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AGENCY FOR INTERNATIONAL DEVELOPMENT

Small Program Statement

TUNISIA

BEST AVAILABLE

January 1979

DEPARTMENT OF STATE

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SPS Summary - U.S. Assistance to Tunisia

The AID program in Tunisia is concentrated on agriculture and rural development, helping Tunisia to provide basic human needs for more than one quarter of its rural population now living below the poverty line. This aid will help Tunisia implement reforms needed during its fifth development plan, (1977-1981) to achieve the four primary plan goals of higher standards of living, net food self-sufficiency, full employment, and social stability. To build a mature relationship between Tunisia and the U.S. that will continue to grow after large obligations of concessional assistance stop, it will be managed through host country contracts, A.I.D. Title XII mechanisms, and similar measures suitable to mature middle income countries which build understandings, contacts and professional linkages that survive concessional funding. The Science and Technology and Agricultural Technology Transfer projects in particular are building such a base for collaboration in ways appropriate to middle income developing countries such as reimbursable aid and the Executive Service Corps. The Voluntary Agencies will be represented in Tunisia after 1981. We are continuing to work with Peace Corps/Tunisia to identify opportunities for the use of Peace Corps Volunteers as a complement to our programs. The Housing Guaranty program is laying a foundation for fuller

Tunisian participation in International Financial Markets. The World Bank has followed with programs similar to ours in the housing field, and we have been advised by GOT that they have asked the Bank to support an integrated rural development program patterned on the Central Tunisia program. The GOT feels that there is now Bank interest in such a program.

U.S. Aid to Tunisia

(Proposed Obligations: US $(000)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
	(CYB)	(CP)	---------(Mission Estimates)-----				
AID							
Grants	6666	5780	7746	2/	2/	2/	2/
Loans	4000	6720	16780	2/	2/	2/	2/
PL 480	16800	17500	15000				
Title I	(12000)	(9800)	(10000)				
Title II	(4800)	(5000)	(5000)				
Housing Guaranties	(25000 1/)	-	(25000)	-			
Total Obligations	27466	30000	39526	2/	2/	2/	2/
Staffing							
USDH	15	15	15	10	5	2	-
FN 3/	27	27	25	25	15	10	5

1/ Not in CP in this form

2/ No obligations currently planned. Disbursements from prior obligations will depend upon speed of project implementation

3/ USAID only = includes 2 part time.

TABLE OF CONTENTS

Short Program Statement--Tunisia--FY 79

Short Program Statement--Tunisia--FY 79

I. Overview of U.S. Assistance to Tunisia During Fifth Plan

A. U.S. Position

During the October 1976 Joint Commission meetings, Tunisia requested and we agreed to provide a large measure of support during implementation of the ambitious 1977-1981 Five Year Plan (FYP). A total of $67.4 million in loans, grants, PL 480 and Housing Guaranty (HG) resources have been committed during FY 1977 and 1978. Our contribution has been significant--about 20% of the GOT's own 1976 estimate of external public resources required to meet Plan investment targets during that period. The United States is once again among Tunisia's top ten donors, and will likely remain in that category for the remainder of the Plan.

In its Aide Memoire for the 1979 Joint Commission, the GOT has requested for the next three years of the Plan: project aid of $75 million (centered on the Central Tunisia Rural Development program), increased but not fully specified amounts of food aid, and HG of $60 million. (The Aide Memoire also requests commodity aid and local currency loans, items which have been dropped from the agenda as non-starters.)

Currently, we project commitments of roughly $150 million in (i) DA ($50 million), (ii) PL 480 ($50 million) and (iii) HG ($50 million) from FY 79 through FY 81. Although not the level desired by the GOT, a resource commitment of this order of magnitude--assuming it can be attained--must be considered responsive to Tunisia's needs.

We may assume that the GOT will focus intensely on the size of the U.S. commitment of funds (the "enveloppe") for CTRD. According to our internal programming, DA resources of $26 million will be committed to this effort, with parallel programming of most Title I counterpart availabilities. The $26 million planning figure has not been communicated to the GOT, although they are aware that our programming is in that range. We should reaffirm our intention of supporting CTRD with significant resources subject to availability, and subject to rapid GOT action in making the Central Tunisia Development Authority fully operational. Progress in obligation of FY 79 funds and planning for 1980 and 1981 is directly dependent on having the CTDA as a functioning counterpart organization.

