called North-South disparities, i.e., narrowing of gaps between the better endowed and more developed northern and coastal regions and the poorer regions of the interior and South. Pursuit of this objective has been tempered by the need to get productive returns from investment (more likely in the North) and by the political make-up of the government, which has generally favored the middle class and the better-off regions. In 1973,

the government decided to step up its efforts to develop the poor interior regions. This policy eventually resulted in the joint development with the U.S. in 1977-79 of the Central Tunisia project.

The most dramatic agricultural policy shift occurred with respect to cooperatives. At Independence, the official party philosophy favored the development of cooperatives, with the government lending a helping hand as necessary. In the 1960's, under the leadership of Ahmed Ben Salah, the policy gradually changed from voluntary service cooperatives to compulsory service and producer cooperatives encompassing all Tunisian farmers. In 1969, farmer resistance to giving up their private holdings led to the downfall of Ben Salah and a reversal of his policies regarding compulsory cooperatives.[33,34] However, other government policies did not change. About nine percent of cultivable land remains under government control, either as state farms or as producer cooperatives on former colon land that has not been divested.

Other Tunisian objectives for agriculture have included introduction of new crops and varieties, greater use of irrigation, development of livestock, soil conservation, increased rural employment, and more secure land ownership and tenure.

2. U.S. Influence. In general, the U.S. did not make a serious issue of Tunisian government intervention in the agricultural sector until the renewed expansion of U.S. aid in FY 1977-81. There were mainly three reasons: (1) the general U.S. posture of accepting different developmental approaches in Tunisia and other Third World countries; (2) U.S. recognition of the special problems posed by the departure of colon farmers and the inability of Tunisia's small farmers and farm laborers to manage the mostly modern, large farms involved; and (3) the fact of U.S. government intervention in numerous ways in the U.S. agricultural sector.

During FY 1957-76, the U.S. did pursue a policy dialogue on agricultural matters -- mainly on program issues but also on certain policy issues. U.S. interest and influence during this period was greater from FY 1967, when agriculture became the prime sector of AID effort and PL 480

self-help conditions began, until aid nearly ceased with the agricultural sector loan of FY 1972 and the PL 480, Title I sale of FY 1973. During the Golden Handshake period of FY 1977-81, the AID loan program was focused entirely on rural development (including health) while PL 480 agreements contained general self-help conditions that had little impact. Since FY 1981, AID has had little program influence in agriculture, but specific policy changes have been secured through PL 480, Title I sales agreements.

Since FY 1972, the U.S. has cooperated more closely with the World Bank, which has been the major donor in agriculture and has taken an increasing interest in securing policy changes. AID obligations for agriculture totalled about $110 million during FY 1957-84, while World Bank agricultural loans began in FY 1968 and reached nearly $300 million through FY 1984. PL 480, Title I sales began in FY 1961 and totalled $224 million through FY 1984 (Tables 1-3).

a. Policy Influence

(1) Cooperatives. The U.S. played an essentially neutral role in the sharpest political/economic policy shift to occur in Tunisia since Independence, i.e., the farmer revolt against compulsory producer cooperatives in 1969 leading to the sudden change from a "socialist" to a "conservative" government. Internal AID documents indicate apprehension in 1963-64 over initial attempts to accomplish economic and social reform through state-created cooperatives. Government help in setting up voluntary service or consumer coops was considered legitimate, but coercion and government control were feared. AID provided modest technical assistance in management and financial affairs to central cooperative institutions during 1963-67. But AID refused to help re-equip the government cooperatives/collectives which in 1964-65 combined the nationalized large former-French farms with adjacent small holdings and included landless laborers as members. The legitimate reason given by the U.S. was that management problems appeared immense, but the GOT argued that its approach was the best possible under the circumstances.

While not providing any aid, the U.S. supported the idea of marketing cooperatives, even including GOT plans for a network of such coops as a "self-help" measure in the FY 1967-68 PL 480 agreements.[30] The FY 1969 CP seemed to associate the U.S. with the general cooperative movement by noting in a "self-help" section that "The number of Tunisian cooperatives was increased by almost 70 percent in 1967."

The U.S. policy of non-intervention prevailed during 1969 when compulsory producer cooperatives were being forced on Tunisia's largest and most productive farmers, leading to increasing resistence, the downfall of Ahmed Ben Salah, the architect and economic super-minister, and the sudden reversal of all compulsory actions. Aside from this reversal, the more conservative new government made no other policy changes in agriculture, primarily due to the political imperative of keeping food prices low.

While this extreme phase of Tunisia policy proved self-correcting (though disruptive) no evidence was found that the U.S. considered any major initiative with the new government concerning the private sector. Interviews indicate that this was related to AID pre-occupation in 1969-72 with whether and how to phase down U.S. aid and how to implement the new worldwide Basic Human Needs approach of AID. The end of the controversial producer-cooperative program did make possible a limited approach to the entire agricultural sector, resulting in FY 1972 in an agricultural sector loan (see below).

(2) Price and Marketing Issues. The first formal attempts to influence Tunisian agricultural policies resulted in "self-help" conditions associated with the program loans of the 1960's and the PL 480, Title I agreements from FY 1967 on. However, until 1981, these agreements stated only general objectives and were "largely perfunctory repetitions of existing (Tunisian) policies or activities...so general in their language as to make evaluation of Tunisian compliance most difficult" (1976 Appraisal[35]). These agreements did not explicitly deal weith Tunisia's subsidy and pricing policies as potential disincentives to private agricultural production, though the USAID was critical of the subsidy policies.[36] The PL 480 agreements also specified objectives for the allocation of the country-use

local currency generated by sales, but these were largely exercises in arbitrary attribution of overall GOT funding.[37]

The U.S. made two other formal attempts to influence agricultural economic policies prior to 1981. An AID project with the University of Minnesota (1967-81) helped create an economic analysis and planning office in the Ministry of Agriculture through training of Tunisians and advice and studies by U.S. specialists. Initially, it was hoped that the government would be influenced to intervene less, but the economic office was used primarily to help prepare infrastructure projects for donor financing.[38] Due to attrition of the Tunisians trained and to the weak policy role of the economic office, there was very little impact from this project until near its completion, when there were sufficient trained and effective Tunisians to play an important role in the ministry.

A related effort was made in connection with the FY 1972 $11 million agricultural sector loan (later classified as a program loan). The FY 1973 CP said that this loan was "directly linked to the encouragement of important agricultural policy changes and introduces the concept of agricultural sector planning based on sector analysis." The policy changes in question involved the largely separate GOT decision to raise some producer prices (which had long been favored by AID) but to offset the increases with higher consumer subsidies (not favored by AID). The sector planning and analysis represented the next stage of the Minnesota project in the Ministry of Agriculture.

