REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

SOCIETE TUNISIENNE DE L'ELECTRICITE ET DU GAZ

WITH THE GUARANTEE

OF THE

REPUBLIC OF TUNISIA

FOR A SECOND

POWER PROJECT

December 13, 1976
The exchange rate of the Tunisian Dinar is floating. The rate used in the appraisal report, which approximates the current rate, is:

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**Fiscal Year**: January 1 to December 31

**Abbreviations**

- **BDET**: Banque de Développement Economique de Tunisie
- **COFACE**: Compagnie Française d'Assurance pour le Commerce Extérieur
- **COFITOUR**: Compagnie Financière et Touristique
- **GAFSA**: Compagnie des Phosphates et du Chemin de Fer de Gafsa
- **STEG**: Société Tunisienne de l'Electricité et du Gaz
1. I submit the following report and recommendation on a proposed loan to Société Tunisiene de l'Electricité et du Gaz with the guarantee of the Republic of Tunisia, for the equivalent of US$14.5 million to help finance a second power project. The loan would have a term of 14 years, including 2-1/2 years of grace, with interest at 8.7 percent per annum. Additional financing of about $9.2 million for the project would be provided by a consortium of private banks. Their loan is expected to have a term of about eight years, with interest at 7 1/2 percent per annum.

PART I - THE ECONOMY

2. A report entitled "The Economic Development of Tunisia: A Basic Report" was distributed to the Executive Directors in January 1975. Since then, two updating economic reports, both entitled "Memorandum on the Economic Position of Tunisia", were circulated on May 23, 1975 and September 17, 1976. The main conclusions of the basic economic report and the updating missions are reflected below. Country data sheets are attached in Annex 1.

3. Tunisia's development has been hampered by scarcity of natural resources. Much of the country is arid or semi-arid, and agriculture is highly dependent on rainfall. Minerals are mostly of low quality and, apart from phosphates, limited in quantity. Relatively small quantities of petroleum were discovered in the mid-1960's and have since become an increasingly valuable source of revenue and export earnings. Industrial development has been handicapped by the small size of the domestic market as well as a lack of skills and experience. Tourism has developed rapidly and workers' remittances have become a significant item in the balance of payments. Tunisia has enjoyed a large amount of external aid and used it to expand economic and social infrastructure, broaden the industrial base, make available a wide range of social and welfare services to a large part of the population, and increase the rate of growth. Per capita GNP increased by 4.2 percent annually from 1961 to 1975. Like most countries, however, Tunisia has not yet found adequate ways to cope with unemployment and poverty and to achieve a balanced distribution of consumption among income groups, between urban and rural areas, and among regions.

4. Government strategy in the 1960's relied heavily on central planning of investment and resource allocation, with the public sector playing a major role in production as well as providing infrastructure and services. Foreign exchange shortages and concern with inflation led to recourse to a pervasive system of price determination and controls. An unusually long
series of poor crop years due to shortage of rainfall slowed the growth of output. Many of the investments in public enterprises proved to be un-economic and private initiative in most sectors except tourism and petroleum was limited.

5. The Government's present development strategy was introduced in the early 1970's. Its principal objectives are: (a) accelerating growth based on export-oriented industries, by encouraging private initiative, reducing direct Government involvement in production and relaxing administrative regulations; (b) creating jobs, primarily in the expanding industrial sector, encouraging worker emigration, reducing population growth and improving education and training; and (c) maintaining internal and external financial stability. The 1973-76 Fourth Plan set a target rate of GDP growth of 7 percent, providing for a 5.4 percent growth rate in per capita private consumption. Investment was projected to increase by 80 percent above the level of the 1969-72 Plan. National savings were to finance three-quarters of investment. Exports of goods and services were projected to grow at 8.8 percent per year at constant prices and imports at 12.2 percent. The Plan foresaw net external capital inflows increasing by 55 percent over 1969-1972 average levels and providing 23.5 percent of total investment. Debt service was to be held to below 20 percent of exports. The original Plan targets were conservative in terms of both growth and savings potential, particularly in view of the favorable impact of the changed petroleum and phosphate prices on the Tunisian economy (paras. 9 and 10).

6. The real growth of GDP has accelerated since 1970, reaching 9.6 percent per annum during the period 1970-75, compared with 4.6 percent during the previous decade. The acceleration can be attributed partly to fortuitous factors such as good weather, leading to record cereal and olive crops, partly to important growth in tourism, petroleum and phosphate revenues and workers' remittances, and also to the general reorientation of Government policy since 1970, which renewed self-confidence and initiative in the private sector. Expansion of manufacturing and phosphate production has been significant. By 1975, per capita GNP reached $760 (1976 Bank Atlas estimate). Investment remained high in relation to GDP - 22 percent in 1970-75 compared to 23 percent during the 1960s - while national savings rose sharply from an average of 13.5 percent of GDP at current prices during the 1960's to 19 percent during 1970-75. Consequently, the share of external borrowing in financing investment dropped from 44 percent in the 1960's to 13 percent during 1970-75.

7. The balance of payments was in overall surplus from 1967 to 1974 and since late 1973 benefitted greatly from sharply improved terms-of-trade. However, in 1975 the terms of trade began to deteriorate, the demand for Tunisian exports sharply decreased, and despite substantial disbursements on external borrowing, international reserves declined by 11 percent. At the end of 1975, net reserves amounted to $344 million, equivalent to about 3 months of imports.

8. Tunisia has maintained relative price stability, thanks to prudent fiscal and monetary policies and a skillful use of price controls and of price
subsidies for basic consumer goods. Consumer price increases averaged 4.2 percent annually during 1970-74. There was, however, a 9.6 percent increase in consumer prices in 1975, largely because of increased export and import prices. During 1970-74, the official GDP deflator rose at an average annual rate of 8.9 percent and average investment costs increased by 9.6 percent. The increases in these two price indices in 1975 were 5.2 percent and 14 percent, respectively.

9. Despite the terms-of-trade loss in 1975, Tunisia still is on balance a beneficiary of the changes in world market prices since late 1973, but this favorable situation will probably change in later years. Mainly because of sharply higher prices for petroleum, phosphates and olive oil, export earnings rose from $714 million in 1973 to $1,254 million in 1974 and $1,328 million in 1975. On the other hand, increases in import prices, combined with higher domestic demand, caused payments on imports to grow from $782 million in 1973 to $1,242 million in 1974 and to $1,525 million in 1975. The gains from changes in terms of trade since 1973 are projected to disappear around 1978 or 1979, as a result of the expected stabilization or decrease in the prices of Tunisia's major exports, and further increases in the prices of imported industrial goods. At the same time, workers' remittances may continue to be restrained by slower economic growth in Western Europe. Taking into account likely capital inflows through direct investment and external aid, the level of net reserves is projected to be equivalent to about 2.4 months of imports at the end of 1976 and to remain at this level during the remainder of the decade, when the balance of payments may reemerge as a serious constraint on Tunisia's development.

10. The recent changes in Tunisia's balance of payments position and in Government savings do not call for a substantial revision in development strategy. They suggest rather that Tunisia should continue its efforts to achieve high investment and GDP growth rates. Since workers' emigration to Europe and Libya is now limited, the effort to increase investment, particularly in labor-intensive industry and agriculture, should be increased. With an adequate savings level and continuing external aid, the Tunisian economy has the financial resources that should enable it to sustain an average annual growth rate of between 7 and 8 percent during 1976-81. The level of future growth would also depend on continuing efforts to stimulate private investment, to increase the international competitiveness of industry, and to improve the planning and implementation of public investments.

11. Tunisia has made impressive social gains. By 1974, primary school enrollment had reached 96 percent, and secondary enrollment, 20 percent, of the relevant age-groups. Public health services have been greatly expanded with many provided free. A family planning program has been introduced. Total social expenditures during 1970-75 increased by about 10 percent per annum and on average accounted for 9 percent of GDP and for 30 percent of total public expenditures. Nonetheless, major social issues remain. Further
progress is needed in land reform and in creating employment. The unemploy-
ment rate was estimated at 18 percent in the non-agricultural sectors in
1975, and underemployment in the rural sector is high. There has been a
growing concentration of productive activities in a few urban areas, espe-
cially in Tunis.

12. So far as can be judged from available data, there has been a
gradual improvement in income distribution. During the 1960's, real incomes
increased in all sectors but by a higher percentage in the modern sector than
in the rural sector, due partly to the series of poor harvests. In the modern
sector, especially in industry, increases in real incomes in the 1960's ex-
ceeded the rise in productivity; the income distribution trends favored in-
dustrial workers. Thanks especially to the income redistribution effects of
free social services, the proportion of the total population living in poverty
was substantially reduced during the decade. About 90 percent of the poverty
group lived in rural areas. Since 1970, higher agricultural output, increases
in minimum agricultural wages, tax exemptions for low incomes, the inflow of
workers' remittances from abroad and the stabilization of basic commodity
prices through Government subsidies seem to have improved the absolute, and
possibly also the relative, position of the poorest social groups. In rural
areas substantial income disparities remain, in part as a result of the
structure of land tenure.

13. During 1970-75, agriculture provided nearly half of total employ-
ment, 29 percent of merchandise exports and 19 percent of GDP. Food process-
ing accounted for another 3 percent of GDP and over a third of value added in
manufacturing. During this period agricultural production rose substantially,
largely as a result of favorable weather. The potential for further growth
is clear. While large infrastructure investments were made during the 1960's,
current policy has emphasized projects that make a rapid and direct contribu-
tion to production and recognized various constraints on agricultural develop-
ment: absentee ownership, insecurity of tenure, inadequate access to agricul-
tural credit, inadequate extension services, insufficient agricultural educa-
tion, and underutilization of irrigation investments. Under the Fourth Plan,
more than $140 million was allocated to a rural development program executed
by the provincial administrations.

