

TUNISIA'S ECONOMIC ADJUSTMENT PROGRAM:
IMPACT ON LOWER INCOME GROUPS

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BACKGROUND

Shocks and Economic Adjustments. The Tunisian economy is facing severe difficulties in the second half of the 1980's. These difficulties emanate from the juncture of several external and internal developments such as the drop in the price of oil, drastic reduction in the tourism sector, a severe drought in 1986, high foreign debt servicing charges, and mounting balance of payments and government fiscal deficits.

Oil Slide. The price of oil, one of the major sources of foreign exchange for the country, fell from 30 US dollars at the end of 1985 to less than 10 in July 1986. The value of energy exports, which in 1985 accounted for 42 percent of the total, fell 59 percent from 603.6 million dinars in 1985 to 248.0 estimated for 1986. Although the price has recovered to about 18

US dollars a barrel, the prospects of going back to its former high level do not seem promising for the rest of the decade.

Tourism decline. Tourism, another important earner of foreign exchange, which contributed in 1985 3.3 percent of GDP and 18.5 percent of exports of goods and services, also suffered as a result of the political and military tensions throughout the Mediterranean basin, particularly the impact of the bombing of Libya in April, right at the start of the tourist season. Severance of relations with Libya and economic reforms in Algeria have also contributed to reductions in the number of tourists from those two neighboring countries. The prospects for a rebound of tourism, especially those from Europe, are favorable at the beginning of 1987.

Drought. A record drought during the 1985/86 growing season (October through June) decimated the agricultural sector, especially the cereals crop which was reduced from 2.1 million metric tons in 1985 to merely 0.61 million in 1986. To compensate for the drop in cereal production while maintaining low consumer prices for the basic staples, cereals, it became necessary to double the imports of grains. Hopefully, the 1987 grain harvest will regain normal levels, according to the prevailing climatic conditions until mid-season. However, there could still be a short-fall since grain reserves were exhausted last year.

Repatriation. The unemployment situation generated by the above blows to the economy have been aggravated by the closing of the emigration options available to Tunisian workers in the early part of the decade, especially to France and other European countries. Finally, the expulsion of 30,000 Tunisian workers from Libya in 1985 aggravated further the unemployment crisis. Prospects for renewed emigration to Europe are minimal, but friendly overtures in progress with Libya raise the hope that some Tunisian workers might return there.

Short-Term Economic Adjustments. Left to itself the situation was deteriorating rapidly: Foreign currency reserves were being depleted, foreign credits from commercial sources were becoming less available and more costly to obtain, and the potential contraction in the financial markets was risking a drastic cut in economic growth and a potential massive rise in unemployment. In the face of these dilemmas, the Government of Tunisia adopted in 1986 a program of gradual adjustments in the key sectors of the economy. In the short run, the Government acted to stop any further deterioration of the first half of 1986 through (a) adjustment of the foreign exchange rate, (b) changes in the system of public finance, and (c) obtaining financial resources from abroad.

Foreign Exchange Devaluation. Regarding foreign exchange, Tunisia adopted in the second half of 1985 a flexible exchange

system of daily currency rate adjustments that took into account a basket of currencies, including those of the principal trading partners (France, Italy, Germany,...) as well as those of countries competing in the same markets (Morocco, Spain, Portugal, Greece,...). In addition, on August 19, 1986, a 10 percent straightforward devaluation was adopted to ensure greater competitiveness of Tunisian products in the international markets. The anticipated impact in encouraging greater exports and reducing imports is already being felt in 1987.

Fiscal Measures. In the domain of public finances, certain levies were increased or newly established to raise new revenues, and efforts were made to cut down on government's fiscal deficit from the high levels of 5.9 of GNP in 1984 and 5.4 percent of GNP in 1985. In the absence of corrective measures, the overall government deficit for 1986 would have amounted to 6.5 percent of GNP. Fiscal measures however were insufficient to cover the rising fiscal deficit; and it was necessary to borrow 90 million dinars additionally, which left the 1986 government deficit at 5.8 percent of GNP.

Foreign Loans. Credit from the international financial community was obtained to cover the foreign trade imbalance and government deficit. Loans were obtained from the World Bank (150 million dinars), the International Monetary Fund (220 million dinars), and the Government of Italy (85 million dinars). As part

of the agreements with the World Bank and the International Monetary Fund, the Government of Tunisia has agreed to adopt a series of reforms over the next few years, designed to absorb the previous disturbances and restart growth of the economy.

ECONOMIC ADJUSTMENT PROGRAM

The Government of Tunisia is fully cognizant of the need for economic adjustment, and it has incorporated its principal features in the discussions regarding the VII Development Plan, currently under preparation. A substantial number of concrete measures have been carried out in the past couple of years, some of them at considerable social and political cost. These efforts are expected to be pursued in the coming years along the lines described below.

Wage and Salaries Restraints. The Government is determined to maintain the restrictive wage and salary policies started in 1983, and to limit the growth of the total wage bill. Maintaining cautious wage and salary policies is one of the most critical factors in achieving a sustainable rate of economic growth in the long-run. Holding the line on wages helps to control demand for both domestic and imported goods, raises the competitiveness of Tunisian goods and services, and helps the growth of labor productivity and overall employment. Government and state enterprise wages have been frozen since 1983. While the Government granted a raise in the minimum salary for urban and agricultural workers of 10 percent in July 1986, this did not fully cover the 15 percent decline in real purchasing power since January 1983, when wage increases were delinked from the cost of living index. No adjustment in the minimum salaries are envisaged in the near term, and given the high unemployment situation, further deterioration in the real wages in the private and public sectors is likely.

