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PN-ABM-996

ASSISTANCE MANAGEMENT PLAN FOR TUNISIA IN THE 90s:

A STRATEGY FOR ENTERPRISE, EXPORTS, EMPLOYMENT

E^3

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

TUNIS

April 1990

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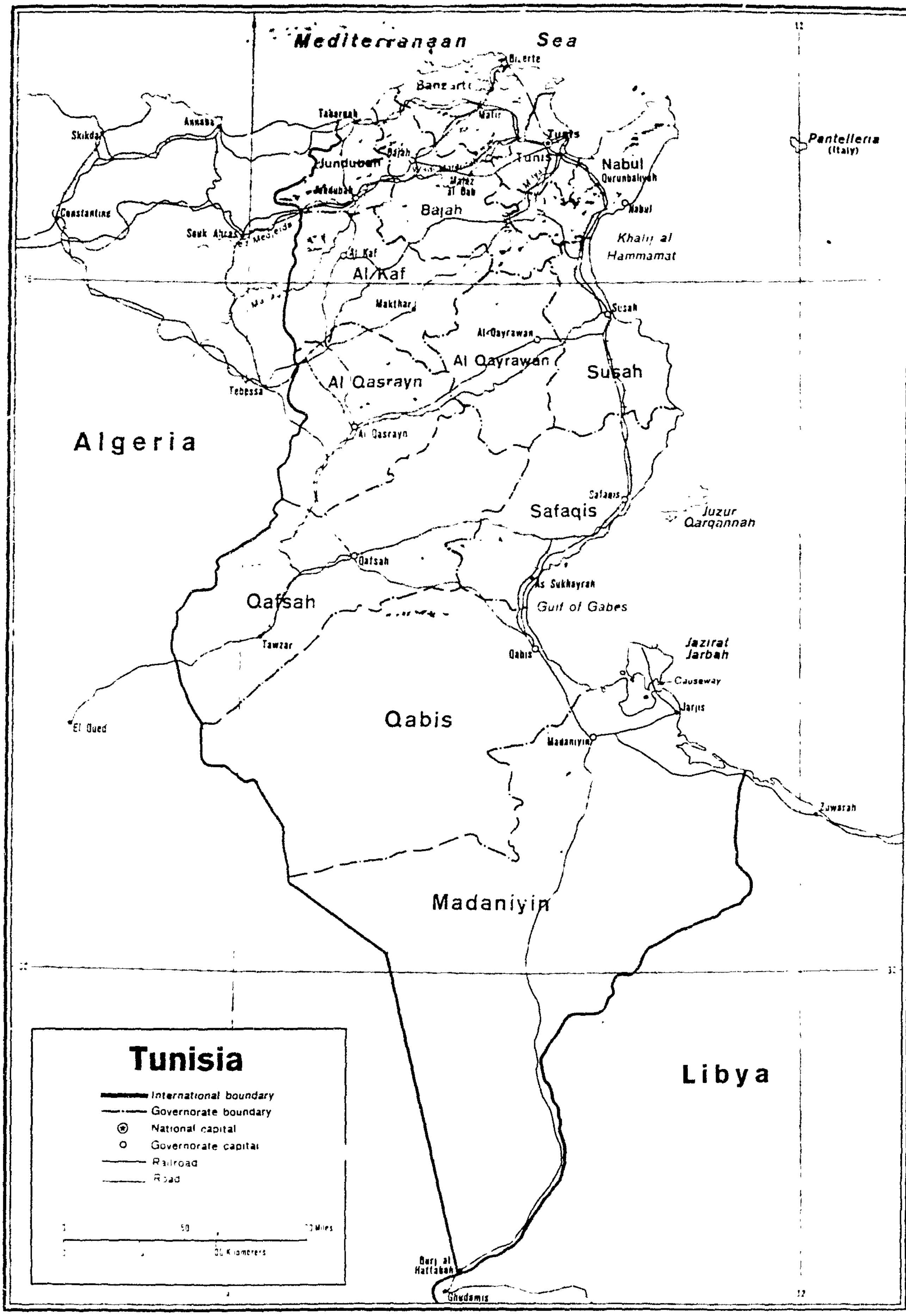
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Zuwarah
Libya
Ghudamis
Tunisia
International boundary
Governorate boundary
National capital
Governorate capital
Railroad
Road

ASSISTANCE MANAGEMENT PLAN

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I. EXECUTIVE SUMMARY

Tunisia is on the move. It is starting its fourth year of successful economic and political reform. The reforms are working. Economically, growth has resumed, the balance of payments and Government budget accounts have stabilized, exports are up by 35% and private investment has expanded by 20% since last year. Exciting private investment opportunities are opening. Politically, progress is slower; but Tunisia has freed political prisoners, relaxed press controls, and encouraged opposition parties to enter the political process. Many challenges remain.

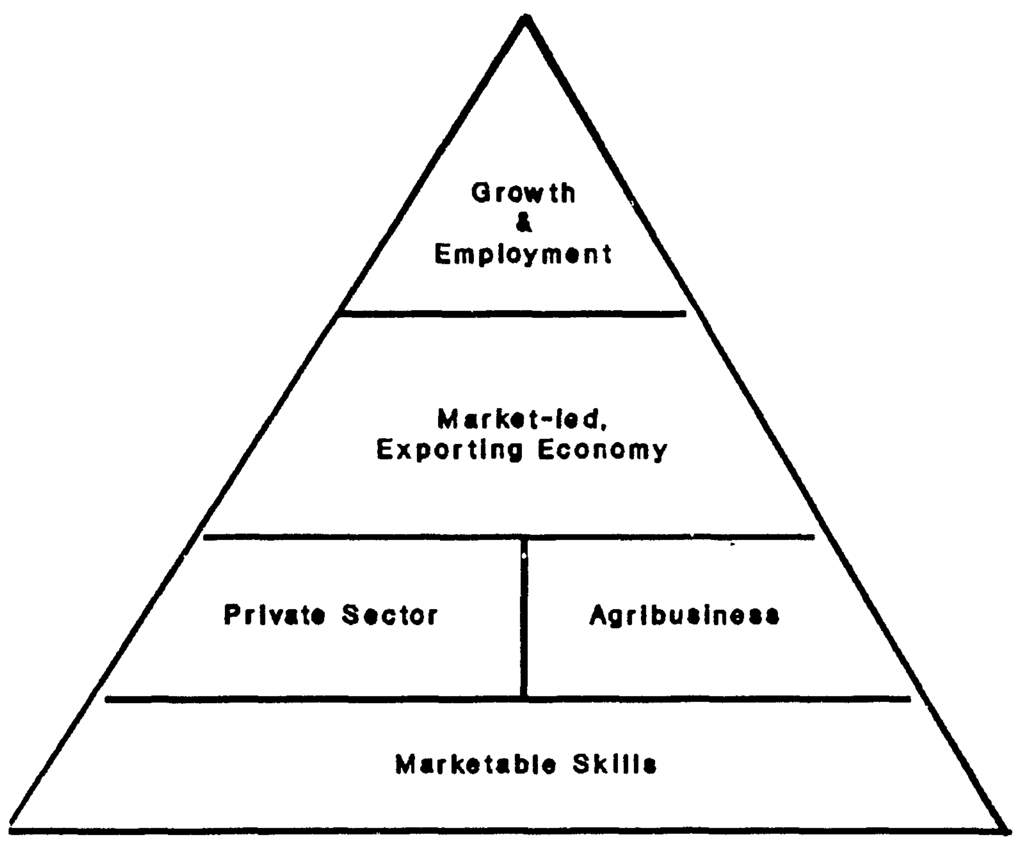
The appropriateness of our assistance strategy outlines approved last year has been confirmed by our extensive analysis and dialogue with counterparts. This Assistance Management Plan (AMP) provides a detailed guide to focussed priorities, program implementation plans, resource allocation and management precepts for U.S. assistance to Tunisia from FY 1991 to FY 1996.

U.S. interests are subtly evolving apace with Tunisian reform and emerging opportunities. We are interested in seeing Tunisia make a successful transition to a market economy and a pluralistic democracy. Tunisia can serve as a model in the Arab world. It offers opportunities to build a denser network of Tuniso-American relations, including trade, investment and scientific exchanges based on mutual interest. Our analysis of the trend lines show Tunisia to be a trend setter in many areas compared to the typical profile of an ANE country.

Analyses of development progress, prospects and challenges, show Tunisia to be moving deliberately to open its society to pluralism and democracy and its economy to market forces. Politically, the Ben Ali administration is engaged in a difficult transition from a single party to a multiparty system. Economically, the Ben Ali administration is moving from an inward to an outward oriented, market economy. Medium-term prospects are good for sustained growth at 5% or better and for fuller employment, based on expanded exports and private investment. But the challenges are great in the short run, as the economy is restructured and the citizenry adjusts to higher living costs, wage controls, public sector layoffs and market competition. The most serious challenge is employment as Tunisia's youth moves into the labor force, in as yet a slow growing economy, still stifled by government monopoly and uncompetitiveness.

The next several years, therefore, will be critical to the success of this economic and political transformation. A major test will be Tunisia's ability to stay the course in the face of reform implementation difficulties, employment pressures, and adjustment costs hurting established interests, protected businessmen and threatened bureaucrats.

U.S. assistance can make a difference. Our strategy derives directly from our analysis of trends into the 90s, the country's development dynamics, and ANE priorities. The strategy focusses on enterprise, exports, and employment in support of this economic and political transformation, with sustained growth and fuller employment our goal. Our program centers on private sector revitalization, agribusiness promotion, and marketable skills development, with an eye to advancing pluralism. The strategy can be depicted as follows:



E^3: Enterprise, Exports, Employment

We are well along in developing a new portfolio to implement this assistance strategy. We have carefully prioritized program niches and judiciously phased out or restructured the existing portfolio. We have developed performance objectives and indicators to measure progress in achieving them. The new portfolio will include six basic programs funded from ESF and PL 480 food aid resources: Private Enterprise Project (PEP), Agribusiness Program Grant (APG), Technology Applications Project (TAP), Productive Skills Training (PROS), Development Studies Project (DSP). DSP has been obligated. TAP has an approved PID and is scheduled for FY 90 obligation. The APG PAIP is ready for ANE review. Only PEP and PROs remain to be designed.

We envisage annual resource levels on the order of $12-15m in ESF and at least $15m in PL 480 to carry out this strategy. We plan to complement these resources with $50m in Housing Guarantees and $12m in Loan Portfolio Guarantees over the strategy period. Naturally, we expect country and program performance as well as resource availabilities to determine actual levels.

We see USAID's role as a niche player in implementing this strategy, combining our limited financial resources in innovative and synergistic ways to help remove critical bottlenecks and leverage larger resources from other donors and the private sector. Performance will be monitored closely against our agreed contract with the Bureau, using mutually agreed performance indicators and a fully integrated program management system. We will continue to rely on a lean staff guided by enthusiasm, entrepreneurship, and excellence. In this way USAID/Tunisia can serve perhaps as the Bureau's boutique offering a few original designs that can be tested in Tunisia before being marketed throughout the region.

Finally, USAID can facilitate Tunisia's transition to ADC status by implementing its assistance programs in ways that foster a mature partnership and pave the way for lasting commercial, investment, and scientific ties between our two countries.

II. U.S. Interests in Tunisia in the 90s

U.S. interests in Tunisia are subtly shifting in response to the new economic and political challenges and opportunities created by the peaceful change in government in November 1987. Tunisia presents a promising model for demonstrating that democratic pluralism and a market economy can work in the Arab world. Our traditional close ties argue for helping Tunisia make this transition as smoothly and speedily as possible. Our future relations argue for expanding the network of relations to include greater trade and investment and scientific exchanges to balance our now preponderant political-military ties and pave the way for a fuller relationship based on mutual interest, in a more economically integrated world and hopefully in a region at peace.

The geopolitical context of U.S.-Tunisian relations carries forward unchanged into the 1990s. Tunisia remains a moderate voice in the Arab world and a helpful bridge between North and South on matters both political and economic. Its physical location is a factor in Mediterranean security. Tunisia remains equally interested in playing a constructive and moderating role in the region befitting a small, progressive country.

Since the change of government, Tunisia has established its role as a pioneer in opening up its political system and economy. Linked by language, religion and culture to the Maghreb, the Sahel and the Arab world, Tunisia is well placed to serve as an example to others of the benefits of democracy and a market economy. Its strong leadership, capable bureaucracy, and homogeneous, relatively well educated population permits a higher level of experimentation in these areas.

A surprising fact in U.S.-Tunisian relations is the relatively sparse network of non-governmental relations, especially in the area of trade and investment. During the past 30 years U.S.-Tunisian relations have been close in politico-military terms with support to basic economic development serving as a tangible expression of our friendship. The evolution toward a more open economy and Tunisia's determination to assume its place in the international economy, as a small specialty store and market, opens new possibilities and enhances our mutual interests in developing a much denser web of economic and scientific relations among our respective businessmen, bankers, scientists, tourists and the like.

U.S. development policy and programs are evolving so as to support the drive to open markets and open society taking place around the world. In Tunisia, USAID is poised to help advance our mutual interests in seeing the Tunisian reform process succeed.

The country team has re-examined U.S.-Tunisian bilateral relations to define a forward-looking framework within which mutual interests can be advanced and which will guide U.S. development assistance strategy. These interests are discussed below.

Political Interests - From an international perspective, it continues to be in the U.S. interest to promote and encourage a pro-western orientation in Tunisian foreign policy. A western international perspective can best devolve from an open and pluralistic society which respects the human rights of the Tunisian citizen. Support for Tunisia's efforts to create conditions where their citizens are fully informed and free to contribute to the organizing and managing of their society in a manner which accomodates Tunisian socio-cultural realities serves U.S. interests well.

To establish cooperation on international problems such as terrorism, the environment, and drugs is another level of political interest. Tunisia does not have a narcotics usage problem, although hashish and amphetemines have long been used by segments of the population. Seizures made at the airport and seaport have included heroin and cocaine as well as hashish. Drugs are usually enroute from Morocco to Libya and Europe and vice-versa. The Tunisian Government is keenly aware of this transit problem and sensitive to the probability that transit could encourage domestic useage. It operates narcotics detection and enforcement contingents within Customs, National Guard, and Police.

Economic and Commercial Interests - Greater U.S. investment in Tunisia is both desirable and probable. A healthy and open Tunisian private sector in which decisions are based on quantifiable economic factors will benefit both U.S. investors and Tunisian development. Tunisia is well situated to provide goods and services to the Arab world, Africa, and Europe. Recent analyses indicate that U.S. firms producing in Tunisia for these markets could have a distinct advantage over competitors producing elsewhere as wage and transport factors are very positive. The recent signature of a Bilateral Investment Treaty is a further plus.

We can facilitate U.S investment by helping assure a "level playing field" for U.S. investors and sales representatives in Tunisia. While there are numerous U.S. investors in the Tunisian oil sector and U.S. products predominate in a few select sectors, lack of familiarity with products, needs, commercial practices, language and laws has traditionally put U.S. business at a distinct disadvantage relative to European competition.

Tunisians are beginning to recognize the importance of U.S. investment and technology to a rapidly modernizing market economy. This provides an added opportunity to build a network of relationships over the next six years. In addition to USAID contributions, OPIC, TDP and Exim resources can be helpful in meeting this challenge. While not very active at the present time, all three organizations have expressed an interest in expanding their business here. Exim bank recently has sent two teams to Tunisia and is interested in working with Tunisian banks to provide guaranteed medium term lines of credit to their customers for purchases of U.S. manufactures. TDP is financing one feasibility study and is looking at the possibility of funding additional projects in Tunisia. The Tunisian Government and OPIC are exploring an investment mission to Tunisia.

The prospects are good for continued increases in U.S. sales of agricultural and intermediate technology goods to Tunisia. We are already a major supplier of cereals and edible oils. It will take a sustained effort to keep the U.S. share of the market. The U.S. is also a source of production inputs for the agriculture sector. Development of these markets will be an important element of our relations between 1990 and 1996. Potential for increased sales exists in intermediate technology goods including aircraft, computers, agriculture and food processing equipment, and medical equipment. The initial providers of new technologies to a market gain a distinct advantage over the long run in follow-on sales. USDA and the Agricultural Trade Office in Tunis are active in advancing these interests. An Agricultural Trade and Development Mission identified the scope for expanded trade in feed grains, Holstein cattle and edible oils.

<u>Related Interests</u> - A moderate and well informed Tunisian labor movement is and will remain very much in the USG interest. Union/Government cooperation is important for the economic and political stability of Tunisia. The main labor federation, the UGTT is in the process of restructuring itself after having its

activities severely curtailed during the last few years of the old regime. It is important to the continued economic health of Tunisia for the UGTT to adjust to working with the private sector. To help achieve this, the Country Team believes that there is much to be gained by deepening the ties between the UGTT and western unions. AFL-CIO has shown interest in renewing its traditional close ties.

The USG has important military interests in Tunisia. Tunisia occupies an important position on the southern edge of the Mediterranean, relies heavily on U.S. military equipment, and is a friendly port of call for the Sixth Fleet. Continued work with the military will enhance its self reliance and capabilities which, in turn, will contribute to stability needed for continued economic growth. Possibilities for increased U.S. contractor services and sales are also emerging.

The widening and deepening of cultural and scholarly ties between the U.S. and Tunisia will remain an important element of U.S activities here. Continued university, Fullbright, international visitor and cultural exchanges will be the vehicles for promoting these interests. U.S. training and familiarity with English are important contributors to eventual acceptance of U.S. products and services.

In summary, the overriding mutual U.S.-Tunisian interest is supporting the emergence of a stable and increasingly open political and economic system which is responding to the needs of Tunisians of all social and economic classes. Both the GOT and the USG agree that the best way to support this is through the opening of Tunisia's economic life to market forces. The Economic Adjustment Program presently in process, and the Eighth Five Year Plan presently in preparation, both bet heavily on the ability of freer economic activity to overcome the misallocations of resources which resulted from many years of statist economic policies. Reduced unemployment and increased investment should result over the medium term from the new market oriented policies. This will open new trade and investment opportunities serving overall U.S. interests as well as Tunisia's interests in integrating its economy into the international economy and expanding its ties with the U.S.

