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Report No. 97223-TN

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED LOAN

IN THE AMOUNT OF EURO 455.5 MILLION (EQUIVALENT TO US$500 MILLION) TO

THE REPUBLIC OF TUNISIA

FOR THE

THIRD GOVERNANCE, OPPORTUNITY AND JOBS DEVELOPMENT POLICY LOAN

24 August, 2015

Macro-Fiscal Management Global Practice
Maghreb Country Department
Middle East and North Africa Region

TUNISIA - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of July 31, 2015)

US$ 1.00	TND 1.9695
US$ 1.00	Euro 0.910
Euro 1.00	TND 2.1622

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AFD	*Agence française de Développement* / French Agency for Development
AfDB	African Development Bank
ALMPs	Active Labor Market Programs
ANETI	*Agence Nationale pour l'Emploi et le Travail Independent* / National Agency for Employment and Independent Work
ATI	Access to Information
BCT	*Banque Centrale de Tunisie* / Central Bank of Tunisia
BH	*Banque de l'Habitat*
BNA	*Banque Nationale Agricole*
BOP	Balance of Payments
CAR	Capital-Adequacy Ratio
CAS/CPF	Country Assistance Strategy / Country Partnership Framework
CEJJ	*Centre d'Etudes Judiciaires et Juridiques* /Center for legal and judicial studies
CGSP	*Contrôle Général des Services Publics /* General Public Service Audit Office
CMF	*Conseil du Marché Financier* / Financial Market Authority
CNE	*Comité National d'Evaluation* / National Evaluation Committee
CNAM	*Caisse Nationale d'Assurance Maladi*e / National Medical Insurance Fund
COSEM	*Comité de Suivi et d'Enquête des Marchés* / Public Procurement Monitoring Committee
CPR	*Congrès pour la République* / Congress for the Republic Party
CPI	Consumer Price Index
CSM	*Commission Supérieure des Marchés* / High Committee for Public Procurement
CSOs	Civil Society Organizations
DGRA	*Direction Générale des Réformes Administratives* / General Department for Administrative Reforms
DPL	Development Policy Loan
DSA	Debt Sustainability Analysis
DPR	Development Policy Review
EIA	Environmental Impact Assessment
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product

GNFS	Goods and nonfactor services
GO DPL	Governance and Opportunity Development Policy Loan
GOJ DPL	Governance, Opportunity and Jobs Development Policy Loan
GRS	Grievance Redress Service
IACE	*Institut Arabe des Chefs d'Entreprise* / Arab institute of Entrepreneurs
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMF	International Monetary Fund
INS	*Institut National de la Statistique* / National Statistics Office
INT	*Instance Nationale des Telecommunications* / Telecoms Regulatory Authority
INTOSAI	International Organization of Supreme Audit Institutions
IP	Internet Protocol
IPO	Initial Public Offering
ISN	Interim Strategy Note
ISPs	Internet Service Providers
JBIC	Japan Bank for International Cooperation
JICA	Japanese Development Agency
JSDF	Japan Social Development Fund
LDP	Letter of Development Policy
LFS	Labor Force Survey
M&E	Monitoring and Evaluation
MDIIC	Ministry of Development, Investment and International Cooperation
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MHESRIT	Ministry of Higher Education, Scientific Research and Information Technologies
MIC	Middle Income Country
MICS	Multiple Indicators Cluster Survey
MMR	Maternal Mortality Ratio
MOF	Ministry of Finance
MOH	Ministry of Health
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Financial Framework
NEF	National Employment Fund
NGOs	Non-Governmental Organizations
NPLs	Non-Performing Loans
OECD/DAC	Organization for Economic Cooperation and Development/ Development Assistance Committee
PAFN	*Programme d'Appui aux Familles Nécessiteuses* / Support Program for Poor Families
PEFA	Public Expenditure and Financial Assessment
PEPE	Program for Schools with Education Priority
PER	Public Expenditure Review
PFM	Public Financial Management

PMR	Product Market Regulation
PPP	Public Private Partnership
PSD	Private Sector Development
ROSC	Report on the Observance of Standards and Codes
SAI	Supreme Audit Institution
SBA	Stand-By Arrangement
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SICAR	*Société d'Investissement à Capital Risque* / Venture Capital Investment Company
SIVP	*Stage d'Initiation à la Vie Professionnelle* / Internship for Introduction to Professional Life
SME	Small- and Medium-Scale Enterprise
SNCFT	*Société Nationale des Chemins de Fer Tunisiens*/National Tunisian Railroad Company
SNT	*Société Nationale des Télécommunications /* National Telecommunications Company (*Tunisie Télécoms*)
SOE	State Owned Enterprise
SOB	State Owned Bank
STB	*Société Tunisienne de Banque*
STEG	*Société Tunisienne de l'Electricité et du Gaz*
TA	Technical Assistance
TND	Tunisian Dinar
UGTT	*Union Générale Tunisienne du Travail* / Tunisia General Labour Union
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
UTICA	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat / Tunisia Business Confederation
VSL	Variable Spread Loan

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REPUBLIC OF TUNISIA

THIRD GOVERNANCE, OPPORTUNITY AND JOBS
DEVELOPMENT POLICY LOAN (GOJ-3 DPL)

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ANNEXES

The Third Governance, Opportunity and Jobs DPL has been prepared by the World Bank Group in close cooperation with the African Development Bank and the European Union. The World Bank Group team consists of Jean-Luc Bernasconi (GMFDR, Team Leader), Laurent Gonnet (GFMDR), Heba Elgazzar, Diego Angel-Urdinola (GSPDR), Jose Antonio Cuesta Leiva and Gabriel Ibarra (GPVDR); Fabian Seiderer, Gael Raballand, Franck Bessette, Walid Dhouibi, Salim Banouniche (GGODR), Carlo Maria Rossotto, Michel Rogy (GTIDR), Mohamed El Shiaty, Amina Khaled El Zayat, Nawal Filali, Antonia Preciosa Menezes, Georgiana Pop (GTCDR), Nina Arnold (GEDDR), Daniela Marotta, Natsuko Obayashi (GMFDR); Sadok Ayari, Donia Jemail (MNAEC). Legal counsel was provided by Jean-Charles de Daruvar and Nathalie Munzberg (LEGAM) and disbursement guidance was provided by Eric Ranjeva (CTRLA). The operation benefited from comments from peer reviewers Theodore Ahlers (Consultant) and Phil Keefer (Inter-American Development Bank), and inputs from Shantayanan Devarajan (MNACE), Amine Mati (IMF) and Giorgia Albertin (IMF). Outstanding administrative support was provided by Besma Saadi Refai (MNCTN), Narjes Jerbi (MNCTN) and Faythe Calandra (GMFDR). The operation was prepared under the overall guidance of Auguste Tano Kouame and Bernard Funck (Practice Managers, GMFDR), Eileen Murray (Country Manager, Tunisia), Marie Françoise Marie-Nelly and Simon Gray (Country Directors, MNC01). Guidance was further provided by Antoine Courcel-Labrousse (CMEMR). The team also benefits from interactions with colleagues from the African Development Bank (Jacob Kolster, Philippe Trape, Thouraya Triki, Mickaelle Chauvin) and the European Union (Regis Meritan, Francis Lemoine, Michaela Dodini), and is thankful to many Government of Tunisia officials who contributed their time and knowledge. Special thanks are due to H.E. Mr. Yacine Brahim, Minister for Development, Investment and International Cooperation (MDIIC), H.E. Mr. Slim Chaker, Minister of Finance and Ms. Kalthoum Hamzaoui, Director General at the MDIIC, for guiding this work, and their collaborators for their productive cooperation.

SUMMARY OF PROPOSED LOAN AND PROGRAM

REPUBLIC OF TUNISIA

THIRD GOVERNANCE, OPPORTUNITY AND JOBS DPL

Borrower	Republic of Tunisia
Implementing Agency	Ministry of Development, Investment and International Cooperation
Financing Data	IBRD Loan; Amount: Euro 455.5 (US$500 million equivalent). Variable Spread Loan (VSL), repayment schedule linked to commitment with a thirty-four year maturity and 5.5 years of grace period, with tailored repayment of principal.
Operation Type	The proposed operation is the third in a programmatic series of three single-tranche operations.
Program Development Objectives	The objective of this DPL is to help Tunisia establish the policy foundations for a more competitive business environment, a strengthened financial sector, more inclusive and accountable social services, and more transparent public governance.
Results Indicators (baseline set in 2013 unless otherwise indicated; results to be assessed at end 2016)	PDO 1. Promote a more competitive business environment: • Cost savings from simplification of key procedures equivalent to at least US$30 million from an estimated annual compliance cost of US$70 million; • 50 percent reduction in the price of international telecommunications from 39.5 US cents/min (baseline for incoming calls) to 20 US cents/minute; • Increase in available international bandwidth (Gigabytes/second): from 37.7 (baseline) to 200; • Number of broadband wholesale access points: from zero to 15,000. PDO 2. Strengthen the financial sector: • Minimum Capital Adequacy ratio increased from 8 to 9 percent on average for all banks; • Implementation of restructuring plans of the three state-own banks has been initiated, as exemplified by the award of contracts to modernize the banks' IT infrastructures; • Common Equity Tier 1 ratio has increased for the three public banks (STB, BH and BNA) to 7 percent (from STB: -5.7 percent; BH: 4.6 percent and BNA: 6.3 percent). PDO 3. Provide more inclusive and accountable social services: • 45,000 beneficiaries of the Labor Market Programs (employability and wage vouchers), of which 60 percent are women; • 20 percent of beneficiaries of Labor Market Programs receive contracts (baseline: 14 percent in 2011); • At least 5 hospitals have conducted and published results of evaluations of hospital services and have instituted improvement plans; • At least 40 higher education programs have been evaluated and a least 3 institutions have started the accreditation process; • Annual publication of performance indicators for all 24 governorates in priority social sectors. PDO 4. Increase transparency and accountability in public governance: • At least 50 percent increase in responses to access to information requests from citizens (2013 baseline: 80 requests have been responded to); • Annual publication of public expenditure data and consolidated state-owned enterprises financial statements on the Government website; • Reduction in average time needed for awarding publicly procured contracts from 200 days to 140 days.
Overall risk rating	High
Operation ID	P150950

IBRD PROGRAM DOCUMENT FOR A PROPOSED THIRD GOVERNANCE, OPPORTUNITY AND JOBS DEVELOPMENT POLICY LOAN TO THE REPUBLIC OF TUNISIA

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **This Program Document proposes a Third Governance, Opportunity and Jobs Development Policy Loan (GOJ-3 DPL) for the Republic of Tunisia, in the amount of EURO 455.5 million (US$500 million equivalent) to be disbursed in a single tranche to support key economic and social reforms, while providing urgent financing to mitigate the consequences of the deterioration of the security situation.** The proposed DPL would be the third and final in a programmatic series of multi-sector operations to support the Tunisian Government in its efforts to implement a program of social and economic reforms that will complete the transition process that led to the installation of a new Government in the first semester of 2015. The objective of the proposed DPL is to help Tunisia establish the policy foundations for a more competitive business environment, a strengthened financial sector, more inclusive and accountable social services, and more transparent and accountable public governance. At the same time, this proposed operation would contribute to meeting the emergency financing needed to mitigate the economic impact related to the terrorist attacks that have targeted the vital and recovering tourism sector in March and June 2015. The first operation in the series (GOJ-1 DPL) was approved by the World Bank Group Board of Directors in November 2012.[1] The second operation (GOJ-2 DPL) was approved in April 2014.[2]

2. **On the economic front, Tunisia's growth record has allowed the country to gradually climb the income ladder over the past three decades, but the country is facing typical hurdles related to the middle-income trap, compounded by specific challenges to further economic and social progress.** As the recently finalized Systematic Country Diagnostic[3] (SCD) lays out, Tunisia's growth rates have been faltering in recent years as the country struggles to maintain its competitiveness, increase productivity and move up the value chain, symptoms commonly referred to as the "middle-income" trap.[4] In addition, Tunisia is facing specific and interrelated challenges characterizing its current socio-economic environment, among which (i) high level of youth unemployment (university graduates and non-graduates); (ii) the volatile domestic security environment; (iii) the exposure to regional political instability; and (iv) the high dependency on trade and investment flows towards the Euro area. The SCD and other analytical Bank work highlight the lack of contestable and competitive markets, notably in economic backbone sectors,

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[1] World Bank (2012). *Program Document: Governance, Opportunity and Jobs DPL. October 2012.* Report No. 71799-TN.

[2] World Bank (2014). *Program Document: Second Governance, Opportunity and Jobs DPL. April 2014.* Report No. 86052-TN.

[3] World Bank (2015). *Tunisia: Systematic Country Diagnostic*, June 2015, P151647.

[4] The "middle-income trap" describes the growth slowdowns preventing middle-income countries to further graduate into the group of high-income countries. Recent studies have examined a range of correlates to explain the slowdown observed in many MICs, such as human capital, financial sector stability, productivity and structural transformation, the role of institutions, demography, infrastructure, the macroeconomic environment, and trade structure. For a definition of the middle-income trap, see for instance, Aiyar et al., *Growth slowdowns and the Middle-Income Trap,* IMF Working Paper WP/13/71, March 2013.

the weight of regulation and administrative procedures, inadequate access to finance, and governance challenges among some key structural challenges for higher growth and better access to economic opportunities for citizens and businesses.

3. **Since the 2011 Revolution, while the successful completion of the general elections and the transition to the new constitutional order have been remarkably flawless, economic recovery has been slow, and social and security tensions have mounted in 2015, culminating in two violent terrorist attacks**. The Parliamentary elections which took place as planned in the last quarter of 2014 were transparent, fair and orderly, and saw the secular Nidaa Tounes party win 86 of the 217 seats in Parliament ahead of the moderate Islamist Ennahda party (69 seats). Two rounds of equally peaceful Presidential elections were organized in November and December 2014, with the leader of Nidaa Tounes, M. Beji Caid Essebsi defeating incumbent M. Moncef Marzouki, with 55 percent of the vote. A non-partisan Prime Minister, M. Habib Essid, was designated in January 2015 and formed a coalition Government, gathering representatives from Nidaa Tounes, Ennahda, as well as from the third and fifth largest parties in Parliament, securing hereby a relatively comfortable majority in the National Assembly, which is essential in view of the important legislative agenda related to the reform program. In the meantime, the security situation deteriorated dramatically following the March 18 terrorist attack at the Bardo Museum in Tunis, and the second attack on the holiday resort in Sousse on June 26. In parallel, the new Government has been confronted with rising social tensions in the south of the country as it attempted to crack down on informal trade with Libya, and to bring disruptive strikes in the mining, transport and education sectors to resolution.

4. **While the new Government has taken immediate steps to address the security crisis and mitigate social tensions, it has also started laying the foundations for its medium-term development policy**. More specifically, the authorities decided to elaborate their policy framework on two tracks: (i) devise a program of short-term measures addressing some immediate concerns faced by the population (eroding purchasing power, disruptions in the education sector, security) to be implemented within 100 days, and (ii) prepare a new five- year plan (2016-2020) of reforms and investments that would be presented towards the end of 2016. An ambitious "100-day program", comprising no less than 130 actions had been presented, with all of its measures having been initiated and some completed by now. More recently, the Government finalized the preparation of a *Note d'Orientation* (approach paper) that charts out the guiding principles for the five-year program (see Section 3). Both the 100-day action plan and the *Note d'Orientation* include policy objectives and measures that are consistent with the commitments taken by the previous government with respect to reforms supported by the ongoing Stand-By Arrangement (SBA) of the IMF and the Development Policy Loan (DPL) series financed by the Bank, such as the restructuring of public banks.

5. **The World Bank Group (WBG) remains fully committed to supporting the stabilization of the Tunisian economy and government efforts to lay the foundations for sustainable and inclusive growth**. The programmatic multi-sector DPL operations are a central component of the World Bank Group's support to Tunisia as outlined in the 2012 Interim Strategy

Note (see Section 4.3).[5] The World Bank Group team responsible for this operation also includes the International Finance Corporation (IFC). As was the case for the predecessor operations in the series, the proposed GOJ-3 DPL has been prepared in close consultation with the European Union (EU), the IMF, the African Development Bank (AfDB), as well as bilateral partners.

6. **The challenges addressed throughout the DPL period are central policy drivers that will need continued attention even after this DPL series is completed: Tunisia needs to maintain macroeconomic and social stability, while implementing reforms that will stimulate structural transformation, sustained growth and employment generation**. After recovering in 2012, growth hovered just above 2 percent in 2013 and 2014, and is likely to slow down to 0.8 percent in 2015, largely on account of the impact of the March and June security shocks. Consequently, external financing needs are expected to remain large over the next two to three years. Accelerating the pace of recovery will depend on the Government's ability to complete some of the key ongoing reforms, and thereby pave the way for a medium-term economic transformation plan that would stimulate private investment. As such, the *Note d'Orientation,* emphasizes the importance of reforms, alongside the acceleration of public investment programs.

7. **The reforms supported by the proposed GOJ-3 DPL operation are also fully consistent with the findings of the Bank's SCD and the recommendations of the 2014 *Development Policy Review***.[6] The SCD identifies two key drivers for eliminating extreme poverty and boosting shared prosperity, which must be addressed in order to achieve sustained and inclusive economic growth in Tunisia: (i) promoting private sector-led job creation; and (ii) improving equality of opportunities and supporting those who might be left behind. The SCD also highlights two overarching issues to be addressed concurrently for policies to succeed, namely maintaining macroeconomic stability and continuing to improve governance. Deeper medium-term structural reforms are essential for improving Tunisia's macroeconomic and fiscal prospects, increasing the confidence of both domestic and international investors, and for the country's ability to reduce poverty and boost shared prosperity while ensuring financial sustainability. Further building on the governance achievements realized since the revolution is equally critical for achieving sustainable growth and reducing poverty, notably with regards to the strengthening of the rule of law, the devolution of decision-making processes and resources at the local level, the higher level of citizen participation, the further dismantling of rent capture, and the decisive fight against corruption.

8. **In this context, the DPL series aims at assisting Tunisia tackle short-term challenges, including by providing emergency financial support in the context of the current security crisis, while supporting reforms that pave the way for stronger and more inclusive growth, leading to job creation over the medium term**. The reforms are seen as instrumental to achieve the objectives that have motivated the revolution: opening up the economy so that it can deploy more and better economic opportunities for the Tunisian people, in particular the youth, while entrenching participation and voice as key ingredients of policy making. Building upon achievements realized under the GOJ-1 and GOJ-2 DPLs, the reform program underpinning the

[5] See World Bank (2012), Interim Strategy Note (ISN) for the Republic of Tunisia for the Period FY13-14. Report No. 67692 – TUN.
[6] See World Bank (May 2014). *Tunisia: Development Policy Review – The Unfinished Revolution*, May 2014, Report No. 86179-TN.

proposed operation, focuses on the four key policy areas of the series: (i) promoting a more competitive environment; (ii) strengthening the financial sector; (iii) improving the inclusiveness and accountability of social services; and (iv) increasing the transparency and accountability of public governance.

Poverty and social development

9. **Tunisia has made impressive strides in poverty reduction, with the poverty incidence being halved between 2000 and 2014, from over 32 percent to 15.5 percent, despite a temporary increase in the 2011 Revolution's immediate aftermath**. Equally impressive is that extreme poverty has more than halved during the same period. In the past decade Tunisia saw its poverty incidence, officially measured in terms of household per capita consumption, substantially decline. This is true across several dimensions: for absolute and extreme poverty lines, across regions and by strata. Furthermore, the depth and severity of consumption-based poverty also improved consistently in the past decade.[7] Poverty reduction was mostly due to economic growth (about 80 percent of the change observed) between 2005 and 2010 and much less due to redistribution (about 18 percent).[8] The impressive gains in poverty reduction have not been reflected to the same extent with respect to inequality, as overall consumption inequality decreased only slightly.[9] Inter-regional inequality substantively increased, as inequality between regions accounted for about 62 percent of total inequality, compared to 50 percent in 2000. The poorest regions of the country, are home to more than 70 percent of the extreme poor and 55 percent of all poor. Similarly, unemployment rates show considerable disparities across regions, and are especially high in the interior rural regions.

10. **More generally, Tunisia performs well on a range of social development, gender and governance indicators, although regional disparities remain a source of concern**. Growth and public investments in human development have contributed to impressive indicators. At the national level, substantial progress has been achieved since 1990 to reduce infant and maternal mortality rates and child malnutrition. There remains, however, a need to improve social indicators in rural areas, where children are more than twice as likely to be stunted as in urban areas among other things. It is also in these regions that maternal health is at the highest risk, as fewer women get prenatal services and high-risk pregnancies are poorly treated, resulting in maternal mortality rates that are three times higher (70 versus 20 deaths per 100,000 live births, respectively). Access to basic social infrastructure is lagging as only 50-60 percent of the rural population has access to safe drinking water and 40 percent to modern sanitation (compared to near universal access in urban areas).[10] Women have benefited from Tunisia's high level of public investment in education with associated outcomes such as attainment, wage parity, and reduced fertility rate (by nearly half). However, despite the fact that women have access to education and indeed make up the majority of higher education graduates, they are less likely to be employed. Women's participation in the labor force is estimated at around 30 percent. Tunisia also made significant strides in improving governance since the revolution. As a result, the Freedom House ranking for instance,

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[7] Estimates from the National Statistics Office (INS, AfDB, and World Bank 2012).
[8] Estimates come from a growth-inequality decomposition methodology developed by Datt and Ravallion (1992).
[9] The Gini index decreased from 0.375 to 0.358 between 2000 and 2010.
[10] See World Bank (2015), *Tunisia: Systematic Country Diagnostic*, June 2015, P151647.

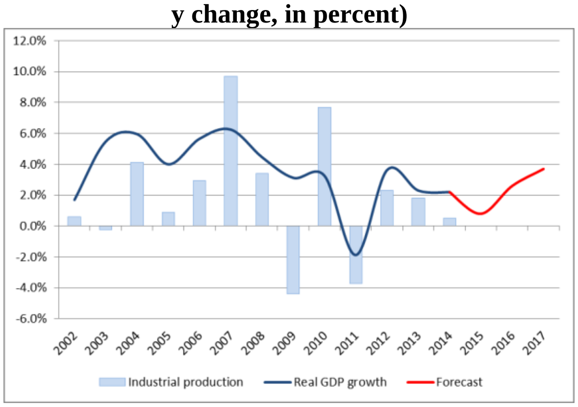
which used to rate Tunisia as 'not free' in most dimensions of governance until 2010 have improved to 'partly free' between 2012 and 2014, and then to "free" in 2015, mainly because of the marked improvement in political rights materialized by the free and fair elections held in 2014 and increased freedom of press and NGOs. Reflecting some of the economic governance challenges mentioned above, Tunisia's 2015 economic freedom score is 57.7, placing its economy 107th of 178 in the Heritage Foundation ranking.[11]

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

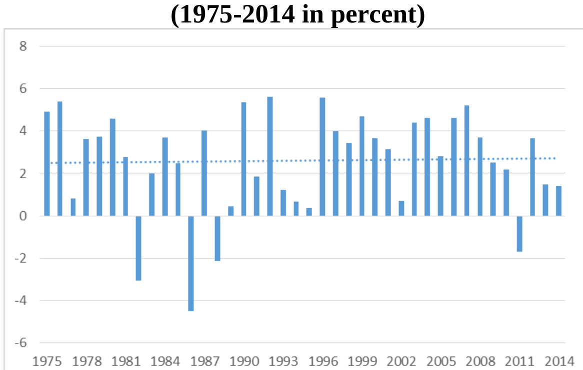
11. **The successful democratic transition has not yet paid out economic dividends, as security lapses and social tensions weigh heavily on parts of the economic activity (especially foreign investments and tourism)**. In 2014, economic activity has been slow, and the preliminary GDP statistics indicate a real growth rate of 2.3 percent, the same rate as in 2013. A strong but short-lived rebound in mining and a continued expansion in the services and administrative sectors was counterbalanced by declining activity in oil and gas, as well as stagnation in manufacturing. Industrial production has steadily decelerated after its 2012 rebound and has recorded close to stagnant growth (+0.2%) in 2014. Overall, the recovery in external demand is slow, reflecting developments in the EU, while the domestic demand is increasingly affected by tighter macroeconomic policies. Manufacturing grew a weak 0.6 percent, while non-manufacturing industries (mainly mining) declined by 3.0 percent on account of structural production shortfalls in oil and gas and stagnation in mining during the latter part of the year. Commercial services continued to be a driver of growth at 3.3 percent, albeit at a slower pace than in previous years. Public administration (about 18 percent of GDP) grew relatively strongly as the fiscal consolidation only started very gradually in 2014. On the demand-side, private consumption, a growth driver in previous years, has started to slow down, while total investment recovered marginally from the 2013 decline.

Fig. 1: Real GDP and industrial production (y-o-y change, in percent)



Source: INS, WB staff projections.

Fig. 2: Real per capita GDP growth (1975-2014 in percent)



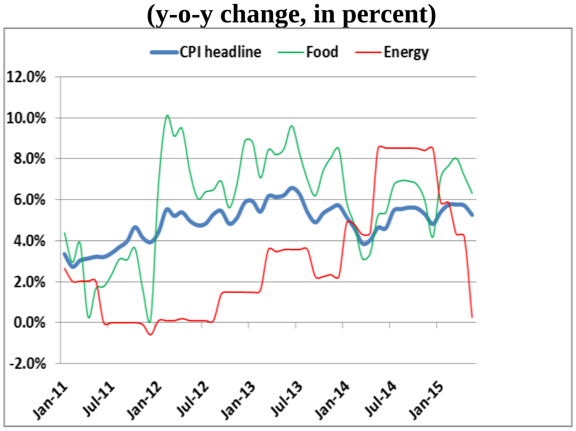
Source: World Bank staff estimates.

[11] See 2015 Index of Economic Freedom published at www.heritage.org/index

12. **Social and security tensions have negatively affected activity in the first months of 2015, signaling that the economy may slow down further and possibly slip into recession.** The first quarter GDP figures signal a further slowdown (+1.7 percent year-on-year, -0.2 percent quarter-on-quarter), on account of production declines in mining, oil and gas and transport services, all related to labor disputes in these sectors. Agricultural production (mainly olives and derivate products) and to some extent manufacturing held the economy afloat in the first three months of the year. While GDP figures for the second quarter are not available, the tragic events of the Bardo Museum (March 2015) and Sousse (June 2015) will lead to a marked slowdown in tourism and related services, while agriculture is likely to have been negatively affected by unfavorable weather in the second quarter (see Section 2.2 below).