Exchange Rate Devaluation. The Government is committed to continue the flexible exchange rate policies adopted since mid-1985, with the objective of strengthening the competitive edge of Tunisian goods and services vis a vis its main competitors and trading partners. Since the 10 percent devaluation of the dinar in Mid-August 1986, the nominal exchange rate for Tunisian

exports has been improved by 28 percent in relation to the rate prevailing before the mid-1985 reform. The expected results of increasing exports of non-oil/non-phosphate goods and services is now beginning to be felt. Agricultural producers will benefit from higher domestic prices for export crops and lessened competition from imported foods. Nevertheless, only a gradual improvement in production of export crops can be expected in the next few years, especially because the principal agricultural export is olive oil, a tree crop with a long response lag.

Interest Rates Hikes. The Government maintains a complicated set of interest rates, for different segments of the financial market. Until very recently most interest rates were negative in real terms, after allowance for inflation. In April 1985 general interest rates were raised by 1 or 2 points, and then again by 3 to 4 points a year later in 1986. Combined with a reduction in inflation, current interest rates are now positive, with the exception of agriculture where they are still insufficient to cover real costs. The Government intends to maintain this policy of positive and flexible interest rates, changing them in line with inflation but also with financial and operating costs and risks involved.

Government Budget Cuts. Government outlays were cut considerably in 1986 and further reductions are planned in the years ahead within the VII Development Plan. Eventual

elimination of the government deficit is intended by 1991, in order to fulfill the target improvements in the balance of payments and foreign debt commitments. This goal can be achieved mainly through cuts in expenditures since government revenues already are at a high level (31 per cent of GDP), and the plan is to lower the burden to 27 percent by 1991. New revenues are expected from higher levies on luxury goods and the introduction of a VAT (Value Added Tax) system.

Government expenditure reductions will be achieved through a hiring freeze on civil servants and minimal salary increases, as well as a planned reduction of subsidies of 5 percent per year: The latter can be achieved in part as a result of the reform program for public enterprises that the Government initiated in 1985, and scheduled to be continued in the coming years, aimed at reducing the number of public enterprises and the deficits of the ones retained. Phosphate mining in Gafsa, for example, has been forced to make large layoffs in the face of deteriorating market prospects and its financial position, with deficits amounting to 66 million dinars between 1981-85, equal to 50 percent of losses of all public enterprises.

Eventually, attention will have to be focused on the budgetary burden imposed by consumer subsidies, and their necessary reduction in order to achieve the fiscal savings under the economic adjustment program. There is some awareness of the

need to target consumer subsidies on the needy instead of the across-the-board subsidies now in existence that benefit mainly the consumption of the better-off groups. For the moment, however, subsidies on key food staples, such as cereals and cooking oil, are likely to remain high for social and political reasons.

Restricted Money and Credit. The Government is committed to a policy of tight money supply and credit expansion. Money in circulation until 1991 will not be allowed to increase faster than the expansion in GDP. This contrasts markedly with the expansionary monetary policies pursued before 1985, when money growth exceeded GDP growth by 3 percent per year on average. One of the effects of the tighter money supply is the marked reduction in inflation observed in 1986, despite the impact of the devaluation in the second part of the year.

Investment in the economy, particularly in the construction sector suffered a major contraction in 1986 as a result of the tight financial situation, both in terms of higher interest rates and limited availability of credit. A significant deceleration in the expansion of both domestic credit and money supply occurred during 1986, linked to the generally slackened economic conditions and further weakening in the balance of payments. For 1986 as a whole, credit to the economy is estimated to have risen by only about 10 percent, compared with 16.3 percent recorded in

1985, following increases of 13.7 percent in 1984, 19.9 percent in 1983, and 23.8 in 1982.

Price Decontrols. For several years already the Tunisian authorities have pursued a policy of gradual decontrols of agricultural producer prices. As a result, nearly 75 percent of agricultural production is sold freely in the domestic market or exported. Even prices for cereals and milk, which remain controlled, have increased by more than the inflation rate; the latest increase took place in August 1986, when the size of the loaf of bread was reduced from 700 to 600 grams, i.e., an effective 16 percent increase in price.

In addition, the Government plans to abolish price controls on virtually all manufactured goods by 1991, with the exception of key staples such as bread, semolina, and edible oils, which will remain regulated for social reasons. Starting in September 1986 and continuing through July 1988, 60 percent of manufacturing output will be gradually decontrolled for those industries where there exists an appropriate degree of competition. The remaining products will be decontrolled in close coordination with the import liberalization policies. Moreover, in January 1987, a more flexible system of price adjustments of the controlled items was adopted to allow enterprises themselves to make changes within certain reference parameters.

Investment Decontrols. Until very recently, all new investments in Tunisia required previous government approval, including investments in replacement and expansion of existing installations. In turn, investors in virtually all approved projects received considerable incentives and subsidized credits. At the end of 1986 the authorities lifted the requirement of previous approval on investments of less than 200,000 dinars not requesting special incentives. This process of decontrol will advance gradually in the next couple of years, in parallel with the overhaul of the entire investment incentive system. Beyond then, approval will still be required for all investment projects that are asking for special incentives linked to priority areas, such as export promotion or technology transfer.

Import Liberalization. Progressive decontrol of the economy and introduction of more competition --both domestic and foreign-- is the only effective way for Tunisia to achieve sustainable economic growth and employment creation in the face of tightening balance of payments constraints. However, given the fact that Tunisia's modern sector has operated in a well protected environment, the planned decontrol program in prices, investment, and imports can only be carried out gradually.

The Government has stated its intentions to gradually liberalize imports during the VII Plan period (1986-1991) by both

lifting quantitative restrictions and standardizing import duties. In line with the country's import priorities, beginning in October 1986, imports of spare parts for industry, agriculture, hotels, and hospitals were declared liberalized. Moreover, since January 1987 imports of raw materials and semifinished products can be imported freely by enterprises which export more than 15 percent of their output. These and other import liberalization measures are linked to the conditions of effectiveness of the World Bank loans to the Government. As a result, by the end of 1988, fully 75 percent of all imports will be liberalized. All remaining restrictions, including those on consumer products, will be phased out in the year following.