WHAT OTHER USG AGENCIES ARE DOING TO ADVANCE U.S. INTERESTS IN TUNISIA

State	T+I support, U.S.product promotion (e.g. catalogue shows) coordination with OPIC, TDP, Exim Bank, drug enforcement training, labor union training, political dialogue at all levels.
USIS	International Visitors Programs, Fullbright program, Amparts, Cultural Exchanges, Amideast programs.
Foreign Agricultural Service	GSM 102 and 103 programs, Section 108 local currency marketing programs, Sales Assistance Programs, Support to National Wheat, Feed Grains, and Soybean councils.
Peace Corps	Approximately 90 volunteers in agriculture, education, youth development and urban Development.
Department of Defense	Military Sales, IMET, Joint Military Commission.

III. Development Progress, Challenges and Prospects

A. Country Trends into the 90s

Tunisia is a small, lower-middle income country of nearly 8 million people with per capita income of about $1200. Tunisian economic and social development has been good since independence, generally among the best in most performance categories in the region, except when economic progress slowed in the 1980s. Future trends, whether economic or social, will depend strongly on the outcome of the present economic and educational reform efforts.

The Historical Context

Tunisia's economic history subsequent to independence in 1956 parallels the experience of other developing countries. It had a small modern sector controlled by expatriates and a large, mostly agricultural, traditional sector. The economy was essentially market-oriented, but structured to meet colonial demands. Following independence, many former colonial assets, including land holdings, enterprises, and financial institutions were nationalized or expropriated. Many of these assets were retained by the state, and political and economic power was increasingly concentrated in the central government. At the same time, ultimate power was increasingly concentrated in the hands of the ruling party and a life time president.

Movement toward direct control over all aspects of the economy and major experimentation with collectivization occurred throughout most of the 1960s. The effort in 1969 to move away from state control and towards greater roles for the market and the private sector began under conditions of significant economic stress. The self-evident political and economic failure of the collective movement made its practical demise a rapid and popular outcome.

The Recent Past

The reluctance of vested interests, including bureaucrats and public enterprise managers, to give up power or benefits and the strong economic performance of Tunisia during the 1970s and early 1980s made progress on other reform efforts slow or impossible. The import substitution industrialization strategy adopted in the early 1960s prevailed. In effect, the major boost in hydrocarbon resources during the 1970s and early 1980s was used to finance capital-intensive, ill-advised public enterprise investments that could only survive behind high trade barriers. Although illusory in terms of longer term prosperity, the combination of rapidly growing hydrocarbon revenues, rapid growth in manufacturing and tourism with their spin-offs to the rest of the economy, produced a period of strong growth.

Like other oil exporters of this period, Tunisia put off serious questions of economic reform. It found itself unprepared to deal with the downturn in hydrocarbon prices that became serious by 1983 and acute by 1986. Not surprisingly, 1986 marked a noticeable turning point in the seriousness and degree of government commitment to liberalization of its economy. The turning point was a product of both immediate pressures on the balance of payments and budget deficits (brought on by the coincidence of falling petroleum prices, a major drop in tourism, and a major drought) and of the longer term failure to adequately address the problems of efficiency and unemployment.

The years 1986/87 marked a distinct economic and political watershed. A new President, the first in over 30 years, took charge in orderly fashion, firmly aligned himself with economic liberalization and introduced important first steps of political liberalization. The Tunisian Government also undertook to reexamine its education and training systems with an emphasis on improving quality, relevance to market needs, and retention rates. As a result of these policy directions, Tunisians have a much brighter outlook for the 1990s and beyond, provided they stay the course of reform.

Country Trends

Tunisia emerges from our trends analysis as a country that has made commendable social and economic progress over the last 25 years. The pace of many aspects of this progress has slowed in more recent years, however. Although some of this slowing was the natural result of rapid past progress, an important part of it was simply the result of poor economic policies with their predictable consequences on the economy and the resources available for competing social ends. Anticipated future trends, tend on balance to be favorable.

Tunisia's strategic growth path lies on a trajectory of increasingly diversified and specialized exports, targetted carefully at market niches primarily in Europe, branching out to the Middle East and the U.S. and supplemented by tourism, both popular packaged tours and upper scale exotic packages.

With trade liberalization and an attractive investment climate, Tunisia can capitalize on its comparative advantages in agribusiness, light manufactures, commerce and services and its assets such as proximity to its main markets, a high savings rate,a relatively productive and inexpensive labor force.

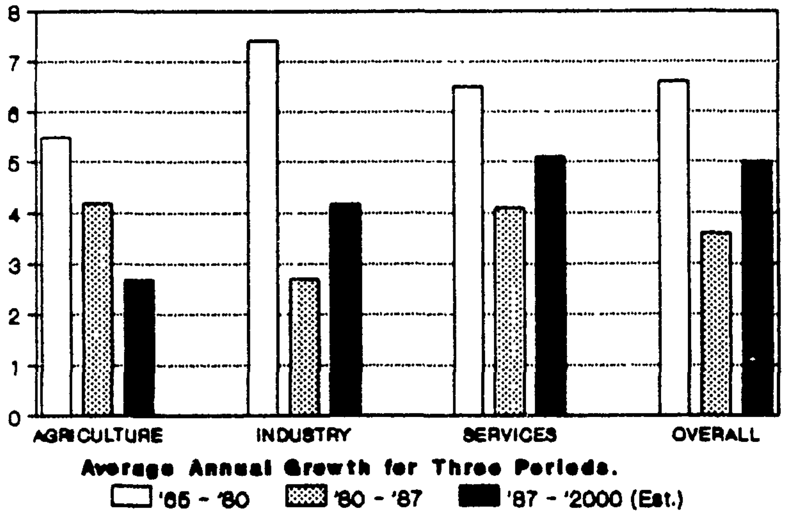
Past and probable future economic demographic and social trends support such an export-led growth path.

We are helping Tunisia develop and refine its economic forecasting models which should permit more comprehensive projections to the year 2000 in the near future.

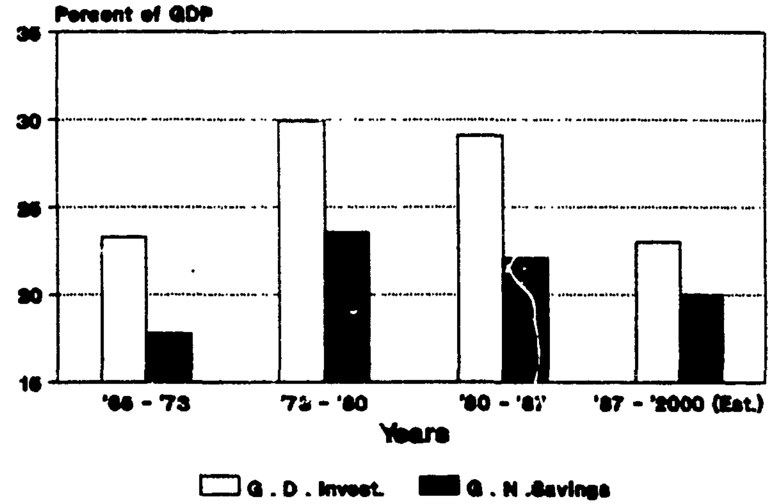
See Figures 1,2, and 3 for economic, demographic, and employment trends.

FIGURE 1: ECONOMIC TRENDS

Economic Growth - Overall and by Sector

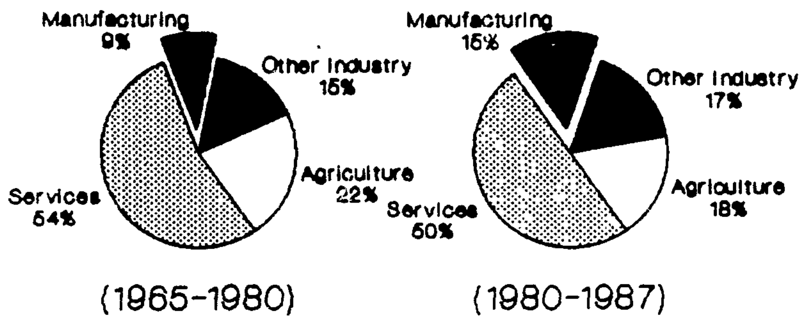


Investment and Savings



Structure of Production

Distribution of GDP



Growth of Merchandise Trade

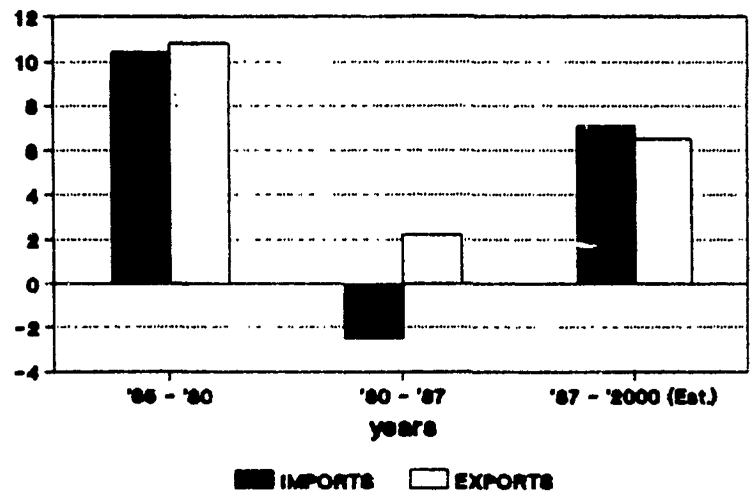


FIGURE 2: DEMOGRAPHIC TRENDS

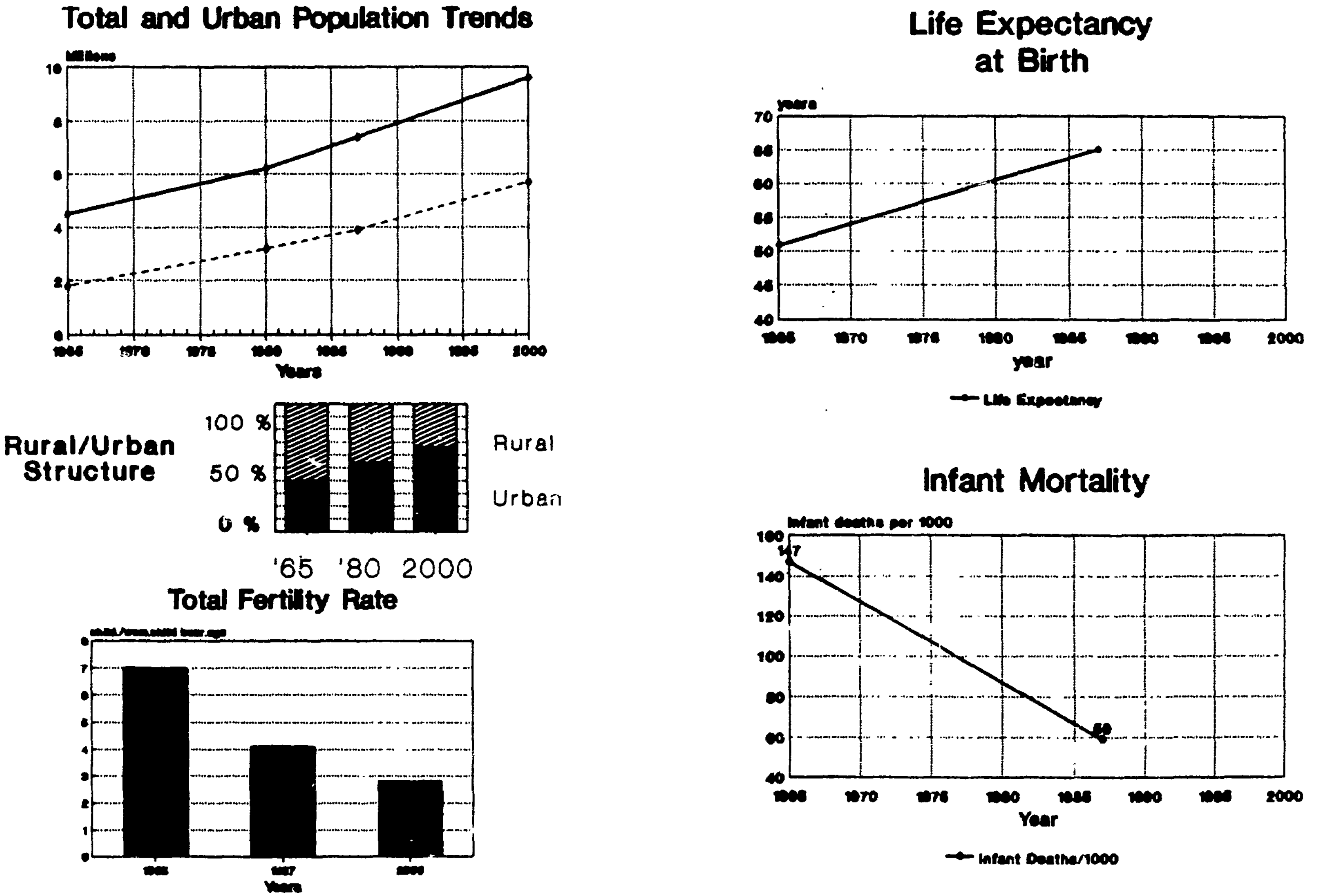
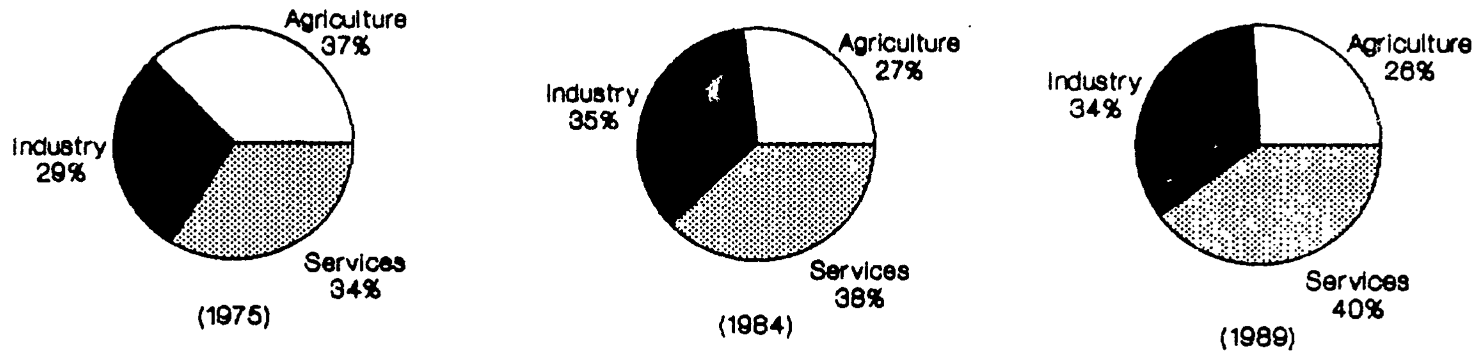
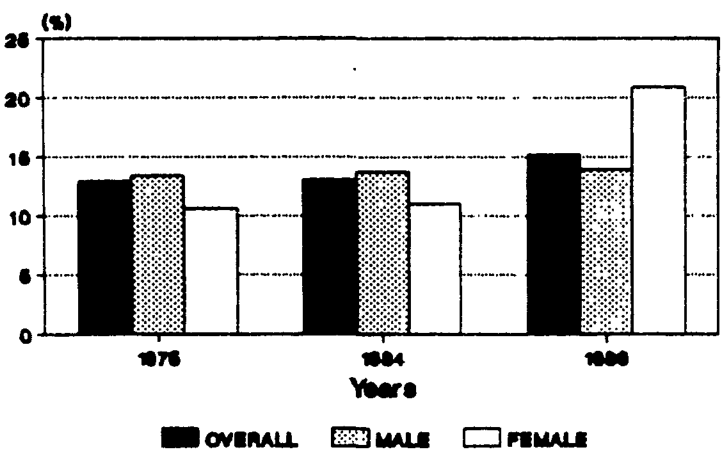


FIGURE 3: EMPLOYMENT TRENDS

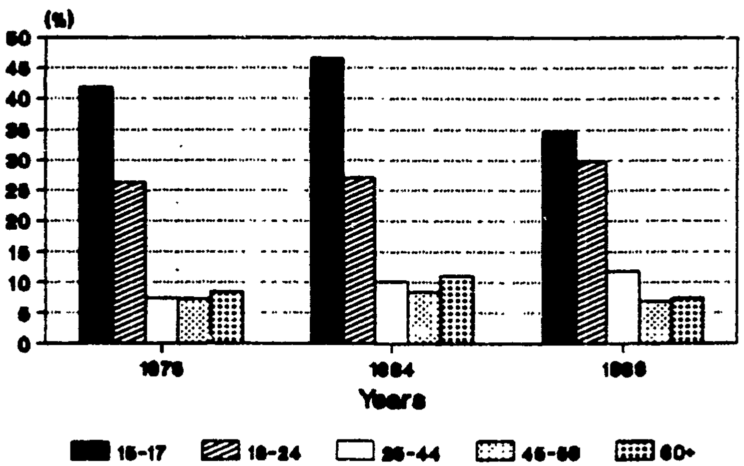
Employment by Economic Sector



Unemployment Rates
(Age group 18-59, Overall and by Gender)



Unemployment Rates by Age
(Percent by Age groups)



B. Democratic Reforms and Pluralistic Development

Tunisia is moving from a 30 year legacy of a homogeneous single, party state with a highly controlled media and circumscribed human and political rights to a more open, pluralistic and decentralized society. The Ben Ali government is moving steadily to give the populace more voice and choice and to assure more efficient and responsive governance.

At independence in 1956 Tunisia was a classic example of a one party state with a charismatic leader, President Habib Bourguiba. However, by the mid-80s, the decisions of an ailing President had become increasingly erratic and unpredictable. On November 7, 1987 a peaceful and constitutional change of government was put into effect by President Zine El Abidine Ben Ali.

What does pluralism mean in Tunisia? In Ben Ali's first two years in office he initiated a number of reforms leading to a more open society. Among them:

- amnesty for political prisoners;
- relaxation of the practice of censorship;
- legalization of a range of opposition parties;
- support for the re-emergence of an independent labor movement;
- movement from a one party state with a president for life to a regime which conducted reasonably free and open legislative and presidential elections in April 1989 and plans municipal elections for June 1990.

