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Tunisia P.L. 480
Update Paper

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Over the past decade, nearly \$125 million in P.L. 480 Title I assistance has been provided to the Government of Tunisia. Allocations had peaked in 1980 and declined sharply until 1985 due to the declining availability of Title I resources and competing demands from claimants with greater perceived needs elsewhere; the 1985 transfer was only \$2.9 million. This has been reported in the 1986 paper by ANE/DP, "Tunisia: P.L. 480 Title I Program". The purpose of this series of papers is to examine critically P.L. 480 programs in light of the recipient economic situation. The 1986 Tunisia paper was written during a period of transition, as Title I levels were being raised first for debt relief and then for structural adjustment assistance. The objective of assisting a difficult structural adjustment process has been the rationale for steeply increased levels of \$13.5 million in 1986 and \$15 million in 1987; a proposed Title I safety net may raise the 1987 level to a record of \$20 to \$30 million, with record volumes. This abrupt change in this relatively small program which was in the process of phaseout, and the potential for the future, is the subject of this update of the 1986 report.

I. Objectives

The objectives of the Title I program have changed markedly, with a commensurate increase in levels. The major goal of the Title I program as embodied in the 1981 Multiyear Arrangement had been support of Tunisian agriculture programs and policies devoted to acceleration of growth in agricultural production and farm income. Balance of payments and budget support considerations were not foremost in the design of the program, nor were self help measures aimed at economic reform, but rather at agricultural production and incomes. These objectives could not motivate continued assistance: Tunisia has a broad-based

economy, with agriculture contributing 14 percent of GDP, the same share as manufacturing. GDP per capita was \$1250 in 1986, and other quality of life indicators show that the country is comfortably middle-income. The program was accordingly being phased out at the end of FY 1984.

The objectives of the new program are unrelated to those of the old. Title I resources are being treated as part of the total Mission resource package, as a complement to ESF resources. They are targeted to providing a safety net within a relatively sophisticated economy undergoing difficulties which are assumed to be short-lived, but which necessitate budget and balance of payments support.

During the 1970s and early 1980s the Tunisian economy benefitted from the high prices of oil and phosphates, and the government (GOT) used revenues from these and additional international borrowing to support a strongly import-substitution policy. The result featured a large parastatal sector, high tariff protection, controlled consumer prices including subsidies for necessities and for agricultural inputs (which in turn led to the need for export certification to assure that subsidized imports were not re-exported, and thus an unwieldy export sector). Beginning in 1983, however, the external position of Tunisia began to weaken after several years of strength, culminating in 1986 in a crisis triggered by the exhaustion of its foreign exchange reserves. This has led to debt rescheduling, additional donor assistance, and particularly stabilization assistance from the IMF and structural adjustment assistance from the World Bank.

Such deterioration was the result of a particular combination of external factors, policy framework, and errors in policy implementation, some elements of which still continue to affect the balance of payments outlook. Three questions must be

posed.¹ First, what are the particular causes of the crisis, and do feasible interventions exist which can correct them? Second, if so, can P.L. 480 resources serve to promote or speed the correction, or if not, can P.L. 480 resources serve another, more worthwhile, objective? Third, if P.L. 480 can serve an objective, can it do so within a relatively short time horizon, or is the program in danger of being re-opened indefinitely?

1.1 Causes of the Foreign Exchange and Budget Crisis

The foreign exchange crisis arose from (1) Central Bank policy errors in responding to changes in the external environment, and (2) an inflexible economic structure which responds sluggishly to external stimulus and so magnified the effect of such errors. The Central Bank manages the foreign exchange market to prevent large fluctuations in exchange rate in a thin market. However, confronted with a long downturn in commodity prices, its model led to its overvaluing the Dinar. Its failure to respond adequately to the combination of several unexpected external shocks then led to loss of reserves and precipitated the crisis. Liberalization is a feasible subject for policy intervention, while restitution of reserves to a comfortable level is also feasible, and is receiving donor support.

Long-run causes for loss in foreign exchange earnings were the gradual exhaustion of petroleum reserves, trade losses resulting from the expansion of the EEC to include Spain and Portugal, and the decline in foreign direct investment. The first is entirely outside policy control, but anticipated by

¹ This paper does not consider the question of whether U.S. assistance to the existing government in its adjustment process at all is desirable. This is a political decision, and an important one in a country where the government arguably no longer represents the popular interest and so the U.S. is in danger of "backing the wrong horse".

policy makers. The entry of Spain and Portugal into the EEC was not unexpected either, reducing quotas for Tunisian sales of competing goods -- principally olive oil and citrus -- to the EEC. This did not contribute to the crisis per se, because local production was abnormally low, but export promotion will be more difficult in 1987 as export outlets must be developed both in non-traditional markets such as East Europe, Scandinavia and the Middle East to replace the EEC, and through political efforts to increase the EEC quota. This is feasible but difficult, and not a subject for U.S. intervention.

The third long-run cause is partly exogenous and partly policy related. The decline in the capital account results from the decline in oil investment, from the policy environment which served to discourage many types of direct foreign investment, and from an apparent "shock" which should have been, but was not, anticipated by policy makers -- GOT policy which encouraged the establishment of development banks (the capitalization of which created an inflow of paid-in capital which was not recognized as temporary in nature; when the banks became fully capitalized in 1985-86 the inflow suddenly ceased) -- and which is not expected to recur. The policy environment is amenable to correction.

Finally, not all trends were negative. Non-energy exports have had a secular increase (concealed by large annual fluctuations due to climate) of about 3.5 percent in volume per annum since 1982. Textiles and leather goods export volume has been growing at 9%, and in 1986 surpassed in value the (weak) exports of phosphates and even oil. This growth encourages confidence in the feasibility of success for restructuring the economy.

Short-term shocks, superimposed on these long-run trends, contributed to rapid draw-down of reserves. The most important were the sharp decline in the price of oil (on top of the decline

in volume) and phosphates, drought (which increased the need for import of basic foodstuffs while limiting specialty agricultural exports; food processing normally accounts for half of value added in manufacturing exports), and the European business cycle (both through a general downturn in European tourist travel and through reduced expatriate Tunisian workers' remittances). The break in relations with Libya eliminated receipts from the country which had been the primary provider of tourism and worker remittances. The air attacks on Tunis and Tripoli shocked potential tourists, giving in turn a shock to tourism receipts (which normally account for 19% of foreign exchange earnings). These short term shocks were exogenous, though assistance was provided to alleviate the effects of drought. The feasible policy objective would be to change is the ability of the economic structure to adapt swiftly and sufficiently to future such shocks.

Hit by this combination of long-term trends and short-term shocks, the external accounts of Tunisia nosedived. The problem is easily visible: the economic structure created during the early 1980s was unresponsive to external shocks. This was made clear to Tunisian policy-makers in the early 1980s when, on top of falling oil and phosphate prices, harvests failed in 1982 and 1986, Tunisian workers were expelled from Libya and tourism earnings fell off dramatically after the bombings of Tunis and Tripoli. Debt service rose to 24 percent of exports, while official reserves ran out completely. For 1986 the current account balance of payments deficit would have been 9% of GDP and the Government budget deficit, 6 percent.

It appears then, that many of the causes of the economic crisis can be corrected, while the economy can be made more resilient toward the others. The second question is, can P.L. 480 resources serve to promote or speed the correction, or if

not, can P.L. 480 resources serve another, more worthwhile, objective?

1.2 The role of P.L. 480 resources

P.L. 480 can provide direct food assistance in a food-poor country, or foreign exchange to a food importer. If it discourages local food production, it does not have an incremental impact. The 1986 paper concluded that PL 480 Title I provides free foreign exchange, since total Tunisian cereals imports have far exceeded the values of the commodities delivered under the program. For instance, comparing tables 1 and 2(a)/4, it is clear that total wheat imports were 487,000 MT in 1985, and were higher (by an unknown amount) in 1986 due to the drought; Title I would have accounted for 20 percent of 1985 imports; for corn (maize) the comparable figure is 27%. Levels for 1987 would give 14 percent and 44 percent, respectively. Thus, available data suggest that P.L. 480 is providing food which would have been imported anyway and, therefore, is furnishing free foreign exchange.

This analysis is oversimplified, however, because it relates to a stable policy regime, while the new Title I program is closely tied to a transition between policy regimes. In the past, consumer wheat products have been subsidized heavily, generating high per capita wheat consumption levels. Production has been encouraged by high farmgate prices and subsidies to agricultural inputs.² The policy regime is changing, however, so such an interpretation is incomplete. A description of the change is essential for understanding this.

² This discussion also provides evidence that P.L. 480 does not provide a disincentive to local production, under the old regime.

In 1986 the GOT began both stabilization measures (including a 23 percent devaluation and introduction of an austerity program) and an important structural adjustment program containing significant policy reform measures. Import restrictions have been eliminated for raw materials, semi-finished goods, and spare parts, and tariffs reduced. Subsidies are being reduced gradually on essentials and agricultural inputs, sometimes directly and sometimes -- mindful of the bread riots of 1984 -- through shrinkage of the product. In the short-run, this will cause increased unemployment and hardship for the poor. The price increase will reduce the quantity of food products demanded, which in itself is not bad, given anecdotal evidence of waste at subsidized prices.³ However, the increase will affect directly the poorest segment of the population whose nutritional level will be reduced by this price increase. Thus, in such a transitional program, any part of P.L. 480 resources which is so targeted will contribute directly to nutrition. In this transitional period we cannot use historical evidence to judge the income effect of the restructuring on the various elements of the population, so cannot differentiate the two effects.

If the structural adjustment process fails, or is greatly prolonged, then the safety net program will have provided nutrition for those most affected. If the government falls or greatly modifies its policies because of hardships imposed by the process, both the nutrition and the foreign exchange provided will alleviate the hardships associated with the transition. Whether or not additional food is provided to the economy then becomes a question of the ability of the government to import such food.

³ See 1986 paper, page 3.