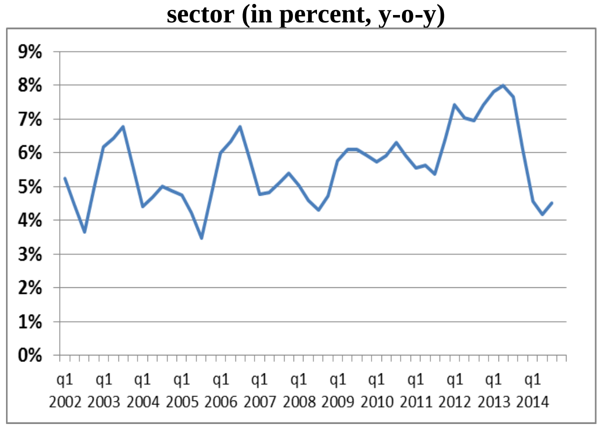
13. **After having steadily decelerated from its July 2013 peak for most of 2014, CPI inflation regained volatility in recent months responding to price increases of food items.** While food price increases have fueled inflation for most of the post-revolutionary period, increases in the electricity tariffs related to the gradual phase-out of subsidies, have maintained inflationary pressures in 2014. Still, headline inflation decelerated to 4.9 percent after 5.8 percent in 2013. Core inflation (excluding food and energy) has remained broadly under control before a recent increase due to rising prices for food items, health services and certain manufactured goods (clothing). The policy objective is to reduce core inflation to around 4.5 percent and the monetary authorities will maintain a prudent policy stance. Also, the new Government has taken steps to fight some speculative and non-competitive practices in food sector supply chains. The depreciation of the Tunisian Dinar (TND) mitigated the impact of lower international energy prices. In fact, given that most domestic energy prices are administered, the impact on inflation is limited. Wage negotiations will also play a key role, as real wage increases have averaged 2.1 percent per annum between 2011 and 2013, an estimated 0.5 to 1 percent premium over productivity growth. In 2014, on the positive side from the inflation control standpoint, there has there been some restraint in wage increases.

Figure 3: Inflation: Headline, Food and Energy (y-o-y change, in percent)



Source: INS.

Figure 4: Wage increases in non-agricultural private sector (in percent, y-o-y)



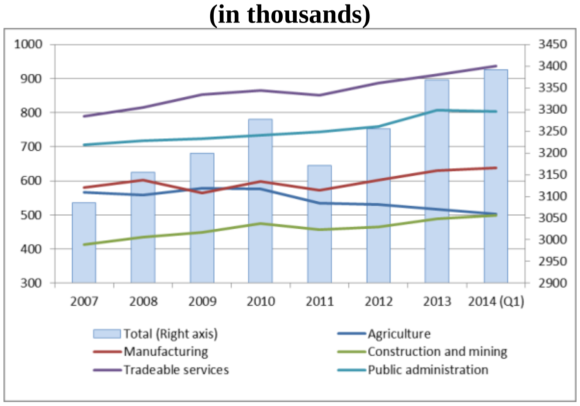
Source: INS.

14. **Unemployment has declined moderately from its peak of the revolution's immediate aftermath.** After jumping from 13 percent in 2010 to 18.9 percent in 2011, unemployment has gradually decreased to 15.0 percent by the first quarter of 2015 (most recently available data), thanks mostly to the initial recovery in some labor intensive sectors (textiles, mechanical industries and construction) and to important hiring campaigns in the public sector (government

and state-owned enterprises). The post-revolutionary gains in employment, albeit largely insufficient to absorb labor force entrants, have to some extent benefitted female graduates. In absolute terms, the majority of the unemployed remain low-skilled workers. However, university graduates have the highest unemployment rate, with 31.4 percent (40.8 percent for females). In recent months, unemployment is evidently plateauing as the hiring wave of 2012-13 in the civil service and by parastatals could not be sustained. Before a stronger economic recovery materializes, unemployment will stagnate and possibly increase.

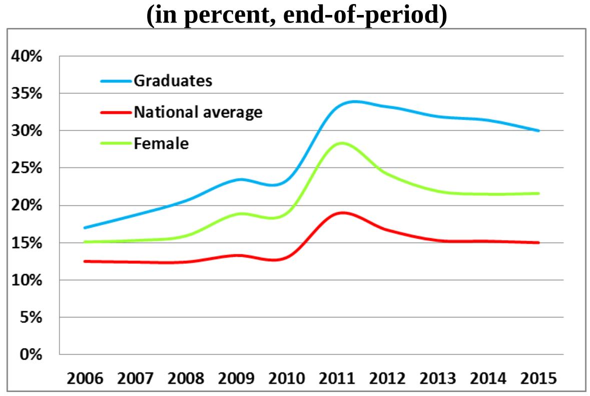
15. **For 2014, preliminary budget execution figures suggest an improvement of the fiscal deficit (commitment basis) to 4.1 percent of GDP from 6.2 percent, due to lower spending on subsidies and relatively strong revenue collection**. The cash balance, however, has deteriorated to 6.5 percent of GDP on account of the settlement of deferred spending from 2013. Even though the primary and structural deficits, which have respectively reached 2.3 and 3.3 percent of GDP, have remained well below the target of the IMF program, the composition of spending remains a source of concern. Tax revenues, amounting to 24 percent of GDP, have slightly outperformed expectations despite the lower than anticipated growth, due to improved collection administration but also one-off tax measures (an exceptional one-off contribution from formal sector employees and companies amounting to 0.4 percent of GDP). Savings worth one percent of GDP were realized on total expenditure vs. the program target, partly because of lower outlays for subsidies and goods and services, but the bulk came from lower capital expenditure. In fact, investment spending has reached a new low at 4.2 percent, reflecting not only fiscal consolidation, but also bottlenecks in project execution (procurement, land issues, etc.). The wage bill was maintained within the program targets at 12.7 percent of GDP (after 12.5 percent in 2013), while subsidies and transfers declined for the first time since the revolution from 7.8 percent to 7.0 percent of GDP.

Figure 5: Employment by sectors 2007-2014 (in thousands)



Source: INS, World Bank staff estimates.

Figure 6: Unemployment Rates (in percent, end-of-period)



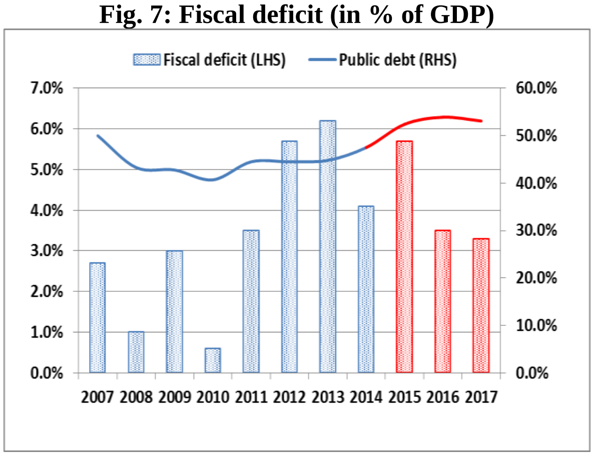
Source: INS.

16. **After having largely drawn down on available cash buffers to finance the 2013 deficit, the authorities financed the fiscal gap in 2014 mainly through external financing.** As the sale of assets confiscated from the previous regime continues to yield only very modest revenues (about 0.1 percent of GDP in 2014), and the recourse to domestic financing has been limited to avoid crowding out effects (amounting to 1.2 percent of GDP), external financing has reached a little over US$2.9 billion for the year (or around 6.0 percent of GDP). Sources of financing have included the IMF (US$1.05 billion), the World Bank (US$250 million under the GOJ-2 DPL), the Arab Monetary Fund (US$42 million), bilateral budget support from Algeria and Turkey (for a

total of US$300 million), project financing (US$330 million), and the issuance of bonds on the US and Japanese markets guaranteed by the corresponding partner governments (for a total of US$964 million). Public debt has risen in line with the above- mentioned fiscal expansion in recent years, and reached 49.5 percent of GDP at end 2014.

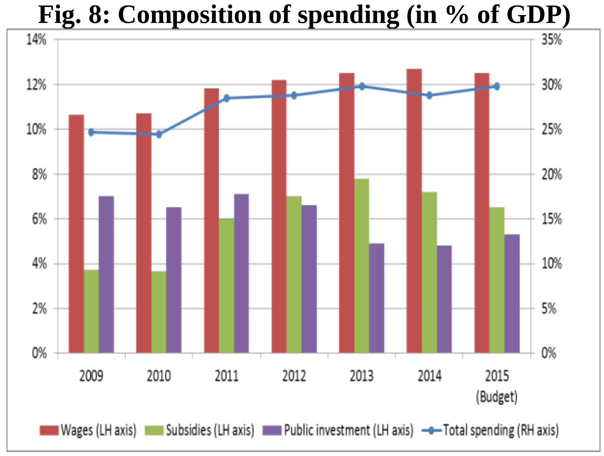
17. **The 2015 budget approved before the elections by the outgoing National Assembly aims at pursuing fiscal consolidation and gradually rebalancing the composition of public expenditure.** The approved 2015 Budget Law foresees further consolidation of recurrent spending (-0.9 percent of GDP), thanks to restraints on the wage bill, initially expected to stabilize at 12.5 percent of GDP, while the share of subsidies and transfers would decline to 6.5 percent of GDP. Prior to the most recent terrorist attack, the Government expected a 2015 fiscal deficit of 5.9 percent of GDP, below the target initially agreed with the IMF (6.2 percent of GDP). This deficit includes the costs of public bank recapitalization currently estimated at 1.5 percent of GDP. A revised Budget Law was under finalization at the time of the June 26 attack in Sousse, and included adjustments related to the impact of lower official growth projections (1.7 percent vs. the initially foreseen 3.0 percent) on revenues, as well as the impact of the spring wage negotiation round, which would translate without corrective measures into an increase worth 0.8 percent of the wage bill. In order to maintain the initial deficit target, various measures were being considered including a streamlining of tax exemptions, and several measures to contain the wage bill increase, related to consolidation of non-salary benefits and a freeze in recruitments outside security personnel. The tragic events of Sousse, however, have led the authorities to revise the 2015 budget framework, including new revenue projections related to the slower growth and exceptional measures for security and economic recovery (see paragraph 27 below).

Fig. 7: Fiscal deficit (in % of GDP)



Source: Tunisian authorities (incl. projections).

Fig. 8: Composition of spending (in % of GDP)



Source: Tunisian authorities.

18. **Fiscal risks and contingent liabilities of SOEs are increasing.** Budget expansion since 2011 has been driven by an increase in subsidies and in the civil service wage bill. In addition, subsidies to SOEs also increased due to production losses in certain sectors affected by labor disputes (phosphate) and higher energy bills largely contributed to the worsening fiscal balance, so that total subsidies to SOEs have more than doubled to reach close to 9 percent of GDP in 2013 increasingly covering operating losses rather than investment.[12] In 2013, external debt from public

[12] *Ministry of Finance, Report on the financial situation of SOEs, 2014 (in Arabic).*

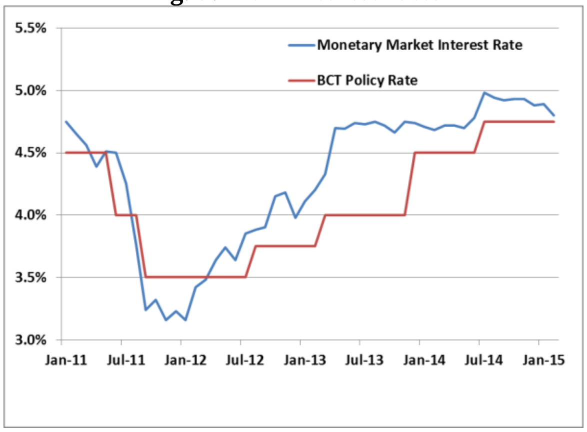
enterprises guaranteed by the Government represented 34 percent of the total external government debt (10 percent of GDP), from which the electricity company STEG accounted for 40 percent. Against this backdrop, the Government needs to improve its management of contingent fiscal risks, including through better monitoring of cross-subsidies, undertaking audits, consolidating the financial situations of the largest companies, and strengthening the governance and oversight framework of public enterprises.[13] The consolidated financial report on SOEs, which is part of the program supported by this DPL, opens the way for an improved monitoring and oversight of SOE performance.

19. **While the Central Bank of Tunisia implemented a tighter monetary policy since mid-2012 to rein in inflation, liquidity needs have remained high until recently.** Following the revolution, the Central Bank had relaxed its monetary policy in 2011. Nevertheless, increasing inflationary pressures and sliding reserves forced the Central Bank to gradually tighten their monetary policy stance. Starting in August 2012, the Central Bank increased its policy rate four times, for a total of 100 basis points, to the current rate of 4.75 percent. After slowing down in 2013 and for most of 2014, credit to the economy showed some signs of recovery, averaging 9.4 percent growth for 2014, albeit mainly driven by consumer credit. Growth in deposits on the other hand decelerated over the latter half of 2014. In the context of the current slowdown, the Central Bank is likely to delay further increases in the policy rate, while closely monitoring adherence to its objective to maintain inflation below 6 percent.

20. **The high liquidity needs of the banking sector are structural, forcing the Central Bank to continue injecting sizeable amounts of refinancing** (from TND 3 billion in March 2013 to TND 4.4 billion in March 2015, with a peak at TND 6.6 billion during the summer 2014), even if this trend was halted in more recent months thanks to slowing demand from state-owned enterprises and improved interbank operations. The growth of M2 resumed in 2014, reaching 8.1 percent after two years of slow-down (8.2 percent and 7.0 percent respectively). The growth of M3 and of credit to the economy evolved *pari passu* in 2014 to 7.8 and 9.4 percent, respectively (year-on-year) against 6.6 percent and 6.8 percent, respectively, in 2013. Capital soundness in the banking sector has recovered somewhat in 2014 after a marked deterioration in 2013, with the average regulatory capital-adequacy ratio (CAR) increasing to 9.7 percent at the end of 2014 (after 8.9 percent in 2013 and 11.8 percent at end of 2012)[14], while the three state-owned banks out of the total 21 banking institutions are not meeting the prudential threshold of 9 percent. Non-performing loans (NPLs) have steadily increased from 13.3 percent in 2011 to 15.8 percent in 2015. Despite the improvement in overall CAR in 2014, the solvency situation of the public banks remains problematic.

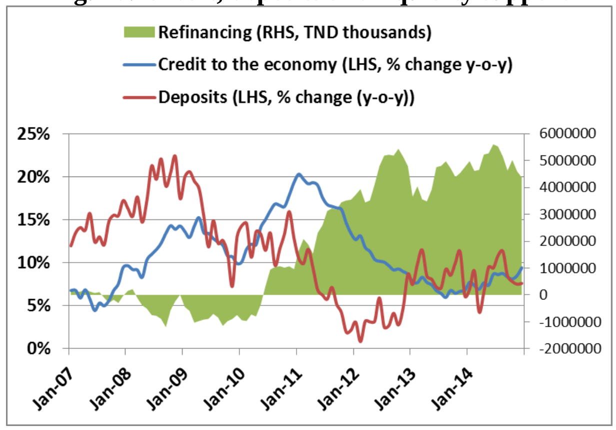
[13] See Banque mondiale, *Tunisie: Pour une meilleure gouvernance des entreprises publiques*, March 2014.
[14] The Common Equity Tier 1 ratio (CET-1) followed a similar pattern: 7.9 percent in 2014 after 7.3 (2013) and 9.4 (2012).

Fig. 9: Main interest rates



Source: BCT.

Fig. 10: Credit, deposits and liquidity support



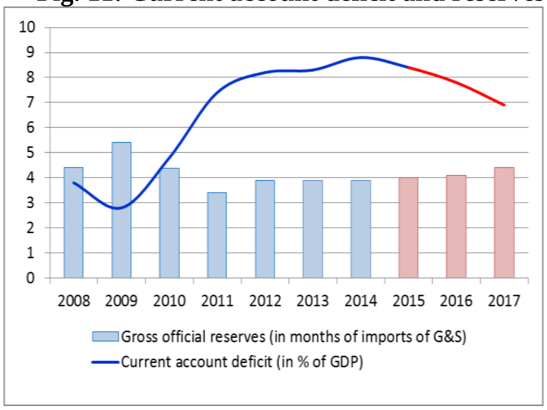
Source: BCT.

21. **In 2014, the current accounts deteriorated as the trade deficit widened and could only partially be offset by net service revenues and remittances**. The trade balance reached 13.7 percent of GDP as exports declined (-2.0 percent in nominal US dollar terms) while the import bill rose moderately (+0.4 percent, in nominal US dollar terms), the latter driven by a worsening energy balance. The exchange rate depreciation observed in 2014 (-15 percent vs. the US dollar and -5 percent vs. the Euro) has had a limited impact on exports, with the exception of mechanical goods (+12 percent in nominal terms). Two thirds of the sizeable 2014 trade deficit was explained by the worsening energy balance. This also drove the current account deficit to 8.8 percent of GDP. Concerns around the security situation, even before the recent attacks, had constrained the recovery in tourism and FDI, with tourism receipts growing only by 1.7 percent during the year, and FDI further declining since 2013. Limited foreign exchange interventions helped preserve somewhat the level of reserves in 2014 to US$7.7 billion, equivalent to 3.5 months of imports of goods and services, after a drawdown of about US$ 1 billion in 2013. For the first quarter of 2015, an improvement in the trade and current account balance was observed due to strong agricultural exports and the declining energy import bill. But this improvement is likely to be short-lived after taking into account the impact of the terrorist attacks on tourism revenues, which had already declined at end May by 20 percent vs. a year earlier, reflecting the first attack on the Bardo Museum.

22. **Following a rebound in 2012, FDI declined in 2013 and 2014, in the context of persistent political uncertainty, further raising external financing requirements of the balance of payments.** FDI had risen by 85 percent in 2012 compared to 2011 and by 38 percent compared to the pre-revolution level of 2010, although partly as a result of large energy projects (46 percent of total FDI inflows in 2012) and receipts from privatization and acquisition operations (21 percent of the total). Political instability and the slowdown in reforms have deterred new investors in 2013, when gross FDI flows have declined to US$1.2 billion, compared to US$1.8 billion in 2012. This wait-and-see attitude prevailed for most of 2014, as FDI flows are estimated to have reached US$1.1 billion. The initial figures for 2015 (6 months) signal a slight improvement vs. 2014 in US dollar terms (at about US$510 million), as a few large projects in

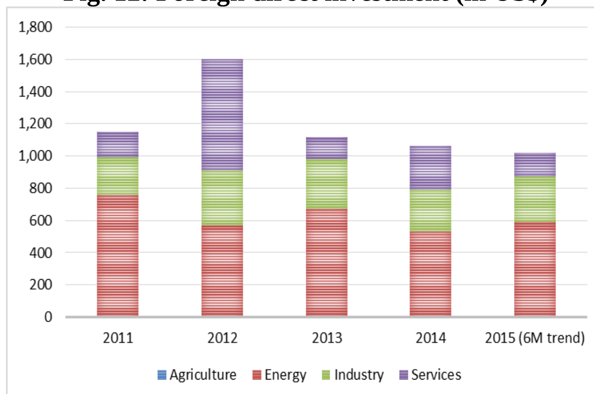
the energy and manufacturing sectors have materialized. For the year, FDI inflows should remain at comparable levels than the 2014 outcome (i.e., at around one billion for the year). The impact of the terrorist attacks on investor confidence remains uncertain, as the renewed investor interest in some sectors could prove resilient to security concerns while other sectors will undoubtedly be affected (tourism and hospitality).

Fig. 11: Current account deficit and reserves



Source: BCT, World Bank staff projections.

Fig. 12: Foreign direct investment (in US$)



Source: Foreign Investment Promotion Agency, World Bank staff projections.

23. **Tunisia continues to rely on official resources to finance its growing balance of payments requirements, even if the outgoing government was able to raise US$1 billion by issuing a Eurobond in January 2015 without guarantees for the first time since 2007**. Ratings have remained unchanged since the repeated downgrades of 2013, but the remarkable political transition and highly liquid markets allowed for this altogether successful bond issuance. While rating agencies had progressively upgraded their outlook on Tunisia, the recent security incidents will also have an impact on the perception of risks associated with the economic situation. Therefore, Tunisia will continue to need to rely on official external financing or mobilize support in the form of guarantees for further financing. In 2015, resources expected from official creditors were programmed to amount to US$1.5 billion with the remaining needs (estimated at US$300 million after taking into account the proceeds of the Eurobond) being mobilized by guaranteed issuances on international capital markets. External debt has increased in line with public debt, reflecting the fiscal expansion and the widening of the current account deficit. External debt had declined significantly in the 2000s and reached 48 percent of GDP in 2011. The twin deficits have led to an increase of the external debt burden, which surpassed 56 percent of GDP at the end of 2014, and would peak at around 68 percent in 2016-2018. The interest rate and maturity profile of Tunisia's external debt make it mainly vulnerable to exchange rate shocks (see Section 2.2 below).

24. **Finally, the authorities are drawing on their facility with the IMF under the SBA, including for budget financing purposes.** An amount equivalent to US$1.2 billion has already been made available in four tranches upon satisfactory completion of the first five reviews of the US$1.75 billion SBA, which has been extended to end 2015. Additional proceeds from the SBA until the end of the year are expected to reach US$503 million provided completion of the two final reviews.

Table 1: Tunisia: Selected Macroeconomic Indicators, 2011-2018

	2011	2012	2013	2014 (est.)	2015 (Proj.)	2016 (Proj.)	2017 (Proj.)	2018 (Proj.)
Real Sector								
Nominal GDP (TND million)	64,690	70,658	76,350	82,562	87,185	92,940	100,561	109,410
Nominal GDP (US$ billion)	46.0	45.2	47.0	48.6	43.4	43.6	45.8	48.5
Real GDP growth (% change)	-1.9	3.9	2.3	2.3	0.8	2.8	3.7	4.5
GDP per capita (current US$)	4,305	4,198	4,317	4,402	3854	3885	4049	4249
Gross Domestic Investment (% of GDP)	23.6	24.3	22.0	21.3	21.1	21.3	21.5	21.4
Gross National Savings (% of GDP)	16.2	16.1	13.6	12.5	12.7	13.5	14.6	15.5
Unemployment rate (% of active population)	18.9	16.7	15.3	15.3	15.7	…	…	…
GDP Deflator	4.6	5.3	5.7	5.7	4.8	3.8	4.5	4.3
Inflation (CPI, average)	3.5	5.1	5.8	4.9	5.0	4.3	4.0	3.7
Government finance (% of GDP)								
Total Revenues (including grants)	24.6	24.0	23.8	24.5	23.5	24.2	23.8	23.3
Total expenditure and net lending	28.0	28.8	29.8	28.1	29.9	28.1	27.4	27.3
Overall balance (excluding grants)	-3.5	-5.7	-6.2	-4.1	-6.7	-4.1	-3.4	-3.0
Overall balance (including grants)	-3.2	-4.8	-6.0	-3.7	-6.4	-3.9	-3.2	-2.8
Public debt ratio (% of GDP)	44.5	44.5	44.8	49.5	55.7	58.1	53.5	52.3
Selected Monetary Accounts (Annual percentage change, unless otherwise indicated)								
Money and quasi-money (M2)	9.3	8.2	7.0	8.1	7.2	7.7	8.5	10.2
Credit to the economy	13.4	8.8	6.8	9.4	7.0	7.5	8.9	9.6
Policy interest rate (%, eop)	3.50	3.75	4.50	4.75	4.75	..	..	..
Balance of Payments (Percent of GDP, unless otherwise indicated)								
Current account balance	-7.4	-8.2	-8.3	-8.8	-8.4	-7.8	-6.9	-5.9
Imports of goods	49.2	51.1	48.9	47.5	47.4	48.0	47.5	47.2
Exports of goods	38.8	37.6	36.3	34.4	35.0	36.6	37.5	38.4
Foreign Direct Investment	0.9	3.9	2.4	2.1	2.1	2.8	3.2	3.5
Gross reserves (US$ billion, eop)	7.5	8.7	7.7	7.7	..	..	..	..
in months of next year's goods and non-factor services imports 1/	3.4	3.9	3.9	3.9	..	..	..	..
As % of short-term external debt	147.2	139.7	121.6	113.4	..	..	..	..
External debt	48.0	53.8	54.2	56.6	66.7	67.3	68.0	68.1
Exchange rate, average (TND/US$)	1.41	1.56	1.62	1.70	..	..	..	..

Source: World Bank and Tunisian authorities

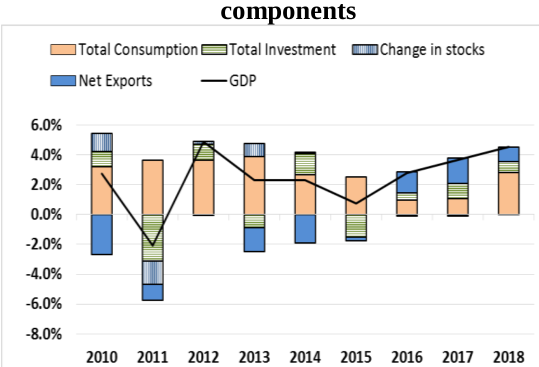
1/ End-of-year reserves over next year imports

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

25. **The economic outlook is affected by the security shock and the social tensions that marked the first half of 2015.** The framework presented reflects the current projections of the Bank as well as the 2015 supplemental budget law that was approved by Parliament in early August 2015. The framework presented in Tables 1 to 3 is also consistent with the program currently discussed with the IMF in the context of the recent sixth review of the SBA. As mentioned above, GDP is estimated to have grown below target in 2014, i.e. by an estimated 2.3 percent against the 2.8 percent as initially foreseen in the Government's program at the beginning of the year. The Tunisian recovery is now expected to mark another slowdown, after taking into account the impact of the Bardo Museum attack in March, the disruption in mining and oil production related to labor disputes, the disappointing outcome of the spring agricultural harvest, and the June terrorist attack in Sousse. On the other hand, the continued political stabilization, as well as persistent moderation in commodity and energy prices would partly dampen the above mentioned recessionary factors. As a result, GDP growth is expected to drop to 0.8 percent for the year.

