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**AGRIBUSINESS
SECTOR
STRATEGY FOR
USAID/TUNISIA**

Prepared for the U.S. Agency for International Development under contract
number PDC-1096-I-23-8043-00

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April 1990



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TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| EXECUTIVE SUMMARY | vii |
| SECTION ONE | |
| THE USAID AGRIBUSINESS SECTOR STRATEGY | 1 |
| OBJECTIVES AND SELECTION CRITERIA | 1 |
| MAJOR COMPONENTS OF THE STRATEGY | 2 |
| Export Orientation | 2 |
| Subsector Approach | 2 |
| Elements of The Strategy | 3 |
| SECTION TWO | |
| BACKGROUND | 5 |
| ECONOMIC SITUATION | 5 |
| Structural Adjustment Reforms | 6 |
| Agriculture — the Growing Food Gap | 7 |
| Implications for The Future | 9 |
| AGRIBUSINESS DEVELOPMENT IN TUNISIA | 10 |
| Main Agribusiness Subsectors | 10 |
| Agricultural Trade | 11 |
| General Appraisal and Perspectives | 12 |
| Institutional Setting for Agribusiness Development in Tunisia | 13 |
| Financial Support to Agribusiness Development | 14 |

| | |
|--|----|
| SECTION THREE | |
| STRATEGY RATIONALE | 17 |
| AGRIBUSINESS FOR EXPORT VERSUS DOMESTIC CONSUMPTION | 17 |
| Close fit with Mission Strategy for Tunisia | 18 |
| Unmet GOT Export Promotion Objectives | 18 |
| Potential for Sizable Income Generation | 18 |
| A.I.D. Comparative Advantage | 18 |
| U.S. Agribusiness Competitive Advantage | 19 |
| MAJOR CONSTRAINTS | 19 |
| Market Failures | 19 |
| Artificial Market Protection | 20 |
| Production/Supply and Processing Capacity Constraints | 21 |
| WEAK STRATEGIC PLANNING FOR EXPORT DEVELOPMENT | 22 |
| RATIONALE FOR THE SUBSECTOR FOCUS | 22 |
| SECTION FOUR | |
| SUBSECTOR ANALYSIS | 25 |
| CRITERIA FOR SUBSECTOR SELECTION | 25 |
| Export Market Opportunities | 25 |
| Adequate Policy and Institutional Environment | 25 |
| FRUITS AND NUTS | 26 |
| SEAFOOD | 30 |
| VEGETABLES | 33 |
| EDIBLE OILS | 36 |
| WINE | 38 |
| SECTION FIVE | |
| STRATEGY ELEMENTS | 41 |
| ECONOMIC LIBERALIZATION AND INCREASED | |
| MARKET COMPETITIVENESS | 41 |
| Government Protection | 41 |
| Privatization | 43 |
| SUPPORT TO THE PRIVATE SECTOR | 44 |
| Role of Trade Organizations | 44 |
| Institutional Strengthening | 45 |
| Strategic Market Development | 45 |
| Access to Resources | 46 |
| Market Development | 47 |

| | |
|---|------------|
| Technology Development | 47 |
| Joint-Venture Development | 47 |
| Policy Analysis, Monitoring, and Evaluation | 48 |
| OPTIONS AMONG THE STRATEGIC ELEMENTS | 48 |
| SUMMARY | 49 |
| | |
| ANNEX 1: INTERPROFESSIONAL GROUPS | 1-1 |

LIST OF FIGURES AND TABLES

| <u>Figure</u> | | <u>Page</u> |
|--------------------------|---|--------------------|
| 1 | Balance of Trade for Food | 7 |
| <u>Tables</u> | | |
| 1 | Value of Agricultural Production | 9 |
| 2 | Principal Agricultural Exports | 12 |

EXECUTIVE SUMMARY

Following a severe economic crisis in 1986, Tunisia has embarked on an ambitious structural adjustment program with the support of the World Bank, the International Monetary Fund (IMF), and other donors. The structural adjustment program is designed to make the economy less vulnerable to exogenous shocks and to strengthen economic growth. Since 1986, the implementation of the structural adjustment program and a strong government export promotion program appear to have turned the economy around, and have led to a recent upswing in the Tunisian economy, marked by increased investment, exports, and consumption. The business environment and economic prospects are improving steadily. However, Tunisia still has a long way to go before its economy is on a sound footing.

The focus of the USAID/Tunis Country Development Strategy is to transform Tunisia into a market-driven, export-oriented economy spurred on by a revitalized private sector. Critical elements of this strategy include support for the government's efforts to implement the structural adjustment program, and support for the transfer of public sector functions and assets to the private sector, for trade liberalization, and for the development of private commercial agricultural activity.

PROGRAM STRATEGY

Strategy Focus

Consistent with the overall Mission strategy, the Agribusiness Strategy and Program will focus on promoting and implementing activities that will accelerate sustainable, market-driven growth in the agribusiness export sector. The strategy will take a subsector approach to identifying and resolving particular constraints, dealing with the fruit, vegetable, edible oils, seafood, and wine subsectors.

Export Orientation

An export orientation fits directly within the Government of Tunisia (GOT) program, and presents a significant opportunity to increase export revenues and to leverage off of USAID's comparative advantage over other donors to provide this assistance. Implementing a true export strategy requires consistent policies that will require significant changes in the GOT approach to agribusiness regulation that has stemmed from its policy to promote self-sufficiency in agricultural products. Achieving those changes will require a focused effort that should not be diluted by a scattered approach.

Subsector Approach

The subsector approach was selected over sectoral or commodity approaches because it combines the specificity required to identify particular areas for intervention with the flexibility to work on activities in a range of commodities within the subsector. Not all the subsectors in agribusiness deal with exports or have the potential to export. At the same time, specific activities that can be undertaken at the

subsector level include packaging, marketing, transport, refrigeration, quality control, leveraging off of existing activities, and dealing with many of the supply problems that go well beyond a commodity-specific approach.

Strategy Analysis and Elements

A recent review of the evidence on structural adjustment in agriculture shows that getting markets operating and prices right is by itself not sufficient to ensure higher long-term agricultural growth. Some factors, like the adoption of new technology, are dependent partially on the price structure, but other constraining factors, such as needed research for new technology, inadequate infrastructure, and weak extension services, clearly fall into the category of "public goods" and will not be removed or rapidly resolved simply through higher relative prices. This means that policy reform alone is not sufficient to stimulate rapid adjustment, and that direct assistance must be provided to the private sector to stimulate growth.

Within the guidelines of an export orientation and a subsector approach, the strategy will adopt a combination of elements that promote continued **market liberalization and increased competition** in the private sector, both domestically and eventually on an international level, and provide **direct support to the private sector**.

Major Constraints

The major constraints center on **market failures, artificial market protection, underdeveloped production/supply and processing capacity, and weak strategic planning for export development.**

The **market failures** are caused primarily by horizontal segmentation of the subsectors, GOT pricing policies, and frequent GOT intervention into private sector matters. The horizontal segmentation is caused by the lack of direct contact between the different actors in a subsector and the lack of incentives to communicate important market information. This segmentation has its roots in the nature of Tunisian businesses and in GOT pricing policies and other interventions.

Artificial market protection has been established through import tariffs and quantitative restrictions, government control of some marketing channels, and the dominant market positions of inefficient parastatals. These have combined to provide price umbrellas and remove the incentive for many firms to become more efficient and competitive.

On the **supply and processing side**, major constraints appear in land supply, technology adoption, working capital, packaging, and management capacity. These limit the ability of the Tunisian agribusiness sector to exploit potential resources and maximize economic activity.

There is **weak strategic planning for export development** at both GOT and private sector levels. For many products, the GOT favors, and enforces, meeting domestic demand first and exporting the remaining surplus. This means that the private sector gears its production to the domestic market rather than for export.

Main Strategic Elements

To overcome these constraints, suggested Program strategy comprises four main elements that will lead to greater market liberalization and increased competition along with direct support to the private sector. Thoughtful and efficient implementation of these elements should be a driving force towards promoting the agribusiness export sector.

1. **Identify and implement a policy reform package to liberalize and resolve constraints to produce, process, and export goods from the selected subsectors.**
2. **Reform parastatal responsibilities and privatize commercially oriented GOT organizations, to remove the GOT from direct competition with private sector enterprises.**
3. **Establish strong, sustainable private sector trade organizations that focus on developing the export market. This will work to eliminate the horizontal segmentation and will assist the development of private-sector-generated strategic planning for export development.**
4. **Facilitate access to the resources required to produce and process raw materials into finished export products and to develop new markets. This will include developing Tunisian joint ventures with U.S. and other third country firms and helping the private sector gain access to financial resources to develop good market strategies and implement market development activities.**

ACRONYMS

| | |
|---------|---|
| APIP | Agricultural Policy Implementation Project |
| ASAL | Agricultural Sector Adjustment Loan |
| API | Agence de promotion de l'Industrie |
| APIA | Agence de Promotion des Investissement Agricoles |
| ASACI | American Society of Agricultural Consultants International |
| CEPEX | Centre de Promotion des Exportations |
| CCV | Cave Cooperative Viticole |
| DG | Directeur General |
| EEC | European Economic Community |
| FOPRODI | Fond de Promotion de la decentralisation de l'Industrie |
| FOSDA | Fond Special de Developpement de l'agriculture |
| FOSEP | Fond Special d'encouragement de la Peche |
| GDP | Gross Domestic Product |
| GI | Groupement Interprofessionnel |
| GNP | Gross National Product |
| GIAF | Groupement Interprofessionnel des Agrumes et des Fruits |
| GICA | Groupement Industriel des Conserves Alimentaires |
| GID | Groupement Interprofessionnel des Dattes |
| GIL | Groupement Interprofessionnel des Légumes |
| GOT | Government of Tunisia |
| IBRD | International Bank for Reconstruction and Development |
| IMF | International Monetary Fund |
| INNORPI | Institut National de la Normalisation et de la Propriété Industrielle |
| MTD | Millions of Tunisian Dinars |
| MT | Metric Ton |
| OCT | Office de Commerce de Tunisie |
| ONH | Office National de l'Huile |
| ONP | Office National de la Pêche |
| ONV | Office National de la Vigne |
| OTD | Office des Terres Domaniales |
| SODAD | Société de Développement des Dattes |
| STIL | Société Tunisienne des Industries Laitières |
| TD | Tunisian Dinar |
| TO | Trade organization |
| UCCV | Union des Caves Cooperatives Viticoles |
| UTICA | Union Tunisienne de l'Industrie du Commerce et de l'Artisanat |

SECTION ONE

THE USAID AGRIBUSINESS SECTOR STRATEGY

OBJECTIVES AND SELECTION CRITERIA

The Agribusiness Program of the U.S. Agency for Institutional Development/Tunis flows directly from the objectives laid out in the Mission's Action Plan and the private sector and agricultural sector strategies: to transform Tunisia into a market-driven, export-oriented economy spurred on by a revitalized private sector. Critical elements of this strategy include support for the Government of Tunisia's (GOT) structural adjustment program, implementation assistance for the transfer of public sector functions and assets to the private sector, trade liberalization, and the development of private commercial agricultural activity. Within this framework, the Mission's agricultural strategy is linked to implementation of Tunisia's basic sectoral reform agenda through continued support of the initiatives undertaken in the context of the seventh Plan and the GOT/World Bank (IBRD) Agricultural Sector Adjustment Loan (ASAL).

The Mission's Agricultural Sector Strategy Statement of July 1989 identifies the following criteria, among others, as the basis of selection of all new program initiatives. The activity should:

- Directly support and strengthen the primary objectives of Tunisia's agricultural structural adjustment program;
- Directly address the increase in productivity and profitability of enterprises in the agricultural sector through greater export earnings, higher factor productivities and net producer revenues, and/or creation of additional sector employment through labor intensive technologies;
- Emphasize more effective utilization of public investments in infrastructure, encourage more investment and management by private sector agents, and/or raise operation efficiencies in agro-industrial enterprises owned and operated by private entrepreneurs; and
- Be national in orientation to have the maximum possible impact on sector evolution.

In addition to the above, the strategy must be focused and simple to implement, and build on the comparative advantages of the Mission and of the United States. The proposed Agribusiness Strategy respects these criteria, along with the privatization and trade liberalization elements of the Private Sector Strategy.

MAJOR COMPONENTS OF THE STRATEGY

Consistent with the overall Mission strategy, the Agribusiness Program will focus on promoting and implementing activities that will accelerate sustainable, market-driven growth in the **agribusiness export sector**. The strategy will take a **subsector approach** to identifying and resolving particular constraints in the fruit, vegetable, edible oils, seafood, and wine subsectors. Finally, the strategy comprises four principal elements that will serve as the driving force to promote the agribusiness export sector:

- Identifying and implementing a **policy reform package** to liberalize and resolve constraints to produce, process, and export goods from the selected subsectors;
- Assisting **parastatal privatization** to remove the government from direct competition with private operators;
- Establishing strong, sustainable **private sector trade organizations (TOs)** with a particular focus on the development of the export market; and
- Facilitating **access to resources** required to produce and then process raw materials into finished export products. This element includes **Tunisian joint ventures** with U.S. and other third country firms.

Export Orientation

Faced with a wide range of potential interventions between domestic and export activities, adopting the export orientation will focus the decision process. An export orientation is justified because of its fit within GOT program activities, its significant potential to increase export revenues, and USAID's comparative advantage over other donors to provide this assistance. Implementing a true export strategy requires consistent policies that will demand significant changes in the GOT approach to agribusiness regulation — an approach that has stemmed from GOT policy to promote self-sufficiency in agricultural products. Achieving those changes will require a concentrated effort that cannot risk being diluted by a scattered approach.

Subsector Approach

The subsector approach was selected over sectoral or commodity approaches because it combines the specificity required to identify particular areas for intervention and the flexibility to work on activities that will deal with a range of commodities within the subsector. Not all the subsectors in agribusiness deal with exports or have the potential to export. At the same time, specific activities that can be undertaken at the subsector level include packaging, marketing, transport, refrigeration, quality control, leveraging off of existing activities, and dealing with many of the supply problems that go well beyond the commodity-specific approach.

Elements of The Strategy

Economic Liberalization

A series of policy reform issues including import tariff reduction and fixed producer and marketing prices must be addressed to increase the competitive nature of the subsectors. These will conform with the measures already taken under the structural adjustment program, but will focus on the specific subsectors to bring about more rapid change.

Parastatal Reform and Privatization

USAID should promote the reform of state-controlled marketing monopolies and the privatization of existing parastatals, which slow down the process of economic liberalization in the designated subsectors. The GOT has already begun an extensive privatization program, and the Agribusiness Strategy will try to better target and to speed up the privatization process for specific commercially oriented parastatals and public interest organizations that should be in the private sector.

Private Sector Trade Organizations

The GOT has founded interprofessional trade associations for dates, fruits, vegetables, and canned goods. These associations bring together private sector producers, processors, and exporters in a GOT-managed forum to discuss problems and implement supporting activities in their individual subsectors. As private organizations, with complete managerial autonomy, these associations would be more responsive to the needs of their members than to the perceived needs of government.