B. Review of Accomplishments

A number of projects have been approved since the last Joint Commission and are now under implementation in fields of health, family planning, agriculture credit, potable water supply, science and technology, and agricultural technology transfer. In addition, the foundations have been laid for the rural development program in Central Tunisia to be funded 1979-1981 with disbursements and implementation carrying over at least until 1983.

Although we have continued to address Tunisian development problems on a national scale through Title II, the Family Planning project and the more recently approved Science and Technology (S&T) and Agricultural Technology Transfer (ATT) projects, the bulk of AID resources have been and will remain targeted on very poor Tunisians inhabiting disadvantaged interior provinces. The GOT is fully in accord with this emphasis, as again reflected in the Aide Memoire.

Implementation status and issues associated with each of the major program components and constituent project activities are described in detail in **Joint Commission** background papers.

II. Tunisia's Development: Goals, Issues and Performance

Tunisia's overall economic performance, particularly in the seventies, has been good. Tunisia's real GDP grew at an annual compound rate of 6.6 percent through 1977, notably better than the developing nations' world wide average of slightly over 5 percent. A variety of interrelated factors contributed to this good performance. Some were exogenous and fortuitous (e.g. good weather in the early years, the coincidence of the Tunisia's olive crop cycle with poor European harvests), but a series of good policy decisions beginning in the sixties has played a key role. First, Tunisia made an early commitment to a high level of public expenditure for literacy and education, and also began to encourage worker emigration in the sixties. In 1969 the Government displayed an unusual and rewarding capacity to make a major shift in economic policies. It abandoned attempts to push farmers into government cooperatives that had severely inhibited agricultural production, and went on to open a wide range of industrial and other investment activities to private initiative. Previously, sizeable private investment had been encouraged only in tourism and petroleum exploration. Investment emphasis was given a new export orientation, geared to evident market possibilities in the EEC. The apparent success of this export policy was compounded by fortuitous coincidence with a temporary shift in foreign demand for Tunisia's agricultural exports. Higher oil prices from the mid-1970's and a temporary strengthening of the phosphate market in the same period also boosted export receipts.

The resulting economic growth helped make possible actions that captured impressive social gains. Public health services in the urban areas were greatly expanded. Primary school enrollment continued to increase, and has now reached 96 percent of the relevant age group throughout the country, although in the poorer areas attendance is much less. A nation-wide family planning program with strong public support from the highest levels of government was established. It has been a major factor in the drop since 1963 of the birth rate, from 43.8 to about 34.8 per thousand. The overall rate of population growth is estimated to have dropped to about 2.6 percent in 1977. Unfortunately, during the last few years this impressive spurt toward development has slowed somewhat. Bad weather conditions, weeds and pest problems cut agricultural production while a decline in foreign demand for some of Tunisia's major exports followed the world wide recession of 1975. The growth of exports to the developed economies is increasingly being limited by new trade barriers particularly as other developing countries with similar production and export patterns are admitted within the EEC, despite Tunisia's special EC treatment. Tourist receipts stopped climbing. Some of these problems may be temporary, but they are accompanied by other, more fundamental difficulties which seriously threaten Tunisia's continued progress. Meanwhile the country's balance of payments has deteriorated steadily, reducing reserves and increasing foreign borrowing substantially. Tunisia will be borrowing still more on the international capital markets in the next few years. This borrowing will involve high interest rates and short repayment periods, despite the much better credit rating Tunisia has than most LDCs, simply because of the continued trend of world wide inflation. Tunisia's debt service ratio (to current account receipts) will increase substantially but World Bank staff estimates indicate it will remain below the conventional danger point of 20 percent. The summary picture is presented below:

TUNISIA

Summary Balance of Payments
(Millions of U.S. $)