Resources devoted to structural adjustment will not be useful if the GOT is not firmly committed to the process. Its liberalization outlook is reflected in its new five-year plan currently (mid-1987) being discussed in Parliament. Public sector expenditures are to be reduced from 42 percent of GDP in 1986 to 28 percent by 1991. The most painful steps are in the first year, 1986-87, as projects already planned or underway are eliminated or stretched out.

Tunisia's labor force is of high quality but lacks domestic employment opportunities; repatriated earnings make a quarter-billion dollar contribution to the balance of payments. It thus appears that adjustment of the economic structure is not only possible, but could be a better-than-zero-sum game: one conceivable route is a strong expansion in appropriate export-oriented production. The individual workers hired would not necessarily have the same skills as those laid off, however; frictional unemployment will be high.

The GOT has set the foundation for adjustment. Receipt of investment licenses and export permits has been largely made automatic. In agreement with the World Bank, price controls have been lifted on 35% of manufactured goods, with a goal of nearly complete liberalization by July 1988. The World Bank has supported this program with two \$150 million loans for adjustment in the agricultural sector and in industrial and trade policy. It is considering a \$150 million Structural Adjustment Loan. The IMF has given a Standby of \$131 million and a compensatory financing facility of \$145 million, while public and private creditors have agreed to a debt rescheduling. The Standby appears to be on target--the current account deficit was 7.9% of GDP (the target was 9%) and government deficit was 5.3 percent of GNP (versus a target of 6%). Exports to Europe have responded well to the liberalization, the harvest looks good, oil prices have firmed, and 1987 has turned out a good year for tourism.

However, reserves are still chancy; the original year-end target of 1.5 months of imports has been raised to a still-low 1.8. The GOT has not borrowed in its own name this year.

The policy basket which the IBRD, the IMF and the US supported reduces subsidies and improves investment incentives, and increases the efficiency of the financial sector, specific policies deal with export promotion, privatization of the functions of parastatal institutions, wage policy, and tourism. In the interim, Tunisia both merits and needs balance of payments support. The Government is keenly aware of the political risk it is taking in liberalizing the economy and reducing subsidies, and is doing its best to hold the line on its social safety net while the number of destitute families has risen by 50 percent and open unemployment is increasing.

Economic policy rigidities, particularly those involving pricing (exchange rates, prices for goods and services, and interest rates) and non-tariff barriers, impeded adjustment which might have moderated the severity of the drawdown of foreign exchange reserves.

In regulating the exchange rate and exchange reserves, the Central Bank created a complex set of rules for allocation of foreign exchange assets which does not reflect their relative economic importance to various local users. For instance, foreign exchange for international travel is administratively difficult to obtain and limited in availability, even where such travel may generate net foreign exchange earnings. Potential foreign investors are also deterred by this policy. The distortion in foreign exchange use may have served to reduce earnings rather than save foreign exchange.

The GOT interest rate policy has supported a complex structure of preferential discount rates by sector which distort credit allocation while raising intermediation costs; the low average interest rate contributes to the low national savings rate (and thus to the resource gap) while encouraging capital-intensive production techniques which requiring imports of capital goods.

The complex system of price controls and subsidies creates distortions and rigidities which limit the economy's ability to respond to shocks. In 1982 the intervention power of the subsidization fund, the Caisse Generale de Compensation, was broadly increased. It chose to keep prices artificially low in a period of growth in world commodity prices. The Government has recognized that this system created distortions, waste and fraud, and presented powerful incentives for non-productive activity (it was also costly to the State budget -- nearly eight percent of total expenditure in 1986). Finally, low and declining consumer prices helped maintain the level of consumption growth while that of GDP declined. The savings rate (a residual) declined while the investment ratio did not, widening the external financing gap.

Trade policy rigidities have a direct bearing on the balance of payments. Tunisia's system of import and export licensing controlled the amount of imports, including those for investment purposes. In reaction to a rapid loss of foreign exchange reserves when liberalization was first attempted in the early 1980s, the Government introduced a system whereby the number of import permits would be tied to the permitted level of trade for the year. A worsening current account balance would then cause fewer import permits to be issued. In this way the 1984 trade deficit of 10.9 percent of GDP was cut to 7.0 percent in 1985. The resulting adverse effect on growth and employment, however,

provided the immediate stimulus to the Government to undertake a structural adjustment program.

Tunisia is viewed as a price-sensitive tourism destination, competing mostly on price with many other Mediterranean seaside destinations. Tourism was adversely affected by continued overvaluation of the Dinar compared to competitors' currencies. Additionally, Tunisian tax policy offered incentives to investment in new equipment and facilities rather than replacement or maintenance, so the quality of existing Tunisian tourism facilities continually declines.

The fall in the domestic savings rate exceeded the decline in the investment ratio. Such an imbalance could only be covered by borrowing abroad, provided that willing lenders could be found. With a rise in the current account deficit to nine percent of GDP, a debt service ratio of 23-27%, and official reserves representing only 10 days' imports (Table 2 shows 20 days after IMF assistance), these lenders were not forthcoming without IMF support.

The GOT undertook significant policy reform measures in 1986. These reforms included a significant devaluation against the currencies of major trading partners, and price and trade liberalization measures. The economy is being partially liberalized, but many of the measures chosen will introduce not liberalization but new distortions which promote export-oriented production. On the basis of this reform, the IMF agreed to a Standby Agreement of \$124 million and a compensatory financing facility of \$137 million. With suppliers' credits of approximately \$115 million, this closed the 1986 financing gap. The World Bank has approved an Agricultural Sector Adjustment Loan (ASAL) of \$150 million and will probably approve an Industrial and Trade Sector Adjustment Loan in 1987 for the same amount. The objectives of the stabilization and structural

adjustment plans are to raise GDP growth from 1.0 percent in 1986 to 3.6 percent in 1987, reducing the current account deficit from 9.7 percent of GDP (9% after IMF assistance) to 7.3 percent and raising gross official reserves from approximately ten days of imports (3 weeks after IMF) to 45 days in 1987 and 60 days in 1988. External debt is projected by the IMF to rise from 55.2 percent of GDP to 63.4 percent in 1987, while the debt service ratio would increase from 25.3 percent of imports to 27.7 percent. Our analysis suggests these targets are optimistic within the time frame projected. We agree with the predicted direction of change.

Government policy is circumscribed by the results of past efforts at liberalization, including the reserve loss in the early 1980s which led to emergency reimposition of exchange controls, and the violent resistance it encountered to its attempt to remove consumer subsidies.

The GOT anticipates an improvement in exports in 1987-88 despite continued decline in both quantity and value of petroleum, consisting of very favorable increases from agriculture (17 percent in real terms), a ten percent improvement in phosphate volume in a stagnant market, continued rapid improvement (8-10 percent volume growth) in textiles, and a turnaround to a ten percent increase in foreign exchange earnings from tourism. On the import side, after taking account of imports required to support manufacturing exports, an improved harvest is expected to reduce the rate of increase in food imports. Capital goods demand is expected to remain flat while imports for final consumption will decline.

The current account balance will be reduced from 9 to 7 percent of GDP in the two years. While IMF and World Bank

resources will have the desired effect on reserves in 1987, this will be a one-time boost, to be reversed again in 1988. A major component of the worsening is the rise in loan amortization from 1985 to 1988. This reversal could be avoided if, together with realization of the optimistic export plans of the government, direct investment could be maintained at its 1984 level rather than declining. Since a part of the 1984 level consisted of non-repeatable capital inflow for development banking, these can be achieved only with serious liberalization of the economy.

A body of evidence exists which supports this pessimistic scenario: exporters are being given priority in the timing of liberalization of access to imports. Though investment regimes and interest rates are liberalized generally, incentive schemes are kept for priority groups, including exporters. The new system of price decontrol does not liberalize completely, but gives the price control board a limited time to respond to proposals (item-by-item) to raise prices -- in other countries such a system has led to pocket vetoes by the Board which has a backlog of proposals to clear. The new investment code has reduced the bias toward capital-intensive techniques, but still is biased toward existing or planned exporters. Tariffs are being reduced in order to lower, and slowly to harmonize, the rate of effective protection, but only to be replaced with highly differential consumption taxes (which theoretically affect domestic production and imports equally, but in fact place high taxes on goods not (yet) produced locally which are close substitutes for those which are. All these will encourage structural adjustment on lines proposed by the Government rather than according to efficiency and comparative advantage.

On the positive side, the Government is undertaking steps which would improve the efficiency of resource allocation along market lines. The investment code, despite exceptions, is being liberalized completely for the majority of firms which will not

receive subsidies. Import restriction will be based on a negative list. Despite problems noted above, the Government appears to be actively committed to reducing subsidies and tariffs and harmonizing the structure of effective protection. It is possible that the difference between rhetoric and practice represents a learning process, or an internal political disequilibrium between competing ideological factions, which will be resolved with time. If it is not resolved, the process contains the seeds of its own ossification.

Finally, there is a risk that the structural adjustment process will go approximately as planned, but will be found not to have been the suitable policy due to changes it initiates in economic or social dynamics (concentration of ownership of assets, reaction by those disadvantaged by the process, etc.). In this case the process may not lead to growth of income or trade, or if it does, it may do so at the expense of large portions of the population.

II. Incentives for Agricultural Production, Distribution and Consumption.

This has already been addressed, both in the 1986 paper and above.

III. Policy Dialogue

Already discussed. The P.L. 480 resources have been combined with ESF resources, particularly a Commodity Import Program (CIP) in Mission programming, in order to increase the U.S. Government's slight leverage in policy. Policy goals have been coordinated with those of the IBRD and IMF, and stress elimination of subsidies to the agricultural sector and to consumers of food and food products.

IV. Budget/Local Currency

A change has occurred from the 1986 study. \$10 million of existing resources (plus an undetermined amount, at the time of writing, of 1987 reserves) has been devoted to a public works program. Refer to Annex II for the reporting cable, although amounts may not tally.

Nothing can be said about the productivity of the expenditures, since the program is new. As explained above, it is conceptually well-designed, but we have no experience with (especially) the political influences on the outcome.