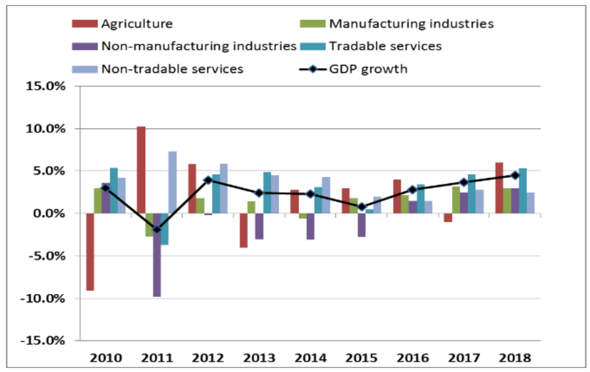
26. **Unemployment is therefore expected to remain high, and possibly increase in the short term.** Given demographic trends and the low historical employment-growth elasticity, Tunisia would need to grow by at least 4.5 percent to reduce the stock of unemployed. While the moderate growth over the next few years would allow to keep unemployment trend around 15 percent in 2014-15, the short-term shocks on certain sectors (most notably tourism) could result into increased unemployment by 2 percentage points. The Government is considering measures to mitigate the impact of the shock of the terrorist attack on tourism employment, through time-bound subsidization of social contributions for tourism sector workers. Beyond 2015, assuming the continued implementation of the reforms package supported under this DPL series, and growth closer to 3-4 percent, the level of unemployment could start decreasing slightly.

Fig. 13: Growth projection by demand components



Source: INS, World Bank staff projections

Fig. 14: Growth projections by sector



Source: INS, World Bank staff projections

Fiscal Policy, Monetary Policy and Inflation

27. **The initial 2015 Budget aimed at constraining the wage bill and subsidy outlays, while only gradually increasing public investment, but the stance has been adjusted to take into account the economic and fiscal impact of the recent incidents in the revised Budget Law.** As a result, the deficit excluding grants, would increase to 6.6 percent of GDP from the -5.9 percent projected before the attacks. Excluding the costs of bank recapitalization (estimated at 1.7 percent of GDP), the deficit projection would stand at 4.9 percent of GDP vs. 4.1 percent before the attacks. The impact of the slowdown and relief measures on tax revenues (estimated at 1.5 percent of GDP) and the need for additional public programs to rescue the tourism sector and stimulate investment in other sectors (resulting in additional spending worth 1.1 percent of GDP, of which 0.6 percent in investment) will be partly offset by additional savings on the energy bill resulting in lower transfers (-1.8 percent of GDP vs. previous projections). The revised Budget Law includes measures such as (i) the decrease in VAT rate for the tourism sector; (ii) partial and time-bound subsidization of social contribution payments in order to prevent lay-offs; (iii) facilitating guarantees for working capital loans; (iv) additional security outlays (personnel and equipment); (v) additional financing for the public guarantee fund to support SME financing. In addition, the

Central Bank has decided to freeze the loan classification of tourism sector debt until 2016 in order to provide relief for the banking sector balance sheets.[15]

28. **In order to avoid crowding out financing for the private sector, the authorities rely on external financing to bridge the budget borrowing requirement in 2015** (the equivalent of US$2.5 billion), mainly from the IFIs, including US$503 million from the IMF in the form of budget support, another US$560 million from the World Bank through the proposed GOJ-3 DPL ($500 million) and the first disbursement under the municipal development Program for Results ($60 million), as well as EU macro-financial assistance (US$230 million), the AfDB (US$100 million), the Arab Monetary Fund (US$42 million) and the Government of Algeria (US$100 million), complementing the US$1.0 billion that has been mobilized on the Eurobond market. Additional financing (of around US$200 million) could be raised with the support of a guarantee from the Islamic Development Bank on the Sukuk market, while further sovereign guarantees from bilateral partners could be raised in case of shortfall in revenues or expected financing.

Table 2: Tunisia: Key Fiscal indicators 2011-2018

	2011	2012	2013	2014 (est.)	2015 (Proj.)	2016 (Proj.)	2017 (Proj.)	2018 (Proj.)
Overall balance (including grants)	0.3	-4.8	-6.0	-3.7	-6.3	-4.0	-3.1	-2.8
Overall balance (excluding grants)	-0.6	-5.7	-6.2	-4.1	-6.7	-4.1	-3.3	-3.0
Primary balance	1.2	-3.9	-4.3	-2.3	-3.8	-1.6	-1.5	-1.6
Total revenue (including grants)	24.6	24.0	23.8	24.5	23.5	24.2	23.8	23.3
Tax Revenues	20.9	21.0	21.4	22.5	21.9	22.5	22.0	21.5
Non-tax revenues	3.3	2.0	2.2	1.5	1.3	1.5	1.6	1.5
Grants	0.3	0.9	0.1	0.4	0.3	0.2	0.2	0.2
Total expenditures and net lending	23.9	28.8	29.8	28.1	29.9	28.1	27.4	27.3
Current expenditures	17.8	22.6	24.9	23.4	22.8	22.2	21.2	20.6
Wages and salaries	10.7	12.2	12.5	12.7	13.3	13.2	12.9	12.6
Goods and services	1.7	1.7	1.6	1.8	1.9	1.8	1.8	1.8
Interest payments	1.8	1.8	1.8	1.8	2.0	1.9	1.5	1.5
Transfers and subsidies	5.9	7.0	7.8	7.0	5.3	5.1	5.0	4.7
Other expenditures (non-allocated) 1/	0.0	0.0	1.2	0.0	0.3	0.2	0.0	0.0
Capital expenditures and Net lending	6.7	6.1	4.9	4.7	7.1	5.9	6.2	6.7
of which: public banks' recapitalization	0.0	0.1	0.0	0.0	1.7	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-2.5	-4.1	-4.4	-6.2	-6.3	-4.0	-3.1	-2.8
General Government Financing	2.5	4.1	4.4	6.2	6.3	3.9	3.1	2.8
Privatization 2/	0.6	0.6	0.6	0.1	0.2	0.2	0.1	0.0
External (net)	0.6	3.6	-0.8	4.7	5.6	2.9	2.2	2.2
Domestic (net)	1.3	0.0	4.5	1.4	0.4	0.6	0.8	0.6

Sources: Tunisian Authorities and World Bank staff estimates
1/ 2013 includes repayment of arrears on energy subsidies accumulated in 2012.
2/ includes sale of confiscated assets.

29. **The authorities will continue to subject their monetary policy stance in 2015 to the anchoring of low inflationary expectations, but a further tightening is unlikely given the expected economic slowdown**. The past increases in the policy rate were important steps to signal

[15] The freeze in loan classification would result in lower provisioning, and is, as such, a form of regulatory forbearance. The Bank and the Fund have encouraged the Central Bank to request banks on reporting on their portfolio with and without the freeze in the context of their prudential reporting obligations.

the authorities' stance to curb inflation, even if the policy could not be complemented yet with other measures that would have allowed real money market rates to become positive. The *Banque centrale de Tunisie* (BCT, Central Bank of Tunisia) will now focus on maintaining adequate liquidity in the system, notably taking into account the impact of the terrorist attacks on the balance sheet of the banks most exposed to tourism. Headline inflation should continue to stabilize and even decline in the third and fourth quarters, as the slowdown in domestic demand would more than offset the impact on import prices of any additional exchange rate depreciation. Inflation is expected to ease somewhat towards the end of the year and in 2015, on account of lower energy prices and continued monetary restraint.

30. **In 2015, the current account deficit is expected to improve only very slightly to 8.4 percent of GDP (after 8.8 percent in 2014), as an improvement in the trade balance is mainly offset by a deteriorating service balance following the terrorist attacks.** The improvement in the trade balance in the first five months of the year resulted from both an increase in exports (+4 percent year-on-year) and a reduction in imports (-3.1 percent year-on-year). Exports of agro-food products have been exceptionally strong mainly due to the olive product cluster, while manufacturing exports show encouraging signs of recovery (+4 percent year-on-year). In parallel, imports of consumer goods and above all energy are remaining flat. The current account improved accordingly in the first quarter (to an annualized 6.4 percent of GDP). However, this trend is unlikely to be sustained in subsequent quarters due to the impact of terrorist attacks on tourism, which could well result in a decline of about US$1 billion in service balance revenues. To partially compensate this effect, the low international fuel prices will continue to provide relief while manufacturing exports would continue to improve, notably supported by a more competitive exchange rate. The inflow of FDI is not expected to recover markedly until the end of the year, as improved investor interest in some sectors (manufacturing, ICT, energy) will be offset by lower confidence related to security concerns. As a result, FDI inflows should not surpass US$1billion in 2015, before recovering in outer years.

Table 3: External Financing Needs 2013-2016 (in US$ millions)

	2013	2014 (Est.)	2015 (Proj.)	2016 (Proj.)
Current account deficit	3,899	4,274	3,644	3,403
External medium and long-term debt amortization	1,541	1,644	1,431	1,152
Total requirements	**5,440**	**5,918**	**5,075**	**4,555**
Capital Grants	247	257	216	278
FDI and portfolio investment	1,219	1,118	950	1,373
Long term disbursements	2,427	4,616	4,111	2,380
IMF credits	150	1,047	505	-35
Other capital flows n.i.e. (includes short term lending)	432	-1,149	-460	858
Total resources	**4,325**	**4,842**	**4,817**	**4,889**
Change in foreign reserves (without IMF credit)	-1115	-1076	-258	334
Total Financing	**5,440**	**5,918**	**5,075**	**4,555**

Sources: Tunisian Authorities and World Bank staff estimates

Debt Sustainability

31. **While public and external debt were successfully consolidated through 2010, debt levels have risen markedly since, even if they still remain sustainable by international standards**. Prudent debt management and sustained growth reduced public debt from 52 percent of GDP in 2004 to 40 percent in 2010. Total external debt decreased in parallel from above 60 percent of GDP in 2004 to 48 percent of GDP in 2010 (of which medium- and long-term debt was 37 percent of GDP in 2010). External debt levels are estimated to have increased by approximately 8 percent of GDP over 2011-2014, while public debt rose by 6 percent of GDP over the same period. Under current scenarios of low, but recovering growth over 2016-2018 and gradual fiscal consolidation starting in 2016, public and external debt would peak in the years 2016-2018 to around 56 percent of GDP and 68 percent of GDP respectively. Public debt dynamics are vulnerable to a slower fiscal adjustment path (including through possible shocks on contingent liabilities), lower growth or a marked depreciation of the exchange rates. Under any of these three adverse scenarios, public debt could reach 70 percent of GDP towards 2019. External debt is also relatively resilient to most shocks, with the exception of a sharp deterioration of the exchange rate.

32. **The increase in debt levels reflects the impact of expansionary fiscal policy and widening current account deficits. The impact of the security shocks on the twin deficits will delay the reduction in debt levels until 2018, assuming the fiscal consolidation effort is resumed from 2016 onwards.** External and public debt increased since 2011, as a result of the financing needs associated with the fiscal response to the crisis and a widening of the current account deficit. The composition of external debt mitigates the risks for debt sustainability. In fact 38 percent of Tunisia's external debt is owed to multilateral donors and 20 percent of the debt is 'concessional'.[16] The maturity structure is also favorable, with 44 percent between 10 and 15 years and 18 percent between 15 and 20 years. The results of several Debt Sustainability Analysis (DSA) carried out by the Bank and the Fund, suggest that under a prudent scenario the external debt ratio is projected to peak at approximately 68 percent of GDP until 2018. A negative shock to growth or a higher current account deficits would raise external debt levels to over 70 percent, while an interest rate rise would have little impact. This higher level of public debt remains tolerable in comparison to the standard debt sustainability thresholds. The reliance on foreign currency debt is a source of vulnerability for public debt, while its maturity is a positive factor towards favorable debt dynamics. The projections in Table 1 above, take into account the impact of the security incidents on growth, lower current account revenues and temporarily higher financing needs.

Risks to the macroeconomic outlook

33. **The economy recorded positive, but declining growth rates since 2012, and downward risks over the short to medium term remain significant. The most significant risk to the projection relates to further security shocks and social tensions as well as to persisting fiscal pressure points.** Continued delays in the recovery of the Eurozone, combined with persistent stability concerns in Libya, could further deteriorate the outlook for Tunisian exports and the economy at large. On the domestic political front, the transition roadmap has been adhered

[16] This refers to historical commitments.

to, and the political system is on a stable path, even if it is challenged by the recent security shocks and social tensions. Security tensions may persist, as regional conflicts may adversely affect Tunisia. The Government, and civil society at large, have shown resolve to address security issues by fast and forceful actions, but the vulnerability to isolated attacks will remain high. Also, even if the social situation has eased somewhat following the agreements reached with trade unions on wage negotiations, the risks of tensions remains due to the persisting high rate of unemployment, the needed restructuring in the corporate sector, notably some state-owned enterprises, and the lower growth prospects. The social pact is likely, however, to be strengthened by security threats, as all civil society organizations align on a common front in the fight against terrorism. In this context, the Government of Tunisia will have to maintain the fiscal consolidation effort started in 2014, even if the temporary shock represented by the terrorists attack lead to higher financing needs in 2015.

34. **Tunisia's fiscal position remains sound and its debt sustainable despite the recent developments. The macroeconomic policy framework is deemed adequate for the purpose of this operation**. In the context of the five-year plan under preparation, the Government will confirm its commitment to fiscal consolidation, including in the context of the SBA with the IMF.

2.3 IMF RELATIONS

35. **The IMF program remains on track, and discussions on the sixth review under the SBA are being completed.** Tunisia signed a stand-by agreement with the IMF in June 2013, for a total amount of US$1.75 billion over a 24-month period. A first disbursement of around US$150 million occurred upon approval. Tunisia accessed an additional US$509 million in January 2014, upon completion of the combined first and second reviews of the program, US$224 million in June 2014, US$221 million in August 2014 and US$110 million in December 2014, after the approval of the third, fourth and fifth reviews respectively. The sixth review of the program is scheduled to be submitted to the IMF Board in September 2015 (see Annex 3). The Bank and the Fund have been collaborating closely during the preparation of this programmatic DPL series since its inception, notably on growth-enhancing and financial sector reforms. Collaboration was also very close during the preparation and review of the Fund SBA, to ensure complementarity of both programs. The IMF program concentrates on macroeconomic stabilization, fiscal and external resources buffer restoration, including tax reform and energy subsidies reform and foreign exchange policy, as well as financial sector stabilization and restructuring, and supporting reforms to improve the investment climate. The SBA-supported program, which has been extended to the end of 2015, will undergo the seventh and final review in between November and December 2015, focusing on prudent monetary policies, fiscal restraint and structural reforms, notably in the financial sector. Prospects for a renewal of the program are being considered by the Government and the Fund authorities.

3. THE GOVERNMENT'S PROGRAM

36. **While providing immediate policy responses to security and social emergencies, the Government initiated the preparation of a five-year socio-economic development program that aims at higher, more sustainable and more inclusive growth through a new social compact and a redefined economic development model.** The outline of the five year program is summarized in a "*Note d'Orientation*" that was recently finalized by the Government. Based on a

thorough diagnosis of the Tunisian economic model of the past 30 years, as well as of recent developments that followed the revolution (including challenges based on the domestic situation and regional instability), the note charts out several growth scenarios. These include one of 5 percent growth to be reached over the next four years, thanks to a strengthened social compact and a new economic model based on private investment promotion, innovation, opening up of markets, higher value creation in Tunisia, and consequently, more and better employment. In fact, employment would become the main vector of social development in the model. The draft note further proposes five strategic pillars to guide public polices and reforms: (i) investment and employability; (ii) economic and social inclusion; (iii) sustainable development; (iv) balanced regional development; and (v) macro-financial soundness. A secured environment for citizens and businesses, as well as a more serene social climate are pre-requisites for the successful implementation of the program.

37. **With respect to its macroeconomic stabilization objectives, the Government will pursue fiscal consolidation even if the short-term financing needs will remain high on account of the security shocks of 2015**. Specifically, the Government has embarked upon an ambitious tax and customs reform, aiming at mobilizing additional revenues by closing loopholes and tackling corruption and informal trade through administrative and tariff reforms, including the elimination of bank secrecy, or the revision of the taxation of high-income, self-employed trades.[17] These reforms will be presented in the last quarter of 2015 alongside the new Investment Code as a far-reaching package of economic reforms aiming at both recovery and structural transformation. On the expenditure side, the Government will continue to tackle the growth of the wage bill and pursue the phase-out of energy subsidies, improve the targeting of social protection programs, improve the implementation of public investment projects benefitting from the recently reformed public procurement legislation, as well as tighten the oversight over public enterprises.

38. **In terms of regional development, the Government remains fully committed to create an enabling local governance environment in the context of the upcoming municipal elections.** In order to improve the fiscal environment in regions, the Government has, with the assistance of the Bank, revised its vertical transfers system towards more transparency and predictability. As a starting point, the Government is taking steps to strengthen the capacity of municipalities to implement investments, while also instilling a gradual culture of accountability towards citizens and other stakeholders. In addition, the Government in its 2015 budget allocated significant amounts of funding to lagging regions, including identifying and financing transformational infrastructure and other social and economic service delivery projects.

39. **Regarding structural economic reforms, the new Government is proceeding with the reforms initiated during the transition period, aiming at improving governance, strengthening the business environment and fostering the competitiveness of the economy.** As evidenced in the Bank's *Development Policy Review* (DPR), in the SCD and the Government's own draft *Note d'Orientation,* the economic environment under the regime of former President Ben Ali was characterized by lack of transparency, cronyism, rent-seeking and related anti-

[17] Specifically, the Government considers streamlining VAT rates, lower and simplify customs tariffs (, lower exorbitant excise rates that have been found to stimulate smuggling. These changes will be accompanied by the administrative reforms of the tax and customs administration (such as dematerialization of business processes).

competitive practices, which discouraged entrepreneurship and private sector investment, preventing higher growth and employment. In order to address these problems the post-revolutionary governments initiated reforms with a view to change the orientation of industrial policy, cut red tape, reduce discretion and increase transparency in the regulatory and legal framework for investments and eliminate privileges and to allow greater market contestability and competition. These reforms include:

- The decision to *revise the Competition Law and its institutional framework* aiming at increasing market access, improving transparency, improving law enforcement, and reducing discretion in anti-trust rulings by clarifying the role of the Competition Council and granting it more autonomy.
- The gradual *liberalization of key sectors, such as telecommunications and transport*, as emblematic sectors, notably because of their backbone function for the whole economy, and their potential to improve connectivity of lagging regions.
- The drafting of a new *Investment Code*, which is currently being finalized by the Government and will be presented to Parliament in the last quarter of 2015, as part of a comprehensive economic reform package also comprising the tax and customs reforms mentioned above. In parallel, the *institutionalization of systematic and participatory reform process of simplification of the regulatory environment for investment,* based on streamlining of procedures, transparency, and reduction of arbitrary and discretionary behavior. In this context, the Government has accelerated on-the-ground reforms in the areas related to tax administration, customs administration and other key areas for private investment.
- The revision of the *Law on Public-Private Partnerships (PPP),* which was submitted to the National Assembly.[18]
- The adoption of measures to facilitate trade and remove logistical bottlenecks, notably in order to improve the performance of the commercial port of Radès, which is the main merchandise entry point of the country.[19]
- The implementation of effective access to information policies and the launch of the Open Government Initiative at the national level.

40. **In this context, the Government is focusing on key sector policies to promote growth, notably in the financial and telecommunications sectors, while fostering social inclusion through the modernization of social insurance and protection**. With respect to the financial sector, the new Government has taken decisive actions to accelerate the program initiated during the transition and supported by predecessor DPLs in this series (see Section 4.2 below). The continuation of the reforms builds upon these measures and aims at finalizing the restructuring plans of the three state-owned banks and launching their implementation; strengthening of the debt resolution framework through the preparation of a new legal framework on collective procedures; redefining the role of the public development financial institutions; promoting the growth of SME and micro-enterprise financing, and launching the modernization of the legal framework and the financial infrastructure (including a new Banking Law, a new framework for crisis prevention and

[18] The policy dialogue on PPPs and Concessions was led by the EU with involvement of the Bank.

[19] Specifically measures were taken to auction abandoned cargo, increase yard capacity, and change container floor plans in the port, all resulting in significant improvements in unloading and handling times.

management, the upgrading of credit information systems and asset registries). In the Information and Communications Technology sector, the Government finalized a "Digital Tunisia 2018" Strategy aiming at: (i) improving citizen access and quality of ICT services though enhanced infrastructure; (ii) promoting e-business solutions to improve the competitiveness and productivity of the economy; (iii) modernizing the public administration at central and local level through e-government solutions; and (iv) stimulating off-shoring investment in Tunisia. This strategy is supported by the policy reforms supported by this DPL series. Also, in order to promote social inclusion, measures were taken to improve the targeting and financial sustainability of social protection and insurance programs. As a an example, the Ministry of Social Affairs has started, with the Bank's support, a comprehensive study to review the financial and fiscal sustainability of the social security system, including the pension system, the health insurance, and a possible employment loss insurance scheme. In support of these reforms, the Government has promoted the social dialogue process with the main trade union (*Union Générale Tunisienne du Travail*, UGTT) and the main business confederation (*Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat*, UTICA), with the support of the International Labor Organization (ILO), by institutionalizing the 'new Social Pact' signed in January 2013 through the establishment of National Council on the Social Dialogue with a mandate to reach consensus on these key reforms in the future. This analytical work and the resulting policy options will be examined in the framework of the Social Pact.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

41. **The proposed Third Governance, Opportunity and Jobs DPL is the final operation of the programmatic series that supported the transition period in Tunisia over 2012-2015.** The first operation in the series was approved by the WBG Board in November 2012 and the second one in April 2014. This programmatic DPL series supports a multi-sector programs of reforms and builds on the pioneer 2011 Governance and Opportunity DPL (GO DPL) approved in June 2011 to support the Tunisian Interim Government immediately following the January 2011 Revolution.

42. **The development objective of this programmatic DPL series remains to help establish the policy foundations to promote a more competitive business environment, strength the financial sector, provide more inclusive and accountable social services, and increase the transparency and accountability of public governance.** At the same time, the proposed operation would provide financial support in the context of the recent security shocks faced by Tunisia. The programmatic DPL series continues to support a program of measures that consolidate governance reforms supported by the 2011 GO DPL and expand the economic reforms supported by the GOJ-1 DPL and GOJ-2 DPL. As a response to the shocks, the proposed GOJ-3 DPL, which was initially designed as a two-tranche operation, is transformed into a single-tranche DPL so as to provide immediate financial support to relief measures. Consequently, the DPL series is being brought to a close and completes the series planned to support Tunisia during its political transition under the ISN. While all the initially foreseen policy actions have not been fully completed, progress has been substantially achieved on a vast majority of them. Furthermore, the Government is committed to continue this important reform agenda, which is critical to ensure long term impact. The World Bank will continue to support the Program through an already

identified follow-up operation and continued programmatic technical assistance and policy dialogue under the new Country Partnership Framework (CPF) under preparation. The subsequent sections of the document also report briefly on the Government's planned actions.

43. **The performance to date of the DPL series has been uneven, on account of delays related to the political transition, but altogether moderately satisfactory.** While the difficult political climate that prevailed for most of the 2011-2013 period and limited the ambition of the previous governments as to the depth and scope of the reforms has eased since the resolution of the stalemate, the search for genuine political and social consensus over key reforms has been initiated in 2014 with the launch of the national economic dialogue, along the lines of the political dialogue that facilitated the resolution of the 2013 crisis. In parallel, over the period 2014-15, the governments have taken action to accelerate the implementation of reforms, such as in telecommunications area, banking, the regulatory simplification or governance. Several improvements have been recorded in achieving results as shown in Annex 1, while in some areas, notably some of the social sector reforms, progress has been more sluggish. This final DPL focuses on some key reforms needed to foster the competiveness of the economy, modernize financial sector and promote transparency in public affairs.

44. **As mentioned above, the GOJ-3 DPL operation has been prepared in close consultation with the European Union (EU), the IMF, the African Development Bank (AfDB) and key bilateral partners.** The Bank has played a leading role to help coordinate the work with budget support partners, to communicate with the Government, assess the macroeconomic policy framework for this program and share knowledge and best practices emerging from international experience. This coordination is set to continue and even be strengthened in the context of the upcoming five-year plan and the World Bank Group's upcoming CPF.

4.2 Prior Actions, Results and Analytical Underpinnings

45. **The GOJ-3 DPL policy matrix as summarized in Box 1 includes seven proposed prior actions.** The prior actions supported by this operation and the expected results are discussed below. The reform program supported by the GOJ-3 DPL is in line with the list of indicative triggers presented in the Program Document for the GOJ-2 DPL. All the reforms are the subject of the intensive policy dialogue with the Bank, and have benefitted from continuous technical support to ensure that they adhere to quality standards that will allow them to produce the expected development outcomes in terms of economic and social opportunities. The following sections provide a detailed description of the reform implementation progress since the approval of the GOJ-1 and GOJ-2 DPLs, and the rationale and expected results of the proposed GOJ-3 DPL prior actions. Given that the GOJ-3 DPL is proposed to respond to the emergency situation triggered by the successive terrorist attacks, it has been consolidated into a single-tranche operation (see paragraph 42). As mentioned above, the policy dialogue and the World Bank Group's assistance on the initially envisaged triggers have been intensive and substantial progress has been made towards meeting these triggers, which the Government remains committed to achieve.[20]

[20] Specifically, the new Investment Code will be submitted as part of a reform package comprising tax and customs reforms to the National Assembly in the last quarter of 2015, while the latter is also expected to adopt the Laws on Bankruptcy, Competition and Access to Information before the end of 2015.