14. During the 1960's, manufacturing production in Tunisia increased
by 8 percent annually. There has been a remarkable acceleration of growth in
the 1970's due in part to record years for the olive oil processing industry
and to favorable developments in the textile and chemical industries. The
early thrust of industrialization was supplied by large import substitution
projects in the state sector. These suffered, however, from the limited
domestic market and shortages of experienced staff and management. More
emphasis has been put on export-oriented private industries since 1970.
Under the Fourth Plan, private manufacturing investment, particularly in food
processing, textiles, fertilizers and metals transformation, was expected to
average D 25 million per year, compared with D 12 million in 1972, and to
account for two-thirds of total investment in manufacturing; these targets have been exceeded. Foreign and domestic private investment is now stimulated by a comprehensive incentive framework, and facilitated by the streamlined approval procedures of the investment promotion agency. Foreign investors are expected to contribute know-how and overseas marketing. A new agreement between Tunisia and the European Community was signed in April 1976. It provides for duty-free entry into the countries of the Community of nearly all Tunisian industrial products. The Government has established a special fund to encourage growth of small industries and industrial decentralization, and has started a program to establish industrial estates.

15. The development of tourism in Tunisia is relatively recent. Foreign-visitor arrivals reached a level of 780,000 in 1972, with an annual rate of growth over the period 1961-1972 of 30 percent -- higher than that of any other Mediterranean country. While 1973 saw a drop in the number of visitor nights, and 1974 registered another overall drop, there was a very strong recovery in 1975, with over one million visitor arrivals. Since 1970, earnings from tourism have been a major source of foreign exchange, having reached $300 million in 1975. The rapid development of tourism in Tunisia has unfortunately been accompanied by an inadequate development of infrastructure (particularly recreational facilities), shortages of trained manpower and inadequate services. The Government is endeavoring to alleviate these constraints through a variety of measures, including revised investment incentives, increased marketing and training efforts, codes to enforce quality standards and more stringent zoning laws.

16. Since the early 1960's Tunisia has obtained relatively large amounts of official aid. A Consultative Group provides a forum for aid-coordination among major donors (see para. 25). During 1970-74, annual loan commitments from public sources averaged $136 million, or about $26 per capita. About 69 percent of these commitments came from bilateral public sources, chiefly from France (14 percent), the United States (13 percent), and the Federal Republic of Germany (11 percent). About 12 percent came from oil-producing countries, whose share rapidly increased from 8 percent in 1970 to 26 percent in 1974. Commitments from the Bank Group during 1970-74 accounted for 29 percent of total public commitments. Most aid has been obtained on concessionary terms: during 1970-74, the average terms of borrowing from bilateral sources were 3.5 percent interest and 23 years to maturity, including 6 years of grace; from multilateral sources, they were 6.0 percent interest and 26 years to maturity, including 5 years of grace. During the same period Tunisia also received annually some $40 million in grants. Loan commitments from private sources average $32 million a year. Direct foreign private investment has been comparatively small, but recently it has picked up momentum following increased activity in the petroleum sector and new incentives offered to foreign investors in manufacturing. Thus, net direct foreign investment increased from $19 million in 1970 to $76 million in 1975.

17. Tunisia's total public debt outstanding (including undisbursed) increased from $846 million at the end of 1970 to $1,444 million at the end of 1974 and an estimated $1,700 million at the end of 1975. The disbursed portion
outstanding at the end of 1974 was $956 million, equivalent to 27 percent of GDP, compared with 40 percent in 1970; it is estimated at $1,160 million at the end of 1975. Debt service payments in 1975 were 7.8 percent of export earnings compared with 19.5 percent in 1970. This significant decline in the debt service ratio was mainly due to the sharp increase in export earnings following the changes in world market prices in 1973 and 1974; it also reflected reduced borrowing abroad, and Government efforts to change the structure of the foreign debt. In the future, Tunisia will have to continue to rely heavily on foreign financial assistance in order to reach its development goals. While Tunisia is capable of servicing substantial additional debt on less concessionary terms than in the past, it nonetheless should continue to seek a large part of its external resources on concessionary terms in order to maintain the debt service at a manageable level in the long run.

PART II - BANK GROUP OPERATIONS IN TUNISIA

18. Since 1962, Tunisia has received a total of twenty-six loans and ten credits amounting respectively to $326.9 million and $70.1 million, net of cancellations and refundings. Annex II contains a summary statement of Bank Loans, IDA credits and IFC investments as of October 31, 1976, and notes on the execution of ongoing projects.

19. The Bank's lending strategy aims at supporting Government efforts to (a) increase employment, (b) encourage more balanced growth and distribution of income among regions and income groups, and (c) promote export-oriented policies and investments. The key supporting feature of this lending strategy is to encourage the Tunisian authorities in timely and well-coordinated preparation of projects, with emphasis on technical assistance. The Bank is also cooperating with the Government in its efforts to increase the mobilization of domestic and foreign resources, in part through encouraging project co-financing; the latter is particularly important in view of the extent of Tunisia's external resource needs, the large scale of many priority projects, and the limited availability of Bank resources. This latter effort is a prime objective of the proposed project (see para. 38) and is also supported through the Consultative Group (see para. 25).

20. Within this broad framework, past Bank Group lending has emphasized support for long-term investments in infrastructure and social development. Lending for urban and social development, including water supply, education, family planning and the Tunis urban planning and public transport project has accounted for 33 percent of Bank/IDA commitments in Tunisia. Lending for transport, power and tourism infrastructure has accounted for a further 33 percent. Agriculture and fisheries have received 12 percent of total commitments. Industrial and hotel financing through the Banque de Developpement Economique de Tunisie (BDET) has accounted for 16 percent, and the GAFSA phosphate development project received 6 percent of total commitments. While there have been some problems, project implementation on the whole has been satisfactory. In a number of sectors, important institutional improvements have been achieved and independent agencies have been created or strengthened.
21. In agriculture, Bank involvement in several sub-sectors has met in some cases with success, in others with difficulties. The first agricultural project financed by the Bank Group was the 1967 Cooperative Farm Project, completed in 1973 after substantial delays and revisions caused by changes in Government agricultural policy in 1969. The First Agricultural Credit Project (Loan/Credit 779/263-TUN, $8 million, of 1971) should be fully disbursed by the end of 1976. A 1971 IDA-financed Fisheries Project (Credit 270-TUN, $2 million), aimed at development of Tunisia's inshore fisheries, is expected to be fully disbursed in 1977. A loan for an Irrigation Rehabilitation Project (Loan 1069-TUN, $12.2 million) became effective in September 1975; project execution is in its early stages. The Bank has also attempted to play a more active role in rural development in Tunisia, but no specific project in this field has as yet materialized. Our experience to date has, however, served to underline the necessity for very close coordination and careful preparation of future projects in this difficult but high priority sphere.

22. Lending in the current fiscal year and the period ahead will seek to approach the problems of rural and regional development increasingly through an emphasis on projects promoting agricultural and industrial production, such as the Second Agricultural Credit Project recently approved by the Executive Directors, and urban and social development. Complementary to this primary focus, the program would also finance selected priority projects in infrastructure, particularly in power, such as the project proposed in this report, and in roads. The project proposed in this report meets the latter criterion, as it would contribute to ensuring continuity of electricity supply and would strengthen the institutional framework of the power sector. The Sidi Salem Multi-purpose project, also to be processed in the current fiscal year, would support the first phase of execution of the Water Master Plan for Northern Tunisia, consisting of: (i) construction of the Sidi Salem dam and reservoir providing water for potable, industrial and irrigation purposes; (ii) construction of an interconnection canal to Tunis and the Cap Bon Peninsula; (iii) irrigation infrastructure and rehabilitation for some 16,600 ha, and (iv) a 25 MW hydro power plant. Other projects under discussion with the authorities include a fourth Water Supply Project, a second Fisheries Project, a Rural Roads Project, and a seventh development finance company project. Further direct lending for priority industrial sub-sectors in which Tunisia has a comparative advantage will depend on progress achieved in the formulation of sound projects. In addition, an economic mission to review the Fifth Plan is examining the Government's rural development plans in an effort to identify areas where Bank lending could be focused.

23. The Bank Group accounted for about 17 percent of disbursements of official assistance to Tunisia between 1970 and 1974. The Bank Group's shares in total debt outstanding and disbursed at the end of 1974 (including loans from private sources) and in debt service during 1974 were 14 percent
and 12 percent respectively. Over the rest of the decade, the Bank Group’s share in disbursed external debt is expected to decrease to about 10 percent, as will its share in debt service.

24. IFC has invested in NPK Engrais (a fertilizer plant), in BDET, in Compagnie Financiere et Touristique (COFITOUR, a company to promote and invest in tourism projects), in Societe Touristique et Hoteliere RYI (a large hotel development) and in Industries Chimiques du Fluor, which will produce aluminium fluoride from local fluorspar for export. IFC’s most recent investment, in May 1975, was in the Sousse-Nord integrated tourism development project. IFC’s net commitments in Tunisia total $15.9 million. IFC’s Board has approved the sale of IFC shares in NPK to the Tunisian Government.

25. Since 1962 the Bank has chaired the Consultative Group for Tunisia bringing together the principal donor countries and institutions concerned with the country’s development. The most recent meeting of the Group was held in Paris in June 1975. New participants in the Group included Saudi Arabia, Japan, the Arab Fund for Economic and Social Development and the Commission of the European Communities.