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INCOMING
TELEGRAM

PAGE 01 TUNIS 08248 01 OF 07 241446Z 9611 106947 A102625
ACTION AID-08

TUNIS 08248 01 OF 07 241446Z 9611 106947 A102625

ACTION OFFICE FFP-B9
INFO SEOP-01 TPA-02 AMCP-03 AMPD-05 GCAN-02 STRF-03 FVA-01
OFDA-02 PPPE-02 GC-01 SIOS-03 GCOM-07 ANTR-06 TVFP-01
AGRI-03 COM-02 AMPE-03 CMB-02 TRSY-05 RELO-01 TELE-01
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INFO LOG-08 CIAE-08 EE-08 DODE-08 MEA-04 TRSE-09 AGRE-08
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FM AMEMBASSY TUNIS
TO SECSTATE WASHDC IMMEDIATE 1437

UNCLAS SECTION 01 OF 07 TUNIS 08248

AIDAL

E.O. 12356: N/A
SUBJECT: PL 430 TITLE 1/SECTION 416: PROPOSAL FOR
STRUCTURAL ADJUSTMENT/ SAFETY NET PROGRAM

REF: TUNIS 7972

1. SUMMARY. TUNISIA ENTERED INTO A MAJOR STRUCTURAL ADJUSTMENT PROGRAM IN 1986. ALTHOUGH SOME BENEFITS ARE ALREADY APPARENT AND THE POTENTIAL LONG-TERM BENEFITS OF THE ADJUSTMENT PROCESS ARE EXCELLENT, THE ADJUSTMENT PROCESS IS ALSO GENERATING SIGNIFICANT SHORT-TERM SOCIAL COSTS. UNEMPLOYMENT HAS RISEN SUBSTANTIALLY AND THE NUTRITIONAL STATUS OF VULNERABLE CHILDREN WILL BE MORE DIFFICULT TO PROTECT AS FOOD SUBSIDIES ARE REDUCED. BECAUSE THE BURDEN OF THESE SHORT-TERM NEGATIVE EFFECTS IS FALLING MOST HEAVILY ON THE PEOPLE WHO ARE LEAST ABLE TO ADJUST TO MORE DIFFICULT CONDITIONS, THE GOI IS ATTEMPTING TO CREATE A SAFETY NET TARGETED TO ASSIST THE TWO GROUPS MOST IN NEED -- THE UNEMPLOYED AND THE CHILDREN OF LOW INCOME FAMILIES. GIVEN THE ITS FISCAL CONSTRAINTS, THE GOI HAS SOUGHT USG ASSISTANCE FOR THE SAFETY NET PROGRAM. USG ASSISTANCE WOULD LESSEN HUMAN SUFFERING IN A FRIENDLY COUNTRY, REDUCE DANGEROUS SOCIAL AND POLITICAL TENSIONS AND STRENGTHEN THE GOI'S RESOLVE TO CARRY THROUGH ON ITS ADJUSTMENT PROCESS. TWO SPECIFIC ACTIVITIES ARE PLANNED. THE GOI SEEKS TO EXPAND ITS WORK RELIEF PROGRAM FROM 25,000 TO 60,000 JOBS PER YEAR. TO MAKE THIS POSSIBLE, THE MISSION PROPOSES THAT THE USG PROVIDE APPROXIMATELY DOL 45 MILLION IN PL 430 TITLE 1 RESOURCES OVER THREE FISCAL YEARS. IF DOL 15 MILLION OF ADDITIONAL FY 1987 RESOURCES CAN BE PROVIDED IN THE COMING WEEKS, THE INCREASE IN TITLE 1 REQUIRED IN FY 1988-89 WILL BE FULLY OFFSET BY A REDUCTION IN THE PLANNED TITLE 1 LEVEL. THE LOCAL CURRENCY GENERATED FROM THE SALE OF TITLE 1 COMMODITIES WILL BE DEDICATED TO FINANCING THE INCREASED NUMBER OF JOBS. TO MAINTAIN MINIMAL NUTRITIONAL LEVELS OF SCHOOL CHILDREN AND PREGNANT AND LACTATING WOMEN FROM LOW INCOME FAMILIES, THE MISSION PROPOSES THAT THE USG PROVIDE APPROXIMATELY DOL 5 MILLION PER YEAR (FY 87-89) OF SECTION 416 COMMODITIES WHICH WILL BE DISTRIBUTED DIRECTLY TO BENEFICIARIES THROUGH A PROGRAM ADMINISTERED BY CRS AND THE GOI. COUNTRY TEAM REQUESTS AID/W AND DEVELOPMENT COORDINATING COMMITTEE SUPPORT FOR THESE PROPOSALS.

2. TUNISIA'S STRUCTURAL ADJUSTMENT PROGRAM AND ITS SOCIAL COSTS

- (A) APPROXIMATELY ONE YEAR AGO THE GOVERNMENT OF TUNISIA (GOI) EMBARKED ON A FAR REACHING STRUCTURAL

ADJUSTMENT PROGRAM (SAP) INTENDED TO RESTORE THE ECONOMY TO HEALTHY GROWTH. THE GOI, WHICH HAS RECEIVED THE FULL SUPPORT OF THE IBRD, AND IMF, AS WELL AS TUNISIA'S BILATERAL DONORS, IS PROGRESSING SATISFACTORILY. MOST NOTABLY, THERE IS STRONG IMPROVEMENT IN THE GOI'S CURRENT ACCOUNT BALANCE AND THE GDP IN 1987 IS EXPECTED TO GROW AT A HEALTHY RATE OF 4.5%. THE GOI'S BUDGET DEFICIT AND DOMESTIC CREDIT EXPANSION ARE REMAINING WITHIN TARGET RANGES SET BY THE IMF.

- (B) AS EXPECTED, THE SAP IS CAUSING PAINFUL CHANGES TO OCCUR IN VARIOUS SECTORS OF THE ECONOMY. REDUCTION IN THE GOI'S INVESTMENT BUDGET AND TIGHTENING OF LOAN CONDITIONS FOR HOUSING HAVE CAUSED A SHARP DECLINE IN TUNISIA'S CONSTRUCTION INDUSTRY, TUNISIA'S THIRD MOST IMPORTANT INDUSTRY IN TERMS OF EMPLOYMENT. THE CONSTRUCTION INDUSTRY HAS BEEN, IN PARTICULAR, AN EXTREMELY SIGNIFICANT SOURCE OF EMPLOYMENT FOR TUNISIA'S POOREST WORKERS. THESE WORKERS ARE TYPICALLY ILLITERATE OR NEARLY ILLITERATE, UNSKILLED, RECENT IMMIGRANTS FROM RURAL AREAS, WHERE THEY WERE LIKELY LANDLESS LABORERS, AND WITHOUT ANY EMPLOYMENT GUARANTEES, BEING EMPLOYED ON A DAY LABOR BASIS.

- (C) THE SAP ALSO REQUIRES TUNISIA'S MANY PARASTATAL COMPANIES TO IMPROVE THEIR PROFITABILITY (OR REDUCE LOSSES), AND PUTS MANY PRIVATE FIRMS UNDER PRESSURE TO REDUCE COSTS. THE RESULT HAS BEEN ADDITIONAL DETERIORATION OF THE EMPLOYMENT MARKET. A 1986 EMPLOYMENT SURVEY ESTABLISHED THAT 68,000 UNSKILLED DAY LABORERS HAD BEEN THROWN OUT OF WORK IN THE CONSTRUCTION INDUSTRY, AND 25,000 IN OTHER SECTORS, FOR A TOTAL OF 93,000 UNSKILLED DAY LABORERS. TOTAL NATIONAL UNEMPLOYMENT WAS CONSERVATIVELY ESTIMATED AT 264,000 OR ABOUT 20% OF THE LABOR FORCE.

(D) SINCE THE 1986 SURVEY WAS CONDUCTED THE

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INCOMING
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PAGE 01 TUNIS 08248 02 OF 07 241449Z 3633 186946 AID2629
ACTION AID-00

TUNIS 08243 02 OF 07 241449Z 9633 186948 AID2629
BASIC FOOD ITEMS ARE REDUCED.

ACTION OFFICE FFP-09

INFO SEOP-01 FPA-02 ANOP-E3 ANPD-05 GCAN-01 SERP-01 FVA-01
OFDA-02 PPPB-02 GC-01 SEOS-02 GCCM-02 ANTR-06 FVPP-01
AGRI-01 COM-02 ANHE-03 OMB-02 TRSY-05 RELO-01 TELE-01
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INFO LOG-00 COPY-01 CIAE-00 EB-00 DCOE-00 NEA-04 TRSE-00
AGRE-00 /005 W

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FM AMEMBASSY TUNIS

TO SECSTATE WASHDC IMMEDIATE 1438

UNCLAS SECTION 02 OF 07 TUNIS 08248

AIDAC

E.O. 12356: N/A

SUBJECT: PL 488 TITLE 1/SECTION 416: PROPOSAL FOR
STRUCTURAL ADJUSTMENT/ SAFETY NET PROGRAM
EMPLOYMENT SITUATION FOR UNSKILLED DAY LABORERS IS
THOUGHT TO HAVE WORSENEDED, MAINLY BECAUSE OF CONTINUED
CONTRACTION IN THE CONSTRUCTION INDUSTRY. THE MISSION
BELIEVES THAT A REASONABLE ESTIMATE OF UNEMPLOYED DAY
LABORERS IS 125,000 AND THE GOV IS SEEKING TO ESTABLISH
A WORK PROGRAM REACHING 100,000 WORKERS. THIS GROUP,
MOSTLY URBAN BASED, IS A SIGNIFICANT SOURCE OF POTENTIAL
SOCIAL DISCONTENT.

- (E) GIVEN THE BASIC DEMOGRAPHICS OF TUNISIA'S
POPULATION, THE JOB CREATION RATE FOR THE ECONOMY MUST
BE HIGH, OVER 3 PER YEAR, TO AVOID INCREASES IN
UNEMPLOYMENT. IT IS ESTIMATED THAT ECONOMIC GROWTH MUST
BE IN THE AREA OF 5.5 FOR UNEMPLOYMENT TO FALL,
ALTHOUGH THAT FIGURE IS EXPECTED TO FALL, SINCE REAL
WAGES ARE DECLINING.