Thus, until 1981, the U.S. had little direct impact on the complex system of government controls, subsidies and agencies affecting agricultural prices, production, and marketing. U.S. influence was exerted directly but mildly through normal dialogue and indirectly through the World Bank, which took an increasing interest in public/private agricultural issues from the late 1970's on.

In early 1981, the USAID began preparation with the GOT of a <u>multi-year PL 480 program</u> for FY 1982-84 destined to break the state monopoly on fertilizer distribution. The original concept was to use the new Title III

authority to combine U.S. assurances of a minimum multi-year delivery of PL 480 commodities with Tunisian assurances of meaningful self-help measures. The latter focused on GOT goals for increasing fertilizer consumption and emphasized making supplies available to private dealers and marketing cooperatives and greatly expanding controlled dealer margins. The use of Title III was not approved during the Washington review of the proposal (due to questions about the self-help measures) but the USAID went ahead with annual PL 480, Title I agreements (including a transitional FY 1981 agreement) within the framework of the agreed "multi-year strategy."

As a result of a Tunisian study undertaken within the context of the strategy, fertilizer dealer margins were quadrupled in November 1982 and supplies were opened to private dealers and cooperatives. More credit is also going to small farmers. Results have been substantial, though generally short of original targets. Although not originally envisaged, detailed programming of local currency began with the 1983 agreement and has reportedly resulted in additional total funding for the specific agreed purposes.

A recent evaluation of the program has attributed success mainly to (1) emphasis on the GOT origin (in the 1982-86 Plan) of the objectives sought; (2) the joint setting of specific, realistic targets, adjusted with experience; and (3) the importance attached to the program by high-level U.S. officials.[39] This recent success of an old program contradicts the general experience that U.S. influence declines as the duration of a PL 480 program increases.[40] It also comes at a time when PL 480, Title I sales have been of much less importance to the Tunisian economy: equal in FY 1982-84 to only about 0.3 percent of both imports and budget expenditures, compared to four percent and three percent, respectively, in FY 1964-72.

A new multi-year PL 480 agreement for FY 1985-87 is being developed. According to the FY 1986 CP, the U.S. will pursue the following objectives in a policy dialogue with the GOT: more investment in rain-fed areas compared to less-cost-effective irrigation; more investment aimed at encouraging private sector participation; and more private financing through reduced subsidies and higher farmer payments for infrastructure investment.

(3) Access to Credit. The U.S. was active in providing credit to private farmers during the early FY 1958-70 period through nearly $15 million in local currency allocations and a $5 million loan (in FY 1961) to the agricultrual development bank. The credits were production-oriented and there is no record of any specific policy influence during this period. However, in FY 1978, some obstacles to small farmer credit (minimum acreage requirements and certain loan formalities) were eliminated as part of a large AID credit program for Northern Tunisia. The U.S. failed, though, in its attempts to secure positive real interest rates on farmer loans. (Terms were 2-3 percent, or less than inflation.) The small farmer credit program that began in FY 1978 consisted of a $6 million loan in that year plus an $11.3 million loan in FY 1981.

Since that time, AID has worked with the World Bank and IFAD to try to secure more credit for small farmers and positive real interest rates. The World Bank has provided $47 million in agricultural credit during FY 1971-84.

b. AID Program Influence

Though favoring private sector development with less government intervention, the AID program has been basically neutral in terms of the key issues of cooperatives, price and marketing controls, and subsidies. Only the credit programs (totalling over $35 million in loans and local currency allocations) probably represented in part an incremental resource for that purpose, although this cannot be proved. Private farmers benefited (but so did state farms and producer coops) from AID programs that promoted development of fruits and vegetables, high-yielding wheat, livestock and irrigation, and commodity loans that financed imports needed by the agricultural sector. A $6.5 million agricultural equipment loan in FY 1963 was for GOT use only, mainly in land development and tree planting.

AID agricultural programs also had an equity effect on the private sector. During the 1960's and early 1970's, AID programs were production-

oriented. There is general agreement that, like the government agricultural programs, they benefited the better-off farmers the most, e.g., through the HYV wheat and credit programs. From FY 1977 on, under the Basic Human Needs approach, the attempt has been to direct aid to the small farmer, primarily through credit and the Central Tunisia Rural Development program. These programs have been successful in shifting benefits toward the small farmer, but AID has experienced difficulties in doing so, and well-off farmers have also benefited. Neither of these recent programs have been evaluated for beneficiary impact, although the Central Tunisia project has been evaluated in terms of "lessons of experience" (including U.S.-Tunisia cooperation) regarding the design and execution of an integrated rural development project.[41]

c. Impact of PL 480 Program on Production Incentives

The relation between PL 480, Title I sales and agricultural private production incentives constitutes a special case of U.S. program influence. No evaluation of the Tunisian experience has been made, even in a lengthy evaluation of the FY 1965-77 AID/GOT wheat development program in Tunisia.[42] The conclusion of the analysis below is that Title I sales did not apparently have any direct adverse effects, and probably no indirect effects, on agricultural production. The government's cheap food policy may have hampered domestic wheat production and definitely caused excessive consumption and imports. However, given the high political priority of this policy, it very probably would have been carried out with 100 percent commercial wheat imports, rather than the partial financing provided by Title I.

(No attempt is made here to analyze the incentive effects of Title II grants, which have been larger in total (Table 1). Since the Title II programs were targeted on impoverished groups, it was always assumed that most of the commodities represented additional consumption which otherwise would not be satisfied by purchase of domestic products. It was also assumed that, due to financial stringencies, the GOT was unable to fund these programs without foreign aid and thus, did not gain financially from the aid. This assumption has changed in recent years, leading to the phase-out

of Title II aid during FY 1982-85. The equity effects of both Title I and Title II are discussed in Chapter V.)

Wheat has dominated the PL 480, Title I program throughout, accounting for over half of total sales. Soybean oil has been the only other major commodity, comprising about a third of sales. Deliveries of the other commodities (chiefly corn, barley, and cotton) were too small (5% or less of the total) and too limited in duration to have any significant lasting effects on domestic production or consumption.

(1) Advantages to Tunisia. PL 480, Title I sales provided three advantages: (a) a foreign exchange saving (short and long-term, since the loans were on concessional terms); (b) additional local currency for country use (equal to 70-80 percent of the dollar value of sales); and (c) a possible price advantage (when imports were cheaper than domestic production) on the unlikely assumption that the PL 480 imports were truly incremental, i.e. that commercial imports would not have been made.

The foreign exchange saving to Tunisia was fairly important during FY 1961-72 when PL 480 sales averaged around four percent of total imports. Foreign exchange was tight then, imports were closely controlled, and domestic enterprises and farmers suffered from shortages of supplies and spare parts. The situation was quite different in FY 1977-84, when PL 480 sales accounted for an insignificant 0.3 percent of total imports.