	1978	1979	1980	1981
	preliminary	projections		
Imports	-2287	-2435	-2660	-2904
Exports	1719	1901	2206	2571
Trade Balance	(-568)	(-534)	(-454)	(-333)
Workers Remittances	210	235	264	295
Other 1/	-170	-198	-230	-260
Foreign Investment	86	110	120	130
Debt Service 2/	-184	-224	-290	-340
GAP	(-626)	(-611)	(-590)	(-508)
Filled by:				
Bank and Supplier Credits	245	246	260	240
Government and IFI Credits	387	363	348	310
Grants	45	40	40	38
Change in Reserves	(51)	(41)	(58)	(80)

1/ Investment remittances other than interest, transfers, and miscellaneous factor payments (excluding debt service but including tourism.)

2/ Amortization and net interest.

Source: Ministry of Planning, World Bank Staff and USAID estimates.

Exports will continue to remain well below imports, but the difference is expected to begin to narrow considerably in 1980 and beyond. As a result, Tunisia's international reserves will begin edging upward.

Several dangers exist in these projections. First is the high level of bank and supplier credits. If interest rates continue their upward climb, and borrowing does proceed at the projected level, debt service could increase by $25 to 50 million yearly.

A second is the high level of grants and credits from Governments and IFIs anticipated well into the future. While not impossible, the levels projected are well above the historical trend. Should such high levels of external assistance not be available, Tunisia is likely to turn even more to supplier and commercial borrowing. This would be a feasible course, although one Tunisia would like to avoid because of its high cost to development. Third is the possibility of substantial increases in import demand, currently repressed by a relatively restrictive import regime, which is nonetheless administered in a liberal manner.

Development Issues

Perhaps the most serious of Tunisia's underlying problems is the government's continued reliance on a complex system of administrative controls to manage the economy. Despite successive and commendable reductions in these controls in 1969, 1975, and 1977, they continue, in the words of the World Bank, to:

"Hamper domestic and international competition, restrict the mobilization of resources, entail great cost to the budget, and tend to foster inefficiencies throughout the economy."

The problem is particularly serious in its impacts upon (1) domestic resource mobilization and (2) agriculture. The continued use of explicit price (including interest) controls seriously limits domestic resource mobilization and perpetuates excessive reliance on government budgets for investment funding. Tunisia's public (government) savings performance has been excellent, and it does considerably better than most developed countries in collecting revenues. This has made possible government funding of much investment in a non-inflationary way. But the controls stymie the growth of self-sustaining financial intermediaries, including badly needed specialized agricultural and housing lending institutions. So long as the price for savings or other investment funds channeled through financial intermediaries (i.e. the interest rate paid for borrowed capital) remains below the sum of the costs of handling the transaction, the opportunity cost of the funds, and the depreciation through inflation in the purchasing power of the deposits, the growth of such financial intermediaries will be largely limited to being a channel for government funds. They will not become effective mobilizers of private savings, and their lending of private deposit funds will largely be restricted to short term uses where substantial non-interest charges (in the form of countervailing deposits, etc.) can be added to the price. The issue is directly, unambiguously related to two major AID activities in Tunisia: Rural Credit and Housing Guarantees. It is also pervasive in the objectives and goals of the Central Tunisia Rural Development Project.

The Tunisian authorities have been studying this issue, but it remains a major bottleneck to development. If the goals of the Fifth Development Plan are to be achieved, it will be necessary for Tunisia to take corrective action. The World Bank report states it well:

"To achieve this increase /in resource mobilization/, difficult but feasible measures will have to be introduced on time to curb consumption growth and to allow relative price adjustments to play their role in bringing the economy to a more efficient growth path" (No. 2201 TUN; p. 20).

Fifth Plan: Goals and Problems

The principal goals of Tunisia's Fifth Development Plan (1977-1981) are:

i) full employment,

ii) net self sufficiency in foodstuffs

iii) increased standards of living,

iv) social stability.

These goals are all closely related. Social stability, political stability and increased standards of living are closely tied to progress in income distribution, which in turn is overwhelmingly a function of employment.