- (F) TUNISIA IS REQUIRED, UNDER SAP GUIDELINES, TO
REDUCE REAL PUBLIC SECTOR SPENDING FROM APPROXIMATELY 48
PERCENT OF GDP IN 1986 TO 28 PERCENT IN 1991.
GUIDELINES FOR REDUCTION OF THE GOV'S BUDGETARY DEFICIT
ARE FROM 6 PERCENT OF GDP IN 1986 TO 3 PERCENT IN 1991.
ALTHOUGH THE ABOVE FIGURES IMPLY CONTINUED BUDGETARY
STRINGENCY BY THE GOV AFTER 1990, HEALTHY ECONOMIC
GROWTH IS ALSO EXPECTED TO MAKE MORE RESOURCES AVAILABLE
FOR THE BUDGET. THE REAL DEGREE OF BUDGETARY STRINGENCY
WILL BE DETERMINED BY THE SUCCESS OF STRUCTURAL
ADJUSTMENT PROGRAM IN REDUCING HEAVY LOSSES IN TUNISIA'S
PARASTATAL SECTOR.

- (G) ALTHOUGH THE GOV'S OFFICIAL PLANNING FIGURES
INDICATE RISING UNEMPLOYMENT THROUGH 1991, A COMBINATION
OF HEALTHY ECONOMIC GROWTH, REDUCED LOSSES IN THE
PARASTATAL SECTOR, AND DECLINING REAL EMPLOYMENT COSTS
IT IS HOPED WILL RESULT IN A REDUCTION IN UNEMPLOYMENT
AMONG THE TARGET GROUP FOR THE WORK RELIEF PROGRAM AND
IN IMPROVED ABILITY OF THE GOV TO FUND THE WORK RELIEF
PROGRAM AFTER 1990.

- (H) MALNUTRITION AMONG TUNISIA'S POOR HAS LONG BEEN A
PROBLEM. MODERATE CHRONIC MALNUTRITION OCCURS WIDELY.
SURVEYS HAVE REPEATEDLY SHOWN AT LEAST FIFTEEN PERCENT
MODERATE TO SEVERE MALNUTRITION. A 1982 SURVEY MADE IN
CONJUNCTION WITH THE CRS PROGRAM FOUND 43.5 PERCENT OF
CHILDREN ENTERING PRESCHOOL PROGRAMS HAD BELOW NORMAL
WEIGHT FOR AGE. THE STRUCTURAL ADJUSTMENT PROCESS WILL
ASSUREDLY HAVE SHORT-TERM NEGATIVE IMPACT ON THESE
VARIABLES AS UNEMPLOYMENT INCREASES AND THE SUBSIDIES ON

2. STRATEGY FOR COPING WITH THE SOCIAL COSTS OF THE
ADJUSTMENT PROCESS

(A) TUNISIA'S MEDIUM-TERM STRATEGY TO RESOLVE ITS
UNEMPLOYMENT PROBLEM IS INCORPORATED INTO ITS STRUCTURAL
ADJUSTMENT PROGRAM. THE RATIONALIZATION OF EXCHANGE
RATES HAS ALREADY CREATED IMPROVED INCENTIVES TO INVEST
IN EXPORT INDUSTRIES AND LESS INTERVENTION IN FACTOR
MARKETS WILL ENCOURAGE THE FULLER USE OF UNEMPLOYED
LABOR

- (B) ALTHOUGH THE GOV AND THE DONOR COMMUNITY ARE
CONVINCED THAT THIS STRATEGY WILL BE EFFECTIVE IN
INCREASING INCOME AND EMPLOYMENT, THE STRATEGY WILL
ALMOST ASSUREDLY REQUIRE SOME YEARS TO GENERATE THE
NEEDED INVESTMENT AND THE RESULTING EMPLOYMENT
OPPORTUNITIES. DURING THE INTERVENING YEARS, THE SOCIAL
COSTS GENERATED BY THE STRUCTURAL ADJUSTMENT PROCESS
WILL NOT BE EQUALLY DISTRIBUTED THROUGHOUT THE SOCIETY,
AND SOME GROUPS CAN ABSORB THE EFFECTS FAR MORE EASILY
THAN OTHERS. LOW INCOME FAMILIES WILL BE MORE AFFECTED
BY THE REDUCTION IN FOOD AND OTHER SUBSIDIES AND THE
CUT-BACK IN SOCIAL PROGRAMS THAN OTHER GROUPS IN THE
SOCIETY. THE IMPACT OF INCREASED UNEMPLOYMENT IN THE
CONSTRUCTION INDUSTRY, THE DECLINE IN EMPLOYMENT IN
PARASTATALS AND THE REDUCTION IN EMPLOYMENT IN
INEFFICIENT IMPORT-SUBSTITUTING INDUSTRIES WILL
OBVIOUSLY BE FELT BY THE WORKERS AND FAMILIES DIRECTLY
AFFECTED. THE PROBLEM IS PARTICULARLY ACUTE FOR THE LOW
INCOME FAMILIES LEAST ABLE TO ABSORB THE REDUCTION IN
REAL INCOME.

- (C) THE GOVERNMENT OF TUNISIA AND THE DONOR COMMUNITY
RECOGNIZE THE NEED TO MINIMIZE THESE COSTS AND TO REDUCE
HUMAN SUFFERING AND SOCIAL AND POLITICAL PRESSURES.
EXPERIENCE IN TUNISIA (E.G. THE 1984 BREAD RIOTS) AND IN
OTHER COUNTRIES HAS SHOWN THAT FAILURE TO ADEQUATELY
ADDRESS THESE CONCERNS CAN RESULT IN SOCIAL AND
POLITICAL INSTABILITY. THESE PRESSURES CAN CAUSE

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ACTION OFFICE FFP-09

INFO SEOP-01 FPA-02 AN[P-0] ANPD-05 GCAN-02 SERP-01 FVA-01
OFDA-02 PPPI-02 GC-02 SIOS-02 GCOM-02 ANTR-06 FVPP-01
AGRI-01 COM-02 ANME-01 OMB-02 TRSY-05 RELO-01 TELE-01
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O 241446Z JUL 87
FM AMEMBASSY TUNIS
TO SECSTATE WASHDC IMMEDIATE 1439

UNCLAS SECTION 03 OF 07 TUNIS 08248

AIDAC

E.O. 12356: M/A

SUBJECT: PL 480 TITLE I/SECTION 416: PROPOSAL FOR STRUCTURAL ADJUSTMENT/ SAFETY NET PROGRAM

GOVERNMENTS TO FAIL OR TO TERMINATE THE READJUSTMENT PROCESS BEFORE THE POSITIVE BENEFITS OF THE ADJUSTMENT PROCESS ARE ACHIEVED. THE RECENT RIOTS IN TUNIS (JULY 1987) ARE POIGNANT REMINDERS THAT SOCIAL PRESSURES ARE ALREADY BUILDING IN THIS COUNTRY.

- (D) FACED WITH SEVERE BUDGETARY CONSTRAINTS, ANY SAFETY NET PROGRAM MUST BE CAREFULLY TARGETTED TO THOSE MOST NEEDING SUPPORT AND MUST BE SCALED BACK QUICKLY AS THE UNDERLYING NEE IS REDUCED. THE GOI HAS THUS DECIDED TO FOCUS ITS LIMITED RESOURCES ON TWO GROUPS THAT WILL PARTICULARLY BE AFFECTED BY THE STRUCTURAL ADJUSTMENT PROCESS -- THE UNEMPLOYED AND THEIR FAMILIES AND THE CHILDREN OF LOW INCOME FAMILIES.

- (E) THE GOI HAS EXISTING PROGRAMS PARTICULARLY WELL DESIGNED TO ASSIST THESE VULNERABLE GROUPS THROUGH THE STRUCTURAL ADJUSTMENT PERIOD. TO ASSIST THE UNEMPLOYED, A NATIONWIDE PROGRAM OF TEMPORARY, LOW WAGE EMPLOYMENT ON CIVIL WORKS PROJECTS EXISTS AND CAN BE EXPANDED TO ABSORB LARGER NUMBERS OF UNEMPLOYED WORKERS. THE PROGRAM PROVIDES A MINIMAL INCOME TO FAMILIES WHO WOULD OTHERWISE HAVE VIRTUALLY NONE, THEREBY ENSURING THE MAINTENANCE OF MINIMAL NUTRITIONAL AND LIVING STANDARDS FOR TENS OF THOUSANDS OF TUNISIAN FAMILIES. ADDITIONALLY, AS THE PROGRAM REQUIRES PRODUCTIVE LABOR ON CIVIL WORKS PROJECTS, IT WILL ALSO PRODUCE AND/OR MAINTAIN NEEDED ECONOMIC AND SOCIAL INFRASTRUCTURE.

- (F) TO ASSIST THE ELEMENTS OF THE POPULATION NUTRITIONALLY MOST AT-RISK, THE GOI WILL UTILIZE ITS PROGRAM WHICH PROVIDES FOOD SUPPLEMENTS TO SELECTED PRE-SCHOOL AND SCHOOL-AGE CHILDREN AND TO PREGNANT WOMEN AND LACTATING MOTHERS. THESE FOOD SUPPLEMENTS ARE TARGETTED SPECIFICALLY AT THE POOREST 15 PERCENT WITHIN THOSE GROUPS.