Systemic change does not, however, occur over a two or three year period. Tunisians are still searching for the right path to pluralism. There are at least three major hurdles faced by the Ben Ali administration as it moves toward increased pluralism:

1. Accommodation of the growing political and social impact of the Islamic fundamentalists. The major Islamic fundamentalist movement, Ennadha, was not given a license formally to contest the legislative elections of April 1989. Islamic candidates ran as independents and received 14% of the vote nationwide and 30% in one suburb of Tunis. The party was again refused a license in July 1989. Isolated incidents of violence attributed to the Islamists occur throughout the country, but the depth of the support of the militant Islamists is difficult to assess. Outward signs of religious revivalism in style of dress and mosque construction are evident. The real dilemma is that a politicized Islamic fundamentalist movement draws support from a rising level of unemployed, particularly among

youth, while the lack of official recognition restricts its participation in the fo ıal political process.

2. Creation of employment opportunities, especially for youth. With real unemployment among youth running at over 30% amidst belt tightening under the structural adjustment program, jobs will be an important test of Tunisia's new democracy.

3. Development of effective channels for the expression of public opinion in the absence of a multi-party legislature. Prior to the April 1989 elections, President Ben Ali expressed a desire to have more than one party represented in the legislature, but long standing party bonds and a winner take all list system of voting resulted in the RCD, the governing political party led by the President, winning all the 141 seats in the legislature. Thus the role of the legislature as a forum for the expression of a range of public opinion or of political opposition is limited.

A National Pact, signed in November 7, 1988, was conceived simultaneously as an instrument of national unity and of representation of public opinion. The Higher Council of the National Pact includes representatives of opposition parties, as well as of the National Women's Federation (UNFT), the Labor Federation (UGTT), and the Tunisian Union of Industry, Trade and Handicraft (UTICA). Formally the pact council is widely representative, but a major opposition party, the Mouvement Democratique Socialiste (MDS), the Islamists and the Communists all boycotted recent meetings. Those who attended recommended revision of the electoral code to increase the representativeness of elected bodies.

Indicators of movement toward a more open society in the coming year include:

- electoral code revision, which should broaden the representativeness of the electoral system and confirm the effectiveness of the National Pact Higher Council;
- enlarged participation in the deliberations of the Council, exemplified by the return of the Mouvement Democratic Socialiste (MDS) and representation of the Islamists;
- reasonably free and open municipal elections scheduled for June 1990;
- evidence of increased independence of the press from party/government control;
- opposition access to television; and
- labor federation interest in plant level bargaining as evidence of a more constructive and focussed approach to labor management relations.

C. **Economic Reforms and Market Liberalization Progress**

Progressively worsening balance of payments and budgetary pressures in the mid-1980s provoked the government to respond in mid-1986 with a comprehensive macroeconomic adjustment program. This adjustment program became the basis for the Seventh Plan (1987-91) and for subsequent support by IMF Stand-by and Extended Arrangements and five IBRD structural adjustment loans.

The reform program is now slightly more than three years into its original five year schedule. The concensus of the donor community and economic analysts is that reform directions are good and the broad strategy is sound. The simpler tasks have been done. Many of the more difficult ones remain. Implementation is the real challenge over the next three to five years.

Reform Strategy

Tunisia is engaged in a classical structural adjustment program with three essential components; (i) liberalization of the overall, macro/cross-sectoral policy framework, (ii) restructuring, liberalization and finetuning of key sectoral policy areas, and (iii) shifting of the balance of economic power and control progressively from public sector toward the private sector. The crux of the strategy is export-oriented market liberalization within a macroeconomic framework consistent with internal and external balance. The plan is premised on the necessity to contain consumption, expand private sector investment, increase productivity, return to an export driven growth strategy, make major improvements in the efficiency of resource allocation, and reorient the economy toward more labor intensive technologies. To accomplish these objectives the Government has pursued significant policy reform in eight broad areas:

- wage and salary cost containment;
- fiscal restraint and tax reform;
- monetary, banking and credit policies;
- exchange rate policy;
- consumer, producer, and distribution prices;
- investment liberalization;
- import liberalization;
- privatization and restructuring of public enterprises.

In addition, the GOT has formulated key reforms that will result in a major restructuring of its education and training systems. The reforms currently cover grades 1-13 and the training sector and are expected to address higher education issues within the next 12-18 months. The explicit intent of the GOT reforms is to increase the relevance of educational and training system output to the economic realities, i.e., to produce productive, employable graduates. If implemented as presently conceived, the strategy should complement and reinforce the impact of the economic adjustment strategy.

The adjustment program is a comprehensive reform package that will restructure the Tunisian economy for the post hydrocarbon era. It will also provide a much needed solution to the long-standing productivity and employment problem. Nevertheless, it will inevitably require a continuation into the Eighth Plan (1992-96) to achieve its full promise.

Progress to Date

The concensus is that Tunisia's progress on structural adjustment has been good, whether based on a review of macroeconomic indicators or a review of scheduled reform actions and targets. Table I provides a brief summary of structural adjustment highlights 1986-89.

Progress in meeting agreed upon obligations during the first two years (1987-88) was essentially perfect. Progress in 1989 slowed in certain areas, including failure to meet:

- IMF performance criteria on expansion of domestic credit and on net foreign assets, implicitly posing potential inflationary pressure;
- self-imposed target dates for implementing direct tax reforms;
- schedules for offering new Treasury bills to the public, raising preferential interest rates, and achieving specified reductions in imports covered by quantitative restrictions;
- indicative targets for the budgetary deficit and the subsidy portion of the budget.

Some of these delays in implementation were reportedly for political reasons. Public debate and some confusion occurred at the ministerial level over reform directions in mid-1989 and the prime minister was replaced as a consequence. According to the IMF, most previously agreed upon steps are to be taken by end of summer 1990.

Macro-economic performance 1987-89 has been mixed: strong on external performance; acceptable but not outstanding on growth; reasonable on price stability but with continuing pressures; and mixed in terms of controlling budgetary expenditures and deficits. Nevertheless, economic performance during this period must be interpreted in the context of three years of drought out of the last four, the political uncertainty preceeding and following President Bourguiba's displacement, and the inevitable leads and lags before reform measures are taken and results are produced.

The recent floods and heavy rains (50-70,000 homeless and an estimated $250m required for rehabilitation) and the recent hoof and mouth disease (estimated loss of 50,000 sheep and cattle) have combined to take the luster off of what might have been an otherwise very good year economically in 1990.

Substantial progress has been made toward redressing relative factor prices in favor of greater labor use, reorienting incentive systems toward the tradeable goods sector, and setting in motion a trend toward a smaller role for government and public enterprises in the economy and a greater role for the private sector.

Reform Outlook

President Ben Ali's honeymoon is over. People want to see visible results (jobs, rising real wages, and meaningful participation in decision making), not lists of actions or reforms taken. Political pressures have increased over the last year and, inevitably, will continue to mount.

A more somber, skeptical mood has replaced the initial relief at the leadership changeover in November 1987. This is reflected in growing student and labor unrest, the government's caution in reducing consumer subsidies, and the postponement of parliamentary discussion of potential revisions in the Labor Code. Despite mounting pressures, the President has reaffirmed his support for the structural adjustment strategy, in his speeches as well as by his cabinet appointments and directives.

The reform effort must continue into the Eighth Plan (1992-96) to realize the full potential of the adjustment strategy. Key economic officials at the Ministry of Economy and Finance, the Central Bank, and elsewhere strongly support continuity of reforms. Preliminary outlines of the Eighth Plan carry foward the reform program.

The tough issues in implementing the structural adjustment strategy continue to be tariff protection for domestic industry, consumer subsidies, privatization, and public enterprise restructuring.

The government to date appears to be following an intelligent, reasonable course of action. Because of a natural tendency toward "adjustment fatigue" after three years, timing and sequencing of reform announcements will be increasingly important. The judgement of the GOT in this regard should not be challenged lightly.

The key point is that the GOT understands and accepts the importance of taking long-term reform measures but must still find the way to make these steps politically palatable at the same time that the government is attempting to decentralize its political decision making. The political dilemma is the increasing need for greater consultation and participation versus the need for speed, efficiency, and discipline in the implementation of the structural adjustment process.

TABLE I: STRUCTURAL ADJUSTMENT HIGHLIGHTS 1987 - - 1989

1. Price Liberalisation

- services mostly free of admin. controls
- 80% of agric. producer prices decontrolled; remaining prices raised significantly 1986/7
- subsidized agric. inputs raised in 1986/7 and 1987/8 crop seasons; fertilizer retail margins liberalized 8/87 and full cost charging for mechanization services achieved
- 70% of value of manufactured goods producer prices decontrolled by late 1989; controls on most remaining items relaxed
- 20% of distribution margins decontrolled by late 1989
- certain public tariffs and petrol. prices raised in 1988
- share of consumer subsidies in budget dropped from 3.5% to 3% in 1987

2. Public Enterprises:

- state control limited to enterprises with 50% GOT participation, up from 34%; reduced PE's under state control from 308 to 205
- legislation passed to permit gradual sale of GOT share of public enterprises to private sector; process has been initiated with 26 enterprises and 40 operations valued at about $100 million privatized 1986-89
- systematic review underway with view to improving financial viability of those enterprises remaining in public sector

3. Import Liberalization:

- quantitative restrictions on imports of raw materials, semi-finished goods, and investment goods removed (with minor exceptions) by 1/88; value of freely imported goods 64% by September 1989
- companies exporting more than 15% of output allowed to freely import needed inputs
- maximum tariff rate reduced from 236% to 41%; minimum tariff raised to 15%
- other tariff rates between 26% and 55% were reduced by 6 percentage points 1/87 and 9 percentage points 1/88, subject to a minimum tariff of 17%

4. Exchange Rate, Exchange System & External Debt:

- floating rate exchange rate system adopted 10/85.
- 9% devaluation of nominal effective exchange rate 8/86
- 21.5% depreciation of real effective exchange rate during 1986 with further depreciation of 4.5% in 1987
- real effective exchange rate maintained 1987-89
- elimination of GOT subsidized exchange rate guarantee system 8/88 and replacement with temporary alternative GOT guarantee system
- IMF program limits on non-concessional external debt 1987-89 observed
- established monitoring unit to centralize data on external debt structure in 1988 for purposes of managing external debt, including attendant exchange risk

5. Tax Reform:

- value added tax system introduced 7/88 and extended to wholesale trade 7/89; replaced three turnover taxes
- new personal and corporate income tax system with simplified rate structure and maximum rate reduced to 35% introduced 1/90

6. Credit and Monetary Policies:

- prior approval of new credit and refinancing by central bank eliminated 1/88
- reserve loss provisions of banking system strengthened 1/88
- money market system strengthened by authorization of interbank transactions and participation of nonbank financial institutions and certain enterprises; certificates of deposits of these institutions now freely trade
- cost of credit effectively reduced by 1.1% by reduction on service tax on interest charges from 14% to 6% on 11/87
- interest rate controls on loans and deposits lessened; deposit rates essentially deregulated and ceiling on lending rates replaced by bank spread of 3% above money market rate
- money market rate raised to about 9.5%; treasur bond rates raised from 6.5% to 8.5%
- preferential interest rates limited to agriculture, exports and SMES, and artisanal & craft industries.
- floor on preferential interest rates effectivel raised to 7% 1/89
- offshore banks permitted to accept deposits and make loans in local currency, thus increasing domestic competition
- mechanism available to Central Bank for intervening in money market diversified

public market for treasury bills introduced 10/

7. Investment Liberalization:

- implementation of new investment code with no advance application necessary unless special incentive requested in 1987
- tax rates on investment earnings reduced by introduction of tax credit concept
- GOT is consciously constraining public enterprise and GOT use of domestic credit in order to make greater proportion of credit facilities available to private sector

8. Wage and Salary Cost Containment:

- real average wages as well as minimum industria (SMIG) and agric. (SMAG) wages have decreased since 1983 as well as during the period 1986-89 when cost of living rose 25% versus 16-17% for average wages
- with exception of 1983 and 1985 real wage costs have lagged behind increases in productivity

D. The Employment Challenge

Tunisia faces a severe and growing employment problem. Over 380,000 of its 2.4m labor force were unemployed in 1989, with an open unemployment rate greater than 16%. The unemployed tended to be young, mostly uneducated, largely urban, and without work for extremely long periods of time. Underemployment is likely to have worsened since 1987, given the trends in open unemployment.

Ominous Unemployment Trends

Youth unemployment rates (ages 15-24) were over 30% and they constituted over half (54%) of the total unemployment. Female unemployment rates rose to record levels of 21%, double their 0984 levels. Two out of every three persons unemployed were located in urban areas in 1989. The unemployment problem has deepened since 1984. Higher unemployment rates now extend to older, prime working age adults (ages 25-44) and the average duration of unemployment has significantly increased, with at least 41% of the unemployed without work for two years or longer.

The root causes of Tunisia's employment problem are complicated; lie deep to the core of Tunisian society; and will take many years to effectively address. They include:

- limited access to resources;
- non-competitiveness;
- inappropriate capital stock and inadequate investment levels;
- inadequate education, inappropriate skills, and poor attitudes;
- rigid labor code with resultant inflexible labor markets;
- poor information and placement systems;
- mechanistic wage setting and lack of effective incentive systems; and
- unrealistic wage costs and wage compression.

Serious Social Implications

The Government of Tunisia's core dilemma is how to stay the course of the sensible strategy directions that have been recently laid down to reform both its economic and human resource development policy frameworks, while at the same time responding to the more immediate social and political pressures created by the employment problem. This implies the need for popular, effective, short-term programs while building commitment to the long-term reforms.

Economic Reform is the Best Solution

Progress is uneven in the three key reforms areas essential to resolution of the long-term employment problem. Implementation of economic reform is much further advanced than education and training systems reform, and labor market reforms have yet to be openly debated, let alone formulated. Nevertheless, formulation of a comprehensive long-term employment strategy has begun.

Even in the absence of significant labor market reforms, the employment situation will be substantially improved and even "solved" in the sense that most people will have jobs, if economic and education and training sector reforms go forward. Under those circumstances, it should be politically easier for the government to introduce serious labor policy reforms as labor market conditions tighten and unemployment is reduced. Nevertheless, until Tunisia addresses the work incentive structures, it is unlikely to become a particularly successful competitor in fast moving, highly competitive export markets or to swiftly emerge as an advanced developing country.*

E. **Agribusiness Potential**

New Dynamics for Agribusiness

The agricultural sector continues to be an important player in the Tunisian economy, although accounting only for 13% of the GDP, 26% of employment and 8% of export earnings. In the past, agriculture has clearly been impeded by a series of macroeconomic policies, including overvalued exchange rates, subsidized food costs, controlled low producer prices and restrictions on imports of agricultural inputs.

The situation is changing, however, under the GOT's strategy of moving towards a more market-oriented agricultural economy and export-driven growth:

- The dinar has been successively devalued in real terms.

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* Comprehensive analysis of the employment problem is contained in 15 research papers now being completed and summarized in The Employment Challenge separately available.

- Food prices have been freed on most commodities, thereby allowing producer prices to be set in the marketplace via supply and demand.
- Government subsidies on food are being reduced leading to more effective allocation of production resources.
- Quantitative import restrictions on agricultural inputs are being phased out and tariffs significantly reduced or eliminated.
- Investment and tax codes are being changed to encourage the private sector to invest in agricultural production and business.
- Government owned parastatals are being divested as private companies assume increasing control of agribusiness and export operations.

This rapidly changing macroeconomic policy environment will permit Tunisia's agricultural sector to respond to international price changes. For the past two decades, firms have been obliged by GOT policy to set as a priority the satisfaction of the domestic market and to operate in a non-competitive market situation. (The Mission's Updated Agricultural Strategy paper provides detailed analysis on the sector, its progress and constraints.)

Tunisian agribusiness has proven responsive to the improved policy climate. Liberalization in the fisheries sub-sector, for example, has led to a doubling of its output over the last ten years, with much of the increased production going to exports. Employment in the subsector is growing particularly among women who are being hired in processing and packaging plants. Other subsectors also have considerable potential.

A detailed profile of the agribusiness sector and its recent performance is contained in the Mission's Agribusiness Strategy. In brief, the sector can be characterized as modest, with some 3500 agribusiness firms. Of that total, 1500 are in olive oil processing, 1500 in the bakery subsector, and some 500 others in a variety of other subsectors. On average, the firms are small and traditional with sales levels in canning, freezing and conditioning plants rarely surpassing $5m. Geographically, with the obvious exception of dates in the arid South, operations are more heavily concentrated in the coastal governorates of Tunisia, attracted to fertile soils, fishing grounds and relatively easy transport.

Good Agribusiness Export Potential

The quantity of Tunisian agriculture exports is basically at the same level or lower than they were twenty years ago. Total agricultural exports were 257 million TD* in 1988, up from 153 million TD in 1985, primarily due to a tripling in value of

*A Tunisian dinar is about $1.12 at current exchange rates.

seafood exports and the development of tomato concentrate exports.

Tunisia has a clear comparative advantage in the export of certain agriculture products which compete favorably on the world market, specifically: fruits, vegetables, seafood, wine and olive oil. These areas have the potential for significant growth in exports, both in terms of quantity and quality. There is the potential for increasing the value of total agribusiness exports by 50 million TD per year by the mid-1990s. This translates into an estimated 1200 additional jobs per year in the food processing industry and potentially eight times as many new jobs indirectly in agriculture. Value added in agro-processing is estimated at 20-25% of export sales, but almost the entire amount of export sales will count as value added when agriculture production is considered.

Dates: An Excellent Example of Export Potential.

Tunisia produces a unique type of date: a soft Deglet Nour which can be consumed in its natural form, on the branch, because no pesticide or chemical is used to produce it in southern Tunisia. Other countries produce and export harder and dryer Deglet Nour which must be processed to eliminate all trace of pesticides and then washed, pasteurized and packaged before being marketed. Hence, Tunisian dates have no direct competitor and are easy to position in the market.

Exports of Tunisian dates are valued at 30 million TD per year. Dates represent the third agricultural export commodity after seafood products and olive oil. Production should nearly double to 100,000 tons by the year 2000 as a result of planting during recent years. Most of the increase will come from the high value Deglet Nour. In dates alone, application of new technologies and better quality control by the producers could lead to a 20-30% increase in export value: 6 million TD/year at current prices.

Dates are not the only Tunisian product immediately susceptible to increased exports. Based on conclusions from the Mission's Agribusiness Rapid Appraisal completed in November, 1989, and confirmed by the Agribusiness Strategy in March, 1990, both processed tomato concentrate and speciality seafoods are also excellent candidates.