In order to reduce high disparities in the levels of effective protection between different sectors of the economy, and to achieve a lower and reasonably uniform level of 25 percent effective protection by the end of the VII Plan, the Tunisian Government is preparing a program of gradual tariff reductions. In the interim, and starting in January 1987 there is a minimum 15 percent tariff and a maximum of 50 percent, with tariffs between these two levels being raised or lowered several percentage points to approach 25 percent. However, some of the revenue lost to the Government from lower tariffs, will be recovered in the form of higher sales taxes on certain imported and domestic goods.

Export Promotion. In addition to measures described above such as devaluation and investment decontrols, a number of other measures have been taken to stimulate the rapid expansion of exports, such as speedier export procedures, special lines of credit for exports and investment in export enterprises, and liberalization of imports of raw materials and spare parts by exporting companies.

IMPACT OF ADJUSTMENT ON THE TUNISIAN POOR

The social cost imposed by the exogenous economic shocks and the adjustment measures that followed, in terms of the loss of well-being for the Tunisian lower-income groups, has been high. Fortunately, it will likely not get worse.

Is the Worst Over? Taken alone, the short term net impact of the economic adjustment measures are on balance recessionary. However, these effects are currently taking place at the same time that the worst effects from the combined oil-tourist-drought crises are beginning to alleviate. In March 1987 oil prices are already 80 percent higher than in July '86, the tourists are coming back in their usual number, and the rains have been good so far this season. It will therefore become very difficult in the coming months to differentiate the impact of adjustment measures from the changing climate of the economy as it recovers

from the external shocks. There are still a few months before the good prospects in the tourism and agricultural sectors become visible. The cereal harvest takes place around June and the tourist season begins about May. Thus, there could be a slight slide in the next quarter but the prognosis from then on is positive. Consultations with senior economists, both in and out of the Government, indicate a general consensus that the economic decline has hit bottom and it is now on the rebound. This should not be interpreted to mean that the economic situation of the poor is less critical, merely that it is not expected to worsen beyond the current level.

No Big-Bang Beginning. The task of separating the consequences of economic adjustment measures is further complicated by the lack of a clear date when the adjustment could be said to have started. The preceding narrative has established that the Government has been taking adjustment measures for several years prior to requesting emergency loans from the World Bank and the International Monetary Fund. The efforts have been gradual and full of half-way measures, and some reverses have occurred as with the rise in bread prices attempted in 1984. However, the general trend towards increasing decontrol of the economy has been evident for some time and has been accelerated by the worsening economic situation since 1985. Agricultural producer prices, for example, have been either decontrolled or increased progressively to bring them closer to parity with world

market levels (it has also helped that world prices are at an all-time low). Wages, frozen since 1983 in the state sector, have been losing ground in real purchasing power; minimum wages (SMIG and SMAG) have been increased once since 1983, by only 10.5 percent in July 1986.

Nor is there a neat ending to the economic adjustment program. Most new measures are being introduced gradually in a well announced schedule over the next two years, and a great deal of implementation and fine tuning is left for the last three years of the VII Plan.

First Down. The purpose of the economic adjustment program is to help the Tunisian economy regain its footing after stumbling in the last couple of years, and to commence a period of sustainable growth on more solid bases. But, as the aphorism says, "il faut reculer avant de sauter"; that is to say, the initial impact of the adjustment program is negative and painful in terms of growth, income, and employment. It is therefore essential to distinguish the short term, mainly negative effects, and the more positive impacts that will become evident later on as the measures yield their intended results. Devaluation, for example, quickly leads to lower domestic consumption and distress in industries dependent on imported inputs, while the expansion of exports will not become apparent until several months later. A well-orchestrated adjustment program will time the schedule of

doses so as to minimize social disruption, by delaying some measures until the benefits of earlier ones become apparent. The planned phasing of the Tunisian adjustment program reflects this cautious approach and ensures that the program itself does not generate grave disruptions at any one time.

Newly Needy. One of the major objectives of this report is to identify the population groups most affected by the economic adjustment program. It is particularly important for USAID to separate these groups from the ordinary poor, who, because of their marginal role in the economy, are thought not to be affected by these measures. Although these already deprived families are considered truly in need of assistance, this particular "Safety Net" food aid program is not to be designed to help them, but rather the new families who will become deprived as a result of the adjustment, i.e., the newly needy.

Leaving aside the procedural and humane issues involved in identifying a given family as belonging to the "newly needy" or "truly needy" category, there are technical difficulties in maintaining this distinction. As discussed above, a great deal of the current hardship inflicted on the poorer strata is the result of external shocks on the economy, as well as of adjustment measures adopted before 1987. It would be rather complicated, in deciding to provide assistance, to determine whether a household head lost his job as a result of the drop in

oil prices, the bombing of Libya, the 1986 drought, the increase in minimum wages, or tight credit policies. And, since there is no specific birth date for the economic adjustment, any cut-off date to determine eligibility would also be entirely arbitrary. And if, as the team is inclined to believe, 1987 will be no worse than 1986 in terms of unemployment and poverty, the total number of needy families is not likely to rise much beyond the number already in existence. It will not, therefore, be possible to target the program on only the net increase in poverty and unemployment.

Types of Impact. The Government program of economic adjustment could worsen the situation of the poorer population groups in three major ways:

(a) increased short-term unemployment as a result of the recessionary effect of tight money, devaluation, and budget cuts;

(b) lower real wages resulting from increased consumer prices including food prices, and

(c) lower real incomes resulting from reduction of government outlays for consumer subsidies, income transfers and expenditures in social services.