Access to Resources

Removing constraints on access to inputs such as land, working capital, technology, and management skills, either through policy reform or assistance through the private sector trade associations, will be necessary to provide sustained growth of agribusiness exports. Tunisians rely heavily on foreign partners as reliable sources of technology and technical assistance. This strategy will promote increased contacts and facilitate joint venture activities, particularly with U.S. agribusinesses.

SECTION TWO

BACKGROUND

ECONOMIC SITUATION

The economic picture in Tunisia is brightening. In spite of two bad harvests that led to a 24 percent decline in agricultural production in 1988, and to only a slightly better performance (+5 percent) in 1989, economic growth stayed positive (+1.5 percent) in 1988 and increased by 3.1 percent in 1989. Strong growth in exports, responding to the ongoing devaluation of the Dinar, helped to prevent a decline of the GDP in 1988. In contrast, the growth in 1989 was fueled mainly by increased investment and by important public and — to a lesser degree — private consumption.

Private consumption increased by 4 percent in real terms in 1989. It is the first indication of relief to the Tunisian people, after four consecutive years of declining real per capita consumption. The significant increase in investment (12 percent in real terms) confirms that the downward trend, which started in the early 1980s, has been broken. Both the consumption and the investment upswings are the good news that the GOT has been impatiently waiting for. These upswings show that the structural adjustment program, which the GOT has been diligently implementing, has at last started to bring positive results.

Worsening unemployment, however, still represents the greatest challenge to the GOT. Successful completion of ongoing reforms, good economic management, and favorable climatic conditions for several years are required to bring about the continued rapid economic growth that will turn unemployment around.

Exports of goods (in current prices) increased by 25 percent in 1987, by 18 percent in 1988, and by 33 percent in the first 10 months of 1989. The most important gains in 1989 were recorded in exports of oil (+66 percent) and manufactured goods (textile-garment and footwear: +33 percent). The export performance of the Tunisian manufacturing sector compares well with that of their principal competitors and neighbors, but it is limited to the off-shore subsector (textile-garment and footwear). Olive oil increased less (+12 percent), while exports of wine, fruits, and vegetables were affected by the bad weather and decreased.

Wage restraint and a sharp decline in investment caused only modest import growth in 1988. This growth created a current account surplus that was used to improve the debt service ratio from 28 percent in 1986 to 22 percent in 1988. However, the increased investment and consumption in 1989 fueled imports that increased at the same rate as exports. As a consequence, the debt ratio has deteriorated to 24 percent. This is not far from the record 28 percent reached in 1986, in the midst of the crises that led the GOT to initiate a stabilization and structural adjustment program with the International Monetary Fund (IMF) and the IBRD.

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Structural Adjustment Reforms

The GOT commitment to economic adjustment, despite difficult political transition problems, has led to substantial support by the World Bank and other donors. Among the Bank's long series of project and subsector loans are the first ASAL in 1986 and an Industry and Trade Policy Adjustment Loan in 1987. The IMF signed a Stand-by Agreement with the GOT that was successfully implemented from 1986 to 1988, followed by an Extended Arrangement (EA) currently in force. The recent evaluation of the EA by IMF staff gives the GOT generally high marks for good management of an economy that is intensely vulnerable and is undergoing significant structural change in the context of exogenous shocks.

Objectives

The structural adjustment program is designed to make the economy less vulnerable to exogenous shocks and to strengthen economic growth. This should allow per capita income to grow and prevent unemployment from rising. The external constraints will remain severe. Unless unexpected new sources of petroleum are found, petroleum extraction is expected to decrease by 5 percent annually and make Tunisia a net oil importer in the early 1990s, thus reducing budgetary revenues from oil from a peak of 8 percent of GDP in 1982 to below 3 percent in the early 1990s.

Agricultural production should increase significantly to catch up with the rapid growth of food demand (4.4 percent a year) and alleviate the strain on the GOT budget of an increasingly costly set of food subsidies. The external equilibrium is to be maintained by an increasing export orientation of the economy and by restraining the government deficit through reduction of consumer subsidies, privatization to reduce operating losses of state and parastatal enterprises, and reduction of the GOT operating budget.

The program has been designed to replace the largely state-run, inward-oriented, inefficient system by an export-oriented economy functioning within a suitable system of market incentives. Principal elements of the policy reforms include:

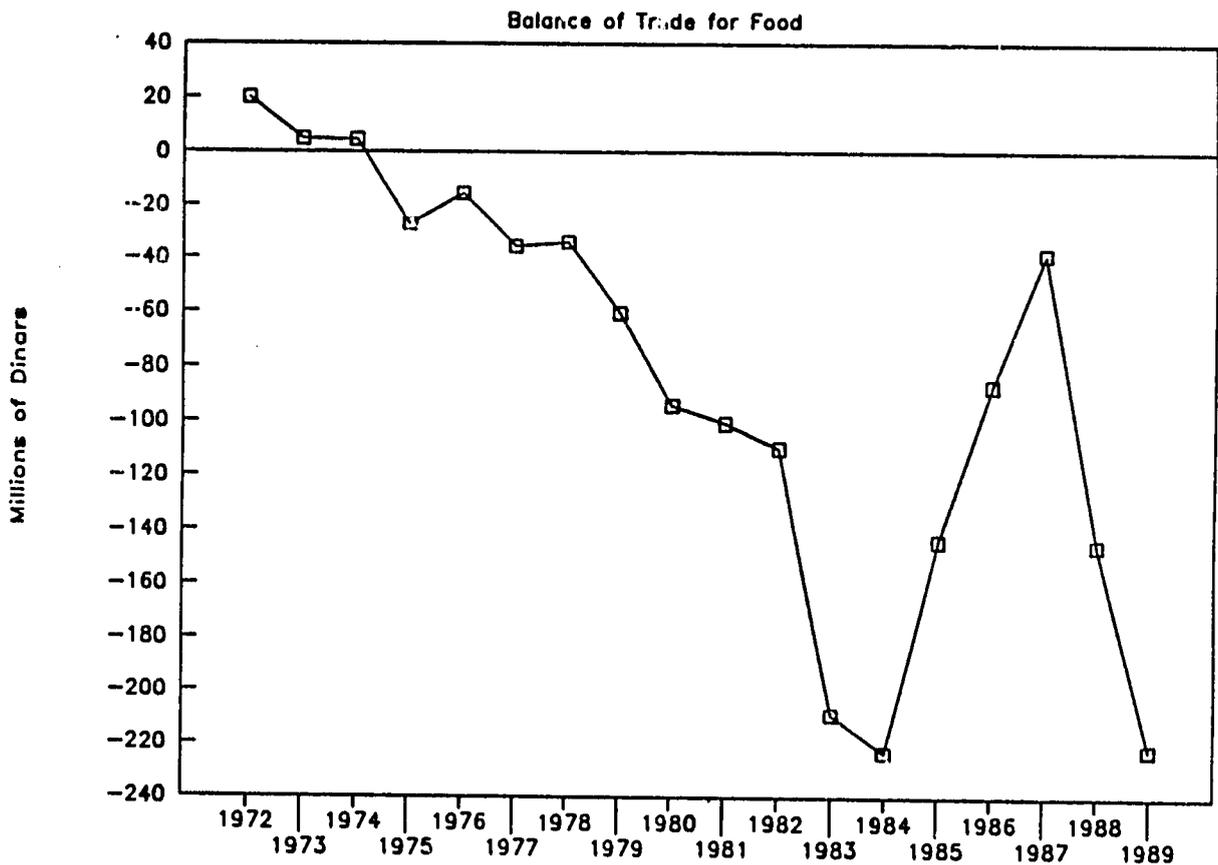
- Improvement of the institutional framework for agriculture and industry;
- Decontrol of most producer prices by 1991;
- Gradual elimination of subsidies on inputs and irrigated water;
- Rationalization of investments, including credit policy, which implies phasing out of priority credit lines; and
- Rationalization of the utilization of natural resources, implying a reform of land policy including a reorganization of the Office des Terres Domaniales (OTD).

The reforms are well advanced and should be completed in the next year or two.

Agriculture — The Growing Food Gap

The relative importance of agriculture in the Tunisian economy has decreased over the past 25 years. Today, agriculture accounts for 11 percent of GDP, 26 percent of employment, and 12 percent of export earnings. The growth of agricultural GDP slowed considerably in the last 15 years; the average rate of growth was 2.8 percent a year, identical to the rate of population growth. This means that local agriculture has been unable to satisfy the growing domestic demand for food fueled by a combination of GDP growth (4.4 percent), rapid population growth (2.4 percent), a high rate of urbanization and increasing food subsidies. The resulting food gap has been placing an increasing strain on the balance of payments. The average food gap, shown in Figure 1, which represented less than 10 percent of the total trade deficit in the 1970s, reached 25 percent in 1983, with an average of 15.4 percent over the 1980s.

FIGURE 1



Expanding oil revenues and the availability of cheap food imports (subsidized by the exporting countries and, before 1986, through the overvalued exchange rate) contributed to this unfavorable trend. Had the economic growth in the 1980s been more vigorous, the gap would probably have widened even more.

Pattern of Production Growth

Growth has been concentrated in the irrigated sector, which covers less than 5 percent of cultivated land but accounts for 38 percent of agricultural GDP. A combination of public investment in irrigation, subsidized inputs for cereals, and free output prices for fruits and vegetables, beef, and nonindustrial milk created advantageous conditions, and producers reacted by significantly increasing the supply.

A liberalized environment for the fisheries subsector led to a doubling of its output over the last 10 years, with much of the increased production sold in export markets. In contrast, production of the traditional export staples of olive oil and wine, which have so far remained under parastatal control, recorded declining production. The increase of cereal production in the second half of the 1980s was due mainly to more intensive use of inputs in expanding soft wheat production and continued area expansion in barley. The evolution of principal subsectors over the past decade is presented in Table . It is important to note the greater increases in production between 1984 and 1987 as compared with the period 1980-1984, reflecting the changes mentioned above.

Investment

Investment in agriculture and fishing has been increasing faster than investment in the other sectors of the economy. The share of total investment in agriculture and fishing has increased from 12.39 percent in 1979 to 17.1 percent in 1989. Relative to the GNP, the share of agriculture and fishing has remained relatively constant (between 3.5 percent and 4.5 percent), while investment in other sectors declined. Almost half of the investment in agriculture is for irrigation, financed mostly by the public sector. Other important investments were recently realized in the subsectors of livestock, fishing, forestry, and water conservation. The biggest increase, however, and from a very small base, was recorded in integrated agricultural production projects.

Investment in agribusiness has been primarily by the private sector, though GOT investment has been increasing steadily since 1986 (up from 18 percent of total investment to an estimated 35 percent in 1989). Most investment is for new equipment (rather than replacing old equipment). In the private sector, the principal investments have been in milling and transformation (74 MTD — millions of Tunisian Dinars — between 1982-1989), canning (32 MTD between 1982-1989), and oil manufacture (25 MTD between 1982-1989). Private sector investment is up 50 percent from the low of 22 MTD in 1986/1987.

TABLE 1
VALUE OF AGRICULTURAL PRODUCTION
(1,000 D-constant prices 1980)

| | <u>1977</u> | <u>1980</u> | <u>1984</u> | <u>Share^a</u> | <u>Variation</u> | |
|---------------|-------------|-------------|-------------|--------------------------|------------------|--------------|
| | | | | | <u>1987</u> | <u>87/77</u> |
| Cereals | 84 | 91 | 78 | (11%) | 146 | 74% |
| Fruits | 150 | 164 | 213 | (31%) | 299 | 99% |
| Vegetables | 103 | 112 | 125 | (18%) | 152 | 47% |
| Livestock | 184 | 183 | 196 | (29%) | 221 | 21% |
| Miscellaneous | 16 | 21 | 18 | (3%) | 25 | 65% |
| Fish | 37 | 38 | 51 | (7%) | 61 ^b | 65% |
| Total | 544 | 609 | 681 | (100%) | 814 | 50% |

Source: The World Bank, ASAL2 Report, May 1, 1989.

^a The production share is shown for the "normal" year 1984.

^b Growth rate of value added over 1977-1987 period 3.8 percent.

Potential Productivity Gains

Aside from an increase in investment and expanded production, substantial productivity increases could be achieved by introducing improved farming techniques. Estimates of potential yields for rainfed crops of northern Tunisia made by the Food and Agriculture Organization (World Bank ASAL2 Report, May 1989) indicate that present yields could be increased by 60 - 90 percent for cereal production, by substantially more for feed pulses, and by 25 - 40 percent for forage. Cropping intensity in the areas equipped for irrigation through public financing averages only 70 percent, and, as results for better farms suggest, there is scope for improvement. A more effective use of additional water from rivers further west could, allegedly, double the citrus production in the Cap Bon area. The structural reforms in the agricultural sector and in the rest of the economy are expected to create a business environment more favorable to increased productivity, but significant obstacles will still remain.

Implications for The Future

The opening up of the economy through structural adjustment presents many possibilities for increasing the competitiveness of Tunisian agricultural products on the world market. The improved investment climate has already led to an increase in private sector investment. An increased emphasis on private-sector-led export development is now an appropriate alternative.

At the same time, the demand for food will increase even in the absence of future improvement in per capita income and consumption owing to population growth, estimated at 2.4 percent annually. In addition, any improvement in economic growth will increase demand for food. A more optimistic scenario for future economic growth would result in a widening food deficit. The International Food Policy Research Institute (IFPRI) also calculates that, with the current growth of food consumption, by the year 2000 Tunisia will have substantial food deficits.

Not surprisingly, the consumption of meat, fish, milk, and fruit, which have higher income elasticities, will increase more than that of cereals and oils. This implies that there will be an increasing domestic demand for seafood products and fruits, two of Tunisia's principal export products. This may either lead to competition for exports (in the case of fruit) or may stimulate an even more efficient domestic industry (perhaps with increased demand for canned seafood products).

AGRIBUSINESS DEVELOPMENT IN TUNISIA

Main Agribusiness Subsectors

The main agribusiness subsectors are focused on the domestic market. Agribusiness production has increased over the 1982-1986 period at the rate of 2.2 percent a year, significantly lower than forecasts (6.1 percent) because of the low performance of the oil, wine, and sugar subsectors.

Private agribusiness firms are, on average, small and traditional. This is reflected in the relative importance of press-operators for olive oil and artisanal bakeries. Many of the canning, freezing, and conditioning plants are small by international standards with total sales rarely surpassing 5 MTD. The domestic market for processed products has been protected for many years and new investment was not authorized when installed capacity was deemed to be sufficient to satisfy the domestic market. Hence, in many cases, agribusiness firms have operated in a noncompetitive environment. State-owned or protected firms have controlled all subsectors except canning (except for seafood), processing, and packing.

