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MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO US\$12.0 MILLION
TO THE REPUBLIC OF TUNISIA
FOR AN
EMPLOYMENT AND TRAINING FUND

JULY 15, 1990

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CURRENCY EQUIVALENTS
(As of June 1990)

Currency Unit	=	Tunisian Dinar (TD)
US\$1.00	=	TD 0.89
TD 1.00	=	US\$1.12

FISCAL YEAR

January 1 - December 31

GLOSSARY OF ABBREVIATIONS

ETF	Employment and Training Fund
GOT	Government of Tunisia
MFPE	Ministry of Vocational Training and Employment
OFPE	Office of Vocational Training and Employment

REPUBLIC OF TUNISIA

EMPLOYMENT AND TRAINING FUND PROJECT

Loan and Project Summary

Borrower: Republic of Tunisia

Amount: US\$12.0 million equivalent

Terms: Repayable in seventeen years, including a five year grace period, at the Bank's standard variable interest rate.

<u>Financing Plan:</u>	Government	US\$	9.7 million
	Enterprises	US\$	8.5 million
	IBRD	US\$	12.0 million
	USAID	US\$	4.5 million
	Total	US\$	34.7 million

Economic Rate of Return: NA

Staff Appraisal Report: Report No. 8630-TUN

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE REPUBLIC OF TUNISIA
FOR AN EMPLOYMENT AND TRAINING FUND

1. The following memorandum and recommendation on a proposed loan to the Republic of Tunisia for US\$12.0 million equivalent is submitted for approval. The proposed loan would provide investment finance for an Employment and Training Fund prepared by the Government with Bank assistance. The loan would have a term of 17 years, including five years of grace, at the standard variable interest rate.

2. Background. High levels of open unemployment, currently about 16%, persisted during the last decade, notwithstanding interventionist economic policies funded by windfall oil revenues, including massive overstaffing of state enterprises. High natural population growth, combined with stagnant net emigration, a young age profile and rising female participation, have made it extremely difficult to match labor supply with job creation. During 1982-1988, GNP grew 4% p.a., labor productivity by a modest 1.3%, and employment by 2.7%, slightly less than the labor force. The sweeping economic adjustment process begun in 1986 has sharpened the authorities' longstanding concern with this issue. The effects of fiscal austerity and trade and price reforms on ailing state-supported enterprises imply some further layoffs of workers in the short term, pending the desired upsurge in investment and employment in more diffuse, small-scale private-sector businesses stimulated by liberalization.

3. Tunisia's concerted attack on unemployment involves: (i) a well defined population policy; (ii) a macro-economic program to stabilize and restructure the economy; (iii) a reform of the education and pre-employment training systems to adjust the profile of the labor force to the needs of the economy; and (iv) a gradual revision of the labor market regulatory framework and employment promotion policies. While further progress on labor market deregulation is sought through negotiations between labor unions and employer federations, the Government is taking steps to rationalize the employment promotion framework, and relax some administrative regulations related to hiring procedures. At the same time the Government is addressing some of the most urgent problems in labor market operations, such as the lack of information available to job seekers and employers, the lack of effective employment intermediation, the limited provision of on-the-job/off-the-job training activities to facilitate the placement of unemployed people, and limited labor mobility.

4. Rationale for Bank Involvement. Further progress in economic liberalization and the requirements of an outward-oriented development strategy, call for greater attention to micro-level issues of employment and productivity. By focussing on the structure of labor market intermediation, the proposed operation complements Bank interventions in the areas of: (i) macro-economic policies, assisted through five adjustment operations including the FY88 Industry and Trade Policy Adjustment Loan, the FY89 Structural Adjustment Loan and the FY90 Public Enterprise Restructuring Loan, (ii) education and training supported by the FY89 Education and Training Sector Loan; and (iii) population to be assisted through a Population and Family Health operation now in the final stages of preparation. The proposed loan would assist the Government in improving labor mobility by developing regional-based intermediation mechanisms for employment and

skills training. The shift of responsibilities toward local governments and employers to identify employment opportunities and the move toward private labor market intermediation are promising new directions for reorganizing employment promotion efforts. The proposed loan is a low cost approach to labor market intermediation which may provide a useful benchmark for other countries. The Bank's presence in this critical phase of institutional innovation is instrumental to the successful continuation of economic adjustment.