Increased Unemployment. The largest loss of welfare is suffered by those who have lost their jobs as a result of the adjustment program, or, for that matter, as a result of exogenous shocks to the economy. Having a regular job salary represents

not only an income, but also access to entitlements such as family allowances for children, single earner allowances, access to health facilities, and retirement benefits. Labor laws in Tunisia make it very difficult for employers to dismiss workers, so it becomes harder for those out of a job to find even temporary positions. Not surprisingly, the groups most seriously affected by unemployment are the young entering the job market for the first time, and unskilled urban laborers, many of whom are recent arrivals from the countryside, who have not had permanent positions.

Strong family ties bind the Tunisian working force, and they help to buffer the economic shock when the head of household loses his/her job. Young men entering the job market are known to survive for years as dependents supported by their parents and older siblings. The hardest hit unemployed are middle-aged urban household heads with children to support, and few other family members in the city to lend assistance. When the head of a family is unemployed, therefore, it does not necessarily mean total deprivation of income for the family, since in addition to helping relatives, there are likely other household members who can contribute small amounts, and there are either part time, temporary, or lower-paying jobs to help ends meet. Some very modest state assistance for food and health is available to households suffering from total deprivation.

Urban Focus. For the purposes of the "Safety Net" program being designed for families affected by the Economic Adjustment Program, the team believes that attention should be focused primarily on the urban milieu, and less so on the rural areas. This judgement is based on several reasons. First of all, the economic adjustment implies a redressing of the traditional imbalance that the countryside suffers in development programs that benefit primarily politically important urban areas. Measures such as the increase in producer prices for agricultural commodities, reduction of food imports, devaluation of the currency, promotion of agricultural exports, and removal of price controls on farm products, have a net positive effect on the welfare of farmers and other rural inhabitants. Second, to the extent that rural poverty is concentrated in the remoter areas less well incorporated into the money economy, it can be said that they are less susceptible to suffering from the effects of the economic adjustment measures. Third, extended families in rural areas offer a broader cushion to absorb temporary economic losses from either employment or price fluctuations. And, fourth, rural families normally spend a much lower proportion of their income on food consumption purchased outside the home, hence the impact of price increases on their food consumption would be noticeably smaller.

Construction Crunch. Some subsectors are more affected by measures of economic adjustment than others. The impact suffered by the construction industry is of special interest because it provides employment for a large number of urban workers with little or no skills, and who are already at the bottom of the socio-economic strata. The housing construction and public works subsector in Tunisia has come to a dramatic halt in the past couple of years as a result of the credit crunch that followed the external shocks, as well as the contraction of government outlays for public works. The rise in interest rates, as well as the economic uncertainty regarding prospects of the economy, have also held back investment in other sectors. The Government, conscious of the role of this sector in helping to alleviate the unemployment crisis, has allocated special programs to promote self-help housing and labor-intensive public works managed at the Gouvernorat or regional levels. As a group, the unemployed laborers from the construction industry should be considered a priority target population for the safety net food aid program.

Table I, in the following page, presents a visual representation of the anticipated short run effects from the principal economic adjustment measures on the main indicators relevant to assessing the impact on the poor. The most significant of these indicators, in the view of the team, is the rate of unemployment. Serious as it might be, the loss of purchasing power of the working poor from price increases in food

Short Term Impact of Economic Adjustment Measures on Tunisia's Urban Poor
1987-1988

EAP Policies	Employment		Income		Prices Non-food		Prices Food		Poverty & Nutrition	
	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988
Currency Devaluation	--+	+++	-	-+	--	-	-	-	--	+--+
Tight Credit	---	---	-	-	-	-			---	---
Interest Rate	--	--	-	-					--	--
GOT Budget Cuts	---	---	-	-					---	---
Price Decontrol	+	+		+	-	-	-		+-	+
Import Decontrol	+	++	+	+	+	+			++	+
Investment Dec.	+	++	+	+					+	+
Export Promotion	+	++	+	+			-	-	+	+
Wages/salaries	+ - +	++	-	-	+	+			-+	+
Subsidy Reductio	--	+			-	-	---	---	--	--
Oil Price Up	+++	++	+	+	+	+	+	+	++	++
Tourists	++	++	+	+	-	-	-	-	++	++
Rains	+++	+++	+	+			++	+	+++	+

and other consumption goods, is clearly less severe than the hardship endured by households where the head has lost a job. From the Table, it is also apparent that the economic adjustment measures have stronger impacts on employment (and income) than they have on prices of consumer goods consumed by the poor. The pluses and minuses indicate whether the measures will enhance or depress the condition of the poor, and the number of signs indicate the relative strength of the effect.

Parastatals Lay-offs. Other high-visibility unemployment has occurred as a result of the Government's decision to drastically reduce manpower at the state-owned phosphate mining companies concentrated in Gafsa. In those cases, the mining companies, with the financial support of the Government, has extended some benefits to the discharged workers until more permanent solutions can be found. Although this represents a clearly identifiable group affected by economic readjustment, the decision to assign it priority as part of the safety net food aid program requires a closer inspection of the problem there.

Young and Unemployed. Another group of unemployed that concerns the Tunisian Government is the group of recent graduates who find no demand for their skills. Since this group is urban, well educated, and politically conscious, the authorities are particularly concerned about finding outlets for their skills and energies. Fully 50 percent of the currently unemployed are found

to be between 18 and 25 years of age, and 25 percent of all unemployed have secondary or higher education. Until 1984 many of these young people found employment in administrative jobs, mainly within the state sector: Over half of the net additions to employment in the 1975-84 decade were in construction and public works and the administration categories, about equally distributed between the two. Given the cutbacks in budgetary outlays that the Government is committed to carry out as part of the Economic Adjustment Program, and the limited options for temporary migration to Europe, it is hard to conceive solutions that will satisfy the aspirations of the young unemployed.