- **Edible oil processing.** This subsector includes numerous small press-operators (1,100), vegetable oil refiners and extractors, and bottlers. Extractors frequently make soap, using the lowest quality grignons oil rather than selling it to the Office National de l' Huile (ONH). Exports in the edible oil subsector are covered by the ONH monopoly. Twelve large oil refiners handle all imports.
- **Cereals and derived products.** This include mills and *semouleries* (24 units), pasta and couscous (40 units, with a very low utilization rate), bakeries (1,750, mostly artisanal), *biscuiteries* (18 units), animal feed (220 units, of which 42 are state owned and only 100 are functioning with a total 25 percent utilization rate).
- **Dairy.** This subsector includes two parastatals (Société Tunisienne des Industries Laitières and TUNISIE LAIT), which have sole access to subsidies on imported powder milk used in reconstituted fluid milk, and 34 private dairy processors, mainly engaged in cheese and yoghurt production.

- **Meat and poultry processing.** There are only three meat processing units, excluding slaughterhouses. Despite the rapid increase in poultry production in the 1970s, relatively little processing or packaging is provided.
- **Canning and freezing.** Fifty-seven firms process fruit and vegetables while 61 units process seafood products. There has been a large expansion of processing in the tomato concentrate area, including some very modern processing lines with the latest available technology.
- **Wineries.** The majority of the 32 wineries are controlled by cooperatives (Cave Cooperative Viticole or CCV) grouped under a central union (Union des Caves Cooperatives Viticoles); the rest are owned by government farms. Only 10 private wineries account for a small percentage of total production.
- **Fruit packers.** About 40 fruit conditioners for Maltaises and dates process and export this product. These packers often process fresh vegetable products such as potatoes that are an occasional, large, low-value, export crop. Out of these main subsectors, only the olive oil, wine, fruit packers, and the canning and freezing subsectors are currently exporting sizable quantities, as shown in Table 2.

Agricultural Trade

Tunisia is a food-deficit country. Net imports represent 50 percent of cereal consumption; 35 percent of milk consumption, in value terms; and 12 percent of meat consumption, in value terms. In addition, 37 percent of oil consumption by volume is imported. Since Tunisia exports 50 percent of its olive oil at relatively high prices and imports low-price soja or rape-seed oil, net trade is positive in value terms for oil. Despite this overall food and trade deficit, USAID/Tunisia does not believe that trade needs to be balanced in the agricultural sector, which would require a reduction in net agricultural imports. Instead, following its overall export promotion strategy, USAID prefers to focus on agricultural exports.

The export sector is lively in certain specific subsectors and for specific crops for which Tunisia has a comparative advantage. Total agricultural exports were 257 MTD in 1988, up from 153 MTD in 1985, primarily as a result of a tripling in value of seafood exports and the development of tomato concentrate exports. Table 2 presents the figures for the period 1983-1988.

TABLE 2

PRINCIPAL AGRICULTURAL EXPORTS
(millions of TD)

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | |
|--|------------|------------|------------|------------|------------|------------|------------------|
| | <u>TDM</u> | <u>TDM</u> | <u>TDM</u> | <u>TDM</u> | <u>TDM</u> | <u>TDM</u> | <u>Tons '000</u> |
| Fish and Seafood | 27 | 27 | 31 | 50 | 69 | 93 | 18 |
| Tomato Concentrate | | 1 | 2 | 7 | 10 | 13 | |
| Fresh Vegetables | 2 | 4 | 3 | 2 | 2 | 6 | 7 |
| Dates | 13 | 18 | 26 | 26 | 32 | 34 | 16 |
| Maltaises | 5 | 6 | 10 | 12 | 17 | 13 | 43 |
| Other Fruits & Nuts | 2 | 4 | 2 | 11 | 5 | 2 | 1 |
| Olive Oil | 33 | 67 | 43 | 53 | 66 | 70 | 52 |
| Wines | 3 | 7 | 6 | 5 | 7 | 7 | <u>180 mhl</u> |
| Total Food and Agric. Exports | | 153 | 184 | 241 | 257 | | |

Sources: APIP Studies, *Annuaire des Statistiques Agricoles 1988* (December 1989), *Etude de Commercialisation et Transformation des Produits Agricoles* (January 1987).

What is not evident from the table is that exports, by quantity, have remained constant or have decreased over the past decade. For example, 17,000 tons of dates were exported in 1981, more than the 16,000 tons exported in 1988. Olive oil exports dropped from 70,000 tons in 1981 to the current level of 52,000 tons. Only seafood has increased the quantity exported, from 7,000 tons in 1981 to 18,000 tons in 1988, primarily in high-value fresh and frozen products.

General Appraisal and Perspectives

Given the domestic deficit for the main agricultural commodities, most agribusiness firms have set as a priority the satisfaction of the domestic market. As a consequence, the expansion of export products and market diversification have never received the required attention, even for traditional export commodities such as wine, olive oil, and fruits, especially dates.

Despite their small size, many of the processors, particularly for seafood and tomato concentrate, can be competitive on the international market. This is seen by their ability to export. They appear to have been able develop to the stage where they no longer require protection under the infant industry argument. Liberalization of specific subsectors, which will limit GOT control of private investment and reduce protection from imports, would force many firms to improve their management and invest in new equipment to remain competitive. Firms that modernize and adapt should become far more competitive.

Institutional Setting for Agribusiness Development in Tunisia

Tunisia has developed a large number of organizations that support agribusiness development and promote exports. These range from general industrial and export support programs to subsector-specific support organizations.

Central Offices

Agriculture, industry, and export promotion. Special agencies have been created to promote industrial development (API), agricultural and integrated projects (APIA), and stimulate exports. These organizations register their intention to create new firms and determine whether those firms are eligible for the special benefits available under the investment codes (one each for industry and agriculture). The export promotion agency, CEPEX, serves as a general resource for export development. In addition, CEPEX manages the special export promotion fund, FOPRODEX, which provides transport subsidies for new market development and a matching grant program for such activities as advertizing campaigns.

API and APIA have been criticized for creating bottlenecks rather than promoting entrepreneurial development. These issues have been addressed recently and the operating procedures of each organization have been improved. Of particular importance is the creation of the *guichet unique*, a one-stop window for all investment information and document preparation. Although it can still take several months for investment review, private expeditors are available who can push a good project through the process in a few weeks.

CEPEX's services are general and of little use to specific products. CEPEX has performed its task of organizing trade fairs and providing general market information quite well, but this is not sufficient to develop product-specific markets. The organization agrees that it has been weak in the market study and technical assistance areas. This is evident in its management of FOPRODEX, which has historically provided relatively little direct product assistance other than transport subsidies.

Quality control and business representation. The Tunisian office for quality and standards (INNORPI), part of the Ministry of National Economy and Finance, is responsible for setting standards and seeing that they are upheld. While providing general norms and some direct monitoring, INNORPI is unable to actively track and control all products.

The Tunisian Union for Industry, Commerce and Artisanry, UTICA, serves as an employers union with national, regional, and local trade chambers. Although UTICA has some public funding, it is free of GOT interference. Its limited syndicate-level expertise and financial resources to target exports weaken its effectiveness as product-specific lobbyists.

Groupements Interprofessionnels (GIs)

Four government-sponsored organizations include participants from all segments of the important subsectors: dates (GID), vegetables (GIL), tree fruits and nuts (GI AF), and food preserving industries (GICA). The Groupements are state-run equivalents of trade associations, financed largely by the private sector through GOT levies placed on commercial transactions (GICA is 100-percent financed but the others receive some GOT budgetary support).

The Executive Councils of the Groupements are made up of members representing producers, processors, exporters, and GOT members. The private sector has a majority of the seats on their Boards of Directors. Activity centers on production and exports. GICA also has a large processing component.

The Directors General (DG), and often other senior members of staff, are government employees seconded for these duties, but approved by the Board. They can therefore be regarded by industry members as "government men" whose allegiance is likely to be to their employer rather than to the industry to which they have been temporarily attached.

Budgeting by the GIs has had to be done with the agreement of the government and with the approval of the members, since any expenditure that the Executive Council thought necessary would need to come from government funds. Over time, the GIs have been requested by government to undertake commitments normally performed by private companies or by government departments, such as input delivery, plant nurseries, or product marketing and export. (Further details for each of these GIs are in Annex 1.)

Government Marketing Agencies

The GOT still maintains considerable control over trade in several agricultural goods and for imports of important consumer products. In particular, marketing boards control official domestic marketing and exports for wine (ONV) and edible oils (ONH). The state trade company (Tunisian Trade Office or OCT) handles the import of all strategically important foodstuffs, such as sugar, coffee, tea, and pepper.

Both ONV and ONH are actively involved in managing fixed producer prices for their products and in ensuring the proper distribution between the domestic and export markets. Both exercise control over the marketing channels, but ONH maintains rigid control of the entire subsector. In addition, both boards are involved in the encouragement of vineyard and orchard replanting, obviously a weak point considering the steady decrease in hectareage for both products over the past decade. ONH is also involved in the import of other edible oils and their packing and sale on the domestic market. The Ministry of National Economy chairs the price setting committees that fix both the purchase and sale price for oils and wines.

The Tunisian Trade Office becomes particularly important during periods of shortage for specific products, such as tomato paste. It tends to elbow out private operators due to its size, even if its prices are not the best.

Financial Support to Agribusiness Development

Overview of Banking Sector

The Tunisian banking sector is quite developed. With 12 deposit banks, eight development banks, and seven nonresident banks, borrowers have a wide range of sources of credit to choose from. The banking sector was largely liberalized in 1986. Interest rates are still pegged to the Central Bank's prime rate (banks can charge 2.5 percent above prime), but development banks are allowed to charge any rate they choose on their own capital.

Special Financial Programs and Access to Credit

Special funding programs. The GOT provides several special lines of credit and funding arrangements for targeted sectors:

- The fund for promoting decentralization of industry (FOPRODI) was established in 1973 to promote entrepreneurs, and encourage the creation and development of small- and medium-scale industries. It provides three financing schemes: repayable advances for entrepreneurs to increase their capital to qualify for bank loans; long-term credits; and exemption from the first six months of interest payments on bank credits.
- A fund to support the development of agriculture (FOSDA), which provides subsidized medium- and long-term loans to invest in new equipment (7.5 percent); arboriculture (6.5 percent until producing, then 8 percent); and irrigation (7.5-8 percent). Although the spread allowed to the banking system is only 1.5 percent under this program, the line has been fully loaned out, totalling 95.3 MTD in November 1989, up from 79.4 MTD in December 1988.
- The fund to encourage fishing (FOSEP) provides subsidized medium-term (7 percent) and long-term (7.5 percent) loans for the fishing industry. Loans under this program totalled 22 MTD in November 1989, up from 21.5 MTD in December 1988.
- The Central Bank provides regular discounted rates for small and medium enterprises with a 1.5 percent spread for the banks

Targeted Donor Lines of Credit. As of December 31, 1988, the GOT had used more than 8 billion TD of the eleven billion TD in available credits from bilateral and multilateral commitments. The GOT has received special donor lines of credit for partnership arrangements and equipment purchases. Major programs include:

- The French 100 million franc line of credit (about 15 MTD) for joint ventures and partnership arrangements is being handled by commercial and development banks and appears to be operating smoothly.
- The Italian \$140 million line of credit has been difficult to use due to tedious and slow bureaucratic procedures. Less than 40 percent of the line has been expended.
- The Canadians provided \$5 million for tied purchases and joint venture development. None of the money was spent and no joint venture arrangements were finalized even though more than 20 possible arrangements were studied over the three years of the project life. The line has been closed down.
- The World Bank has a 33.7 MTD line of credit at market rates that has been used at a 91 percent rate.

Perspective on Bank Lending for Agribusiness

There is a wide range of potential sources of financing, either subsidized or not, for investors with sound projects. The borrowers usually get to identify the source of the loan money. The borrower's preference for the source of loans to fund agribusiness investment are in order of importance:

- FOPRODI, with its range of special incentives;
- The Central Bank discounted special subsidized funds FOSDA and FOSEP;
- The IBRD line, which is not subsidized; and
- The special purchaser credits from donor countries, which are repayable in foreign exchange, and therefore bear exchange rate risk.

Investors and banks claim that there is little problem receiving/providing access to investment credit, as long as the borrower has a sound, well-detailed project, and can meet initial capital requirements to start an investment (as low as 15 percent of total capital required). For first-time borrowers this may present problems, but, if the project is viable, access to credit can usually be arranged. The development banks are looking for good projects to invest in and have even lowered many of their standards to push money out.

A larger problem appears for working capital, where the banks are not used to lending based on cash flow, but still require collateral. This presents particular problems for farmers without title to their land, and sometimes for processors, who require large sums of working capital to finance short processing campaigns. The banks, often wisely, try to limit their exposure and will rarely lend more than 100 percent of the value of a plant for the working capital requirements. More rapid inventory turnover would allow for new loans to fund new product transformation.

SECTION THREE

STRATEGY RATIONALE

AGRIBUSINESS FOR EXPORT VERSUS DOMESTIC CONSUMPTION

The principal issue in determining the shape of the strategy is whether to focus on agribusiness development to supply export activities or to supply needs for domestic consumption. There are sufficient areas for intervention under either choice to warrant limiting the focus to one.

The critical point in the debate of an export versus a domestic focus centers around the requirements of a proper export strategy. A successful export strategy must be the driving force behind agricultural and processing development — it cannot simply remain a residual of domestic consumption. A strategy for export development would target production for export markets, while the domestic market is supplied initially by nonexportable products and imports. A country cannot develop an operational export program where the primary goal is to meet domestic needs and then try to export the leftovers. Development of an export-oriented agribusiness sector requires a concentrated effort and cannot simply be a part of a larger program.

Under a valid export strategy, the major products to focus on, initially, would be those where Tunisia already has a comparative advantage and a reputation for quality (fruits, vegetables, olive oil, and seafood). The next step is to introduce new products that would leverage the same resources (processing lines, labor, and existing land). Development of other products would not be directly pursued in the initial phase of the program.

Under a valid domestic consumption strategy, the principal products to focus on would be those for which the greatest shortage is predicted over the next decade: meat, dairy products, and cereals. These account for 280 MTD in imports today and, under current IFPRI projections, are likely to reach at least 480 MTD by the year 2000. The Salinger report on comparative advantage of Tunisian products for the Agricultural Policy Implementation Project (APIP) implies that Tunisia can produce meat and dairy products economically as long as they are produced through an integrated system, and cereals on rainfed land.

An export strategy cannot be imposed on private sector firms. It must be developed through proper government pricing policies and a mixture of sound business principles that allow the price incentives to be communicated throughout the marketing channel.

The Mission has opted for an export strategy for several reasons: there is a close fit with the overall export-oriented focus of the Mission strategy for development in Tunisia; there is a significant opportunity to increase export revenues; the GOT expounds an export-promotion view, but has encountered many difficulties applying it to the agribusiness sector, so needs assistance to implement the initiative; A.I.D. has a comparative advantage in relation to other donors in supporting agribusiness export promotion; and U.S. agribusiness firms can be a major source of technology transfer to the Tunisian sector, primarily in the realm of marketing.