- (G) BUDGET STRINGENCY, AN ESSENTIAL ELEMENT OF THE STRUCTURAL ADJUSTMENT PROCESS, WILL PREVENT THE GOI FROM FUNDING THESE PROGRAMS AT LEVELS APPROPRIATE TO THE NEEDS OVER THE NEXT THREE YEARS. USAID/TUNISIA, WITH THE SUPPORT OF THE COUNTRY TEAM, IS THUS PROPOSING TO CREATE A QUOTE STRUCTURAL ADJUSTMENT SAFETY NET PROGRAM UNQUOTE WHICH WILL PROVIDE RESOURCES TO THE GOI TO CARRY OUT THESE TWO ACTIVITIES. THE COUNTRY TEAM BELIEVES THAT THIS PROGRAM WILL AT ONCE DEMONSTRATE USG SUPPORT FOR THE GOI'S STRUCTURAL ADJUSTMENT PROGRAM AND OUR INTEREST IN LESSENING THE SUFFERING OF THE NEEDY IN THIS

COUNTRY. USG ASSISTANCE WILL HAVE THE EFFECT OF LESSENING SOCIAL AND POLITICAL TENSIONS AND THUS MAKE IT EASIER FOR THE GOI TO CARRY THROUGH FULLY ON ITS REFORM PROGRAM.

- (H) THE MISSION PROPOSES TO UTILIZE PL 480 TITLE I RESOURCES TO HELP THE GOI TO OVERCOME THE FINANCIAL CONSTRAINTS IN THE EMPLOYMENT PROGRAM. PARAGRAPH FOUR BELOW CONTAINS A DESCRIPTION OF THIS ACTIVITY WHICH HAS BEEN PREPARED FOR THE REVIEW OF A.I.D./W AND THE INTERAGENCY COMMITTEE (ICC). FOR THE SECOND PART OF THE STRUCTURAL ADJUSTMENT SAFETY NET PROGRAM, THE MISSION PROPOSES THAT SECTION 416 FOODS BE USED TO ASSIST THE GOI WITH THE TARGETTED FEEDING PROGRAM AINED PRIMARILY AT YOUNG CHILDREN. A BRIEF DESCRIPTION OF THAT ACTIVITY IS PROVIDED IN PARAGRAPH FIVE, AND A FULL OPERATIONAL PLAN FROM CRU AND APPROVED BY THE MISSION WILL BE PROVIDED SHORTLY FOR AID/W AND ICC CONSIDERATION.

4. PROPOSED PL 480 TITLE I SAFETY NET ACTIVITY: WORK RELIEF PROGRAM

- (A) OBJECTIVES. THE PROPOSED TITLE I PROGRAM IS INTENDED TO PROVIDE ESSENTIAL SUPPORT TO THE GOI'S STRUCTURAL ADJUSTMENT PROCESS BY PROVIDING THE RESOURCES TO REDUCE UNEMPLOYMENT DURING THE PERIOD 1988-91. AT THE SAME TIME, TITLE I RESOURCES WILL CONTRIBUTE TO THE IMPROVEMENT IN TUNISIA'S BALANCE OF PAYMENTS AND WILL PROVIDE AND/OR MAINTAIN IMPORTANT ECONOMIC AND SOCIAL INFRASTRUCTURE.

- (B) PROJECT DESCRIPTION.

(1) THE GOI'S PROGRAMME DES CHANTIERS DE DEVELOPPEMENT, WHICH WE WILL REFER TO AS THE WORK RELIEF PROGRAM, IS MANAGED BY THE MINISTRY OF THE INTERIOR. PROGRAM RESPONSIBILITIES ARE LARGELY DECENTRALIZED, WITH CONSIDERABLE AUTHORITY VESTED IN THE 23 REGIONAL GOVERNORS. THE OBJECTIVE OF THE PROGRAM IS TO PROVIDE PRODUCTIVE TEMPORARY EMPLOYMENT TO UNEMPLOYED TUNISIAN WORKERS AND TO UTILIZE THAT PRODUCTIVE LABOR ON HIGH PRIORITY PUBLIC WORKS ACTIVITIES. THE PUBLIC WORKS

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INFO SEOP-01 FPA-02 AIDP-01 ANPD-01 GCAN-02 SERP-01 FVA-01
OFDA-02 PPIB-02 GC-01 SEOS-02 GCOH-02 ANTR-06 FVPP-01
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FM AMEMBASSY TUNIS
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UNCLAS SECTION 04 OF 07 TUNIS 03248

AIDAC

E.O. 12356: N/A
SUBJECT: PI 488 TITLE I/SECTION 416: PROPOSAL FOR
STRUCTURAL ADJUSTMENT/ SAFETY NET PROGRAM
ACTIVITIES ARE IDENTIFIED AT THE LOCAL LEVEL BY THE
TECHNICIAN AND OFFICIALS FROM THE MINISTRIES OF
AGRICULTURE, EQUIPMENT, EDUCATION, HEALTH AND OTHERS WHO
ARE IN CONTACT WITH THE POPULATION AND KNOWLEDGEABLE
ABOUT LOCAL PROBLEMS. THE SAME MINISTRIES PROVIDE
TECHNICAL SUPERVISION AND EQUIPMENT, WHILE THE
GOVERNORS' BUDGET FINANCES SALARIES AND MATERIALS

(2) THE PROGRAM CURRENTLY PROVIDES TEMPORARY
EMPLOYMENT TO SOME 25,000 WORKERS FOR AN AVERAGE ANNUAL
PERIOD OF 32 WEEKS (SIX DAYS PER WEEK). BECAUSE OF THE
CURRENT UNEMPLOYMENT PROBLEM AND THE LARGE NUMBER OF
DESTITUTE FAMILIES, MANAGERS OF THE PROJECT AT THE
REGIONAL AND LOCAL LEVEL NEED LIMITING THE NUMBER OF
WORKDAYS PER PARTICIPANT IN ORDER TO STRENGTHEN RESOURCES
AMONG AS MANY UNEMPLOYED WORKERS AS POSSIBLE. THE GOT
ESTIMATES A NEED FOR A TOTAL WORK PROGRAM REACHING
100,000 WORKERS AND IS SOLICITING ASSISTANCE FROM THE
USG AND OTHER DONORS TO COVER THIS LEVEL. OUR PROPOSAL
IS NOW TO EXPAND THE EXISTING PROGRAM TO COVER, ON
AVERAGE, AN ADDITIONAL 30,000 JOBS PER YEAR DURING THE
1987-89 PERIOD. IN THE EVENT OTHER DONOR SUPPORT IS NOT
FORTHCOMING, ECONOMIC CONDITIONS WARRANT STRUCTURAL
ADJUSTMENT TARGETS ARE MET AND FULL 488 BUDGET LEVELS
PERMIT, WE MIGHT RECONSIDER OUR PRESENT POSITION ON PI
488 LEVELS.

(3) THE WORK RELIEF PROGRAM PAYS WORKERS ONLY
TUNISIAN DINARS (D) 19 (DOLLS 2.28) PER DAY. THIS
REMUNERATION IS BELOW THE MINIMUM WAGE AND LESS THAN
WHAT PAID FOR SIMILAR WORK IN MINISTRY OF AGRICULTURE
PROGRAMS. ON THE NEGATIVE SIDE, THE LOW SALARY DOES NOT
STIMULATE HIGH PRODUCTIVITY, AND SOME WORKERS,
PARTICULARLY IN URBAN AREAS, ARE RELUCTANT TO WORK FOR
SUCH A LOW WAGE. ON THE POSITIVE SIDE, THE LOW WAGE
PERMITS THE GOT TO SPREAD ITS VERY LIMITED RESOURCES
WIDELY, SPREADING AVAILABLE INCOME AND OBTAINING A
LARGER WORK FORCE FOR CIVIL WORKS PROJECTS.
ADDITIONALLY, THE LOW WAGE ENSURES THAT WORKERS HAVE A
STRONG INCENTIVE TO FIND POSITIONS IN THE PRIVATE SECTOR
WHERE THEY ARE ASSURED OF HIGHER REMUNERATION.

(4) RESOURCES REQUIRED. THE AVERAGE DAILY WAGE PAID
TO WORKERS IN THIS PROGRAM DURING THE THREE-YEARS OF THE
TITLE I ASSISTANCE IS ASSUMED TO AVERAGE TO 2.1 (DOLLS
2.52), OR 10.5 PERCENT OVER THE CURRENT LEVEL. IN
ADDITION TO SALARY COSTS, 10 PERCENT IS REQUIRED FOR
MATERIALS, BRINGING THE TOTAL COST PER DAY PER JOB TO

2.31 (DOLLS 2.77) AND THE TOTAL COST FOR 32 WEEKS TO THE
443.2 (DOLLS 532). THE MISSION AND THE GOT HAVE AGREED
UPON A TARGET OF 60,000 JOBS IN 1988, 50,000 IN 1989 AND
50,000 IN 1990. TITLE I LOCAL CURRENCY PROCEEDS WOULD
FINANCE 35,000 JOBS IN 1988, 30,000 IN 1989 AND 25,000
IN 1990, WHILE THE GOT WOULD CONTINUE TO FINANCE ANOTHER
25,000 JOBS EACH YEAR OUT OF ITS REGULAR BUDGETARY
RESOURCES. THESE TARGETS REFLECT THE GOT'S BELIEF THAT
UNEMPLOYMENT WILL CONTINUE TO BE A SERIOUS PROBLEM FOR
AT LEAST THE PERIOD OF THIS PROJECT AND THAT THE GOT
FISCAL SITUATION WILL REMAIN DIFFICULT. THE GOT HAS
INDICATED ITS INTENT TO INCREASE ITS FUNDING FOR THE
PROJECT ABOVE PLANNED LEVELS IF ITS FISCAL SITUATION
PERMITS. THE MISSION BELIEVES THAT THE GOT WILL BE IN A
FINANCIAL POSITION TO CONTINUE THE PROGRAM AT HIGH
LEVELS, IF IT DEEMS NECESSARY AS USG ASSISTANCE IS PHASED
OUT. TO CREATE 50,000 JOBS AT A COST PER JOB OF DOLLS 532
WILL REQUIRE APPROXIMATELY DOLLS 48 MILLION. DOLLS 10
MILLION OF LOCAL CURRENCY PROCEEDS HAVE ALREADY BEEN SET
ASIDE FROM THE EXISTING FY 87 TITLE I PROGRAM, LEAVING A
BALANCE TO BE FUNDED OF DOLLS 38 MILLION. ASSUMING THAT
THE GOT WILL PROVIDE AN INITIAL PAYMENT OF 10 PERCENT IN
TITLE I AGREEMENTS AND THAT THE MISSION WILL SEEK TO
EXPAND THE SECTION 108 PROGRAM BY APPROXIMATELY DOLLS 4
MILLION OVER THE FY 1988-89 PERIOD, THE AUTHORIZED TITLE
I-LEVEL WOULD NEED TO BE ABOUT DOLLS 46.6 MILLION (I.E.,
DOLLS 38 MILLION PLUS DOLLS 4 MILLION FOR SECTION 108)
EQUALS DOLLS 42 MILLION; DIVIDED BY 0.9 TO ACCOUNT FOR
THE GOT'S INITIAL PAYMENT EQUALS DOLLS 46.6 MILLION TO
GENERATE THE LOCAL CURRENCY NEEDED FOR THE WORK RELIEF
PROGRAM. THE MISSION SUGGESTS PROVIDING THESE RESOURCES
DURING THE FY 87 - FY 89 PERIOD AS FOLLOWS