Unfortunately, the "Safety Net" food aid program is poorly suited to help this particular group of young persons. Due to their relatively high level of education, it is not likely that they would be enticed into food-for-work programs which would be so much below their expectations in terms of skills and payment. Their recent dependent status makes it easy for them to remain with their parents or accept the help from other relatives. There is also the fact that being mostly single and male (men in Tunisia, it is said, seldom marry before 25 years of age), they can take care of themselves more easily without much worry about dependent children going hungry.

Natural Deterioration. The unemployment situation is not likely to improve rapidly even if the economy were to regain its

normal rate of growth in the coming months. This is because the natural increase in the active population adds each year close to 70,000 more persons to the working force, while even in the best of years, 1985, the formal sector provided a net increase in employment with 45,000 new jobs.

Income Losses. In addition to the unemployment that can be attributed to the Economic Adjustment Measures, those who remain at work suffer a deterioration in their purchasing power. The freezing of wages, for example, while inflation has continued at a 7 to 10 percent for the past three years, has clearly contributed to a real income loss for middle and working class families. Currency devaluation also tends to raise the prices of imported articles, including foods, as well as export items that now are more attractive to sell abroad. Cuts in government budget have meant not only doing without wage increases for three years, but also lower family allowances in real terms, and fewer social services. These effects are represented visually in Table I, above.

Not all economic measures have negative impacts on household income. Decontrol of prices, investment and imports, as well as export promotion, for example, will likely lead to acceleration of economic activity in the private enterprise sector, with a corresponding increase in employment and, hopefully, salaries. Devaluation of the dinar and streamlining

of export procedures are expected to result in quick improvements in the export sector, including many agricultural products. The latter are also greatly benefited from the consistent increase in agricultural producer prices that have been granted in the past few years.

Finally, incomes of the working poor are expected to increase as a result of the improved conditions in the oil, tourism, and agricultural sectors, which in 1986 were subject to exceptionally unfavorable conditions.

Consumer Prices: Non-Foods. The economic reform program will have a considerable impact on the industrial sector, especially the mining and manufacturing branches. Manufacturing industries have been established in the past under highly protective conditions that the adjustment program threatens to remove. As import restrictions are removed, prices for many items now protected will come down.

On the other hand, the overall devaluation of the dinar has increased the cost of imported raw materials and spare parts to manufacturers, which combined with the decontrol of prices for certain manufactured goods, will certainly lead to higher prices for those items. The impact of the credit crunch, especially on the housing construction subsector, could lead to higher rental values for lodgings, and higher prices for durable items bought

on credit terms. Budgetary cuts in the level of subsidies for some everyday items such as gasoline and bus fares have been implemented, though at considerable cost in popularity of the Government.

Finally, higher earnings from oil exports in relation to 1986, will enable the country to import more consumer goods, as well as intermediate goods, some of which are purchased by the poor, although in relatively less amounts than other groups of the population. Affluent tourists, on the contrary, could drive the prices of some items higher, and place them out of the reach of many of the Tunisian poor. At any rate, the success of the Government in keeping inflation down (6.8 percent in 1986 compared with 8.9 percent in 1985) despite the effect of the above measures, would indicate that price increases of non-food items are not a major threat to the welfare of Tunisia's poor.

Food Price Increases. The policy of relaxing controls on the economy has been extended to many food items, but the principal components of the Tunisian diet remain heavily controlled by the State. Cereals, milk, cooking oil, sugar are all sold to consumers under strict price and margin controls. Even on some items not formally controlled, such as eggs and poultry meat, the State exerts a commanding influence through its monopoly power to import food grains and sell them at a fixed price to poultry producers. Tunisian authorities have been

careful to avoid committing themselves to removal of food subsidies on these items for fear of the social disturbances such measures could generate.

Poor consumers are therefore partially protected from major food price increases by the willingness of the Government to continue the food subsidy policies. Exposure does occur for those food items not controlled or about to be decontrolled, such as processed foods or imported ones. Fortunately, most of those items are predominately consumed by the middle and upper income segments of the population, and very little by the poorer classes. Hence, the impact on the welfare of the poor is correspondingly diminished. In Table I above, only the policy of reduction of subsidies under the economic adjustment program is viewed as having a strong impact on food prices, but its actual implementation in the course of 1987 remains to be decided. It should be pointed out, however, that the authorities did raise the price of bread last August 1986, by reducing the weight by one seventh, without a major outcry from the population.

External factors could also affect the price of food items: Favorable climatic conditions over most of the agricultural areas of the country, lead to expectations of good food production this season, and that will release the upward pressure on food prices. An affluence of tourists on the other hand will lead to higher demand that translates into higher food prices, though, perhaps,

not for the same staples of the Tunisian diet. Higher oil prices also allow the country to import more of the grains and other foods that it already imports.

Target Population Characteristics.

The above discussion of the differential impact of the main economic adjustment measures has helped to identify the characteristics of those population groups most affected by them. Four features seem paramount:

- (a) Urban rather than rural, because the adjustment program will affect mainly industry and commerce, while the agricultural sector is a net beneficiary of the measures;
- (b) Unemployed rather than the employed, because the most severe loss of welfare from the economic measures is suffered by those who lose their jobs completely or are put on half-time employment; although the working poor will also experience a substantial loss, their hardship, in the view of the team, is more bearable than that of the unemployed;
- (c) Unskilled rather than the well educated or those with more marketable skills, because these groups are already at the bottom of the socio-economic scale, are very much affected by the unemployment generated by the adjustment program, and do not generally qualify for the benefits and entitlements of regular salaried workers;
- (c) Heads of Large Households rather than unattached single persons with no dependent children to care for; in

particular, the team does not include the high proportion of young unemployed males with high levels of education; large households, moreover, are more likely to be nutritionally vulnerable, especially because they contain a large proportion of children.