5. Project Objectives. The objectives of the proposed project are: (a) to accelerate the adaptation of the labor force to rapidly changing job patterns, through more effective training and labor market intermediation; (b) to consolidate existing human capital by developing in-company training activities.

6. Project Description. To achieve these objectives the proposed project would finance the creation of a regionally based Employment and Training Fund and an institutional development program. Both components would be implemented by the Ministry of Vocational Training and Employment (MFPE) through the Office of Vocational Training and Employment (OFPE), an organization under MFPE's responsibility.

7. The Employment and Training Fund (ETF), is designed to finance various types of sub-projects targeting the placement of unemployed people into productive employment and the productivity of existing workers. Typically a sub-project consists of one of the following activities: (i) training for placement in a specific enterprise; (ii) training for self-employment; (iii) in-company training/extension services; (iv) sub-contracting to private training/placement companies; (v) allowances for interview/relocation closer to job site. Agreed eligibility criteria emphasize evidence of long-term unemployment by participants (on the basis of registration at the local employment office), commitment by enterprises to recruit upon satisfactory completion of training requirements (on the basis of contracts), and provision of intermediation services by private entities (the enterprises themselves, private training/placement companies and independent trainers recruited on a contractual basis).

8. At the national level, the operations of ETF would be controlled by the National Management Committee. This Committee would be chaired by the Minister of Employment and Vocational Training and OFPE would act as its Executive Secretariat. The Committee would provide overall guidance with regard to Fund activities, and monitor and evaluate implementation. In each participating Governorate, a Regional Coordination Committee, chaired by the Governor, would help identify and monitor local ETF sub-projects. On a day to day basis, OFPE regional representatives, assisted by full time Fund managers, would have primary responsibility for managing ETF. Private enterprises would directly participate in sub-project preparation, financing and implementation. Sub-project proposals in participating Governorates which meet the agreed criteria for any standard activity and fall under a ceiling of TD 100,000 (US\$112,000) would be approved by OFPE regional representatives. In exceptional cases where the amount of a proposed sub-project is above the agreed ceiling, a new activity is introduced, or projects in a new Governorate are proposed, approval by the Bank and the National Management Committee would be required. Disbursements on this component would cover 50% of eligible Fund expenditures, documented by statements of expenditures subject to ex-post verification and audit.

9. Since January 1990, the Government has already tested the proposed ETF organization and procedures with USAID bridge financing. Altogether 13 sub-projects, representing about US\$500,000 in disbursements have been identified and implemented in five different Governorates. A total of about 1,000 unemployed people are being prepared, through a period of 3 to 12 months of on-the-job/off-the-job training, for specific semi-skilled jobs in industry and services. Typically, these people, representative of the target group of the proposed project, constitute the core of unemployment in Tunisia: they are young (between the age of 18 and 25), have limited education (between five and nine years of education), and have experienced long periods of unemployment (one year or more) or insecure/casual employment.

10. The Institutional Development Program would assist the Office of Vocational Training and Employment (OFPE) in its efforts to improve the quality and efficiency of its employment/training regional services and to promote the development of private intermediaries. This will have a multiplier effect on Government's efforts to tackle unemployment. This component would strengthen key OFPE services to enterprises (selection, placement and in-company training), develop information and counseling for job-seekers, setting up a labor market monitoring system, and strengthen project management and evaluation.