Close fit with Mission Strategy for Tunisia

Selecting an export focus flows directly from the Mission's principal strategy to transform Tunisia into a market-driven, export-oriented economy, spurred on by a revitalized private sector. The export dimension takes into account the realities of a small economy, geographically well situated, with a range of highly competitive products stemming from natural comparative advantages. The potential to contribute to a steady increase of foreign exchange earnings and increased employment through an export orientation is real and attainable.

Unmet GOT Export Promotion Objectives

The GOT promotion of exports in the agribusiness sector has not been pursued as aggressively as in the industrial sector, reflecting the GOT's simultaneous and conflicting focus on food self-sufficiency. Tunisia has several high-quality, competitive products, which the present food self-sufficiency agenda allows to be exported only after domestic needs are met. There is no reason why Tunisia cannot replicate its apparent success in the industrial export arena with those agricultural products that have a comparative advantage on the world market, but whose export is being hampered by domestic policy.

Potential for Sizable Income Generation

Agribusiness exports totalled more than 250 MTD in 1988, up from 150 MTD in 1985. And yet the quantity of exports (with the major exception of seafood and tomato concentrate) is basically at the same level or lower than it was 20 years ago. The range of existing constraints can be overcome to increase the quantity and particularly the quality of the products being exported to give them a far greater value. The team believes that with better quality control and product management there is the potential for increasing the value of total agribusiness exports by 50 MTD per year by the end of the program. In dates alone, development and application of a new technology and better quality control by the producers could lead to a 20-30 percent increase in available exports (value 6 MTD a year at current prices). A better understanding of the market and strategic product management could position the product into a higher-value niche or lead to the development of different higher-value products.

A.I.D. Comparative Advantage

Donors find themselves in a competitive market to supply aid, with each donor having a specific competitive advantage. The Mission has developed its competitive advantage and credibility vis-a-vis the GOT in the area of agribusiness policy reform and export marketing strategies through the APIP project. In addition, the presence of long-term advisors providing assistance to the GOT privatization program places the Mission in a strategic position to further pursue efforts necessary to speed the privatization of parastatals, which are slowing the rate of technology change in the agribusiness sector.

An important consideration for USAID in adopting the export promotion focus is the role of the other donor agencies. In particular, the European Economic Community countries are expecting to focus their future agricultural assistance on improving production for domestic consumption rather than for exports. Therefore, USAID can play an important role in helping the GOT on agricultural export promotion.

U.S. Agribusiness Competitive Advantage

One of the objectives of the Agribusiness Promotion Strategy is to foster contacts, commercial links, and partnerships between U.S. and Tunisian firms. The competitive advantage of U.S. firms in providing technology, managerial assistance, and commercial outlets, perhaps through joint ventures, should also be taken into account for each subsector under review. For example, given the similarities between climates in California and Tunisia, California agribusinesses have developed new technologies applicable to several major Tunisian export products: wine, table olives, fruit, and dates. Also, the United States is now a principal producer and the principal consumer of tomato paste products, setting the trends for market development.

MAJOR CONSTRAINTS

The major constraints facing the agribusiness sector in Tunisia stem from a range of policies that cause market failures, the general nature of Tunisian businesses, artificial market protection, and production/supply and processing capacity. These constraints are reviewed here from a general perspective, and specific cases will be presented in the subsector analyses in Section Four.

Market Failures

Horizontal Segmentation

The vertical market structure of the different subsectors within the Tunisian agribusiness sector is cut at several different points, making it difficult for product information to flow between the horizontal segments. Proper price incentives should naturally flow from the wholesaler/exporter through the processor to the raw material producer. However, due to horizontal segmentation of the subsectors, this price/information flow is disrupted at several points, preventing the end user from getting the appropriate product from the initial producer. This market failure is caused by different circumstances: when policies prevent price incentives from reaching one horizontal segment in a subsector, eliminating market responsiveness; or when, because of uneven flow of market information, one horizontal segment is able to manipulate adjacent segments in the production and marketing channels to capture greater profits.

The nature of Tunisian businesses often leads to horizontal segmentation. The Mission private sector training strategy¹ highlights four characteristics of Tunisian firms that lead directly to horizontal segmentation of the market. Tunisian firms:

- Tend to focus on the short term rather than the long term;
- Tend to focus on the product versus the market;

¹ "An Assessment of Private Sector Training Needs and Resources," Ernst and Young, November 1989.

- Are just beginning to recognize the importance of quality; and
- Are tightly controlled and administered by the director of the firm.

These characteristics tend to give firms a self-centered approach to business that ignores the needs of the market (product differentiation and quality) and the strategic importance of developing long-term relations with suppliers and markets. The resulting horizontal segmentation leads to market failure.

Pricing Policies

For a long time the GOT instituted an active program of setting prices and fixing margins for different actors in the marketing channel, from the producer to the retailer. The guaranteed margins, combined in many cases with limited access to the market, reduced the role of market incentives (prices) to induce changes in behavior of firms, and led to market failure.

The current liberalization of price policy by the GOT is being met with mixed responses, but has led to improved performance and market responsiveness. However, several areas still remain where government-controlled prices are hampering the proper transmission of market information or are producing the wrong signals, such as in wine and olive oil production.

The private sector training strategy also found that firms tend to keep up-to-date on changes in economic policies and laws and respond to those changes, which would be a positive factor behind any well-designed policy reforms under the agribusiness program.

Government Intervention

Market failures are still being caused by unexpected, politically motivated government intervention in the markets. Government regularly bans exports during periods of shortage, limits access to provincial markets during production season until local processing needs have been met, and imposes temporary price ceilings for locally consumed products during Ramadan or when prices appear too high. These actions prevent the free flow of goods from one area to another or distort prices, leading to market failure.

Artificial Market Protection

Import Tariffs and Quantitative Restrictions

The GOT is currently implementing a major operation to limit the number of products protected by quantitative restrictions and to reduce import tariffs as conditions under the IBRD Industrial and Trade Policy Loan. However, Tunisian agribusinesses have been protected from outside competition for a long time and have been provided with little incentive to become competitive on the world market.

The impact is to reduce efficiency, to hurt the consumers, and to spend extra resources. In those areas where the infant industry argument has worked and many Tunisian agribusinesses can be

competitive, restricting the market to protect a few inefficient firms has a negative impact on the subsector development as a whole.

Parastatal Control of Marketing Channels

The GOT still maintains marketing monopolies on two products in the agribusiness export sector: wine and olive oil. Government fixed prices, the aggregation of products, and circuitous marketing channels reduce market incentives and add to the cost of producing the end product.

In several subsectors, large but inefficient parastatals still play an important role in setting market price levels. This offers significant price protection to more inefficient firms while providing excessive rents to the more efficient firms.

Production/Supply and Processing Capacity Constraints

- **Land constraints.** Unexploited productive land in Tunisia is rare, but for Tunisian agribusiness to become competitive in some products, large spaces are required to use mechanized production technologies. There is some available land, primarily under the control of the OTD, on state farms or in failing producer cooperatives.
- **Technology constraints.** Technology constraints to improving the quality and quantity of production are primarily at the producer level. At the processor level, firms have access to many of the latest technologies, but do not always have the knowledge of how to use the technology properly or how to take advantage of those technologies. The technologies exist in most cases; it is primarily a question of getting them adopted.
- **Capital constraints.** These tend to center on working capital more than on investment capital. Investment in Tunisia is no different from that in most developed countries: if you have identified a good product, put together a well-thought-out business plan, and show the right initiatives, you can find the capital to invest in an agribusiness. The major constraint encountered by most investors appears at the working capital level: the supply is insufficient. For processors, this is often a management problem or market problem (excessive costs or inability to market the product fast enough), with the financial constraint being a manifestation of the other problems. At the producer level, access to working capital becomes a larger constraint because the small farmers rarely have access to financial institutions to get a loan, or, if they do, they do not have the collateral necessary to guarantee the loan.
- **Packaging.** Packaging for export is an extremely important quality criterion that can determine the acceptability of a product on the world market, regardless of the quality of the product inside. The quality of locally available packaging is generally quite poor, but it is made worse by poor quality control at the processor level. Local producers of cardboard packaging are consistently unable to compete against foreign producers on a quality basis, an imperative for the quality-conscious European and American markets. Improper handling of cans and poor labelling of bottles causes much of the damage — problems that could be avoided with better manufacturing techniques, management, and supervision.

- **Management capacity.** Tunisian businesses are still maturing. Most are still managed by their original founder and have not been exposed to many outside ideas and pressures. This slows their development and the adoption of new management techniques. The process of developing management skills that are responsive to the world market and open competition will be gradual, as the managers become more sophisticated and broaden their horizons.

In the short run, this lack of management skills will remain a constraint on the ability of Tunisian agribusinesses to identify new markets and new products, and to maximize efficiency. There are several good management role models within the agribusiness sector, which is a positive sign. Special emphasis will have to be placed on promoting the proper management skills and on the use of consulting firms to provide production, management, and marketing advice to inexperienced managers.

WEAK STRATEGIC PLANNING FOR EXPORT DEVELOPMENT

Strategic planning is critical to determine whether to pursue the domestic market or the export market. To date, packaging and marketing of products like tomato concentrate have been geared towards the domestic market. They have not taken into consideration or mastered the requirements for the international market, which demand a well-focused effort. The process of exporting goods that are surplus to domestic needs is not a strategy that will succeed in developing an export trade in a product for which Tunisia has a comparative advantage. An export strategy must start in the market with the customer and take the product back through the packaging and processing phases to the farmer, who must be helped to produce the most suitable raw material.

Tunisian agribusiness exports, with the exception of seafood, have remained steady over the last 15 years. There have been seasonal fluctuations, but no real increase in production or penetration of new markets. And yet Tunisia has several outstanding products that can compete favorably in niche markets worldwide: Maltaises, Deglets Ncur dates, wines, tomato paste, and tuna. The Tunisians have been unable to develop good, product-specific export strategies that take into consideration specific product constraints, the national characteristics of many of the products, and their ability to leverage off one another.

Strategic planning is particularly important for products such as dates, Maltaises, olive oil, and wines. These products are communal in nature: the product differentiation between particular exporters is minimal and all will benefit from respecting high-quality standards (or suffer from a few bad-quality products). Association of a quality product with the name of Tunisia is one of the critical points that needs to be developed. Given the horizontal segmentation of the markets and the self-centered nature of Tunisian businesses, this becomes difficult, but must be conscientiously addressed and overcome.

RATIONALE FOR THE SUBSECTOR FOCUS

As seen above, similar problems and constraints appear across groups of products within a subsector. This is true in the processed foods subsector (excess capacity, working capital, and international marketing) as well as in fresh fruits and vegetables (storage, transport, production, and international marketing). In addition, most of the producers and processors are involved in multiple activities that

involve a range of products within the same subsector. Therefore, solutions developed for one commodity may respond to or be quite easily transferred to another product within the subsector. Support organizations already exist in the subsector that can work directly with the Program.

Focusing at the subsector level will bring added flexibility to the Program. While initially selecting one commodity/product per subsector to focus on, the subsector approach will allow the Program to expand into other promising activities. These may include developing new products or expanding local markets for existing products to enhance the economic viability of existing fixed investments (such as processing plants), which are also being used for export. The smoother cash flow and more efficient use of fixed investments will lead to a sounder financial standing and make the firms more competitive on the international market.

SECTION FOUR

SUBSECTOR ANALYSIS

CRITERIA FOR SUBSECTOR SELECTION

Specific criteria should be used to select the focal subsectors for the Agribusiness Strategy. They pertain primarily to the export potential of the products and the policy and institutional environment surrounding the subsector.

Export Market Opportunities

The proposed Agribusiness Strategy focuses on export development. Hence, the primary criterion used to select a subsector should be its potential for increasing exports.

The agriculture and agribusiness sectors have been extensively documented and researched during the last decade. This work, and particularly studies conducted under the APIP project, have made it possible to identify subsectors with potential for exports.

The main factors determining the potential for exports are:

- **Product differentiation.** Specific characteristics or period of production that allow the supplier to reduce the intensity of price competition with similar products of other origins. Several Tunisian products are, or could be, positioned very specifically on the export market: Deglet Nour dates, Maltaises, wines, sea products, virgin olive oil, off season fresh vegetables, and so forth; and
- **Price competitiveness.** Tunisia has a comparative advantage, provided it improves labor productivity and management, in producing labor-intensive products or Mediterranean products particularly adapted to Tunisian climatic conditions. The constraint limiting price competitiveness is the ability of Tunisian producers, processors, and exporters to secure the required know-how, technology, management, and marketing skills.

Adequate Policy and Institutional Environment

The GOT has decided on significant policy reforms, supported by the IMF and the World Bank. These policy reforms are part of the Middle Term Agricultural Structural Adjustment Program. Some of them, like the reduction of input subsidies, have been postponed as a consequence of the severe drought suffered by Tunisia in the last two years. Many others, such as liberalization of cereals and edible oils marketing, are foreseen for the coming years.

The USAID program should not try to compete with the World Bank packages, but should leverage off them. Hence, USAID should attempt to accelerate the rhythm at which specific policy reforms are adopted and implemented, and accompany these policy reforms by more direct actions that make them more effective. Hence a subsector should be selected if:

- Its policy and institutional environment is favorable to the development of production and exports; or
- Its policy and institutional reforms are in process or could be accelerated or supported by a focused A.I.D. Agribusiness Strategy and Program.

The subsectors selected under the Strategy (and the initial target products) meet those criteria. They are vegetables (tomato paste); edible oil (olive oil); fruits and nuts (dates); wine (general); and seafood (general). These subsectors and specific products were selected based on their demonstrated export potential, the quantity of existing exports, an improving policy environment, and the Tunisian comparative advantage in producing the product.

FRUITS AND NUTS

The fruit subsector includes several commodities, of which very few are exported — mainly Maltaises and dates. Apricots were exported until recently, when production dropped off. Nuts are another product with promise as an export to Europe. Dates are used to illustrate the opportunities, constraints, and proposed elements of the Agribusiness Strategy in this subsector.

Present Situation

Date production is 65,000 tons, of which 45,000 tons are Deglet Nour. Production should increase significantly to 100,000 tons by the year 2000 as a result of planting during recent years; most of the increase will come from Deglet Nour. Exports of Tunisian dates amount to 15,000 tons, for a value of 30 million DT (Tunisian Dinars). Dates represent the third agricultural export commodity after seafood products and olive oil.

Opportunities

Tunisia Has a Unique, High-Quality Product

Tunisia produces a rare type of date: a soft Deglet Nour that can be consumed (1) in its natural form, on the branch, because no pesticides or chemicals are used to produce it in southern Tunisia, or (2) slightly processed (pasteurized). Other countries produce and export so-called high-quality Deglet Nour dates, but they are harder and dryer. Also, they have to be processed to eliminate all trace of the pesticides that are used abundantly; they are washed, pasteurized, and packaged before being marketed. Hence, Tunisian dates have no direct competitor and are easy to position in a specific way on the market.