PART III - THE POWER SECTOR

Power and Energy Resources

26. Tunisia’s main energy resources are oil, natural gas and a very small hydro power potential. Recoverable oil reserves are estimated at about 70 million tons. Annual oil production was about 4.6 million tons in 1975 and is expected to reach 6.5 million tons annually by 1980, as a result of additional output from new offshore fields in the Gulf of Gabes. Additional resources lie in an area of the continental shelf on which the frontier between Libya and Tunisia is currently in dispute. The two Governments have recently agreed to submit the dispute to the International Court of Justice in The Hague.

27. Some 300 million cubic meters of oil-associated gas can be transported annually from El Borma to the Gabes area through a Bank-financed pipeline (Loan 724-TUN) to supply a power station and various industries. The reinforcement of this pipeline to increase its capacity to about 500 million cubic meters annually by 1981 has recently been financed by the Kuwait Fund. Preliminary estimates of offshore natural gas reserves in the Gulf of Gabes are between 70 and 160 billion cubic meters. If the volume of gas reserves is confirmed and exploited, this could dramatically change the energy supply pattern in Tunisia, where the main benefits generated by the substitution of gas for oil would be incremental oil exports. Some 3.5 billion cubic meters of low-heat value gas from Sidi Behara and Sidi Agareb (20 miles west of Sfax) could be economically used for power generation. Tunisia’s hydro-power potential is insignificant, but so far about 30 MW has been developed. No favorable sites exist permitting further development except for a 25-MW power
plant at Sidi Salem, which is part of the large multipurpose project (see para. 22) proposed for Bank financing, and a pumped storage plant at Kasseb which appears to be less economical and therefore has not been included in the development plan for energy.

The Electric Power Sector

28. The power sector is mainly served by the Societe Tunisienne de l'Electricite et du Gaz (STEG), a Government owned corporation, which is responsible for the production, transmission and distribution of electricity and gas in Tunisia. Its principal activity is the sale of electricity; gas sales account for only 3.5 percent of its total revenues. In 1975 it supplied almost 90 percent of the electric energy consumed in the country, the remaining 10 percent being captive plant supplying individual industries.

29. In 1970, STEG's installed capacity was 215 MW generating 680 GWh. In 1975 the equivalent figures were 367 MW and 1,204 GWh. Almost all of STEG's installed capacity is interconnected. The major thermal power plants are located in Tunis and Gabes. Natural gas accounted for 59 percent, liquid fuel for 39 percent and hydro for 2 percent of STEG's power generation. The total installed capacity in hydro plants of about 30 MW is concentrated in the northern part of the country. STEG's total diesel capacity of about 15 MW, of which the major part is installed in Sfax, Sousse and Robbana, has the role of standby capacity. The main transmission system, consisting of a 150 kV ring with 150 kV and 90 kV secondary branches, has a total length of about 1,400 km. The first 225 kV line of about 100 km was built in 1974 between Gannouche and Maknassy. It will be operated at 150-kV until 1977 when it will be extended to Tunis and converted to 225-kV. The medium voltage lines (10-30 kV) have a length of about 6,300 km, and low tension distribution lines and cables (220 V and 100 V) about 8,900 km. At the end of 1975 about 420,000 households (40 percent of the total) were provided with electricity, of which 35,000 were in rural areas (17 percent of total households in rural areas).

Tariffs

30. As a result of a tariff study financed under Loan 815-TUN, STEG implemented a new tariff system for electricity based on the marginal cost concept in April 1975, when electricity supply rates were raised an average of 16 percent. STEG is planning a second stage of tariff reform for 1978-1979, both with regard to tariff structures and to the level of electricity rates. At the same time STEG expects to bring tariff calculation systematically up to date on the basis of marginal costs. Government approval of STEG's tariffs is required. At present, oil prices (excluding motor fuels) in Tunisia are only about one fourth of international prices, enabling STEG to achieve satisfactory earnings without significant tariff increases. Assuming that export sales of petroleum products could be increased if domestic consumption were reduced, this policy results in a substantial subsidy to users of oil products and electricity. While the present price policy is part of a deliberate effort to promote industrialization, and the Bank has no evidence that it has caused an inefficient use of energy or distorted energy consumption patterns, it was agreed during negotiations that the Government would undertake an
energy price policy study, with the assistance of consultants. The Government will submit the recommendations of the study to the Bank by September, 1978, and exchange views with the Bank on them (draft Guarantee Agreement, Section 3.04). STEG has also agreed to conduct a study of the level and application of connection charges in order to determine what effect its policy stipulating a rather high level of customer contributions has on the extension of service (draft Loan Agreement, Section 4.04). The Government's pricing study would take the results of this study into consideration.

STEY's Development Program

31. STEG's 1977-81 development program, as included in the Government's draft Fifth Plan, amounts to TD 207.3 million (US$483.0 million) of which 90 percent will be for power, 1 percent for gas, and 9 percent for general development. To meet forecast electricity sales, which are projected to rise by 88 percent in the next five years, the power program provides for a generation component of TD 69.9 million (37.2 percent of the total power program). It consists of 290 MW of new capacity, of which 150 MW is the gas turbine plant under the project presented in this report, and 140 MW is steam plant. The transmission component of the program is TD 36.8 million (19.7 percent of the total program). It involves the construction of 775 km of transmission lines, including a new 225-kV transmission grid to increase the reliability of the system. A continuing program of substation construction to meet increasing urban and industrial demand is also planned. The distribution component amounts to TD 80.5 million (43.1 percent) and is based on a master plan prepared with Canadian assistance, which sets up targets for the 1990 horizon. Its main aim for urban electrification is to keep pace with plans for housing construction and to ensure in the shortest possible time the connections for existing housing which at present is not supplied with electricity; the development of rural electrification is to improve the standard of living in rural areas and to meet the water pumping requirements for agriculture. The intermediate targets for 1981 are to supply 85 percent of households in towns and 57 percent in villages as against 62 and 17 percent, respectively, in 1974. The master plan, based on an analysis of forecast low-voltage consumption, appears to be adequate. A dispatch center for the power system, to be completed in 1981, is also included in STEG's construction program.

32. The gas component is a small portion of the development program although parts of it may have important implications for the future development of the power sector. It includes the reinforcement of the El Borma pipeline to enable gas to be used rather than flared and to supply new consumers, the distribution of gas in the Tunis area, connections for industrial consumers and, especially, studies for the offshore gas in the Gulf of Gabes. A decision on the off-shore gas program would be taken by the Government at a later stage on the basis of studies now underway. A Bank mission visited Tunisia in November, 1976 to review the gas sector and possibilities for Bank assistance in defining a hydrocarbon policy in general and in formulating institutional arrangements for the development of the gas field and the training of personnel. The planned introduction of natural gas on the Tunisian market would have an important impact on the industrial development of the country, providing
opportunities for the development of industries based on the utilization of natural gas. For the power industry it would lead to the almost total substitution of gas for liquid fuel in electricity generation. The direct impact on electricity consumption would be less significant, since it could be a substitute mainly for electric heating and cooking, accounting at present for only 0.7 percent of STEG’s electricity sales. Preliminary estimates indicate that the total investment required to develop the offshore gas field would be around TD 330 million. The financing of this would be kept separate from STEG’s development plan.

33. STEG’s financing requirements for 1976 and the development plan period (1977-81), excluding potential offshore gas development, amount to TD 240.7 million ($561.1 million). STEG’s internal cash generation including customer contributions would cover 51 percent of this amount. Only 44 percent of the financing would come from borrowing, of which 35 percent from new borrowing, all to finance foreign costs, and 9 percent from drawdown of existing loans. The proposed Bank loan would finance about 2 percent of the construction requirements. Remaining foreign exchange requirements would be met through foreign government credits, bank loans and suppliers credits.

PART IV - THE PROJECT

History

34. The Bank has made two previous loans in the energy sector, totalling $19.5 million. Both were made to STEG. The first (724-TUN), a loan of $7.5 million was made in 1971 in conjunction with a $2.5 million loan from the Kuwait Fund for Arab Economic Development, to finance a gas pipeline. The second loan (815-TUN), of $12 million, was made in 1972 to finance a power project consisting of two 20-MW gas turbines, transmission and distribution system expansion, and consulting services for future plant and institutional development. The first project was satisfactorily completed in 1972 and in spite of technical difficulties connected with the compression and treatment plant, the audit rate of return on the project is about 72 percent, primarily due to higher oil prices. The second one is nearing satisfactory completion with both gas turbines as well as all transmission lines and substations in operation.

35. The proposed project was identified by a Bank mission which visited Tunisia in December 1975. Project preparation was carried out by STEG, and the project was appraised in June 1976. Negotiations took place in Washington in November 1976. The Tunisian delegation was headed by the General Manager of STEG, Mr. Bahroun. A detailed description of the project is given in the report entitled "Appraisal of the Second Power Project (STEG) - Tunisia" (No. 1304b-TUN) dated December 7 1976, which is being distributed to the Executive Directors separately. A Loan and Project Summary is attached as Annex III, a Supplementary Project Data Sheet as Annex IV, and a map showing the location of project components is also attached.
Objectives and Description of the Project

36. The proposed project is the gas-turbine component of STEG’s 1977-1981 development program for generating facilities. Its main objectives are (a) to ensure continuity of electricity supply; (b) to cover the need for peak power capacity; and (c) to allow STEG to implement its next expansion program with larger and more efficient steam turbine units than would be possible without the prior installation of gas turbine units as proposed in this project. Lending for the proposed project would also enable the Bank to continue the provision of technical assistance to STEG in connection with several studies which are important to the future development of STEG and the energy sector in Tunisia (pars. 30 and 44). Thus the Bank will continue its institution-building effort which started under the two previous loans and has led to improvements in STEG’s organization and operations: decentralization of financial activities, improvements in the accounting and billing system, introduction of budgetary controls and internal audit, and revision of the tariff structure for electricity. The project would also provide the first occasion for private co-financing in Tunisia; in view of the country’s important external resource requirements for the Fifth Plan, this is a significant development.