Since PL 480 imports largely substituted for commercial imports of wheat and soybean oil, permitting commercial import of other inputs into the economy, some benefits for both general development and the private sector can be assumed for the FY 1961-72 period. Wheat imports (of which PL 480, Title I financed 20-35 percent) were essential to the government's cheap food policy. Soybean oil imports, by permitting the export of much higher-value Tunisia olive oil, were a net foreign exchange earner, making possible imports of other inputs. U.S. officials pushed its introduction in the early 1960's. Imports were limited only by gradual consumer acceptance of "mixed" cooking oils, which had an increasing percentage of soybean oil relative to olive oil.

The additional local currency generated by PL 480 sales was especially welcome during the period of financial stringency, FY 1961-72, when the country use portion amounted to about three percent of total government outlays. This permitted higher expenditures in general but probably had no direct relation to consumer and input subsidies for wheat, which had high priority as part of the cheap food policy. (Subsidies on oils varied and were much less important.) During FY 1977-84, the local currency generated by Title I sales amounted to only 0.3 percent of total government outlays.

Imported wheat did usually have a price advantage over domestic wheat but this bonus applied to both PL 480 and commercial imports. Large wheat imports (by the government monopoly agency) were needed as part of the cheap food policy, and Title I could provide only a portion of the total. When import prices were lower they eased the burden of the consumer price subsidy by reducing total wheat supply costs. As noted, soybean oil was imported for its price advantage over domestic olive oil.

(2) Adverse Consequences. In certain cases, the immediate foreign exchange and local currency advantages of PL 480 sales can be outweighed by longer-term consequences: excessive dependence on imports at the expense of domestic production and/or the encouragement of "excessive" consumption. These possibilities are best explored in terms of the two principal commodities.

In the case of wheat, Tunisia became a net importer in the early 1960's, partly due to the departure of the French colon farmers. PL 480 imports were always preferred to commercial wheat imports but, to the extent PL 480 (and other food aid) was not available, commercial imports were made as part of the high-priority cheap food policy.

The real question is whether imports were favored over government efforts to increase domestic production. This does not appear to be the case. Between 1960-70 and 1971-81, total wheat production increased by 92 percent and the average yield was up 69 percent. The government wheat development program, while far from perfect, has been given fairly high

marks in an AID evaluation.[42] Policies were generally supportive of production increases except for occasional lags in raising producer prices and some shortages of fertilizer imports. It can be argued that production would have been higher with different government policies, but no direct link to partial PL 480 financing can be observed.

In Tunisia, the major distortion in wheat policy has been excessive consumption encouraged by low, subsidized bread and flour prices. This distortion was not great during the 1960's, when PL 480, Title I was relatively important (supplying 9-11 percent of total wheat consumption) but became increasingly so during the 1970's as bread and flour prices fell behind rapid inflation. (In 1981, consumer subsidies on wheat and other products accounted for 17 percent of government current outlays). Despite the strong expansion of wheat production during the 1970's, consumption grew even faster, resulting in increased imports. PL 480 did not play a large role in financing such imports. In the peak sales years of 1978-79, Title I accounted for about 17 percent of wheat imports.

It, therefore, does not appear that Title I wheat imports directly resulted in increased imports, lower domestic production or excessive consumption. The government cheap food policy, which pre-dated Title I sales, encouraged consumption to increase steadily and to outrun a large domestic production increase in the 1970's. The only linkage with PL 480 is an indirect and problematic one based on the fact that PL 480 sales (during FY 1961-72) made it easier to finance all imports and subsidies by relaxing somewhat the tight constraints on foreign exchange and government revenue availabilities. However, the high priority given to abundant, low-price wheat products makes it doubtful that wheat policies would have been any different without this relaxation.

In the case of soybean oil, it was in the Tunisian interest to increase imports (however financed) so as to make possible corresponding exports of higher-value olive oil. There is no evidence that the execution of this policy encouraged excessive imports or consumption or discouraged production and export of olive oil. Title I, by helping to introduce soybean oil on easy terms, facilitated this successful program.

(3) Conclusion. No direct production disincentive effects appear attributable to the Title I program. In this respect, the Tunisian experience is most similar to that of Bangladesh, one of five countries studied in an AID evaluation of Title I effects.[43,44] There, too, grain production increased as the result of government efforts to introduce high-yielding varieties. With respect to excessive wheat consumption and imports, Tunisia is similar to Jamaica and Sri Lanka in earlier periods, when Title I imports substituted for commercial imports that would have been made as part of the government's cheap food policy.

D. Conclusions

The U.S. has basically accepted, rather than directly challenged, the large role played by government firms, organizations, controls, and subsidies in Tunisia's mixed economy. The U.S. has tried to promote private sector activity primarily through aid-financed projects, credits and imports, plus PL 480, Title I sales agreements. Only a few modest attempts to influence Tunisian policies have been made, with limited success. The clearest example of the U.S. non-interventionist policy occurred during and after 1969, when there was a shift from a "socialist" to a more conservative government due to a farmers' revolt against an attempt to introduce compulsory producer cooperatives. The U.S. has exerted some indirect influence through the World Bank, which in recent years has advocated greater reliance on private initiatives and market forces.

Tourism in the period 1957-67 is both a positive example of U.S. persuasion and assistance and a negative example of how an AID worldwide policy shift forced an end to fruitful cooperation in Tunisia. AID also assisted the private sector by encouraging and financing projects in agricultural and industrial credit, business management, infrastructure, training and housing. Aside from credit, most activities benefited both private and public enterprises in keeping with Tunisian wishes and the AID policy goal of the 1960's of increased overall production.

During the early years of the aid program, the U.S. mainly used local currency allocations to attempt to influence Tunisia policies and programs. There is no way of knowing what the Tunisians would otherwise have done, but some net U.S. contribution seems likely. The program loans of the 1960's were also used to make commodities available to the private sector and to liberalize import procedures.

During 1981-84, PL 480, Title I sales agreements were for the first time successfully linked to a major policy change: the opening up of fertilizer distribution to the private sector. Success has been attributed to the multi-year nature of the program, the GOT origin of the objectives, the joint setting of specific targets that are adjusted with experience, and high-level U.S. interest.

The PL 480, Title I program did not apparently contribute to Tunisian disincentives for agricultural production by providing lower-cost wheat and soybean oil on easy terms. Commercial imports of wheat would very probably have been made to carry out the government's cheap food policy, and soybean oil imports made possible exports of higher-value olive oil. Tunisian experience with Title I imports and wheat policies is somewhat similar to both that in Bangladesh, where government efforts helped cause domestic grain production to increase fairly sharply, and that in Jamaica and Sri Lanka, where consumer subsidies caused wheat consumption and imports to increase faster than production.