Tomato Concentrate and Seafood: Tunisia enjoys competitive advantage

Tunisia is in a position to produce a quality of tomato concentrate that stands up well to further processing and to tap into the large industrial market. Tunisia enjoys competitive advantages based on its climate, low labor cost and access to modern technology.

Tunisia presently exports at most 12,800 tons of tomato concentrate. In 1990, the 44 Tunisian canning factories are planning to produce 95,000 tons of concentrate, 35,000 tons of which could be for export. With appropriate changes in the policy environment and better production and processing techniques, this could be greatly increased.

Seafood also has high growth potential. Rational exploitation of the surplus of demersals (sea bottom dwellers such as chrimp and squid) can generate more than 2,000 tons of fresh and frozen fish per year for exports valued at 20 million TD. The 100,000 tons of unexploited pelagics (sea surface fish such as macherel and tuna) are spread equally around the Tunisian coast. This can be exploited to develop an export market for processed sardines and to target unsarisfied domestic demand.

Major Constraints to Effective Development of Agribusiness Export

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

1. The market failures are caused primarily by horizontal segmentation of the sub-sectors, GOT pricing policies, and frequent GOT intervention into private sector matters. The horizontal segmentation is a phenomenon of the lack of direct contact between the different actors in a sub-sector and the lack of incentives for them to communicate important market information through prices.

2. 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.

3. On the supply and processing side, major constraints appear with relation to land, technology adoption, working capital, packaging, and management capacity. These limit the ability of the Tunisian agribusiness sector to exploit potential resources and maximize the results of the sector.

4. There is weak strategic planning for export development at both GOT and private sector levels.

The constraints to Tunisian agribusiness development listed above indicate a need not only for policy adjustments but also for more practical business level interventions. This confirms a recent review of the evidence on structural adjustment in agriculture which shows that getting markets operating and prices right is by itself not sufficient to ensure higher long term agricultural growth. Direct assistance must be provided to the private sector to stimulate growth patterns.

F. Trade and Investment Progress, Constraints and Opportunities

Progress to Date

Tunisia is poised for expanded trade and private investment. A number of specific policy and legislative actions taken since 1987 by the Government of Tunisia include:

- implementation of an on-going and successful privatization program;
- devaluation and maintenance of a flexible, competitive exchange rate for the dinar;
- promulgation of a series of very liberal, simplified investment codes for industry, services, agriculture;
- gradual movement toward import liberalization;
- progress in price liberalization;
- general freeing of interest rates (except for credits in the preferred sectors of agricultural production, small and medium enterprises and exports) and consistent movement toward market rates for these preferred sectors;
- simplification of administrative procedures for investment in export-oriented ventures through "one-stop" windows at API and APIA;
- capital markets reform;
- tax reform, and accession to the General Agreement on Tariffs and Trade (GATT).

There has also been progress in the arena of U.S.-Tunisian trade and investment relations. A series of significant steps taken in the period from late 1988 through early 1990 indicate Tunisia's strong interest in encouraging U.S. investment and developing expanded trade linkages.

Milestones include:

- ratification of a Bilateral Investment Treaty with U.S. (1990);
- a Tax Treaty with U.S. signed (1989);
- the JCTI Mission to the United States (1988);
- the Tunisian-American Chamber of Commerce inaugurated (1989);
- opening of U.S.-Tunisian Joint Business Council in Atlanta, Georgia (1989).

The reforms are encouraging exports and export-oriented investment, as detailed in the Mission's Trade and Investment Strategy paper.
Light manufactures have grown by over 30% per year -- and in 1989 they grew by 40%. Light manufacturers and other non-traditional exports accounted for 54% of total exports in 1989 compared to 44% in 1987 and only 27% in 1980. API statistics show that foreign investment and joint partnerships in export-oriented ventures increased by 25% in 1989 and that registrations of intent to invest in export-oriented projects have increased from 156 registrations in 1986 to 1020 in 1989.

Constraints to Trade and Investment

The key remaining factors which inhibit Tunisia's economic expansion are: (1) uncompetitive domestic industries, (2) an unresponsive, highly conservative financial sector, (3) underdeveloped marketing information, services, channels, (4) a business management culture which remains generally unaggressive and risk averse, and (5) insufficiently diversified export markets and products.

1. Uncompetitive Domestic Industries

The highly protected domestic industries manufacture a large percentage of products for the domestic market which are over-priced, of poor quality and generally uncompetitive in relation to international standards. These firms have not tried to emulate the greater efficiency, quality and marketing skills found in the "off-shore" companies. These producers need to develop competitive exports as a key element of their business strategy if they are to survive in an open market. The slowing down of import liberalization is currently inhibiting this reorientation.

Some observers believe that this pause is temporary and relates to GOT concerns over putting needed anti-dumping and improved infant industry measures in place before removing quantitative restrictions on finished products which will compete domestically with Tunisian industries. (Although 67 percent of imports have been liberalized, only about 16% of domestically produced goods currently face direct import competition.) Whatever the reason for the pause, it is vital that a clear sectoral timetable for import liberalization be set to alert domestic industries to the necessity to adjust to international competition and give them time to devise a rational adjustment program.

2. An Unresponsive, Conservative Financial Sector

In the area of financial policy, continued foreign exchange controls by the Central Bank may be inhibiting the pace of foreign investment. A number of economists and private executives do not view this as a major constraint, since new laws guarantee foreign investors broad rights of repatriation. A fully convertible currency is still required. The Central Bank has publicly pledged to make the dinar fully convertible during the Eighth Plan.

Access to investment financing is probably one of the most important constraints to new entrants into industry or to introduction of competitive technology into existing Tunisian industry. In Tunisia the problem is not one of absolute liquidity but rather the result of highly conservative, asset-based banking, a still under-developed Stock Exchange and a present dearth of non-familial venture capital.

The strong conservatism of bankers is largely explained by legacies. Under the former system of investment controls, the Investment Promotion Agency screened investment proposals first. Now that the banks are being called upon to screen investment proposals themselves, they are generally ill-prepared to perform this function. In addition, directed lending to government companies has weakened the portfolios of some banks. These portfolio weaknesses, combined with the current 250 basis point cap on bankers' spreads, limits their willingness to undertake risky new investments in most industrial sub-sectors.

On the equity side, recent reforms in the Stock Exchange should lead to improved savings mobilization and the availability of increased equity for firms with a performance history -- and transparent accounting procedures. This improved access to capital will, however, take time.

A gap in non-familial financing for new ventures remains. To fill this gap, the GOT has begun seed funding for a venture capital company and is improving its present credit guarantee program. Other donors such as France and Italy have also provided large credit and capital funds to encourage joint venture investments.

3. Underdeveloped Marketing Information, Services, Channels

Company level constraints continue to inhibit Tunisia's full potential to grow as a market-driven, export-oriented economy. Key among these constraints is a basic lack of information about successful exporting, especially regarding foreign markets (demand, standards, marketing channels, administrative procedures, special programs such as U.S. "GSP"). Tunisian export-support and investment promotion institutions, organizations and firms are generally weak. Public organizations such as CEPEX, the Government's center for export promotion, and API, the agency for industrial promotion, currently lack clear mandates and a strong sense of service to the client. Private organizations exist to promote foreign investments and exports: the Tunisian-American Chamber of Commerce, the regional Chambers of Commerce and the Federation of Exporters. While frequently directed by newly-dynamized boards and some professional staff, these new organizations still lack experience and resources to provide professional, effective assistance to private, export-oriented firms. Private, professional marketing and information service firms, have just begun to appear on the scene. The recent emergence of one or two of these firms, one founded by business graduates of a U.S. university, holds promise for the future.

4. A Risk Averse Management Culture

A number of studies of Tunisian business, including the Private Sector Training Needs Assesment, have pointed to the unaggressive and risk averse management culture as a constraint to export oriented trade. Facets of the management culture which are inhibiting private sector development include: (1) an inadequate depth and level of management skills in private firms; (2) a management structure in which the owner tends to dominate all business decisions and where middle management is relatively weak; (3) a general unwillingness on the part of private owners to share control with minority partners; and (4) a history of risk aversion in the private sector.

5. Insufficiently Diversified Export Products and Markets

Tunisia's heavy dependence on EEC markets argues for more diversification. Tunisia currently exports approximately 75% of its manufactured goods to the EEC and imports 67% of its goods from the EEC. Even within the Community itself, Tunisia's manufactured exports are very heavily concentrated in certain EEC countries, notably France (22% of Tunisian exports), West Germany (about 20%) and Italy (17%).

While a number of experts do not believe that a post 1992 Europe will profoundly effect Tunisia's preferential trade advantages, the forecasts are less clear concerning the full integration of Spain and Portugal into the EEC in 1996 -- which may seriously hurt Tunisia's traditional agricultural exports like olive oil. For example, full integration of Spain will increase the EEC's area of cultivable land by 27% and irrigated farmland by 80% and will swell the active EEC farm population by 28%.

Finally, although recent statistics indicate a 40% growth in Tunisia's light manufactured exports during 1989, about 60% of manufactured exports (excluding fertilizers) are textiles and garments. Although relative textile percentages have declined somewhat in recent years, this general lack of diversification in the export industry can be viewed as a constraint to export promotion -- particularly as certain Eastern European countries attempt to enter the same Western European textile market.

6. Special Constraints Regarding U.S. Firms

Given the recent liberalization of Tunisia's trade and investment climate, and the positive response to this from investors from France, West Germany and Italy, it would seem that the clearest constraints to increased U.S. trade and investment are: (1) low historical level of U.S. trade and investment, (2) present lack of knowledge of Tunisia's good climate for investment, (3) small size of the Tunisian market, and (4) unfamiliarity with French and Tunisian Civil Law.

Opportunities:

Despite some significant constraints to trade and investment, much of Tunisia's policy and regulatory reform program is in place and Tunisia is actively seeking to expand exports and promote foreign investment. In addition, Tunisia offers certain advantages and strengths which support its efforts at reform and revitalization and present opportunities for foreign investment and export trade. Key among these advantages are Tunisia's geography, its people, its preferential market access, its generous investment codes and its relatively good infrastructure.

In terms of geography, Tunisia is well situated as a springboard to Europe. The country is 90 miles from Italy, an hour and a half by air from France, in the middle of the Maghreb. In short, a place for "exchanges". Building on this geography, Tunisia now wants to function as a setting for exchanges and has structured its laws to allow its development as a regional financial center and an area services center. A number of Arab banks have already responded to the banking incentives and some off-shore services companies have arrived. One U.S. bank, Citibank, has also responded to the new laws and become the first on-shore foreign bank. Others are now applying.

As a developing francophone country in the Maghreb, Tunisia also enjoys certain important advantages of preferential market access that add to its attraction as a joint venture partner and springboard to Europe and the Middle East. The country currently has preferential access to a number of major markets: the EEC, Arab countries (including those of the Maghreb) and the United States (under the Generalized System of Preferences).

Though Europe 1992 (and 1996) could be problematic for Tunisia, many observers believe that, on balance, Tunisia's preferential access will remain for many exports to the EEC and that Eastern Europe. While Eastern Europe may draw away some potential investment capital, it may prove to be an expanded market for competitive Tunisian manufactured goods and off-season agricultural produce.

Tunisia provides relatively good infrastructure, including a network of roads, phones, electricity and water for industry. Finally, Tunisia's people are also an important asset. The country possesses a relatively well-educated, outward looking middle class and a reasonably inexpensive labor force -- though increased, appropriate training for both management and labor is required.

G. Manpower Needs for a Market Economy

The transformation of attitudes as well as skills will be essential in turning Tunisia into a competitive market and a pluralistic society. But the mismatch between Tunisian labor skills and employment needs is a major handicap.

Tunisia has been very successful in educating and training people at certain levels and for certain types of jobs. The literacy rate stands at 55%. School enrollment levels are among the highest in the region. Higher education enrollment in science and engineering is relatively high. But there is a surplus of candidates to fill unskilled labor positions, as well as the professions (engineers, physicians, academicians or bureaucrats). There is a real dearth of skilled labor, plant foremen, tradespeople such as plumbers, electricians, carpenters and mid-level managers. It is asserted that Tunisia never replaced the European blue collar workers who left after independence, as indicated by the poor maintenance capacity relative to Tunisia's overall level of development. The evidence is mixed as well concerning employee productivity. In certain sectors, such as in textiles, Tunisia is competitive with high productivity levels and low labor costs. But this is not the case across the board.

The educational system, modelled after the French, tends to reward the gifted minority which is guaranteed a free university education, all the way through to the Ph.D level for the brilliant student, either at home or abroad. In order to train a few highly skilled people, a large number are lost along the way. The educational system has worked on a principle of failing all those for whom spaces are not available at the next higher level or who are considered just average in capability. (Weiss in his comparison on Tunisia's level of technological advancement found this to be a major handicap.)

In the last two years the GOT has recognized that there is a specific linkage between the country's high unemployment rates and the skills or lack thereof provided by the current educational system. The debate went public in 1989 with considerable discussion in the press, and a variety of seminars have been held examining the problem and considering alternative solutions. There is also a growing recognition that both basic and applied research are seriously underfunded in Tunisia. Only 0.14% of GDP is allocated to all research, including industrial, scientific, humanities, legal, medical and other. The government espouses an ambitious goal of allocating 2% of GDP to research by the year 2000. Private-public collaboration will be essential in research if any kind of technological take-off is to occur.

The private sector, too, has acknowledged the mismatch between needed skill levels and people to fill jobs. For a long time it was believed that having a critical mass of engineers in country would enable Tunisia to make great technological progress. But the economy did not have appropriate positions once the academic jobs were filled and few engineers had practical skills needed to be efficient in the private sector. The private sector also bemoans the lack of skilled people to fill jobs in manufacturing, to maintain equipment, to perform administrative tasks or to act as mid-level managers. The weakness of the consulting industry in Tunisia will become more acutely felt as the economy begins to open up and new firms are established.

Approaches to Solve the Problem

The GOT, with assistance from the World Bank, is in the process of a major reform of the educational system, starting from the base upwards. In the past, education for most people ended with 6th grade if they were not given a place in secondary school. Now basic education will continue through the 9th grade to ensure that literacy and elemental math skills are taught. Secondary education will be restructured. The next two grades will consist of a core general education program followed by the final two years where students will specialize either in humanities, science or in technically oriented programs.

A number of other important reforms are being considered including teacher training reform, revision of programs and curricula at all levels of pre-university education, and a number of institutional and administrative reforms. Vocational training will be completely revamped as described in more detail below, and reform of the university system is next on the agenda. The impact of radical reform for the general educational system will not be measurable for many years unlike short term measures to make vocational education more responsive to market demand.

In 1988, the GOT created the Office of Vocational Training and Employment (OFPE), with a mandate to supervise labor market operations and coordinate training activities in the country. In March 1990, a Ministry of Vocational Training and Employment was created which underscores the importance the GOT attaches to solving the mismatch between skill levels and labor supply. A high level Vocational Training Committee has been designated with both public and private representation whose role is to design and coordinate all vocational training policies. Changes are underway in regional employment and vocational training administrations which will separate these functions and decentralize decision-making. The GOT is trying to establish and strengthen linkages with industry to ensure that employment for graduates of different training centers can be guaranteed. Apprenticeship training regulations are being liberalized. Dual training activities in collaboration with industrial establishments are being set up. The Vocational Training Tax is being reformed and a number of new employment programs are being initiated. What is most exciting is the interest on the part of the private sector in collaborating with and guiding public programs in order to achieve maximum benefit from the investment. The willingness of the private sector to get involved is a positive sign that the needed changes in attitudes and skills can be made.

H. **Urban Implications of Market Led, Export Oriented Development**

Tunisia is Becoming An Urban Society

Nearly 60% of Tunisia's population now live in urban places where roughly 83% of the GDP is also produced. The largest proportion of the urban population is concentrated in the District of Tunis and along the coast from Bizerte to Sfax. The larger cities are growing faster than the national population as migrants seek employment and other opportunities in the urban areas. This moderately rapid urban growth will continue, especially in those cities where new jobs are created by private sector investment and export expansion. Increased pressures caused by continued urban growth will be felt most strongly in the cities that provide access to foreign markets, especially the capital and coastal port cities and in some interior regional centers.

Demand for Urban Services And Infrastructure is Growing

The growing population and urban concentration, coupled with Tunisia's drive to expand private investment and exports, will lead to increased demands for public services and infrastructure, shelter and utilities, and will be accompanied by environmental problems caused by inadequate sewage and solid waste collection, disposal and management services. In response to urbanization pressures and to support private development, public policy will need to balance the conflicts between industrial and other uses and provide infrastruc- ture, services and a conducive environment for business investment. This will require appropriate urban growth management, planning, administration and regulation as well as sound land use policy. Investors are looking for land that is serviced by necessary infrastructure, that is well located and that is reasonably priced. Competition for urban land will increase as demand for shelter and for commerce and industrial use increases.

Currently much of the infrastructure that business needs is not provided by local government but is planned and budgeted through the National Development Plan and installed by national agencies. In order for an economic approach to public investment in specific cities to succeed, a coordinating partnership must be formed between the several levels of government involved and the business community. This coordinating and planning role should be the responsibility of the municipality in which the public improvements will be made to support specific business investment. Local government has to develop the internal capacity for planning, coordination and management of public infrastructure investments based on economic rather than social criteria. It should also look toward private sector contracting of urban functions where appropriate.

Private Capital For Infrastructure And Services is Needed

Tunisian municipalities can now borrow low interest (2%), long term (20 years) capital for development projects from public funds. However, over the past several years the level of public funds has decreased rapidly even as the demand continues to grow and alternative sources of financing for capital improvements are needed. Municipalities must therefore move away from highly subsidized government funds toward the use of private capital at market rates.*

I. Energy and Natural Resource Implications for Sustainable Market-Led Growth

The energy and natural resource implications for Tunisia's program of sustainable, market-led growth are serious. As the economy expands, natural resource and energy management issues will be critical.

The Energy Outlook

The energy outlook for Tunisia is not promising. The projected energy deficit for the year 2000 will be 3m TEP (equivalent tons of petroleum). While production from petroleum reserves is projected to continue its decline, energy consumption will grow at the same annual rate as GNP, or approximately 4%, through the decade of the 1990s.