INCIDENCE OF POVERTY IN TUNISIA

In this section we intend to give a general overview of the incidence of poverty in Tunisia. The overview is based largely on the household budget and consumption surveys carried out by the National Institute of Statistics (INS) in 1980 and 1985 and interviews with those who conducted it. Final results of the 1985 household survey were not available to the team at the time of this study (March 1987), however, some of the preliminary results were available to us and estimates based on other sources of data are incorporated into the discussion.

Poverty Levels Definition

To determine the minimum income level for both urban and rural populations in Tunisia, INS used a methodology worked out in cooperation with the World Bank, which takes into account minimum energy allowances, average cost of calories for the poor, and the structure of food and non-food consumption among the lowest income group. Based on the household expenditure and consumption survey, the 1980 poverty level in Tunisia was defined then at 60 dinars/person/year in rural areas and 120 dinars/person/year for urban dwellers. These are threshold incomes required to purchase the minimum calorie allowances while

maintaining the pattern of diet consumed by the poor. Given the income distribution obtained in the 1980 survey, the INS estimated that 12.9 percent of Tunisia's population fell below this poverty income level; this rate corresponds to the weighted average of the 11.8 percent rate for urban and 14.4 percent for rural areas.

Recul de la Pauvrete? For 1985 the National Institute of Statistics recalculated the poverty income level to reflect the increases in prices due to the rising cost of living since 1980. The annual minimum expenditures per person became 95 dinars for rural and 190 dinars for urban households. Based on preliminary results from the 1985 Household Expenditure Survey, the INS estimated that 8.4 percent of the urban and 7.0 percent of the rural populations lived below the poverty level, for an overall national poverty rate of 7.7 percent. From the 1985 Expenditure Survey INS estimated 78,000 households (6.2 percent of the total) living under poverty, for a total of 554,000 persons out of a total population of 7,155,000, i.e. 7.7 percent of the population living in poverty.

The above figure of 7.7 percent poverty is still the most recent official estimate, available in an October 1986 INS internal report subtitled "Recul de la Pauvrete dans le Pays." Exhibit 2 explains why: In the 5 years from 1980 to 1985, the poverty rate had dramatically dropped from 12.9 percent to 7.7

Exhibit 2

EVOLUTION OF POVERTY INCIDENCE IN TUNISIA, 1975-1985.

1 9 8 5 P r e l i m i n a r y			
	Urban	Rural	Total
Poverty Income (Dinars)	190	95	
Poor Population (1000)	325	229	554
Poverty Incidence (%)	8.4	7.0	7.7
1 9 8 0			
	Urban	Rural	Total
Poverty Income (Dinars)	120	60	
Poor Population (1000)	393	430	823
Poverty Incidence (%)	11.8	14.1	12.9
1 9 7 5			
	Urban	Rural	Total
Poverty Income (Dinars)	87	43	
Poor Population (1000)	700	523	1,223
Poverty Incidence (%)	26.5	18.0	22.0
1 9 8 5 R e v i s e d E s t i m a t e d			
	Urban	Rural	Total
Poverty Income (Dinars)	220	105	
Poor Population (1000)	n.a.	n.a.	802
Poverty Incidence (%)	12.5	9.0	11.2

Source: Institut National de la Statistique
 Note Sur les Resultats Definitifs de l'Enquete
 Nationale sur le Budget de la Consommation des
 Menages, 1985: Niveau des Depenses, Repartition
 des Revenues et Recul de la Pauvrete dans le Pays.
 October 18, 1986. Tunis.

percent. It also indicates that the incidence of poverty had shifted from being mainly a rural problem in 1980 to becoming more prevalent among urban dwellers in 1985, as it was also in 1975. While the urban poor were only 48 percent of the total poor in 1980, in 1985 they represented 59 percent.

Recul du Recul de la Pauvrete. Unfortunately, the victory against poverty was short lived. Subsequent data processing analysis of the 1985 household survey revealed that the above poverty income levels were too low. After taking into account shifts in the structure of the diet of the poor, and the price increases in those foods the new poverty income levels were determined at 105 dinars/person/year for rural areas and 220 for urban areas. Using these new estimates, INS now estimates 12.5 percent of urban population and 9.0 percent of rural population living in poverty, for a national average for Tunisia of 11.2 percent (these figures are still unofficial estimates). The total poor population derived from these new figures is 802,000 people.

Again, it is remarkable that poverty has become mainly an urban problem, but the decline in poverty since 1980 no longer seems as decisive. Moreover, the fact that such a minor increase in the poverty income (10 percent for rural and 15 percent for urban) generated a 45 percent increase in the estimate of population under poverty, indicates a highly skewed income

distribution with a large proportion of the population in the lower income levels, hence, the rate of poverty incidence is very sensitive to the levels of income selected.

85 Was Too Good. Another factor that makes the original 1985 estimate of the poverty rate an unreliable indicator of the incidence of poverty in 1987 is the timing of the 1985 Household Expenditure and Consumption Survey. The random sample survey of 7,752 households was carried out over a one year period between March 1985 and March 1986. As it is evident from the earlier narrative, this period precedes the impact of the major external blows that have pounded the Tunisian economy. Only at the end of the survey, the first quarter of 1986, were the effects of the collapse of the oil price and the failure of the 1985-86 cropping season beginning to appear, and the decline in tourism was not at all in the picture. The bulk of the survey therefore took place at an exceptionally favorable time, and it should not be surprising that its results would indicate that poverty had been pushed decisively back in a short span.