Box 1. Summary of Prior Actions for the GOJ-1 and GOJ-2 DPLs, and proposed prior actions for GOJ-3 DPL			
Prior Actions for GOJ-1 DPL (2012)	**Prior Actions for GOJ-2 DPL (2014)**	**Indicative triggers as presented in GOJ-2 DPL Program Document**	**Rationale and status of the proposed prior actions for GOJ-3 DPL (2015)**
Promoting a more competitive business environment			
• The Government has adopted Decree No. 2012-1682 of 1August 14, 2012, launching a systematic and participatory regulatory review process of business formalities to streamline procedures, increase transparency, and reduce the room for arbitrary and discretionary behavior by public officials; and committing to deliver concrete reforms within 9 months, in the areas related to private investment.		• The new Investment Code (which consists of a complete revision of the Law No. 93-120 and its subsequent revisions) has been published in the National Gazette. • The new Competition Law (which revises Law No. 91-64) has been published in the National Gazette.	• PA #1: The Government has taken the following measures to implement and expand the regulatory simplification process: (i) Decree No. 2014-3484, dated September 18, 2014, on the extension of the regulatory simplification to 4 additional Ministries, has been published in the Official Gazette No. 78, dated September 26, 2014; and (ii) a decision to simplify or cancel 154 measures identified as priority with the private sector has been approved by the Council of Ministers on October 22, 2014. • *Status: met. PA #1 was included in the DPL to reinforce the investment climate reforms and support continued implementation of the related GOJ-1 DPL prior actions.* • *Trigger dropped as approval of the new Investment Code is not possible in the timeframe of the single-tranche DPL. The Government is finalizing a draft Investment Code that is expected to be submitted to the National Assembly for adoption in Q4 2015.* • *Trigger dropped as approval of the new Competition Law by the National Assembly is not possible in the timeframe of the single- tranche DPL. The draft Competition Law has been submitted to the National Assembly, with the Government committing to propose amendments in line with Bank recommendations during the parliamentary debates.*
• The President of the National Telecommunication Council has issued a decision to open up access to the landing stations of international telecommunications cables to more operators (in addition to *Tunisie Télécom*).	• The President of INT has issued and published on the INT website, Decision No. 165/2013 dated November 15, 2013, to reduce the access tariffs to the submarine cables landing stations by at least sixty (60) percent with respect to the offer approved	The Government has revised the decree specifying the schedule of obligations (cahiers des charges) for Mobile Virtual Network Operators (MVNOs) and granted licenses to [x] MVNOs with international gateway access.	• PA #2: The Government has taken the following measures to liberalize the telecommunications sector: (i) Decree No. 2014-4773 dated December 26, 2014, on the conditions and procedures for granting authorizations to internet service providers, has been published in the Official Gazette No. 7 dated January 23, 2015; (ii) the President of INT has issued and published on INT's website, decision No. 74/2014 dated November 17, 2014, accepting a technical and tariff offer for unbundling, thereby allowing telecommunications market

Box 1. Summary of Prior Actions for the GOJ-1 and GOJ-2 DPLs, and proposed prior actions for GOJ-3 DPL			
Prior Actions for GOJ-1 DPL (2012)	**Prior Actions for GOJ-2 DPL (2014)**	**Indicative triggers as presented in GOJ-2 DPL Program Document**	**Rationale and status of the proposed prior actions for GOJ-3 DPL (2015)**
	by INT in October 2012. • The President of INT has issued and published on the INT website, Decisions No. 149 and 150, both dated June 13, 2013, approving technical and price offers by the main holders of alternative fiber optic backbone infrastructure (*Société Nationale de Chemins de Fer Tunisiens* (SNCFT), and *Société Tunisienne d'Eléctricité et de Gaz* (STEG)) to lease capacity to licensed operators on a non-discriminatory and cost-oriented basis and to provide connectivity across borders.		operators to have direct access to SNT's local loop telecommunication infrastructure at conditions acceptable to the Bank; and (iii) the President of INT has issued and published on INT's website, decision No. 71/2015 dated July 5, 2015, establishing the conditions and implementation modalities for portability of fixed and mobile numbers. *Status: met. The new PA #2 replaced the initially envisaged trigger, as it is expected to have a stronger effect on competition in the broadband market than the MVNO licenses. Nevertheless, three MVNO licenses have been awarded to date.* PA #3: Implementation Decree No. 2015-85 dated April 24, 2015, of Law No. 2014-48 dated July 24, 2014, on the restructuring of SNT, the state-owned telecommunications company, has been published in the Official Gazette No. 34 dated April 28, 2015. *Status: met. The new PA #3 was included in the DPL to support the restructuring of the historical state-owned operator.*
Strengthening the financial sector			
• The Minister of Finance has issued the call for Expression of Interest to commission strategic and financial audits of the three public banks, namely the *Société Tunisienne de Banque (STB)*, the *Banque de l'Habitat (BH)*, and the *Banque Nationale Agricole (BNA)*. • The Governor of the Central Bank has issued a Circular outlining stricter prudential regulation for the banking sector, gradually moving towards	• Decree No. 2013-4953 dated December 5, 2013, on the modalities of management and governance of the three publicly owned banks (*Société Tunisienne de Banque*, STB; *Banque Nationale Agricole*, BNA; and *Banque de l'Habitat*, BH), has been published in the Official Gazette No.98 dated December 10, 2013.	• Based on the diagnosis provided by the public banks full audit, the Government has issued an Inter-ministerial Committee decision on the restructuring of the three main public banks (search for some strategic partners, merger, liquidation, privatization, recapitalization…).	• PA #4: The following measures have been taken to restructure the state-owned banks: (i) the board of directors of STB has adopted a detailed restructuring plan for STB on April 16, 2015; (ii) the board of directors of BH has adopted a detailed restructuring plan for BH on March 3, 2015; and (iii) the Inter-ministerial Council has adopted a restructuring strategy for BNA on November 11, 2014. *Status: met. PA reflects further progress achieved with respect to the restructuring plans for the three State-owned banks (SOBs). The strategies have materialized into adopted restructuring plans in the case of BH and STB. The restructuring strategy for BNA was adopted and a detailed plan is being prepared for this bank as well.* • PA#5: The Government has taken the following measures to improve the

Box 1. Summary of Prior Actions for the GOJ-1 and GOJ-2 DPLs, and proposed prior actions for GOJ-3 DPL			
Prior Actions for GOJ-1 DPL (2012)	**Prior Actions for GOJ-2 DPL (2014)**	**Indicative triggers as presented in GOJ-2 DPL Program Document**	**Rationale and status of the proposed prior actions for GOJ-3 DPL (2015)**
international best practice.		• The Law establishing an Asset Management Company (AMC) to deal with the debts in the tourism sector has been published in the National Gazette. • The new Bankruptcy Law (which merges the Chapter IV of the Commerce Law and the Law No. 95-34) has been published in the National Gazette.	governance of state-owned banks: (i) the call for manifestation of interest for the positions of chief executive officers for STB, BH and BNA has been published on the Ministry of Finance's website on July 22, 2015; and (ii) Decree No. 968 dated August 6, 2015, complementing Decree No. 90-1855 dated November 10, 1990, and establishing the compensation regime of chief executives of state-owned companies has been published in the Official Gazette No. 63 dated August 7, 2015. *Status: met. The new PA #5 aims at further improving the governance of the SOBs.* • *Trigger dropped as approval of the new AMC Law is not possible in the timeframe of the single-tranche DPL. The draft AMC Law is being revised by the Government. The outcome of this work is currently uncertain given the shock on the tourism industry in the aftermath of the terrorist attacks of March and June 2015.* • *Trigger dropped as approval of the new Bankruptcy Law is not possible in the timeframe of the single-tranche DPL. A draft Bankruptcy Law was initially submitted to the National Assembly at end 2013, but with remaining weaknesses. Subsequently, the Government has agreed on amendments in line with the Bank's recommendations and submitted them to the National Assembly at end 2014.*
Providing more inclusive and accountable social services			
• The Government has consolidated and streamlined job insertion programs financed by the National Employment Fund and established a monitoring and evaluation framework to assess the impact of employment programs on beneficiaries' labor market outcomes. • The Government has instituted in the health	• Decree No. 2013-3232 issued by the Prime Minister on August 12, 2013, institutionalizing participatory, independent evaluation of service delivery performance improvement under the national controller's body, has been published		

Box 1. Summary of Prior Actions for the GOJ-1 and GOJ-2 DPLs, and proposed prior actions for GOJ-3 DPL

Prior Actions for GOJ-1 DPL (2012)	Prior Actions for GOJ-2 DPL (2014)	Indicative triggers as presented in GOJ-2 DPL Program Document	Rationale and status of the proposed prior actions for GOJ-3 DPL (2015)
sector an autonomous auditing, evaluation and accreditation system of the quality of health services using standards harmonized with international accreditation bodies. • The Government has established the National Authority for the Evaluation, Quality Assurance and Accreditation of higher education.	in the Official Gazette No.67 dated August 20, 2013.		
Increasing transparency and accountability in public governance			
• The Government has specified the procedures for the implementation of the 2011 Decree-Law on the right by the public to gain access to documents held by public agencies. • The Minister of Finance has issued a Decision on the publication of key information on public finances, including a Citizen's budget and an online open budget platform giving citizen's direct access to detailed and timely public expenditure data.	• Decree No. 2014-1039 dated March 13, 2014, on the national public procurement system, has been published in the Official Gazette No. 22 dated March 18, 2014.	• The Organic Law on Access to Information has been published in the National Gazette.	• PA#6: The annual official report on the finances of state-owned enterprises for the period 2010-2012 has been published on the website of the Prime Minister's Office. *Status: met. The new PA#6 was included in the DPL as it contributes to greater fiscal transparency while supporting the strengthening of oversight over SOEs.* • PA#7: The Government has submitted a revised draft of the Organic Law on Access to Information to the Parliament (*Assemblée des Représentants du Peuple*) on August 6, 2015. *Status: met. The initially envisaged trigger was revised, as the approval of the Law by the Parliament is not possible in the timeframe of the single tranche DPL. A first draft Law had been approved by the Government and submitted to the National Assembly during the DPL preparation and subsequently withdrawn in order to include additional amendments. The new draft of the Law has been submitted the National Assembly on August 6, 2015.*

FIRST POLICY AREA: Promoting a more competitive business environment

Prior action #1 on administrative simplification: The Government has taken the following measures to implement and expand the regulatory simplification process: (i) Decree No. 2014-3484, dated September 18, 2014, on the extension of the regulatory simplification to 4 additional Ministries, has been published in the Official Gazette No. 78, dated September 26, 2014; and (ii) a decision to simplify or cancel 154 measures identified as priority with the private sector has been approved by the Council of Ministers on October 22, 2014.

46. *Rationale*. **Tunisia continues to suffer from a high-cost and high-risk regulatory environment that is an obstacle to investors**. The business sector is dealing with complex procedures and is burdened by the weight of paperwork and discretion in the application of the regulations (leading at times to corruption), including taxation, customs, licenses and permits and other formalities. The regulatory burden costs firms close to 13 percent of their turnover on average.[21] The Bank's *Development Policy Review* outlines that the simplification and reduction of the stock of regulation, notably with a view to reduce discretion in their application is critical to improve the private sector environment in Tunisia. As a result, the procedures included in the set of priority procedures, include (i) the reduction in formalities to comply with; (ii) the reduction in deadlines for administrative decisions; (iii) the cancellation of unnecessary authorizations and permits; (iv) the dematerialization of procedures (i.e., their full automation) reducing direct, face-to-face interaction with the administration and increasing transparency in administrative processes; and (v) the decentralization of the procedure to save time and cost of travel for businesses, especially small and medium ones in interior regions. In addition, some key areas that had been initially left out of the process (health, security/interior, infrastructure and environment) will now undergo regulatory simplification. Finally, the Government has established an investor support structure in all ministries and Governorates will ensure that businesses have a single entry point to complain about procedures, thereby strengthening the sustainability of the process.

47. *Progress made since GOJ-1 and GOJ-2 DPL approval*. **The regulatory simplification exercise started under the first DPL has gained new momentum since 2014.** Based on a decree adopted in 2012 (*GOJ-1 prior* action), the Government launched a process in key economic ministries of systematic regulatory review of business formalities to streamline procedures, increase transparency, and reduce the room for arbitrary and discretionary behavior by public officials, in the areas related to private investment. The review was intended to be carried out over a short period, but progress has been slow over 2012 and 2013. The Ministry of Finance, which was selected as the pilot agency for the review process, remained several steps ahead of other agencies and adopted a plan in 2013 to simplify or cancel procedures. These measures were adopted mostly in the 2014 Budget Laws (initial and supplemental), in addition to the adoption of decrees, circulars or internal memos. With respect to other concerned ministries, the Government and the Bank had agreed to focus the first wave of simplification of procedures with the greatest potential impact. A renowned private sector think-tank, the Arab Institute for entrepreneurs (IACE) has led consultations with the private sector around the reform, and the resulting report formed the basis for the list of measures, which are the subject of the prior action of this DPL. With respect to the pilot process undertaken by the Ministry of Finance, the 200

[21] See World Bank (2014), *Development Policy Review: The Unfinished Revolution*, Chapter 4, Report No. 86179-TN.

procedures were eliminated or simplified, relating for instance to export-import licensing, VAT exonerations or transport authorizations for certain types of goods. A ministerial decree has also been issued, which stipulates that the complete inventory of formalities is to be published online, including all the documents, procedures and time limit required to obtain the concerned authorizations or clearances.[22]

48. *Policy reform*. As a result of the consultation with the private sector, a first list of 240 procedures deemed to cause the biggest burden to the private sector was identified. This set of procedures was assessed as to the regulatory justification and a final decision was taken by the Council of Ministers as to the immediate simplification or cancelation of a subset of 154 procedures (*GOJ-3 DPL prior action*).

49. *Status as of August 2015*: **Prior action met**. Based on the renewed momentum in the simplification process, the Government has decided to extend the program to four additional ministries that also play a key role for economic and social development, i.e., the Ministries of Equipment, Health, Tourism and the Interior. This decision was also motivated by feedback received from the private sector about the importance of alleviating the administrative burden originating from these ministries. The Council of Ministers validated the list of 154 priority procedures, with an instruction that all implementation steps be taken immediately. To date, of the 154 procedures, 99 have been undergoing revision (including cancelations where needed), and the process has been completed for 51 procedures. The extension of the simplification process to the additional key ministries has also been adopted and identification is ongoing. A first information and stock taking exercise of the progress will be organized jointly with the private sector before the end of the year so as to track progress on the ground. Furthermore, the Council of Ministers has tasked the Public Service Audit Board to verify and evaluate the implementation of the measures, and has requested the IACE to monitor their impact on the ground. The WBG will monitor implementation through the continued dialogue under its existing portfolio and the upcoming CPF.

50. *Expected results*: Reduction of the costs, time and steps for regulatory compliance. The time and cost burden on the private sector are usually calculated using the standard cost model methodology where a quantification of the burden before and after the adoption of the reform is estimated. Considering the large number of simplifications or cancellations, the results indicator is focused on a sample of priority procedures. The estimated cost of regulatory burden of the subset of selected priority procedures based on interviews with the private sector and using the Compliance Cost Savings (CCS) methodology is US$70 million and the expected private sector savings is US$30 million (i.e., a 40% reduction) by end 2016. Other expected outcomes and impacts, which are harder to quantify include reduction in discretion, increased efficiency of the public sector, and increased investments.

51. *Progress on previously envisaged triggers.* The adoption of a new Investment Code and Competition Law were initially envisaged triggers of the DPL program, pertaining to the first

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[22] All the concerned formalities, their objectives, their subjects, the documentation required, their legal basis, and their timeline have been posted on the following websites: www.finances.gov.tn, www.douane.gov.tn, www.impots.finances.gov.tn.

policy area. However, due to the transformation of the GOJ-3 DPL into a single-tranche operation, these triggers could not be retained in the proposed operation. Nevertheless, significant progress was realized on both of them. Under the leadership of the Ministry of Development, Investment and International Cooperation, with an inter-ministerial Committee drafted a revised, simplified version of the Investment Code that addresses recommendations of the WBG. The draft has been consulted with stakeholders and has been discussed once in a Cabinet meeting. It is expected to be examined by the Council of Ministers and submitted to Parliament in the last quarter of 2015 in view of a final adoption before year-end along with other key reforms in the tax and customs area. The draft Competition Law was approved by the Council of Ministers and sent to the previous National Assembly for review in 2013 after several revisions, but the Law was not considered before the 2014 elections. It has been taken over on the legislative agenda of the current National Assembly. The Government has agreed to the Bank's recommendation to introduce amendments related to the capacity of the Competitive Council to initiate investigation *ex officio*. The EU Commission has, on its part, welcomed the draft law as an acceptable progress vis-à-vis the current regime and regards it as compatible with the start of negotiations on a Deep and Comprehensive Free-Trade Agreement (DCFTA).

Prior action #2: The Government has taken the following measures to liberalize the telecommunications sector: (i) Decree No. 2014-4773 dated December 26, 2014, on the conditions and procedures for granting authorizations to internet service providers, has been published in the Official Gazette No. 7 dated January 23, 2015; (ii) the President of INT has issued and published on INT's website, decision No. 74/2014 dated November 17, 2014, accepting a technical and tariff offer for unbundling, thereby allowing telecommunications market operators to have direct access to SNT's local loop telecommunication infrastructure at conditions acceptable to the Bank; and (iii) the President of INT has issued and published on INT's website, decision No. 71/2015 dated July 5, 2015, establishing the conditions and implementation modalities for portability of fixed and mobile numbers.

Prior action # 3: Implementation Decree No. 2015-85 dated April 24, 2015, of Law No. 2014-48 dated July 24, 2014, on the restructuring of SNT, the state-owned telecommunications company, has been published in the Official Gazette No. 34 dated April 28, 2015.

52. *Rationale:* **The telecommunications sector, a key backbone and potentially high-value added sector for the Tunisian economy, remains characterized by low levels of competition due to restricted entry and regulations** that impair competition among existing market participants in some important segments of the market, including broadband and internet services, resulting in high prices, low access and insufficient infrastructure utilization.[23] In parallel to developing a sector development plan (*Tunisie Digitale* 2018), the authorities have engaged into a reform effort to stimulate competition and open up markets notably in the key segment of the market (international communications, broadband internet). The package of measures supported by the GOJ-3 DPL expands the reform process in the sector by (i) broadening the liberalization process through service based competition for internet service and voice services, coupled with

[23] See World Bank (2014), *Development Policy Review: The Unfinished Revolution*, Chapter 2, Report No. 86179-TN.

improved access to fixed infrastructure[24] for data transmission and the internet (GOJ-3 DPL prior action on new decree regulating ISPs, unbundling of the local loop and number portability); (ii) tackling the issue of the restructuring of the state-owned historical operator, an issue that cannot any longer be isolated from regulatory reforms.

53. *Progress made since GOJ-1 and GOJ-2 DPL approval.* **With respect to telecommunication reforms, a number of measures, including ones supported by the preceding DPL, have until now deployed partial effects only, due to delayed implementation and court challenges.** While competition in some segments of the market has increased, as evidenced by cheaper international outgoing calls and roaming charges, the price of incoming international telecommunications has not changed and remains prohibitive despite the measures taken under the two preceding DPLs in the series. A first decision of 2012 by the National Telecommunication Authority (*Instance Nationale des Télécommunications*, INT) to open up access to the landing stations of international telecommunications cables (controlled by state-owned historical operator, *Tunisie Télécom - prior action of the 2012 GOJ-1 DPL*), was followed up by another decision of INT to reduce the tariffs charged by *Tunisie Télécom* to provide access to the submarine cables landing station by 60 percent (*prior action of the GOJ-2 DPL*). This reduction has brought the access rate much closer to actual costs, following the completion of a benchmarking and costing study. However, the impact of the reform was halted by an appeal from *Tunisie Télécom* to the Administrative Tribunal, which finally ruled in its favor.[25] Further legal challenges have been raised by *Tunisie Télécom* and the other dominant market player on several liberalizations measures.[26] In its most recent ruling, however, the Administrative Tribunal has rejected the appeal from *Tunisie Télécom* on the competitive unbundling offer, thereby validating for the first time the market opening policy. In order to limit the risk of delays and undue challenges, it is essential that further regulatory reforms be set in a broader strategic context of sector reforms, notably with respect to the restructuring of the historical operator (GOJ-3 prior action on *Tunisie Télécom* restructuring). Even if some tariffs remain uncompetitive, additional connection infrastructure (sub-marine cables) have been installed by *Tunisie Télécom* competitors, providing Tunisia with a more secure and competitive access to the global fiber optic network.

54. **Regarding the expansion of access to broadband infrastructure, there has been progress, but more can be achieved**. In parallel to opening up the landing stations of submarine cables to improve competition in the international telecommunications segment, the Government has also been working to increase competition in the market for backbone connectivity. The substantial fiber optic infrastructure owned by various SOEs (notably the electricity utility STEG, the railway corporation SNCFT, and the highway operator *Tunisie Autoroutes*) mainly served their own corporate needs, with large unused capacity. To enable the use of such alternative backbone infrastructure, the Telecommunications Code (*Code des Télécommunications*) was revised by Law No. 2013-10 dated April 12, 2013, and the INT has subsequently approved and published technical and price offers by the two main holders of alternative fiber optic backbone infrastructure (*STEG*

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[24] Including backbone, backhaul and local loop infrastructure.

[25] The state-owned historical operator is formally designated as the *Société Nationale des Télécommunications* (SNT) in legal documents, but more widely known as *Tunisie Télécom*. Both designations are used in this Program Document interchangeably.

[26] While a due appeal process is absolutely legitimate, and the appeals show that the measures have an impact on dominant positions, this evolution is a cause for concern as it has undermined the credibility of the regulatory agency.

and *SNCFT*) to lease capacity to licensed operators on a non-discriminatory basis (*prior action of the GOJ-2 DPL*). The offers were technically sound, and up to international standards. While the SNCTF offer has materialized into contractual arrangements, STEG still has to implement relevant commercial and organizational arrangements to better market its infrastructure to telecom operators, as its network of 2,500 km of fiber, notably in underserved Western areas, holds good potential.

55. *Policy reform*: **The reforms supported by the proposed operation are seen as key to improve competition in the sector, by promoting the restructuring of the incumbent public operator owning the backbone infrastructure, while opening access to this infrastructure at competitive rates.** The restructuring plan of *Tunisie Télécom* will address a number of issues, including staffing problems which prevent the company to be competitive on the market. In that context, the Ministry of Telecommunications has prepared a Law allowing *Tunisie Télécom* to implement a voluntary retirement plan. The Law was approved by the outgoing National Assembly in July 2014 and will be part of the restructuring plan. The approval of the corresponding implementation decree, published at the end of April 2015, has opened the way for the implementation of the plan. This will allow *Tunisie Télécom* to minimize the social costs of the restructuring while being able to hire staff with skills more in line with the evolution of the industry, notably among the pool of unemployed graduates. Further measures envisaged in the restructuring plan would include the transfer/sale of some 35 percent of *Tunisie Télécom*'s equity to a strategic investor.

56. **With respect to regulatory measures to increase competition, the Ministry of Telecommunications has issued the decree determining the conditions and procedures for granting authorizations to internet service providers.** The decree establishes transparent conditions for market access, allowing ISPs to develop their own infrastructure, lease infrastructure from alternative providers and access wholesale offers (unbundling and bitstream). Complementary to this market opening, the approval by the regulator of effective unbundling offer from Tunisie Telecom, which, along with a bitstream offer and number portability, will introduce greater competition on the fixed broadband market. Unbundling and bitstream are wholesale offers by the incumbent operator that allow competitors to have access its copper infrastructure at competitive rates, in order to supply broadband to end customers. They are of crucial importance because competition does not work well without such offers, particular outside densely populated areas. They will facilitate the use of the existing infrastructure to its full potential to deliver Broadband via ADSL technology.[27] Number portability provides additional incentives for operators to use the unbundling offers and develop their services. The wholesale market is characterized by a margin squeeze, where wholesale tariffs are higher than retail prices, which the revised offer will resolve. The unbundling offer reduces access tariffs by about 50 percent, with TT being compensated over three years with proceeds from the dedicated telecommunications development fund. Additional market opening issues considered by the Government include granting 4G licenses, granting of local access network licenses for universal service provision,

[27] Specifically, the unbundling offer allows the requesting operator to (i) access part or the entirety of the frequency spectrum, (ii) receive timely and detailed information on the state of the network, and (iii) to free space so that the requesting operator can install its equipment.

granting Virtual Network Operator (VNO) authorizations, and amending the Telecommunications Code to include provisions on infrastructure sharing.

57. *Status as of August 2015*: **Prior action met**. The *Tunisie Télécom* restructuring plan can be implemented following the approval of the voluntary retirement scheme by the National Assembly, and the publication of the implementation decree on April 28, 2015. The period for submissions for the first wave of voluntary departures (open to workers aged 56 and above) closed at end July 2015, and will be followed by a second wave (for workers aged 50 and above). The Government has published the ISP decree in January 2015, and a Commission responsible for assessing the ISP authorization requests has to be appointed. The unbundling offer and the decision on number portability were published by the INT.

58. *Expected results*: The measure on *Tunisie Télécom* is expected to improve *Tunisie Télécom*'s ability to compete in the market and to take a fair share of expected market broadband growth. The ISP decree is expected to open up the market to new entrants, raising the quality of services and the access for ADSL services in Tunisia to levels that are commensurate with the existing fixed line infrastructure. Indeed, the measures on unbundling (combined with the upcoming number portability and bitstream decisions) are expected to further reduce the fixed broadband prices and to contribute to a more efficient use of the existing copper infrastructure in Tunisia (now around 1.2 million lines of which approximately 700,000 could be used with Broadband ADSL technology: however merely 544,000 are effectively equipped with ADSL technology). All measures should translate into reduced prices and increased access for citizens and businesses. The indicator retained for the purpose of measuring the performance of the package of measures, relates to the number of broadband access points available to operators that the unbundling measure will support (with an expected opening of 15,000 such access points). The ISP decree should open up new completion on certain segments of the market, such as international telecommunications thereby contributing to bringing the costs down in this market segment as measured by the indicator for cost of incoming calls (to be brought down from 39.5 US cents/minute to 20 US cents/minute).

SECOND POLICY AREA: Strengthening the financial sector

Prior action #4 on the restructuring of State Owned Banks: The following measures have been taken to restructure the state-owned banks: (i) the board of directors of STB has adopted a detailed restructuring plan for STB on April 16, 2015; (ii) the board of directors of BH has adopted a detailed restructuring plan for BH on March 3, 2015; and (iii) the Inter-ministerial Council has adopted a restructuring strategy for BNA on November 11, 2014.

Prior actions #5 on State-owned Banks' governance: The Government has taken the following measures to improve the governance of state-owned banks: (i) the call for manifestation of interest for the positions of chief executive officers for STB, BH and BNA has been published on the Ministry of Finance's website on July 22, 2015; and (ii) Decree No. 968 dated August 6, 2015, complementing Decree No. 90-1855 dated November 10, 1990, and establishing the compensation regime of chief executives of state-owned companies has been published in the Official Gazette No. 63 dated August 7, 2015.

59. *Rationale*: **Tunisia's financial sector is dominated by banks whose soundness has been affected by the legacy of poor pre-revolutionary governance and faltering economic performance.** Total assets in the banking sector are equivalent to 115 percent of GDP, more than a third of which is owned by the main three SOBs. The remainder of the banking sector comprises three large, domestically owned private banks (20 percent of assets), six foreign-invested banks (28 percent of assets) and nine smaller institutions (about 15 percent of total assets). Some banks, in particular the SOBs, have long been subject to poor corporate governance practices, resulting in weak intermediation and risky credit policies.[28] This situation has been sustained for years thanks to a lenient regulatory and supervisory regime. For the rest of the banking sector, these market characteristics translated into relatively high profit margins, despites high NPL ratios. Intermediation, competition and innovation have been subpar throughout the system.