An obvious overall conclusion is that the U.S. could have had more policy and program influence on private sector issues if there had been greater continuity to AID policies and programs, combined with an ability to respond to changing country conditions. U.S.-Tunisian cooperation in tourism had to be terminated due to a shift in worldwide AID policy. The opportunity to work with a new, more conservative government in 1969 was passed up due largely to U.S. preoccupation with the phase-down of aid and the shift to a Basic Human Needs approach, which left little or no scope for a meaningful private enterprise program.

Influence has been most effectively exerted through long-term programs genuinely desired by the Tunisians. This has been the case with management training and the business management school (15 years of aid), tourism (10 years) and housing (since 1966, though largely a public sector program). The only significant success from PL 480, Title I sales agreement has resulted from close multi-year collaboration with the GOT in reaching its objectives in a specific area.

V. OVERALL IMPACT OF U.S. AID ON GROWTH AND EQUITY

A. Growth

Summary: U.S. aid expenditures were important to Tunisian growth during the 1960's, being equal to about one-sixth of total investment and theoretically accounting for up to one-sixth of actual growth in GDP (Gross Domestic Product). U.S. aid expenditures became insignificant relative to Tunisian investment by the mid-1970's and have since had a negligible effect on Tunisian growth rates.

The effect of aid on overall growth can be estimated by assuming that the additional aid resources made possible additional investment up to a maximum of 100 percent of aid expenditures. It is impossible to know what government policies and production, trade, investment, consumption, and saving would have been in the absence of aid. It is usually assumed that where investment has a high priority, as in Tunisia, aid makes possible additional investment equal to 50-100 percent of the aid amount, with the remainder making possible additional consumption.

Both PL 480, Title I sales and AID expenditures are here treated as aid for purposes of estimation. As indicated in the preceeding section, it seems very likely that PL 480, Title I commodity imports would have been made on a commercial basis in any case. The effect of Title I sales was to make possible additional imports of other (unknown) commodities . The effect of AID program loans was similar, since every effort was made to finance directly only "essential" imports. Title II commodities, however, are not included in the aid estimates because they met welfare and relief needs that the government was largely unable otherwise to meet, i.e., they financed additional consumption imports with no foreign exchange saving (unlike Title I imports). A $5 million Housing Guaranty made in 1966 has been included in the aid figures below.

AID expenditures first became sizable in FY 1959 when they reached $23 million. Tunisian national accounts, however, date back only to 1960, so that the relation of aid to investment and growth can be examined only from 1960 on. (PL 480, Title I sales began in 1961).

As a percentage of Tunisian fixed investment, U.S. aid was at its highest during the nine years 1960-68, averaging 17 percent. Assuming a 50-100 percent translation of aid into additional investment, and a two-year lag in the effect of investment on growth, U.S. aid accounted for 8.5-17 percent of the 4.7 percent growth rate experienced between 1961 and 1970. That is, the Tunisian growth rate would have fallen to 3.9-4.3 percent without U.S. aid.

A similar effect is found when U.S. aid over the 12 years, 1960-71, is related to the higher 5.4 percent growth rate experienced between 1960 and 1972, as shown in the following table.

	U.S. Aid Expend.		GDP Growth Rates (%)[1]	
	$ mill.	as % Inv.	Actual	Without Aid
1961-70	315	17 [2]	4.7	3.9 - 4.3
1960-72	410	15 [3]	5.4	4.6 - 5.0

1 Assuming that U.S. aid made possible 50-100 percent of its equivalent in investment. The lower growth figure assumes a 100 percent effect of aid on investment. The higher figure assumes that 50 percent of aid translated into investment and 50 percent into consumption.

2 Aid and fixed investment during nine years 1960-68; assumes a two-year lag in effect of investment on growth in output.

3 During 12 years 1960-71; assumes a one-year lag effect.

Depending on the end years chosen, Tunisian average growth rates vary considerably, due mainly to crop fluctuations, as in the two rates used above, a 4.4 percent rate for 1960-70 and a 4.9 percent rate for 1962-71. However, due to the more constant relationship of aid to investement, a maximum U.S. aid effect on growth of about one-sixth is indicated for the general period.

Tunisian planners successfully raised the rate of investment (as a percent of GDP) from a post-Independence (1956-58) low of around 10 percent to 20 percent by 1962. The investment rate peaked at 27 percent in 1965, before being reduced by austerity measures to 20-23 percent during 1966-74. Growth in GDP was relatively low (under five percent during the 1960's) despite the high rate of investment, reflecting an emphasis on long-term, low-productivity public investment.

After 1972, U.S. aid expenditures (as here defined) fell steeply from $30-40 million p.a. to about $5 million in 1975. With sudden prosperity and inflation, Tunisian investment increased 150 percent in dollar terms between 1972 and 1975, reducing the U.S. aid percentage to only 0.4 percent of fixed investment. The resumption of Title I sales in FY 1976 and of AID loans in FY 1977 gradually raised the U.S. aid ratio to a little over one percent during 1980-84. Thus, U.S. aid has had only a marginal effect on investment and growth since the early 1970's. Tunisian growth has been much higher since 1970, e.g., an average of 7.0 percent for 1970-82.

B. Equity

Summary: Tunisia has made impressive social progress since Independence but important internal disparities remain. Most of the government's social programs have been biased toward upper income and urban groups and, as of 1980, one-sixth of the population lived in "absolute poverty, as defined by the World Bank.[45] Reflecting AID policy in the 1960's, the majority of AID assistance has been production-oriented. AID projects undertaken in the 1970's have had effects more favorable to increased equity. PL 480, Title II programs have provided the greatest direct short-term benefit to Tunisia's poor, mainly through work relief and child feeding.

While Tunisia has made great progress in such matters as food consumption, health care, and education, important internal disparities remain, particularly between rural and urban areas. While GDP per capita grew at an average annual rate of 4.7 percent between 1961 and 1982, income and land distribution became somewhat more unequal, while the poor benefited least from government services.[46] U.S. general support of the government and the economy (through program aid, PL 480, Title I, and training and infrastructure projects) contributed, at least indirectly, to the pattern as well as the rate of growth during this period.

Under the Basic Human Needs mandate and with the resumption of AID loans in FY 1977, AID shifted its health, water supply and agricultural credit programs toward meeting the needs of the rural poor.[47] The largest project in the "Golden Handshake" of FY 1979-81, the joint Central Tunisia Rural Development Project, was targeted toward the rural poor in one of the country's poorest regions, but implementation has been slow and early results have not yet been evaluated. After an initial 1966 middle-income project, the Housing Guaranty program has since helped finance low-income housing.