37. The project consists of seven gas turbines of about 20 MW each. The gas turbines would be heavy duty open-cycle units in their own housing so that they could in the future, if needed, be moved to other sites. Two each would be located in Sfax and Menzel-Bourguiba, and one each in Tunis South, Korba and Metlaoui. These sites are at the extremities of Tunisia’s basic network, and are the centers in which actual and projected consumption is concentrated. The two units to be installed at Sfax would be operated with natural gas of low-heat value, recently discovered in the Sidi Agareb-Sidi Behara zone (about 20 miles west of Sfax). The others would be operated with gas oil pending conversion to natural gas should its feasibility be determined.

Cost Estimates and Financing Plan

38. The total cost of the project (including 10 percent physical contingencies but excluding price contingencies since the cost is based on firm price bids (para. 40)) is $29.3 million with a foreign exchange component of $25.1 million. The proposed Bank loan of US$14.5 million equivalent would cover 58 percent of the foreign exchange cost of the project. The remaining foreign exchange cost would be met by STEG ($1.4 million) and by a consortium of private banks including the Societe Tunisienne de Banque and Banque Nationale de Paris, with the guarantee of COFACE (about $9.2 million equivalent-FF 46,000,000). The effectiveness of this loan would be a condition of effectiveness of the Bank loan (draft Loan Agreement, Section 7.01). No retroactive financing is proposed since any payments prior to Bank loan signature would be covered by STEG or by the consortium loan. All local currency costs would be financed by STEG.
Project Execution

39. STEG would be responsible for project execution. The gas turbine units would be installed by the suppliers under a supply and erection contract. Civil works and supervision of the erection and of the required testing would be done by STEG's staff, which is competent and has undertaken similar work in the recent past, as for instance under the first Bank-financed power project.

Procurement and Disbursement

40. Prior to appraisal STEG informed the Bank that in order to meet the demand for electricity, the award of contracts would be necessary before the proposed loan could be submitted to the Bank's Executive Directors but that STEG would follow the Bank's Guidelines for Procurement in all steps. Shortly after appraisal STEG awarded the contract, on the basis of international competitive bidding, to take advantage of the favorable price offered for a limited term by the lowest bidder (ALSTHOM of France).

41. Disbursements from the proposed Bank loan would cover a portion of the gas turbines and installation expenses. Disbursement of the proposed Bank loan is expected to start after the proceeds of the private bank loan have been fully withdrawn; on this basis it was agreed during negotiations that the Bank loan would be disbursed against 100 percent of foreign expenditures, up to $14.5 million, after the private bank loan and STEG's contribution had been drawn down. The project is expected to be completed by December 31, 1980.

Environmental Impact

42. All five sites of the gas turbines are outside population centers, and the nearest habitations are situated about 2 miles away. Although the gas turbines will not create noise nuisances, the equipment would be provided with special hoods in order to reduce noise to a minimum level. The gas oil has a sulphur content of less than 1 percent, and the low-heat gas is sulphur-free. Thus the gas turbines would not cause any unacceptable atmospheric pollution.

Management and Organization of STEG

43. Except for general control by the Government, STEG is an autonomous body, enjoying operational freedom in the conduct of its day-to-day business. The company's management is competent and effective. It is governed by a board of eight members headed by a full-time General Manager; all board members are appointed by the President of the Republic. The operations of the entity come under the general supervision of eight departments. The country is divided into 13 Districts which operate the local services. A further decentralization is being studied by STEG, which would consist of the creation of local agencies in towns.
44. STEG's present organization appears to be adequate for the fulfillment of the company's tasks for the next plan period. Nevertheless its management is studying the company's organization with the assistance of consultants. This action has been supported by studies under the second Bank loan which have been successfully completed. The introduction of offshore gas on the Tunisian market is expected to bring new responsibilities to STEG, concerning the construction and operation of onshore facilities for transmission and distribution of natural gas. Therefore, a study would be undertaken by STEG, under terms of reference prepared in consultation with the Bank, to define these new responsibilities and to establish a new organizational structure for the company, its training needs and the required investments for the gas transport and distribution program; the recommendations of the study would be submitted to the Bank by June 30, 1978, and STEG would exchange views with the Bank on them by October 31, 1978 (draft Loan Agreement, Sections 4.04 and 4.07).

Financial Position of STEG and Financial Covenants

45. Under Loan 815-TUN, STEG agreed to maintain tariffs at such a level that the ratio of operating surplus before depreciation to average value of gross fixed assets in operation less average customer contributions would not fall below 8.5 percent in any fiscal year beginning with 1973. STEG has met this covenant; its rate of return on this basis was 8.5 percent in 1973, 9.3 percent in 1974 and 10 percent in 1975. Partly because of the then existing uncertainties about asset values, and to reduce temporary fluctuations in the return that would arise from fluctuations in depreciation charges on account of commissioning of major assets, the rate of return was computed before depreciation. Since STEG's assets have now been identified and their values determined, it is no longer necessary to adhere to this covenant. During negotiations STEG thus agreed to adopt a more conventional rate of return covenant with an 8 percent rate of return on the net value of fixed assets in service beginning with 1977 (draft Loan Agreement, Section 5.04). STEG's rate of return on the new basis would be, with present electricity tariffs, about 8 percent in 1977. Marginal adjustments in tariffs would be necessary in subsequent years for STEG to continue earning an 8 percent return.

46. Loan 815-TUN also requires that STEG should not incur any debt without the approval of the Bank, except for financing the previous project, if it would raise the company's total debt to more than 45 percent of the sum of its equity and its total debt. Even after considering the large borrowings necessary for financing the total investment program, STEG's debt during the 1976-1981 period is not estimated to exceed the level of 45 percent except in 1979, 1980, and 1981, and then only marginally. The same covenant would thus be extended to the proposed loan (draft Loan Agreement, Section 5.05). It would keep STEG's assumption of long-term debt under review and, together with the proposed rate of return covenant, would ensure an adequate cash flow for STEG vis-a-vis its debt service and construction requirements.
47. Finally, under Loan 815-TUN, STEG's financial statements were to be audited and submitted to the Bank within four months after the end of each fiscal year. In the past, this time schedule has not been observed by STEG; the 1975 audited financial statements were satisfactory but were received only in August 1976. STEG attributes this delay to computer problems and to the fact that the auditors cannot start work until the annual report is available, generally in April. During negotiations, the Bank agreed to extend the period for submission of STEG's audited financial statements to five months after the end of each fiscal year (draft Loan Agreement, Section 5.02). However, in order to ensure that the rate of return covenant is met, STEG also agreed during negotiations that by October 31 of each year, it would prepare and submit to the Government and the Bank a forecast of operating revenues, operating expenses and the rate of return for the current and following year, a statement of the tariffs and assumptions underlying the forecasts, and a statement of measures proposed, if any, to meet the 8 percent rate of return (draft Loan Agreement, Section 5.04).

Benefits and Justification

48. The growth rate of STEG's electricity sales since 1966 has been 11.5 percent per year and of system maximum demand 11.3 percent. The forecast adopted for system planning purposes implies an average growth rate of 13.3 percent for STEG's electricity sales and of 12.5 percent for maximum demand over the period 1975-1981. This forecast, which reflects the economic expansion of Tunisia planned for the next five year period, is considered a suitable basis on which to plan expansion of the power system. Two alternatives were considered regarding the size of power generating units and the timing of their installation. The transmission program would remain the same under each alternative. The proposed program providing for the installation of 150 MW of gas turbines through 1980 combined with two 140 MW steam units at Sousse in 1981 and 1982 was found to have the lowest present value.

49. The estimated rate of return on the proposed project, at present electricity prices and using low-heat value gas for the Sfax power plant, and gas oil for the rest of the gas turbines, would be at least 13.2 percent. If offshore gas is used after 1980 instead of oil for all gas turbines (with the exception of the Sfax power plant which will continue to be operated on low-heat value gas), the rate of return would exceed 24 percent due to the lower economic value assumed for the offshore gas. The rate of return is highly sensitive to variations in fuel costs and electricity rates and less sensitive to increased capital costs. Project risks are no greater than can normally be expected with operations of this type.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

50. The draft Loan Agreement between the Bank and Societe Tunisienne de l'Electricite et du Gaz (STEG), the draft Guarantee Agreement between the Republic of Tunisia and the Bank, and the Report of the Committee provided
for in Article III, Section 4(iii) of the Articles of Agreement and the text of a draft Resolution approving the proposed loan are being distributed separately to the Executive Directors. Features of particular interest in the Loan and Guarantee Agreements are discussed in paragraphs 30, 38, and 44.

51. An additional condition of effectiveness of the proposed Bank loan would be the effectiveness of the loan agreement between STEG and private banks providing foreign exchange financing for the project.