60. **The performance and soundness of the public banks is weaker than for the rest of the industry, and is negatively affecting competition, credit allocation and governance in the whole sector.**[29] By 2014, the three public banks targeted by the reform had an average solvency ratio of 5.1 percent, an average official NPL ratio of 21.4 percent, and an average provisioning ratio of 56.1 percent. These figures are significantly worse than the comparable averages for the private banks. Among other issues, the weak performance of the SOBs in Tunisia results from at times conflicting roles of the state, cumulating the functions of main shareholder of the public banks, major customer of these banks (through public enterprises which borrow from and deposit into the banks and account for 10 percent of overall credit to the economy), and at least in part, as the banking sector regulator.[30] Although its role has decreased over the past decade, the state still remains a dominant shareholder in three of the four largest commercial banks: STB (52.5 percent), BNA (66.2 percent) and BH (57 percent). Between them, these three banks hold 35 percent of total banking assets in Tunisia.

61. Public banks are facing increasing challenges, notably:

- *Insufficient capital base*: The solvency ratios remained adequate as long as the Central Bank has kept lax prudential rules on classification of NPLs and provisioning ratios. Public banks greatly benefited from these rules and exemptions to their strict implementation and have avoided the materialization of financial losses. With the strategy of stricter prudential enforcement and new governance and performance objectives of public banks, these practices are coming to an end.
- *Degradation of the loan portfolio quality*: Alongside the gradual tightening of prudential norms by the Central Bank, it is expected that the weak quality of SOB clients and insufficient loan recovery capacity will maintain NPLs at a high level in the short run (NPLs for SOBs are nearly twice as high as among private banks (21.4 percent against 10.7 percent at the end of 2014), resulting in new provisioning (and therefore deeper

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[28] The main three state-owned banks are the *Société de Banque Tunisienne* (STB), the *Banque de l'Habitat* (BH) and the *Banque Nationale Agricole* (BNA).
[29] See World Bank (2014), *Development Policy Review: The Unfinished Revolution*, Chapter 6, Report No. 86179-TN.
[30] The MEF has the power to grant new banking licenses.

financial difficulties) and a pressure on cash flow (and hence on available liquidity). As some of the SOBs (especially STB) are exposed to the tourism sector, exogenous shocks such as the security incidents of early 2015, may additionally affect the portfolio negatively. In this context, it is expected that the progression of NPLs could only be halted during 2015-16 assuming that (i) loan origination policies be tightened; (ii) loan recovery policies be strengthened (in fact, some of the banks such as BH have already engaged into an effort to that regard); and (iii) the Asset Management Company is established during the first quarter of 2016.

- *Regular loss of their credit market share vis-à-vis private banks*: This share has decreased from 42 percent in 2007 to about 35 percent currently (despite the increased funding of public enterprises by public banks since the revolution). It is expected that, other things being equal, the loss of market share continues at a rate of 1 to 1.5 percent per year (putting additional pressure on SOBs' financial performance and productivity). This trend could be stopped by 2016-2017 with the implementation of the restructuring plans.

62. The three largest SOBs suffer from an unfavorable strategic positioning. For several years, they have been following strategic directions that are not sustainable over the long term. Leveraged to sector policies (agriculture, housing, hotels) and also often used for easy access to finance cronies of the pre-revolutionary regime, the SOBs are also competing with the private banks, which required them to meet profitability targets (as listed companies) while at the same time being financially sound (to guarantee the safety of their depositors). While the BCT is resolutely tightening the prudential norms, it has become an absolute necessity for the MoF to implement deep restructuring plan as an initial critical step of the reform before considering any possible divestment.

63. *Progress made since GOJ-1 and GOJ-2 DPL approval.* **Since 2012, the Central Bank of Tunisia has strengthened its prudential framework, gradually moving towards international best practice.** For instance, in June 2012, the Central Bank issued a Circular, introducing stricter prudential ratios on banks, in particular a higher capital adequacy ratio (*prior action of the GOJ-1 DPL).* At the end of 2013, the BCT issued another critical Circular strengthening the loan provisioning ratio. The BCT has also issued a new liquidity ratio (in line with the Basel III requirements on the Liquidity Coverage Ratio) requiring the banking system to gradually increase their ratios from 60 percent to 100 percent by the end of 2019. The most recent assessment of the adoption of these new ratios show that the three SOBs miss the target for the minimum solvency ratio of 9 percent at end-2014. The recapitalization plans of the three SOBs are fully consistent with the restructuring plans presented below and will be implemented in the course of the year, allowing these banks to meet capital adequacy ratios by the end of 2015. It can therefore be considered that the GOJ-1 DPL prior action has led to an improved prudential supervision.

64. **Following initial delays of over a year to finalize the selection process for the firms to undertake "full" (strategic and financial) audits of the main three state-owned banks, two of those audits have been completed while the third one is being finalized** (*Prior action of the GOJ-1 DPL)***.** In May 2014 the financial audits of the *Société Tunisienne de Banque (STB)* and the *Banque de l'Habitat (BH)* were completed and presented to the authorities. In July 2014, the strategic component was achieved, which allowed the Government of Tunisia to choose, among three possible scenarios, the strategy to restructure the banks (August 2014). The audit for the *Banque Nationale Agricole (BNA)* needed to be relaunched as the initial contract could not be

honored by the selected consulting firm. Based on the scenarios selected for STB and BH, those two banks have adopted the detailed restructuring plan (see paragraph 68 and 69). As for BNA, a restructuring strategy has been approved by the Government on the basis of the findings of the draft audit, and the detailed restructuring plan is expected to be adopted by the board of the BNA by end 2015.

65. **The Government further approved in 2013 and started to implement a decree strengthening the governance of public banks** (*prior action of the GOJ-2 DPL)* in order to (i) exclude the three SOBs from most of the regulations that are extended from the administration to SOEs, but are not compatible for enterprises active on competitive markets and requiring modern management systems; (ii) give the boards of the SOBs and their management more autonomy and responsibility vis-à-vis the state as main shareholder; and (iii) establish a transparent and competitive process for the hiring of the future board members. By April 2015, the boards of the three public banks have been fully renewed based on the revised criteria. The implementation of the reform required adjusting the remuneration criteria for the board members, and establishing a Private-Public Commission, which elaborated merit-based selection criteria for future SOB board members and a transparent and competitive process for their hiring. In addition, the unified Chairman/Chief Executive Officer (CEO) function for the three SOBs has been split into two distinct ones (Chairman and CEO). Consequently the Government has launched the process to renew the management of the banks through an open tender process and modernize executive remuneration policies (see corresponding GOJ-3 DPL prior actions).

66. *Policy Reform*: Mindful of these issues, the Government prepared and approved a strategy to restructure the SOBs, based on the diagnosis provided by the full audits of the public banks. With respect to the two SOBs for which the audits have been completed (STB, BH), the Government has decided that (i) the banks will not merge, (ii) STB and BH will engage in a restructuring process with a "technical partner" that would assist the board and the management of these banks in the restructuring (2-3 years). The strategy also foresees the possible participation of the technical partners as investors (having a stake in the SOBs) to further strengthen the commercialization process. The final restructuring plans for STB and BH have been prepared and adopted by the Banks' board of directors as a prior action of the proposed DPL. In the light of the recent terrorist attacks and their impact on the bank's loan portfolio, the STB plan has been stress-tested to include more prudent projections in terms of credit and deposit growth, the cost of risk, and the recovery of NPLs. The stress tests show that the foreseen recapitalization amounts remain sufficient, but will need to be supplemented by revenues generated by the sale of non-strategic assets. Also, the MEF submitted the restructuring strategy of the third SOB (BNA), based on the preliminary results of its full audit, which was approved by the Inter-ministerial Committee. The BNA restructuring plan is being finalized and will be adopted before the end of the year. To cover the financial needs arising from the restructuring process, the MEF has prepared an important recapitalization plan of approximately TND 1 billion (US$554 million). The 2014 supplemental Budget Law included the necessary appropriations for the recapitalization needs of the SOBs. In addition, a specific Recapitalization Law has been adopted in August 2015 by the National Assembly, opening the way for the effective recapitalization process.

67. *Status as of August 2015:* **Prior actions met**. The restructuring strategy has been approved for the first two SOBs (STB and BH) by the Inter-ministerial Committee in August 2014. The detailed restructuring plans have been approved by the board of directors of BH and STB in March

and April 2015 respectively. The Bank has been invited to comment on various drafts of the restructuring plans and its recommendations have been taken into account. The call for manifestation of interest of the SOB chief executive positions was launched on July 22nd, while the remuneration decree was approved on August 6, 2015.

68. **The STB plan foresees the restoration of the bank's capital base through a recapitalization effort of TND 756 million, which should allow the bank to regain and maintain solvability, while the situation of BH requires much less resources and the BNA capital needs are likely to be met by the sale of financial assets.** Specifically, the plan foresees that STB reaches a CET-1 ratio of 8.4 percent at end-2015 and maintains the solvability above the prudential norm (7 percent) throughout the period covered by the restructuring plan (2015-2019). The impact of the Sousse event on the tourism portfolio could result in a lower, but still compliant CET-1 ratio in 2015 (between 7.5 and 7.6 percent in 2015). In this scenario, the solvency can be kept above the regulatory threshold in 2016 and outer years, thanks to the sale of non-strategic assets, which the restructuring plan allows for. The plan also foresees opening the capital to a technical partner that would accompany the restructuring effort and lead the way to a strategic partnership further down the road. The business plan lays out a strategy for the turnaround of the bank based on strengthening the branch network, modernizing the product offering and reducing its operating costs. It includes (i) a reorganization, streamlining the complex structure of the bank and its bloated control span while considerably strengthening the risk control functions; (ii) a plan to restructure the human resources of the plan through a combination of severance and strategic recruitment; and (iii) a modernization plan of the IT systems and for information. For BH, the recapitalization plan includes the issuance of TND 90 million of Subordinated Debt (already launched and fully subscribed). Tier one recapitalization needs will be met by an issuance of new shares in the amount of TND 110 million (including TND 60 million premium). In addition, the plan foresees a reorganization including strengthening of the risk management and loan recovery functions (with initial steps already taken), and refocusing of the business model.[31] Finally, for BNA, the recapitalization needs are to be met through the sale of financial assets. The progress on the restructuring plans will be assessed regularly by the banks' new board of directors, which were renewed in line with the new selections criteria.

69. **Given that the situation of BH is less serious in terms of under-capitalization than that of STB, the related restructuring plan includes a recapitalization of TND 200 million**, including the capital increase will allow the bank to meet the tier one ratio of 7 percent as well as the capital adequacy ratio of 10 percent by end-2015, an overhaul in corporate governance, a modernization of human resources, and the implementation of an integrated information system.

70. *Expected results*: The implementation of the SOB restructuring plans are an essential step towards: (a) restoring banking sector stability, (b) increasing banking sector competition and innovation, and (c) improving access to finance:

[31] BH was set up as a housing bank with a state-supported mission to develop affordable housing. The related subsidized credit programs will be transferred to the public development finance institution (*Caisse de Dépôts et de Consignations)*, while the state-sponsored savings plan, until now exclusively offered by BH, will be made available through all commercial banks.

- *Increased banking sector stability*. The restructuring of the three SOBs should positively impact stability as these banks represent about a third of the depositors' base of the banking sector. Indicators that gauge stability in the banking sector are expected to improve, specifically: the capital adequacy ratios of the three SOBs, and the NPL and provisioning ratios. In addition, profitability of the SOBs is expected to improve as a result of the restructuring. Also, successful restructuring should alleviate pressure on the fiscal position, as the state currently has less and less room to maneuver for further bail-outs. As a result, the solvency ratios as measured by the Common Equity Tier 1 ratio should, at a minimum, meet the 7 percent threshold for all three banks as of 2015, and be maintained, if not strengthened, throughout the restructuring period.
- *Improved banking competition and innovation*. Until the BCT started tightening the prudential regulation, the SOBs were allowed to record profits despite poor loan originating and monitoring policies. In a way, this situation also benefited to the private banks. This resulted in a low level of competition in the banking sector. With the recapitalization and the restructuring of the SOBs, it is expected that a more virtuous circle will take place whereby the gradual strengthening of the BCT regulation (which is expected to be accelerated with the adoption of Basel II requirements by 2020) would push all the banks to improve their functioning, compete harder and innovate to conquer new clients (including SMEs).
- *Increased access to finance*. It is expected that the implementation of modern IT systems and the improvement in the management of the SOBs will help them develop sounder credit portfolio. Also, restoring stability and profitability will spur a sound competition among banks. It is expected that new markets will be tackled and new products developed.

71. *Progress on previously envisaged triggers.* The adoption of a new Bankruptcy Law was initially envisaged as a trigger of the DPL program, pertaining to the second policy area. Because of the transformation of the DPL into a single-tranche operation, this trigger could not be retained in the proposed operation. Nevertheless, significant progress was realized on the bankruptcy framework. In order to improve debt recovery and thereby strengthen the credit environment and improve confidence between debtors and creditors, the Government has modernized Tunisia's bankruptcy regime with a view to safeguard viable enterprises while allowing non-viable businesses to exit the market. It has finalized a new, unified Bankruptcy Law for that purpose that has been submitted to Parliament in 2013. The submitted draft included a few important weaknesses and, as a result of the preparation for the proposed DPL, the Government has agreed to most of the comments raised by the Bank on the draft and submitted the respective amendments to Parliament at end-2014. The World Bank will remain engaged in supporting financial sector reforms, through its technical assistance portfolio and a follow-up operation that could take the form of a Program for Results.

THIRD POLICY AREA: Providing more inclusive and accountable social services.

Progress since GOJ-1 and GOJ-2 DPL approval:

72. **Progress remains limited in the operationalization of the reform of active labor market policies.** In September 2012, the Government approved the Decree to consolidate and streamline job insertion programs financed by the National Employment Fund and established a monitoring and evaluation framework to assess the impact of employment programs on

beneficiaries' labor market outcomes (p*rior action of the GOJ-1 DPL*). The reform aimed at improving the effectiveness of active labor market programs (ALMPs) by consolidating the existing five programs into two streamlined programs supporting employability of job-seekers and first-time recruitment of young unemployed, while establishing a more robust monitoring and evaluation system. A pilot implementation of the new programs was initially envisaged, focusing on 7000 persons in three governorates during 2013-2014, to be followed by a nation-wide roll-out, when existing ALMPs would be phased out. To date, only one of the new voucher programs has started to be implemented (the employability voucher). The operationalization of the second scheme, the wage voucher for the first-time employed, is lagging as the detailed eligibility criteria have not yet been finalized.

73. **In contrast, the establishment of a functioning national health sector accreditation agency is complete and its assessment program has started.** In 2012, the Government instituted in the health sector an autonomous auditing, evaluation and accreditation system of the quality of health services using standards harmonized with international accreditation bodies (*prior action of the GOJ-1 DPL*). The reform aims at promoting better governance, quality enhancement and exports of medical services, in the public as well as in the private sectors. A roadmap for a five-year implementation process was validated in October 2012 following the decree prepared with technical assistance by the Bank. After initial delays, the management of the responsible institution, INAS (*Instance nationale d'accréditation de la santé*) has been appointed and the offices have been staffed, and it has received an operational budget so that INAS can now be considered fully operational. A three-year implementation plan has been approved and INAS includes a wide array of stakeholders, including the private sector and civil society.

74. **The operationalization of the education sector accreditation agency is, on the other hand, lagging behind.** In August 2012, the Government also established the National Authority for the Evaluation, Quality Assurance and Accreditation of higher education (*prior action of the GOJ-1 DPL*). The establishment of the INEAQA (*Autorité nationale pour l'évaluation, l'assurance qualité et l'accréditation*) has been delayed significantly, however, partly due to a slow decision-making process about the governance of the accreditation authority. The management and essential staff of the Agency were appointed in July 2013, offices have been identified and training on Quality Assurance provided with the Bank's assistance so that the Agency has become operational in 2015. It has not yet completed any quality assessment however.

75. **The implementation of the participatory evaluation reform has taken off.** The Government has adopted the Decree to institutionalize the mechanisms for participatory reform in public service delivery (*prior action of the GOJ-2 DPL*). The reform institutionalizes mechanisms for participatory evaluation of public service performance improvement, as overseen by the National Controllers Body for Public Services (*Contrôle Général des Services Publics, CGSP*) in coordination with the Prime Ministry's Department of Public Administration Reforms (*Direction Générale de la Réforme Administrative*, DGRA) and concerned line ministries. Specifically, the measure has broadened the mandate of the CGSP to include participatory monitoring in coordination with the DGRA and civil society systematically, jointly producing options for reforms. The Decree includes four components of the reform: (i) the introduction of participatory audits as part of the mandate of the CGSP to be overseen by a joint Government-civil society coordinating committee; (ii) the adoption of international standards for participatory monitoring; (iii) the stipulation that all evaluations be published for reinforcing access to information and

accountability; and (iv) the clear emphasis on neutrality, objectivity and transparency of the CGSP's mission. To date, the CGSP is proceeding with gradual implementation of the above measures. Evaluations were completed in selected municipalities with respect to their services and at the central level concerning the Access to Information policy (ATI) implementation. The 2015 work program further includes evaluations of social programs and services, notably related to labor and job creation.

FOURTH POLICY AREA: Increasing transparency and accountability in public governance

Prior action #6: The annual official report on the finances of state-owned enterprises for the period 2010-2012 has been published on the website of the Prime Minister's Office.

Prior action #7: The Government has submitted a revised draft of the Organic Law on Access to Information to the Parliament (Assemblée des Représentants du Peuple) on August 6, 2015.

76. *Rationale.* Following the revolution of January 14, 2011, Tunisia initiated a transition towards democracy and a more open mode of governance based on free and fair elections, as well as on principles of transparency, accountability and civic participation. The adoption in 2011 of an executive Decree-Law on access to information was one of the first transformational reforms adopted (*prior action of the 2011 GO DPL*), followed by an implementation Decree (*prior action of the 2012 GOJ-1 DPL*). Considering the limited mandate of the transition governments and the long-term nature of the reform, a phased approach was followed to build ownership and sustainability, starting first with the Decree-Law establishing the new right to access information with a two year transition period, before enshrining it in the Constitution and developing the institutional and organizational dimensions of this essential public sector reform. Pursuant to the new 2014 Constitution, the Government has prepared a new draft Organic Law to further promote access to information and establish an independent enforcement body. On a parallel, but related track, the authorities and the Bank have worked on increasing transparency in public finances, so as to establish a culture of citizen engagement and demand for accountability on the use of public resources. As an emblematic measure to further increase transparency on public finances, the Government has published a consolidated report on the financial status of the vast majority of SOEs.

77. *Progress made since GOJ-1 and GOJ-1 approval.* **Progress in giving citizens access to, and request public information is observed, but the achievements need to be anchored into a sustainable institutional framework and the scale of demand needs to be enhanced**. Access to information has been at the forefront of the reforms supported by the Bank since 2011, with some tangible results. In 2012, the Government specified the procedures for the implementation of the June 2011 Decree-Law on the right by the public to gain access to documents held by government agencies (*prior action of the GOJ-1 DPL*). Following initial delays during 2012, in order to accelerate the implementation process the coordination of the reform was prioritized in the Prime Minister's office. As a result, an increasing number of Ministries have opened online platforms for spontaneous information requests. Moreover, proactive disclosure by ministries is improving (e.g., Ministry of Finance), but a comprehensive assessment of the implementation of access to information policies is still lacking, notably because of a missing institutional anchor to oversee the policy. A new organic draft Law has been approved by the Government and submitted to Parliament (prior action for this GOJ-3 DPL), which includes the establishment of the new

Access to Information Authority that will manage a consolidated monitoring system for the compilation of statistics on requests filed by citizens and follow-up actions. In addition to the institutional strengthening of the access to information policy, the new draft Law brings about a range of measures, including broadening the scope of the information subjected to the law, enlarging the institutional coverage (e.g., public enterprises), clarifying access procedures, exceptions and appeal modalities and protecting whistle-blowers. Furthermore, in order to stimulate demand, there have been several awareness raising and training events sponsored by the Government, civil society and donors, in the context of the Open Government initiative. Promotional measures are explicitly included in the draft organic Law on Access to Information and in the mandate of the new information commission.

78. **Similarly, access to information on public finances is improving.** In September 2012, the Minister of Finance issued a Decision on the publication of key information on public finances, including a Citizen's budget and an online open budget platform giving citizen's direct access to detailed and timely public expenditure data (*prior action of the GOJ-1 DPL*). The Ministry of Finance has been championing open access to information. Most of the documents and data previously identified for open access are now available on the Ministry's website. Delays are generally identified in the production and validation of the documents themselves. A new version of the Ministry's website soon to be deployed will further increase volume of accessible information, and the visibility of this policy. Although summary budget execution is published online, further progress with respect to draft budget laws, expenditure and revenue composition is needed. A Citizen's budget has been published for the first time in 2014. Tunisia also joined the Open Government Initiative and a related action plan has been prepared in September 2014.

79. **The new Decree on improving the national public procurement system took effect in June 2014.** The adoption of the decree (*prior action of GOJ-2 DPL*) was the result of a long period of consultations and legal drafting based on the findings of the government's holistic self-evaluation carried out in 2012, using the OECD-DAC methodology, and its associated action plan.[32] Based on the Action Plan, the new public procurement decree includes most of the key recommendations of the self-assessment and its action plan. The Decree increases transparency in procurement processes, heightens integrity of procedures, and introduces greater market contestability on account of reduced national preference provisions. The decree also aims at accelerating and streamlining procedures, through the revision of thresholds and the capping of processing times. In terms of implementation, the new institutional architecture foreseen by the decree has been established and is functional. There have been numerous awareness raising and training activities for the administration, purchasing entities and vendors alike. The Government is finalizing an implementation circular, which will be issued in September 2015, once initial experience from the implementation of the decree has been collected. The Government has also prepared draft user guides and standard bidding documents, which will be issued along with the circular. Finally, an e-procurement platform (fully electronic process from tendering to signature), is up and running since September 2014, with more than 40 contracts awarded to date. E-procurement tenders have had significant reductions in process times (about 90 days on average

[32] This self-assessment was conducted with the support of the World Bank and the African Development Bank.

while regular tendering is averaging about 170 days from bidding to signature).[33] While the Decree streamlines some of the control and administrative review procedures, as well as strengthens *a posteriori* control, it remains largely based on *a priori controls*, as the Government deemed a systemic change too risky in terms of governance while it still sees the new framework as fostering more efficient and effective procurement processes.

80. *Policy reform.* The Government has prepared a draft organic Law on Access to Information, aimed at (i) consolidating and elevating the provisions from the initial Decree-Law; (ii) overriding contrary provisions remaining in the country's legal and administrative framework; (iii) introducing the legal basis and key organizational principles for an information commission; and (iv) broadening the scope in terms of information sources and institutions that are subject to access to information obligations. The draft Law is in line with the constitutional principle of access to information and with international good practice. The new ATI authority will monitor the implementation of the right to access to information, provide opinions, and handle citizens' complaints. The organic Law will also allow resolving legal uncertainty related to conflicting regulation, by elevating the ATI rights. With respect to financial transparency, the Government has compiled and consolidated the financial data for 95 SOEs (out of a total of 103) for the first time since 2007.

81. *Status as of August 2015*: **Prior actions met**. The report on SOEs financial statements has been published on the Government website. A first version draft organic Law had been adopted by the Government and submitted to the National Assembly ANC in August 2014, but it could not be considered before the general elections. The new Parliament has initiated its review process. The initial draft Law had been approved by the Liberties and Human Rights Committee in June 2015, but the Government decided to withdraw it before it could be considered by the Plenary, in order to revise amendments that would be coherent with the security obligations of the State. A new draft acceptable to the Bank was submitted to the Parliament on August 6, 2015. The main amendment with respect to the initial draft approved by the parliamentary Committee related to the areas of exceptions to the coverage of the Law. The Committee had excluded all exceptions from the draft Law. The Government reintroduced eight exception domains, notably related to the protection of personal data or national security (the initial version of the Law, acceptable to the Bank, included 10 exception domains). The Government also entered into a dialogue with the Parliament and civil society organizations to justify this reintroduction, with the Law remaining in line with best international practice.

82. *Expected results:* after a slow and heterogeneous start of this new Law, the systems have been put in place and a number of requests for information has increased markedly (over 500 in 2014, vs. less than two hundred a year earlier). The Government reports that the requests have been answered in over 500 cases: a couple of dozen requests are pending, while less than 10 have been rejected. The initial target set at the time of approval of the GOJ-1 DPL of a fifty percent increase in responses from the initial eighty received is therefore surpassed. In order to maximize the impact of this new transparency policy in terms of increased government accountability and economic benefits for firms, information needs to be more easily accessible across the public sector

[33] The electronic platform can be found at www.tuneps.tn. In terms of volume, contracts processed electronically still represent less than 10 percent of the total, but the Government aims at processing all public tenders through e-procurement by 2018.

and citizens need to be able to appeal in case their requests are not satisfactorily met. The organic Law will facilitate these improvements, with a view to gradually bring about a change in the relations between the government and its citizens. The reduction of information asymmetry within the public sector and among firms should improve efficiency and reduce discretion and privileges, a key demand from the revolution. The compilation and publication of the SOE financial report is an important action not only in relation to financial transparency, but also with respect to the strengthening of the oversight over SOEs and managing quasi-fiscal liabilities. It has opened the way for a key institutional reform of the shareholder function of the state, and the Government is currently examining various options to establish a centralized authority along the lines of the best international practices with the support of the Bank.[34]

Analytical Underpinnings

83. **The proposed reform program builds on existing analytical studies as well as on the extensive work undertaken as part of the *Development Policy Review* (DPR), and more recently the SCD.** The DPR report provides the analytical underpinning for most of the reforms supported by this DPL series. It argues that the Tunisian economy failed to generate sufficient good quality jobs because it is burdened by a system of rents and privileges that thrives on the pervasive web of regulations and restrictions introduced by the interventionist economic policies since independence. While these policies served Tunisia well until the 1980s, they have now resulted in a system which stifles competition and protects privileged firms, obstructing the development of a dynamic economic environment. Further, this economic system is also highly inequitable—as the current institutional infrastructure creates an 'insider-outsider' culture—and this inequality of opportunity is at the core of the social tensions which triggered the 2011 revolution. On this basis the report recommends actions to remove rents, increase competition, simplify the regulatory system, and open up the economy to bring opportunity to all Tunisians.[35]

Prior Actions	Analytical underpinnings:
First Policy Area: Promoting a more competitive business environment	
Prior action #1**:** The Government has taken the following measures to implement and expand the regulatory simplification process: (i) Decree No. 2014-3484, dated September 18, 2014, on the extension of the regulatory simplification to 4 additional Ministries, has been published in the Official Gazette No. 78, dated September 26, 2014; and (ii) a decision to simplify or cancel 154 measures identified as priority with the private sector has been approved by the Council of Ministers on October 22, 2014.	Development Policy Review: World Bank (May 2014), *The Unfinished Revolution. Bringing Opportunity, Good Jobs And Greater Wealth To All Tunisians,* report No. 86179-TN; and associated background papers. World Bank, *Tunisia Investment Climate Assessment,* February 2014.
Prior action #2: The Government has taken the following measures to liberalize the	Mimeo: " TUNISIE: Comment déverrouiller le potentiel du développement des TIC pour répondre

[34] The reform is inspired by recent work of the Bank on SOE Governance: World Bank, *"Pour une meilleure gouvernance des entreprises publiques en Tunisie*", March 2014 (Report 78675-TN).