PL 480, Title I sales have provided general support to the economy and government by (1) financing commodities (mainly wheat and soybean oil) that very probably would have been imported commercially, and (2) generating local currency that was released to the government. Such support was important only during FY 1961-72. As a result of government policies, wheat and soybean oil imports benefited the poor the most, due to consumer subsidies on wheat and the substitution of cheap soybean oil for expensive olive oil.

PL 480, Title II grants totalling $316 million through FY 1984 have been the largest component of the U.S. aid program. The largest and longest Title II program has supplied child feeding activities, which in 1980 benefited 450,000 children, or approximately 70 percent of the malnourished children in Tunisia. A food-for-work program during 1958-73 benefited an annual average of 100,000 workers, or about 40 percent of the nation's unemployed.[48] Unfortunately, the construction and conservation

work under this program was poorly designed and managed and had little lasting developmental impact.[49] Other Title II programs have supported maternal child health and emergency relief activities. No overall estimate of the equity impact of Title II has been made, although it obviously had a greater immediate effect upon consumption than any other type of aid.

Tables 1-5: Aid Data

Table 1: UNITED STATES GROSS OBLIGATIONS AND LOAN AUTHORIZATIONS ($ Millions), 1957 to 1984

Fiscal Years	GRANTS				LOANS			AID Total	PUBLIC LAW 480			Grand Total
	Tech. Assist.	Program Grants	Disaster Relief	Total Grants	Project	Program	Total Loans		Title I (Loan)	Title II (Grant)	Total PL 480	
1957	0.5	5.5	--	6.0	--	2.5	2.5	8.5	--	8.8	8.8	17.3
1958	2.0	13.3	--	15.3	4.3	1.0	5.3	20.6	--	6.6	6.6	27.2
1959	2.5	19.3	--	21.8	4.4	--	4.4	26.2	--	7.2	7.2	33.4
1960	6.2	16.1	--	22.3	23.4	--	23.4	45.7	--	11.5	11.5	57.2
1961	5.7	21.5	--	27.2	10.0	--	10.0	37.2	3.4	65.0	68.4	105.6
1962	6.7	10.2	--	16.9	2.4	10.4	12.8	29.7	4.5	12.2	16.7	46.4
1963	2.1	6.8	0.1	9.0	8.3	15.0	23.3	32.3	8.8	23.5	32.5	64.8
1964	1.5	--	--	1.5	10.2	10.0	20.2	21.7	3.1	16.2	19.3	41.0
1965	1.6	--	0.1	1.7	6.8	10.7	17.5	19.2	11.7	18.2	29.9	49.1
1966	2.3	--	--	2.3	--	15.2	15.2	17.5	--	1.7	1.7	19.2
1967	2.4	--	--	2.4	8.2	15.7	23.9	26.3	20.1	7.4	27.5	53.8
1968	2.7	--	--	2.7	0.8	10.0	10.8	13.5	20.2	14.3	34.5	48.0
1969	2.3	--	--	2.3	6.7	--	6.7	9.0	13.3	23.2	36.5	45.5
1970	1.9	0.7	2.0	4.6	0.1	10.0	10.1	14.7	15.0	13.4	28.4	43.1
1971	2.1	0.9	--	3.0	--	10.0	10.0	13.0	12.8	18.6	31.4	44.4
1972	5.2	0.9	--	6.1	--	11.0	11.0	17.1	17.4	6.1	23.5	40.6
1973	1.9	0.3	0.3	2.5	--	--	--	2.5	9.4	4.3	13.5	16.0
1974	2.3	--	--	2.3	--	--	--	2.3	--	6.9	6.9	9.2
1975	2.2	--	--	2.2	--	--	--	2.2	--	10.1	10.1	12.3
1976 1/	2.9	--	--	2.9	--	--	--	2.9	2.3	5.8	8.1	11.0
1977	4.7	--	--	4.7	6.2	--	6.2	10.9	6.9	5.1	12.0	22.9
1978	10.6	--	--	10.6	9.5	--	9.5	20.1	9.0	8.5	17.5	37.6
1979	9.6	--	--	9.6	5.2	--	5.2	14.8	9.6	6.8	16.4	31.2
1980	6.2	--	--	6.2	4.7	--	4.7	10.8	12.6	4.9	17.5	28.3
1981	9.3	--	--	9.3	16.0	--	16.0	25.3	9.2	4.5	13.7	39.0
1982	5.0	--	--	5.0	--	--	--	5.0	8.5	2.1	10.6	15.6
1983	3.3	--	1.7	5.0	--	--	--	5.0	11.1	1.5	12.5	17.5
1984 2/	1.5	--	--	1.5	--	--	--	1.5	15.0	1.3	16.3	17.8
Total 1957-84	107.2	95.4	4.2	206.8	127.1	121.5	248.6	455.4	223.9	315.7	539.6	995.0

Notes: Dash mark (--) indicates zero obligation. All obligations are gross, meaning they do not include deobligations, for which annual data are not always available.

1/ FY 1976 includes the transitional quarter (TQ).
2/ Requested obligations and estimated PL 480 expenditures.

Sources: AID Congressional Presentation, Fiscal Years 1959-85, AID/Washington.
AID Projects - FY 1957-72, By Country and Field of Activity, AID/Washington.
U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations July 1, 1945 - September 30, 1983, AID/Washington.

Table 2

PROFILE OF U.S. ECONOMIC AID TO TUNISIA, 1957-84

(gross obligations in millions of $)

Type	Period	Total	Average Per Year
Technical Assistance	FY 57-84	107.2	3.8
Program Grants	FY 57-63	92.7	13.2
Program Grants	FY 70-73	2.7	0.7
Program Grants	11 years	95.4	8.7
Disaster Relief	5 years	4.2	0.8
Total AID Grants	FY 57-84	206.9	7.4
Project Loans	FY 58-70 1/	85.5	7.8 1/
Project Loans	FY 77-81	41.5	8.3
Project Loans	16 years	127.1	8.0
Program Loans	FY 57-58	3.5	1.8
Program Loans	FY 62-72 2/	118.0	11.8 2/
Program Loans	12 years	121.5	10.1
Total AID Loans	21 years	248.7	11.8
Total AID Program	FY 57-72	352.1	22.0
Total AID Program	FY 73-84	103.3	8.6
Total AID Program	28 years	455.4	16.3
PL 480, Title I	FY 61-84 3/	223.9	10.7 3/
PL 480, Title II	FY 57-84	315.7	11.3
Total PL 480	FY 57-84	539.6	19.3
GRAND TOTAL	FY 57-84	995.0	35.5

1/ No loan in FY 66 and insignificant amount (0.1) in FY 70; average based on remaining 11 years.