52. The draft Loan and Guarantee Agreements conform to the usual pattern for loans for Power Projects.

53. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

**PART VI - RECOMMENDATION**

54. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara,  
President

Attachments  
December 13, 1976
**TABLE 3A**

**TUNISIA - SOCIAL INDICATORS DATA SHEET**

<table>
<thead>
<tr>
<th>Land Area (THOU KM²)</th>
<th>TOTAL</th>
<th>164.2</th>
<th>AGRI.</th>
<th>74.7</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>GNP per capita (US$)</th>
<th>1960</th>
<th>390.0</th>
<th>1970</th>
<th>380.0</th>
<th>MOST RECENT</th>
<th>700.0</th>
<th>JORDAN</th>
<th>350.0</th>
<th>IRAQ</th>
<th>590.0</th>
<th>GREECE</th>
<th>1390.0</th>
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</table>

### Population and Vital Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>1960</th>
<th>1970</th>
<th>1980</th>
<th>Most Recent</th>
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</thead>
<tbody>
<tr>
<td><strong>Population (Mid-Yr, Million)</strong></td>
<td>4.1</td>
<td>5.0</td>
<td>5.6</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Urban</strong></td>
<td>2.1</td>
<td>2.1</td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Population Growth Rate (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Urban Population (% of Total)</strong></td>
<td>35.6</td>
<td>40.1</td>
<td>41.2</td>
<td>58.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>62.6</td>
</tr>
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</table>

#### Vital Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>Jordan</th>
<th>Iraq</th>
<th>Greece</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Birth Rate (/THOUS)</strong></td>
<td>24.7</td>
<td>18.1</td>
<td></td>
</tr>
<tr>
<td><strong>Average Death Rate (/THOUS)</strong></td>
<td>17.9</td>
<td>17.9</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Infant Mortality Rate (/THOUS)</strong></td>
<td>10.4</td>
<td>10.4</td>
<td>29.6</td>
</tr>
<tr>
<td><strong>Life Expectancy at Birth (YRS)</strong></td>
<td>52.7</td>
<td>70.9</td>
<td></td>
</tr>
</tbody>
</table>

### Employment

- **Total Labor Force (Thousands)**: 1400.0, 1300.0, 1600.0, 350.0, 2700.0
- **Labor Force in Agriculture (%)**: 69.0, 57.0, 48.3, 33.0, 72.0
- **Unemployed (% of Labor Force)**: 10.0, 12.0, 9.5, 14.0, 4.0

### Income Distribution

- **% of Private Income Rec'd By**
  - Highest 5% of Households
  - Highest 20% of Households
  - Lowest 20% of Households
  - Lowest 40% of Households
- **Economic Dependency Ratio**: 1.0, 1.1, 0.6

### Distribution of Land Ownership

- **% Owned by Top 10% of Owners**: 53.0
- **% Owned by Smallest 10% Owners**: 0.3

### Health and Nutrition

- **Population per Physician**: 10000.0, 9800.0, 5200.0, 2680.0, 3270.0, 637.0
- **Population per Hospital Bed**: 30.0, 70.0, 78.0, 105.0, 540.0, 1140.0
- **Physicians Supply of -**
  - Calorie Exceeding Requirements
  - Protein (Grams per Day)
  - Of Which Animal and Pulse
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### Consumption

- **Radio Receivers (Per Thou Pop)**: 41.0, 77.0, 74.0, 160.0, 180.0, 110.0
- **Passenger Cars (Per Thou Pop)**: 11.0, 13.0, 18.0, 7.0, 7.0, 26.0
- **Electricity (KWH/YR Per Cap)**: 92.0, 249.0, 1072.0
- **Newspaper (Kg/Yr Per Cap)**: 1.3

SEE NOTES AND DEFINITIONS ON REVERSE
population growth rate is lower than rate of natural increase.

**DEFINITIONS OF SOCIAL INDICATORS**

<table>
<thead>
<tr>
<th>Land Area (miles)</th>
<th>Local - Total surface area comprising land area and inland waters.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban - Population of urban areas (thousands), including hospitals.</td>
</tr>
<tr>
<td></td>
<td>Rural - Population of rural areas (thousands), excluding hospitals.</td>
</tr>
</tbody>
</table>

**Gender Ratio**

- **Male**
  - Total population
  - Age distribution
  - Urban population
  - Rural population
- **Female**
  - Total population
  - Age distribution
  - Urban population
  - Rural population

**Population by Age Group**

- **0-5 years**
  - Urban
  - Rural
- **6-10 years**
  - Urban
  - Rural
- **11-14 years**
  - Urban
  - Rural

**Marital Status**

- **Married**
  - Urban
  - Rural
- **Single**
  - Urban
  - Rural

**Occupation**

- **Agriculture**
  - Urban
  - Rural
- **Industry**
  - Urban
  - Rural
- **Services**
  - Urban
  - Rural

**Education**

- **Primary Education**
  - Years of schooling completed
- **Secondary Education**
  - Years of schooling completed
- **Higher Education**
  - Years of schooling completed

**Health and Nutrition**

- **Life Expectancy**
  - At birth
  - At age 65
- **Infant Mortality Rate**
  - Urban
  - Rural
- **Child Mortality Rate**
  - Urban
  - Rural
- **Mortality Rate**
  - Urban
  - Rural

**Economic Activities**

- **Agriculture**
  - Urban
  - Rural
- **Industry**
  - Urban
  - Rural
- **Services**
  - Urban
  - Rural

**Economic Indicators**

- **GDP per Capita**
  - Urban
  - Rural
- **Inflation Rate**
  - Urban
  - Rural

**Demographic Indicators**

- **Birth Rate**
  - Urban
  - Rural
- **Death Rate**
  - Urban
  - Rural

**Migration**

- **International Migration**
  - Urban
  - Rural
- **Internal Migration**
  - Urban
  - Rural

**Healthcare**

- **Physicians**
  - Urban
  - Rural
- **Hospital Beds**
  - Urban
  - Rural

**Labor Force**

- **Employed**
  - Urban
  - Rural
- **Unemployed**
  - Urban
  - Rural

**Economic Indicators**

- **GDP per Capita**
  - Urban
  - Rural
- **Unemployment Rate**
  - Urban
  - Rural

**Environmental**

- **Air Quality**
  - Urban
  - Rural
- **Water Quality**
  - Urban
  - Rural

**Energy**

- **Electricity**
  - Urban
  - Rural
- **Renewable Energy**
  - Urban
  - Rural

**Trade and Industry**

- **Imports**
  - Urban
  - Rural
- **Exports**
  - Urban
  - Rural

**Socioeconomic Indicators**

- **Income Distribution**
  - Urban
  - Rural
- **Poverty Rate**
  - Urban
  - Rural

**Education**

- **Literacy Rate**
  - Urban
  - Rural
- **Gross Enrollment Rate**
  - Urban
  - Rural

**Healthcare**

- **Physicians**
  - Urban
  - Rural
- **Hospital Beds**
  - Urban
  - Rural

**Economic Indicators**

- **GDP per Capita**
  - Urban
  - Rural
- **Unemployment Rate**
  - Urban
  - Rural

**Environmental**

- **Air Quality**
  - Urban
  - Rural
- **Water Quality**
  - Urban
  - Rural

**Energy**

- **Electricity**
  - Urban
  - Rural
- **Renewable Energy**
  - Urban
  - Rural

**Trade and Industry**

- **Imports**
  - Urban
  - Rural
- **Exports**
  - Urban
  - Rural
### A. NATIONAL ACCOUNTS

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<tr>
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<tbody>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>532</td>
<td>690</td>
<td>904</td>
<td>1,074</td>
<td>1,186</td>
<td>1,266</td>
<td>1,577</td>
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<td>Grain from Terms of Trade</td>
<td>3</td>
<td>85</td>
<td>43</td>
<td>20</td>
<td>12</td>
<td>6</td>
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<tr>
<td>Exports and Domestic Income</td>
<td>535</td>
<td>690</td>
<td>1,067</td>
<td>1,117</td>
<td>1,216</td>
<td>1,260</td>
<td>1,583</td>
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<tr>
<td>Imports (C and NPS)</td>
<td>1,079</td>
<td>306</td>
<td>548</td>
<td>350</td>
<td>368</td>
<td>479</td>
<td>2.5</td>
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<td>Exports (C and NPS) (Import capacity)</td>
<td>99</td>
<td>157</td>
<td>308</td>
<td>280</td>
<td>299</td>
<td>432</td>
<td>2.7</td>
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<td>Resource Gap</td>
<td>65</td>
<td>32</td>
<td>3</td>
<td>40</td>
<td>20</td>
<td>24</td>
<td>-</td>
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<tr>
<td>Consumption</td>
<td>650</td>
<td>572</td>
<td>841</td>
<td>992</td>
<td>1,067</td>
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<td>Investment</td>
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<td>223</td>
<td>269</td>
<td>306</td>
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<td>361</td>
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<tr>
<td>Domestic Savings</td>
<td>73</td>
<td>103</td>
<td>226</td>
<td>209</td>
<td>224</td>
<td>233</td>
<td>154</td>
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<tr>
<td>National Savings</td>
<td>67</td>
<td>96</td>
<td>220</td>
<td>205</td>
<td>204</td>
<td>293</td>
<td>9.7</td>
</tr>
<tr>
<td>GDP at current prices (Dinars)</td>
<td>1,006</td>
<td>1,444</td>
<td>3,541</td>
<td>4,590</td>
<td>5,711</td>
<td>6,945</td>
<td>8,465</td>
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### B. SECTOR OUTPUT