The GOT has launched programs in 1) promotion of petroleum exploration, 2) improvement of refining, storage and distribution systems, and 3) promotion of energy conservation and renewable energies. Several policy developments are noteworthy. Energy pricing overall is fairly rational, though natural gas users are subsidizing electricity users to some extent. The energy sector is reserved as a strategic sector so it is not scheduled for privitization, but a dialogue on co-generation from private sources is underway. Finally, the Ministry of National Economy now encompasses the former ministries of energy and of industry and commerce -- a juxtaposition that can be taken as a realization of the crucial links at the highest levels in the GOT.

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*The Urban Implications of Tunisia's Economic Policies and Struc- tural Adjustment Programs and SIDES municipal development project analyses provide detailed analyses of urban dynamics and implications. We have highlighted the key points relating to an export oriented strategy.

The World Bank has assisted both petroleum exploration and energy conservation. It has provided US$60m to help reduce the cost of energy consumption, to support policy changes and to finance investments in energy and power system efficiency, natural gas system expansion and co-generation. Other donors are also supporting commercial operations in petroleum exploration. The Trade Development Program is supporting a $108,000 feasibility study in the use of wind generators to supply power to the national electricity grid.

Natural Resources and the Environment

Tunisia has chronic environmental problems that are exacerbated by the pressures of economic development. Improving water resource management and conservation is a continuous challenge, compounded by cycles of drought and inundation. Increased use of water resources for irrigation must be weighed against other needs and land use patterns. Soil erosion and desertification must be checked, yet more land is being farmed in cereal crops that further threaten fragile soils. Increased industrialization and urban concentrations have brought massive water pollution problems, particularly in the Gulf of Gabes.

The level of environmental awareness of the GOT is high and appropriate remedial actions are under study in several areas. The National Agency for the Protection of the Environment was created to provide central coordination of these efforts. While it has no direct enforcement authority, it serves as a focal point for mobilizing GOT efforts on important environmental concerns. Development of a national legal framework for protection of the environment is a priority. Seven commissions have been organized to prepare studies and recommendations.

The donors most active in the area of the environment are the EEC and the UNDP. With their assistance, the GOT is developing the national environmental strategy and setting priorities for donor supported actions to safeguard natural resources and protect the water, air, soil, and biological realms. Tunisia is one of two countries selected for case studies in the Environmental Program for the Mediterranean which is being carried out jointly with the European Investment Bank. In addition Japan has proposed a joint Tunisian-Japanese rehabilitation program for the region of Sfax.

J. Synthesis

Tunisia emerges from the preceding analyses as a trend setter poised for major economic and democratic progress in the 1990s, if it stays the course of reform.

Tunisia has dramatically altered its economic and political course over the last three years. It has pointed its economy toward an open market and export-led growth and, simultaneously, it has abandoned the 30 year legacy of a single party dominated society in favor of a more pluralistic, multiparty political system.

Tunisia launched a bold structural adjustment program in mid-1986 to: (a) liberalize the overall macro and sectoral policy framework; (b) restructure and liberalize key sectoral policies; and (c) shift the balance of economic power and control toward the private sector. In addition, the government has formulated a major restructuring of its education and training systems with the explicit intent of increasing the relevance of the system's output to economic realities. The target is productive, employable, informed citizens.

Tunisia's structural adjustment performance has been good, whether based on a review of macroeconomic indicators or a review of reform actions and targets scheduled with IMF and World Bank assistance. President Ben Ali and key members of his administration continue to reaffirm strong support for the strategy. Behind the scenes, competing forces challenge the economic and political reforms and influence the pace of implementation. A more somber, skeptical mood has replaced the initial relief at the leadership changeover in 1987. This is reflected in growing student and labor unrest, the government's caution in reducing consumer subsidies, and the postponement of parliamentary discussion of revisions in the Labor Code.

The trend outlook for the 1990s is good. But progress depends on government resolve to stay the course of reforms. A 5% growth rate into the mid-90s is likely with no wrenching changes in the structure of the economy. Currently, the major GNP contributions come from services (46%), industry (30%) and agriculture (13%). It is expected that non-energy exports will continue to grow at 9% per year, with a significant portion of the growth stemming from manufacturing and, specifically, in the private sector.

The underlying assumption is that the Government's inducements to the private sector to invest will succeed. The policy and regulatory changes are commendable, running the gamut from successive dinar devaluations and revamped investment codes, to simplified administrative procedures and tax reforms. But key constraints still exist with regard to uncompetitive domestic industries, a conservative banking sector, and a general dearth of marketing and management skills.

On the other hand, the comparative advantages enjoyed by Tunisia are encouraging and should not be ignored. Tunisia is actively seeking to expand exports and promote foreign investment. Tunisia is well situated as a platform to Europe and enjoys certain preferential market access to the EEC, the Arab countries and to the U.S. under the GSP. It has limited, but well-established, marketing channels including in some promising agribusiness subsectors which are poised for expansion. Tunisia's people are an important asset. The country possesses a well-educated, urbanized, outward looking middle class and a reasonably inexpensive labor force.

The toughest issues that Tunisia faces in assuring success in its economic transition relate to employment. First, and the more crucial in the short term, is the open unemployment rate which exceeds 16%. Depending upon the speed with which new economic activity replaces the old, the rate may rise in the early 1990s as protection is removed from import competing industries and as public enterprises are restructured, closed or privatized. Second is the irrelevancy of Tunisia's current educational and training systems to the demands of the market place. Tunisia's academic heritage has neglected practical skills needed in the economy. The Government has taken commendable measures to deal with both the short and long term solutions, while staving off harsh political critics.

In sum, development progress and prospects are good, while the challenges of reform implementation, employment creation, private sector investment growth, and export expansion remain daunting.

IV. GOT Plans and Donor Response

A. Eighth Plan Outline

The Eighth Plan will represent a continuation of the Seventh Plan, including the emphasis on structural adjustment. The same priorities will govern including agriculture, education, health, and employment. The new plan is not expected to propose new, startling, or major changes from the past, although regional development will be presented with a different twist.

Tunisia took the first steps in its Eighth Plan (1992-96) preparations in mid-1989 by asking the local and regional levels to identify needs and by conducting a large sample survey of 107,200 households. This has been followed by meetings at the central level beginning mid-February 1990 to decide on the broad orientations of the Eighth Plan. A formal Memorandum of Eighth Plan will be presented in July. This presentation will mark the onset of formal plan preparations.

Although thinking is still preliminary, broad guidelines have been proposed in a brief concept paper that reflects the views of the political leadership, with regional development being the leading theme of the new Eighth Plan. Finishing structural adjustment is the second major theme underlying the plan.

The approach to regional development will be more decentralized. Regional commissions (composed of governorate regional directorate staff) will present their proposals to the center without centrally imposed budget constraints. Under the Eighth Plan, proposals will not be limited beforehand and actual budget allocations will be based on relative merit. Less advantaged regions will again be emphasized.

The coming year offers a window of opportunity to influence the Plan and reinforce reform directions.

B. Donor Plans in Support of Market Led Growth

For the 1990s, the principal donors in Tunisia, i.e. France, Italy and the EEC have begun to reformulate their strategies vis-a-vis their North African neighbors in the post 1992 period. To meet the economic crisis of the 1980s, these countries as well as other major donors like the World Bank and the IMF have provided important resources averaging $700m a year to support Tunisia's structural adjustment process. The donors are aware that their continued support through the 1990s is critical for the successful transformation of Tunisia into a market oriented economy - one fully integrated into the international system - which takes advantage of its natural endowments and strengths. While that transformation takes place and beyond, the Europeans want to assure Tunisia a marketplace for its products, which implies increased efficiency, productivity, and quality control to meet the tighter competition, and to assure expanded employment opportunities concurrently.

Tunisia's most important trading partners are members of the EEC (primarily France, Italy, and Germany) who maintain a favorable balance of trade with Tunisia. Four fifths of Tunisian exports are destined for EEC member states. In "A Renewed Policy toward the Mediterranean Countries" presently being considered in the EEC Council, member states have shown a vital interest in the stability and development of North Africa. In addition to continued trade, they want to stem the tide of migration from the southern shore. This migration has already begun to reshape Europe's demography and threatens to transform its politics and culture. It is presently the stagnation of the economies of the Mahgreb which forces its citizens to search for economic opportunity elsewhere. This new EEC policy includes actions not only in the economic sphere but reflects an awareness as well that a stable political climate, in the form of democratic pluralism, will assure progress.

The European donors will assure Tunisia's access to the common market to maintain its market share or to improve it. This will open opportunities for European investors as the donors encourage more direct European investment.

This increased investment will be accomplished in part through venture capital provided either through institutions of the member states and the EEC International Investment Partners. In addition, the EEC and member states will be working to improve the climate of investment through reform of the prevailing legislation, savings mobilization, partner searches and management training.

As evident in Table II, our main donor partner in USAID's program priorities is the IBRD, with the EEC and member countries providing selected complementary assistance in some of our program niches (e.g. France-housing; Belgium-vocational training). UNDP and IFC are also close collaborators in investment promotion, capital mobilization, deregulation, and training.

TABLE IIa: Other Donors in Tunisia

DONOR	EMPHASIS	LEVEL
Multilaterals:		
1. IBRD	- structural adjustment policy based lending in agriculture, public enterprise, industrial and trade policy, educ. training & employment.	$300m annually since onset of SAP
2. IFC	- privatization - financial markets	
3. IMF	- balance of payments	SDR 207.3m (extended agreement arrangement)
4. Arab Funds:		
Fades	- infrastructure	$121m
Kuwait	- commercial financing	$32m
Saudi Fund		$13.5m
Islamic Bank		$50m
5. EEC European Investment Bank	- integrated rural dev. - SME promotion - joint venture financing - food security - technology transfer - environment	$600m planned for 1991-1996 (a 20 percent increase from past five years).
6. United Nations		
UNDP	- environment - administrative reform & deregulation - financial markets	$2m annually
FAO		
UNICEF		
UNFPA		
WFP		
7. ADB-African Development Bank	- industry and tourism - lines of credit for SME promotion - agriculture - public utilities & transport - education & health - policy reform	$348m since 1986

TABLE IIb: Emphasis of Other Donors

DONOR	EMPHASIS	LEVELS
Bilaterals:		
1. France	- cultural and commercial ties - joint venture financing - housing	$100 to $125m annually for last few years
2. Italy	- import financing: goods, services, and TA - SME promotion - joint venture financing - training, technology transfer and scientific research - dev. projects in south	$500m from 1988-1990
3. Germany	- irrigation, potable water - infrastructure, urban transport - agriculture, fishing - technical training	$41m annually
4. Japan	- commodity import program - infrastructure - fishing - TA for SAP	$70m
5. Belgium	- agriculture (esp.horticulture) - SME in electro-mechanical industry - agribusiness through management and voc. training - export promotion services - technology transfer among universities, technical centers, and labs.	$8m annually

V. USAID Strategy and Programs

A. Assistance Strategy Objectives

In late March 1989, AID/Washington reviewed the Mission's Action Plan based on our lines of inquiry into Tunisia's development dynamics and U.S assistance options in the 1990s. The ANE Bureau endorsed the broad outlines of an innovative strategy focussed on the development of a market driven, export-oriented economy with program concentration in three areas that we have further refined as: private sector revitalization, agribusiness promotion and marketable skills development.

This endorsement included, continued support of the structural adjustment process in Tunisia through the next, more difficult phase which will contribute to the long term goal of sustainable growth with expanded employment opportunities. The Mission was tasked with sorting out program priorities and developing implementation plans for carrying out the approved strategy outlines.

The Mission has carried out the mutually agreed analyses and studies and a few more which have helped us set our program priorities for the period 1991 - 1996. This section sets forth specific program interventions ("the niches") and implementation plans we propose in order to promote enterprise, exports and employment. These niches take into consideration our comparative advantage as an agency, our open society/open market objectives as a bureau and our cutting edge position as a mission on the development scene in Tunisia. One reason we are important despite being a modest player is the excellent quality of our technical assistance, collaborative working relationships, our willingness to finance key studies and to pilot risky innovative activities. Always in mind are our lean budget and staffing parameters.

The Mission proposes to support private sector revitalization by providing technical and selected financial assistance in the privatization of public enterprises and services, in promoting trade and private investment in the economy as an engine for growth, and by providing HG resources for urban services and infrastructure. Our second program focus is agribusiness promotion where we will provide a program grant to support market liberalization policies and competitiveness, privatization of trade organizations and parastatal marketing functions, and marketing and other business services. Under the program area of marketable skills development, we will be working with the Government of Tunisia in employment policy and strategy formulation; employment programs that focus increasingly on training for unemployed youth; and training in the fields of science, business and management.

The strategy is outlined in Figure 4. We will use this chart as our basic strategy guide and will be overlaying various program implementation plans, our resource allocation plan, and our performance evaluation plan. Together they will serve as our Assistance Management Plan.

PROBLEMS WE WILL NOT ADDRESS

Several areas in which AID has great interest and predominant expertise, and in which Tunisia needs assistance, are not targetted for U.S. assistance under the AMP.

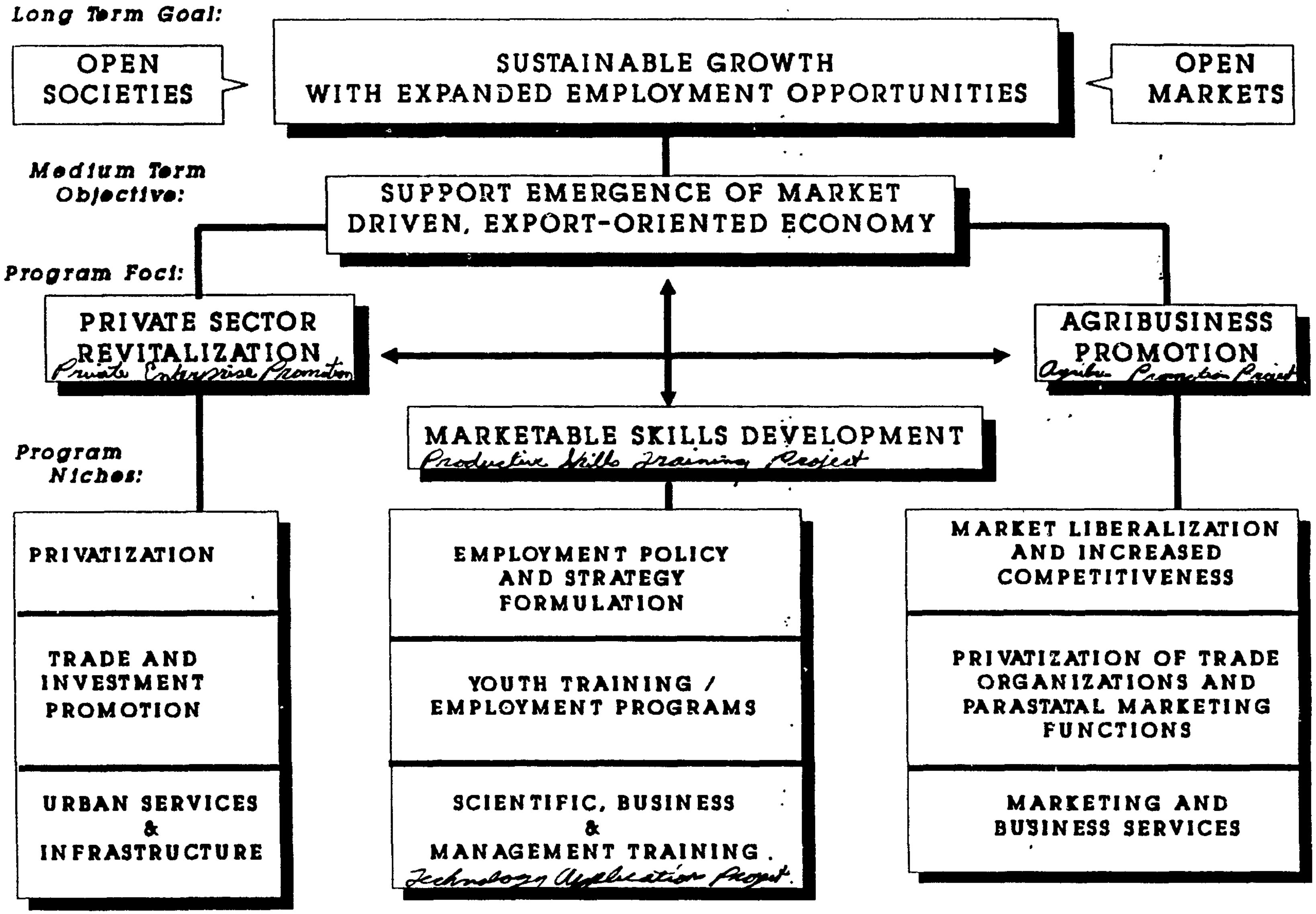
Formal Education - Our analysis points to the critical need for increased capacity, quality, and relevance of the education system if Tunisia is to make the transition to a market economy. Given the scale of IBRD involvement in this sector and the long term commitment required, we do not propose to address formal education.

Energy - While this is an important sector and Tunisian energy management impinges on the success of the next plan, our funding levels preclude our making a meaningful difference in the Energy Sector. It is well funded by Tunisian oil revenues. We will respond, however, to targets of opportunity, using central funding where possible, or through TAP in the area of energy efficient technology application.

Environment - With growing industrialization, urbanization, and agricultural intensification, Tunisia's fragile environment will need to be carefully protected and pollution controlled. The USG helped develop an inventory of potential environmental dangers two years ago and has protected soil and water resources through the Chantiers program. In the future, the Mission will defer to the UNDP and EEC to continue their good work in this area. U.S. resources are insufficient to include environmental programs in our assistance priorities. We will remain alert to the environmental implications, however, that may arise in implementing our priority programs.

Irrigation - This was originally to be part of our agricultural intervention in the 90s. Our new agribusiness strategy and heightened activity in the private sector now have higher priority for our limited funds. We anticipate that other donor resources from IBRD, EEC, Italy, and France will continue to be made available to meet the high capital needs of this sector. This will be an important complement to agribusiness development.

FIGURE 4: U. S. ASSISTANCE STRATEGY OUTLINE



B. Program Priorities and Implementation Plans

1. Private Sector Revitalization - Privatization, Trade and Invest Promotion, and access to Capital Markets by Municipalities

The Mission's current private sector strategy, approved by AID/Washington in August 1988, involves a three-part program concentrating on privatization, financial markets development and trade liberalization. The strategy has had considerable success. In light of this success, we propose to retain the basic elements of the 1988 strategy but reorient their scope in light of the liberalized economic framework. Specifically, our private sector program will focus next on the three key areas of:

a. privatization,
b. trade and investment promotion, and
c. urban services and infrastructure.