2/ No loan in FY 69; average based on 10 years of loans.

3/ No sales in FY 66 or FY 74-75; averaged based on 21 years of sales.

Table 3: GROSS AID OBLIGATIONS TO TUNISIA BY FIELD OF ACTIVITY ($000), 1957-1984 1/

Fiscal Year		Agric. & Natural Resources	Industry, Mining & Power	Trans-portation	Labor	Pop., Health & Sanitation	Education	Public Safety & Admin.	Com. Dev., Welfare, Housing & Urban Dev.	Priv. Enter-prise	Tech. Support & Other	Total Project Aid	Total Program Aid	Total AID	Grand Total (p.a.)
1957	G	88	104	--	44	--	--	133	--	--	120	489	5,500	5,989	
	L	--	--	--	--	--	--	--	--	--	--	--	2,500	2,500	8,489
1958	G	294	297	10	41	--	24	1,024	5	--	342	2,037	13,300	15,337	
	L	--	4,300	--	--	--	--	--	--	--	--	4,300	1,000	5,300	20,637
1959	G	933	275	25	221	--	82	538	18	--	437	2,529	19,300	21,829	
	L	--	1,950	2,450	--	--	--	--	--	--	--	4,400	--	4,400	26,229
1960	G	2,402	1,577	1,231	240	--	5	322	15	--	419	6,211	16,100	22,311	
	L	18,000	--	5,400	--	--	--	--	--	--	--	23,400	--	23,400	45,711
1961	G	2,631	455	1,438	139	--	50	478	18	--	491	5,700	21,500	27,200	
	L	5,000	--	--	--	--	--	--	--	5,000	--	10,000	--	10,000	37,200
1962	G	4,116	370	333	425	--	418	427	13	19	549	6,670	10,200	16,870	
	L	1,000	--	--	--	1,400	--	--	--	--	--	2,400	10,400	12,800	29,670
1963	G	647	347	58	74	--	293	169	11	111	475	2,185	6,804	8,989	
	L	6,500	--	--	--	--	1,800	--	--	--	--	8,300	15,000	23,300	32,289
1964	G	474	162	122	8	--	179	13	--	3	523	1,484	--	1,484	
	L	2,000	8,200	--	--	--	--	--	--	--	--	10,200	10,000	20,200	21,684
1965	G	376	125	324	--	--	113	78	--	--	639	1,655	--	1,655	
	L	--	--	6,750	--	--	--	--	--	--	--	6,750	10,700	17,450	19,105
1966	G	1,133	127	136	9	--	63	171	--	--	646	2,285	--	2,285	
	L	--	--	--	--	--	--	--	--	--	--	--	15,200	15,200	17,485
1967	G	1,105	211	140	37	--	65	54	--	--	797	2,409	--	2,409	
	L	1,010	6,200	725	--	--	290	--	--	--	--	8,225	15,700	23,925	26,334
1968	G	614	252	93	48	260	501	307	--	--	668	2,743	--	2,743	
	L	--	492	--	--	265	--	--	--	--	--	757	10,000	10,757	13,500
1969	G	582	--	--	49	426	289	350	--	--	638	2,334	--	2,334	
	L	--	518	6,200	--	--	--	--	--	--	--	6,718	--	6,718	9,052
1970	G	640	--	2,000	--	253	154	170	--	--	673	3,890	665	4,555	
	L	--	90	--	--	--	--	--	--	--	--	90	10,000	10,090	14,645
1971	G	726	--	--	--	252	161	284	--	--	673	2,096	858	2,954	
	L	--	--	--	--	--	--	--	--	--	--	--	10,000	10,000	12,954
Total	G	16,761	4,302	5,910	1,335	1,191	2,397	4,518	80	133	3,090	44,717	94,227	138,944	
Y	L	33,510	21,750	21,525	--	1,665	2,090	--	--	5,000	--	85,540	110,500	196,040	
957-71:	G+L	50,271	26,052	27,435	1,335	2,856	4,487	4,518	80	5,133	8,090	130,257	204,727	334,984	

Table 2 Continued

Fiscal Year		Agric. & Natural Resources	Industry, Mining & Power	Trans-portation	Labor	Pop., Health & Sanitation	Education	Public Safety & Admin.	Com. Dev., Welfare, Housing & Urban Dev.	Priv. Enter-prise	Tech. Support & Other	Total Project Aid	Total Program Aid	Total AID	Grand Total (p.a.)
1972	G	861	n.a.	n.a.	n.a.	245	n.a.	372	n.a.	n.a.	705	5,200	884	6,084	
	L	--	--	--	--	--	--	--	--	--	--	--	11,000	11,000	17,084
1973	G	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,200	300	2,500	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	2,500
1974	G	n.a.	--	--	--	n.a.	--	176	--	--	--	2,318	--	2,318	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	2,318
1975	G	n.a.	--	--	--	n.a.	--	189	--	--	--	2,194	--	2,194	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	2,194
1976 2/	G	n.a.	--	--	--	n.a.	--	201	--	--	--	2,853	--	2,853	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	2,853
1977	G	n.a.	--	--	--	n.a.	--	130	--	--	--	4,700	--	4,700	
	L	3,200	--	--	--	3,000	--	--	--	--	--	6,200	--	6,200	10,900
1978	G	n.a.	--	n.a.	--	n.a.	n.a.	--	--	--	1,538	10,551	--	10,551	
	L	6,000	--	--	--	3,500	--	--	--	--	--	9,500	--	9,500	20,051
1979	G	n.a.	--	n.a.	--	n.a.	n.a.	n.a.	--	--	1,549	9,645	--	9,645	
	L	4,400	--	--	--	750	--	--	--	--	--	5,150	--	5,150	14,795
1980	G	n.a.	--	--	--	n.a.	n.a.	n.a.	--	--	n.a.	6,200	--	6,200	
	L	3,200	--	--	--	1,500	--	--	--	--	--	4,700	--	4,700	10,900
1981	G	n.a.	--	--	--	n.a.	n.a.	--	--	--	n.a.	9,300	--	9,300	
	L	13,600	--	--	--	2,390	--	--	--	--	--	15,990	--	15,990	25,290
1982	G	3,500	--	--	--	--	--	--	--	1,500	--	5,000	--	5,000	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	5,000
1983	G	--	--	--	--	--	2,000	--	1,750	1,250	--	5,000	--	5,000	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	5,000
1984 3/	G	--	--	--	--	--	1,200	--	--	300	--	1,500	--	1,500	
	L	--	--	--	--	--	--	--	--	--	--	--	--	--	1,500
Total FY 1972-84:	G	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	66,661	1,184	67,845	
	L	30,400	--	--	--	11,140	--	--	--	--	--	41,540	11,000	52,540	
	G+L:	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	108,201	12,184	120,385	
Grand Total: FY 1957-84:	G											111,378	95,411	206,789	
	L											127,080	121,500	248,540	
	G+L											238,458	216,911	455,369	

Notes: Dash mark (--) indicates zero obligation. Not available space (n.a.) indicates obligation figure is unknown.