Thus the product strategy could be oriented towards:

- Natural, on the branch, Deglet Nour that already command a significantly higher price in some countries such as France;
- Processed, packaged Deglet Nour, which are presently the only type demanded in northern Europe, where the Tunisian dates could develop a competitive advantage based on the fact that they are soft and easier to eat.

The Export Market is, to a Large Extent, Untapped

Even though Tunisia has been exporting dates for decades, there has been very little long-term market development. For many years, dates were exported in bulk to Marseille where the main European date distributors are located. The European distributors would sort, process, package, and market the products; Tunisian exporters were essentially brokers between unorganized producers and long-established importers and distributors.

Due to increasing labor costs in France and to the willingness of Tunisians to develop packaging and processing, most of the packaging and processing is now performed by Tunisian exporters. As a result, they now have a better understanding of the final market for their product.

Major Constraints

Inadequate Incentives

The immediate major constraint limiting exports of Deglet Nour is the availability of pest-free dates. The European Economic Community (EEC) allows imports of dates provided less than 5 percent have traces of pest infestation or contamination; several northern countries have much stricter standards. Tunisian exporters have difficulty in meeting the minimum European regulation, let alone the stricter country-specific requirements. Exporters are certain that they could immediately export larger quantities if the infestation problem were solved. And they think, although they may be wrong, that they do not need to engage in any market development activities.

At present, market structure and price policies do not provide producers and collectors with the incentives to adopt the necessary practices that would reduce or eliminate pest infestation:

- The existence of a minimum producer price prevents packer-exporters from penalizing low-quality (infested) dates by reducing their purchasing price;
- In the absence of an effective date collector licensing scheme, based on the satisfaction of quality standards, packer-exporters are in a weak position to impose new practices on collectors that will reduce pest infestation, such as strict separation of infested and noninfested lots, and immediate fumigation; and

- Although producers would soon benefit from a pest control program through reduced losses and market expansion, their short-term financial incentives play against the introduction of such practices. Several methods for controlling pests have been researched under the leadership of GID; all rely on biological controls rather than pesticide sprays. These methods, however, require some collective action: an individual producer cannot protect himself if his neighbors do not do so at the same time. In the absence of any price differential for pest-free dates and given the frequency of the sharecropping system practiced by absentee owners, producers are not likely to organize by themselves to engage in a pest control program.

As a result, the packer-exporters, who know the details of the demand on the export markets, are unable to convey the proper signals through the market to collectors and producers. Producers keep producing infested Deglet Nour, which they deem to be a high-quality product. Losses suffered by packers are high (25-35 percent), which reduces their ability to pay higher prices to producers. Finally, exports are constrained by the lack of pest-free dates.

The subsector is thus segmented horizontally between some 20 packer-exporters, on the one hand, and numerous unorganized producers who are cut off from market constraints and demands, on the other.

Government Intervention Through GID Has Not Been Able to Compensate for Market Failures

Although, in theory, GID is controlled by producers and packer-exporters, the GOT imposes fairly tight control over it. The strength of private exporters enable them, however, to have a say, which may not be the case for exporters of other products in their relationships with other Groupements.

Exporters recognize the usefulness of an interprofessional organization such as GID, but believe that it does not fill the role they expect it to: supporting and organizing producers; and helping to relay their demands for quality, mainly pest-free products (instead of using price incentives).

Lack of any Strategic Marketing for Deglet Nour

Up to now, no one has taken the responsibility for strategic management of the Tunisian Deglet Nour and its market. Tunisian exporters individually have neither the expertise, the financial resources, nor the interest in doing it. Importers, who deal with many different products, have no incentive to invest in a specific product that does not "belong" to them. As a consequence of this lack of strategic management, the market position of Deglet Nour has weakened:

- This unique, truly natural date is mainly marketed at a premium price on a single market, France;
- In France itself, sales have not increased; most of this high-quality product is bought by immigrants and it has not been promoted to potential high-income consumers; and
- In Northern Europe, where sanitary regulations are the most stringent and where demand is strong for natural ("ecological") products, the Tunisian Deglet Nour is perceived as a low quality product, leaving a major part of the European market untapped.

Strategy Elements

A combined program of policy reforms, institutional strengthening, and access to additional resources for market development could enhance the potential for date exports. Representative activities in such a program are listed below.

Policy reforms:

- Government divestiture of the GID, modification of statutes, and more emphasis on support activities to members rather than in meeting government activities;
- Definition of stricter quality standards for the product itself, for fumigation and storage practices, and enforcement of these standards; and
- Privatization of the Société de Développement des Dates (SODAD), the date marketing parastatal.

Strengthen GID:

- Provide technical assistance to improve GID services to members, especially producers; and
- Provide technical assistance to improve vertical coordination and information flow within the subsector. GID should become a forum for discussing and solving problems related to relationships between producers, collectors, and packers-processors

Provide Access to Resources:

- Finance a pest control program under the supervision of GID;
- Finance a marketing study to define a practical medium-to-long term strategy for Deglet Nour and export promotion actions;
- Facilitate contacts between Tunisian and U.S. date specialists, producers, and packer-exporters; and
- Help finance consulting services to assist in the creation of joint venture activities or develop better company specific marketing strategies.

SEAFOOD

Present Situation

Seafood production and exports have expanded during the last two decades, from 30,100 tons in 1971 to 100,000 tons today, in response to growing domestic demand and a favorable export market. Average catch during the last five years totals 60,000 metric tons of demersals¹ and about 40,000 metric tons of pelagics (surface fish - mainly sardines).

Seafood exports currently account for 40 percent of total agricultural exports, recently surpassing olive oil as the principal agricultural export. They have increased at a much higher rate since 1983/84, when the GOT liberalized fish exports and eliminated the monopoly role of the ONP, reaching a value of 90 MTD in 1988 for 17,400 metric tons of fresh and frozen fish. France, Italy and Spain are the major markets for Tunisian seafood. Japan has recently begun buying large quantities of high-quality fresh tuna at high prices, well above local and traditional export market prices.

Seafood imports are sporadic. They have never exceeded 500,000 TD, except in 1988 when they reached 1,750,000 TD. Most imports were of fresh and frozen fish for processing.

The GOT has provided financial and technical assistance to develop and increase production. The latest decision to divest ONP commercial activities shows the GOT's determination to promote a free market and disengage from production and marketing.

Opportunities

Exploiting Untapped Resources

Rational exploitation of an estimated 8,000 metric tons surplus of demersals (mostly on the north coast) can generate more than 2,000 metric tons of fresh and frozen fish per year for exports for about 20 MTD. The 100,000 metric tons of unexploited pelagics are spread equally around the Tunisian coast. This can be exploited to develop an export market for processed sardines and to target unsatisfied domestic demand.

High potential for Aquaculture

Tunisia's 80,000 hectares of lagoons offer good opportunities to develop aquaculture production targeted particularly to the export market. A current capacity of about 1,000 metric tons is under production with another 2,000 metric tons to be developed by the end of 1991. The joint venture formula seems to suit Tunisian partners, for it brings them the technology and a guaranteed market.

¹ Octopus, shrimp, deep water fish, squid, and cuttle fish.

Growing Markets for Seafood Products and Product Differentiation

Europe has a growing market for fish products in the short and long term. Tunisian exporters' growing experience in the French, Italian, and Spanish markets will help them to identify new areas where they can produce products with extra value added. This may mean developing new products that have a much higher value through strategic product management (for example, instead of selling shrimp, selling a shrimp dinner on a brochette). It may also mean importing raw materials for processing to substitute domestically for export of higher quality local production or simply for re-export.

Increased Domestic Demand for Pelagics

Per capita consumption of pelagics is much higher in coastal regions than in the interior of the country. This is because of habits and product availability. Expanding exports coupled with limited catch have constrained domestic supply of some demersals, but there is unmet demand for pelagics in the interior that could be supplied.²

Constraints

Major constraints in the seafood subsector in Tunisia are associated with market failure, artificial market protection, and production/supply and processing capacity.

Market Failures

The existing marketing system fails to develop new products or meet domestic demand from the inland markets. Unmet demand for fresh fish appears to come from weak vertical coordination between various economic agents, as well as from limited cold storage and transport facilities (which are being installed). Limited motivation among the marketing agents, stemming from their control of the market, appears to be behind this failure.

New product development on the processing side is hindered by the horizontal segmentation of the marketing channel. Processors, who have the most incentive to develop new products, are kept far from the consumer, limiting their ability to design and market new products domestically.

Artificial Market Protection

Restrictive import policies aimed at protecting the infant industry and to some extent the local fishermen are no longer justified in Tunisia as the industry matures. In addition, the important role played by the ONP as a domestic market maker provides a domestic price umbrella, encouraging inefficiency among less-motivated processors. Lower prices would increase domestic demand, leading to more efficient processors.

² According to an FAO study and the Commissionnaire Générale de la Pêche (CGP).

Major Constraints Related to the Production/Supply and Processing Capacity Are:

- The limited supply of demersal species to ensure export expansion;
- The traditional conservative management of the processing industry;
- The insufficient market awareness and product development; and
- Limited access to new technology and modern marketing techniques.

The limited availability of demersals means that their continued rapid growth in exports must slow down. Since increased supply will not be available to foster growth, processors must look to developing new markets for the high-quality fish (as they are doing in Japan with tuna) or developing new products that increase the value added.

While elements of the existing processing sector are becoming highly competitive, many remain inefficient and do not meet either the quantitative nor the qualitative requirements of the subsector. Less-motivated owners, who may have inherited their factories, consider this activity as a way of life rather than a competitive business. Traditional and conservative management and failure to reinvest hinder new product development and operating efficiency.

There is insufficient market and product development consciousness within the processing sector. The major target is the undemanding local market that is used to traditional canned sardines and tuna. Little effort appears to be underway to develop new products for the domestic market that could then be further improved and refined for export.

Access to technology for industrial aquaculture production is made available primarily through joint venture projects and foreign partner expertise. This will limit the speed and the rate of exploitation of available aquaculture resources in Tunisia.

Strategy Elements

Tunisia has the opportunity to develop the seafood subsector and to improve related exports by pursuing a policy that increases production in the short run, through full exploitation of its potential resources, and that increases net added value of its fishing resources by developing new products for specific targeted markets over the longer run. The most important strategy elements to achieve this goal are:

Competitive Policy Measures:

- Accelerate ONP divestiture in order to speed up domestic competition; and
- Rationalize tariffs on imported processed and fresh sea food to develop increased cheap supply for domestic market and provide more work for the processing industry.

Strengthen GICA and Expand its Role to:

- Provide efficient and strong assistance to processors and exporters in the areas of market study and development, joint venture development and promotion, product development, new management and marketing techniques, export promotion and development; and
- Assist in developing the domestic production and distribution system for pelagics through increased fresh consumption, more efficient canning, and fish meal that serves the local poultry sector or for export.

Improve access to technology required for aquaculture production by facilitating joint venture with US firms and consolidating the role of existing domestic research institutes in the field.

Quantify available resources. In order to avoid over exploitation of demersals in the eastern coast and to promote catches in the less exploited areas, Tunisia should develop a program to regulate fishing activities along its fishing coast. This will require new and efficient (serious) estimation of fish stock resources in each area of the country.

VEGETABLES

This subsector has two main parts, fresh and processed vegetables, but, for the purpose of this study, canned tomato concentrate has been chosen to represent the subsector.

Present Situation

Canned tomato concentrate represents approximately 85 percent of the Tunisian canned fruit and vegetable pack. In 1990, the 44 canning factories are planning to use 550,000 tons of tomatoes grown on 22,000 ha to produce 95,000 tons of concentrate, of which 35,000 tons could be for export.

The processing capacity has grown steadily each year and a superficial assessment of the figures would lead to the conclusion that the existing equipment is being underutilized. However, the supply of raw material is irregular, building up to a peak volume that often far exceeds processing capacity at that particular point in time.

The Tunisian domestic market currently consumes about 60,000 tons of tomato concentrate. This has traditionally come primarily from domestic producers with the residual from the year's production geared for export. Exports have fluctuated between 1,100 and 12,800 tons over the last five years.

The tomato concentrate market has benefitted from several protectionist measures, typically used to induce development under the infant industries argument. Since the tomato concentrate canners have proven that they can export on the world market, the infant industry protection should no longer be necessary, though some protection may be necessary to prevent negative effects from dumping.

Opportunities

High-Quality Product

Tunisia has the competitive advantages of its climate, low labor cost and access to modern technology. It is in a position to produce a quality of concentrate that stands up well to further processing and tap into the large industrial market for that paste. This will require adopting and mastering new technologies such as the "hot break" and aseptic packaging, which some Tunisian canners have already done. It will also require concentrating on production for the export market rather than for the domestic market.

Further Processing of Imports to Replace Exports

By maximizing its production of high value tomato concentrate for export, Tunisia may find it necessary to make up for a shortage for the domestic market by importing cheaper bulk supplies that local canners can repackage using their canning facilities later in the year, improving cash flow.

Tunisia has a quota for the French market that allows it duty-free entry for 1,000 metric tons/year and a further 1,800 metric tons at 20 percent of the normal duty. In the longer term, the EEC market may become easier to enter as a result of rising labor costs that have already reduced production and processing in France.

Main Constraints

Horizontal Segmentation of the Subsector

There are weak links between different phases of the production, processing and marketing chain which have led to short-term, profit-seeking behavior by individual operators. Examples include the:

- Lack of contact between processors and growers leading to difficulties identifying varieties that could lengthen the season; and
- Lack of incentive for quality control monitoring at factory level since most of the product is bought by wholesalers who do not control quality.

Exports are Secondary to Satisfying the Domestic Market

Most processors and the authorities view the export of tomato concentrate as a remedy for overproduction beyond the domestic market's capacity — a way to dispose of the residual. The government may even limit exports to ensure local supply. However, to build up a healthy export market, the whole industry must be geared towards export from production through processing. The processor must be in a position to seek customers before the packing season and pack to meet their requirements. If meeting the needs of export customers in a year of poor crops in Tunisia leaves the

domestic market with insufficient stocks, then Tunisia should import in bulk at that point for repacking without penalty of heavy duties.

Working Capital Constraint

The packing of seasonal crops, such as tomatoes, involves packing a year's supply in a short period and tying up working capital until the sale has been made and paid for. By concentrating on local sales, Tunisian canners end up holding their working capital in inventory throughout much of the year, hurting their cash flow and restricting their ability to undertake further processing of other products. At the small producer level, lack of land titles often presents difficulties providing collateral for working capital loans.

Protection of the Domestic Market

Processors have been protected from competition by GOT price policies that include fixed margins and import tariffs that has led to the survival of companies with old equipment and poor management. The protected market has not put pressure on them to reinvest in their operations or to improve their marketing efforts.

Short Processing Season Due to Underdeveloped Technology

The tomato packing season lasts for only 35 - 45 days per year and factories work round-the-clock and seven days per week. At the height of the season, much good produce can be lost through the inability of the factories to accept more than their capacity. This loss is keenly felt by the grower and tends to show lower yields in tonnage and in financial terms than would be the case if the harvest could be spread out more evenly over a longer period. Introduction of new tomato varieties with different growing seasons or staggered planting of fields could lengthen the season at both ends.