<table>
<thead>
<tr>
<th>Sector</th>
<th>1950</th>
<th>1970</th>
<th>1972</th>
<th>1974</th>
<th>1975</th>
<th>Average Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>22.1</td>
<td>14.5</td>
<td>14.5</td>
<td>15.5</td>
<td>15.5</td>
<td>-</td>
</tr>
<tr>
<td>Industry</td>
<td>22.8</td>
<td>25.7</td>
<td>26.1</td>
<td>25.4</td>
<td>31.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Services</td>
<td>55.1</td>
<td>58.0</td>
<td>54.6</td>
<td>55.1</td>
<td>55.5</td>
<td>52.9</td>
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### C. MERCHANDISE TRADE

<table>
<thead>
<tr>
<th>Category</th>
<th>1950</th>
<th>1970</th>
<th>1972</th>
<th>1974</th>
<th>1975</th>
<th>Average Annual Growth Rate</th>
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<tbody>
<tr>
<td>Imports (C)</td>
<td>297</td>
<td>306</td>
<td>386</td>
<td>479</td>
<td>572</td>
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<tr>
<td>Other consumer goods</td>
<td>40</td>
<td>41</td>
<td>144</td>
<td>180</td>
<td>204</td>
<td>230</td>
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<tr>
<td>Energy</td>
<td>11</td>
<td>11</td>
<td>120</td>
<td>116</td>
<td>116</td>
<td>146</td>
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<tr>
<td>Intermediate goods</td>
<td>68</td>
<td>106</td>
<td>307</td>
<td>413</td>
<td>532</td>
<td>1,065</td>
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<tr>
<td>Capital goods</td>
<td>75</td>
<td>74</td>
<td>233</td>
<td>410</td>
<td>525</td>
<td>856</td>
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<tr>
<td>Total goods</td>
<td>258</td>
<td>375</td>
<td>1,175</td>
<td>1,371</td>
<td>1,520</td>
<td>1,760</td>
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<tr>
<td>Other NPS</td>
<td>56</td>
<td>67</td>
<td>118</td>
<td>166</td>
<td>177</td>
<td>224</td>
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<tr>
<td>Total goods and NPS</td>
<td>316</td>
<td>442</td>
<td>1,292</td>
<td>1,538</td>
<td>1,797</td>
<td>2,194</td>
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### D. PRICES

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<td>Export price index</td>
<td>97.6</td>
<td>16.4</td>
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<td>Import price index</td>
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<td>Terms of trade index</td>
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<td>9.7</td>
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<td>GDP deflator</td>
<td>96.5</td>
<td>10.7</td>
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<tr>
<td>Average exchange rate (ID per $)</td>
<td>0.525</td>
<td>0.495</td>
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### E. PUBLIC FINANCE

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</thead>
<tbody>
<tr>
<td>Current Revenue</td>
<td>19.6</td>
<td>27.8</td>
<td>24.6</td>
<td>25.6</td>
<td>8.4</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>15.0</td>
<td>17.9</td>
<td>16.5</td>
<td>16.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Central Government Revenue</td>
<td>4.6</td>
<td>3.9</td>
<td>4.0</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Other Government Expenditure</td>
<td>0.9</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>11.7</td>
<td>3.9</td>
<td>4.0</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>GDP as Share of Total</td>
<td>100.0</td>
<td>100.0</td>
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### F. DETAIL ON CURRENT EXPENDITURE

<table>
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</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>19.6</td>
<td>27.8</td>
<td>24.6</td>
<td>25.6</td>
<td>8.4</td>
</tr>
<tr>
<td>Other Public Sector Expenditure</td>
<td>15.0</td>
<td>17.9</td>
<td>16.5</td>
<td>16.0</td>
<td>5.0</td>
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<tr>
<td>Total Expenditure</td>
<td>4.6</td>
<td>3.9</td>
<td>4.0</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Education</td>
<td>25.7</td>
<td>32.1</td>
<td>22.3</td>
<td>26.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>17.7</td>
<td>17.7</td>
<td>16.2</td>
<td>14.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>17.7</td>
<td>17.7</td>
<td>16.2</td>
<td>14.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Other Economic Services</td>
<td>17.7</td>
<td>17.7</td>
<td>16.2</td>
<td>14.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>17.7</td>
<td>17.7</td>
<td>16.2</td>
<td>14.6</td>
<td>7.0</td>
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</table>

### G. LABOUR FORCE (thousands)

<table>
<thead>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Natural Force</td>
<td>17.0</td>
<td>22.0</td>
<td>21.0</td>
<td>20.0</td>
<td>20.0</td>
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<tr>
<td>Natural Employment</td>
<td>17.0</td>
<td>22.0</td>
<td>21.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>17.0</td>
<td>22.0</td>
<td>21.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>
## TUNISIA - BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

(Amounts in millions of US dollars)

### A SUMMARY BALANCE OF PAYMENTS

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<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports (incl. OIL)</td>
<td>316</td>
<td>408</td>
<td>567</td>
<td>714</td>
<td>1254</td>
<td>1328</td>
<td>1349</td>
<td>1576</td>
<td>2516</td>
</tr>
<tr>
<td>Exports (incl. OIL)</td>
<td>381</td>
<td>427</td>
<td>592</td>
<td>783</td>
<td>1242</td>
<td>1323</td>
<td>1390</td>
<td>1655</td>
<td>2035</td>
</tr>
<tr>
<td>Net Exports</td>
<td>-65</td>
<td>-18</td>
<td>-25</td>
<td>-8</td>
<td>9</td>
<td>9</td>
<td>9</td>
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<tr>
<td>Net Interest Payments</td>
<td>-50</td>
<td>-18</td>
<td>-13</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>11</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Direct Investment Income</td>
<td>9</td>
<td>10</td>
<td>25</td>
<td>36</td>
<td>51</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Other Net Factor Services</td>
<td>-8</td>
<td>-39</td>
<td>-62</td>
<td>-102</td>
<td>-133</td>
<td>-152</td>
<td>-175</td>
<td>-238</td>
<td>-414</td>
</tr>
<tr>
<td>Current Transfers (net)</td>
<td>10</td>
<td>15</td>
<td>12</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Private Direct Investment</td>
<td>19</td>
<td>24</td>
<td>31</td>
<td>57</td>
<td>70</td>
<td>76</td>
<td>76</td>
<td>76</td>
<td>76</td>
</tr>
<tr>
<td>Official Capital Grants</td>
<td>60</td>
<td>35</td>
<td>37</td>
<td>65</td>
<td>83</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Public M + LT Loans; Other Loans</td>
<td>87</td>
<td>106</td>
<td>160</td>
<td>153</td>
<td>177</td>
<td>202</td>
<td>202</td>
<td>202</td>
<td>202</td>
</tr>
<tr>
<td>of which: Interest on Public Loans</td>
<td>(-17)</td>
<td>(-20)</td>
<td>(-32)</td>
<td>(-27)</td>
<td>(-31)</td>
<td>(-34)</td>
<td>(-39)</td>
<td>(-39)</td>
<td>(-43)</td>
</tr>
<tr>
<td>(months of imports equivalent)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B PUBLIC DEBT COMMITMENTS

#### External Debt

- Actual Debt Outstanding on Dec. 31, 1979
  - Lending, in Percent of Total
<table>
<thead>
<tr>
<th>World Bank</th>
<th>IDA</th>
<th>Other Multilateral</th>
<th>Government</th>
<th>Suppliers</th>
<th>Financial Institutions</th>
<th>Total Public M + LT Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>80.6</td>
<td>42.8</td>
<td>2.9</td>
<td>59.3</td>
<td>101.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.3</td>
<td>4.4</td>
<td>0.3</td>
<td>0.4</td>
<td>10.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Public Debt Outstandings

- Public Debt outstanding + Disbursed
  - 524 606 680 807 956 1136
  - Interest on Public Debt
  - 17 27 31 34 35 40
  - Amortisation
  - 45 68 70 59 54 56
  - Total Public Debt Service
  - 112 90 104
- Burden on Export Earnings
  - 8.5 16.5 16.5 12.0 7.2 7.8
- IBRD as % of Public Debt
  - 5.0 9.1 11.7 12.0 12.0 12.5
- IBRD as % of Public Debt Service
  - 4.2 4.5 4.5 4.5 4.5 4.5
- IBRD as % of Total Public Debt
  - 3.1 3.1 3.1 3.1 3.1 3.1
- IBRD as % of Total Public Debt Service
  - 0.1 0.2 0.4 0.4 0.4 0.4

#### Notes

- Exchange rates used for the various stocks and flows correspond to those published in IFS.
- Projected by world Bank Staff.
- Including errors and omissions.
- Including non-factor services.