1/ Complete breakdown available only for FY 1957-71; Project Aid includes TA, Project Loans and Disaster Relief.
2/ FY 1976 includes the transition quarter (TQ).
3/ Requested obligation.

Sources: AID Congressional Presentation, Fiscal Years 1959-85, AID/Washington.
AID Projects - FY 1957-72, By Country and Field of Activity, AID/Washington.
U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945 - September 30, 1983, AID/Washington.

Table 4: OFFICIAL BILATERAL GROSS EXPENDITURES ($ MILLIONS) TO TUNISIA

A. D.A.C. Countries (excluding the United States), 1965-77

Calendar Year	France	Italy	West Germany	Canada	Sweden	Belgium	Austria	Other 1/	Total
1965	22.1	2.1	9.0					3.7	36.8
1966	16.5	1.0	4.5					8.2	30.2
1967	11.1	36.6	5.6					5.6	58.8
1968	16.0	0.7	8.7		1.3	1.2	0.1	7.6	35.6
1969	22.8	3.5	16.3					18.2	60.7
1970	27.7	3.0	13.4					15.6	59.7
1971	26.6	3.6	16.2	6.1				8.9	61.4
1972	37.2	2.3	21.1	13.6				12.1	86.3
1973	58.0	28.1	25.9	11.5	9.1	6.5		4.9	144.0
1974	40.8	11.6	26.3	12.3	11.9	8.2		5.0	116.1
1975	43.2	7.3	29.3	12.9	13.5	8.0		7.0	121.2
1976	57.1	20.6	38.6	15.6	11.7	9.6		11.7	164.9
1977	57.0	6.3	65.0	9.5	14.5	10.3	0.2	9.5	172.3

B. D.A.C. Countries (including the United States), 1978-82

Calendar Year	France	Italy	West Germany	Canada	Sweden	Belgium	Austria	Japan	United States	Other 2/	Total
1978	69.6		56.8	18.3			70.0	16.5	14.0	29.5	275.8
1979	65.7		49.7	10.6		15.8	2.0	7.4	11.0	20.6	182.8
1980	86.9		35.9	8.1		16.7			17.0	24.1	188.7
1981	57.1		64.8	8.2		8.0	11.7	22.3	13.0	10.2	195.3
1982	58.8		67.0				0.3	10.4	14.0	26.1	176.6
Total 1965-1982:	774.2	(126.7) 3/	554.1	(126.7) 3/	(62.0) 3/	(84.3) 3/	(84.3) 3/	(56.6) 3/	(69.0) 4/	228.5	2,167.2

C. OPEC Countries, 1974-81

Calendar Year	UAE	Saudi Arabia	Qatar	Libya	Kuwait	Iraq	Iran	Other	Total
1974	23.9	19.2			16.5	0	4.5	2.1	66.2
1975	20.8	19.5	15.0	0	7.8	5.0			68.1
1976	6.2	0	5.0	0	0	0			11.2
1977									18.4
1978									24.9
1979									54.6
1980									58.6
1981									55.0

D. Communist Countries, 1954-82, Loans and Grants Extended

Calendar Year	USSR	Eastern Europe	China	Total
1954-71	34	71	--	105
1972	--	--	36	36
1973	--	--	--	--
1974	--	--	--	--
1975	--	10	--	10
1976	55	100	--	155
1977	--	35	57	92
1978-82	--	--	--	--
Total 1954-1982: 5/	95	230	95	420

Notes:

1/ In all cases excludes United States, France, Italy and W. Germany. May include Canada, Sweden, Belgium, Austria and other countries.

2/ In all cases excludes France, W. Germany and United States. May include Italy, Canada, Sweden, Belgium, Japan, Austria and other countries.

3/ May understate total expenditures because country category was periodically omitted (i.e. blank spaces). When blank spaces occur, it is unknown whether actual assistance was zero, or whether the figure was added to the Other column.

4/ Total United States expenditure 1978-82.

5/ Totals differ from sums of detail due to unknown revisions of earlier data.

Source: AID Congressional Presentation, Near-East and Africa Annexes, Fiscal Years 1967-85, AID/Washington.

TABLE 5

COMMITMENTS FROM INTERNATIONAL ORGANIZATIONS, 1957-83

($ millions)

Fiscal Year	IBRD (World Bank)	International Finance Corporation	International Development Association	African Development Bank	UNDP 1/	Other UN	EEC	Total
1957	0	0			0.1	0		0.1
1958	0	0			0.2	0		0.2
1959	0	0			0.3	0		0.3
1960	0	0			1.3	0		1.3
1961	0	0	0		1.0	0		1.0
1962	0	0	0		2.3	0.4		2.7
1963	0	3.5	4.9		1.9	0.5		10.8
1964	7.0	0	0		3.5	0.5		11.0
1965	0	0	0		0.4	0.3		0.7
1966	5.0	0.6	0		2.7	0.7		9.0
1967	12.0	*	19.0		4.2	0.2		35.4
1968	10.0	0	0	0	0.6	0.9		11.5
1969	32.8	9.9	8.5	2.8	3.3	0.5		57.8
1970	10.0	0.6	10.5	0	2.7	0.8		24.6
1971	31.5	*	4.8	0	4.0	0.8		41.1
1972	27.0	0.1	5.0	0.9	1.9	0.7		35.6
1973	28.0	2.3	10.0	0	1.0	0		41.3
1974	34.0	0.6	7.0	3.9	1.6	1.0		48.1
1975	69.1	3.2	0	5.3	1.0	0		78.6
1976	56.9	0	*	6.8	0.9	0		64.6
1977	89.5	0	4.8	4.2	0.2	0		98.7
1978	67.0	1.2	0.1	0	2.1	1.5		71.9
1979	99.0	0	0	0	1.7	0		100.7
1980	171.0	0	0	0	4.9	0	24.0	199.9
1981	152.6	0	0	0	0	0	5.0	157.6
1982	160.5	40.0	0	0	3.6	0	12.0	216.1
1983	148.8	0	0	0	0	1.5	0	150.3
Total	1,211.7	62.0	74.6	23.9	47.4	10.3	41.0	1,470.9

1/ Includes both special fund and technical assistance.

* Indicates a figure less than $50,000

Source: U.S. Overseas Loans and Grants and International Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945 - September 30, 1983, AID/Washington.