YEAR	PROPOSED TITLE I LEVEL (DOLLS MILLIONS)
1987	15.8 (OVER DOLLS 10 M. LEVEL ALREADY SIGNED)
1988	15.8
1989	15.8
TOTALS	46.6

THE MISSION SUBMITTED ITS REQUEST FOR AN ADDITIONAL DOLLS
15 MILLION OF FY 87 RESOURCES IN TUNIS 7972 AND PROVIDED
BELLHON DETERMINATION INFORMATION IN TUNIS 8145. IF
THESE RESOURCES CAN BE PROVIDED IN FY 87, THE PROPOSED

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INFO SEOP-01 FPA-02 AMP-01 AMPD-05 GCAN-12 SERF-01 FVA-01
OFDA-02 PPF-02 GC-01 SIOS-02 GCOM-07 ANTR-06 FVFP-01
AGRI-01 COM-02 ANPE-03 OMB-02 TRSY-05 RELO-01 TELE-01
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AS NECESSARY, THE NUMBER OF WORKERS WHO PARTICIPATE IN THE PROGRAM WILL PROBABLY EXCEED THE 105,000 JOBS TO BE FILLED. IN ANY EVENT, THE INCREASE IN THE INCOME OF THE PARTICIPATING WORKERS FROM TUNISIA'S LOWEST INCOME FAMILIES WILL TOTAL APPROXIMATELY DOLLAR 79 MILLION OVER THE THREE YEARS OF THE PROJECT.

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(3) ECONOMIC INFRASTRUCTURE COMPLETED.

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THE PROJECTS TO BE COMPLETED UNDER THE PROGRAM INCLUDE WATER AND SOIL CONSERVATION, REFORESTATION, RURAL WATER SUPPLY, URBAN WATER AND SEWERAGE SYSTEMS, STREET AND SIDEWALK IMPROVEMENT, RURAL ROAD CONSTRUCTION AND OTHER SIMILAR ACTIVITIES. THE GOT WILL PROGRAM FUNDS TO REGIONS AND PROJECTS ACCORDING TO ITS ESTABLISHED NORMS WHICH INCLUDE 16 CRITERIA, INCLUDING AN ASSESSMENT OF THE NUMBER OF BENEFICIARIES, THE TYPE OF BENEFITS, RELATED INVESTMENT ACTIVITIES, ETC. THE GOT WILL SUBMIT ITS ANNUAL PROGRAM TO THE MISSION AND WILL PROVIDE SEMIANNUAL PROGRESS AND FINANCIAL REPORTS. THE MISSION WILL WORK WITH THE GOT TO DEVELOP QUANTITATIVE OUTPUT INDICATORS (E.G. HECTARE PROTECTED FROM EROSION, KILOMETERS OF STREETS IMPROVED, ETC.)

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FM AMEMBASSY TUNIS
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- (E) PL 488 TITLE I V2 TITLE II RESOURCES FOR THIS PROGRAM.

UNCLAS SECTION 05 OF 07 TUNIS 08248

AIDAC

E.O. 12356: N/A
SUBJECT: PL 488 TITLE I/SECTION 416: PROPOSAL FOR STRUCTURAL ADJUSTMENT SAFETY NET PROGRAM
PL 488 TITLE I LEVEL IN FYS 83 AND 89 WOULD TOTAL DOLLAR 31.6 MILLION. THIS WOULD REPRESENT AN INCREASE OF 16.6 MILLION OVER PREVIOUSLY ESTABLISHED APL LEVELS FOR PL 488 TITLE I. HOWEVER, THE MISSION IS LOWERING ITS PL 488 TITLE I APL LEVEL BY DOLLAR 20 MILLION. IF THE FY 87 RESOURCES CAN BE PROVIDED, THE MISSION WOULD REQUEST SLIGHTLY HIGHER ALLOCATIONS IN FYS 88 AND 89.

THE MISSION IS AWARE THAT WHEN AID/W ACCEPTED THE IDEA OF USING FOOD ASSISTANCE TO SUPPORT STRUCTURAL ADJUSTMENT PROGRAMS, IT WAS ANTICIPATED THAT FOOD PROVIDED DIRECTLY TO THE TARGET GROUP AND THAT PL 488 TITLE II WOULD BE THE APPROPRIATE ASSISTANCE MODE. WITH RESPECT TO THE PROPOSED PROGRAM IN TUNISIA, THE GOVERNMENT AND THE MISSION ANTICIPATED USING TITLE II FOOD TO PERMIT THE DESIRED EXPANSION IN THE NUMBER OF JOBS OFFERED. FOOD WAS TO HAVE BEEN USED IN LIEU OF 40 PERCENT OF THE WORKERS WAGE, THEREBY SAVING CASH WHICH COULD BE UTILIZED TO HIRE ADDITIONAL WORKERS. AT BEST, THIS PLAN WOULD HAVE PERMITTED A 40 PERCENT INCREASE IN THE NUMBER OF JOBS OFFERED UNDER THE PROGRAM. HOWEVER, DISCUSSIONS WITH OFFICIALS MANAGING THE PROGRAM OVERWHELMINGLY SUGGESTED THAT ANY EFFORT TO DECREASE

(D) ECONOMIC IMPACT OF THE PROPOSED PROGRAM

(1) BALANCE OF PAYMENTS EFFECT

AS THE SAP PROCEEDS WITH IMPLEMENTATION OF DEEP ECONOMIC REFORMS, SUCH AS LESS REGULATION OF THE ECONOMY, IMPROVING THE FISCAL SITUATION FOR BUSINESS, AND THE CONTINUED PURSUIT OF FOREIGN EXCHANGE PRICING POLICIES, INCENTIVES AND PROFITABILITY IN THE ECONOMY ARE EXPECTED TO IMPROVE SUBSTANTIALLY. HENCE, IMPROVED OUTPUT AND INCREASED PRIVATE INVESTMENT LEVELS ARE EXPECTED TO RESULT IN A PROGRESSIVE REDUCTION OF UNEMPLOYMENT. THE AVAILABILITY OF FOREIGN EXCHANGE WILL REMAIN CRUCIAL THROUGHOUT THIS PERIOD, SINCE MANY INDUSTRIES ARE DEPENDENT ON FOREIGN EXCHANGE AVAILABILITY TO PROCURE ESSENTIAL INPUT, AND NEW JOB CREATING INVESTMENT PROJECTS OFTEN REQUIRE IMPORTED CAPITAL GOODS.

THE PL 488 RESOURCES THAT WOULD BE MADE AVAILABLE REPRESENT APPROPRIATE ASSISTANCE TO THE GOT FOR MAINTAINING FOREIGN EXCHANGE AVAILABILITY DURING THE STRUCTURAL ADJUSTMENT PERIOD. THE GRACE PERIOD FOR THE PL 488 LOANS EXCEEDS THOSE OF OTHER LOANS THAT MIGHT BE AVAILABLE TO THE GOT, AND THE LONG MATURITY OF THE PL 488 LOANS WILL ASSIST THE GOT IN LENGTHENING THE AVERAGE MATURITY OF ITS EXTERNAL DEBT. THESE EFFECTS WILL TEND TO IMPROVE TUNISIA'S CREDIT WORTHINESS AND ITS ABILITY TO OBTAIN EXTERNAL FINANCING DURING THE STRUCTURAL ADJUSTMENT PERIOD.

(2) EMPLOYMENT AND INCOME IMPACT.

THE PROPOSED PROGRAM WILL PERMIT THE CREATION OF 165,000 TEMPORARY JOBS OVER THE 1988-90 PERIOD. JOBS ARE ASSUMED TO LAST 32 WEEKS TO REFLECT THE SEASONAL VARIATIONS IN THE DEMAND FOR WORK, E.G. THE PRIVATE SECTOR'S ABSORPTION OF LABOR INCREASES SHARPLY DURING THE HARVEST SEASON. AS MANY WORKERS REMAIN IN THE PROGRAM ONLY A FEW WEEKS OR MONTHS, IT AID FOR MORE NUMERATIVE PRIVATE SECTOR EMPLOYMENT, AND RETURN TO IT

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TWO BULK GRAIN PORT. THE GOT ALSO HAS AN EXCELLENT
RECORD IN MAINTAINING PRODUCER PRICE INCENTIVES, AND FOR
INCREASING THE USE OF MODERN INPUTS FOR GRAIN PRODUCTION.

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INFO SEOP-01 FPA-02 ANHE-03 ANPC-05 GCAN-07 SERP-01 FVA-01
O&A-02 PPOU-02 GC-01 SEOS-02 CCOM-01 ANTR-06 FVPP-01
AGRI-01 COM-02 ANHE-03 OMB-02 TRSY-05 FELO-01 TELE-01
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BELLMON DATA FOR WOOD PRODUCTS WILL BE THE SUBJECT OF A
SEPTEL FOLLOWING RESEARCH OF THE WOOD MARKET.