Tunisia's Fifth Development Plan is an ambitious but feasible undertaking. Progress to date has been slow, as the flying start expected from the momentum built up during the previous plan faltered with the advent of bad weather and worldwide recession. The growth of investment, employment creation, income and savings have all lagged behind expectations, although performance has nonetheless been good when judged from the perspective of worldwide LDC performance.

With worldwide economic recovery, it is possible that Tunisia's growth pace will be able to make up the time lost in the last two years. Major steps have been taken in line with the plan, notably the establishment of the Fund for Promotion of and Decentralization of Industry (FOPRODI), the Central Tunisia Development Authority, and increased public housing expenditures. Steps are being implemented to find new markets for Tunisian exports where increases are blocked in traditional markets. The major Miskar gas development project has been delayed but will probably move forward in late 1979.

On the other hand, two years into the plan period a third of the planned investment has not yet been identified. Slippages in investment implementation were common in the fourth plan, and have not yet been made up, although some other new investments, previously unanticipated, have materialized. It is likely that at the end of the period all planned investments, initiatives and efforts will be underway, but their completion will be delayed two to three years. This would not be a disaster--it would still represent a commendable economic performance. But the crucial variables, the policy decisions and measures needed, are not yet firm. It therefore is too early to make a final or even fully informed judgement.

The Government of Tunisia, the World Bank, and other analysts all agree that "the single most important problem facing the Tunisian economy is widespread open and hidden unemployment." With agriculture and related activities providing nearly half of all Tunisian employment, increased agricultural productivity is basic to all four of the declared principal goals of Tunisia's current five year plan.

Unfortunately agriculture remains the Achilles heed of Tunisia's economy. The use of fertilizer, high yield varieties and other facets of modern agricultural technology are far below their potential.

An over-centralized, over-controlled, and resultingly underdeveloped farm marketing system (both inputs and outputs) is a major culprit. The underlying difficulty is the government's continued preference for administrative controls. The progress that has been made toward a wider reliance on free markets in many fields is significant, and demonstrates that specific individual corrective steps are politically feasible, but much more remains to be done. Particularly pernicious are controls that unintentionally, but nonetheless certainly, restrict small farmers' access to fertilizer and other modern inputs, and keep the terms of trade between agriculture, especially small farmers, and the urban population such that the private incentive for increased farm investment and production is significantly reduced.

Our influence on the Tunisian development process is obviously greatest where our resources bear directly on a problem. Our assistance in agricultural credit and livestock technology are helping Tunisia make some progress. Our continued help in rural development and funding of PL 480 Title I concessional sales offer further opportunities.

It is essential that we do all we can to help Tunisia eliminate the agricultural marketing bottleneck. Unless viable, self-sustaining lending institutions evolve that can provide continuing funding for small farmer investments in productive inputs, the goals of our Agricultural Credit and our Rural Development Projects will be compromised. Our interest in Tunisia's stability and success in our efforts to help Tunisia alleviate poverty depend heavily upon a breakthrough in agriculture. In the words of the World Bank staff's most recent report:

"Without agriculture assuming a more important share in development, there is little prospect of reducing the poverty of a substantial number of people in specific regions where poverty is highest."

In fact, Tunisia's own stated goal of net food self-sufficiency is likely to be frustrated without major improvements in agricultural marketing.

We are not limited to project activities in helping Tunisia with this problem. The Congress has made clear in the Bellmon amendment and other recent legislation on PL 480 that we must make Title I resources more useful as development tools. The law is explicit that we avoid the use of PL 480 to shore up ultimately untenable distortions of market systems that reduce farmer incentives to adopt known new technologies. We intend to avoid this mistake.

III. Rationale for AID Program

The basic rationale for US assistance was set forth in last year's CDSS, and remains valid. The present AID and PL 480 program must be seen in the context of 21 years of US economic assistance to Tunisia. As the Tunisian economy has evolved since independence, US help has been adapted to meet needs at each successive stage: first supporting assistance, then broad-gauged infrastructure and institution-building and now helping meet basic human needs of the poorest.

As a result of a successful development process, Tunisia has entered the ranks of the middle-income LDC's. Accordingly, we have also recognized Tunisia's need to continue the rapid modernization of its economy through greater access to advanced US science and technology, and to prepare for the next round of development problems.