---

**ANNEX I**

Page 4 of 4 pages

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**EMENA CP II**

September 1976
### A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of October 31, 1976)

<table>
<thead>
<tr>
<th>Loan or Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Amount (less cancellation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Bank</td>
</tr>
<tr>
<td>Fourteen loans and credits fully disbursed</td>
<td></td>
<td></td>
<td></td>
<td>60.9</td>
</tr>
<tr>
<td>581</td>
<td>1969</td>
<td>SONEDE</td>
<td>Water Supply</td>
<td>150</td>
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<tr>
<td>209</td>
<td>1970</td>
<td>Republic of Tunisia</td>
<td>Water Supply</td>
<td>10.5</td>
</tr>
<tr>
<td>238</td>
<td>1971</td>
<td>Republic of Tunisia</td>
<td>Population</td>
<td>8.8</td>
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<tr>
<td>746</td>
<td>1971</td>
<td>Republic of Tunisia</td>
<td>Highways</td>
<td>24.0</td>
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<tr>
<td>779</td>
<td>1971</td>
<td>Banque Nationale de Tunisie</td>
<td>Agricultural Credit</td>
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<tr>
<td>270</td>
<td>1971</td>
<td>Republic of Tunisia</td>
<td>Fisheries</td>
<td>2.0</td>
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<tr>
<td>988</td>
<td>1972</td>
<td>Societe Nationale d'Investissement</td>
<td>Development Finance Co.</td>
<td>10.0</td>
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<tr>
<td>815</td>
<td>1972</td>
<td>STIC</td>
<td>Power</td>
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<td>858</td>
<td>1972</td>
<td>Republic of Tunisia</td>
<td>Tourism Infrastructure</td>
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<td>329</td>
<td>1972</td>
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<td>Tourism Infrastructure</td>
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<td>980</td>
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<td>Hotel Training</td>
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<td>1042</td>
<td>1974</td>
<td>Compagnie des Phosphates et Chemic de Per de GASPAS</td>
<td>Phosphate Development</td>
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<td>1068</td>
<td>1974</td>
<td>Republic of Tunisia</td>
<td>Irrigation Rehabilitation</td>
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<td>1088</td>
<td>1975</td>
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<td>Urban Sewerage</td>
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<td>Education</td>
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<tr>
<td>1188</td>
<td>1976</td>
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<td>1189</td>
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<td>Highways</td>
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<tr>
<td>128-1</td>
<td>1976</td>
<td>Republic of Tunisia</td>
<td>Population</td>
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<td>TOTAL:</td>
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<tr>
<td>of which has been repaid</td>
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<td>Total now outstanding</td>
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<td>287.9 69.9</td>
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<td>Amount Held</td>
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<td></td>
<td></td>
<td>285.9 69.9</td>
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<tr>
<td>of which has been repaid</td>
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<td></td>
<td></td>
<td>2.0</td>
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<tr>
<td>Total now held by Bank and IDA</td>
<td>6.8</td>
<td></td>
<td></td>
<td>164.9 11.2</td>
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<td>Total undisbursed</td>
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<td></td>
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<td>10.5</td>
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</table>

a/ Prior to exchange adjustment. b/ Not yet effective

* A loan to Banque Nationale de Tunisie for a Second Agricultural Credit Project of $12.0 million was approved by the Executive Directors on November 23, 1976 raising the total amount of Bank Loans to $326.9 million.

### B. STATEMENT OF IFC INVESTMENTS IN TUNISIA (as of October 31, 1976)

<table>
<thead>
<tr>
<th>Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Amount in US $ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>NPK Engrais</td>
<td>Fertilizers</td>
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<td>1966</td>
<td>Societe Nationale d'Investissement (SNI) now (BEET)</td>
<td>Development Finance Co.</td>
<td>0.6</td>
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<tr>
<td>1969</td>
<td>COFIVTOUR (Tourism)</td>
<td>Development Finance Co.</td>
<td>8.0</td>
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<tr>
<td>1970</td>
<td>Societe Nationale d'Investissement (SNI) now (BEET)</td>
<td>Development Finance Co.</td>
<td>0.6</td>
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<tr>
<td>1973</td>
<td>Societe Touristique &amp; Hoteliere NV SA</td>
<td>Tourism</td>
<td>1.6</td>
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<tr>
<td>1973</td>
<td>Societe d'Etudes &amp; de Developpement de Sousse-Nord</td>
<td>Tourism</td>
<td>0.7</td>
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<tr>
<td>1974</td>
<td>Industries Chimiques du Flour</td>
<td>Chemicals</td>
<td>0.7</td>
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<td></td>
<td></td>
<td></td>
<td>Total gross commitments</td>
</tr>
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<td>Less cancellations, terminations, repayments and sales</td>
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<td>5.7</td>
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<td>Total commitments now held by IFC</td>
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<td>5.0</td>
<td>15.9</td>
</tr>
<tr>
<td>Total undisbursed</td>
<td>10.5</td>
<td>0.3</td>
<td>10.5</td>
</tr>
</tbody>
</table>

* Less than $50,000.00
C. PROJECTS IN EXECUTION 1/


Since January 1974, steady progress has been made both in the National Family Planning program and in the management of the project. The Government has welcomed and acted upon the recommendations of the IDA sector mission, and there are strong indications that the program will now continue to develop positively. However, delays in project execution resulted in cost overruns of more than 300 percent over the amount originally projected. In an effort to fill the financing gap, and following a procedure necessitated by the 1973 Agreement between the Bank Group and the Kingdom of Norway, IDA’s Executive Directors approved, on August 10, 1976, an increase in the IDA credit from $4.8 million to $9.6 million, the additional amount representing the participation of NORAD, Norway’s Agency for International Development. The Project is expected to be completed by December 31, 1977.

Cr. 270: Fisheries Project; US$2 million credit of September 24, 1971; Date of Effectiveness: May 24, 1972; Closing Date: (Original) December 31, 1976; (Current) July 31, 1978.

Project implementation is proceeding satisfactorily after earlier difficulties and delays experienced in design of an economic project vessel suitable for operation by traditional fishermen; 87 boats have now been completed and 62 delivered. After a period of reduced demand for project boats, due to early construction shortcomings as well as difficulty of fishermen to adapt to the more sophisticated Perkins engine, effective follow-up action has resulted in an increase in approved loan requests, which now total 163. However, since there is a considerable time-lag between sub-loan approval and boat delivery due to the administrative procedures involved and since there will be a rather high percentage of sub-loans which do not materialize and for which new customers will have to be found, the completion date is now estimated at March 1978.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
Date of Effectiveness: May 29, 1969; Closing Date: (Original)
Cr. 209: Second Water Supply Project; US$10.5 million credit of June 30, 1970;
Date of Effectiveness: December 12, 1970; Closing Date: (Original)
Ln. 989: Third Water Supply Project; US$23 million loan of May 29, 1974;
Date of Effectiveness: September 24, 1974; Closing Date: June 30, 1979.

Because of problems with locally manufactured asbestos-cement pipe
completion of the First Project has been delayed. Constraints resulting from
lack of capacity in the local construction industry required that the Closing
Date be further set back until the end of 1976. Final project costs are ex-
pected to be about 6 percent below appraisal estimates (but 7 percent higher
in dollar terms because of devaluation). The Second Project is also behind
schedule for the same reasons as well as because of initial delays in final
design, but all major supply works have been completed, and only minor works
unrelated to the provision of water remain to be completed. Final costs may
be about 5 percent higher than original estimates because of current infla-
tion rates, but 20-25 percent higher in dollar terms. Because of delays
in execution, the Closing Date has also been extended to the end of 1976.
Bidding has been completed for all major components of the Third project.
Construction is on schedule, and disbursements are higher than anticipated.

Ln. 746: First Highways Project; US$24 million loan of June 9, 1971, Date of
Effectiveness: October 26, 1971; Closing Date: (Original) June 30,
Ln. 1188: Second Highways Project; US$28 million loan of January 26, 1976;
Date of Effectiveness: June 16, 1976; Closing Date: December 31,
1979.

Progress in reconstruction and rehabilitation of roads and bridges
is good under the first project. All works are expected to be completed by
the end of 1976 or early 1977 (more than one year after the expected completion
date in the loan documents). The delays were mostly caused by delayed acquisi-
tion of right-of-way. The closing date has been extended by one year to June
30, 1977. Cost overruns have required the elimination of the Tunis-Turki
section of the Tunis-Hammamet expressway and considerable reductions in the
withdrawal percentages. Construction of the expressway section is now being
financed by the Kuwait Fund.

After prequalification of contractors under the second project, the
Government has invited bids for the improvement of one road; other improvement
works will be executed in accordance with the agreed timetable. Consultants
have been invited to submit proposals for a Pilot Rural Roads Project. A
separate invitation has been mailed to consultants to submit proposals for
the updating of the 1978 Transport Survey.
Ln. 779: **Agricultural Credit Project; US$5 million loan and US$3 million credit, both of July 12, 1971; Date of Effectiveness: January 25, 1972; Closing Date: (Original) July 31, 1975, (Current) December 31, 1976.**

Project implementation was slow during 1973 and 1974, mainly due to competing credit programs with softer terms than those of the Bank loan. These difficulties were resolved in early 1975, when the Government finally took steps to exclude use of these programs by potential Project subborrowers. Since then Project implementation and disbursements have been satisfactory. All Project funds are committed and the Loan/Credit is expected to be fully disbursed by the end of 1976. Major agricultural credit policy issues, such as the establishment of eligibility criteria for concessional credit, interest rate levels and credit organization were addressed in the context of the second agricultural credit project approved by the Executive Directors in late November.

Ln. 815: **Power Project; US$12 million loan of April 20, 1972; Date of Effectiveness: August 4, 1972; Closing Date: (Original) July 31, 1975; (Current) December 31, 1976.**

The project is nearing completion. Both gas turbines as well as all transmission lines and substations are in operation. The cost of the project is not expected to exceed the original estimate. A tariff increase in 1975 raised STEG's overall electricity revenues by 12 percent, thereby increasing the rate of return to 10 percent in that year (as compared with 8.5 percent in 1973 and 9.3 percent in 1974).

Ln. 858: **Tourism Infrastructure Project; US$14 million loan and US$10 million credit, both of September 28, 1972; Date of Effectiveness: June 26, 1973; Closing Date: December 31, 1977.**

After considerable delays in 1975 caused by the redefinition of the project, the project is now moving ahead expeditiously. The last contracts for infrastructure works are being awarded and supervising the construction of works has already started. Recently revised estimates set the project cost at about D 31 million, or 16 percent more than the appraisal estimates. Although most infrastructure works will be completed by the end of 1977, the project as a whole is unlikely to be completed before July 1978.