[35] Analytical underpinnings are mentioned here for the first, second and fourth Policy Areas only, as they were included in the proposed GOJ-3. Analytical underpinnings for reforms in the third Policy Area supported by GOJ-1 and GOJ-2 DPLs are mentioned in the respective Program Documents.

telecommunications sector: (i) Decree No. 2014-4773 dated December 26, 2014, on the conditions and procedures for granting authorizations to internet service providers, has been published in the Official Gazette No. 7 dated January 23, 2015; (ii) the President of INT has issued and published on INT's website, decision No. 74/2014 dated November 17, 2014, accepting a technical and tariff offer for unbundling, thereby allowing telecommunications market operators to have direct access to SNT's local loop telecommunication infrastructure at conditions acceptable to the Bank; and (iii) the President of INT has issued and published on INT's website, decision No. 71/2015 dated July 5, 2015, establishing the conditions and implementation modalities for portability of fixed and mobile numbers. Prior action #3: Implementation Decree No. 2015-85 dated April 24, 2015, of Law No. 2014-48 dated July 24, 2014, on the restructuring of SNT, the state-owned telecommunications company, has been published in the Official Gazette No. 34 dated April 28, 2015.	aux impératifs de la compétitivité axée sur l'innovation », (July 2012). *Broadband Networks in the Middle East and North Africa – Accelerating High-Speed Internet Access,* The World Bank, 2014
Second Policy Area: Strengthening the financial sector	
Prior action #4: The following measures have been taken to restructure the state-owned banks: (i) the board of directors of STB has adopted a detailed restructuring plan for STB on April 16, 2015; (ii) the board of directors of BH has adopted a detailed restructuring plan for BH on March 3, 2015; and (iii) the Inter-ministerial Council has adopted a restructuring strategy for BNA on November 11, 2014. Prior action #5: The Government has taken the following measures to improve the governance of state-owned banks: (i) the call for manifestation of interest for the positions of chief executive officers for STB, BH and BNA has been published on the Ministry of Finance's website on July 22, 2015; and (ii) Decree No. 968 dated August 6, 2015, complementing Decree No. 90-1855 dated November 10, 1990, and establishing the compensation regime of chief executives of state--owned companies has been published in the Official Gazette No. 63 dated August 7, 2015.	Development Policy Review: World Bank (May 2014), *The Unfinished Revolution. Bringing Opportunity, Good Jobs And Greater Wealth To All Tunisians,* Report No. 86179-TN; and associated background papers. *Tunisia: Financial Sector Assessment Program Update* (Aide-Memoire, November 2012). *Tunisia: Measures to be adopted in order to reform the governance of the State Owned Banks'* (Aide-Memoire 2013). *Tunisia: Board Composition and Selection Criteria for Effective Boards in State Banks – A Review of Global Good Practices* (Technical Note, May 2014). *Tunisia: Monitoring Performance and Evaluating Board Members in State Banks – A Review of Global Good Practices* (Technical Note, May 2014).

Fourth Policy Area: Increasing transparency and accountability in public governance	
Prior action #6: The annual official report on the finances of state-owned enterprises for the period 2010-2012 has been published on the website of the Prime Minister's Office. Prior action #7: The Government has submitted a revised draft of the Organic Law on Access to Information to the Parliament (*Assemblée des Représentants du Peuple*) on August 6, 2015.	Banque mondiale, *Tunisie: Pour une meilleure gouvernance des entreprises publiques*, Mars 2014.

4.3 LINK TO THE COUNTRY INTERIM STRATEGY NOTE, OTHER BANK OPERATIONS AND THE WORLD BANK GROUP STRATEGY

84. **The World Bank Group's engagement in Tunisia has grown significantly since the revolution in January 2011.** In the mid-2000s, demand for the Bank financing was steadily declining as Tunisia achieved investment grade status and accessed financing on the global markets. As a result of the global economic crisis, the Bank lending to Tunisia sharply increased from US$6 million in FY08 to US$336 million in FY09. Immediately following the revolution, the Bank responded rapidly to the Interim Government's request to help define and support priority actions to break with the past. A new package of the World Bank Group-financed activities was agreed upon and focused on reform measures to promote governance, transparency and accountability, and alleviate the social impact of the economic downturn. The new program included the first US$500 million single-tranche multi-sector GO DPL.

85. **The proposed operation is fully aligned with the World Bank Group (WBG) strategic goals to eliminate extreme poverty and boost shared prosperity in a sustainable manner, as well as with the MENA Regional Strategy and the Interim Strategy Note (ISN) for Tunisia**. By supporting growth and employment recovery, while strengthening accountability and efficiency in public service delivery, the DPL series aims at enhancing economic opportunities and social empowerment, notably for the less well-off, as prescribed by the WBG overarching objectives. Even if it was launched prior to the formulation of the new WBG MENA Strategy, the DPL series is also consistent with the Strategy's objectives of tackling the underlying causes and remedying the consequences of conflict and social tension. Specifically, the proposed operation would contribute to Pillar One (Renewing the social contract), as the supported policy measures reduce discretion in the administration, open up key markets (e.g., in the telecommunications sector), and overhaul governance of public banks, which all contribute to the elimination of rents and capture. Similarly, the proposed DPL supports citizen engagement through better access to information (legal framework for access to information, opening up of the internet service provider market to increase usage). Finally, the series is fully aligned with the WBG ISN's three areas of engagement: (i) laying the foundations for renewed sustainable growth and job creation; (ii) promoting social and economic inclusion; (iii) strengthening governance, voice, transparency and accountability. The reforms supported by the proposed DPL also facilitate the development of new World Bank-financed operations, notably in the areas of economic infrastructure (information technology) and financial sector modernization.

86. **The World Bank Group has also started preparing a new Country Partnership Framework (CPF) for the five-year period of FY16 through FY20**. The CPF will be aligned with the recently completed SCD analysis of the key drivers for boosting shared prosperity and eliminating extreme poverty in Tunisia. The CPF will integrate the SCD's emphasis on the importance of establishing macroeconomic stability, improved governance and greater inclusion as pre-conditions for Tunisia to achieve sustainable and inclusive growth and poverty reduction, with a focus on improved connectivity between lagging and leading regions. Moreover, the CPF will (i) be aligned with the development strategy of the Government of Tunisia; (ii) be aligned with the WBG's twin goals; (iii) highlight WBG comparative advantage; (iv) identify the potential to achieve the highest impact in line with the SCD; and (v) allow for flexibility to respond to emerging needs and request stemming from the political volatility of the socio-political context.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

87. **The Government has consulted broadly on the individual reforms supported by the GOJ-3 DPL as they were being prepared.** The reform priorities supported by the DPL series were explicitly outlined in successive post-revolutionary Government's policy declarations to the National Assembly since 2012, and most recently as a part of the 100-days priority program in March 2015. Various public and stakeholder consultations were held on the program. Further consultations have taken place during the preparation of the proposed operation, targeting public sector officials, civil society and the private sector. The Government has notably engaged in various consultations with the Private Sector, for instance with respect to prioritizing regulatory simplification, or launching sector-specific Public-Private Dialogues (PPDs) for some key industries (both processes are supported by the Bank Group). Most importantly, as outlined above, the Government has organized a national dialogue on economic and social reforms throughout 2014, gathering the main political, private sector and civil society stakeholders, which led to the preparation of the strategic vision described in Section 3 above that embraces all the reforms supported by this proposed DPL.

88. **In addition, the Bank regularly undertakes consultations with key civil society organizations, the private sector, academia and youth groups on the reform program and its analytical underpinnings.** These consultations confirm that the content of the Government reform program generally enjoys broad support, as the reforms are deemed essential for Tunisia's economic transformation. Issues not directly targeted by the program, but also often raised as critical include regional development, informal trade, basic education reform and tax reform. The Bank continues to have excellent collaboration with the European Union (EU), the African Development Bank (AfDB), as well as United Nation Agencies and bilateral partners.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

113. **The poverty and social impacts of the policies supported by the GOJ-3 DPL are expected to be positive, through several channels, in particular related to growth, investment and financial stabilization, which in turn should improve job creation, in quantity and quality**. The investment climate measures are expected to yield direct benefits in

terms of consumer welfare (reduction in prices or increased access of financial or ICT services for instance), improved competitiveness of Tunisian companies and increased the attractiveness of Tunisia for international investors. Specifically, the Bank's recent *Development Policy Review* (DPR) includes estimates of job creation through the reforms envisaged under the program.[36] For instance, the financial sector restructuring would stimulate the generation of 38,000 new jobs by improving credit allocation and stimulating new investment while the liberalization of services, including telecommunications, would create more than 10,000 new jobs with higher value added potential. Furthermore, increased access to broadband optic backbone infrastructure, for instance should benefit in particular to the inland regions, thus enabling those regions to better take advantage of economic opportunities.

114. **The restructuring of state-owned entities in the banking sector and telecommunications sectors will entail some retrenchments, early retirement and changes in staffing and hiring policies**. For public banks, gains in efficiency should have sector-wide benefits. A modernized banking sector is expected to help Tunisia improve its economic performance recovery and therefore have an indirect positive economic impact on households and firms. The reforms will be introduced gradually to limit the risk that a credit crunch might exacerbate the current economic slowdown. The Bank has advised that specific compensation and activation schemes will have to be implemented and financed to complement standard labor provisions. On top of classic packages, countries that are experiencing similar situations develop measures including: (i) extra severance packages; (ii) specific early-retirement possibilities; and (iii) specific active policies to provide workers with additional capacity to remain in the workforce (training, entrepreneurship, etc.). Setting up such complementary support mechanisms are advised for this reform given the low protection offered by existing standard schemes in Tunisia and the potential for significant negative social impacts of this reform, mainly through loss of jobs in the short term. Advice on these issues could be provided upon request, notably in the context of the sector-specific operations envisaged for the financial sector and the telecommunications sector.

115. **The Bank's *Development Policy Review* has highlighted the impact of poor governance and rent seeking on economic growth and shared prosperity. Reforms supported by the GOJ DPL series have therefore been particularly scrutinized from this perspective**. The reforms supported directly target legal, regulatory or administrative loopholes that have been the source of cronyism. For instance, the telecommunications sector measures frontally address rent extraction by dominant market players.

5.2 ENVIRONMENTAL ASPECTS

116. **Tunisia has a well-established Environmental Impact Assessment (EIA) system.** In 2007, it was selected to pilot the use of country system in the solid waste sector. As a result of the successful implementation of this pilot, it has been decided to extend the scope of the use of the country system at the national level. All activities that may result in a significant impact on the

[36] World Bank (2014), *Development Policy Review: The Unfinished Revolution*, Chapters 6 and 11, Report No. 86179-TN.

environment are subject to an Environmental Impact Assessment, which has to precede the issuing of licenses and investment activity.

117. **The reforms supported in the proposed GOJ-3 DPL are not expected to have any positive or negative effects on the environment, forest and other natural resources**. Environmental requirements under OP 8.60 are applicable. The DPL supports policy actions that create the enabling environment to support growth and poverty reduction, which by themselves do not have an environmental impact.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

118. **The public finance management (PFM) system, together with the Government's commitment and plans to reform, are adequate to support this operation**. The PFM in Tunisia is generally regarded as sound, transparent and well organized. The Tunisian system is based on the principle, typical of francophone PFM systems, segregating the responsibilities and separating the roles between the payment authorizer (*ordonnateur*) and public accountant (*comptable public*), as well as on the principles governing ex ante expenditure control and internal and external audits.

119. **The 2010 Public Expenditure and Financial Accountability assessment (PEFA), followed by various Bank PFM reviews concluded that the legal and administrative framework for public financial management is generally sound and offers a solid level of assurance regarding the reliability of information, as well as a strong control environment, despite some weaknesses.** However, some weaknesses were also identified**.** The most recent PFM diagnostic reports confirmed that the PFM system supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. On the other hand, the reports also highlighted several shortcomings, notably in the field of medium-term financial planning, financial accounting, information and reporting systems, in particular because of difficulties in closing accounts at the end of the year, as well as internal and external financial controls. In recent years the administration has engaged in the PFM reforms, under the umbrella of the introduction of program budgeting and introduced preliminary measures to: (i) move to a performance based budgeting framework; (ii) develop a Medium Term Expenditure Framework (MTEF) to assist in fiscal sustainability; (iii) modernize its accounting framework; and (iv) improve revenue management. An update of the PEFA assessment will be completed in the second half of 2015, in coordination with the finalization of a new Organic Budget Law aiming at modernizing the PFM system. Both the Organic Law and the PEFA assessment should lead the way for the formulation of a medium-term PFM reform strategy.

120. **Fiscal reporting has made progress, even if the quality of fiscal data should be improved through accounting reform**. [37] Reconciliations of banking and fiscal records are done satisfactorily on a monthly basis, facilitated by efficient, even if rudimentary computerization. Financial control is ensured by effective and reliable control systems—both internal and external, as well as ex-ante and ex-post. Financial controllers, who are part of the Directorate-General of

[37] Every budget, regular and supplemental, is published in the official journal upon approval, and it is also made available on the Ministry of Finance web portal (http://www.finances.gov.tn). Budgets since 2003 are available online. In line with the reforms supported by the GOJ-1 DPL, the Government is also further expanding the publication of information related to the budget and public finances, including a more accessible "Citizen's budget" that has been published for the first time in 2014.

Financial Control (DGDP), carry out the ex-ante control of expenditure commitments and report to the Prime Minister's Office. The Court of Accounts carries out good quality external audit and the international standards on autonomy, scope and quality are met. The proposed budget and financial management reform program currently focuses on the implementation of sector MTEFs (which will be, in principle, framed by an aggregate MTFF and an MTEF that will frame the inter-sectoral resource allocation) and performance monitoring. It covers a range of PFM issues and includes a proposed training program, the implementation of a new budget classification, the finalization of the chart of accounts and the preparation of a new Organic Budget Law.

121. **The first-time safeguards assessment of the BCT undertaken in 2012 by the IMF in the context of the preparation of the SBA, found an adequate control environment for the day-to-day operations, but oversight, autonomy, and transparency need strengthening**. The BCT publishes its audited financial statements, but disclosure information could be enhanced. The risk management function should be strengthened, related notably to the mitigations of risks to the BCT balance sheet resulting from a significant increase in liquidity lending operations. Development of the internal audit function will need capacity building and oversight by the newly established Audit Committee. The BCT confirmed its commitment to implementing the recommendations of the safeguards assessment, some of which, such as the improvement of its collateral framework, have already been completed.

122. **The proposed loan will follow the Bank's disbursement procedures for development policy financing and will be disbursed in one tranche**. After the loan has been approved by the World Bank Group's Board of Executive Directors and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions as defined in the Loan Agreement. The proceeds of the loan will be deposited by the IBRD in a dedicated account designated by the Borrower and acceptable to the World Bank at the Central Bank of Tunisia at the request of the Borrower, upon submission of signed withdrawal applications. The Borrower should ensure that upon the deposit of the loan proceeds into said account, an equivalent amount in local currency is credited in the Treasury current account at the Central Bank. The conversion will be based on the prevailing exchange rate on the date that the funds are credited to the Treasury Account.

123. **The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited to the budget management system.** If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, the IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to the IBRD. Amounts refunded to the Bank upon such request shall be cancelled. The loan proceeds will be administered by the Ministry of Finance. The flow of funds (including foreign currency exchange) is subject to standard public financial processes. The Government budget is comprehensive, unified and subject to centralized Treasury account. The Government of Tunisia will provide a written confirmation to the IBRD within thirty days of disbursements. The confirmation will include the local currency amount credited to account that is used to finance budgeted expenditures, the exchange rate applied and the date of the transfer.

124. **Although an audit of the use of the funds may not be required, the IBRD reserves the right to ask for a transaction audit.** This audit, when asked for, will cover the accuracy of the transactions of the dedicated account, including accuracy of exchange rate conversions;

confirming that the dedicated account was used only for the purposes of the operation where no other amounts have been deposited into the account. Also the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the Bank no later than six months from the date a request for such audit is issued.

5.4 MONITORING, EVALUATION, AND ACCOUNTABILITY

125. **Implementation and coordination responsibilities.** The overall responsibility for the implementation and monitoring of the program within the Government rests with the Ministry of Development, Investment and International Cooperation, which coordinates all relevant activities with other ministries. The MDIIC takes the lead in monitoring progress in implementation of this operation. Given the importance and the policy areas of the program, the Prime Minister's office and the Central Bank are also involved in the monitoring of the program design and implementation. In order to improve coordination in reform monitoring, the Government is considering establishing a reform "delivery unit" reporting directly to the Prime Minister. The Delivery Unit, which terms of reference remain to be finalized, would monitor progress on key economic and social reforms, for which the coordinating and inter-ministerial facilitating leadership of the Prime Minister's office would be needed. These could include reforms supported by the DPL series among others.

126. **Supervision by the Bank.** Regular supervision allows the Bank to continue providing policy advice and technical assistance to the institutions involved in the implementation of the program of reform, notably thanks to its staff based in the field. The Bank will continue to maintain continuous dialogue with the relevant government ministries and will conduct regular reviews in close coordination with other development partners (notably the AfDB and the EU). Supervision by the Bank (and associated donors) is organized so as to cover the monitoring of the implementation of reforms supported by the predecessor 2012 GOJ-1 DPL and the 2014 GOJ-2 DPL.

127. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

6. SUMMARY OF RISKS AND MITIGATION

128. **The associated risks to this operation are summarized in the table below**. The main risks to this operation relate to: (i) potential uncertainty arising from security or social tensions; (ii) the macroeconomic outlook; (iii) the institutional and implementation capacity to deliver the program of reform; and (iv) the stakeholder risk as several reforms address existing privileges or situation of market dominance and need decisive decision-making in a complex political economy environment. The overall risk is rated as high.

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	**H**
2. Macroeconomic	**S**
3. Sector strategies and policies	**M**
4. Technical design of project or program	**M**
5. Institutional capacity for implementation and sustainability	**S**
6. Fiduciary	**M**
7. Environment and social	**L**
8. Stakeholders	**S**
9. Other	
Overall	**H**

129. *Risks related to potential uncertainty arising from security or social tensions*: as described above, the political tensions experienced in 2013, notably following the assassination of two political leaders had an impact on the pace of implementation of the reforms program supported by the series. While the political situation has improved markedly in 2014 and early 2015, with the successful completion of the democratic transition, the terrorists attacks of March and June 2015, are a tragic testimony that the security situation remains very fragile, due to both to domestic factors (remaining terrorist cells active in the country) and the external environment (most notably the influence from the instability in neighboring Libya). Similarly, social tensions have been recurrent for most of the first half of 2015, with an impact on the political climate and on the productive capacity of the country. The security risk will be mitigated by the measures taken in the aftermath of the most recent terrorist attack on a tourist resort in Sousse. On the social front, the recent adoption of a Decree institutionalizing the social dialogue, is an encouraging step towards establishing an orderly process to resolve labor disputes. More generally, the security challenge is likely to lead to a more cooperative stance among social partners, as had already been demonstrated during the political crisis of 2013.

130. *Risks related to the uncertainty of the macroeconomic outlook*: In addition to the impact of security and social tensions, uncertainty about the economic outlook related to the slow recovery of the Eurozone and the conflict in Libya, all pose significant risks to the economic stabilization in Tunisia. Low growth and poor employment prospects could reinforce a sense of lack of economic opportunity. The negative shock on tourism related to the terrorist attacks and the sensitivity of exporting sectors to growth variations in Europe both translate into higher credit and liquidity risks in the banking sector. These risks could further aggravate the already relatively tight liquidity and weak asset quality of the banking sector. To mitigate these risks, the authorities are considering various initiatives to improve public investment execution in the context of the 2015 supplemental budget, notably in lagging regions and have scaled-up some social interventions (cash transfers to the most vulnerable households). The measures supported by this operation will reinforce the banking sector and reduce the risks of financial instability. A continuation of the satisfactory implementation of the SBA with the IMF will provide a positive signal about the sustainability of the macroeconomic and fiscal framework. The completion of ongoing economic reforms before the end of 2015 and the finalization of the five-year economic development program that will chart out the economic policy and reform plan over the medium term, will be essential to consolidate macroeconomic stability and maintain debt at sustainable levels, contributing to restore confidence among domestic and international investors.

131. *Risks related to the institutional capacity to deliver reform:* The actual implementation of the reforms supported since 2011 has proven uneven and has suffered delays, partly as a result of implementation capacity shortages, but also on account of the negative impact of the political uncertainty on the administration's resolve to carry out some of the reforms in a timely fashion. The Bank's continuous technical assistance will help bridge the implementation capacity gaps, notably with respect to the financial sector reforms (bank restructuring, enforcement of the Bankruptcy Law, and operation of the asset management company) and sector reforms (telecommunications). Technical support from other partners will contribute to mitigate the risk (notably the IMF in the area of financial sector reforms or the EU with respect to competition policy). The new Government possesses a more predictable policy horizon, even if marred by the uncertainties mentioned above. The five-year plan under preparation will establish a clear reform implementation roadmap that will steer the priorities of the administration. Additional institutional adjustments to strengthen reform preparation, implementation and monitoring (in the form of a "reform delivery unit") are being undertaken at the level of the Prime Minister's office with the support of the Bank. This being considered, the acceleration of reforms in Tunisia will require a change in the approach to public policy and profound adjustments in the public administration. As a result, selectivity and careful sequencing of reforms will be key to their success.

132. *Risks related to stakeholder resistance*. Some key stakeholders will oppose the reforms, notably if they hold a dominant position on the markets or if they extract undue rents that are challenged by the reforms. Beyond the issue of interest groups, the political economy has also evolved in the new democratic Tunisia, where consensus building is sought through extensive consultation on reforms and policy actions. This requires a strengthening of the communication capacity in the Government to lay out to stakeholders and citizens more generally, the costs and benefits of the reforms proposed. The Bank's analytical work, in particular the *Development Policy Review*, has highlighted risks of capture and subsequent disconnect between reforms on paper and real change on the ground for citizens and firms. Many of the reforms supported by the GOJ DPL series aim at empowering citizens to obviate this risk. The new Government has taken a pro-active

stance on communication for reforms and is integrating public consultation and awareness dimensions its reform programs. Importantly, such communication efforts will need to highlight the costs to the broader community of not engaging into reforms, for instance in terms of foregone growth and financial sustainability. The Bank is also investing considerable effort in awareness-raising and consensus-building. To this end, it has engaged in a broad-based consultation and dissemination effort of the DPR's findings and recommendations. The Bank also supported a project supporting communications for reforms, in order to stimulate the national debate on key social and economic issues faced by Tunisia.[38]

[38] *Tunisia. Communications for Policy Reforms (P144917).*

ANNEX 1: POLICY AND INSTITUTIONAL REFORMS MATRIX AND RESULTS FRAMEWORK

Policy and Institutional Reforms			Results framework			
GOJ-1 DPL 2012	GOJ-2 DPL 2014	GOJ-3 DPL 2015	Indicator	Baseline	Current status	Target 2016
FIRST PILLAR DEVELOPMENT OBJECTIVE: PROMOTING A MORE COMPETITIVE BUSINESS ENVIRONMENT						
<u>*Investment climate*</u> Decree No.2012-1682 ("*Décret relatif à la mise en place d'un processus participatif pour l'évaluation et la révision des procédures administratives régissant l'exercice des activités économiques*") dated August 14, 2012, institutionalizing a systematic and participatory reform process of business formalities, based on streamlining of procedures, transparency, and reduction of arbitrary and discretionary behavior; and committing to deliver concrete reforms within 9 months of its publication, in the areas related to private investment, has been published in the National Gazette No.72 dated September 11, 2012.		The Government has taken the following measures to implement and expand the regulatory simplification process: (i) Decree No. 2014-3484, dated September 18, 2014, on the extension of the regulatory simplification to 4 additional Ministries, has been published in the Official Gazette No. 78, dated September 26, 2014; and (ii) a decision to simplify or cancel 154 measures identified as priority with the private sector has been approved by the Council of Ministers on October 22, 2014.	Quantitative estimate of compliance cost savings (in US$) (only covering few priority business formalities)	No savings	Following the ministerial decision, 91 procedures of the 154 have been reviewed and 51 have been canceled or simplified.	US$ 30 million
<u>*Telecommunications*</u> The President of the National Telecommunication Authority has issued Decision No. 67/2012 (« Décision No. 67/2012 de l'Instance Nationale des Télécommunications en date du 4 octobre 2012 portant sur le complément de l'Offre Technique et Tarifaire d'Interconnexion de la Société Nationale des Télécommunications pour l'année 2012, relative à l'accès à la station terrienne d'atterrissement des câbles sous-marins ») dated October	The President of INT has issued and published on the INT website, Decision No. 165/2013 dated November 15, 2013, to reduce the access tariffs to the submarine cables landing stations by at least sixty (60) percent with respect to the offer approved by INT in October 2012. The President of INT has issued and published on the INT website, Decisions No. 149 and 150, both dated June 13, 2013, opening up the market for fiber optic backbone infrastructure	The Government has taken the following measures to liberalize the telecommunications sector: (i) Decree No. 2014-4773 dated December 26, 2014, on the conditions and procedures for granting authorizations to internet service providers, has been published in the Official Gazette No. 7 dated January 23, 2015; (ii) the President of INT has issued and published on INT's website, decision No. 74/2014 dated November 17, 2014, accepting a technical and tariff offer for unbundling, thereby allowing telecommunications market	Price of international telecommunications (Skype Termination Rate to Tunisia in cents/min) Available international bandwidth Number of broadband wholesale access	39.5 US cents/minute 2011 = 37.7 Gb/s 0	No change on incoming calls but sizeable reduction in the cost of outgoing calls and roaming charges. 2012: 93.9 Gb/s 2013: 131.2 Gb/s End 2014 = 0	-50% , or 20 US cents/minute 200 Gb/s 15,000

Policy and Institutional Reforms			Results framework			
GOJ-1 DPL 2012	GOJ-2 DPL 2014	GOJ-3 DPL 2015	Indicator	Baseline	Current status	Target 2016
04, 2012, to open up access to the landing stations of international telecommunications cables to more operators in addition to Tunisie Telecom.	by approving alternative providers (*Société Nationale de Chemins de Fer Tunisiens* (SNCFT), and *Société Tunisienne d'Eléctricité et de Gaz* (STEG)) to lease capacity to licensed operators on a non-discriminatory and cost-oriented basis and to provide connectivity across borders.	operators to have direct access to SNT's local loop telecommunication infrastructure at conditions acceptable to the Bank; and (iii) the President of INT has issued and published on INT's website, decision No. 71/2015 dated July 5, 2015, establishing the conditions and implementation modalities for portability of fixed and mobile numbers. Implementation Decree No. 2015-85 dated April 24, 2015, of Law No. 2014-48 dated July 24, 2014, on the restructuring of SNT, the state-owned telecommunications company, has been published in the Official Gazette No. 34, dated April 28, 2015.	points (unbundling or bitstream)			
SECOND PILLAR DEVELOPMENT OBJECTIVE: STRENGTHENING THE FINANCIAL SECTOR						
The Governor of the Central Bank has issued Circular No. 2012-09 ("*Circulaire aux établissements de crédit No. 2012-09 relative à la division, couverture des risques et suivi des engagements*"), dated June 29, 2012, revising the Circular 91-24 dated December 17, 1991 outlining stricter prudential regulations for the banking sector.			Minimum solvency ratio for banking system (CAR)	Minimum 8%	Three banks out of twenty-one are below 9% as per end 2014 (average capital adequacy ratio 9.7%)	Minimum 9%
The Minister of Finance has issued the call for Expression of Interest to contract one or more firms to carry out strategic and financial audits of the three public banks, namely *Société Tunisienne de Banque* (STB), *Banque de l'Habitat* (BH), and *Banque Nationale Agricole* (BNA).	Decree No. 2013-4953 dated December 5, 2013, on the modalities of management and governance of the three publicly owned banks (*Société Tunisienne de Banque*, STB; *Banque Nationale Agricole*, BNA; and *Banque de l'Habitat*, BH), was published in the	The following measures have been taken to restructure the state-owned banks: (i) the board of directors of STB has adopted a detailed restructuring plan for STB on April 16, 2015; (ii) the board of directors of BH has adopted a detailed restructuring plan for BH on March 3, 2015; and (iii) the	Restructuring plans for STB, BH and BNA	None End-2014:	The audits of the public banks have been completed for two of the three Banks. The third audit launched (expected completion October 2015).	Implementation of restructuring strategies for STB, BH and BNA has been initiated, as exemplified by the award of contracts to modernize the banks' IT infrastructures.