ANNEXES, FOOTNOTES AND BIBLIOGRAPHY

Annex A

SUMMARY AND CONCLUSIONS FOR TUNISIA, FY 1962-68, OF THE AID EVALUATION STUDY OF "THE USE OF PROGRAM LOANS TO INFLUENCE POLICY"

Summary [50]

Except for allies on the IBRD staff and in the IMF, the U.S. has carried the burden of the self-help conditioning process. This has been awkward for the U.S. because every year since FY 1962, it has insisted that it must soon phase out of non-project assistance, and it couldn't easily threaten to cut the loan for non-performance factors as well. But AID has tried without success to shift the burden onto the French and the EEC.

AID attached the first policy condition to program lending in 1964, when it obliged the GOT to draw the outline of a remedial balance of payments program and call in the IBRD staff to help. In FY 1965, it got the GOT to initiate an Annual Economic Budget. In FY 1966, a formal tranche system was installed, with quantitative and qualitative indicators identified in the Loan Agreement and observed in the mid-year review. The FY 1966 conditions were limited to stabilization policy -- credit, public expenditures, taxes, state enterprises, etc. Agriculture and private investment targets were added in FY 1967 and 1968 against considerable GOT objection. The number of conditions has not been large, however, and the tranche reviews have been perfunctory.

GOT performance has been good. A few of the IMF and AID quantitative credit and expenditure ceilings were exceeded, but the excess appears not to have been excessive and has been excused. The GOT has worked with the IMF, IBRD, CG, and AID to develop a more prudent fiscal policy, to the point of cutting back on President Bourguiba's popular social welfare programs. Moreover, private investment rates and general economic activity have done well, AID's announced primary goals have been to restore the viability of Tunisia's foreign accounts, and find another principal donor. In this respect, the conditioning exercise failed, but it probably should

not be judged on the grounds since Tunisia was up against problems, aggravated by the loss of official French capital (aid) and naval base earnings, that were unsolvable in the short-run.

Conclusions [51]

(1) Through the loan negotiations and accompanying dialogue, AID secured considerable influence over the shape and direction of GOT policy. Although progress would have occurred in the absence of program loans, the loan negotiations deserve credit for some of the advance towards stabilization, effective planning, rationalization of agricultural investments, and the tailoring of imports to earnings.

(2) The "leverage operation" is something of a misnomer in the Tunisian case. While it is true that the U.S. negotiating teams occasionally acted tough over the inclusion of conditions in loan agreements, most of the U.S. influence was exerted informally and reinforced policy decisions which the GOT was close to taking anyway. The Mission argues that nothing was lost by not taking the GOT to task for occasional infractions of mid-year tests, nor by avoiding any sign of a preparedness to use the instruments of leverage -- the threat to withhold or reduce a loan.

(3) Coordination with IMF and IBRD greatly reinforced U.S. influence, taking much of the sting out of bilateral interference.

(4) The commendable self-help performance appears to be related to the strength and continuity of President Bourguiba's government.

ANNEX B

PERSONS INTERVIEWED FOR STUDY

AID Officers (and Tunisia experience)

Edmund Auchter, Program Officer and Economist, 1978-82

Annette Binnendijk, author of 1980 Evaluation Study: "Assessment of Tunisia's Development Efforts and AID's Contribution"

Phillip Birnbaum, Program Economist, 1960-63

Robert Black, Deputy Director, 1958-61

Walter Bollinger, Assistant Program Officer, 1966-69

Roger Carlson, Program Officer, 1971-75

Patrick Demongeot, Program Economist, 1964-67, Chief of Rural Development Division, 1977-81, and author of Evaluation Paper: "The Central Tunisia Rural Development Project: Lessons of Experience"

Richard Frankel, Peace Corps, Fulbright Scholar, and Consultant on Rural Development, 1968-80 (intermittent)

James Holtaway, Trainee, 1968-69, and Assistant Program Officer, 1971-75

Mary Huntington, Washington Desk Officer, 1978-80

William Fred Johnson, Agricultural Economist, 1965-67 and 1971-73, and author of Evaluation Report: "Tunisia: The Wheat Development Program"

Jerry Knoll, Washington Officer Director, 1976-79

Leila Mogannam, Training Officer, 1968-76

Dennis Morissey, Program Economist, 1974-78

James Roberts, Washington Desk Officer, 1982-84

Charles Sadler, Washington Assistant Desk Officer, 1970-74, and Assistant Program Officer, 1974-79

Peter O. Sellar, Washington Desk Officer, 1964-66.

World Bank Officers (Washington)

Heinz Bachmann, Economist for Tunisia

Hans Reichelt, Sr. Loan Officer for Tunisia

FOOTNOTES

(Only author and title are used, plus AID or World Bank for those documents; see Bibliography for full information about references)

1. World Bank. Tunisia - Social Aspects of Development, p. ii.

2. For sake of overall consistency, all U.S. aid data in this paper and Table 1 are from U.S. Overseas Loans and Grants and Assistance from International Organizations, AID/Washington. USAID/Tunis data for specific years (as found in some sources) reflect timing, classification and other differences. The data here used may contain some errors but are the only continuous series for FY 1957-84 available in Washington.

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4. Ibid, entire volume.

5. AID. Snodgrass, Donald, The Use of Program Loans to Influence Policy, Tunisia paper by E. Rice, p. 6.

6. Ibid, p. 7.

7. Krassowski, op. cit., p. 81.

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9. Ibid, Tunisia paper, p. 21.

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12. Ibid, p. 1.

13. Ibid, p. 14.

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17. AID. Appraisal Report of the AID Program in Tunisia, p. 15.

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20. AID. Binnendijk, Annette, Assessment of Tunisia's Development Efforts and AID's Contribution, p. 10.

21. AID. Demongeot, Patrick, The Central Tunisia Rural Development Project: Lessons of Experience.

22. The Impact of U.S. Foreign Policy on Seven African Countries, U.S. House of Representatives, pp. 45-55.

23. Brown, L. Carl, "Tunisia: The Record Since Independence," p. 84.

24. Ibid, p. 87.

25. Krassowski, op. cit., pp 54-55 and 83-83.

26. Kaht, Hilmar, "Tunisia's Development Perspectives," p. 348.

27. Stolper, Wolfgang, "Development in the Large and the Small. The Case of Tunisia," p. 571.

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40. AID. Dunlop, David et. al., A Comparative Analysis of Five PL 480 Title I Impact Evaluation Studies, p. ix.

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44. AID. Rogers, B.L. and M.B. Wallerstein, The Impact of PL 480 Title I Assistance on Economic Development: A Summary of Conference Proceedings.

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48. Ibid, pp 11 and 23.

49. Grissa, A., Agricultural Policies and Employment: A Case Study of Tunisia.

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