11. Cost and Financing. The total project cost of US\$34.7 million equivalent would be financed as follows: (a) a proposed IBRD loan of US\$12 million equivalent would finance 34.5% of total project cost; (b) a proposed USAID loan of US\$4.5 million equivalent would finance 13.0% of total project cost; (c) enterprises participating in ETF would finance US\$8.5 million equivalent (including US\$0.8 million in taxes), or 24.5% of total project cost; and (d) the Government would finance the remaining US\$9.7 million equivalent (including US\$1.4 million in taxes), or 28.0% of total project cost. The proposed Bank loan of US\$12 million would finance 66% of the foreign exchange component of the project (US\$3.5 million) and 31% of local costs net of taxes (US\$8.5 million). A breakdown of project costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and the disbursement schedule are shown in Schedule B. A timetable of key processing events and the status of Bank Group operations in Tunisia are given in Schedules C and D respectively. The staff appraisal report No. 8630-TUN, dated July 13, 1990, is being distributed separately.

12. Agreed Actions. During negotiations, the Government agreed that: (a) before loan effectiveness, ETF would be established through a specially earmarked budgetary allocation, a manual of procedures would be finalized and the National Management Committee would be established; (b) specific incentive measures, referred to in para. 3, would be taken with a view to restructuring employment promotion programs, and loosening hiring procedures; (c) standard activities, referred to in para. 7, would be eligible for financing by ETF, under specific conditions described for each type of activity; (d) a cost-benefit analysis of existing employment promotion programs would be completed by December 31, 1991 and a mid-term evaluation study of ETF activities would be completed no later than December 31, 1992; and (e) fees, which would progressively approximate full cost, would be charged for the services provided in the area of in-company training and staff selection.

13. Benefits. The proposed project would make a valuable contribution towards providing employment and income generation for a specifically vulnerable part of the population (young, poorly educated, low-income, long-term unemployed).

The major quantifiable benefit would be the placement of an estimated 30,000 people into productive employment over an initial three year period which could be extended and replicated later. While the objective of the proposed project is not to "create jobs" but to adapt the profile of the labor force to existing and evolving openings, it is clear that the ability of domestic and foreign enterprises to mobilize and reallocate skilled workers more rapidly will in itself be a stimulus to more investments and thus additional jobs. This is particularly true in a period when sub-contracting for European industries seems to be developing very fast. The indirect effects of introducing pro-active employment strategies and improving the efficiency of training systems, in particular within enterprises, will also increase labor mobility and employers' hiring response to market conditions.

14. The restructuring of existing employment promotion programs as well as the testing of new programs will result in more effective resource allocation in an area which is claiming an increasing share of Government resources. The institutional development component, targeting key employment and training services, will improve the quality and speed of "fit" of job entrants and lower transactional costs. The indirect and spilloff benefits, in terms of enhancing local area initiative capacity, spurring micro-enterprise development and promotion of private intermediaries, could be substantial.

15. Environmental Impact. The project was reviewed under the Bank's Environmental Assessment procedures and determined to be in Category C, for projects which do not result in a significant environmental impact.

16. Risks. The major risk lies in the capacity of regional Government services to design sub-projects, identify suitable private intermediaries and manage ETF operations. The first batch of sub-projects implemented satisfactorily with USAID financing since January 1990 has demonstrated the capacity of regional OFPE services to plan and implement ETF activities consistent with proposed guidelines and procedures. During appraisal, particular attention was paid to decentralizing administration and ensuring that additional resources - both human and material - be provided to the various implementing units at the central and regional levels. The other risk relates to possible future organizational changes within MFPE and its specialized agency, OFPE. This point was discussed at length during negotiations and the Tunisian delegation provided adequate assurances that project implementation would not be adversely affected by any such internal reorganization.