Program Elements

Remove government intervention into the pricing and marketing of tomato paste by implementing the following policy reforms:

- Remove fixed price margins on sales in the domestic market that promote managerial laziness in a protected market;
- Allow liberal forward market preparation to incite pre-season export sales; and
- Gradually ease controls and duties on imports, making it easier to import product for local sales where Tunisian production can be exported more efficiently.

While liberalizing the environment, some assistance must also be provided to prepare the private sector to respond to the increased competitive environment.

- **Withdrawing government involvement in GICA, putting it solely under the control of the private members, would lead to a more responsive organization to serve the industry and focus attention on the opportunities and the problems facing growers and exporters. These should include improved communication between segments of the industry, assistance to develop new or improved technologies, and the sponsoring of in-depth market studies for communal use by the members.**
- **Improve access to better technologies and resources by providing funding for contract research on new technology development and transfer. Improving the system of land title deeds to improve the availability of credit to farmers. Facilitating contact between Tunisian and US processors for co-operative arrangements of any type; technological transfer, management assistance or joint-venture marketing arrangements.**

EDIBLE OILS

Present Situation

Over the last decade, Tunisia has produced an average of 105,000 metric tons of olive oil, exports 50 percent of it, and imports 120,000 metric tons of raw seed oil, mainly from soja and rape seed.

Opportunities

Access to the EEC Market

Tunisia has a 46,000 metric tons preferential EEC import quota to be renegotiated this year; this quota is likely to be continued for a five-year period.

Some of the olive oil produced in Tunisia is of the highest quality, which cannot be produced, for climatic and variety reasons, in EEC countries. Tunisia should, therefore, be able to secure lasting access to the EEC high-quality market segment. Quantities in this niche would be limited, but the prices are high.

An Untapped World Market

ONH has devoted little effort to diversify export markets. For example, most exports are low quality "lampante" oil to Italy, where it is refined and often re-exported as "pure" or "Riviera" olive oil. No attempt has been made to refine this "lampante" oil in Tunisia and export as "pure" or "Riviera" olive oil directly to final importers in such countries as the United States and Canada. Some press operators have the opportunity to export to specific niche markets at profitable prices, but they are prevented from doing so by the ONH export monopoly.

Improved Market Segmentation Could Reduce GOT Subsidies

The cost of GOT subsidies could be reduced and consumer satisfaction could be improved with better market segmentation. Presently only two types of oil are available on the market: olive oil and subsidized seed oil (usually soja and rape seed as they are the least expensive to buy on the world market). There is certainly a small market segment for unsubsidized quality seed oil such as peanut, corn, or sunflower oil. At present, private refiners have no incentive to import such oils, even if they were allowed: the initial risk is high and their margin would be average. Marketing these vegetable oils at cost would benefit primarily the GOT by displacing part of the consumption of subsidized oil, saving subsidies. Despite this potential financial gain for the GOT, ONH has not attempted to introduce a more sophisticated way of satisfying domestic demand.

Main Constraints

The main constraints are all related to massive and ubiquitous GOT intervention:

- ONH control of all domestic marketing channels and monopoly on external trade; and price policy that provides no incentives to improving the quality of oil.
- ONH control of marketing channels and fixed price policy that leads to major inefficiencies.

Market Protection Favors Inefficient Producers and Marketing Channels

Press operators are supposed to sell all their oil to the ONH, except that required for their own consumption, unless they obtain a special license from ONH. With the market price for olive oil significantly higher than the official price paid by ONH, one can understand the advantage of a license and can wonder how they are granted by ONH.

Refining quotas given by ONH to each of the 12 refiners in the 1970s remain fixed today, irrespective of processing quality. Hence, refiners have a guaranteed volume to process at a guaranteed fee (64 ml/kg for the most modern plants) and a guaranteed turnover. Therefore, there is no competition, and no incentive to improve quality or to reduce the processing cost.

Government subsidies on specific oils serve as a market protection mechanism: some vegetable oils, such as palm or cotton oil, may be imported freely by private operators, but they would not be subsidized by ONH and hence would be difficult to market.

Vegetable oil is imported by ONH, refined by private refiners, returned to ONH for blending with oil refined by other processors, and marketed by ONH or sold to bottlers;

Unresponsive Price Policies Limit Producer Incentives

Prices paid by ONH are based on acidity only, but price differentials do not fully reflect consumer preferences. All olive oils are blended by ONH. Therefore the high-quality oil is used to improve the poor quality. In other words, good growers and pressers subsidize the poor ones.

Private operators have minimal incentives to ensure the quality of the refined vegetable oil. Refiners are paid a fixed processing fee based on the type of equipment they have invested in but not on the quality of the refined oil they produce. The bottler cannot maintain a consistent marketing strategy since he has no control over the product ONH is supplying.

Strategy Elements

The subsector strategy should be organized around the following elements.

- **Divestiture of ONH monopoly privileges** thereby creating a competitive environment for Tunisian public and private operators. Specific activities include liberalizing exports of olive oil, the collection of olive oil for export and domestic marketing, and imports and domestic marketing of seed oil.
- **Rationalization of import tariffs.** Reduce import tariffs on refined oil.
- **Setting of quality standards.** Define and enforce new stricter quality standards, especially sanitary standards for bulk distribution.
- **Management assistance to operators.** Help finance marketing studies and counselling through the UTICA branch for the oil subsector.
- **Facilitation of contacts between U.S. and Tunisian firms.** Help finance study visits for olive producers, press operators and oil processors and provide assistance to perform feasibility studies towards setting up joint ventures.

WINE

Present Situation

The wine industry is controlled by the government. The national wine office (ONV) is a parastatal organization with monopoly powers over all marketing of wine. An interministerial committee based in the Ministry of Economy and Finance decides on all producer prices. The GOT owns or manages over 50 percent of wine grape hectareage, and the GOT applies heavy taxes on wine sold for domestic consumption (except in hotels).

Wine production has been falling in recent years, from 575,000 hectoliters in 1982/83 to 402,000 in 1985/86. The hectareage of vines was 28,000 in 1976 with 54.6 percent under private owners, but by 1987 it had fallen to 23,500 ha. with 46.4 percent privately owned, though most of the private vineyards had changed to higher-quality vines. During the period from 1977 to 1987, the percentage of wine classified as "ordinary" had dropped from 97 percent to 40 percent, indicating an improvement in quality.

Domestic consumption is 235,000 hectoliters per year with 30 percent of that amount consumed by tourists. A remainder of the production, plus some previous stocks, are exported. The amount exported varies widely each year. Exports go primarily to the EEC (about 140,000 hectoliters a year),

with extra production in very good years being sent to Africa for much lower prices. It is expected that wine production will stabilize at about 650,000 hectoliters on an annual basis, sufficient to meet domestic needs and some well-targeted higher price export markets.

The succession of drought years, coupled with low prices, discouraged growers and led to a decline in interest in wine grape production. This trend appears to be changing with the recent doubling of the producer price by the GOT. As a result of the low prices in the industry, investment in wineries has been low; equipment is old and wineries lack cold storage and other necessary facilities. In addition, the main wine producers are less efficient state farms (OTD) and producer cooperatives, with limited access to investment funds, preventing renewal of equipment.

Opportunities

Accessible Markets

The EEC countries as well as North America are markets open to Tunisian wines. The EEC market has a quota allowing the entry of 50,000 hectoliters of quality bottled wines (vins d'appellation d'origine) free of duty, which Tunisia has never met, preferring to export wine in bulk. One off-shore wine producer/exporter has succeeded in exporting to North America.

Tourists Represent Domestic Exports

The sale of wine to tourists during their Tunisian holidays offers an opportunity to show them the excellence of Tunisian wine which should be exploited by having these wines available to them on their return home. Targeting exports to countries that send the majority of tourists to Tunisia (Northern Europe) would be appropriate.

The GOT expects the number of tourists to double over the next decade, greatly increasing domestic consumption and introducing potential new consumers from foreign markets.

Main Constraints

The main factors constraining the development of the industry and its ability to increase exports are government and parastatal control of the market and a lack of strategic management of the market.

The ONV has dominated a decaying Tunisian wine industry, denying private investors, a traditional source of new ideas and fresh impetus, the opportunity to renew and develop it. The cumbersome pricing mechanism is slow to respond to market conditions (recently taking two years to determine the current price), leading to the decline in hectareage of wine grapes and of the production of wine.

The market failure reflected in the lack of direct contact between the producers and the consumers, plus a captive market protected by import restrictions, have weakened the quality and presentation of Tunisian wines:

- The quality of packaging, particularly labels and corks, is poor; and
- AOC and VDQS (better quality wines) standards are slack and do not aid attempts to establish Tunisian wines in international markets.

Research and development are insufficient to improve quality and develop a better range of products to meet the needs of the international markets. Improved quality is hampered by a lack of trained wine specialists. The significant taxes on imported winery machinery provide a disincentive to renew old equipment.

Low yields could be improved with better technology and irrigation. Growers have been moving away from wine grapes to table grapes that yield better profits.

Program Elements

Policy Reform Package

Pricing and domestic taxation of wines is a delicate subject because there are many different interests involved. An in-depth study on wine pricing and taxation issues that may lead to abolition of price controls on raw materials and bottled wines is highly recommended.

Gradual removal of ONV's monopoly privileges, liberalizing the direct marketing of wines by producers both for domestic and export markets will help resolve the issues of horizontal segmentation evidenced by weak producer identification with his product and incite better quality. Simultaneous rationalization of import tariffs on packaging and equipment will provide greater incentives for investment in new wineries or for winery owners to renew their equipment and improve the presentation of their products.

Strategic Market Development

To date, market development has been handled primarily by the ONV and the UCCV with limited success. An improved program for identifying and developing markets needs to be applied.

The development of an export market for Tunisian wines at the higher end of the market (bottled wines) requires a very well developed export marketing program. This will need to provide complete and regularly updated information on the target markets to the wine exporters, with the requirements of the target markets.

Assistance to Producers and Wineries

The UCCV and the CCVs are the principal supporting institutions for the producers. They have been quite ineffective. Stronger institutional support, as well as the shortage of trained technical staff and assistance in setting up R&D facilities to improve wine standards needs to be addressed.

SECTION FIVE

STRATEGY ELEMENTS

Based on the major constraints outlined above, the Strategy will focus simultaneously on two major sets of activities: liberalization of the environment to foster more competitive private firms and provision of assistance directly to the private sector to enable it to take advantage of this new environment.

A recent review of the evidence on structural adjustment in agriculture shows that getting markets operating and prices right is by itself not sufficient to ensure higher long-term agricultural growth. Some factors, like the adoption of new technology, are dependent partially on the price structure, but other constraining factors, such as needed research for new technology, inadequate infrastructure, and weak extension services, clearly fall into the category of "public goods" and will not be removed or rapidly resolved simply through higher relative prices. This means that policy reform alone is not sufficient to stimulate rapid adjustment, but that direct assistance must be provided to the private sector to stimulate growth patterns.

The subsector analysis in the previous section lays out the major priorities for certain specific products. These will be used as the major elements of the first phase of the strategy implementation, which will lead to many more changes. The necessary actions touch on policy issues as well as direct assistance to the private sector.

Government and industry need to develop export-led thinking and planning where the primary objective is to meet the needs of export customers and not just to export leftovers.

ECONOMIC LIBERALIZATION AND INCREASED MARKET COMPETITIVENESS

Specific actions that are required revolve around liberalization of the competitive environment through two sets of activities: reducing government intervention in the subsectors and allowing firms to compete more evenly against one another, and with international firms. The program will have to tackle a policy agenda that will remove barriers to competition and induce more efficiency in the private sector of the targeted subsectors.

Government Protection

Import Tariffs

The infant industry argument that has been used to protect these subsectors has succeeded in making many of the firms competitive on the world market. The GOT must now review the process of reducing the protection provided by import tariffs down to the lowest levels possible. This will put additional pressure on those firms that have not yet made the effort to renew their equipment and modernize their management techniques. The recommendation is to first tackle the protective measures

of those products that have proven their ability to compete internationally, such as tomato concentrate and canned seafood. More in-depth studies need to be done on those individual items to determine the appropriate tariff levels. As other products become competitive, reducing their levels of protection should be examined.

In addition, import tariffs for refined oil protect industries that have been producing for 20 years. These refineries should be competitive at this point and, if not, should be forced to think about some competition to make them more efficient.

Import tariffs also inhibit reinvestment in new equipment and technology that may be necessary to revitalize processing subsectors. The aging technology in the wine sector requires renewal, but the import tariffs on new equipment make it more expensive for wineries to modernize their operations.

After there is a better understanding on the true limitations caused by poor-quality complementary industries and services, such as cardboard manufacturers, and the cork and labelling industry, the GOT should review the protection provided to these industries. These domestic industries are currently unable to produce competitively the quality products required for export, but have a captive market for domestically sold goods, so are not being pressured to improve quality and efficiency.

Fixed Prices

Eliminating established producer prices (whether they are floor prices for tomatoes¹ or fixed prices for dates, wine, and olive oil) will be necessary to improve competition in the market and reduce inefficiency. At present, market prices for goods are determined using a bottom up (producer to consumer) procedure rather than determining the market value of the good and then working backward to determine the value at the production level.

The best example of market distortion is wine, where the current producer prices (for wine targeted for domestic consumption) vary between 54 TD/hectoliter for the highest-quality wine to 48 TD/hectoliter for ordinary table wine. The market definitely attaches a greater value to the difference between the qualities of wine, and yet this value is not allowed to pass to the producer and provide him with the incentive to adapt his production.

Regulated Marketing Channels

In the wine and olive oil subsectors, marketing channels and access to stocks are under the control of the GOT marketing parastatals. Selected distributors are allowed access to products along with fixed margins they can charge. This promotes no incentive for either improving operations or trying to develop new products.

Elimination of fixed processing and marketing margins (tomato concentrate, wine, and domestic olive oil sales) will force industries to become more efficient, to compete locally with each other, and

¹ The concept of a floor price does not exist in the mind of the Tunisian farmer. To them, with their years of experience with government-determined prices, the floor price becomes the fixed price.

to respond to the demands of the market. Bans on import of wine and olive oil will need to be reviewed at a later stage after domestic commercialization has been liberalized.

Government Intervention That Hinders Exports

In the subsectors controlled by the marketing boards, there are agreements to supply goods at cheap prices (wine to East Germany, for example) which must be borne by the producer. In other cases, the GOT has made it difficult to export in certain years, until domestic needs have been met. Adapting government behavior to reflect the best interests of a transparent and efficient market is a major element of this whole Program.