Support for financial markets development will continue as a cross-cutting emphasis essential to the success of each of the three key elements of the program.

a. Privatization

Under our Private Sector Project, USAID/Tunis has been providing technical support to the GOT's privatization program since its inception in 1986. Support for this initiative will continue to be the Mission's top priority for private sector development. The political decision to pursue privatization has been made, and held to, by the GOT. Significant legislation has been passed and the Prime Ministry is directing implementation of the program.

Since the December 1988 arrival in Tunisia of the USAID-financed, Center for Privatization technical advisor, the Privatization program has picked up both focus and momentum. To date 29 complete privatizations have taken place. The total value of all privatization transactions from June 1986 through March 1990 was 92 million TD. Over half of the total transactions to date have taken place since January 1989 and the GOT has gradually begun to implement some of the more difficult privatizations and to broaden the sale of shares to include special provisions for employees.

Now the GOT is preparing to undertake, with the assistance of the IFC, a pre-privatization study of the cement sector. This is a substantive move since it involves a large industry with a number of potentially redundant employees and is in a sector previously considered "strategic" and not open to privatization.

The eventual privatization of this industry may well involve expensive foreign financial diagnostic studies and packaging in order to attract foreign portfolio investors or joint venture partners.

GOT privatization plans for the next five years also include the privatization of approximately forty large parent companies. These privatizations will require more sophisticated financial evaluations and packaging for investors. While this expanded program will build on the initial series of successful privatizations, it will also involve thorny employment redundancy issues and potentially controversial evaluation decisions.

Responding to the increasing dynamism, and difficulty, of the GOT's privatization plans, our assistance in this area will not only provide 1 continued long-term and short-term technical advice on the process of privatization but will also provide 2. funding for a number of important, but expensive, evaluations by international financial institutions. We plan to pursue a 3. policy dialogue with the GOT on the privatization of municipal services where there exists potential for government savings, private profits, and greater efficiency. We will also push ahead the 4 privatization of family planning services as part of graduating the Office of Family Planning (ONFP) from AID dependence.

Modes of implementation will include: (1) continuation of the technical services of a long-term advisor to the Prime Ministry and the Committee for Privatization and Restructuring of Public Enterprise (CAREP); (2) financing of diagnostic evaluations and financial packaging of large-scale privatizations by international financial firms; (3) short-term technical assistance to the CAREP as well as to newly privatized firms; (4) management training, seminars and observation tours to executives and decision makers involved in privatization, and (5) a grant to ONFP under TAP.

Privatization of Family Planning Services

The new directions experimented with under the current bilateral Family Planning Project are fully integrated into the ONFP's long range planning. The ONFP has developed a three pronged strategy for the 1990s that will reform the approach to family planning in Tunisia. First, over time, ONFP plans to restructure the office and modify its role from a monopolistic service provider to an "orchestrator" responsible for policy research and quality control, with family planning service provision transferred to other private and public partners. Second, ONFP proposes to establish a broader network of partners including general practitioners, nurses, midwives, pharmacists and NGOs in order to expand access to family planning services. This will be particularly advantageous for working women who need more flexible access to services. Third, ONFP proposes to integrate with other public sector agencies, in particular the Ministry of Public Health (MOPH) for the delivery of family planning services. (For further details see the family planning strategy recently completed).

The GOT and USAID agree that while population growth is the lowest in the region and contraceptive prevalence has reached 50% overall among married women, continued progress in achieving even higher prevalence levels is mandatory if Tunisia is to achieve its economic development goals. Although prevalence is relatively high, fertility rates remain higher than one would expect (4.4% in 1988), thus signaling significant challenges in contraceptive continuation and utilization. Tunisia and ONFP need to address these issues in the coming decade.

The ONFP's willingness to shape new modalities of assistance with USAID in a collaborative mode as Mission levels of support drop indicates a growing institutional maturity. Yet, the transformation of ONFP as an institution and the delivery of family planning through new mechanisms will not be easy, especially during a time when services need to be expanded. We believe that ONFP will soon be a graduate from the traditional donor-recipient mode and instead will become capable of proactively seeking partners to help finance its most innovative programs. In the meantime, 1990 to 1991 will be key transition years for ONFP to achieve its goals and continue as a model for other A.I.D assisted countries in the region. Since the Mission's ''lateral ends on December 31, 1990, we plan to provide a grant to ONFP under TAP and work closely with the ANE and S&T Bure ιs to ensure that appropriate funding levels and technical assistance are tapped from all available sources. Dialogue with other donors continues to ensure that the privatization objectives is not undermined.

b. **Trade and Investment Promotion**

Since 1988 the GOT has put in place a majority of the legal, fiscal, and regulatory pieces needed to allow for trade liberalization. Of the few remaining policy constraints, the slowing down of import liberalization will continue to be addressed through technical assistance to develop a sectoral timetable for import liberalization.

To enhance the vitality and competitiveness of Tunisian firms, we will actively promote private sector trade and investment. This target will be broadly implemented through: (1) business assistance activities to improve local firms' abilities to export and financial firms' capabilities to promote portfolio investment, (2) the promotion of U.S. direct investment and the resulting trade linkages, and (3) the application and commercialization of industrial technologies in support of exports.

Business assistance priorities will include support for: (1) the private sector development and use of specialized export market information, (2) the development of export marketing skills, (3) entrepreneurial training of private sector executives and middle management, (4) the development of trained and experienced financial professionals able to promote and service foreign portfolio investors and (5) improvements in the ability to source new technologies, e.g., through improvements in technology information services, the use of engineering and consulting services and technical standards. Due to the growing numbers of female entrepreneurs and women in the financial sector, it should be possible to target some assistance specifically to them.

1. Information:
[illegible] tech.
2. Training
a. Marketing
b. entrepreneurship
c. marketing
d. finance

Direct investment promotion assistance will focus on: (1) attracting export-oriented investment from U.S. firms, including those based in Europe, that possess the technology, know-how and international marketing skills needed to assist Tunisia in diversifying its industry and exports, and (2) the development of investor services through local organizations such as the private Tunisian-American Chamber of Commerce. We see successful investment promotion with U.S. companies as indirectly promoting two-way trade flows and professional linkages.

Technology Applications and Commercialization

The TAP project will address the need for private sector firms to innovate and upgrade technologies for manufacturing, processing, storage, packaging, export marketing, and quality control. Private sector investment in R&D is insignificant. Use of engineering and consulting firms to source new technologies is restricted to a few sectors such as construction of civil works. Linkages from private enterprises to other potential generators of technology are weak. Venture capital to fund technology innovations is only now being promoted by the GOT. The TAP will address these problems by collaborating with "technology gateways", organizations which will help private sector clients introduce, adapt, and commercialize export related technologies for a fee.

c. **Urban Services and Infrastructure**

To meet the need for expanded urban services and infrastructure, the Mission will focus on acclimating Tunisian municipalities to borrowing for capital improvements at full market terms and on improving their capacity to plan, implement, and subsequently manage urban programs, particularly those projects necessary to support private sector expansion. Greater access to private capital markets will provide alternative resources for local officials to finance infrastructure to support private expansion. As these private capital markets will take some time to fully develop, an initial GOT funding of a "Municipal Development Window" in a Tunisian bank will provide "the seed money" to initiate and accelerate the process.

The essential elements of the program include: (1) a policy dialogue with the GOT to provide the legal authority for municipalities to borrow for infrastructure in the private capital markets; (2) the establishment of private/public development councils to plan and coordinate public investments in support of the private sector; (3) the selective improvement of the municipal revenue system including the collection and management of property and business tax payments that will be used to repay loans for urban services; and, (4) the opening of a municipal development funds window in an existing private bank.

The program will rely primarily on $50m in Housing Guaranty Loans to be authorized during the strategy period. These loans from U.S. private investors will provide "untied" foreign exchange to the GOT which will be repaid at market terms. The GOT in turn will loan dinars at market rates to a financial intermediary to capitalize a "Housing Window". A condition precedent to the Housing Guaranty loan would be that the GOT provide a complementary dinar fund to capitalize a "Municipal Development Window" in a commercial bank. Private developers would be able to finance residential projects from the "Housing Window" and municipalities would be able to finance infrastructure to support private sector expansion from the "Municipal Development Window".

The municipalities will be required to consult with the business community in their investment decisions which should have a direct economic impact. We will target three to four cities with the best potential for private sector export expansion and demonstration effect.

Possible problems to be addressed include land acquisition and development for business; solid and industrial waste collection and management standards and services; public sector contracting for planning and implementation of urban services to private sector business; and the abatement of environmental problems and pollution resulting from economic development, especially those that directly affect the quality of life and health in residential areas.

Complementary technical assistance and training resources will be provided from the Mission's planned Private Enterprise Promotion and Productive Skills Training projects to:

- assist an existing private bank to open a municipal development window; i.e. develop the bank's ability to assess a municipality's fiscal base, administrative competence, debt carrying capacity and ability to repay a loan, and the economic value of the proposed loans;

- support the formation of private/public development councils and their ability to identify the impediments to business expansion that can be resolved by public investment in urban services or policy change;

- improve municipal technical capacities to evaluate the economic impact of urban services and infrastructure investments in collaboration with private business and implement projects through more reliance on private engineering, consulting and construction firms;

- selectively improve local governments ability to collect and manage local revenues.

Deepening of Financial Markets: A Cross-Cutting Theme

Support for financial markets development will continue as a cross-cutting emphasis essential to the success of each of the three key elements of our private sector program. Financial intermediation is key to on-going privatization and revitalization of the private sector. In the urban area, Tunisia will need additional financial instruments and public-private partnerships to allow municipalities to provide improved urban services and infrastructure both to meet the requirements of an increasingly urban population and to attract private sector companies.

Under our 1988 strategy, we supported a number of initiatives to assist in the development of Tunisian financial markets. We sponsored two high level conferences on Financial Markets Development and Savings Mobilization. We provided a long-term advisor to the Stock Exchange, whose advice on legal, regulatory, and administrative changes helped activate securities trading. A number of changes have now been put in place including improved criteria for listing on the Stock Exchange, the development of mutual funds and new bond instruments and the approval of independent brokerage firms. In addition, the GOT has passed a new tax law which provides freedom from all Tunisian taxes on dividends and on capital gains from sales of shares. Currently we are undertaking a study of the potential in Tunisia for a dollar or local currency-funded venture capital mechanism to encourage new productive investments and to attract U.S. joint venture partners.

To encourage private sector lending, especially to small and medium enterprises, the Mission negotiated and executed one of the first Section 108 programs. Two of the three private sector Tunisian banks have received loans totaling $3.25m. We are now considering additional loans. The Mission and PRE/I have also actively marketed PRE's Loan Portfolio Guarantee program in Tunisia. Presently the same two private sector banks are in the process of applying for $6m in guarantees. We project that during the AMP period the third private bank will also apply for the program and that at least $12m in LP guarantees will be utilized.

Despite the efforts of the GOT and the above USAID initiatives, private sector investment has still not responded as hoped. Efforts continue to be needed to increase the movement of savings, from static investments to more productive investments with higher returns -- and to attract increased foreign portfolio investment.

During the AMP period we will continue to advise on how to structure financial systems and create mechanisms which will permit Tunisian firms to raise capital for investment and keep their profits working. Increased liberalization of the foreign exchange regime will create a need for financial instruments with international standing. Advanced training of Tunisians in finance, financial managment and risk analysis will be essential.

The Mission assistance plans for financial markets mainly under PEP and PROS include: (1) continued technical assistance to the Stock Exchange; (2) the use of expert short-term technical assistance to banks, new brokerage firms, the Tunisian Bankers Association, and the new venture capital company; (3) specialized financial training for bankers and brokers (including financial "internships" in U.S. or third country financial firms and banks); (4) continued Section 108 and Loan Portfolio Guarantee programs to an expanded number of private banks, and (5) the development of a dollar or local currency funded Venture Capital Fund or Credit Guarantee Program.

Democratic Pluralism Initiative

Advancing pluralism, economic as well as political, is essential to the success of our whole strategy in general and our private sector expansion objective in particular. Thus we propose to help address the challenges faced by the Ben Ali government in moving towards an open society by selectively working toward the following five priorities:

1) To reinforce our support for the development of economic pluralism, we will collaborate with business, trade and professional associations like the newly activated Chambers of Commerce, the Federation of Exporters, agribusiness trade organizations and PVOs.

2) To sustain a high level of respect for human rights in Tunisian society, we will continue to provide a 116 E grant to AMIDIEAST in support of human and women's rights and civil liberties. The Tunisian League for Human Rights and other human rights organizations are quite active and are becoming internationally reknowned. The Tunisian Women's Union and other recently legalized women's organizations are active in promoting women's political and economic rights.

3) To facilitate constructive and effective labor union representation in the political and economic reform process, we will train Tunisian trade unionists in the techniques needed to negotiate flexibly on a plant rather than a sector basis. For the GOT, an independent UGTT is essential as an interlocutor. Hence GOT has supported free elections in the UGTT, returned seized union assets and restored many unionists to their jobs. Differences contine to exist concerning privatization, wage policy and the labor code. Our first specific bilaterally funded DPI activity, supplemented with Bureau funds, has provided training for 9 UGTT leaders in flexible bargaining techniques at the George Meany Center. We plan follow on activities in future years.

4) To improve local government efficiency and foster public-private partnership, we will provide HG guarantees, training and technical assistance for effective decentralized urban management. Tunisian municipal government includes both appointed and elected officials and provides, in microcosm, a range of opportunities and challenges parallel to those at the national level. Our urban program will help address the relationship between citizens and the municipal government as well as the training of elected municipal officials.

5) To assess the role of the legislature and to support the transition from a single to a multi-party representational system, we will undertake a fuller

assessment of DPI opportunities. The National Republican Institute for International Affairs (NRI) and the National Democratic Institute for International Affairs (NDI) have suggested sponsorship of an international conference in Tunisia in late 1990 on transition from single-party to multi-party systems. We support this independent initiative and, in full consultation with the Country Team, will be open to opportunities to advance democratic pluralism which may result.

The representational branch of government performs a vital function in an open society. Elected representatives provide popular access to the political process. We need to understand better the functioning of the Tunisian Chamber of Deputies (including the role of committees and staff), assess its contribution to the policy making process and its relationship to the executive branch. We have proposed Tunisia as one of the three or four countries for ANE DPI focus starting in FY 91. Our assessment of pluralism in Tunisia is preliminary and the areas outlined for potential collaboration are based more on experience and targets of opportunity than a comprehensive analysis. We plan an analysis and assessment of pluralism in the Tunisian context for early fiscal 1991 by a joint Tunisian-American team which will provide evidence supporting areas of potential heightened collaboration.

2. **Agribusiness Promotion** *Policy reform to remove constraints to production processing and export; privatization; est. of private trade org.*

The Agribusiness Program will focus on promoting and implementing activities to accelerate sustainable, market-driven growth in the agribusiness export sector.

To realize the potentials and address the major constraints in the agribusiness sector, the program will provide assistance in three areas:

a. market liberalization and increased competitiveness,
b. privatization of trade organizations and parastatal marketing functions, and
c. marketing and business services.

The program will work in up to five sub-sectors, focussing initially on a few products from two or three sub-sectors. They include vegetables (tomato paste); fruits (dates); seafood (general); edible oils (olive oil); and wine (general). These sub-sectors and specific products were selected based on several criteria: demonstrated export potential; quantity of existing exports; and Tunisian comparative advantage in producing the product as detailed in the Agribusiness Strategy paper.

a. **Market Liberalization and Increased Competitiveness**

Specific actions which are required revolve around liberalization of the competitive environment through two sets of activities: reducing government intervention in the sub-sector and allowing firms to compete more evenly against one another, including international firms.

The infant industry argument which has been used to protect these sub-sectors has succeeded in making many of the Tunisian firms competitive on the world market. The GOT must now reduce the protection provided by import tariffs down to the lowest levels possible. This will put additional pressure on those firms which have not made the effort to renew their equipment or modernize their management techniques. This is particularly applicable to tomato concentrate and canned seafood but also to inefficient industries which produce inputs to the export sector such as the cardboard manufacturing, cork, and labelling industries. In addition, elimination of fixed marketing margins (tomato concentrate and domestic olive oil sales) and established producer prices (whether they are floor prices or fixed prices) will be necessary to improve competition in the market and reduce inefficiency.

The program will identify and implement a policy reform package to liberalize and resolve constraints for producing, processing, and exporting goods from the selected sub-sector. A series of policy reforms including import tariff reduction, fixed producer and marketing prices will be negotiated to increase the competitive nature of the sub-sectors.

b. **Privatization of Trade Organizations and Parastatal Marketing Functions**

In Tunisia, as elsewhere, the existence of government parastatals in commercial activities has slowed the process of developing and increasing the efficiency of the private firm. In general 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.

The program will assist privatizing parastatals (e.g. the Fisheries Office and the Date Development Co.) to remove the government from competing directly with private operators. The Mission will also promote the reform of state controlled marketing boards for oils and wines.

It will also help establish strong, sustainable private sector trade organizations with a particular focus on developing the export market. The GOT has founded interprofessional trade associations for dates, fruits, vegetables, and canned goods. These associations currently bring together private sector producers, processors, and exporters in a GOT managed forum to discuss problems and implement supporting activities for their individual sub-sectors. As private organizations, with complete managerial autonomy, these associations would be more responsive to the needs of their members, rather than the perceived needs of government.

c. **Marketing and Business Services**

To maximize the potential results of liberalizing the policy environment, the program must provide support directly to the private sector. This will ensure that the private sector is able to identify and respond to export opportunities as well as become more efficient to compete among themselves.

Direct USAID assistance to the private sector will be funneled through these trade associations, after or during the process of privatization. Properly trained and organized, the associations can provide appropriate support directly to their respective sub-sectors.

Assistance to the trade organizations will take two forms:

- institutional development to strengthen their capacity to respond to member needs and play a coherent role as a trade organization; and

- assistance to develop concrete strategic marketing plans for each of the sub-sectors which will lead to a gradual and sustainable increase in export markets.

The program will also facilitate access to resources required to produce and then process raw materials into finished export products. Removing constraints on access to inputs such as 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. The program will promote increased contacts and facilitate joint venture activities, particularly with U.S agribusiness.