17. Recommendation. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber Conable
President

Attachments
Washington, D.C.
August , 1990

Schedule A

REPUBLIC OF TUNISIA

EMPLOYMENT AND TRAINING LOAN

Estimated Costs and Financing Plan

Estimated Project Costs^{1/}

	Local	Foreign	Total
	----(US\$ million)-----		
A. Employment and Training Fund	28.6	3.3	31.9
B. Institutional Development	0.8	1.8	2.6
Total Baseline Costs	29.4	5.1	34.5
Physical Contingencies	0.0	0.0	0.0
Price Contingencies	0.0	0.2	0.2
Total Project Costs	29.4	5.3	34.7

Financing Plan:

Government	9.6	0.1	9.7
Enterprises	7.7	0.8	8.5
IBRD	8.5	3.5	12.0
USAID	3.6	0.9	4.5
Total	29.4	5.3	34.7

1/ Includes US\$2.2 million in local taxes financed by Government and Enterprises

**REPUBLIC OF TUNISIA
EMPLOYMENT AND TRAINING FUND**

Schedule B

**Procurement Method and Disbursements a/
(US\$ million)**

<u>Project Element</u>	<u>Procurement Method</u>			<u>Total Cost</u>
	ICB	LS b/	N.A.	
Training services			10.7 (3.0)	10.7 (3.0)
Stipends & allowances			14.6 (5.2)	14.6 (5.2)
Materials & Consumables		6.6 (1.6)		6.6 (1.6)
Equipment	1.1 (1.1)	0.3 (0.3)		1.4 (1.4)
Civil works		0.3 (0.0)		0.3 (0.0)
Expert Services			0.6 (0.6)	0.6 (0.6)
Fellowships			0.2 (0.2)	0.2 (0.2)
Incremental recurrent expenses			0.3 (0.0)	0.3 (0.0)
Total	1.1	7.2	26.4	34.7
IBRD Financing	(1.1)	(1.9)	(9.0)	(12.0)

a/ Figures in parentheses are the respective amounts financed by the Bank loan.
b/ Local shopping.

DISBURSEMENTS

<u>Category</u>	<u>Amount</u>	
	<u>US\$ Million</u>	<u>% financed by the Bank</u>
Training Services	3.0	
Stipends & Allowances	5.2	50% of expenditures
Materials & consumables	1.6	
Equipment	1.3	100 % of foreign expenditures and 80 % of local expenditures
Consultant Services and fellowships	0.7	100% of expenditures
Unallocated	0.2	
Total	12.0	

ESTIMATED DISBURSEMENTS

<u>Bank Fiscal Year</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>
	----- (US\$ million) -----			
Annual	1.2	3.6	5.0	2.2
Cumulative	1.2	4.8	9.8	12.0

RATE OF RETURN: Not applicable

REPUBLIC OF TUNISIA

Schedule C

EMPLOYMENT AND TRAINING FUND

Timetable of Key Project Events

- | | |
|------------------------------------|---------------------------------|
| (a) Time taken to prepare: | 18 months |
| (b) Prepared by: | Government with Bank assistance |
| (c) First Bank Mission: | March 1989 |
| (d) Appraisal mission departure: | March 1990 |
| (e) Date of Negotiations: | June 1990 |
| (f) Planned Date of Effectiveness: | January 1991 |

THE STATUS OF BANK GROUP OPERATIONS IN TUNISIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS

(As of March 31, 1990)