Policy and Institutional Reforms			Results framework			
GOJ-1 DPL 2012	GOJ-2 DPL 2014	GOJ-3 DPL 2015	Indicator	Baseline	Current status	Target 2016
	Official Gazette No.98, dated December 10, 2013.	Inter-ministerial Council has adopted a restructuring strategy for BNA on November 11, 2014. The Government has taken the following measures to improve the governance of state-owned banks: (i) the call for manifestation of interest for the positions of chief executive officers for STB, BH and BNA has been published on the Ministry of Finance's website on July 22, 2015; and (ii) Decree No. 968 dated August 6, 2015, complementing Decree No. 90-1855 dated November 10, 1990, and establishing the compensation regime of chief executives of state-owned companies has been published in the Official Gazette No. 63 dated August 7, 2015.	Common Equity Tier 1 ratio of the restructured banks STB and BH	STB CET-1: -5.7% BH CET-1: 4.6%. BNA CET-1: 6.3%.		STB CET-1: 7% or more BH CET-1: 7% or more BNA CET-1: 7% or more.
THIRD PILLAR DEVELOPMENT OBJECTIVE: PROVIDING MORE INCLUSIVE AND ACCOUNTABLE SOCIAL SERVICES						
Decree No. 2369 ("*Décret No. 2012-2369 fixant les programmes du Fonds National de l'Emploi, les conditions et les modalités de leur bénéfice*") dated October 16, 2012, which revises Decree No. 349-2009 dated February 09, 2009, setting the programs of the National Employment Fund, has been published in the National Gazette No. 82 dated October 16, 2012.			(i) Number of beneficiaries of the Labor Market Programs, (of which female %); (ii) Insertion rate of the Labor Market Programs (as measured by share of individuals who get a contract after program completion).	(i) 45,000 (in 2011) (of which 59% female); (ii) 14% (in 2011).	No change	(i) 45,000 beneficiaries (of which 60% female) (ii) 20%
Decree No. 1709 ("*Décret No. 2012-1709 portant création de l'instance nationale de l'accréditation en santé et fixant ses attributions, son organisation administrative,*	Decree No. 2013-3232 dated August 12, 2013, institutionalizing participatory, independent evaluation of service delivery performance improvement under the national		Number of hospitals that have conducted and published results of evaluations of hospital services	New program (no evaluations)	No evaluations to date.	At least 5

Policy and Institutional Reforms			**Results framework**			
GOJ-1 DPL 2012	GOJ-2 DPL 2014	GOJ-3 DPL 2015	Indicator	Baseline	Current status	Target 2016
scientifique et financière ainsi que les modalités de son fonctionnement") dated September 6, 2012, establishing a National Authority for the Evaluation and Accreditation of Health Services and setting its administrative, financial and operational modalities, has been published in the National Gazette No.72 dated September 11, 2012. Decree No. 1719 ("*Décret No. 2012-1719 fixant la composition de l'instance nationale de l'évaluation, de l'assurance qualité et de l' accreditation et les modalités de son fonctionnement*"), dated September 14, 2012, establishing the National Authority for the Evaluation, Quality Assurance and Accreditation of higher education, has been published in the National Gazette No.73 dated September 14, 2012.	controller's body, has been published in the Official Gazette No.67 dated August 20, 2013.		and have instituted improvement plans (among regional and university hospitals, n=55). Annual publication of performance indicators at the governorate level. Programs and institutions evaluated and accredited.	 New program (no evaluations). 33 programs have been evaluated 0 institutions have been accredited.	 Participatory evaluations have been piloted in three municipalities (municipal services at large), and 3 central ministries regarding their access to information policies. No evaluations by the new agency to date.	 24 governorates publish indicators on an annual basis with a focus on priority sectors At least 40 programs have been evaluated At least 3 institutions have started the accreditation process
FOURTH PILLAR DEVELOPMENT OBJECTIVE: INCREASING TRANSPARENCY AND ACCOUNTABILITY IN PUBLIC GOVERNANCE						
The Head of Government has issued Circular No. 25-2012 (*"Circulaire No. 25 [concernant] l'accès aux documents administratifs des organismes publics"*), dated May 5, 2012, specifying the procedures for the implementation of the Decree-Law 41-2011 dated May 26, 2011 which aims at promoting transparency and harmonizing the means and procedures regarding public access to documents held by public agencies.		The Government has submitted a revised draft of the Organic Law on Access to Information to the Parliament (*Assemblée des Représentants du Peuple*) on August 6, 2015.	Number of information request that have been responded to.	None. The draft budget and the budget	80 (H1 2013) Between July 2013 and June 2014, 544 requests of which more than 500 have been satisfied (partial data). Adopted budgets are published online	50 percent increase from H1 2013 figure The draft budget and the budget execution reports

Policy and Institutional Reforms			Results framework			
GOJ-1 DPL 2012	GOJ-2 DPL 2014	GOJ-3 DPL 2015	Indicator	Baseline	Current status	Target 2016
The Minister of Finance has issued Decision No. 278 (*"Note [concernant] la publication des données et informations relatives aux Finances Publiques"*), dated August 25, 2012, mandating the publication of key information on public finances, including a Citizen's Budget providing an online open budget platform which allows citizen's direct access to detailed and real time public expenditure data.		The annual official report on the finances of state-owned enterprises for the period 2010-2012 has been published on the website of the Prime Minister's Office.	Information on public finances is published on the Ministry's website. Consolidated financial data on SOEs is published on the Government's website.	execution reports are not regularly published. Public expenditure data is not available online. Annual publication of public expenditure data and consolidated SOE financial statements on the Government website.	as well as a few other documents (from a list jointly determined with the MOF). A citizen's budget has been published for the first time in early 2014. SOE report published for the first time at end 2014.	are published on a regular basis. Public expenditure data is available online, including the mapping of regional investment projects SOE report has been published in 2015 and 2016.
Decree No. 2014-1039 dated March 13, 2014, on the national public procurement system, has been published in the Official Gazette No. 22, dated March 18, 2014.			Average time needed to award a contract (from bid submission to date of contract signing).	200 days.	168 days (average May 2015).	140 days.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

Unofficial English Translation

Ministry of Development, Investment and International Cooperation
DGP/DGCM

August 11, 2015

Mr. Jim Yong Kim
President of the World Bank Group
The World Bank
1818 H Street, NW
Washington, DC 20433
United States of America

Letter of Development Policy

Mr. President of the World Bank Group

I. Country background

Tunisia has just completed its successful political transition with the promulgation of the Second Republic's constitution and the establishment of sustainable institutions in the country, such as the Assembly of People's Representatives and a legitimate Government. Encouraged by this political stability, the country is preparing to start its economic transition and reconfigure its approach to development.

However, this transition is taking place within a still difficult socio-economic climate caused by the sluggishness characterizing the economic activity and the continuing instability of the social situation, in addition to the security risks that still hover over the country despite the recorded improvements.

Faced with these acute social and economic problems and the constraints imposed by the external environment marked by insecurity in the region, the new Government has shown determination with regard to undertaking the actions necessary for the cyclical and structural plan aiming at redressing the situation. Indeed, the Government has undertaken, from the very beginning, to closely monitor the progress of public investments in difficulty in the areas of infrastructure and community services with the aim of accelerating the progress of these project. The effects of this progress would be felt at the level of economic dynamics, employment and living conditions in the poor areas of the country.

At the security level, the Government is fully committed to the eradication of the terrorist nebula and the fight against smuggling. It is also working on allaying the chaotic and destabilizing claimant movements in order to emancipate the production system and provide all the conditions conducive to the return to normal pace. It should be noted that the President of the Republic has decreed since July 4, 2015 the state of emergency to support the Government's efforts in the fight against terrorism.

Furthermore, and in order to control prices and protect the purchasing power, the Government has initiated a series of actions related to the intensification of field work especially with regard to wholesale and retail markets, negotiation of price restraint agreements with the concerned professions, reinforcement of control and pursuit of the parallel trade elimination process.

The Government has also recently concluded an agreement on general wage increases in the public sector.

Meanwhile, the Government is striving to pursue structural reforms particularly in the financial sector where a public bank restructuring project has just been completed. In addition, the government is working on Tax reform, customs reform, a new Banking Law and the new Investment Code. To accompany these reforms, the Central Bank of Tunisia is revising its foreign exchange regulation.

A Supplemental Budget Law has just been approved by the National Assembly, including measures to support the fight against terrorism with an increase of 35 percent in the investment budget of security forces, as well as selected measures in support of the sectors most affected by the terrorist attacks.

Indeed, the 2015 forecasts predict a 1% economic growth against 2.3% in 2014. This rate is mainly due to a modest agricultural season and the exacerbated stress factors both on tourism, especially after the Bardo and Sousse events, and on the manufacturing and non-manufacturing industries due to the decreasing production of fuel products and phosphates.

On the demand side, growth is driven by private consumption while the contribution of private investment and foreign trade remains negative despite the measures enacted to maintain the trade balance.

Furthermore, it should be noted that the macroeconomic balances remain under pressure as demonstrated by the persistence of constraints on public spending, the high level of budget deficit and the current balance-of-payments deficit, the deteriorating debt indicators, the persistence of inflation and the widening gap between the Tunisian dinar value against major foreign currencies despite the signs of progress observed on some fronts.

The country's financing needs remain high around TND 10315.7 billion for 2015.

It is in this context that the new program of support to the economic recovery falls. It is another addition in the series of technical and financial assistance plans provided by the World Bank to support the national development efforts to overcome the transitional phase constraints.

On the one hand, this program is based on the continuity of the reform measures planned in the previous programs. On the other hand, it takes in consideration the priorities and attributes of the new development model, which will be the subject of a national survey involving the various stakeholders. This survey represents a recognition of the approach of active participation of all the stakeholders in the public debates and in determining societal choices.

In order to plan and coordinate its medium term action, the Government has prepared a draft guidance note on the new development plan. This note aims at drawing up a new vision of development for Tunisia and defining the priorities and strategic directions for the next five years.

II. The new development model

The revolution of January 14, 2011, which revealed the real development problems relating to the extent of corruption, the rising unemployment, the widening regional disparities and the inequitable distribution of wealth, has exposed the necessity to remodel the development approach so as to ensure balance and reconciliation between the political, economic and social dimensions within a vision that takes into account the requirements of this stage, the depth of societal transformations and the rapid global changes.

The attributes of the new development model for Tunisia are based on new values encouraging development and prosperity, consolidation of democracy, respect for human rights, and consecration of good governance, in addition to economic efficiency based on innovation and partnership, and inclusion as the basis of social justice, knowledge society and sustainability.

<u>The new values backing development and prosperity</u>

A new value system is necessary today. This system would lead to a profound change in individual and collective awareness regarding the design of a new social project, which reinforces the national identity encompassing the cultural, religious, historical dimensions and ethical references, on the one hand, and insists on the universal values of human rights and openness to other civilizations and modernity, on the other hand.

The establishment of the pillars of an authentic civilizational project should be factually based on a national institutional platform, confidence in the future, solid work values, free initiative and creativity and innovation particularly among young people.

In this respect, all the nation's driving forces and the various components of civil society are invited to intensify their efforts and establish a strong coordination in order to enhance the values of solidarity between the different social categories, regions and generations. These are the basic elements and the main factors of building a participatory and inclusive development approach.

Consolidating Democracy and Respect for Human Rights

Although the foundations of democracy and human rights are formally provided for in the constitution, they require independent control and protection guarantees through enduring constitutional bodies.

Dignity is considered the substance of any individual's basic needs and all the other rights evolve around it. Therefore, we must preserve Human rights in all their dimensions and prevent any inhumane practices.

The importance of local governance joint action, decentralization and local democracy will be recognized in the drafting of the appropriate legislative framework and the organization of elections of municipal, regional and local councils.

Furthermore, the establishment of an independent judiciary power is one of the priorities for the next stage, given its importance in the consolidation of democracy and the establishment of the rule of law.

Good governance

Good governance is materialized by the adoption of a participatory approach that allows individuals and institutions to develop a better management of resources and a capacity for formulating, implementing and evaluating decisions. The success of the participatory process requires the existence of a strong and organized civil society in addition to the conduct of transparent and fair elections.

Transparency and accountability of staekholders, which are the pillars of good governance, are the keys that allow to face corruption and restore confidence between citizens and administration. Similarly, the establishment of an independent and responsible control and the strengthening of control bodies will lay down the foundations of a greater transparency.

Economic efficiency based on innovation and partnership

The structural transformation of economy for the purpose of attaining a more employment-intensive pattern of growth consists in promoting high-value-added activities based on innovation and productivity.

A new partnership between the public and private sectors and an improving business environment favor the investment effort, especially in inland areas, and reduce the constraints on public finances. A greater openness to international markets is also likely to integrate the national economy further in the chain of global values and to mobilize the adequate financial resources to finance the development efforts.

Inclusion as the basis of social justice

The reform of the system of social transfers, including subsidies, taxation, and social security, represents the first pillar of social justice.

The consecration of social and solidarity economy as a vector of inclusive growth represents the second pillar of equity between individuals and social groups.

The third dimension of the new policy on poverty reduction and social inclusion is based on developing social services and basic infrastructure in disadvantaged regions, continuing the implementation of health system reforms, supporting vulnerable groups, strengthening women’s acquired rights and promoting culture.

Development of Human resources

Knowledge is considered a source of wealth creation and a major determinant of economic growth. Therefore, efforts will be intensified to lay the foundations of knowledge economy by developing skills, supporting scientific research, modernizing infrastructure in the fields of science and technology, promoting respect for intellectual property, establishing an adequate legislative framework and adopting new ways of work and organization based on interactivity and complementarity between the different actors.

In addition, the development of human resources will be promoted through the reform of education and training systems, the creation of centers of excellence in all the stages of education and research as well as by encouraging the widespread use of new technology in education and training and by improving skills to foster the development of labor productivity and improve the use of knowledge in different fields.

Development sustainability

The sustainability of development requires a fundamental revision of the previously made choices within the framework of a new policy of regional planning. This policy should take into account the vulnerability of the available natural resources and the regional specificities, as well as protect the environment and allow for spatial redistribution of both the population and the activities in a fair and inclusive manner.

Good governance of natural resources and of environment protection is the basis of a sustainable development and a green economy combining economic development and preservation of the right of future generations. In this context, the issues related to energy, water, waste management and pollution are the main areas that require special care given the scarcity of resources, the pressure of demand and the climate change, which urge toward the use of unconventional resources.

III. Policy measures of the fourth economic recovery program

The new economic recovery support program includes seven components which aim at asserting the rules of governance, improving the business climate, reforming the financial sector, and developing the telecommunications sector.

Regulatory Simplification

This project falls within the framework of improving the business climate by reducing the administrative burden on private companies in their interaction with the administration.

In this context, 1100 administrative procedures within 7 ministries have been evaluated by the Administration. A consultation with the private sector was held and resulted in the private sector's identification and evaluation of 240 priority procedures.

The results of the project approved by the Council of Ministers on October 22, 2014, are as follows:

- 147 procedures simplified,
- 7 procedures removed,
- 86 procedures maintained.

The draft legislative and regulatory texts necessary for the realization of the project's results are being prepared.

To ensure the sustainability of the project's positive effects, other measures have been implemented including:

- The publication of Decree No. 2014-3484 of 18 September 2014 on the establishment of a participatory process to simplify the administrative procedures governing the economic activities within the Ministry of Interior, the Ministry of equipment, territory planning and sustainable development, the Ministry of tourism and the Ministry of health. This decree is focused on the process of inventorying and evaluating the administrative procedure and the structures intervening therein, as well as on monitoring this process.

- The publication of Decree No. 2014-4516 of 22 December 2014 on the establishment of investors supervisory units to strengthen the mechanisms of communication between the administration and the investors for the purpose of improving the process of mentoring and assisting investors in resolving issues that affect their economic activity. The decree has introduced provisions on the investors supervisory units established within the ministries and governorates as well as the investors' central supervisory unit created at the level of the Presidency of the government.

Reform of the Telecommunications Sector

The measures implemented in this sector are intended to provide telecommunication services that are more affordable, more competitive and more accessible to the population and businesses. These measure will help boost competition and open the market on the most important segments such as international communications and broadband internet to boost economic and social development and international competitiveness. Conducting these reforms to completion is a necessary condition for achieving the ambitious objectives of the "Digital Tunisia 2018" plan. This reform includes restructuring Tunisie Telecom, regulating the activity of Internet services providers in addition to establishing virtual operators.

The Government's efforts to implement these reforms have begun with the publication in the Official Journal of the Tunisian Republic of Act No. 2014-48 of 24 July 2014 on the implementation of voluntary retirement before the legal retirement age for the employees of the national telecommunications company in the context of the restructuring of Tunisie Telecom, and of the government Decree No. 2015-85 of 24 April 2015 laying down the procedures and modalities for implementing the provisions of Act No. 2014- 48 of July 24, 2014. These regulatory texts organize the voluntary retirement for Tunisie Telecom employees. This measure will restore the company's competitiveness by enhancing human skills development, including through hiring young graduates under more affordable financial conditions.

The Decree No. 2014-4773 of 26 December 2014 laying down the conditions and procedures for granting authorization to exercise the activity of Internet service provider aims to allow Internet service providers to make all the investments or transactions required for the provision of such services, including the establishment of telecommunications infrastructure or the lease of the available excess telecommunications resources capacity on public services networks in accordance with the Telecommunications Code. With regard to improving the competitiveness of the ICT sector through the establishment of virtual operators, the Ministry granted three licenses to virtual operators in December 2014.

Similarly, other measures to support this sector have focused on the publication on the website of the National Telecommunications Commission of a decision on unbundling and a decision on the provision of "Bitstream" access (access to and collection of broadband internet services enabled on xDSL access): The National Telecommunications Commission decision No. 74 of 17 November 2014 was related to the approval of the part relevant to the full unbundling of the local loop in the technical and pricing quotation of interconnection and access submitted by the National Telecommunications Company for 2014.

This decision has validated a new pricing formula under which the costs-oriented unbundling price is set at TND 12.3 per month. The Telecom funds will provide funding to cover capital expenditure raised by unbundling, which will lead to a decrease of TND 3.7 from the previous rate

The bitstream offer represents a sequenced and geographical complement to the unbundling offer. It is considered as sequenced because Tunisie Telecom's competitors cannot settle in all of Tunisie Telecom's sites at the same time to be able to access the copper access network. The competitors will therefore propose an offer competing with Tunisie Telecom's at the national level by using a mix of unbundling and bitstream. The offer is also regarded as geographical as the bitstream allows to benefit from the economies of scale (since all the operators lease capacity on the network of Tunisie Telecom to access the copper access network). Thus, the competitors will use the bitstream to propose competing offers in the less populated areas and will help increase access to broadband services in these areas.

The Tunisian authorities are developing in consultation with the concerned stakeholders an approach to end the margin squeeze for the bitstream. This approach could take the form of a gliding path over several years, which could also mark out, in cooperation with the stakeholders, more operational aspects related to the bitstream commands treatment process. All these elements will be taken into account in the approval decision of the bitstream offer to be taken by the INT for 2015.

In addition, the INT has indicated that the reform on fixed broadband Internet is supplemented by an additional decision establishing the portability of mobile and fixed numbers in Tunisia.

Restructuring of state-owned banks

Initiated by the transitional government, the reform of public banks has actually started with the launch of "full audits" of the three main public banks (STB, BNA and BH) between 2013 and 2014. The purpose of these audits is to improve the vitality and stability of the banking sector, increase access to finance for economic actors as well as improve the sector's capacity of directing savings towards the most productive projects. The restructuring of public banks will also reduce the fiscal risk.

Faced with the now stronger competition from private banks and tighter prudential rules, public banks appear less well equipped to withstand competition and expand.

Since the beginning of the year, significant progress has been made in the three concerned banks:

- ***Banque de l'Habitat***: The restructuring plan was approved by the bank's Board of Directors on March 3, 2015. The recapitalization needs were estimated at TND 110 million in the Recapitalization Law approved by Parliament on August 7, 2015.

  With the arrival of new members to the Board, various committees have been established and / or reorganized (Risk, Audit, Credit and Monitoring of the Restructuring Plan). With regard to the implementation of the restructuring plan, the BH has launched several tenders, including one aiming at hiring a firm that would undertake redesigning the bank's organizational chart. In terms of technical partnership, the BH has made preliminary contacts with the IFC and the EBRD.

- ***Société Tunisienne de Banque***: The new Board of Directors has adopted on April 16, 2015 the restructuring plan. This plan provides for a one-shot recapitalization of TND 757 million as approved in the Recapitalization Law approved on August 7 by the national Assembly. The plan foresees that STB meets regulatory compliance by the end of 2015. The plan also calls for investments totaling nearly TND 300 million. As for the BH, an open tender will be launched to select a technical partner that will accompany STB in its recovery efforts.

- ***Banque Nationale Agricole***: the BNA's restructuring strategy adopted by the restricted ministerial council in June 2014 gave an overview of the preliminary audit results and the initial guidelines for the establishment of a detailed restructuring plan. The strategy is divided into two phases: the first phase (2015-2017) will focus on organizational recovery and restructuring around the areas of agricultural finance and corporate finance by focusing on SMEs.

  In the second phase, different alternatives will be considered for these two sectors. These alternatives may range from maintaining the dual structure with public control to separating the two sectors. The Government has already approved the amount of TND 270 million for the recapitalization of BNA.

- To improve **governance in the banking sector**, the Government has prepared a decree on the remuneration system of public banks directors. In addition, it has published an open tender for the selection of new directors for two public banks (STB and BH).

Access to information and transparency of public finances

The reform on access to information and transparency of public finances will establish the right of access to information provided for in the new Constitution. For this purose, the Government has launched a national consultation to engage citizens and civil society in the drafting of a bill that will annul and supersede Decree Law No. 41 of May 26 2011 relating to the access to administrative documents of government agencies.

The new law aims at enhancing transparency, accountability and public confidence vis-à-vis the administration through the establishment of an integrated system supporting the real consecration of the right of access to information. The draft of the new organic law on access to information was revised and submitted to the National Assembly on August 6, 2015.

The report on the financial statements of public companies, which aims at enhancing companies' transparency, was published on the Government's website.

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The content of the reform actions part of this program demonstrates the commitment of Tunisia to engage in a new process of development and construction that would anchor the spirit of democracy and ensure economic prosperity and social progress in accordance with the aspirations of the revolution.

The technical assistance and financial support to this reform effort represent an essential condition to face present and future challenges. The Tunisian government is very determined to implement all the reforms planned in this program to ensure the success of the transitional stage and invites the World Bank to provide it with the appropriate financial support.

Signed: H.E. M. Yassine BRAHIM, Minister of Development, Investment and International Cooperation.

Original French Version

Ministère du Développement, de l'Investissement et de la Coopération Internationale
DGP/DGCM

11 AOU 2015

Monsieur Jim Yong Kim
Président du Groupe de la Banque mondiale
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Projet de lettre de politique de développement
Quatrième programme d'appui à la relance économique

Monsieur le Président du Groupe de la Banque mondiale

I. Contexte pays

La Tunisie vient d'achever sa transition politique avec succès après la promulgation de la constitution de la deuxième république et la mise en place des institutions durables du pays, en l'occurrence l'Assemblée des Représentants du Peuple et un Gouvernement légitime. Fort de cette stabilité politique, le pays s'apprête à engager sa transition économique et reconfigurer son approche de développement.