Ln. 1189: Sixth Development Finance Company Project; US$20 million loan of January 26, 1976; Date of Effectiveness: June 7, 1976; Closing Date: June 30, 1980.

Loan 798-TUN is fully committed but disbursements are slightly behind schedule; the undisbursed balance (about $1 million) is expected to be disbursed by December 1976. Loan 881-TUN is also fully committed and the undisbursed balance is expected to be drawn down by December 31, 1976, three months ahead of the original estimated schedule. Under Loan 1189-TUN, $3.8 million had been committed as of September 30, 1976; disbursements are expected to be slower than projected for 1976 and 1977 but substantially to increase thereafter to conform to the estimated schedule. Over the past months, the effectiveness of BDET's management and the quality of its portfolio have vastly improved. Progress was also made in loan arrears collection, validation of mortgages and overall working procedures. Prospects for future development remain good.

Ln. 937: Tunis District Urban Planning and Public Transport Project; US$11 million loan and US$7 million credit, both of October 5, 1973; Date of Effectiveness: September 24, 1974; Closing Date: December 31, 1976.

Project execution is about a year behind schedule particularly as regards construction of the bus depot by SNT and the execution of traffic improvements by the Municipality of Tunis. Action has been taken by these agencies to speed up execution on these two components and to minimize further delays. Bidding for civil works is expected to take place soon. Most other project components have proceeded with few delays. Procurement of major equipment by SIJT has been completed and deliveries are being received on schedule and will be completed by mid-1977. Ways of financing cost overruns on the suburban railway equipment are under discussion. The Closing Date for the loan, currently December 31, 1976, will have to be extended.

Ln. 1029: Hotel Training Project; US$5.6 million loan of July 17, 1974; Date of Effectiveness: November 4, 1975; Closing Date: October 31, 1978.

Substantial progress has been made over the past months. The technical assistance team has completed classroom courses and are testing them in the present school year. Final design for the first two schools and prequalification procedures have been completed. It is expected that construction contracts for the two schools will be awarded in early 1977.
Due to poor performance in the longwall methods trials, the Sehib sub-project (underground mining development) is expected to be delayed by at least one year. As a result of this slippage and higher inflation than foreseen, project cost estimates have risen appreciably; it is expected that they can be financed partly by suppliers' credit and partly by internal cash generation. The modernization program has experienced some difficulties. The severe drop in phosphate prices has seriously altered the financial performance of the company, possibly making difficult the financing of the expansion program. The Government has proposed that the regional development study be deleted from the project. Before agreeing to this request, the Bank has asked for supplementary data on the development of the Gafsa region.

Progress in the Medjerda sub-project area has been satisfactory with the exception of enforcement of certain key provisions of the land reform legislation. A Government report has been requested on the progress made on land reform. In Nebhana, land reform implementation continues. Consultants have been recruited and are preparing various studies necessary for project implementation. Rehabilitation and construction works are ongoing. The Government and the agricultural credit Bank (BNT) have recently concluded an on-lending agreement setting the terms and conditions of sub-loans under the credit component of the project.

Despite a six month delay in the early stages of project execution, works are expected to be completed on schedule and disbursements should reach forecast levels by the end 1976. Consultants have been retained to study measures to improve the implementation capacity for public works and building projects. Total project cost may increase by 10 percent over estimates, all the increase being in the local cost component.

Since effectiveness, progress on this project has been good, particularly from a pedagogical point of view, although improved planning is still necessary on the physical aspects. Five vacancies in the Planning Unit are expected soon to be filled. The amended draft Government/UNESCO agreement for implementation of the technical assistance component of the project will soon be forwarded to the Bank for review and comment, as will also the outlines of the studies to be undertaken.
TUNISIA

SECOND POWER PROJECT

Loan and Project Summary

**Borrower:** Societe Tunisienne de l’Electricite et du Gaz (STEG).

**Guarantor:** Republic of Tunisia.

**Amount:** US$14.5 million equivalent.

**Terms:** 14 years including 2-1/2 years of grace, with interest at 8.7 percent.

**Project Description:**

The Project is the gas-turbine component of STEG’s 1977-1981 development program for electricity generation. It consists of about 150 MW in seven gas turbine units of equal size to be installed two each in Sfax (1977) and Menzel Bourguiba (1978), and one each to be installed in Tunis South, Korba and Metlaoui (1980). The main objectives of the Project are: (1) to ensure continuity of electricity supply; (2) to cover the need for peak power capacity, and (3) to allow STEC to implement its next expansion program later with larger and more efficient steam turbine units than would be possible without the prior installation of gas turbine units as proposed in this Project.

**Estimated Cost:**

The cost of the Project is estimated at about $29.3 million equivalent, with the following main components:

<table>
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<tr>
<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
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<tbody>
<tr>
<td>Electro mechanical equipment</td>
<td>1.52</td>
<td>21.47</td>
<td>22.99</td>
</tr>
<tr>
<td>Civil works</td>
<td>1.69</td>
<td>0.09</td>
<td>1.78</td>
</tr>
<tr>
<td>Engineering</td>
<td>0.09</td>
<td>0.36</td>
<td>0.45</td>
</tr>
<tr>
<td>Transport, erection and supervision</td>
<td>0.81</td>
<td>1.81</td>
<td>2.62</td>
</tr>
<tr>
<td>Spare parts</td>
<td>-</td>
<td>1.01</td>
<td>1.01</td>
</tr>
<tr>
<td><strong>Total Base Cost</strong></td>
<td>4.11</td>
<td>24.74</td>
<td>28.85</td>
</tr>
<tr>
<td>Physical Contingencies</td>
<td>0.06</td>
<td>0.37</td>
<td>0.43</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td>4.17</td>
<td>25.11</td>
<td>29.28</td>
</tr>
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Since the estimated Project cost is based on the firm price included in the contract signed by STEG in July 1976, no allowance for price contingencies is shown.
Financing Plan: The proposed loan of $14.5 million would finance 58 percent of the foreign exchange cost of the Project. The remaining foreign exchange costs will be provided by STEG ($1.4 million) and private French and Tunisian banks with the guarantee of Compagnie Francaise d'Assurance pour le Commerce Exterieur (approximately $9.2 million). The local currency costs of $4.2 million will be financed by STEG.

Annual 6.2 3.2 2.8 1.9 0.4
Cumulative 6.2 9.4 12.2 14.1 14.5

Procurement Arrangements: STEG has already awarded the contract for the procurement of the seven gas turbines in accordance with the World Bank Guidelines for Procurement, in order to take advantage of favorable prices.

Rate of Return: The estimated rate of return on the Project at present electricity prices is at least 13.2 percent.

TUNISIA

SECOND POWER PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

(a) Time taken to prepare Project: About one year in the period 1974-75
(b) Agencies which prepared Project: STEG
(c) Project first presented to Bank: During Bank’s Identification Mission in December 1975
(d) First Bank mission to review Project: Identification Mission of December 1975
(e) Departure of Appraisal Mission: June 1976
(f) Completion of Negotiations: November 17, 1976
(g) Planned Date of Effectiveness: End of March 1977.

Section II: Special Bank Implementation Actions

Shortly after the field appraisal of the Project STEC awarded the contract, on the basis of international competitive bidding, to take advantage of the favorable price offered for a limited term by the lowest bidder. During negotiations, the implementation schedule in the light of the contract was discussed and agreed. Also during negotiations, a set of key indicators to monitor STEG’s performance was discussed with STEG. STEG would submit to the Bank by June 30, 1977 for its comments key indicators for monitoring its performance.

Section III: Special Conditions

(a) Government to undertake a study with the help of consultants acceptable to the Bank with a view to determining an appropriate pricing policy for oil, gas and electricity, taking into consideration STEG’s policies on the level and application of connection charges for electricity, to submit to the Bank not later than September 30, 1978 the recommendations of such a pricing study and to exchange views with the Bank on these recommendations;

(b) Government to provide the funds to carry out the Project in the event of STEG’s inability to arrange these funds;

(c) Government to ensure that STEG’s tariffs for electricity supply are adequate for it to earn the agreed rate of return;

(d) STEG to undertake a study of the level and application of connection charges for electricity supply, to submit by June 1978 the recommendations
of this study to the Government and the Bank and to exchange views with the Bank on them by October 31, 1978;

(e) STEG to undertake a study to determine its organizational structure, its training needs and the necessary investments for the implementation of the program concerning the transmission and distribution of natural gas throughout Tunisia, to submit by June 1978 recommendations of this study to the Government and the Bank and to exchange views with the Bank on these recommendations by October 31, 1978;

(f) STEG to earn an annual rate of return of 8% on average net fixed assets in operation as revalued from time to time less customer contributions;

(g) STEG to discuss with the Bank revision of the proposed rate of return formula, which excludes customer contributions from revenue and the assets base, should the proposed study of connection charges indicate that a change in policy would be desirable;

(h) STEG to submit to the Bank before October 31 of each year a forecast of its earnings for the current and next years showing the tariffs on which the computations are based together with a statement of any action which it intends to take in order to achieve the agreed rate of return;

(i) STEG to obtain the approval of the Bank before incurring any debt, except for financing the Project, if it will raise its total debt to more than 45% of the sum of its equity and its total debt; and

(j) STEG to utilize the services of independent auditors acceptable to the Bank and to submit to the Bank audited financial statements within five months after the end of each fiscal year except those relating to 1976, which would be submitted by the end of June 1977.