Agribusiness Program Implementation

The Mission has decided to formulate its assistance in a program grant. The transition from project to non-project assistance reflects a maturing relationship between Tunisia and the U.S. The program grant approach offers several advantages. It has the potential of achieving significant economic impacts over a relatively short period of time, can flexibly address the sectoral constraints in an innovative area, and is attractive to the GOT as a quick-disbursing source of foreign exchange. The program under design is a five year effort that requires an AID investment of $25m, with an estimated GOT contribution of $10m.

Food Aid

Food aid has assumed a more strategic and integrated role in our assistance program. Recurring drought has stressed the balance of payments and complicated economic reform. With Tunisia's grain import bill reaching $250m in bad years, PL 480 sales have been much appreciated. These sales have generated local currencies that have funded labor intensive public works for the seasonally unemployed. We have increasingly framed the PL 480 self-help measures in support of agricultural structural adjustment (e.g. liberalization of cereals marketing and transport). Finally we have teamed up with the U.S. Agricultural Trade Office to help develop the market for U.S. commodities (sorghum under 416). We will be relying on continued PL 480 Title I programs at a level of $15-25m to support our strategy. Self-help measures will be aimed at reinforcing our agribusinesss policy dialogue. We plan to use the local currency generations to support our marketable skills program.

We plan to draw on Section 416 availabilities to respond to emergencies as they come up, which the GOT can ill afford in the next few years (e.g. drought, screw worm, hoof and mouth disease.)

3. **Marketable Skills Development**

The Government has recognized that school graduates need to be provided with skills that are required in the market place and that will support and promote the success of its new outward export orientation. The Government has responded to these needs with a major new program of basic education and training systems reform and is in the process of formulating a reform strategy for higher education.

USAID plans to help develop marketable skills in three ways:

a. employment policy and strategy formulation,
b. youth training and employment, and
c. scientific, business, and management training.

USAID will strive to ensure equal access to training opportunities for females and males in light of the escalating levels of female unemployment.

a. **Employment Policy and Strategy Formulation**

We plan to continue supporting policy research to help the GOT identify and formulate effective solutions to the employment challenge. We have supported over the past year a major employment research project which provides a comprehensive analysis of the problem and identifies policy options. Follow on research is needed to consider reallocation of GOT employment program budgets into the more effective programs. We will work with the GOT to engage the private sector in marketable skills development. We will also follow-up with policy research in the aftermath of the USAID supported national employment policy seminar scheduled for June 1990. This policy based research will be funded out of the Development Studies Project which was formulated, in part, for this purpose.

To help lessen social and political tensions arising from unemployment, the Mission will continue to support the existing labor intensive public works effort with Title I PL 480 proceeds in the near term; but will increasingly direct these resources toward youth training and employment programs, especially in urban areas. The transition will be sensitive to GOT priorities.

Concurrently, the Mission will encourage the GOT to reallocate its own resources toward more effective programs, by helping the GOT to refine promising programs, and to design new, innovative approaches that address private sector needs and rely on private sector initiative. The Mission will engage in pilot and demonstration efforts to try out new ideas. The Mission will encourage private sector financing or cost sharing in youth training and employment programs. More than 150 million TD per year is already being spent on a variety of employment programs. Improving the efficiency of these funds and introducing private sector cost sharing would be a major contribution to a sensible employment strategy.

The Mission will encourage the GOT to allow a period of one to two years where the Labor Code does not interfere with youth programs so as to reduce the risk to employers of poor employee performance and to reduce initial cost of employee benefits.

b. **Youth Training and Employment**

This program will draw mainly on local currencies to provide basic and semi-professional skills through appropriate training, on-the-job work experience, or combinations thereof. The programs will focus on immediate job placement in the private sector, will be of short duration, and will work closely with the private sector. Our support in this area will initially focus on young secondary and higher education graduates, between the ages of 17-29. Certain aspects of our envisioned support (i.e., participation with the IBRD in FIAP) will not adhere as strictly to these educational and age guidelines, potentially drawing upon younger and less educated participants.

USAID may consider exploring further training programs at lower levels of educational qualifications, aimed at developing marketable, semi-skilled capabilities. We see support of effective employment programs important over the short to medium term to successful economic reform implementation.

The Mission will "buy into" the youth training and employment effort during the coming year by providing support to two of the more promising existing programs: the SIVP (Higher Education Graduates Apprenticeship Program) and FIAP (Skills Training Program). One program is oriented toward placing recent graduates into their first professional employment positions; the other provides skills in short supply for immediate placement in the private sector.

The Apprenticeship Program (SIVP) is aimed at young, higher education graduates seeking their first employment. The program's objective is to help these graduates obtain permanent, professional employment by providing one full year of on-the-job training with a company that is a potential employer. The program provides a monthly stipend to its participants ranging from 100 to 250 TD. The program is relatively new, established in late 1987, but has shown good initial success in placing its participants in permanent positions. The cost per graduate placed has been estimated at 3000-3500 TD, including OFPE administration. Since the program currently involves approximately 20% of qualified graduates, there is scope for expansion.

The Skills Program (FIAP) is a new experimental, market-directed training project being formulated jointly by the OFPE and the IBRD. USAID has provided initial bridge financing in 1989/90 prior to project agreement and plans additional financing before the IBRD loan starts, in late 1990. USAID and the IBRD have tentatively agreed on broad approaches to ensure complementarity in project criteria and financing levels. This program is a market-driven training program whose needs and participants are identified at the local level in close collaboration with private entrepreneurs.

Training is provided for existing jobs with immediate placement. The cost per employee placed, on the basis of preliminary experience, is about 1000 TD. The FIAP program is essentially a la carte, intended to be highly flexible, and responsive to immediate skill shortages in the private sector. It is of an experimental nature and pilot project efforts that show promise are expected to be replicated. Initial efforts have been limited to five governorates. The project is strongly supported by the GOT. We anticipate allocating perhaps $1-1.5m per year of Title I PL 480 proceeds to this effort.

c. **Scientific, Business, and Management Training**

This program will focus on the development of professional skills in support of private sector revitalization and agribusiness promotion. This training will tend to be at advanced levels, more specialized, and often degree oriented. Participants will hold at least an undergraduate degree, have relevant work experience, be mature, and be exceptionally qualified. USAID will insist that legitimate market demand exists and is strong in the future, prior to any major training commitments. Short term training will be emphasized and at least 50% will be drawn from the private sector.

The current Technology Transfer Project ends in September 1992 at which date approximately 460 graduates should have returned to Tunisia and been absorbed into the economy. The new training project, Productive Skills Training (PROS) will be designed based on lessons learned from the Technology Transfer Project and the emerging implications derived from Tunisia's attempt to transform itself into a market driven economy. The project design will draw on the USAID sponsored Private Sector Training Needs Assessment which identified needs for training across the spectrum of business functions, including technological and scientific skills.

Weaknesses identified by this Assessment included:

- the need to understand and master new technologies to stay competitive;
- the need for training in all aspects of management, including organization, production, finance, and marketing;
- the need for product standardization which meets developed country norms;
- the need for marketing expertise in order to effectively compete abroad;
- the need to master the tools of management accounting;

- the need for better knowledge in setting up new enterprises (venture identification, preparation of business plans, market niche identification, etc);
- and the need for up-to-date production and marketing technologies in the food processing area overall.

The PROS project will provide both short and long term training in support of private sector development. The project will work directly with the private sector to help set up internship programs in Tunisia and in the USA, train trainers, and help develop local institutions to provide needed skills in priority disciplines. The project will support the Mission's overall efforts. The modern skills imparted by this project's training will contribute significantly to the ability of Tunisia to sustain the progress being made in liberalizing its economy.

VI. Resource Allocation Plan

A. Program Profile

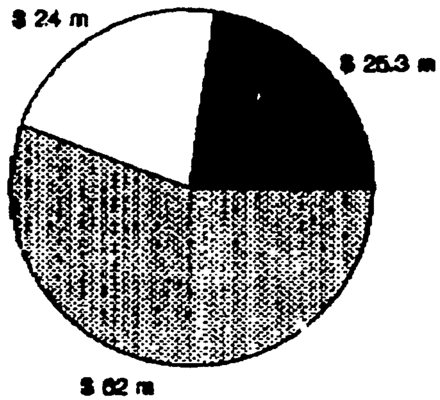
Planned Program resources totalling $322m between 1991 and 1996 will be relatively evenly distributed between Private Sector Revitalization (35% of total), Agribusiness Promotion (36%) and Marketable Skills (29%), with the latter relying more heavily on local currency. See Figure 5. for a complete profile of ESF, PL 480, Local Currency and Guarantees allocations by program priority.

In the early years there will be a planned ESF mortgage. This is necessary given our focussed portfolio with five long term projects funded from a limited annual OYB. This mortgaged program is intended to serve as a continuing inducement to the GOT to move forward on the policy reforms and private sector support these projects envisage. It is also designed to reduce the need for new project development and to assure continuity. Given the program nature of some of the portfolio, the total mortgage is not as rigid in funding requirements as a project portfolio and thus more adaptable to performance and funding availability. The mortgage should ease by year three of the AMP period. As most of the activities will be relatively quick disbursing and with obligations spread over the AMP period, we do not expect a significant pipeline to emerge.

See Table III for budget projections by program and project over the AMP period and Figure 6 for operating expenses/program ratios.

FIGURE 5: PROGRAM PROFILE / BUDGET ALLOCATIONS ($ millions)

Private Sector
$111.3 m - 35 %



ESF 25.3

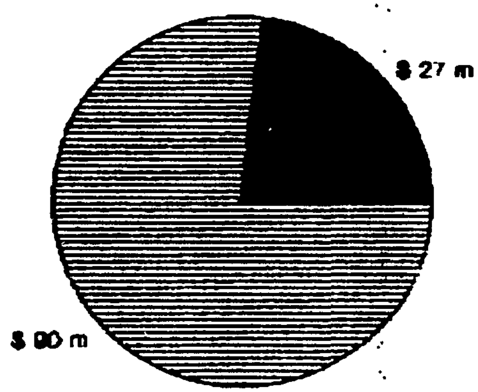
PEP	(15.3)
DSP	(2.0)
TAP	(8.0)

LC (Sec.108) 24.0

Guarantees 62.0

HG	(50.0)
LPG	(12.0)

Agribusiness
$117 m - 36 %

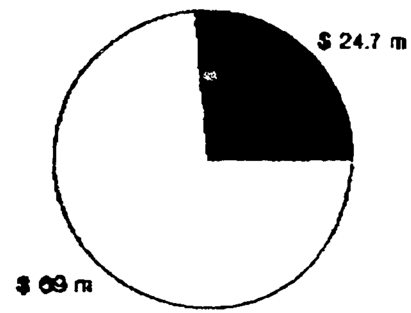


ESF 27.0

APG	(25.0)
DSP	(2.0)

PL-480 I 90.0

Marketable Skills
$93.7 m - 29 %



ESF 24.7

PROS	(18.5)
DSP	(2.0)
TT	(4.2)

LC 69.0

PL-480 I	(57.0)
CIP	(12.0)

KEY:

- $ ESF
- LC - Local Currency
- Guarantees
- $ PL - 480

TOTAL BUDGET 1991-1996: $322 m

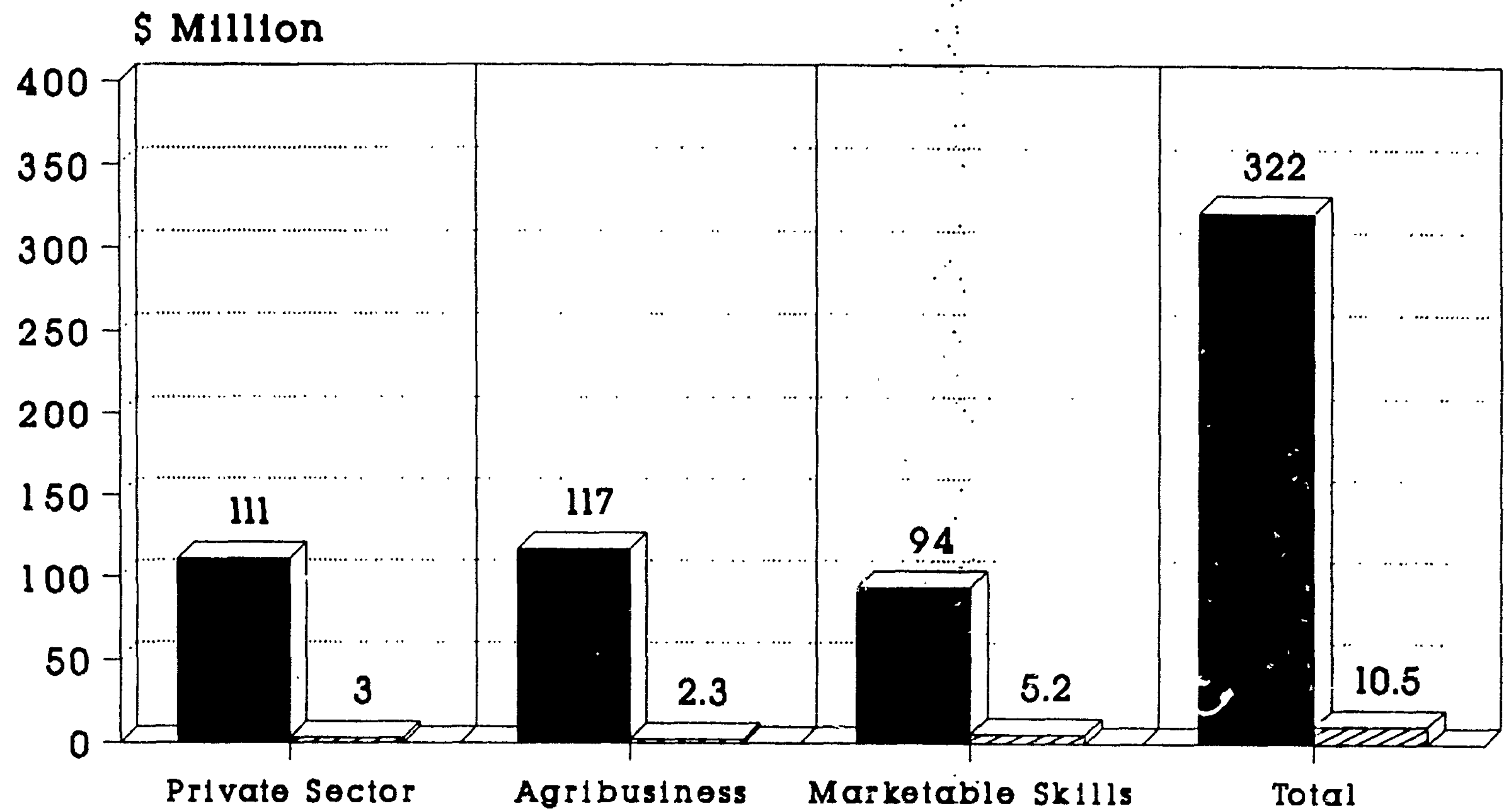
Table III: Budget Projections

($ Millions)

	'91	'92	'93	'94	'95	'96	Total
1. ESF							
APG	5.0*	4.0	4.0	4.0	4.0	4.0	25.0
PEP	3.2	2.5	2.5	2.5	2.5	2.1	15.3
TAP	1.5	1.5	1.5	1.5	1.5	.5	8.0
DSP	1.0	1.0	1.0	1.0	1.0	1.0	6.0
PROS	1.0	3.5	3.5	3.5	3.5	3.5	18.5
TT	4.2	-	-	-	-	-	4.2
	15.9	12.5	12.5	12.5	12.5	11.1	77.0
2. Food Aid							
PL-480-I	15.0	15.0	15.0	15.0	15.0	15.0	90.0
3. Guarantees							
HG	50.0						50.0
LPG	2.0	2.0	2.0	2.0	2.0	2.0	12.0
							62.0
4. Local Currency							
PL-480-I/Marketable Skills**	10.5	10.5	10.0	9.0	9.0	8.0	57.0
Section 108/ Pvt Sector	3.0	3.0	3.5	4.5	4.5	5.5	24.0
CIP (87-89)	5.0	4.0	3.0	-	-	-	12.0
	18.5	17.5	16.5	13.5	13.5	13.5	93.0
						Total	322.0

*DPRP - Add-on
** Less 10% Commodity Use Payment

FIGURE 6: OPERATING EXPENSES
IN RELATION TO PROGRAMS: 1991 - 1996



	Private Sector	Agribusiness	Marketable Skills	Total
RATIO OE/ALL PROG:	$.03 : $1	$.02 : $1	$.05 : $1	$.03 : $1
RATIO OE/ESF:	$.10 : $1	$.08 : $1	$.20 : $1	$.10 : $1

ALL PROGRAMS   OE

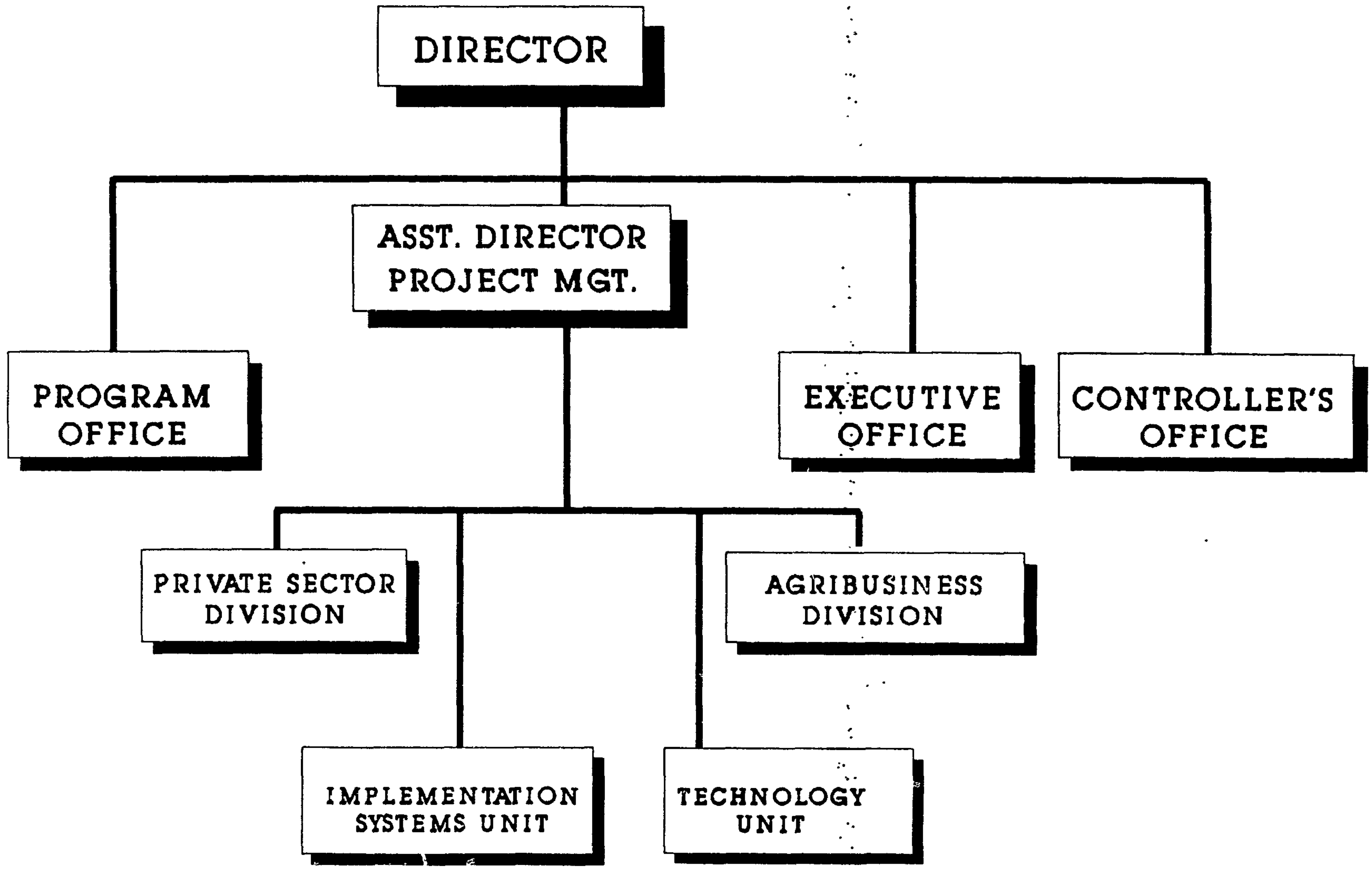
B. Staffing and Organization

The Mission proposes to carry out this program relying on the current staff mix and level of 12 USDH (plus 3 USDH RHUDO staff) and 13 FSNDH plus 30 local hire PSCs and a few U.S. institutional contractors. As we anticipate considerable up-front staff intensity in launching and perfecting our new programs, we do not consider staff reductions to be prudent, at least during the first three to four years of the strategy period.

