I. Introduction and Context

Country Context

1. With the election in October 2011 of a Constituent Assembly, and the formation of a new Government, Tunisia has successfully completed the first phase of its political transition to a multi-party democracy. In January 2011, the “Jasmine Revolution” led to a wave of protests that ended the 23 year rule of President Zine El Abidine Ben Ali, ushered in a new political and economic era. The revolution was fueled by widespread anger and frustration over lack of social and political inclusion, governance and corruption problems, mounting unemployment and the rising cost of living. On October 23, 2011, ninety percent of the 4.1 million registered voters participated in the elections of a Constituent Assembly. The Chair of the Constituent Assembly announced in April 2012 that he expects the draft Constitution to be ready by end-October 2012. Once the new Constitution is adopted, there will be a fresh round of elections under the new Constitution. The Constituent Assembly Government announced in March 2012 that new national elections would be held under the new Constitution, likely in March 2013, and no later than end-June 2013.

2. The continued social unrest during most of 2011, Eurozone crisis of confidence and the war in Libya have impacted negatively economic performance in 2011. The previous Interim Government sought to mitigate the revolution’s impact on the economy and to boost recovery using...
a combination of fiscal and monetary policy measures. In spite of the sound policy response, the combination of political uncertainty, social tensions and strikes, the European crisis and the Libyan crisis significantly impaired economic activity. As a result, economic growth was negative at -1.8 percent in 2011. FDI, already low from the 2008 global financial crisis, dropped by a further 25 percent (in nominal terms).

3. The immediate challenge for Tunisia is to ensure economic and social stability, in a situation where the short term economic outlook remains uncertain. GDP growth is projected at 2.4 percent in 2012, but the rhythm of recovery will depend on the government’s ability to manage the social and political tensions within Tunisia, the execution and effects of the large fiscal stimulus, and the extent of the European recession which will affect tourism, exports and FDI.

4. A steep increase in unemployment is the most urgent socio-economic issues for Tunisia to resolve, and is a major aspect of youth frustration that led to the January 2011 Revolution. The already large pool of unemployment continued to increase in recent years, as economic growth has been inadequate to generate sufficient jobs to absorb new entrants to the labor market. With the economic downturn of the past year, the unemployment rate increased from 13 percent in 2010 to 18.9 percent in 2011 (or approximately 740,000 people). This now appears to have stabilized and has decreased to 18.1 percent by the first quarter of 2012. The unemployment of individuals with higher education degree is 20 percent and that for individuals aged 20-29 years about 27 percent, both exceed a national average of roughly 14 percent (World Bank 2010). Further demographic trends suggest that unless the pace of economic growth accelerates substantially, unemployment will continue to worsen over the decade.

Sectoral and Institutional Context

5. To reduce unemployment, the Government needs to adopt structural reforms to transform the economy from a low-wage, low value-added economy to a knowledge-based and skill-intensive economy. Under the current structure of the economy, the response of overall employment to growth is bound to be low and a significant GDP and export growth rate may not necessarily reduce unemployment significantly. In effect, intense utilization of low-skilled labor and low value addition rates are still the main characteristics of the current production system in Tunisia. As a consequence, Tunisia needs to move further up the value chain in traditional industries and promote new investments in skill-intensive sectors to increase value addition, increase productivity and higher value added exports in order to durably reduce unemployment (World Bank 2010). Promoting economic diversification in untapped sectors such as information technology, manufacturing and health care and aligning skills development to meet future labor market needs will be needed.

6. Exports as an engine of growth still face constraints. Tunisia’s growth and development successes over the past decades have largely been fueled by export of goods and services which grew at an average yearly rate of about 5.3 percent between 1997 and 2007. For Tunisian exports to remain a significant engine of growth and contribute their share in unemployment reduction, several challenges need to be fully recognized and addressed with a view of developing exports and climbing the technological ladder.

7. As a consequence of the previous weaknesses, Tunisia is a net exporter and has increased its market share in growing markets in only 2 of its top ten exported products. Besides further improvements in the overall investment climate of Tunisia and the legal framework governing the
private sector and exports there is a need to: i) help firms access new markets (product and market diversification) and consolidate their positions on existing ones; ii) allow SMEs to have better access to export finance; iii) improve internal supply chains; and iv) climb the technological ladder to further expand Tunisian exports and contribute to increased employment generation. These observations provide the rationale for the proposed Competitiveness and Export Development Project (CEDP).

Relationship to CAS

8. The Bank’s program in Tunisia is now set out in the Interim Strategy Note (ISN) FY12-13 which has been prepared following the election of the Constituent Assembly Government. A full Country Partnership Strategy (CPS) will likely be prepared only after a new elected government under a new constitution is in place. Hence, the Bank team prepared an ISN which was discussed by the Board in July 2012. The ISN outlines a Bank Group program focused on contributing directly and indirectly to the Government’s short and medium-term employment creation objective. The program will promote the private-sector led recovery and job creation, with a focus on openness, opportunity and accountability. To this end, the Bank Group will frame its support within three Areas of Engagement: (i) Laying the Foundation for Renewed Sustainable Growth and Job Creation; (ii) Promoting Social and Economic Inclusion; and (iii) Strengthening Governance: Voice, Transparency and Accountability.