Privatization

Commercially Oriented Parastatals

The existence of government parastatals in commercial activities often slows the process of company development and of increasing efficiency. The operating/production costs of parastatals are greater than those of private firms, but because of their dominant place in the market and role as a price setter, they provide a protective umbrella to more inefficient firms. Principal targets for privatization are the ONP and SODAD:

- ONP is already being divested, with 12 trawlers sold and 30 more to be sold soon. The most important constraints, however, are its three processing plants that have not yet been evaluated; and
- SODAD has not yet been considered for privatization by the Ministry of Agriculture. It has two major components, a commercial service and a production service. The commercial service should be the first element to be privatized.

Marketing Boards

The monopoly commercial role played by the marketing boards for oils and wines leads to many distortions. The boards have a positive role to play in marketing process, but their complete control on the marketing of their respective products must be reduced to allow competition from the private sector, which will lead to greater market incentives for the grape growers and the wineries to produce higher quality products for higher prices. While this is a priority area, liberalization will most likely be gradual.

Groupements Interprofessionnels

The GIs present a different scenario. As public interest groups, they are still involved in a wide range of commercial activities that compete directly with private businesses. Their role in these activities should be curtailed while their capacity to serve their members is strengthened. Divesting the GIs will be difficult primarily because of the financing implications, addressed in the next section.

SUPPORT TO THE PRIVATE SECTOR

One of the critical constraints evident in all of the subsectors is horizontal segmentation of the subsector and the lack of transparency, which lead to market failure. Removing this horizontal segmentation is not an easy task, for it results from many different economic, social, and cultural factors.

A second major constraint lies in the creation of a true export development strategy. As long as this is pursued primarily by the public sector with only an advisory role from the private sector, the strategy will have a limited effectiveness. The private sector must be the principal owner of the strategy.

Well-organized and supported trade organizations that unite all the segments of a subsector can provide an effective mechanism for overcoming this problem and organizing strategies for attacking communal problems. The GIs, described in Section Two and referred to in the subsector analyses already play a productive role. However, they are still government controlled and many of their activities reflect the role that government perceives they should fill rather than the role that the private sector feels that the GI should fill. The GIs need to be autonomous from the GOT and strengthened to serve as true industry or subsector representatives which can actively lobby on behalf of their interests. The issues surrounding the development of strong trade organizations and allowing them to access resources to address constraints within their subsectors are discussed below.

Role of Trade Organizations

The primary purpose of an ideal trade organization is to bring together sections of a particular industry or group of industries. This involves joining the production, processing, packaging, and marketing chain to become as efficient and effective as possible. To reach this objective, it is necessary to achieve within the different companies and individuals in the industry the focus and concerted aim that exists within a successful company. This can involve some or all of the following stages:

- Determining by market research the requirements of the customer and the publicity that will be needed to reach certain targets;
- Deciding on the products to meet the needs;
- Advising the packaging and production sections on market needs; and
- Advising the producers how to meet these requirements.

To best serve the industry, the TO should provide ready channel of communication for the different and often competing sections of the industry to meet and discuss common problems and their solution. This is a continuing and most important role that develops transparency and good relations within the industry.

The team proposes that this issue be addressed by modifying existing government agencies, the GIs, into strong, self-sustaining private trade associations. This will require a major effort to:

- Sensitize the members of the organization to the proper roles that a trade association can play and then help them strengthen the structure and the capacity of the organization; and
- Provide some tangible incentives to membership in terms of services rendered that are critical to the promotion of exports within the subsector. In particular, perform in-depth market studies to develop a strategy for approaching each product and make other resources available to the members.

The second major constraint outlined in the subsector analyses — access to resources — will be addressed primarily through the intermediary of the strengthened private trade organizations.

Institutional Strengthening

The GIs are currently involved in a range of activities that include commercial interventions, and are more like branches of administrative direction than true trade associations. The first steps to be taken require turning the GIs into trade organizations under the control of their members, which work to support the initiatives sought by their members. The TOs will then be able to access or contract resources that respond to the needs of their membership in market information, technology development, and strategic planning.

Administrative activities that they are performing will have to be turned back to the government, to allow the TOs to focus on concrete tasks that serve their members. Effective links will have to be created between the TOs and government service organizations to maximize the use of already available resources.

Reorganizing the GIs into TOs will require some technical assistance, strong local staff, and a great deal of training and team building. Many habits and concepts of the role of TOs, which have developed over the past 20 years when such organizations received most of their resources and management from the government, will have to be changed.

In addition to the GIs, there are several other potential TOs or cooperatives within the target subsectors (particularly in wine and olive oil) that may be able to qualify for assistance and play a facilitating role. These should not be ignored by USAID and should be able to access some support.

Strategic Market Development

Helping the private operators to develop a strategic marketing program is a good way to unite the TO members around a common purpose. It is critical that any market development activities start from the premise that this will be a long-term effort, not a quick profit maker. The objective will be to get a sustainable increase in export sales, which requires five to ten years of concentrated work.

The principal steps involved in strategic market development are understanding the market, identifying market segmentation, defining a strategy, and continuing market analysis for redefinition of the strategy. USAID will provide assistance through the auspices of the TOs to help develop these strategies for critical products, particularly those with communal characteristics such as dates, Maltaises, wine, and olive oil.

A strategic marketing plan should provide the concrete steps necessary to carry out the strategy and expand exports. USAID will need to provide some additional assistance, on a matching basis, to the TOs and, through the TOs or other organizations, to individual firms that wish to implement their own plans.

Implementation of this process is new and complex enough to warrant permanent technical assistance to follow the process for each of the subsectors and provide advice on how to identify good consulting firms and to implement their recommendations. One long-term advisor will have his/her hands full dealing with several trade organizations, and getting them to approach these issues from a new perspective.

Access to Resources

Since the focus of the program is private sector development, resources should be made available directly to the private sector. This should come about through two main channels: maximizing access to existing resources and providing new resources to stimulate the development of specific target areas which will be critical to sustainable export development.

Existing Resources

Many resources can be obtained either through the financial system, or through special government agencies such as API, APIA, and CEPEX. Stronger TOs can serve as conduits to gain access to the resources available through these organizations and will be able to draw on them for more information and subsector or product-specific assistance.

As noted in Section Two, Tunisia already has a well-developed financial intermediary structure, and yet access to working capital is often a constraint at the producer level. The principal cause is the lack of collateral by the farmers, who do not have titles for the land they own. The GOT has already reduced the fee for land registration from 16 percent to 6 percent. But even 6 percent can be a prohibitive sum for a farmer whose only real assets are land, with values growing rapidly (in the current speculative environment, prime growing land often sells for as much as 50,000 TD/ha). A government program to stimulate land registration, either through lower fees or a temporary forgiveness program, may resolve this problem.

New Resources

Fresh funds are required to stimulate certain activities, either because they are communal in nature or because no market demand currently exists for their services. At the same time, this should not be a giveaway program. Structuring the resources in a way to require minimum management by USAID and maximum access and utilization by the private sector will not be easy. One suggestion is to create a straight or matching grant program, accessible by the TOs, to finance specific export development. These resources should be managed to the greatest extent possible by the GOT, most likely through existing agencies, such as CEPEX and the FOPRODEX fund. If this occurs, then guidelines and grant procedures will have to be developed.

Market Development

There has been little appreciation by many Tunisians of the investment required to stimulate market development in order to establish a market niche. For a product such as the Deglet Nour, more than \$1 million should be spent over the next five years on a series of market studies and product awareness and positioning campaigns. Without doing so, there will be little hope of increasing the value added through new product identification and design or positioning, or of greatly increasing the size of the current product's market. The small packer-exporters cannot realistically be expected to fund this in the short term, so USAID should help with some funding.

Given the lack of understanding of the role and purpose of consulting services, it is not surprising that there is weak demand for them, and hence a weak capacity to supply the needed services. It is hoped that through this program private exporters will begin to understand the importance of strategic planning and the role that outside experts can play in helping them to formulate better production and marketing plans. A matching grant program to fund access to these services, via TO membership, will lead to a greater demand and the development of a greater capacity within Tunisia to provide those services.

Technology Development

In several cases where production technology is the serious constraint, focused research targeted to the needs of the market should be funded. The TOs, using grants, could contract for the research and some initial trial implementation efforts. This would unlock constraints for dates (the worm problem) and tomatoes (the seasonal problem) in the short term and other areas that may arise. Larger technology problems may be addressed under the Technology Assistance Program (TAP) that USAID is developing.

At the processing level, there may need to be a shift towards new technologies that respond to the markets. Several Tunisians have already made investments to put in state-of-the-art machinery with specific export markets in mind. Some resources may need to be used to understand the capacity of Tunisia's present stock of machinery, and how it might be modified or replaced to respond to market opportunities.

Joint-Venture Development

Joint ventures or intercompany technology and marketing arrangements will still be the easiest way for Tunisian firms to enter the world market. The program should stimulate contact between U.S. businesses through existing programs such as those of the American Society of Agricultural Consultants International (ASACI), the U.S. Department of Agriculture, the Overseas Private Investment Corporation (OPIC), and others. Private Tunisian firms could apply, through their TO, for access to special funds set aside to help develop feasibility studies or defray some of the costs of test marketing.

Policy Analysis, Monitoring, and Evaluation

In addition to the assistance to the private sector, some resources will need to be set aside for the GOT to study the implications of specific policy changes, and to monitor the effects of those changes. They still have an important role to play in knowing what is happening to the economy and where the changes are leading.

In addition, certain government agencies that play strategic roles in the export arena may need some equipment to enable them to properly fulfill their tasks. For example, the Institut National de la Normalisation et de la Propriété Industrielle (INNORPI), whose role is to monitor world norms and standards as well as to develop the standards for Tunisia, may need some computer equipment to keep better track of changes in the world environment.

OPTIONS AMONG THE STRATEGIC ELEMENTS

The Strategy components comprise a range of short-and long-term policy reforms and actions with varying degrees of difficulty to enact and with differing impacts. Therefore, the Strategy takes into consideration the tradeoffs between easy and hard-to-get reforms as well as the impact of the additional resources, to formulate a balanced and implementable package.

The easiest reforms to enact, which are likely to have a strong impact, will be the reduction of the import tariffs and the privatization and strengthening of the GIs. Together, these two sets of reforms provide a package that will increase competition within the specified subsectors and also increase support to the private operators in those subsectors to identify and take advantage of new opportunities.

While USAID/Tunisia can hope for rapid change in these two areas, it should also be lobbying for the reform of the ONH and the ONV. The ONH is the more important of the two and its reform will have greater impact, but this is a long-term objective. The reform of the ONV and the wine pricing structure will be easier to achieve, politically, but will have less impact overall. The privatization of SODAD and the ONP are important for their respective subsectors, but will have less impact in the long-term than the other reforms.

To complement the policy reforms, the priority resource allocation must be to strengthen the private trade organizations. These institutions will provide a private sector structure to develop and implement strategies for market expansion and penetration, as well as contact and reference points for joint-venture arrangements and technology transfer. They need sufficient resources to function effectively early in their organization lives, to build their internal capacity, and to create reputations as service organizations that can actually do something. Putting additional resources directly within the reach of private businesses to stimulate their participation in strategic market development and exchange of technologies is the second priority.

SUMMARY

The potential exists to have a substantial impact on Tunisia's agribusiness export sector, increasing exports by 20 - 30 percent over the next five years. It will require focused attention, technical assistance, and new resources. Care must be taken to keep the Program directed at a specific set of guidelines: sticking to the export orientation, using a subsector approach, and providing the assistance directly to the private sector. The most important elements of the Program are:

- Policy reforms to promote greater economic liberalization and an increasingly competitive environment; and
- Direct assistance to the private sector through strengthened, sustainable private trade organizations with access to resources that can be used to further promote export development.

The implementation of a Program with these major elements will support the GOT's efforts to implement the structural adjustment and an export orientation strategy. It will also provide a necessary push to the private sector to help it take better advantage of the new competitive environment, accelerating the rate of response to changes.

ANNEX 1
INTERPROFESSIONAL GROUPS

ANNEX I
INTERPROFESSIONAL GROUPS

OVERVIEW

There are three Interprofessional Groups (GI) one each for dates, fruits and nuts, and vegetables, and one Industry Group for canners and processors. This brief introduction covers general characteristics for all four GIs, and is followed by a more detailed description of each one. The main purpose is to review some of the salient activities of the GIs, their effectiveness, and an appraisal of how they might better participate in their subsectors.

Statutes

The GIs are "public interest" institutions. As this qualification has no legal basis, the legal status of these GI's is unclear. All four are under the tutelage of the Ministry of Agriculture.

Each GI is directed by a Board of Directors, usually composed of:

- 4 representatives of producers (2 private individual producers, 2 cooperatives);
- 2 representatives of exporters;
- 1 representative of processing firms;
- 3 representatives of the Government (MOA, MEN, MPF).

The representatives are designated by professional organizations and not directly by group members. The Union Nationale des Agriculteurs (UNA) designates the representatives for the producers, and the Union Tunisienne de l'Industrie du Commerce et de l'Artisanat (UTICA), designates representatives of exporters and processors. The Boards are of varying strength.

The GI's budget resources come from the GOT, paid for by specific ad valorem taxes ("taxe parafiscale") collected on all officially marketed products and from government grants, as well as some additional government contributions. No direct voluntary contribution is provided by "members", although GI's are allowed to levy any contribution they would deem necessary. Decisions concerning the budget, buying and selling assets, personnel statutes and wage classification, and borrowing for special projects must be approved ex ante by the Ministries of Finance and Agriculture.

No voluntary membership is presently recorded, but all agricultural producers, traders, and processors are de facto members, by virtue of buying products on the official market and thereby paying the specific tax.

Each GI is managed by a Director General who is supervised by:

- A Technical Controller representing the parent ministry authority for all technical operations;
and

- **A Financial Controller who is responsible for all operations which could have financial implications; for example, he gives his opinion on the proposed budget, controls the execution of the budget, controls the cash situation attend tender commissions and approves contracts.**

In general, the GIs play a constructive role in their respective subsectors. However, they continue to bring strong elements of government control to commercial activity within their subsectors, control which is not needed or impossible to enforce. Directing the energies of the GIs to better respond to the real needs of their members, rather than the perceived needs from the government's perspective, will make them more efficient supporting institutions and will allow the private sector to strengthen its internal ties between the horizontal segments of each subsector.

GROUPEMENT INTERPROFESSIONNEL POUR LES DATTES

GID

STATUTES

GID was created in 1974 with the following main assignments:

- To collect, analyze and publish all information on the dates sub-sector;
- To propose to the Government standards which will provide incentives towards the improvement of quality;
- To foster research, experimentation and extension;
- To foster the replacement of varieties for which demand is low;
- To control the sanitary conditions of palm tree gardens and organize pest control campaigns;
- To produce selected plants;
- To control sanitary conditions in packing plants
- To manage cold storage lent by the Government or acquired;
- To conduct market research and export promotion; coordinate exports by tunisian exporters; GID can give a negative appreciation on any export transaction by a tunisian exporter;
- To sign contracts with foreign importers on behalf of tunisian exporters, and enforce quality standards;
- To conduct all actions which would be requested by the Government for the development of the date sub-sector.