Our influence on the Tunisian development process is greatest where our resources bear directly on a problem in a project or program context. Thus we expect to make an impact on Tunisian policy with regard to health manpower utilization in rural areas through the Rural Community Health project. We have obtained elimination of minimum acreage restrictions on eligibility for small farmer credit in connection with our agricultural credit project with the leverage of $18 million; also in the context of the latter project, the GOT has agreed to review overall interest rate policy. One purpose of the CTRD program is to influence GOT regional planning toward US concepts which stress measurement of trade-offs between alternative investments. Another policy thrust of CTRD is to help the GOT realise that the investment models which have served better-endowed coastal regions cannot all be cost-effective for the impoverished interior. Lastly, shared policy goals of the S&T and ATT projects are to provide Tunisia with conceptual tools, software, and technical manpower needed to address looming problems of the environment: soil erosion, desertification, and industrial pollution.

IV. Profile of the Poor

The general description of Tunisia's poor presented in the CDSS (January 1978) is still largely valid. Since that succint narrative was prepared, USAID has gained substantial additional insights and statistical data through the work of Dr. Annette Binnendijk (Binnendijk: Trip Report: Base Line Data Requirements for Central Tunisia Rural Development June 7, 1978) and Dr. Nicholas S. Hopkins (Hopkins: Elements for a Social Soundness Analysis of the Agricultural Interventions, Central Tunisia, July 1978). The poverty line defined by the Government of Tunisia is relatively low ($121 per capita at 1975 prices), but over a quarter of the rural population lies below this line. In the urban areas the situation is significantly better, with somewhat less than 8 percent of the population falling below the line. These data may in fact understate the difference because of the much greater availability of government social services to the urban population. Such public services are a direct transfer of real income, and the

Binnendijk research clearly indicates that access to them in the rural areas, especially in the poor areas of Northwest and Central Tunisia, is very limited despite growing government efforts to extend it.

Most basic statistics of income distribution are based on the 1975 survey of household expenditures (Republique Tunisienne, Ministère du Plan, Institut National de la Statistique: Enquête Nationale sur le Budget de la Consommation des Ménages). Since then the relative distribution of income has turned even more in favor of the urban population. The percentage of the nation's product (exclusive of direct transfers) received by various occupational groups (in the form of wages, salaries, profits and earnings from owned assets) has increased for government and business employees and those engaged in trade, the liberal professions, construction and manufacturing, at the expense of farmers.

The population of the disadvantaged areas of Tunisia are predominantly farmers. Few are completely landless, but what land they hold may be held "in a state of extreme indivision".

The nutritional status for these rural poor is inadequate, although their caloric and protein intake is generally higher than for urban families at the same income level. Potable water is a serious problem for the rural poor and among other basic needs, the access of the female members of their families to education and literacy is sharply less than that of their urban counterparts.

Underemployment and unemployment are widespread (over 25 percent nationwide; some analysts estimate under and unemployment together affect 45% of the labor force in the poor rural areas). Only 20 percent of the farms in the Central Tunisia project area, and in some case less, (Hopkins has estimated only 2 to 4 percent of the farms in the Central Tunisian area he studied), are now operated in a way that enables the operating families to earn enough to generate any self-sustaining investment for increased output and income.

V. Completion of Concessional Economic Assistance in FY 1981

Prime Minister Nouira's visit has strengthened the GOT's perception that United States assistance will eventually come to an end. As AID Administrator Gilligan noted in his discussion with the Prime Minister, commercial capital flows, direct investment by US firms, and other technology transfer mechanisms will be more appropriate sources of development resources for Tunisia in the years ahead as its economy continues to grow in sophistication and wealth.

The forthcoming meeting of the US-Tunisia Joint Commission is an appropriate forum to underline our concern that trade and investment issues should begin to take up a larger share of our bilateral dialogue particularly with regard to actions needed to reduce barriers to increased US direct investment in Tunisia.