INFO LOG-00 COPY-01 CIAE-00 EB-00 DCDE-00 NEA-04 TRSE-00
AGRE-00 /000 W

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FM AMEMBASSY TUNIS
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UNCLAS SECTION 06 OF 07 TUNIS 08248

AIDAC

E.O. 12356: M/A
SUBJECT: PL 486 TITLE 1/SECTION 416: PROPOSAL FOR
STRUCTURAL ADJUSTMENT: SAFETY NET PROGRAM
CASH WAGES BY MORE THAN TEN PERCENT, EVEN IF OFFSET BY
FOOD RATION OF GREATER VALUE, WOULD BE SOCIALLY AND
POLITICALLY UNACCEPTABLE. THUS, THE USE OF TITLE 11
RESOURCES WOULD NOT PERMIT MORE THAN A TEN PERCENT
INCREASE IN JOBS. GENERATING THIS SMALL BENEFIT WITH
TITLE 11 RESOURCES WOULD REQUIRE THAT THE GOT AND THE
MISSION INCUR A LARGE COST AND MANAGEMENT BURDEN IN
CREATING AND MAINTAINING A LOGISTICS SYSTEM TO DELIVER
COMMODITIES TO MORE THAN 1,000 WORKSITES AROUND THE
COUNTRY. IN VIEW OF THESE CONDITIONS, THE GOT HAS
REQUESTED THAT THE USG CONSIDER A TITLE 11 PROGRAM WITH
FULL MONETIZATION. ALTHOUGH WE BELIEVE THAT THIS WOULD
BE THE SOLUTION MOST APPROPRIATE TO TUNISIA'S NEEDS, THE
MISSION IS AWARE AND HAS INFORMED THE GOT THAT THIS
PROPOSAL IS NOT CONSISTENT WITH CURRENT TITLE 11
GUIDELINES. THE MISSION IS THUS PROPOSING THAT THIS
SAFETY NET PROGRAM BE SUPPORTED WITH PL 486 TITLE 1
RATHER THAN TITLE 11 RESOURCES.

(G) SELF-HELP MEASURES. AS INDICATED ABOVE, THE
COUNTRY TEAM VIEWS THIS PROPOSED SAFETY NET PROGRAM AS A
WAY OF SUPPORTING THE MAJOR POLICY REFORM EFFORT WHICH
BEGAN LAST YEAR. THAT PROGRAM HAS BEEN REVIEWED BY AND
RECEIVED THE SUPPORT OF THE IMF AND THE WORLD BANK AS
WELL AS THE USG. PROPOSING ADDITIONAL REFORMS AS A
CONDITION FOR ASSISTANCE WHICH ITSELF IS A RESULT OF THE
REFORM EFFORT ALREADY UNDERWAY WOULD BE ILL ADVISED. IT
IS IN OUR JUDGEMENT INAPPROPRIATE TO CONDITION USG
ASSISTANCE DIRECTLY TO PERFORMANCE UNDER IMF-SUPPORTED
ADJUSTMENT PROGRAMS. HOWEVER, IT IS CLEAR TO THE GOT
THAT THE UNDERLYING JUSTIFICATION FOR THIS LSG
ASSISTANCE IS THE UNEMPLOYMENT AND BUDGET STRINGENCY
RESULTING FROM THE ADJUSTMENT PROGRAM. THE MISSION WILL
MONITOR THE ECONOMY TO DETERMINE WHETHER THE PROGRAM
CONTINUES TO BE JUSTIFIED OVER THE 1989-90 PERIOD. THE
MISSION PROPOSES THAT SPECIFIC SELF-HELP MEASURES IN THE
AGREEMENT BE THAT THE GOT CREATE THE SAFETY NET PROGRAM
FOR UNEMPLOYED WORKERS WHICH THIS ASSISTANCE WILL
FACILITATE.

3. (G) SECTION 416 TARGETTED FEEDING PROGRAM
A) CHILD FEEDING (SCHOOL, PRESCHOOL AND HOME) IS THE
SECOND MEANS BY WHICH THE MISSION INTENDS TO OFFSET THE
SHORT-TERM NEGATIVE EFFECT OF STRUCTURAL ADJUSTMENT.
MODERATE CHRONIC MALNUTRITION IN TUNISIA OCCURS WIDELY
AND IS EXPANDING. THE UNDERLYING RATIONALE FOR THE
SECTION 416 ASSISTANCE IS THAT AS THE HELP FOR CHILD
FEEDING HAS INCREASED, THE GOT'S ABILITY TO SUSTAIN ITS
LONG-TERM AND SUCCESSFUL PROGRAM OF CHILD FEEDING HAS
DETERIORATED. PL 486 TITLE 11 ASSISTANCE TERMINATED IN
FY 85, WITH FINANCIAL AND ADMINISTRATIVE RESPONSIBILITY
FOR CHILD FEEDING TRANSFERRED TO THE GOT. DURING THE

(G) UMR/BELLMON DETERMINATION

TUNISIA IS A LONG STANDING CUSTOMER FOR BOTH PL 486
COMMODITIES AND U.S. AGRICULTURAL PRODUCTS. DURING
RECENT YEARS, PL 486 COMMODITIES HAVE INCLUDED WHEAT,
CORN AND SOY OIL. PELLETTIZED SOYMEAL IS PART OF THE
CURRENT PROPOSAL. MARKET GROWTH FOR WHEAT IS EXPECTED
TO BE MODEST, GIVEN THAT TUNISIA'S PER CAPITA
CONSUMPTION IS ALREADY EXTREMELY HIGH AND THAT THERE
WILL BE A REDUCTION IN CONSUMER SUBSIDIES. HUMAN
CONSUMPTION OF GRAINS WILL LEVEL OFF DESPITE POPULATION
GROWTH. HOWEVER, THE DEMAND FOR FEED GRAINS IS EXPECTED
TO GROW IN CONJUNCTION WITH RISING PER CAPITA MEAT
CONSUMPTION.

TUNISIA ALSO REPRESENTS A POTENTIALLY INTERESTING MARKET
FOR WOOD PRODUCTS, WHICH CAN NOW BE SUPPLIED UNDER TITLE
1 AGREEMENT. TUNISIA PRODUCES LESS THAN ONE QUARTER OF
ITS REQUIREMENTS FOR WOOD. LACK OF AVAILABLE WOOD
PRODUCTS IS KNOWN TO OFTEN BE A CONSTRAINT IN THE
CONSTRUCTION INDUSTRY. NO U.S. SUPPLIERS ARE CURRENTLY
INVOLVED IN THE TUNISIAN MARKET. THE MISSION WILL BE
RESEARCHING IN THE NEAR FUTURE THE POSSIBLE PROVISION OF
WOOD PRODUCTS UNDER PL 486/TITLE 1.

COMPLETE DATA FOR BELLMON DETERMINATION FOR CEREALS HAS
BEEN FURNISHED IN SEPTELS. IN SUMMARY, HANDLING OF
GRAIN IMPORTS IN TUNISIA WILL IMPROVE DRAMATICALLY THIS
YEAR AS THE RESULT OF THE COMPLETION OF MORE THAN 150
MILLION OF PORT AND STORAGE INFRASTRUCTURE, INCLUDING

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Department of State

INCOMING
TELEGRAM

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ACTION AID-80

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SUPPORT THIS PROPOSED SAFETY NET PROGRAM IN FYS 1988 AND 1989 TO THE EXTENT THAT RESOURCES PERMIT AND THAT TITLE I ALLOCATION PLANS FOR THOSE TWO YEARS BE ADJUSTED ACCORDINGLY.

ACTION OFFICE FFP-09
INFO SEOP-01 FPA-02 ANTP-03 ANPD-05 GCAN-02 SERP-01 FVA-01
OFDA-02 PPPB-01 GC-01 SEOS-02 GCOM-02 ANTR-06 FVPP-01
ACRI-01 COM-02 AMYC-03 OMB-02 TRCY-03 FELO-01 TELE-01
/DSS AA 324

(C) THAT UPON RECEIPT OF THE FULL OPERATIONAL PLAN, AID AND THE USOA FAVORABLY REVIEW THE PROPOSED SECTION 416 REQUEST AND MAKE EVERY EFFORT TO PROVIDE THE RESOURCES REQUIRED OVER THE FY 1988-90 PERIOD.
PILLETREAU

INFO LOG-08 COPY-01 CIAE-08 EB-08 DODE-00 NEA-04 TRGE-08
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UNCLAS SECTION 07 OF 07 TUNIS 08248

AIDAC

E.O. 12356: N/A

SUBJECT: PL 480 TITLE I/SECTION 416: PROPOSAL FOR STRUCTURAL ADJUSTMENT/ SAFETY NET PROGRAM
PERIOD: FY 88 - 90. IT IS CLEAR THAT THE GOI WILL NOT BE ABLE TO AFFORD THE FULL COSTS OF ITS CHILD FEEDING PROGRAM, DUE TO DECREASED GOVERNMENT REVENUES AND BUDGET CUTS IMPOSED BY THE STRUCTURAL ADJUSTMENT PROGRAM. HENCE, SINCE THE GOI WILL CONTINUE TO FINANCE THE COSTS OF INTERNAL TRANSPORT AND COMPLEMENTARY INPUTS IT HAS REQUESTED SECTION 416 COMMODITIES TO SUPPORT CHILD FEEDING. AFTER FY 90, THE GOI INTENDS TO AGAIN ASSUME THE FULL COSTS OF ITS CHILD FEEDING PROGRAM, AND USAID/TUNIS WILL OBTAIN A WRITTEN COMMITMENT TO THIS EFFECT.

B) THE OBJECTIVES OF THIS PROGRAM ARE: 1) TO SUPPORT VULNERABLE TARGET GROUPS OF TUNISIANS, BOTH THE TRADITIONALLY AT-RISK AS WELL AS THOSE INDIVIDUALLY ADVERSELY AFFECTED BY THE GOVERNMENT OF TUNISIA'S STRUCTURAL ADJUSTMENT PROGRAM, 2) TO ALLOW THE GOVERNMENT OF TUNISIA TO CONTINUE ITS SCHOOL, PRESCHOOL AND ICH FEEDING PROGRAM DURING A PERIOD OF BUDGET AUSTERITY AND PARTICULAR ECONOMIC STRESS WITHIN THE TUNISIAN POPULATION, AND 3) TO PROVIDE AN INCENTIVE FOR INDIGENT SCHOOL CHILDREN TO ATTEND SCHOOL.