The members are compelled to execute decisions taken by GID; if any member does not comply by GID decisions, GID can execute any action which was requested and forcibly collect the cost from the member.

FUNCTIONS AND ACTIVITIES

The Board of GID decides on a minimum producer price. In reality, the Director proposes, through government representatives, a minimum price which is discussed bitterly between producers and packer-exporters; given the usual high and unrealistic demands made by producers these prices are not really negotiated prices but are administered prices imposed by the government after preparatory discussions between operators and GID.

In 1988, minimum production prices were 0.980 DT/kg for Deglet Nour Branches, 0,860 DT/kg for Deglet Nour Marchandes. Producer price of ordinary dates is free.

GID proposes, and in fact imposes, a minimum export price; GID provides export agreement for packing plants. GID concentrates a large part of its activities to the protection of dates at all different stages:

53

- **Bunch protection campaigns.** Farmers are encouraged to protect bunches from rain by using plastic or paper bag; the number of protected bunches has considerably increased in the recent years: 100,000 in 1982/83 and 1,000,000 in average in 1986/87/88; the lack of resources has prevented GID to financing the bags in the most recent years and this has resulted in a significant decrease in the number of bunches being protected;
- **Pest control research and experimentation.** Several methods have been tested, including the use of chemicals, of probiotics (bactospeine), of sexually attractive chemicals and of predators. Several of these methods seems to be promising, especially the use of predators which is consistent with constraints related with the marketing of "natural dates";
- **Development of weeds and "rongeurs" control methods;**
- **Assistance to producers for fumigation and cold storage by renting GID facilities and providing advisory services.**

GID organized an publicity campaign in France, Germany, and the UK, financed by FOPRODEX (80 percent) and the exporters (20 percent). The impact of this campaign is not clear; it does not appear to have been properly designed and objectives seem to have been too ambitious for the budget. Assistance by a serious consulting firm in marketing and not in advertising should have preceded any investment in a media communication campaign.

MEMBERSHIP

All operators are declared to be members of GID, although they do not pay any direct voluntary fee. GID appears to be well known by all operators including the many individual producers.

BUDGET AND SOURCES OF FINANCING

The total GID 1988 budget was 164,000 TD, or only 0.6 percent of the value of exports or 0.4 percent of the value at producer price of Deglet Nour production. GID receives its entire budget from the MOA, with 80 percent financed through a GOT budgetary subsidy and the remaining 20 percent from the specific 0.0015 TD tax levied on each kg of dates, which is unchanged since GID creation in 1974)

APPRAISAL

Management Appraisal

GID Management believes that GID could do much better work with some more resources. In addition, GID is subject to pressures from the different types of operators:

54

- Farmers especially do not recognize the role of other operators and refuse to consider market demands as legitimate; hence they tend to place unrealistic claims for a guaranteed price at a level that the market would not bear; they do not understand the specific constraints of the export market and correlated improved methods of production which are required;
- Exporters do not know the export market well and have an usually low level a quality consciousness; they sometimes engage in price cutting practices which do not improve the image of Tunisian dates on export markets;

Management believes that in the absence of GID, and without the support of the administration in the Board, the quality of the product and hence the export capacity would decrease significantly;

Packer-exporter appraisal

The packer-exporters express the concern that all GIs are in fact government controlled organizations. The director, as well as the chairman of the board, are chosen by the GOT, as members of the boards are instructed who to vote for. Board members, especially packers and exporters go along these recommendations as they fear retaliatory measures which would be detrimental to their operations.

GID is certainly the GI where the packers and exporters have influence on the decisions. The main reason for this influence is the size of the 8 major dates exporters (out of 21) who control about 80 percent of Tunisian dates exports.

GID should focus on production related problems which the packer-exporters feel are the most stringent constraints, especially pest control, research and development. They feel that GID should not deal with exports, since CEPEX exists for assistance concerning export promotion.

Coordination between packers-exporters and with producers is necessary. This could be done in a true Groupement Interprofessionnel, controlled by the private sector where the administration would not interfere.

Outside appraisal

ERIKSEN (Ithaca International) deems that GID has been playing a positive role on the sub-sector, although severely limited by the lack of resources. Their main activities (quality of production through pest control on the farm and improved processing and packing, circulation of information between producers and packers-exporters) are relevant. Everybody agrees that these functions are needed and it is likely that no-one would promote these actions in the absence of GID or of a similar institution. Disagreement exists on the positive role of GID in relation to exports.

Presently, the administration plays a decisive role in all decisions with financial consequences, especially price setting. A real cooperation between producers and packers and exporters has not yet been established. Many of the constraints on export development and better efficiency of the sub-sector are a direct consequence of this difficulty to convey to collectors and producers the price information signals which would be consistent with quality improvement.

Export promotion activities of GID have been weak and poorly designed. Major questions which arise are:

- Whether GID has a role to play in export promotion or whether exporters can rely upon the assistance of CEPEX;
- Whether any marketing effort is necessary given that quantities are insufficient to satisfy demand? In fact market research should be started immediately and market development investment should be started immediately after the quality problem has been solved and allows promotion and communication investment which are consistent with the product.

**GROUPEMENT DES INDUSTRIES DE CONSERVE ALIMENTAIRES
GICA**

CANNED AND FROZEN FOOD INDUSTRIES GROUP

STATUS

GICA was created in 1965 with the following main objectives:

- To co-ordinate the activities of food manufacturers and their suppliers;
- To plan and assist in seasonal packing programs by holding group discussions regarding processing volumes, quantities of produce to be grown, packaging requirements etc. needed for the programs;
- To exercise control over manufacturing conditions during production, and on the finished products;
- To manage a quality control and research laboratory able to serve its membership;
- To keep its members advised of technical advances and helping to introduce them;
- To collect and disseminate information and statistics;
- To participate in trade fairs and exhibitions to promote the sale of the member's products;
- To put members in touch with foreign clients;
- To sell goods on behalf of members, charging for the services;
- To represent members' rights in respect of sales and manufacturing matters in discussions with the authorities or other parties;
- To undertake any matters requested by the authorities.

ORGANIZATIONAL STRUCTURE

The organization has a permanent staff headed by a Director General (DG) who is appointed by the Minister of Agriculture in association with the Board of Directors

The Board consists of 12 members representing the different sections of the industry and three GOT members as follows:

- 4 fruit and vegetable packers nominated by UTICA
- 2 sea-food packers " " "
- 3 representatives of co-operatives " " UNA
- 3 " " growers " " "
- 3 " " GOT from Ministries of Agriculture, Economy and Plan, and Finance.

* The GOT members do not have votes, but they do have a veto.

57

MAJOR FUNCTIONS AND ACTIVITIES

GICA staff collect samples from all factories on a regular basis and take them back to the laboratory in Tunis for physical and organoleptic examination and report. Sampling is done on all products, including tomatoes, harissa and fish.

GICA has been responsible for collecting canners' seasonal costing and helping to set the price fixing levels (Prix homologues) with the GOT. This price fixing now only remains on Tomato Concentrate.

GICA has become involved in purchases of imported tuna for recanning and also for sale of canned products to an overseas customer where several Tunisian packers are involved.

MEMBERSHIP

GICA has 118 manufacturing units/companies which are members of GICA. The processor membership consists of:

- Fruit and vegetable packers.....46
- Fish and seafood canners.....24
- Fish and seafood freezers.....30
- Packers of olives and capers....18

Growers of fruit, vegetables, olives, etc used for processing are automatically members and represented by their UNA membership on the Board.

FINANCE

GICA is financed by a 0.5 percent tax levied on all manufactured foods, destined for the domestic market, at the time they leave the factory. This levy is not paid on exports. The money from this source is paid into a special account and used to finance GICA.

The current budget, for 1990, is 220,000 TD and this sum is fully covered by the levy, hence the GOT provides no subsidies to GICA.

APPRAISAL

GICA plays a variety of positive, and some negative, roles for the processors and the GOT. GICA is fortunate to have a knowledgeable and active DG who has been in place for eight years. Some important conclusions about the organization focus on its ability to deliver services and its role as an agent to further GOT involvement in what should be private business activities.

GICA's laboratory facilities are very basic and provide a minimal service that ought to be available more quickly at each and every processing plant. GICA's DG would like to be able to offer a more comprehensive food processing technical service to its members, but to do so they would need increased facilities with more qualified staff and equipment. This technical service could be very beneficial, but it may be more cost-effective to consider other ways of providing the service if this is found to be possible.

GICA still tries to manage the production and marketing process.

- It organizes regional meetings, early in the year, attended by growers and processors to tell them of the plans for the coming tomato season, but without reference to prices which have not at that time been fixed. This ineffective system must be replaced by one where the processors' trained field staff meet the growers' representatives annually to agree prices and then contact the growers individually to agree hectareage, and where possible contracts, that will help to ensure a market for the grower and raw material supplies to the processor.
- GICA becomes involved in "planning the season's pack and allocating pack to each unit". This is a relic of state control that has no place in a market economy. Each company should plan its own selling and packing program.
- GICA registers tomato Collecting Points in growing areas. This function would be better if it were organized by the processor as part of his plans for working more closely and effectively with "his" growers. A close working relationship between grower and processor would make it possible to plan sowing of early and late fruiting varieties to lengthen the packing season and get greater production out of the existing investment in factory and machinery.

GICA is also involved in a number of commercial, buying and selling, operations which might be better handled by the private sector commercial trade, who are more experienced in these matters.

GICA could become a more effective force for leading and representing the processing sector if it was freed from direct government participation and became entirely responsible for its own financing. The existence of GICA would then depend on its members continuing to find that its work justified their continued personal involvement and financial support. The lifting of price control on tomato paste, which is expected at any time, provides an opportune time for allowing GICA to become an independent Trade Organization free of GOT.

**GROUPEMENT INTERPROFESSIONEL DES LEGUMES
(GIL)**

STATUTES

Created in 1974, GIL is a government owned agency.

FUNCTIONS AND ACTIVITIES

GIL has two principal functions:

1. Develop production
2. Promote exports and organize marketing channels

Its principal activities to achieve those functions are:

1. Produce Potato Seeds. Contract with private farmers and cooperatives to grow seed potatoes. Currently handling about 5,000 ton/year (one sixth of total demand).
2. Export of early season products.
3. Handle truck garden seeds:
 - a. Distribute 100% of hybrid and 25% of ordinary vegetable seeds.
 - b. Manage two centers for experimentation and extension of seeds
4. Manage the stabilization fund for fruits and vegetables.
5. Treat potatoes for export.

MEMBERSHIP

As an interprofessional group, the GIL's membership is comprised of professionals from all the groups in the subsector: producers, processors, exporters, and packers.

The Board of Directors is composed of representatives from each of these groups (appointed by UTICA and the UNA) as well as three representatives of the GOT (Ministries of Agriculture, Plan, and National Economy). According to the DG, the activities are hampered by the relative weakness of the Board, particularly from the low level of the government representatives.

FINANCING

The GIL has a budget of approximately 600,000 TD, of which 75,000 TD comes directly from the GOT Budget and the rest is funded through the one percent tax which is applied to the sale (wholesale level) of all vegetables. This budget pays for the overhead costs of the organization. In addition, GIL carries on a series of self financing activities. No details were available on the ability of these other activities to cover their costs, but each activity is theoretically priced to cover its operating costs.

APPRAISAL & POTENTIAL ROLE FOR AGRIBUSINESS PROMOTION

GIL management feels that it is not getting enough support from higher authorities, particularly witnessed with the GOT representation on its Board. Believes that there is a lot more to do, but that they do not have sufficient resources to get involved in more than they are currently doing.

The GIL is currently serving in the role of cooperative/exporter for many of the smaller producers. It purchases at a fixed price, set based on their estimated cost of production, and then sells in the European market (primarily in Marseilles). It provides a rebate to the participants for all profits made above purchase price to the producers, but bears the risk if GIL cannot get a price sufficient to cover its costs. This role could be turned over to private operators (as the GICA has done)

GIL is working primarily with potatoes, providing minimal support to other products. By contracting with private producers for seed potatoes, they are stimulating some agribusiness development, but also serving in the role of a middleman

Substantial agribusiness development will require significant changes in the relationship between the GIL, the producers, and the processors, as well as GIL's primary activities. It now primarily services small producers, supplying facilities and resources in lieu of private operators. An improvement in GIL's relationship with large scale, economically efficient producers will do more to engender agribusiness development for many crops than working with small scale producers who cannot be economically viable for that product. GIL must retreat to a role of service provider and not that of a significant market actor in order to provide optimum assistance.

GROUPEMENT INTERPROFESSIONNEL DES AGRUMES ET DES FRUITS

GIAF

STATUS

GIAF was created in 1971 as a public interest group with the following main objectives:

- To collect, analyze and publish statistical information on tree-fruits and nuts;
- To encourage research, variety trials and dissemination of information on production;
- To manage a plant nursery to produce chosen varieties of fruit trees;
- To control the plant health of orchards and plantations, organize pest and disease control programs, and carry them out when necessary;
- To undertake surveys of new export markets; and
- To supervise packing stations.

Members have to comply with decisions taken by GIAF, and if they do not do so GIAF can take the necessary action and recover the cost from the member.

FUNCTIONS AND ACTIVITIES

GIAF has 110 permanent staff and some 25 temporary people, many of which are engaged on the three nursery farms which produce plants and grafted tree-stock which is sold and produces half the budget funds. GIAF has trained personnel based in 12 regional centers in fruit growing areas to offer technical assistance to farmers with spraying and pest control measures. These regional offices also supply farmers with fertilizers and pesticides on a cost plus basis.

GIAF is involved in assisting its members with export marketing and maintains an office in Marseilles to advise on market prices and trends. The Marseilles reports on French market prices are disseminated through GIAF's regional offices.

MEMBERSHIP

All tree-fruit growers are automatically members of GIAF. There are 19 packer/exporters, many of whom are also potato exporters.

FINANCING

GIAF currently has a budget of 1,500,000 TD. Half comes from the Ministry of Agriculture's budget and half is financed by from sales of its various services. The GOT contribution comes, to a small extent, from a tax on fruit exports to which a subsidy is added.

APPRAISAL

- **GIAF fails to meet the industry's needs with respect to pest control activities and in the supply of grafted tree planting material.¹**
- **GIAF's market information is centered on the French market, particularly on the 20 importers in Marseilles, to the exclusion of other important European markets that Tunisia has hoped to expand into.²**
- **GIAF is the oldest and largest of the GIs and considered by the GOT officials to be the best developed, however tree plantings have not increased and exports have remained relatively stagnant.**
- **GIAF's ability to produce statistics is good. Its DG's opening remark that the number of fruit trees in Tunisia now is the same as the number when the French left in 1964 is indicative of a bureaucratic nature.**
- **With 19 exporters supplying 20 French importers with fruit, Tunisia presents a fragmented export marketing drive which GIAF has not been able to draw together effectively.**

¹ Etude commercialisation et transformation des produits agricoles, Sogreah jan.1987.

² APIP Export commodity study, Ithaca International Ltd. March 1989.

63