The present structure of the AID program provides a good basis on which to bring US concessional aid to a conclusion after 1981. The CTRD program is designed to facilitate progressively smaller direct USAID Mission management inputs. Most other AID inputs will be channelled through the CTRD authority and US Volags. Technical assistance for CTRD will be provided in part through host-country contracting. Local administrative requirements including US advisor support will be provided by the GOT and/or through a contracting arrangement, thus eliminating the USAID Mission's logistic support role. Similarly, the ATT project will be implemented through a host country contract with a consortium of US universities. Mission responsibilities for the implementation of that project, once underway, should be limited to oversight and evaluation. A major element of the second phase of the S&T program will be reimbursable programs. Although they would be launched in the context of a grant TA project, reimbursable programs will hopefully become the mainstay of a growing application of US expertise by Tunisian public and private sector entities after the grant S&T project is fully disbursed.

One key to orderly completion will be to decline inevitable requests for extension of on-going projects. This will require imagination in helping to find alternative ways of being helpful. We must take pains to assure the GOT that cessation of new obligations after 1981 does not mean an abrupt end to the AID presence in Tunisia, or an end to continuing cooperation in a number of fields formerly dominated by the assistance program.

The USAID Mission in Tunisia has traditionally had an unusually competent staff of foreign national employees. To permit reduction of American staff consistent with fulfillment of AID's program management responsibilities, a core of Tunisian professionals should be developed through training, protected from adverse personnel actions, and encouraged to remain with the Mission into the 1981-1985 period.

VI. <u>A continuing Relationship after 1981 on Developmental matters of concern to the GOT.</u>

We need to make a distinction between the 1982-1983 period and subsequent years. At least up to 1983 and in some cases beyond, participants will be returning, obligations incurred in prior years will be disbursed, and an AID office will be active in monitoring implementation. We foresee a gradual transition from that period into the true "post phase-out" period. It is premature to speculate too closely about the situation as it will be about 1985, but we can make certain assumptions about the way in which this transition will occur. For example, the flow of returning participants from the ATT and S&T projects will serve to as a continual stimulus to US-Tunisian dialogue on development matters, such as the environment and renewable energy, which are of real concern to both parties. United States voluntary agencies will continue to be represented in Tunisia; they likewise will be concerned with implementation of programs begun in prior years, and may continue to provide a channel for cooperation that would not draw on AID for funding support. The HG program addresses one of Tunisia's most fundamental needs--housing for urban poor. As the percentage of the population living in urban areas--already more than half the total--continues to expand, shelter issues and solutions will become increasingly important in the national economic picture. However, it is premature to project HG resources beyond the present scenario of two tranches of $25 million authorized over 1979-81.

International Financial Institutions in Tunisia

Summary:

Active, concessional IFI's in Tunisia consist of the World Bank (IBRD), the African Development Bank (ADB), the Arab Fund for Economic and Social Development (AFESD), the Arab Investment Company (AIC), and the Islamic Development Company (IDC). The IBRD is far and away the most important of these donors having obligated $65.5 million in 1977, mostly in agriculture (irrigation and credit), and health (potable water), plus something for power generation, all with reasonably firm disbursement schedules. The World Bank program might be characterized as "basic human needs infrastructure with emphasis on agriculture". The other IFI's including those without any USG input obligated $41.4 million all together. Most of this is for industry and infrastructure, forming a program much less oriented to basic human needs or to the kinds of objectives the U.S. Congress has set for AID and U.S. supported IFIs than the aid of either the World Bank Group or bilateral DAC donors.

The IBRD and the other IFI's are expected to maintain their respective general program directions for at least the next few years.

The World Bank group's project emphasis on basic human needs and agriculture has evolved in Tunisia only in the last few years, and is not yet fully reflected in its analytical reports. Those reports have to some extent stressed industrial investment for employment creation. But this stress has not been reflected in the Bank's portfolio in part because of the GOT's past preference for capital intensive, "more modern" industrial investment. The GOT is now beginning to shift somewhat. Those reports do however, give strong support to the activities of the other IFI's who continue to assist Tunisian industry and infrastructure. Also, the Bank portfolio's emphasis on the agricultural sector follows naturally from the sector's importance. About half the work force are employed in agriculture and related activities. But unemployment and underemployment are particularly high in Tunisia's rural areas. Agricultural productivity is stagnant. Fertilizer useage is low and adoption of high yield varieties has been disappointing.1/ The factors contributing to this situation include inadequate agricultural policies and problems that will require close cooperation among the donors and the Government of Tunisia.