C) THE CHILD FEEDING PROGRAM IS CURRENTLY BEING FINALIZED AND THE FULL THREE YEAR OPERATIONAL PLAN WILL SHORTLY BE SUBMITTED BY CRS/AY TO AID/W. THE PROGRAM WILL CONSIST LARGELY OF SCHOOL FEEDING, WITH SMALLER PRESCHOOL AND ICH ELEMENTS. BENEFICIARY LEVELS AND COMMODITY COMPOSITION ARE NOW BEING ESTABLISHED -- A PROGRAM IN THE RANGE OF DOLLAR FIVE MILLION (INCLUDING OF OCEAN FREIGHT) IS CURRENTLY CONTEMPLATED. COMMODITY COMPOSITION IS LIKELY TO INCLUDE RICE, OIL, WHEAT AND LENTILS. THE PROGRAM IS WIDELY DISPERSED THROUGHOUT TUNISIA AND COVERS BOTH URBAN AND RURAL AREAS. TARGETTED BENEFICIARIES REPRESENT THE POOREST 15 PERCENT OF TUNISIAN SOCIETY. CHILDREN ARE SELECTED ON THE BASIS OF THE RELATIVE POVERTY OF THE FAMILY AND ITS ABILITY TO FEED ITS MEMBERS, AND THE INDIVIDUAL'S NUTRITIONAL STATUS. CRS IS THE COOPERATING SPONSOR FOR THIS PROGRAM, DISTRIBUTION IS HANDLED BY THE GOVERNMENT OF TUNISIA'S MINISTRY OF SOCIAL AFFAIRS.

6. ACTIONS REQUESTED.

- (A) THAT THE DCC APPROVE AN ADDITIONAL DOLLAR FIVE MILLION IN REMAINING FY 1987 TITLE I RESOURCES TO TUNISIA.
- (B) THAT AID AND THE DCC Agree IN PRINCIPLE

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Table 1

Tunisia: PL 480 Title I Commodities

Volume in metric tons, Value in US\$ thousands

	<u>Corn (Maize)</u>		<u>Soybean Oil</u>		<u>Wheat</u>		<u>Total</u>
	<u>Vol.</u>	<u>Value</u>	<u>Vol.</u>	<u>Value</u>	<u>Vol.</u>	<u>Value</u>	<u>(\$000)</u>
1976	—	—	—	—	21,300	\$2,800	\$2,800
1977	—	—	—	—	77,580	\$8,652	\$8,652
1978	22,310	\$2,371	—	—	64,730	\$8,361	\$10,732
1979	30,030	\$3,075	—	—	47,330	\$6,478	\$9,553
1980	42,720	\$4,931	—	—	75,600	\$11,861	\$16,792
1981	—	—	—	—	21,510	\$3,345	\$3,345
1982	—	—	—	—	116,340	\$16,173	\$16,173
1983	—	—	6,150	\$2,885	55,910	\$9,728	\$12,613
1984	61,110	\$8,669	—	—	28,530	\$4,769	\$13,438
1985	28,601	\$2,934	—	—	—	—	\$2,934
1986	56,000	\$5,500	—	—	98,000	\$10,000	\$15,500
1987*	93,000	\$7,500	—	—	68,000	\$7,500	\$15,000
Total	333,771	\$34,980	6,150	\$2,885	674,830	\$89,667	\$128,032

* Estimated

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Table 2(a), 4

Tunisia: Exports and imports of primary categories
By Major categories, 1980-1985

Volume in thousand metric tons, Value in US\$ Million

Year:	1980		1981		1982		1983		1984		1985	
	Vol.	Value	Vol.	Value	Vol.	Value	Vol.	Value	Vol.	Value	Vol.	Value
Exports												
Olive Oil	40.6	\$61.5	68	\$101.5	58.5	\$96.0	36.5	\$38.7	78	\$44.6	46.2	\$35.7
Dates	5.4	11.1	16.8	31.4	8.9	14.7	11.3	19.7	16.2	14.2	14.2	16.9
Almonds	1.9	6.7	2.8	7.5	0.7	0.8	0.9	1.5	1.8	2.3	1	0.7
Citrus	28	11.1	25.6	9.9	18.1	6.4	15.1	6.9	31.7	4.4	41.1	8.6
Wine	22.8	7.7	37.5	7.7	33.8	6.9	21.9	3	17.3	2.3	43.4	4.6
Fish	6.7	27.9	6.8	16.4	5.5	24.2	6.9	35.8	8.7	20.3	9.4	24.9
Imports *												
Soft wheat	367.4	\$82.5	360.7	\$62.4	501.8	\$78.6	482.8	\$74.5	515	\$48.1	456.1	\$44.2
Hard wheat	281	72.6	135.3	47.6	119.3	21.3	425.9	80.4	406.9	50.9	30.9	4.9
Barley	18	3.7	138.1	22.7	41.9	5.6	3.8	0.6	26.9	2.3	23.2	1.6
Corn (maize)	142.4	22	263.4	43.7	358.4	46.7	220.4	29.5	261.2	26.2	209.5	20.4
Sugar	148.5	75.6	191.1	82.2	188.5	52.1	192.8	49.6	133.7	16	165.5	17.1
Tea	7.5	13.1	9.3	15.4	9.9	13	11.6	17.5	11.6	11.9	12.9	18.4
Milk	27.8	26.2	43.9	33	36.4	26.6	27.5	22.4	23.1	28.3	27.4	11.4
Soybean oil	78.5	41.7	64.3	35.6	49.7	23.7	8.1	41.5	86.4	31.1	59.4	29.4
Meat **	16	24.7	31	50.6	22	32.2	36	50.1	60	38.4	28.9	21.6

* Additional food needs to support consumption on a nutritional basis had been calculated at zero prior to the recent drought.

** Including live animals for slaughter.

Source: National Statistics Institute, IMF

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Table 3

Tunisia: Agricultural Production

All figures in thousands of metric tons

<u>Year:</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> <u>(Proj)</u>
<u>Cereals</u>	1233	1255	922	1023	2066	1250
Hard wheat	804	753	510	584	1069	700
Soft wheat	159	163	109	127	311	200
Barley	270	339	303	312	686	350
<u>Fruit and vegetables</u>						
Citrus Fruit	220	165	138	220	196	250
Dates	50	45	60	46	60	68
Tomatoes	380	260	360	430	420	428
Red peppers	124	90	130	120	140	158
Potatoes	140	110	150	135	150	160
Melons	280	310	320	300	320	348
Almonds	35	30	37	42	51	45
Table grapes	35	28	35	45	50	52
<u>Olive Oil</u>	140	90	45	150	105	100
<u>Other</u>						
Meat	181	192	181	190	205	217
Sugar beets	62	82	67	140	158	300
Milk	264	244	277	290	315	340
Fish	58	63	67	75	84	85

Source: Ministry of Agriculture, Ministry of Plan and Finance

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Table 5

Tunisia: Balance of Payments

All figures in US\$ millions

<u>Year</u>	<u>Merchandise</u>		<u>Trade Deficit</u>	<u>Current Acct. Deficit</u>	
	<u>Exports</u>	<u>Imports</u>		<u>US\$ Mill</u>	<u>as % GDP</u>
1975	\$ 799	\$1,238	\$ 439	\$170	3.9%
1976	781	1,425	644	408	9.1%
1977	776	1,604	828	578	11.3%
1978	927	1,776	849	476	8.0%
1979	1,538	2,467	929	308	4.2%
1980	1,805	2,877	1,072	452	5.2%
1981	2,455	3,587	1,132	649	7.7%
1982	1,980	3,218	1,238	767	9.4%
1983	1,861	2,942	1,081	625	7.7%
1984	1,798	3,018	1,220	867	10.8%
1985	1,729	2,741	1,012	576	7.0%
1986	1,660	2,842	1,182	818	9.0%
1987	1,844	2,937	1,093	764	8.0%

Source: Tunisia BOP Paper

Table 6

Tunisia: Growth in Agriculture and GDP

	<u>Real Growth Rate:</u>		<u>Agriculture as</u>
	<u>Agriculture</u>	<u>GDP</u>	<u>Share of GDP:</u>
1976	5.8%	3.9%	17.9%
1977	-7.4%	5.3%	15.8%
1978	6.1%	7.1%	15.6%
1979	-5.7%	8.4%	13.6%
1980	6.5%	4.3%	13.9%
1981	8.8%	5.5%	14.3%
1982	-9.9%	0.0%	12.8%
1983	2.5%	4.9%	12.5%
1984	12.9%	5.5%	13.4%
1985	15.0%	4.8%	14.7%
1986	-21.3%	0.7%	13.3%

Source: Ministry of Plan and Finance

Table 7

Tunisia: Public Finances

All figures in US\$ millions

<u>Year</u>	<u>Government Revenues</u>	<u>Government Expenditures</u>	<u>Government Deficit</u>	<u>Deficit as Share of GDP</u>
1975	\$1,210.0	\$1,319.7	\$109.7	1.4%
1976	\$1,228.7	\$1,410.2	\$181.5	3.2%
1977	\$1,460.1	\$1,799.5	\$339.4	0.6%
1978	\$1,873.6	\$2,135.3	\$261.7	4.1%
1979	\$2,315.4	\$2,685.4	\$370.0	4.7%
1980	\$2,738.8	\$3,037.3	\$298.5	2.8%
1981	\$2,702.7	\$2,916.4	\$213.7	2.5%
1982	\$2,807.3	\$3,248.9	\$441.6	5.4%
1983	\$2,744.1	\$3,404.8	\$660.7	8.1%
1984	\$2,937.0	\$3,181.8	\$244.8	7.5%
1985	\$2,772.1	\$3,401.4	\$629.3	7.1%
1986	\$3,091.2	\$3,630.2	\$539.0	5.9%
1987	\$3,110.0	\$3,484.1	\$374.1	3.9%

Source: Ministry of Plan and Finance