Poverty 1986-87. For the purpose of designing this program of food compensation to families affected by the Economic Adjustment Program, it is necessary to reach some estimate of the incidence of poverty presently, and in the next few months. The incidence of poverty in Tunisia is likely to increase temporarily under the EAP due to an increase in unemployment and decrease in

purchasing power from lower wages and rising prices, thus putting economic pressure on those families who are already close to the threshold of poverty. In addition, reduced government expenditures for development and social programs will cause further hardship on people being helped by those programs. However, as it has been argued earlier, the short-term negative impact of the adjustment measures will likely be overshadowed by the evident recovery in oil prices, tourism, and agricultural production.

Although the authorities have not made an estimate of poverty levels for 1986, the team conservatively estimates that the rate must have increased from the 11.2 percent cited for 1985 to at least 14 percent for the first quarter of 1987. This estimate takes into account the effect of external shocks on the economy --drought, decline of tourism, drop in oil prices, and repatriation of Tunisian workers from Libya and France. In addition, the higher rate should reflect the initial impact of the devaluation of the dinar and the tightening of the government budget, and the credit system. There has been little creation of new jobs since 1985 and unemployment has soared, according to most observers. Many families who were previously just above the poverty line must have been pushed beneath that real income level from losses in income and rising prices. The real incidence of poverty could therefore be significantly higher than the 14 percent estimate the team has conservatively adopted.

Poor Estimate. Since the 1986 population is estimated at 7.5 million the 14 percent estimate of poor people would yield 1.05 million, or somewhere about 140,000 poor households, using a 7.5 average number of persons per household. That is to say, the number of poor people since 1985 has increased by 30 percent, from 802 thousands to 1.05 million. If each household is assumed to have 5 children under 14 on average, this would mean a total of 700,000 poor children who could be nutritionally at risk. Of these, 252,000 (36 percent) are between the ages of 2 and 6, and would qualify for pre-school program; 49 percent or 343,000 poor children fall between the ages of 7 - 14 and could benefit from an expanded school lunch program. Presently there are 80,000 children in the pre-school program and 250,000 in the school lunch program, reaching a total of 330,000 needy children out of 595,000. The remaining 105,000 poor children are those less than 2 years old.

We restate that the above estimates are probably on the conservative side. Corroboration of this increase in poverty since 1985 comes from the National Committee for Social Solidarity.

Poverty Census. In addition to the household expenditure and consumption survey conducted by INS in 1985, the National Committee for Social Solidarity (CNSS) carried out a survey in

the last quarter of 1986, which identified 122,680 families (10.6% of the population) requiring welfare assistance. This census was carried out through the administrative structure of gouvernorats, delegations, and sectors. Using the CNSS average family size of 6.5 people, the number of people identified translates into 797,000 people. Note that INS determines poverty based on households and their expenditures, whereas CNSS identifies poor families as the "truly" needy families with dire need of income support. (In 1984 there were 1,581,920 families and 1,273,400 households).

Who are the Poor? The proportion of the population termed "poor" varies according to the socio-professional category of the head of household. Exhibit 3 shows the distribution of the population in the 78,000 households identified as poor in the preliminary tabulations of the 1985 expenditure survey (the 7.7 percent poor estimate). Even though this estimate has been revised, the distribution by occupational category is still illuminating. The table shows that in 1985, households whose heads were farmers or agricultural workers made up 16 and 17 percent of the poor population, respectively, for a total of 33 percent, but only 6.8 percent of farmers and 12.8 percent of farm workers were classified as poor. These results are very favorable to the agricultural sector, and reflect the fact that 1985 was an exceptionally good agricultural year.

Exhibit 3

POOR POPULATION BY FUNCTIONAL CATEGORY OF HEAD OF HOUSEHOLD, 1985

Functional Category	Poor Pop. (thousands)	Percent of poor in group	Percent of total Poor
Farmer	91	6.8	16.4
Farm Laborer	94	12.8	17.0
Artisans, Indep bussinss	53	7.0	9.6
Laborers Inds, comm, serv	222	9.1	40.1
Active in other occupptn	9	1.1	1.6
Active without work	27	18.6	4.9
Retired, or inactive	29	4.8	5.2
Support from outside hhd	29	11.4	5.2
TOTAL	554	7.7	100.0

Source: Enquete sur le Budget et la Consommation des Menages 1985, Preliminary Results, Institut National de la Statistique, Tunis, Tunisia

The largest number of poor, however, are unskilled laborers working in industry, commerce or services. Fully 40 percent of the poor are classified as unskilled laborer, and contribute 222 thousand out of the total 554 thousand poor persons identified by INS, even though as a group only 9.1 percent of them are viewed as poor. It is also noticeable that fully two thirds of them live in the largest cities and towns.

A group that shows the largest percentage of poor are the active but jobless heads of households, since 18.6 percent of those households are poor, even though in 1985 they represented only 4.9 percent of the poor population. In contrast, there were no reported poor cases among households whose head was either a cadre or a member of a liberal profession, nor among those classified as business owner or manager. Similarly, very rarely is a poor household found among middle level cadres or white collar workers.

The occurrence of poverty in 1980 among the occupational categories was not that much different, except that heads of household that were agricultural workers made up 19.1 of the poor (See Exhibit 4). If we include farmers, the percentage of poor whose head of household made a living in agriculture reached 44 percent. The other groups of poor existed among unskilled labor in non-agricultural categories, such as mining, construction, and industry (32 percent of poor) and among "independents" (no fixed

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Exhibit 4
 POOR POPULATION BY SOCIO-PROFESSIONAL CATEGORY OF HEAD OF HOUSEHOLD
 1980

Soc.-Prof. Category	Poor Pop. (thousands)	Total Pop. (thousands)	Percent Poor	Percent of Poor
Farmer	203	1,449	14.0	24.7
Agric. Worker	157	735	21.4	19.1
Unskilled Worker	260	1,924	13.5	31.6
Independ. business. service, artisan	78	594	13.1	9.5
Inactive	109	862	12.6	13.2
Other Categories	18	805	2.0	1.9
TOTAL	823	6,369	12.9	100.0

Source: Enquete sur le Budget et la Consommation des Menages 1980, Vol 2; Institut National de la Statistique, Tunis, Tunisia.