1/ See IBRD Report No. 1539-TUN p. 34.

The poor synchronization between the Bank's project operations as reflected in the projects approved, and its more general analytical activities as represented in the Country Economic Memoranda prepared for Consultative Groups has not caused bad projects. But the resulting projects and their implementation and design particularly in agriculture, have not attacked Tunisia's underlying policy problems as sharply as they might have. A more activist role by the Bank with regard to the crucial policy issues would provide needed leadership to other donors in the Consultative Group. End Summary.

The current Tunisian Five-Year Plan cites four principal goals:

1) full employment;

2) self-sufficiency (net) in foodstuffs;

3) increased standard of living;

4) social stability.

The IFIs and the bilateral donors have accommodated themselves to the last two goals with no apparent problems. Much of the assistance received by Tunisia has helped its Government to increase the standard of living of its urban population by providing for basic human needs directly. Designing and implementing assistance toward the goals of full employment and self-sufficiency in basic foodstuffs, however, have proven more difficult.

The IBRD country analysis unequivocally supports the principal position given employment in the Tunisian Plan:

> "The single most important problem facing the Tunisian economy is widespread open and hidden unemployment". 1/

Statistics presented to support this conclusion include:

a) 14% of the labor force outright unemployed in 1975;

b) 40% agricultural labor underemployment;

c) 22% non-agricultural unemployment.

The IBRD analysis goes on to concur with Tunisian emphasis on industry, particularly manufacturing, to achieve Gross Domestic Product targets and employment objectives:

> "The 7.6 percent target set for the average annual real growth of GDP in the draft Plan is well in line with the possibilities of the Tunisian economy. Progress in agriculture is slow and depends much on weather conditions. Therefore, major emphasis has rightly been placed on industry, especially manufacturing. Since the possibilities of labor absorption by the agricultural sector are limited,

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1/ Tunisia: Economic Position and Approach of Tunisia; Review of the Fifth Development Plan, 1977-1981. No. 1539-TUN dated May 2, 1977. Page 15.

most of the employment generation is expected to come from the industrial sector. This strategy is consistent with the employment objectives and also aims at increasing the value added content of Tunisian exports. 2/"

Despite the support for manufacturing and industrial employment in the World Bank analysis, recent IBRD obligations are largely in the areas of agriculture and health (basic human needs). Of the four new loans the IBRD has approved, the largest ($42 million) is for irrigation; the second ($21 million) is for potable water; there is also a $12 million small farmer credit activity. The only new project in the portfolio that would not immediately conform to agriculture or basic-human-needs criteria is a $14.5 million loan for gas turbines in Sfax. Among Bank projects now being considered, the $25 million urban development loan projected for mid-'79 is for slum upgrading, primary infrastructure, schools, dispensaries, markets and core housing, building materials loans and traffic improvement - a mix of activities much in agreement with AID priorities in the housing sector.

The latest IBRD transportation project ($32 million) is for rural roads justified by their impact on the agricultural system, and combined with an agricultural credit activity.

2/ Ibid; page iii.

This human needs emphasis in the Bank's activities has evolved over the last few years. Previous IBRD road projects financed highways, not farm-to-market roads. Other mainstays of the program were tourism, industry, a dam, and urban water and sewage - in short, a "traditional" bank program.

The other IFIs have not presented their analysis of Tunisia's development problems so publicly or so clearly as the World Bank. Not being cast in the role of guru to Consultative Groups of Donors, as the World Bank is, they have no need to do so. They are also smaller players. Their recent activities demonstrate far less conformity with basic human needs and AID priorities than do the World Bank's:

Arab Investment Company	- $5 million for the Tunisian Financial and Tourist Company (COFIT);
African Development Bank	- $4.65 million for freight cars to transport phosphate minerals; $6.1 million for Potable Water in the Sahel.
Islamic Development Bank	- $7.445 million for the Sfax fishing port;

Arab Fund for Economic and Social Development (Several years' commitments)	- $24.3 million for manufacturing and mining industries; - $7.2 electrification in southern Tunisia, - $1.4. reinforcement of general electrical system, - $25.2 industrial credits.