Over the past year, we have reorganized and upgraded the Project Management Office and recruited a full time private sector officer and a new agricultural economist to better serve the needs of our new strategy directions and programs. The new organization chart follows (Figure 7). We have also taken steps to clarify roles and responsibilities. The participant training function has been consolidated in the Implementation Systems Unit. Program Office responsibilities include economic analysis and employment policy dialogue, DSP management, DPI coordination, and performance monitoring and budgeting. We have introduced more effective management and accounting systems, by converting to MACS and recruiting a financial analyst to support project management and local currency monitoring. We have also developed important support relationships with the RLA and RCO in Rabat. We have also benefited from ANE TDY assistance to augment the range of staff skills.

Over the strategy period we will continue to devise efficient implementation approaches that minimize staff burden. Thus we will look to maximize use of self-contained contractors and seek to externalize implementation responsibility to cooperating organizations as much as possible. We will also pull back from our heavy hands-on project and contract management and rely increasingly on host country capabilities and greater use of grants and cooperating agreements befitting a more mature partnership. Increasingly we will take advantage of buy-in options through centrally funded project mechanisms. The Mission will continue to call regularly on outside experts to provide objective project and program evaluation. We will also recruit Tunisian experienced technical assistance with an eye to building a brain trust for identifying innovative and responsive approaches to the evolving economy and society.

FIGURE 7: USAID/TUNISIA
ORGANIZATION CHART



VII. Performance Monitoring and Evaluation Plan

The Mission will be managing the program for results. To help us we have developed a program management system that takes into account the recent ANE reorganization and redelegation of certain programming functions to the field (e.g. Action Plans) and the introduction of performance-based budgeting and performance contracts.

Performance monitoring and evaluation are an essential element of the management system, enabling Bureau and Mission Management to measure results and adjust priorities and resource allocation accordingly.

The centerpiece of our management system is an annual assessment, planned for each March, which will rely on eight separate reporting or tracking modules to tell us how the country and the programs are progressing against AMP objectives, various sets of performance indicators, and financial controls. (See figure 8.)

Program Performance Indicators

USAID/Tunis has developed two levels of country and program performance objectives and indicators: strategic objectives and indicators and program sub-objectives and indicators. Program sub-objectives and indicators will permit measurement above the project level on the progress of mission activities towards the implementation of our strategy and the achievement of our goals. A selected priority group of program performance objectives and indicators constitute the Mission-Bureau Performance Contract. They are presented in Table IV. The data for these indicators will be collected semi-annually by project staff working in conjunction with the Mission economist and the Program Office evaluation specialist. Indicators of program progress towards the strategic objectives will feed directly into and be an important part of the annual assessment of performance.

Project Implementation Reports

The in-house Project Implementation Review (PIR) will also be a key input for the annual assessment and annual budget submission (ABS) in May. PIRs for submission to Washington will be done in mid-October drawing on end of fiscal year figures. The project officers will summarize issues in order to highlight strengths or weaknesses. The project review committee will make decisions on any necessary implementation action or modifications of the project. The Director's assessment will include a statement on impact, sustainability and pipeline. These PIRs will be updated and reviewed in-house in February, taking into account Bureau PIR comments. The MACS system will provide cross portfolio financial information to assist in identifying areas needing attention.

Evaluation

Each of the five core projects will be evaluated regularly with the results feeding the GOT/US decision making process. It is anticipated that impact evaluations of program impact for at least two of the areas of concentration will be carried out in 1993-94. Evaluations will be supplemented through on-going research.

This management system will provide clear evidence to support mission decision making and to document our accomplishments.

FIGURE 8: PROGRAM MANAGEMENT SYSTEM

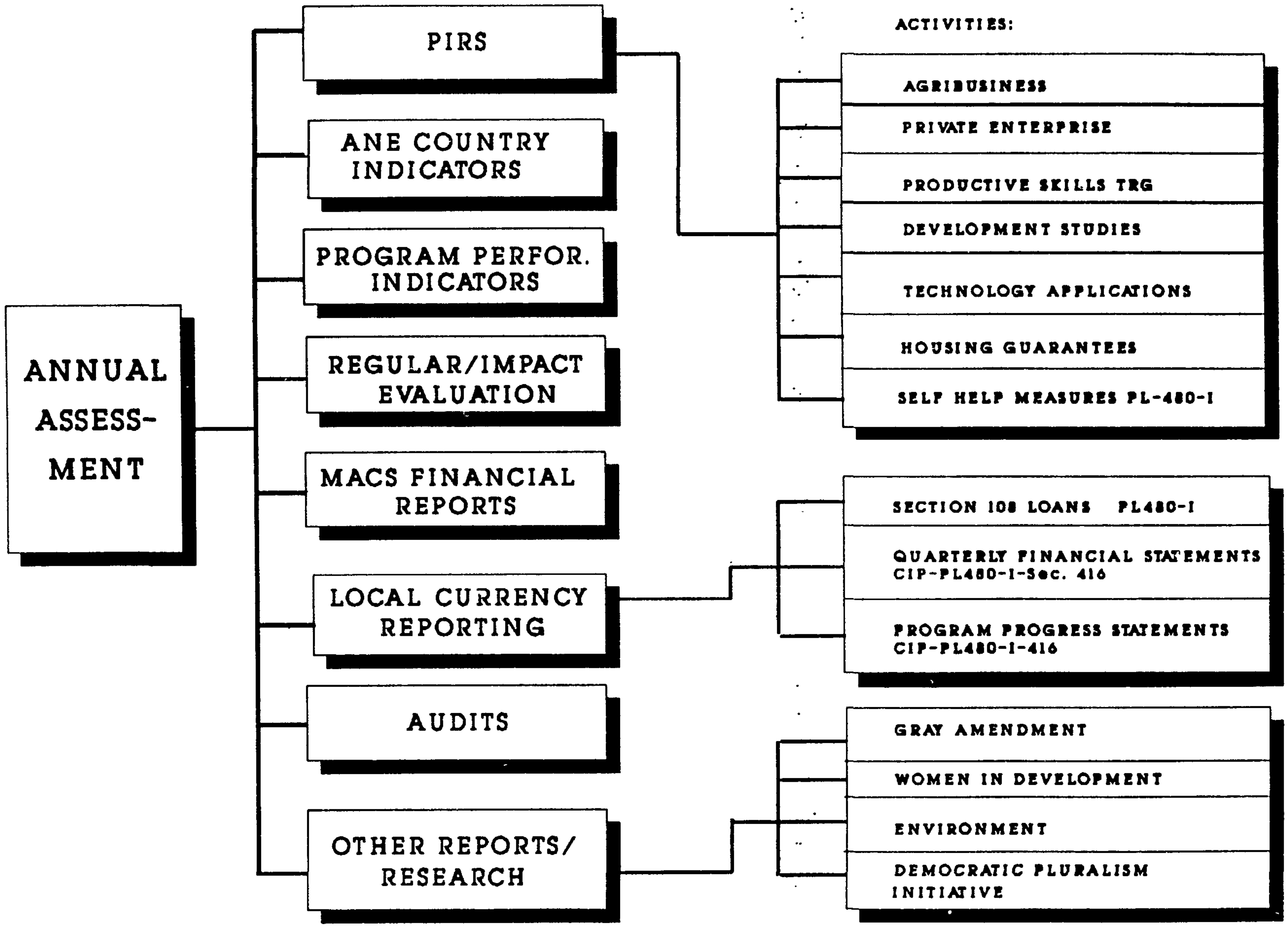


TABLE IV: PROGRAM PERFORMANCE INDICATORS

Objective	Indicator	Baseline	Target 1996
PRIVATE SECTOR REVITALIZATION			
1. To transfer public enterprises and services to the private sector	1A) No. and transaction value of public operations privatized	Average 1986-1988 5 operations TD 10.9 mill	80 operations TD 162.1 mill
	1B) Percent of all users of modern contraceptives served by private sector	1988 23 percent	50 percent
2. To expand and deepen capital markets in support of increased private investment	2A) No. of diversified financial instruments (muni bonds, mutual funds, private housing loans, SMS credit and guarantees (vs. strict collateral based instruments)	1988 No. of SICAF* registered: 0 New bond issues: 3 Sect 108 loans: 1	A wider range of financial instruments is publically offered and bought
AGRIBUSINESS PROMOTION			
3. To advance market liberalization and increased competitiveness in selected export subsectors.	3A). Decline in import restrictions	1989 Tariff: Tuna: 27% Vegetables: 43% Fruit: Import embargo	To be determined in PAAD.
	3B) Privatization of trade organizations and parastatal marketing functions in targetted subsectors	Trade organizations 100% public -------- Wine and olive oil marketing 100 % controlled	
MARKETABLE SKILLS DEVELOPMENT			
4. To assist in reorienting GOT employment and training programs to prepare youth for private sector jobs	4A) Percentage share GOT employment-related budget allocated to youth employment and training progs	Average 1987-89 4.2%	25%
	4B) No. of persons employed in private sector after training (under USAID supported programs)	1989 Tech Transfer: 52% of returnees employed in private sector	67% of participant returnees employed in private sector At least 6,000 trainees employed in private sector upon completion of vocational training

*Closed end mutual fund

VIII. Toward an ADC Relationship

Tunisia's socio-economic progress and promising trend lines point to an emerging advanced developing country.

A comparison of ADC indicators for Thailand and Tunisia show Tunisia to be on a slower growth curve with lower levels of direct foreign investment and a much smaller percentage of GDP made up by manufacturing. This reflects a smaller economy and poorer resource endowment. Tunisia, however, exports a greater percentage of GDP and has reduced agriculture's share of GDP much faster. On social indicators both countries are comparable. Where the contrast is greatest, however, is in the level of practical educational, institutional and private sector development and diversity. Also U.S. interests and presence in Tunisia is much less significant. Tunisia's dense ties are still with France and Italy. Tunisia is three years into a reform process that is just now opening its markets and its society, after decades of inward looking policies and import substitution practices. As our analysis of development prospects and challenges shows, Tunisia has a ways to go before qualifying as an ADC.

U.S. assistance strategy and programs are designed to help mobilize and expand Tunisia's private sector, to promote foreign investment and to encourage a web of institutions capable of leading Tunisia into an export-oriented economy. With the successful implementation of reforms, this strategy will help Tunisia integrate more fully into the international economy. It should also lead to closer commercial and investment ties between the U.S. and Tunisia, which is increasingly of mutual interest to both countries.

It will take time to see investment flows replace aid, however. Certainly the next several years will be crucial in Tunisia's transition to a more open market and open society. Main donors have recognized this by increasing aid levels while promoting expanded trade and investment. We should plan, therefore, to maintain aid levels until U.S. investment flows begin responding and a denser network of U.S.-Tunisian business, scientific, and academic relations develop.

In the short term greatest progress in moving Tunisia toward an ADC seems possible by implementing our strategy in ways that foster a mature partnership, weaning Tunisia from aid project dependence, relying more on Tunisian leadership and implementation systems and building strong relations between U.S. and Tunisian institutions and individuals. In this way AID can one day phase out, leaving behind a network of sustained relationships.

We have already begun building this more mature relationship by moving deliberately to graduate the Family Planning program from USAID dependence, by closing out all our projects in Central Tunisia after a decade of successful regional development, and by introducing policy-based program assistance and engaging the government increasingly in a sophisticated policy dialogue. We are also using technical assistance in ways befitting a partnership. Thus we are keeping long term technical assistance to a minimum, while actively engaging our Tunisian colleagues in the recruitment and evaluation of such experts. This puts a premium on providing first rate expertise. Our technical assistance to the Prime Ministry on privatization is a prime example of this approach. We will continue to draw heavily on specialized short term U.S. technical assistance and continue to develop a group of respected, knowledgeable experts in key fields. We will also look to develop the local research community and local management consulting services industry with links to U.S. universities and firms. We are already beginning to see interest from some of the "big eight" accounting firms in such relationships. Our new assistance programs will collaborate with the emerging professional, trade, and business associations and seek to link them with American counterpart organizations.

While a bi-national foundation may in time be an appropriate vehicle for sustaining U.S. relations, it is premature at the moment to contemplate such an option. The Mission, however, can begin to function more along the lines of a foundation through its new portfolio in agribusiness and private enterprise by:

- serving as an honest and friendly broker to businessmen;
- by nurturing Tuniso-American relations; and
- by developing a workable grants giving mechanism to private institutions engaged in fostering expanded fields (e.g. the Tunisian-American Chamber of Commerce) or by helping launch a joint venture investment fund that can provide seed capital to Tunisian-American business ventures.

To be sure this will require stepped up coordination with other U.S. agencies working in Tunisia. In this way USAID can help pave the way for a binational foundation or other entity to take over from USAID.

As these developments take root and the Mission's assistance strategy bears fruit, it should be possible by 1993 to define a step-wise process and timetable for relating to Tunisia as an ADC.

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GLOSSARY

AID	Agency for International Development
AFL-CIO	American Federation of Labor-Congress of Industrial Organizations
AMP	Assistance Management Plan
ANE	Asia Near East Europe Bureau
APG	Agricultural Program Grant
API	Agency for Industrial Promotion
APIA	Agency for Agriculture Investment
APIP	Agricultural Policy Implementation Project
ASAL	Agricultural Structural Adjustment Loan - IBRD
ATO	Agricultural Trade Office
CAREP	Committee on Privatization and Restructuring of Public Enterprise
CEPEX	Center for Export Promotion
CP	Condition Precedent
CT	Country team
DPI	Democratic Pluralism Initiative
DSP	Development Studies Project
ECU	European Currency Unit
EEC	European Economic Community
ESF	Economic Support Fund
EXIM	Export-Import Bank
FAO	Food and Agriculture Organization
FIAP	Skills Training Program
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIAF	Fruit Industry Group
GICA	Canned and Frozen Food Industries Group
GID	Date Industry Group
GIL	Vegetable Industries Group
GNP	Gross National Product
GOT	Government of Tunisia
GSP	Generalized System of Preferences
HG	Housing Guaranty
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFID	Institute of Development Financing of the Maghreb Countries
IMF	International Monetary Fund
JCTI	Joint Commission on Trade and Investment
LC	Local Currency
LPG	Loan Portfolio Guaranty
MDS	Social Democratic Party - Political party
MENA	Middle East, North Africa Office of ANE
MTI	Islamic Political Party
MEF	Ministry of Economy and Finance
MOA	Ministry of Agriculture
MOPH	Ministry of Public Health
MOPRD	Ministry of Planning and Regional Development
OFPE	Office of Vocational Training and Employment
ONFP	National Office of the Family and Population

ONP	National Fishery Office - A Parastatal
OPIC	Overseas Private Investment Corporation
PAIP	Program Assistance Initial Proposal
PEP	Private Enterprise Project
PERL	Public Enterprise Restructuring Loan - IBRD
PPI	Program Performance Indicators
PROS	Productive Skills Training Project
RCD	Democratic Constitutional Party - ruling political party
RCO	Regional Contracting Officer
RLA	Regional Legal Advisor
RHUDO	Regional Housing and Urban Development Office
SAP	Structural Adjustment Program
SIVP	Higher Education Graduates Apprenticeship Program
SMAG	Minimum Wage for Agriculture
SME	Small and Medium Enterprise
SMIG	Minimum Wage for Industry
SODAD	National Date Company - a parastatal
TAP	Technology Applications Project
TD	Tunisian Dinars
TDP	Trade and Development Program
TED	Tunisian Economic Demographic Model
TT	Technology Transfer Project
UGTT	Tunisian Trade Union Federation
UIS	Urban Implications Study
UNDP	United Nations Development Program
UNFT	Tunisian National Women's Union
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
USDA	U.S. Department for Agriculture
USG	U.S. Government
UTICA	Tunisian Business Association
WFP	World Food Program
WID	Women in Development