Exhibit 5
 POOR POPULATION BY FAMILY SIZE, 1980

Family Size	Poor Pop. (thousands)	Proportion who are poor (%)	Proportion of Poor (%)
1 - 2 people	8	4.7	1.0
3 - 4 people	44	5.3	5.3
5 - 6 people	199	10.9	24.2
7 - 8 people	303	15.9	36.8
9 plus	269	16.6	32.7
TOTAL	823	12.9	100.0

Source: Enquete sur le Budget et la Consommation des Menages, 1980, Vol 2; Institut National de la Statistique, Tunis, Tunisia.

wages) working in commerce, services and handicrafts.

Working Poor. The preliminary findings from the 1985 expenditure survey as well as the 1980 data available, show that the occurrence of poverty is not equivalent with incapacity to work. In both surveys only a small proportion of poor have non-working heads of households (13.2 percent in 1980 and 15.3 percent in 1985 including the jobless, but only 10.4 percent did not have a supporting member living in the household). The great bulk of the poor are working poor, with incomes insufficient for their needs.

Poverty and Family Size. An obvious contributing factor to poverty in Tunisia is size of households. Exhibit 5 shows the break down in percentages of poor households by family size. It illustrates that the average household in 1980 contained 7.6 members and that the percentage of poverty increases with family size. The largest percentage, 16.6, occurs among households which included more than 9 people. Almost seventy percent of all poor households have 7 or more persons.

Regional Poverty Pockets. Pockets of poverty by region were identified in the 1980 budget and consumption survey and in the preliminary tabulations of the 1985 survey. Close to 45 percent of the population below the poverty line in 1980 lived in the

Northwest and Central West portions of the country. Preliminary findings in 1985 also show the prevalence of pockets of poverty still in the same regions of the country, particularly among the rural population. The southern region, also has a very high percentage of poverty, and it has increased since the 1980 survey, especially among the more urban areas. Over 60 percent of the poor are concentrated in the Western and Southern regions of the country. In designing a project to provide food aid to poor families affected by the economic adjustment program, this disparity of regional incidence of poverty needs to be taken carefully into account. The Tunisian Government already takes the incidence of poverty as a major factor in determining priority areas for development efforts.

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List of People Visited by EAP Team

- Mr. Hashan/ - Coordinator of Food Assistance Program,
Ministry of Foreign Affairs
- Mr. Nourredine Ghanoushi - Ministry of Plan and Finance
- Mr. Sadok Haj Dahman - Ministry of Social Affairs
- Mr. Naceur Bamri - Director, Comite National de Solidarite
Sociale
- Mr. Hedi Amamou - Director, Institut d'Economie Quantitative Bach
Hamba
- Mr. Hedi Ghorbel - Economist, Statistician, Institut d'Economie
Quantitative Bach Hamba
- Mr. Mohamed Naimi - Economist, Institut d'Economie Quantitative
Bach Hamba
- Mr. Fourati - Institut National de la Statistique, Director of
the Household Survey
- Mr. Drira - Institut National de la Statistique, Director of
Unemployment Survey
- Mr. Andre Begin - PAM, World Food Program
- Mr. Hedi Sriti - Assistant Director of Primary Schools, Ministry
of Education, in charge of primary school canteens
- Mr. Richard Bell - Catholic Relief Services
- Madame Faiza Kefi - Direction Generale des Ressources Humaines,
Ministry of Plan and Finance
- Mr. Mohamed Cheikh - Office de Cereales
- Mr. H. Mlika - Developpement Regional, Ministry of Interior
- Mr. Ahmed Doura - Institut Superieur de la Gestion, Coordinator
of Catholic Relief Services Credit Program
- Mr. Mohamed Skouri - Sous-Directeur, Direction Generale des
Ressources Humaines, Ministry of Plan and Finance
- Mr. Mohamed Ben Saber - Inspector of Primary Schools, Tunis
(Visit to primary school canteen in Borj Cedria I)

- School Director - Ecole Primaire de Borj Cedria I
- Dr. Mohamed Louhel - Economist, Institut Supérieur de la Gestion
- Dr. Saleh Hanechi - Director, Economist, Institut Supérieur de la Gestion
- Dr. Mohamed S. Rejeb - Economist, Institut Supérieur de la Gestion
- Dr. Grisa - Economist, Institut Supérieur de la Gestion
- Mr. Mahmoud Bessaies - Secretary General of the Gouvernorat of Ariana
- Monsieur Le Gouverneur de L'Ariana
- Madame Fatma Douik - President, Union National de Femmes Tunisiennes
- Visit to the pre-school center with Mr. Naceur Bamri in Cite Ettddhamen, Ariana
- Mr. Zeine Mestiri - Ministry of Plan and Finance
- Mr. Jim Vermillion - Health, Population, and Nutrition Advisor, USAID/Tunis
- Mr. Fritz Weden - Mission Director, USAID/Tunis
- Mr. Jonathan Sperling - Assistant Director for Programs, USAID/Tunis
- Ms. Nancy Tumavich - Assistant Director for Project Management, USAID/Tunis
- Mr. Abdel Hafed Lakhtar - Food for Peace Officer, USAID/Tunis
- Mr. Mohamed Abassi - USAID/Tunis
- In addition, two meetings took place with a GOT Oversight Committee made up of representatives from Ministry of Plan and Finance, Ministry of Foreign Affairs, Committee National de Solidarite Sociale, Office of the Prime Minister and Ministry of Social Affairs, and the Office de Cereales.