The expertise, openness to innovation, and concessional terms of such donors as AID, IDA, SIDA and CDA make them the logical candidates to engage in high-risk, high-pay-off activities directly benefiting the rural poor. Analysts have assumed that other donors and capital suppliers would continue to invest in the more traditional and "bankable" development infrastructure. We see in Tunisia however, an IBRD portfolio weighted significantly more to basic-human-needs than to industrial development in spite of stated support of a strategy of industrial development. One reason has been a Tunisian preference for more capital intensive, less labor using industrial investments, at least where international funding is involved. Partly this is a natural result of the lenders' practice of limiting their finance to foreign exchange costs. Increasing the capital intensity of a project has thus been the easiest way to increase the donor's participation in the financing.

Another clear reason for the content of the recent IBRD portfolio is the great and pressing need to advance the relatively slow agricultural sector, and to begin to correct the poor distribution of income and wealth that neccessarily results when the sector employing 50% of the work force is the least dynamic.

Unfortunately, the funding of project activities in the agricultural sector has not been accompanied by Tunisian policy initiatives aimed at correcting underlying distortions and creating the conditions neccessary to permit the projects to reach their goals and objectives. The problems are well known, and have been repeatedly, if politely, stated in IBRD documents. But the linking of project funding with Tunisian policy measures intended to assure project success has not been great. Basic human needs projects, of course, are notoriously weak levers for such major policy changes. But the Bank's most recent report is unequivocal:

> "...this projection presupposes the timely introduction and the successful execution of measures to (i) strengthen the absorptive capacity for investment (ii) improve productivity... (iv) base economic management on an efficient price system."

As stated in USAID Tunisia's 1978 CDSS:

> "Poverty also correlates closely with unemployment and underemployed agricultural laborers and small farm

operators make up the bulk of the poor, with construction workers and artisans constituting most of the balance."

Looking at the evolution of the IBRD Tunisian program from a capital intensive, machinery, bricks, and mortar portfolio to its current emphasis, it is also possible to wonder if basic-human-needs criteria are becoming too dominant in Tunisia's development financing. In the absence of significant concessional aid for industrial development, Tunisia must borrow heavily on the ever more costly international capital market, while squeezing more out of domestic resources. First, the non-concessional international capital market is mostly concerned with financing capital improvements directly connected with sales of capital goods or services. Its lending encourages capital intensive investments that however economically advantageous to the lenders and financially feasible, do not neccessarily meet the more general or macro economic needs of LDCs like Tunisia.

Secondly, both steps must impinge on efforts to raise the standard of living, and cut into the expansion and perhaps the maintenance of basic human needs efforts. Nonetheless the IMF, the IBRD, and the Tunisians themselves feel that increasing demands to finance industrial expansion largely without concessional aid fall within the country's and the international financial system's capacities. Accepting this conclusion, we can say that the meld of foreign assistance now projected:

1) concessional aid in agriculture and social services to provide basic human needs - targeted upon the poorer geographic areas in the case of AID and several other major bilateral donors; 2) assistance from the IBRD on agriculture-and health-related infrastructure; and 3) financing from the Arab IFI's for industry - is consistent with Tunisia's needs, and with the country's continued progress. What is missing is the linking of this aid to appropriate policy reforms. Particularly needed are steps that will permit development of a farm marketing system that will provide maximum incentives and opportunities, the adoption of new farm technology, and the growth of self sustaining market institutions. The World Bank staff has identified excessive control of agricultural marketing both of inputs and outputs as a factor holding back agriculture and thus keeping Tunisia from realizing the full potential of IFI and bilateral assistance (including A.I.D.'s). 1/

1/ IBRD Report No. 2201-TUN. p. 23.