Loan or Credit Number	Year	Borrower	Purpose	US\$ Million Amount (Less Cancellations)		
				Bank	IDA	Undisbursed
Fifty-five Loans and Ten Credits Fully Disbursed				1211.63	75.16	
1969	1981	Republic of Tunisia	Small-Scale Industry Development	30.00		2.64
1997	1981	Republic of Tunisia	Northwest Rural Development	17.54		1.55
2108	1982	Republic of Tunisia	Fifth Highway (Rural Roads)	35.50		6.07
2223	1983	Republic of Tunisia	Urban Development III	25.00		12.91
2230	1983	Republic of Tunisia	Education V	25.00		7.19
2234	1983	Republic of Tunisia	Central Tunisia Irrigation	13.70		3.97
2255	1983	Republic of Tunisia	Urban Sewerage III	34.00		17.21
2346	1984	Republic of Tunisia	Mining Technical Assistance	7.80		1.48
2368	1984	Republic of Tunisia	Seventh Water Supply	50.00		25.39
2429	1984	Republic of Tunisia	Second Urban Transport	33.00		16.13
2455	1984	Société Tunisienne de l'Electricité et du Gaz	Fourth Power	21.52		.96
2502	1985	Republic of Tunisia	Northwest Agricultural Production	8.80		6.40
2522	1965	Republic of Tunisia	Export Industries	27.63		5.45
2554	1985	Republic of Tunisia	Second Electrical and Mechanical Industries	24.44		12.54
2573	1985	Republic of Tunisia	Irrigation Management Improvement	22.00		15.14
2605	1985	Republic of Tunisia	Gabes Irrigation	21.70		9.9
2735	1986	Republic of Tunisia	Energy Conservation	4.00		3.73
2736	1986	Republic of Tunisia	Fourth Urban Development	30.20		16.17
2865	1987	BNT	BNT IV	30.00		18.11
2870	1987	Republic of Tunisia	Agriculture	20.00		15.72
2896	1987	Republic of Tunisia	Highways Maintenance and Rehabilitation	63.00		57.53
2911	1988	Republic of Tunisia	Second Small & Medium Scale Industrial Development	28.00		23.35
2962	1988	Republic of Tunisia	SAL I	150.00		81.19
3023	1989	ETAP	Petroleum Exploration	5.50		5.50
3054	1989	Republic of Tunisia	Education and Training Sector	95.00		95.00
3064	1989	Republic of Tunisia	Fifth Urban	58.00		49.60
3078	1989	Republic of Tunisia	ASAL II a/	84.00		84.00
3109	1990	Republic of Tunisia	PERL	130.00		130.00
TOTAL				2306.96	75.16	723.83
Of which has been repaid				565.37	14.33	
Total Now Outstanding						
Amount Sold				34.82		1741.59 60.83
of which has been repaid				26.93		7.89
Total now held by Bank and IDA				1733.70	60.83	723.83

a/ Not yet effective.

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B. STATEMENT OF IFC INVESTMENTS IN TUNISIA

Fiscal Year	Obligor	Type of Business	Amount of US\$ Million		
			Loan	Equity	Total
1962	NPK Engrais	Fertilizers	2.0	1.50	3.50
1966/70/78	Société Nationale d'Investissement (now BDET)	Dev. Finance Co.		2.40	2.40
1969	COFIT Tourism (now BMDT)	Dev. Finance Co.	8.00	2.2	10.20
1973	Société Touristique et Hotelière RYM SA	Tourism	1.60	0.3	1.90
1974	Industries Chimiques du Fluor	Chemicals		0.6	0.60
1975	Société d'Etudes et de Développement de Sousse-Mord	Tourism	2.50	0.6	3.10
1984/86	Société Tunisienne de Leasing	Leasing Co.	2.50	0.5	3.00
1985	Société Minière de Speth Fluor et de Barytine (Fluobar)	Mining Co.		0.2	0.20
1986	Société Industrielle des Textiles (SITEX)	Textiles and Fibers	0.5	3.4	8.40
1987	Adwaya S.A.	Pharmaceuticals	2.0	0.3	2.30
1987	Rozzi Edilizzia Industrializzata (REIT S.A.)	Prefabricated Panels	1.3	0.4	1.70
1987	COMETE Engineering	Engineering Services	-	0.4	0.40
1988	Société des Industries Textiles Réunies S.A. (SITER)	Textiles & Fibers	<u>2.50</u>	<u>2.20</u>	<u>4.70</u>
	Total Gross Commitments		27.40	15.00	42.40
	Less Cancellations, Terminations, Repayments and Sales		<u>15.64</u>	<u>3.43</u>	<u>19.07</u>
	Total Commitments Held by IFC of which undisbursed		11.76 6.30	11.57 0.04	23.33 6.34

** Data is current as of February 28, 1990; data will be updated as it becomes available