Cependant, cette transition s'inscrit dans un climat socioéconomique encore difficile de par l'atonie qui caractérise l'activité économique et la persistance de l'instabilité de la situation sociale en plus des risques sécuritaires qui planent toujours sur le pays, malgré les améliorations enregistrées.

Face à l'acuité de ces problèmes socioéconomiques et aux contraintes de l'environnement externe marqué par l'insécurité qui règne dans la région, le nouveau Gouvernement s'est montré résolu à engager les actions requises au double plan conjoncturel et structurel pour redresser la barre. En effet, le Gouvernement s'est penché, dès les premiers jours, à suivre de près l'état d'avancement des investissements publics en difficulté dans les domaines de l'infrastructure et des services collectifs dans l'objectif d'en accélérer le rythme, dont les effets doivent se font sentir au niveau de la dynamique économique, de l'emploi et des conditions de vie dans les régions défavorisées du pays.

Sur le plan sécuritaire, le Gouvernement est pleinement engagé dans l'éradication de la nébuleuse terroriste, la lutte contre la contrebande tout en œuvrant à apaiser les mouvements sociaux afin d'émanciper l'appareil de production et réunir toutes les conditions propices au retour à un bon rythme de travail. Il y a lieu de noter que le Président de la République a décrété depuis le 4 juillet 2015 l'état d'urgence pour soutenir l'effort du Gouvernement dans la lutte contre le terrorisme.

En sus et dans l'objectif de maîtriser les prix et protéger le pouvoir d'achat, le Gouvernement a initié une série de mesures relevant de l'intensification du travail sur terrain notamment au niveau des marchés de gros et de détail, de la recherche avec la profession d'accords de modération des prix, du renforcement du contrôle et de la poursuite du processus de résorption du commerce parallèle.

De surcroît, le Gouvernement a récemment conclu un accord sur les augmentations générales des salaires dans le secteur public.

Parallèlement, le Gouvernement s'attèle à poursuivre les réformes structurelles notamment dans le secteur financier où un projet de restructuration des banques publiques vient d'être achevé, en plus de la poursuite des travaux de la réforme de la fiscalité, de la douane, de la loi bancaire et du nouveau code d'investissement. En parallèle, la Banque Centrale de Tunisie est en cours de réviser le code des changes.

Une loi de finance complémentaire vient d'etre adopté par l'Assemblée des représentants du peuple, elle comporte essentiellement un support à la lutte contre le terrorisme avec une augmentation de 35% du budget d'investissement des forces de sécurité et quelques mesures de support aux secteurs les plus touchés par les actes terroristes.

En effet, les prévisions pour l'année 2015 tablent sur une croissance économique de 1% contre 2,3% prévu en 2014. Cette baisse est essentiellement imputable à une saison agricole modérée et à l'exacerbation des contraintes aussi bien sur l'activité touristique et de transport surtout après les évènements de Bardo et de Sousse que sur les industries manufacturières et non manufacturières, en raison du fléchissement de la production des hydrocarbures et des phosphates.

Du côté de la demande, la croissance reste tirée par la consommation privée contre une contribution négative de l'investissement privé et du commerce extérieur malgré une amélioration du solde de la balance commerciale.

Par ailleurs il importe de signaler que les équilibres macroéconomiques demeurent sous pression ; En témoignent la persistance des contraintes sur les dépenses publiques, le niveau élevé du déficit budgétaire et du déficit courant de la balance des paiements, la détérioration des indicateurs de la dette, la persistance de l'inflation et le fléchissement de la valeur du dinar par rapport aux principales monnaies étrangères.

Les besoins de financement du pays restent ainsi élevés, ils sont de l'ordre de 10315,7 MD pour l'année 2015.

C'est dans ce cadre que s'inscrit le nouveau programme d'appui à la relance qui s'ajoute à la série d'assistance technique et financière apportée par la Banque mondiale à l'effort de développement national pour surmonter les contraintes de la phase transitoire.

Ce programme repose, d'une part, sur la continuité des actions de réforme prévues dans les programmes précédents et tient, d'autre part, en considération les priorités et les attributs du nouveau modèle de développement qui fera l'objet d'une consultation nationale auprès des différentes parties prenantes en consécration de l'approche de concertation et de participation active de toutes les forces vives aux débats publics et à la fixation des choix sociétaux.

En vue de planifier et coordonner son action à moyen terme, le Gouvernement a élaboré un projet d'une note d'orientation relative au nouveau plan de développement. Cette note vise à dresser une nouvelle vision de développement de la Tunisie et définir les grandes priorités et orientations stratégiques pour le prochain quinquennat.

II. Nouveau modèle de développement

La révolution du 14 Janvier 2011, qui a révélé les vrais problèmes de développement ayant trait à l'étendue de la corruption, la montée du chômage, le creusement des disparités entre les régions ainsi que l'inégalité de la répartition des richesses, proclame le remodelage de l'approche de développement dans le sens d'assurer l'équilibre et la réconciliation entre les dimensions politiques, économiques et sociales, au sein d'une vision qui tient compte des exigences de l'étape, de la profondeur des transformations sociétales et des contraintes des changements géopolitiques régionaux mondiaux.

En l'occurrence, les attributs du nouveau modèle de développement pour la Tunisie reposent sur de nouvelles valeurs impulsant le développement et la prospérité, la consolidation de la démocratie et du respect des droits de l'Homme, la consécration de la bonne gouvernance, l'efficience économique basée sur l'innovation et le partenariat, l'inclusion comme base de la justice sociale, la société du savoir et la durabilité.

Nouvelles valeurs impulsant le développement et la prospérité

Un nouveau système de valeurs s'impose aujourd'hui et qui conduirait à un changement profond dans la conscience individuelle et collective concernant la conception d'un nouveau projet sociétal qui renforce, d'une part, l'identité nationale englobant les dimensions culturelles, religieuses, historiques et les références morales et insiste, d'autre part, sur les valeurs universelles des droits de l'Homme, l'ouverture sur les autres civilisations et la modernité.

L'établissement des piliers d'un projet civilisationnel et authentique se base, dans sa substance, sur l'existence d'une plateforme institutionnelle nationale, la confiance en l'avenir, l'ancrage des valeurs du travail, la libération de l'initiative, la créativité et l'innovation notamment chez les jeunes.

A cet égard, toutes les forces vives et les différentes composantes de la société civile sont invitées à intensifier leurs efforts afin de rehausser les valeurs de solidarité entre les différentes catégories, régions et générations qui constituent les éléments fondamentaux et les principaux facteurs d'instauration d'une approche de développement participative et inclusive.

Consolidation de la démocratie et du respect des droits de l'Homme

Bien qu'elles sont solennellement prévues par la constitution, les bases de la démocratie et des droits de l'homme appellent des garanties de contrôle et de protection indépendantes, moyennant des instances constitutionnelles durables.

La dignité est considérée comme étant la substance des revendications de l'individu et autour de laquelle se réunissent les autres droits. De ce fait, il faut préserver les droits de l'Homme dans toutes ses dimensions et prévenir toute pratique inhumaine.

Par ailleurs, étant conscient de l'importance de l'action commune des affaires publiques locales, la décentralisation et la démocratie locale seront consacrées par l'élaboration du cadre législatif approprié et l'organisation des élections des conseils municipaux, régionaux et locaux.

De plus, l'instauration d'un pouvoir judiciaire indépendant est placée parmi les priorités de la prochaine étape compte tenu de son importance dans la consolidation de la démocratie et l'instauration de l'Etat de droit.

Bonne gouvernance

La bonne gouvernance se matérialise par l'adoption de l'approche participative qui permet aux individus et institutions de développer une meilleure gestion de ressources et une capacité de formulation des décisions ainsi que leur exécution et évaluation. La réussite du processus participatif nécessite l'existence d'une société civile forte et organisée et le déroulement d'élections transparentes et régulières.

Piliers de la bonne gouvernance, la transparence et la responsabilisation des acteurs permettent de faire face à la corruption et de rétablir la confiance entre le citoyen et l'administration. De même, l'instauration d'un contrôle indépendant et responsable et le renforcement des organes de contrôle va consacrer une meilleure transparence.

Efficience économique basée sur l'innovation et le partenariat

La transformation structurelle de l'économie pour une croissance à fort contenu en emploi consiste à promouvoir les activités à forte valeur ajoutée, basées sur l'innovation et la productivité.

Un nouveau partenariat entre le secteur public et privé, ainsi que l'amélioration de l'environnement des affaires favorisent l'effort d'investissement, notamment dans les régions intérieures, et réduisent les contraintes sur les finances publiques. L'ouverture sur l'extérieur est de nature à insérer davantage l'économie nationale dans la chaine des valeurs mondiales et mobiliser les ressources financières adéquates pour le financement de l'œuvre de développement.

Inclusion comme base de la justice sociale

La réforme du système des transferts sociaux, en l'occurrence les subventions, la fiscalité, et la couverture sociale constituent le premier pilier de la justice sociale.

La consécration de l'économie sociale et solidaire comme vecteur de la croissance inclusive représente le deuxième pilier de l'équité entre individus et catégories sociales.

Le développement des services sociaux et de l'infrastructure de base dans les régions défavorisées, ainsi que, la poursuite des réformes du système de santé, le soutien des couches vulnérables, le renforcement des acquis de la femme et la promotion de la culture forment la troisième dimension de la nouvelle politique de réduction de la pauvreté et d'inclusion sociale.

Valorisation des ressources humaines

Le savoir est considéré comme une source de création de richesse et un déterminant majeur de croissance économique. De ce fait, les efforts seront intensifiés en vue d'asseoir les bases de l'économie de savoir, moyennant le développement des compétences, le soutien de la recherche scientifique, la modernisation de l'infrastructure dans les domaines des sciences et de la technologie, le respect de la propriété intellectuelle, la mise en place d'un cadre législatif adéquat et l'adoption de nouveaux modes de travail et d'organisation basés sur l'interactivité et la complémentarité entre les différents acteurs.

En sus, le développement humain sera favorisé par la réforme des systèmes d'éducation et de formation et la création de centres d'excellence dans toutes les étapes de l'enseignement et la recherche ainsi que par la généralisation de l'utilisation des nouvelles technologies dans l'enseignement et la formation et l'amélioration des compétences favorisant le développement de la productivité du travail et une meilleure valorisation des connaissances dans les différents domaines.

Durabilité du développement

La durabilité de développement nécessite la révision fondamentale des choix adoptés dans le cadre d'une nouvelle politique d'aménagement de territoire qui prend en compte la vulnérabilité des ressources naturelles disponibles et les spécificités régionales, préserve l'environnement et permet la redistribution spatiale de la population et des activités d'une façon équitable et solidaire.

La bonne gouvernance des ressources naturelles et de la protection de l'environnement constituent des bases pour un développement durable et une économie verte associant développement économique et préservation du droit des générations futures. Dans ce cadre, les questions liées à l'énergie, l'eau, la gestion des déchets et la pollution constituent les principaux axes qui nécessitent un soin particulier vu la rareté des ressources, la pression de la demande et les changements climatiques ce qui prône l'utilisation des ressources non conventionnelles.

III. Mesures du quatrième programme de relance économique

Le nouveau programme d'appui à la relance comprend sept composantes visant à affirmer les règles de gouvernance, améliorer le climat des affaires, réformer le secteur financier et développer le secteur des télécommunications.

- Simplification réglementaire

Ce projet s'inscrit dans le cadre de l'amélioration du climat des affaires à travers la réduction de la charge administrative supportée par les entreprises privées dans leur interaction avec l'administration.

Dans ce cadre, 1100 procédures administratives relevant de 7 ministères ont été évaluées par l'Administration. Une consultation du secteur privé a été organisée et a abouti à l'identification de 240 procédures prioritaires.

Les résultats du projet, tels qu'approuvés par le Conseil des ministres en date du 22 Octobre 2014, se présentent comme suit :

- La simplification de 147 procédures,
- La suppression de 7 procédures,
- Le maintien de 86 procédures.

Les projets de textes législatifs et réglementaires nécessaires pour la concrétisation des résultats du projet sont en cours de préparation.

Afin d'assurer la pérennité des effets positifs du projet, d'autres mesures ont été mises en œuvre à savoir :

- La publication du décret n°2014-3484 du 18 septembre 2014 relatif à la mise en place d'un processus participatif pour la simplification des procédures administratives régissant les activités économiques relevant du Ministère de l'intérieur, de l'équipement, de l'aménagement du territoire et du développement durable, du tourisme et de la santé, ce décret est focalisé sur le processus d'inventaire et d'évaluation des procédures administratives, des structures intervenantes dans ce processus d'évaluation et son suivi.
- La publication du décret n°2014-4516 du 22 décembre 2014 portant création des unités d'encadrement des investisseurs et ce afin de renforcer les mécanismes de communication entre l'administration et les investisseurs afin d'améliorer leur encadrement et les assister dans la résolution des problématiques qui entravent l'exercice de leur activité économique , le décret a mis en place les dispositions concernant les unités d'encadrement des investisseurs aux ministères et aux Gouvernorats ainsi que l'unité centrale d'encadrement des investisseurs crée au niveau de la présidence du gouvernement.

  - <u>Réforme du secteur des télécommunications</u>

Les mesures mises en place dans ce secteur visent à offrir des services de télécommunications plus abordables, plus compétitifs et plus accessibles à la population et aux entreprises. Elles vont contribuer à dynamiser la concurrence et ouvrir les marchés, notamment sur les segments les plus importants tels que les communications internationales et l'internet haut débit pour le développement économique et social du pays et sa compétitivité internationale. Mener ces réformes à leur terme est une condition nécessaire pour l'atteinte des objectifs ambitieux de la stratégie Tunisie Digitale 2018. Cela englobe la restructuration de Tunisie Télécom, la réglementation de l'activité des fournisseurs des services internet ainsi que l'établissement des opérateurs virtuels.

L'effort du Gouvernement pour concrétiser ces réformes a commencé par la publication au Journal Officiel de la République Tunisienne de la Loi n° 2014-48 du 24 Juillet 2014 portant mise à la retraite volontaire à la société nationale des télécommunications dans le cadre de la restructuration de Tunisie Telecom et d'un décret gouvernemental n°2015-85 du 24 avril 2015, fixant les procédures et les modalités d'application des dispositions de la loi n°2014-48 du 24 juillet 2014. Ces textes organisent les départs volontaires à la retraite des cadres de Tunisie Télécom ce qui permettra de restaurer la compétitivité de l'entreprise Telecom en permettant le développement des compétences humaines, notamment le recrutement des jeunes diplômés à des conditions financières favorables.

Le décret n°2014-4773 du 26 décembre 2014 fixant les conditions et procédures d'octroi de l'autorisation d'exercice de l'activité de fournisseur de services internet a pour objectif de permettre aux fournisseurs de services internet de faire tous les investissements où transactions requis pour la fourniture de ces services, notamment l'établissement des infrastructures de télécommunications où la location de la capacité excédentaire des ressources de télécommunications disponible sur les réseaux des services publics conformément aux dispositions du code des télécommunications. Concernant l'amélioration de la compétitivité du secteur TICs par l'établissement des opérateurs virtuels, le ministère a accordé trois licences d'opérateurs virtuels en décembre 2014

De même, les mesures appuyant ce secteur ont porté sur la publication sur le site de l'Instance Nationale des Télécommunications d'une décision relative au dégroupage et d'une décision relative à l'offre d'accès « Bitstream » (accès et collecte des services internet haut débit activés sur les accès xDSL) : La décision n°74 de l'Instance Nationale des Télécommunications en date du 17 novembre 2014 a porté sur l'approbation de la partie afférente au dégroupage total de la boucle locale de l'offre technique et tarifaire d'interconnexion et d'accès de la Société Nationale des Télécommunications pour l'année 2014.

Cette décision valide une nouvelle formule tarifaire aux termes de laquelle le tarif orienté coûts du dégroupage est établi à 12,3 DT par mois. Le Fonds des Télécoms apportera un financement pour prendre en charge les coûts d'investissements (CAPEX) spécifiques au dégroupage ce qui conduira à une baisse de 3,7 DT par rapport au précédent tarif.

L'offre *bitstream*, constitue un complément temporel et géographique à l'offre de dégroupage. Temporel, dans le sens que les concurrents de Tunisie Telecom ne peuvent s'installer dans tous les sites de Tunisie Telecom en même temps pour accéder au réseau d'accès cuivre: ils vont donc présenter une offre concurrente à Tunisie Telecom au niveau national en recourant à un mix de dégroupage et de *bitstreams*) et Géographique, vu que le *bitstream* permet de bénéficier des économies d'échelle, en proposant des offres concurrentes dans les zones les moins peuplées et contribuer à y augmenter la pénétration du haut débit.

Les autorités tunisiennes élaborent en concertation avec les acteurs concernés une approche visant à mettre fin au ciseau tarifaire pour le *bistream*. L'ensemble de ces éléments seront pris en compte dans la Décision d'approbation de l'offre de *bitstream* par l'INT qui sera finalisé avant la fin de l'année 2015.

D'autre part, l'INT a indiqué que la réforme relative à l'Internet haut débit fixe est complétée par la publication le 16 juillet 2015 des décisions de mise en œuvre de la portabilité des numéros fixes et mobiles en Tunisie.

- Restructuration des banques publiques :

La réforme des banques publiques a concrètement démarré par le lancement des « full audits » des trois principales banques publiques (STB, BNA et BH) entre 2013 et 2014 pour améliorer le dynamisme de la place bancaire, accroître sa stabilité, augmenter l'accès au financement des acteurs économiques et améliorer sa capacité d'intermédiation de l'épargne vers les projets les plus productifs. La restructuration des Banques Publiques permettra également de diminuer le risque budgétaire.

Face à la concurrence désormais plus forte des banques privées et au resserrement des règles prudentielles, les banques publiques apparaissent de moins en moins bien outillées pour résister à la concurrence et se développer.

A cet effet, des avancées significatives ont été réalisées au niveau des trois Banques :

- La **Banque de l'Habitat :** Le plan de restructuration a été approuvé par son Conseil d'Administration en date du 3 mars 2015. Les besoins de recapitalisation ont été arrêtés à 110 millions de Dinars dans la loi sur la recapitalisation des banques adoptée par l'Assemblée des représentants du peuple le 07 Août 2015.

  Avec l'arrivée des nouveaux membres du Conseil d'administration, divers comités ont été créés et/ou réorganisés (Risque, Audit, Crédit et Suivi du Plan de Restructuration). Sur le plan de la mise en œuvre du plan de restructuration, la BH a lancé quelques appels d'offre, et notamment celui relatif au recrutement d'un cabinet en charge de la révision de l'organigramme de la banque.de même, un appel d'offres sera lancé pour sélectionner un partenaire technique stratégique pour la Banque.

- **La Société Tunisienne de Banque :** Un plan de restructuration a été adopté par le nouveau conseil d'administration de la Banque le 16 avril 2015. Il prévoit une recapitalisation en une fois de 757 millions de Dinars tel qu'approuvé par la loi sur la recapitalisation des banques approuvée le 07 Aout 2015 par l'Assemblée des représentants du peuple. Ledit plan vise à atteindre la conformité réglementaire dès fin 2015 et prévoit des investissements pour un montant de près de 300 millions de Dinars. Comme pour la BH, un appel d'offre sera lancé pour la sélection d'un partenaire technique pour la STB pour l'accompagner dans ses efforts de redressement.

- **La Banque Nationale Agricole :** La stratégie de restructuration de la BNA adoptée par le CMR du juin 2014 a donné un aperçu sur les résultats préliminaires de l'audit et les premières orientations pour l'établissement du plan de restructuration détaillé. La stratégie se divise en deux phases, la première phase (2015-2017) se concentrera sur l'assainissement et la restructuration organisationnelle autour de deux pôles : le financement agricole et le financement des entreprises, en focalisant sur les PME.

  Dans la seconde phase, différentes alternatives pourront être considérées pour ces deux pôles, allant du maintien de la structure duale avec contrôle public à la scission des deux pôles. Le Gouvernement a d'ores et déjà arrêté la somme de 270 MDT millions pour la recapitalisation de la BNA

- Visant l'amélioration de la **Gouvernance dans le secteur bancaire**, le gouvernement a préparé le décret portant sur le système de rémunération des dirigeants des banques publiques. Un appel à candidature basé sur des Termes de références a été lancé pour le recrutement des dirigeants des deux Banques publiques (la STB et la BH).

- Accès à l'information et transparence des finances publiques

La réforme portant sur l'accès à l'information et la transparence des finances publiques vient pour concrétiser le droit de l'accès à l'information qui est inscrit dans la nouvelle Constitution du pays. Pour ce faire, le Gouvernement a lancé une consultation nationale en vue de faire participer les citoyens ainsi que la société civile dans l'élaboration d'un projet de loi qui va annuler et remplacer le décret-loi n°41 en date du 26 mai 2011 relatif à l'accès aux documents administratifs des organismes publics.

La nouvelle loi vise à renforcer la transparence, la responsabilisation et la confiance des citoyens vis-à-vis de l'administration à travers l'établissement d'un système intégré favorisant la consécration réelle du droit d'accès à l'information. Le projet de la nouvelle Loi organique sur l'accès à l'information a été revue et révisé et transmis le 06 Aout 2015 à de l'Assemblée des représentants du peuple.

Visant à renforcer la transparence dans les entreprises, le rapport sur les états financiers des entreprises publiques a été publié sur le site internet du Gouvernement

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La consistance des actions de réforme prévues dans le présent programme atteste de la ferme volonté de la Tunisie à s'engager dans un nouveau processus de développement et de construction susceptible d'ancrer l'esprit de la démocratie et d'assurer la prospérité économique et le progrès social conformément aux aspirations de la révolution.

L'assistance technique et l'appui financier à cet effort de réforme s'avèrent une condition primordiale pour faire face aux défis présents et futurs. L'Etat tunisien est ainsi résolu à mettre en œuvre toutes les réformes prévues au niveau de ce programme afin d'assurer la réussite de la phase transitoire et sollicite la Banque mondiale pour un appui financier approprié.

Ministre du Développement, de l'Investissement
et de la Coopération Internationale

Signé: Yassine BRAHIM

ANNEX 3: FUND RELATIONS NOTE

IMF Mission Concludes the 2015 Article IV Discussions and Announces Staff-Level Agreement with Tunisia on the Sixth Review under the Stand-By Arrangement

Press Release No. 15/389
August 26, 2015

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

Mr. Amine Mati, IMF Mission Chief for Tunisia, issued the following statement today in Washington:

"IMF staff reached staff-level understandings with the Tunisian authorities on the sixth review under the SBA. These understandings are subject to approval by IMF management and the Executive Board, which is tentatively scheduled to consider the review in late September. Upon completion of this review, SDR 214.87 (about $303.08 million) will be made available to Tunisia. The mission welcomes the authorities' continued commitment to implementing their national economic program following the successful conclusion of their political transition, and looks forward to continuing the close cooperation to achieve the program objectives of macroeconomic stability and stronger and more inclusive growth.

"In recent years, Tunisia's economy has been resilient in a period marked by a difficult international economic environment, spillovers from regional conflicts, increased security risks, and high social tensions.

"However, after reaching 2.4 percent in 2014, growth momentum has waned. Growth is projected to slow to 1 percent for 2015 as the repercussions of the tragic Bardo and Sousse attacks and persistent social tensions— as shown by work stoppages and strikes— dampened the benefits from the post-transition confidence boost, lower global oil prices and the eurozone recovery. External imbalances are expected to remain high, with the current account deficit improving marginally to 8.5 percent of GDP in 2015 while foreign exchange reserves remained at an appropriate level of 4-months import coverage, which is necessary to strengthen external buffers and reduce vulnerabilities. Inflationary pressures are expected to remain contained, helped by lower energy and food prices, and a prudent monetary policy.

"In response to the changes in the domestic and international environment, the authorities' program has been adjusted to respond to the current challenges, and overall performance under the Fund-supported program has been satisfactory in view of those challenges. All end-March 2015 quantitative performance criteria have been met except for the indicative floor on social spending. Progress on structural reforms has been slow, but picked up recently on the banking sector front.

"The mission welcomed the modest loosening of the fiscal stance in 2015 to accommodate the short-term economic fallout of the recent economic slowdown, including through increased security expenditures and transfers to SMEs. The mission noted the growing public sector wage bill and called for the need to contain it to make room for priority and productive capital spending, which had reached record lows.

"The recent reduction in energy subsidies, resulting from the decline in global oil prices, is a welcome development. An automatic fuel price formula should be designed urgently to allow for a much needed decline in domestic retail fuel prices, which are currently above international levels for some products. It will also be important for the government to move quickly in adopting the tax reform, whose design followed a long process of consensus building during the national tax consultations, and aims at promoting greater transparency, efficiency and equity.

"A prudent monetary stance would continue containing inflationary pressures while greater exchange rate flexibility—including through continuing to limit foreign exchange interventions to smooth large fluctuations—will contribute to reducing external imbalances and strengthening reserve buffers.

"The implementation of the authorities' broad reform agenda is progressing. However, at 15.2 percent unemployment, there is an urgent need to push ahead with structural reforms to boost job creation and help meet the aspirations of the Tunisian population for a more inclusive society.

"The reform of the banking sector is of particular significance. Steps taken to strengthen public banks, such as the initiation of the recapitalization of public banks and changes in their governance framework, are important. The adoption of a new banking law and further strengthening of the supervisory and regulatory framework will be needed to construct a modern banking sector and facilitate financial sector intermediation.

"Creating a level playing field for investors will require adopting and implementing key legislation, such as bankruptcy and competition laws. Advances in strengthening the social safety net by better identifying and targeting the vulnerable population is also welcome."

The two-year SBA in the amount of SDR 1.146 billion (about US$1.68 billion, 400 percent of Tunisia's quota) was approved by the Executive Board on June 7, 2013 (See Press Release No. 13/202). The fifth review under the SBA was approved by the Board on December 12, 2014, bringing total disbursements to date to SDR 787.87 million or about $1.15 billion. A 7 month extension of Tunisia's SBA to December 31, 2015 was approved in May 2015 (See Press release 15/229).

The mission visited Tunis in June and July 2015 to carry out discussions with the Tunisian authorities on the Article IV consultation and the sixth review of their economic and financial program supported by a Stand-By Arrangement (SBA). Discussions continued in Washington. The mission thanks the authorities and all those with whom they met for their warm welcome, and frank and fruitful discussions.