9. The ISN is guided by four principles of engagement: (i) The Bank and IFC will seek to maintain flexibility in light of the fluid country context, to be able to adapt to the social and economic challenges of Tunisia; (ii) With a fluid and evolving political environment, the Bank Group will need to be selective in terms of the scope of its engagement in the different sectors where it will intervene, and in terms of the results it commits to helping Tunisia achieve during the ISN period. (iii) Integrating gender into new activities to maintain and advance women’s role in Tunisia through the political transition is a priority for the Bank Group; (iv) broadening consultations to reach new stakeholders.

10. The proposed CEDP will adopt the second principle of selectivity in terms of sector interventions. CEDP is a planned successor to two successful export development projects (EDP I and EDP II).

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

A. Proposed PDO

1. The development objectives are to improve the investment climate for trade, improve access to export markets and finance, and support innovation in the identified value chains to increase exports and employment.

B. Proposed Beneficiaries

2. The ultimate project beneficiary is domestic private sector firms (roughly 6000 industrial firms and 7800 servicesenterprises), particularly firms in the identified value chains, which will benefit from improved trade logistics and support to export innovative products to new markets. A complementary benefit will be improvement in the ways of working and processes of several
Government Agencies and Ministries which are key for export development in Tunisia (CEPEX, MTH, Customs, MoT) which will help lead to increased exports and contribute to employment generation.

Key Results (From PCN)
1. The progress towards achieving the PDO will be monitored through the following indicators:

   Development Objectives Performance Indicators
   Improving investment climate for export competitiveness - Reduction in Customs processing times
   - Training system of logistics staff from firms developed
   and at least 50 logistics staff trained
   Strengthening access to export finance in identified value chains - Total incremental export value in the identified value chains
   - Minimum of 33 percent of assisted firms accessed new or nontraditional export markets
   - Number of job created by firms supported under the project
   Supporting innovation in identified value chains - At least 30 firms having set-up a traceability system
   - Increased number of firms in identified value chains using foreign licenses from the public domain and TTO services

III. Preliminary Description
Concept Description
The proposed project consists of 4 components:

Component 1: Improving investment climate for export competitiveness (Approximately US$ 14 million)

This component aims to strengthen customs; enhance integration of export technical control procedures; improve internal logistics; and strengthen CEPEX as an information and training provider.

Component 2: Strengthening access to export finance in identified value chains (Approximately US$ 48 million)

The second component would directly help increase and diversify exports in the identified value chains. It would do this by fostering better access to export markets, improving access to finance, especially for smaller SMEs, and consolidating a domestic export consulting industry. This component would be instrumental in divesting Tunisia export market’s destinations (Maghreb and Sub-Saharan and by taking into account the demonstrated export potential of services).

Component 3: Supporting innovation and its diffusion (Approximately US$ 8 million)

The third component would support Tunisian firms in the identified value chains to climb the value-added ladder and export higher value goods to new markets. Strengthening intellectual property rules, setting-up traceability mechanisms for the identified value chains would help alleviate an important constraint to exports for Tunisian firms.
Component 4: Project Management (Approximately US$ 1 million)

This component would reinforce the project management capacity of the Project Coordination and Monitoring Unit (PCMU), as well as the Executing Agencies, in the areas of (ii) computer and office equipment; (ii) training in procurement and financial management; (iii) Training and consulting services to enable PCMU to effectively coordinate the various executing agencies and monitor the performance indicators of the project; to prepare progress reports and working documents; the provision of information and reports to the Steering Committee and the Bank; and to monitor procurement and financial management reports.

IV. Safeguard Policies that might apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 4.50</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
</tbody>
</table>

V. Tentative financing

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>0.00</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>70.00</td>
</tr>
<tr>
<td>Total</td>
<td>70.00</td>
</tr>
</tbody>
</table>

VI. Contact point

World Bank

Contact: Djibrilla Adamou Issa
Title: Senior Financial Specialist
Tel: 1-202-473-78
Email: dissa1@worldbank.org

Borrower/Client/Recipient

Name: Republic of Tunisia
Contact:
Title:
Tel:
Email:
Name: Republic of Tunisia
Contact: Mr. Zekri
Title:
Tel:
Email: azekri@mdci.gov.tn

**Implementing Agencies**
Name: Ministry of Commerce and Handicraft
Contact: Mr. Khaled Salhi
Title:
Tel: 21698325381
Email:

**VII. For more information contact:**
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop