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The Economic Development of Tunisia

Main Volume
Macro-Economic Aspects

December 27, 1974

EMENA Region
Country Programs Department II

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CURRENCY EQUIVALENTS

Currency Unit = Dinar = 1000 millimes

With effect from 1955

US $1.00 - 0.42 Dinar
Dinar 1.00 = US $2.381

With effect from September 28, 1964

US $1.00 - 0.52 Dinar
Dinar 1.00 - US $1.90

With effect from December 20, 1971

US $1.00 - 0.48 Dinar
Dinar 1.00 - US $2.08

With effect from February 1973

US $1.00 - 0.44 Dinar
Dinar 1.00 - US $2.27

UNITS AND WEIGHTS AND MEASURES: METRIC

British/U.S. Equivalents

1 m	=	3.28 ft.	1 m ton	=	0.981 g. ton
				=	1.1 US sh. ton
1 m^2	=	10.76 sq. ft.	1 kg	=	2.2 lb.
1 km	=	0.62 mi.	1 litre	=	0.22 gal.
1 km^2	=	0.386 sq. mi.		=	0.26 US liq.gallon
1 hectare	=	2.5 acres	1 m^3	=	1.31 cubic yards

ECONOMIC DEVELOPMENT OF TUNISIA

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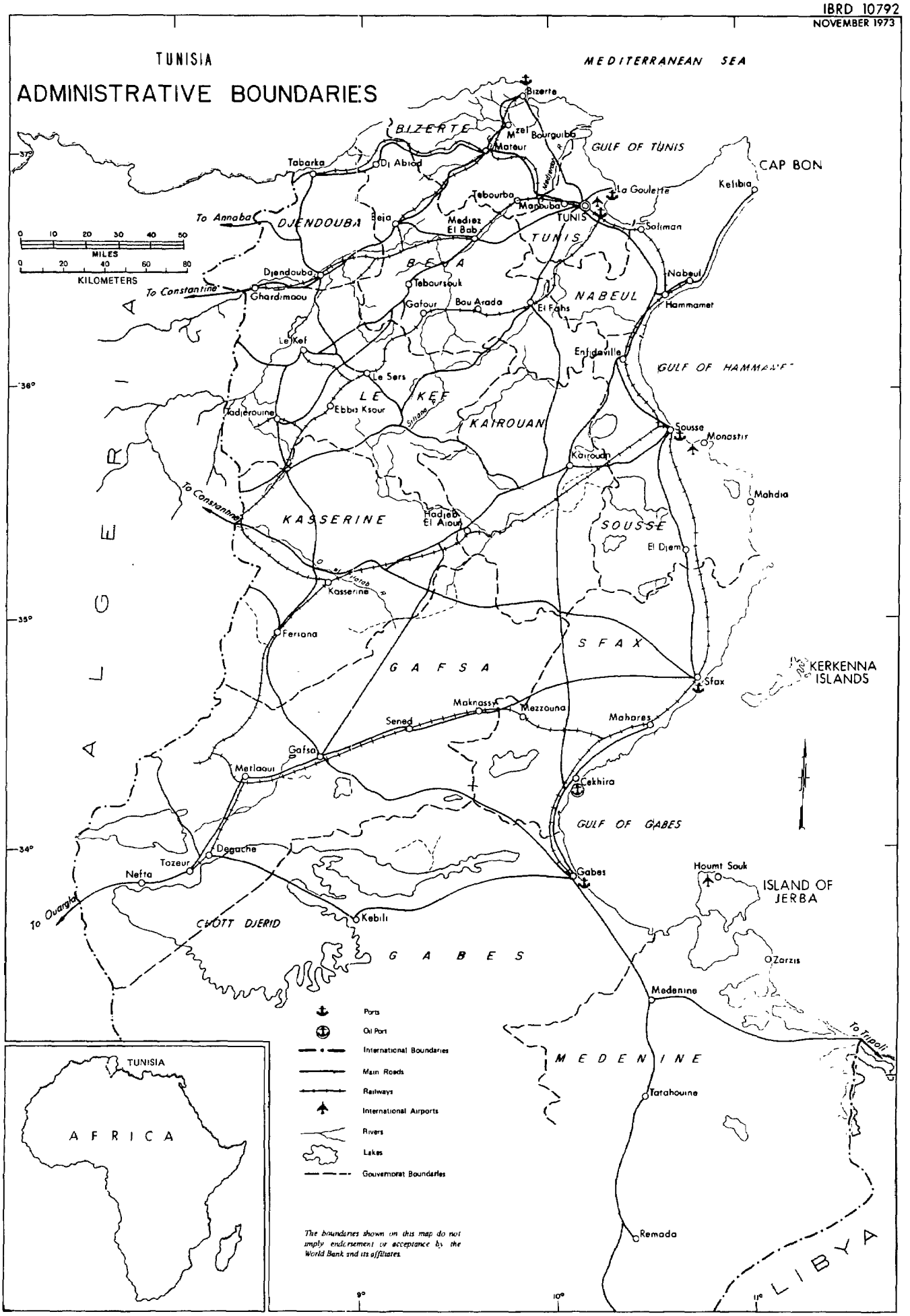
NOVEMBER 1973



PREFACE

This report is based on the findings of an economic mission which visited Tunisia in February/March 1973 and February 1974. The first mission consisted of the following: Messrs. G. C. Billington (Chief), F. L. Laporte (General Economist), E. de Gaiffier (General Economist), K. Bulutoglu (Fiscal Economist), J. F. Chevallier (Plan Organization Specialist), N. L. Hicks (Economist, Long-Term Projections), W. Delaney (Manpower Economist), J. Simmons (Human Resources Economist), E. P. Riezebos (Agricultural Economist), H. L. H. Schutz (Agronomist) and P. Bourcier (Transportation Economist). Messrs. M. Lenot (General Economist) and H. J. van Wersch (Agricultural Economist) assisted in preparation of the report in Washington. The chapter on financial institutions is based on the report of an earlier mission by Mr. A. Allawi (I.F.C.). Ms Betty Dow (Economic Analysis and Projections Department) contributed to the long term projection model. Mr. C. H. Davies assisted in the editorial stages. The mission secretary in Tunisia was Miss Jacqueline Bonneau and, in Washington, Miss Susan Chen.

This report is presented in one main volume and five annex volumes. The main volume contains a summary of the principal arguments and an analysis of the macro-economic aspects. The annex volumes deal respectively with Agriculture, Industry and in Annex III, Transport, Tourism, Education and Health. Annex IV contains Technical note on the long-term projections. Annex V contains a Statistical Appendix.

COUNTRY DATA TUNISIA

AREA: 164,150 Km2

POPULATION: 5.46 million (mid 1973)
Natural Growth rate: 2.6 (1961-1972)
Real Growth rate: 2.0 (1961-1972)

DENSITY: 33.3 per Km2
102.4 per Km2 of arable land 1/

POPULATION CHARACTERISTICS (1970)

Crude Birth Rate (per 1,000)	38
Crude Death Rate (per 1,000)	14
Infrant Mortality (per 1,000 live births)	106

INCOME DISTRIBUTION

% of national income, highest quintile	..
lowest quintile	..

NUTRITION (1964-1966)

Per capita calorie supply as % of requirements	94
Per capita protein supply, total (grams per day)	63

HEALTH (1971)

Population per Physician	6,486
Population per hospital bed	400

DISTRIBUTION OF LAND OWNERSHIP (1970)

% owned by top 10% of owners	53 2/
% owned by smallest 10% of owners	0.5 2/

ACCESS TO ELECTRICITY

Percentage of housing units with electric lighting	24 (1966)
Electric power consumption (Kwh per capita)	248 (1973)

ACCESS TO PIPED WATER

Percent of occupied units with piped water	40 (1966)

EDUCATION

Adult Literacy rate %	55 3/ (1972)
Adjusted primary school enrollment ratio	107 (1968)

GNP PER CAPITA in 1973: 4/ US$ 403

GROSS NATIONAL PRODUCT IN 1973

	US$ Mln.	%
GNP at Market Prices	2,409	100.0
Gross Domestic Investment	547	22.7
Gross National Saving 5/	420	17.4
Current Account Balance	-127	-5.3
Exports of Goods, NFS 5/	604	25.1
Imports of Goods, NFS	724	30.0

ANNUAL RATE OF GROWTH (%, constant prices)

	1961-66	1966-71	1972	1973
GNP at Market Prices	3.9	6.2	15.6	3.3
Gross Domestic Investment	10.6	1.1	51.6	5.7
Gross National Saving	13.3	11.2	61.1	-12.7
Current Account Balance	.	.	.	.
Exports of Goods, NFS	3.5	13.4	29.6	-2.3
Imports of Goods, NFS	3.3	6.9	24.5	12.5

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1972

	Value Added (at factor cost) US$ Mln.	%	Labor Force Mln.	%	V. A. Per Worker US$	%
Agriculture	405	22.0	0.800 6/	52.6	506	41.7
Industry	471	25.6	0.255	16.8	1,847	152.3
Services	967	52.4	0.332	21.8	2,913	240.4
Unemployed	-	.	0.133 7/	8.8	-	-
Total Average	1,843	100.0	1.520	100.0	1,213	100.0

GOVERNMENT FINANCE

	General Government (Dinar Mln.) 1973	% of GDP 1973	% of GDP 1970-72	Central Government (Dinar Mln.) 1973	% of GDP 1973	% of GDP 1970-72
Current Receipts	298.8	28.0	25.3	255.2	23.9	21.5
Current Expenditure	232.6	21.8	21.5	188.2	17.6	17.3
Current Surplus	66.2	6.2	3.8	67.0	6.3	4.2
Capital Expenditures	92.2	8.6	8.2	78.3	7.3	5.8
External Assistance (net)	29.2	2.7	3.5	29.2	2.7	3.5

1/ IBRD estimate, excluding pastures and forests.

2/ Covering 4.5 million ha of private land, excluding 0.8 million ha in public ownership, and 2.1 million ha of collective land.

3/ Over 15 years old.

4/ The Per Capita GNP estimate is at current market prices, calculated by the same conversion as the World Bank Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

5/ Including terms of trade adjustment

6/ Residual, equivalent to approximately 420 thousand in full-time employment, the balance represents underemployment.

7/ Male only

COUNTRY DATA TUNISIA

MONEY, CREDIT and PRICES	1966	1968	1970	1971	1972	1973
			(Million Dinars outstanding end period)			
Money and Quasi Money	186.6	224.0	259.4	314.4	368.2	418.9
Bank credit to Public Sector	85.4	87.4	93.2	86.9	74.5	61.6
Bank credit to Private Sector	178.9	223.1	255.7	285.6	331.6	376.1
			(Percentages or Index Numbers)			
Money and Quasi Money as % of GDP	33.7	35.8	34.7	36.5	36.2	39.2
General Price Index 1/	100.0	105.0	112.0	118.4	119.7	122.4
Retail Price Index	100.0	105.5	111.0	117.4	119.8	125.4
Annual percentage changes in:						
General Price Index	1.7	0.7	3.3	5.7	1.1	2.3
Retail Price Index	3.9	2.5	1.1	5.7	2.1	4.4
Bank credit to Public Sector	6.6	3.2	-0.9	-6.3	-12.4	-12.9
Bank credit to Private Sector	29.2	24.2	20.9	29.9	46.0	44.5

BALANCE OF PAYMENTS

	1971	1972	1973
	(Millions US$)		
Exports of Goods, NFS	405	563	604
Imports of Goods, NFS	439	588	724
Resource Gap (deficit = -)	-34	-25	-120
Interest Payments (net)	-17	-19	-20
Workers' Remittances	43	62	79
Other Factor Payments (net)	-48	-66	-75
Net Transfers	16	6	9
Balance on Current Account	-40	-42	-127
Direct Foreign Investment	24	32	64
Net MLT Borrowing	74	65	61
Disbursements	123	139	129
Amortization	49	74	68
Subtotal	98	97	125
Capital Grants	35	37	48
Other Capital (net)	-3	-14	-
Increase in Reserves (+)	90	78	46
Gross Reserves (end year)	156 4/	249 5/	322 6/
Net Reserves (end year)	105 4/	193 5/	254 6/

MERCHANDISE EXPORTS (AVERAGE 1971-73)

	US$ Mln.	%
Olive Oil	68.3	22.8
Other agric. and foodstuffs	45.5	15.2
Crude Oil	77.2	25.7
Rock phosphate	22.0	7.3
Superphosphate	21.2	7.1
Other mining and raw materials	30.8	10.3
Manufactured products	35.2	11.6
Total	300.2	100.0

EXTERNAL DEBT, DECEMBER 31, 1973

	US$ Mln.
Public Debt, incl. guaranteed 2/	1,296
Non-Guaranteed Private Debt	..
Total outstanding and disbursed 3/	836

DEBT SERVICE RATIO FOR 1973

	%
In % of Exports of Goods, NFS	16.2
In % of Exports of Goods, NFS, and Workers Remittances	14.3

RATE OF EXCHANGE

Through December 20, 1971
US$ 1.00 = 0.525 Dinar
Dinar 1.00 = US$ 1.905

Through February, 1973
US$ 1.00 = 0.48 Dinar
Dinar 1.00 = US$ 2.08

Since February 1973
US$ 1.00 = 0.44 Dinar
Dinar 1.00 = US$ 2.27 Dinar

IBRD/IDA LENDING, October 31, 1974 (Million US$):

	IBRD	IDA
Outstanding and Disbursed	82.3	36.9
Undisbursed	122.7	28.7
Outstanding incl. Undisbursed	205.0	65.6

1/ GDP price deflator

2/ Including undisbursed

3/ Excluding undisbursed

4/ Calculated at the rate of 1.905

5/ Calculated at the rate of 2.08

6/ Calculated at the rate of 2.27

.. not available
. not applicable

October 31, 1974

Europe, Middle East and
North Africa Region

THE ECONOMIC DEVELOPMENT OF TUNISIA

SUMMARY AND CONCLUSIONS

I. Introduction

i. Tunisia marked the beginning of its second decade of planned development with its Fourth Development Plan (1973-1976). While considerable resources were invested, the growth and employment objectives of the first decade, 1962-1971 were not fully realized. At the end of 1969 and in the following years the Government decided on a major reorientation of its economic policies. The previous attempt to group farmers into government-organized cooperatives was abandoned; new incentives were given and a greater role for the private sector was foreseen; and emphasis was put on export promotion and a new external market orientation. The Fourth Plan, which is based essentially on the new orientation was preceded by a reassessment of past planning policies, achievements and shortcomings. The new policy orientation coincided with strongly favorable agricultural and export developments.

ii. In its main part, this report reviews Tunisia's economic and social development over the 1960's with the purpose of identifying underlying structural characteristics and long-term development trends. The report is however primarily concerned with the analysis of the processes and policies which can determine the growth of the productive capacity of the economy and its employment potential. The treatment is selective, focussing on principal issues and obstacles to future development.

iii. The report examines some characteristic features of the development strategy followed in the 1960's such as the role of cooperatives, the work relief program, public investment policy and a number of its special problems, such as employment and income distribution, resource mobilization and allocation, trade, investment and price controls and incentives, and the balance of payments. Finally, the Fourth Plan is reviewed and longer term development prospects are assessed, taking into account the recent changes in export commodity prices and in other external developments. Sectoral problems are analyzed in varying depth for key sectors - agriculture, industry, transport, tourism and education - in separate annexes to the main report.

II. Major Developmens during the period 1962-1973

iv. Following Independence in 1956, and after a period of experimentation under the system of Government and policies inherited from the past, Tunisia embarked on a series of development plans conceived and executed within the framework of the "Ten-Year Perspectives" 1962-1971 published in 1962. The aim was to modernize the economy and society rapidly. The strategy was to accelerate investment in social services, infrastructure and import-substituting industry through central planning of investment and resource allocation. The public sector played a major direct role in production as well as provided

substantial infrastructure and services, particularly in education. The system of official price determination and administrative controls was extended to meet foreign exchange shortages and restrain inflation. Other important features of the decade were an ambitious experiment in cooperativization, and a sustained program of relief work for the unemployed. A limited resource base, dependence on a small domestic market and an unusually long series of poor crop years (with severe drought in 1959-62 and 1965-1968), seriously handicapped and delayed growth. The contribution to growth from the large investment program, which emphasized social and administrative infrastructure and which was strongly supported by foreign aid was relatively slow and generally indirect. Several investments in public enterprises did not prove to be economic, and industrial productivity was low. Private initiative was encouraged only in tourism and petroleum exploration.

v. Tunisia has made considerable social gains since Independence. Primary school enrollment increased from 29 to 73 percent, secondary school enrollment rose from 11 to 42 percent and university enrollment from 0.1 to 3 percent of the relevant age groups. Education is free. Public capital and current expenditures on social services per head more than doubled between 1962 and 1971 and represented 11.4 percent of GDP in the latter year. With population growing at 2.5 percent a year, family planning has been pursued vigorously. Free health services were also expanded particularly in the urban centers. However, about 18 percent of the labor force in the non-agricultural sector was unemployed in 1972 despite substantial emigration; underemployment remained serious, particularly in agriculture, and the response of the education system to specific economic needs remained weak (see paras 18-24). Also, while incomes and living standards of the growing urban population improved tangibly, those of outlying rural regions did so to a lesser extent.

vi. In 1961, at the beginning of the first decade of planned development, per capita GNP was estimated at $205 per head in current prices, and in 1971 at $310. In real terms per capita GNP rose by 2.5 percent a year. Over the period, the average real growth in GDP was 4.7 percent, compared with the target figure of 6 percent, and the investment rate averaged 23 percent of GDP. At the same time domestic savings rose from 7.6 percent of GDP to 19 percent, reducing Tunisia's dependence on external borrowing from 52 percent of investment to 12 percent. The balance of payments, which had been under pressure, has improved steadily since 1967 thanks to the growth of tourism, workers' remittances and exports of petroleum and olive oil. A net foreign exchange liability was reversed in 1970, and at the end of 1971 net holdings amounted to $105 million covering 4 months of commodity imports. The change in policy orientation introduced in 1969 was associated in subsequent years with rapid growth, higher incomes and improved balance of payments prospects.

vii. GDP grew in real terms by 9 percent in 1971, and 17 percent in 1972. This improvement can be attributed in part to exogenous factors such as good weather, leading to record cereal crops and a three-fold increase in olive production, in part to important successes in several areas (tourism, petroleum

and emigrant workers' remittances) which previous policies had fostered, and in part to the new Government policies, which renewed confidence and initiative in the private sector. For 1973, the growth rate is estimated at 2.8 percent despite a drop in agricultural output of 11.6 percent below the record of the previous year. Unfavorable tendencies emerging in 1973 in tourism may be expected to continue in 1974 and perhaps longer, depending on developments in Europe, but other developments, including price increases in petroleum, phosphate and olive oil, are expected to result in an overall growth which would substantially exceed the previous forecast of 9 percent in 1974. At the end of 1973 net foreign exchange reserves amounted to $256 million covering 5.5 months of commodity imports and a substantial increase is expected in 1974.

III. Sectoral Analysis

viii. The sectoral analysis in the report aims at identifying the structural characteristics and past trends in order to assess the potential for growth, and to identify the conditions under which it can be realized.

ix. Agriculture. The dominant sector in the economy, agriculture provides nearly half of total employment, 38 percent of merchandise exports and 20 percent of GDP (average 1971-1973). Food processing industries account for another 4 percent of GDP and over a third of value added in manufacturing. Production of the principal crops, cereals, olives, winegrapes, fruits and vegetables, showed negligible growth during the 1960's, but jumped to record levels in 1971 and 1972, largely as a result of favorable weather and revived initiative of private enterprise. There is considerable potential for further growth in the sector.

x. The sector's low performance in the sixties derives, first, from the inadequate and variable rainfall and limited water resources; second, from the limited allocations to raising productivity in rainfed agriculture and to the introduction of new cultivation techniques (emphasis being put on irrigation works, tree planting and other infrastructure); and, third, from the combination of a rigid pattern of land tenure and slowly changing technology on the one hand with a growing population on the other. Unemployment, underemployment, income concentration and rural-urban migration are closely linked with the failure of the agrarian system to provide an adequate socio-economic environment.

xi. While large infrastructure investments were made during the last decade, little progress was made in land reform or the improvement of land and water management or in raising overall productivity. The Fourth Plan and current policy emphasize investment in projects that make a rapid and direct contribution to production, but plans at the same time to invest heavily in large infrastructural projects. The Government also recognizes various constraints on agricultural development: absentee ownership and insecurity of tenure, inadequate access to agricultural credit, the need to devote more resources to extension services and agricultural training and education, and is preparing measures to deal with them.

xii. If production is to continue to rise, greater efforts and the necessary allocations would be needed to spread intensive production techniques more widely; to improve land use through more energetic application of existing land reform legislation and through land reallocation to small-scale farmers; to expand livestock and forage production; to improve marketing institutions and the quality and availability of the extension services; and to accelerate rural development. Such an orientation would imply greater current budget outlays, expansion of agricultural credit, greater care in the choice of incentives, and more attention to the role of prices. Agricultural price controls generally and price supports for cereals, in particular, may have an important impact on small farm incomes and welfare but their continued use in commercial agriculture does not encourage increased production at competitive prices and should be critically re-examined.

xiii. Industry and Mining. The problems and prospects of the industrial sector differ greatly from one industry to another. The outlook for petroleum is tied closely to the course of world market prices and the possibility of new discoveries. Tunisia is only a small-scale producer with a peak output of 4.5 million tons and net exports of some 3-3.5 million tons per year to be reached in 1974/1975. Export earnings from petroleum are projected to rise from $110 million in 1973 to some $350 million in 1974 and 1975. About 55 percent of the value of other mining exports, $41 million in 1973, is accounted for by phosphate rock, with iron ore and lead-zinc concentrates each accounting for a further 30 percent. Tunisia accounts for about 4 percent of world production of phosphate rock. The ore is generally of low to medium quality compared with that sold by competitors. Output of phosphate and its products stagnated after 1966, and its share in exports declined from 28 percent to 14 percent of the total between 1967 and 1973 partly due to a 20 percent decline in prices. Exports are, however, expected to increase sharply in 1974 and stay high as a result of both a tripling of prices in 1974 and a build-up of production capacity of rock phosphate, acid and fertilizers. Phosphate reserves are adequate and there is good potential for future development, with numerous investment possibilities.

xiv. From 1961 to 1971, manufacturing production increased by an average annual growth rate of 8 percent, and by 30 percent in 1972 due in part to a record year for the olive oil processing industry. Except for the last three years, the thrust of industrialization was supplied by large projects in the state sector and based on import substitution. Production for a small domestic market, capital intensive investments and shortage of experienced staff and management resulted in high costs and relatively little employment. The new policies introduced in 1970 encourage the development of export industries and industrial employment in the private sector. Under the Fourth Plan, private manufacturing investment, particularly in textiles and fertilizers, is expected to average D 25 million per year, and to account for two-thirds of total investment in manufacturing. The Government has provided, starting in 1972, special incentives and the institutional framework to assist export-oriented investment, both domestic and foreign. The current renegotiation of Tunisia's agreement with the EEC may help in expanding the potential for marketing and joint finance.

xv. The Fourth Plan places major emphasis on the careful identification, preparation, execution and management of industrial projects. It anticipates strengthening the semi-public National Center for Industrial Studies, and the planning sections of the ministries concerned. Large scale public sector projects will continue in selected sectors but the private sector is expected to become the principal source of industrial growth. To achieve the latter, the Government will need to support it with technical assistance and preinvestment work and should consider divesting itself of small and medium sized industrial establishments which could be run efficiently by private enterprise. Financial rehabilitation and restructuring are also of high priority in most state enterprises and in the metal manufacturing sector as a whole, where the potential for exports and employment may be greater than in textiles. Recent increases in international market prices for petroleum and phosphates products underline the potential of petroleum-based industries as well as of fertilizers and other phosphate derivatives.

xvi. Transport. In addition to infrastructural development, the public sector is responsible in whole or part for rail, road, and air services. The transport infrastructure is well developed and does not seem to have been an obstacle to development up to the present. The major needs are to improve coordination, efficiency of operations, and investment planning, and to rationalize pricing policies. There have been encouraging developments in a number of subsectors since 1970, particularly in respect of port reorganization, and a start has also been made on resolving some of the urban transport problems of Tunis. Still, coordination among sectoral agencies requires improvement, and a number of pricing issues are still outstanding (although a decision has been made to revise railway freight charges in 1974). More knowledge is required of demand for the various modes of transport than is at present available, including an analysis of the costs and benefits of alternative investment programs, and decisions are required on what operations should be undertaken by the state and what by private enterprise.

xvii. Tourism. The development of tourism is a recent phenomenon. Between 1961 and 1972 gross earnings climbed from US$3 million to US$140 million and became the most important source of foreign exchange for Tunisia. The prospects for continued expansion are bright, despite a temporary slowdown due to the energy crisis and related developments in Europe, and plans have been made to increase hotel capacity accordingly. The Government actively supports such expansion through incentives to private hotel promoters and has recently embarked on a long term tourism infrastructure program. The major constraints to the sector's expansion are the speed at which marketing and leisure services can be developed and an adequate, trained labor force can be made available to the industry. The industry also offers considerable employment opportunities, and indirectly supports various handicrafts and services.

xviii. Social Sectors. Tunisia's population, estimated at 5.4 million in 1973, has been experiencing a high natural growth rate of about 2.6 percent per year, but after emigration the real growth has been about 2 percent only. Family planning has strong Goverment support, but the National Office of

Family Planning and Population has yet to function very effectively. Emigration from rural to urban areas is high. Nearly 50 percent of Tunisia's population was living in towns and villages of 2,000 persons or more in 1966 and this proportion has almost certainly increased since. Tunis is growing rapidly and accounts for about one-third of the urban population. Other major urban concentrations are on the eastern coastal area, in Sousse, Sfax, and Gabes. Increasing the attractiveness of smaller centers relative to Tunis through regional development programs and other measures is a major challenge.

xix. Provision of water for household consumption and improvements in sewage disposal have been handicapped by financial constraints, but the most important future constraint is likely to be the total supply of water available. Consequently, the national water development strategy and the allocation of Tunisia's limited water resources among competing uses--irrigation, industrial use and human consumption--need to be kept under review and greater coordination at the policy levels needs to be assured.

xx. One of the country's most difficult problems to resolve today is the rationalization of the education system and its gearing to the economy's manpower needs and financial resources. Since independence, the Tunisian education system has expanded rapidly at all levels (see para. 5). The financial resources required for this expansion were substantial, especially if compared wtih the limited economic resources of a country still at an early stage of development. Tunisia currently allocates to education about 6.5 percent of its GDP and over 30 percent of recurrent public expenditures.

xxi. Partly as a result of the emphasis on rapid expansion, the quality of education has suffered, particularly at the primary level. Completion rates are very low at all levels (47 percent in primary schools, 19 percent for general secondary education). Curricula include material irrelevant to Tunisian conditions, education facilities are poor and overcrowded, the teacher-student ratios are high and teaching methods are somewhat outdated. As a result of this and of the high proportion of expatriate teachers (over 50 percent in secondary and higher education), unit costs per graduate and the foreign exchange component of costs are very high. The distribution and level of educational services vary by regions, sexes and income groups due to the lower cost and attractiveness of urban concentration and to the greater preparedness of higher income groups to continue higher education. University and vocational schools are producing more graduates than can find jobs with the formal training they obtained, and yet, skilled manpower shortages are reported in several sectors of the economy, such as tourism, construction, mining, manufacturing, education and public health.

xxii. Renewed efforts were made in 1973 to meet these problems. An interministerial steering committee on educational reform was established at the Cabinet level in April 1973, and a number of studies are being undertaken within the framework of the Plan, on past pedagogical experience and educational needs. Some immediate measures are being considered, such as prevocational courses at the primary level, channelling more students toward science and technology streams at the secondary level, and reinforcement of science teacher training, medicine and engineering at the third level.

xxiii. To ensure a closer correspondence between formal education and the economy's manpower needs, a slowdown in the rate of output of secondary and higher education would seem justified, at the same time as a reform of technical education, and of teacher training in science and mathematics. More studies in depth are needed of specific manpower supply and demand in the future. At present there seems to be a justification for an expansion of professional and para-professional training in education, management, engineering, public health and veterinary medicine.

xxiv. There has been impressive progress in providing health services, and current public expenditure per capita for this purpose, at current prices, has increased from D 1.4 in 1961 to D 2.8 in 1974. State capital expenditures on hospitals and other health facilities have more than doubled during the decade. The improvement in health is reflected in the fall in the gross death rate from 19 per thousand in 1961 to 14 in 1971 and in the infant death rates from 140 to 115 per 1,000 live births. Between the mid-fifties and 1970 life expectancy increased from 38 to 56 years. Malaria and typhus have been virtually eliminated. All health services are handicapped by a shortage of doctors, and the regional distribution of services is not even.

IV. Medium-Term Prospects

xxv. Tunisia has reached an important turning point in its development. The new policy orientations after 1969 and the improved general economic and balance of payments situations which have emerged since then, have brought with them new opportunities and new challenges. The unaccustomed financial liquidity and the new capacity for growth call for an adaptation of economic management methods and of the institutional infrastructure if the desired social and economic aims are to be achieved. Policies that can have a greater impact than in the past on employment, income distribution and economic well-being of the individual can now be practically pursued.

xxvi. In preparing the Four-Year Plan 1973-1976, the Government established as the principal objectives of the 1972-1981 decade: (a) accelerating growth, based on export industries; (b) dealing with the country's unemployment problem by creating new jobs (largely in industry), by encouraging worker emigration, by reducing population grwoth and by improving education; and (c) continued maintenance of internal and external financial stability. The Fourth Plan for 1973-1976 aims at attaining a rate of growth in GDP of 6.6 percent or more allowing a 5.4 percent rate of growth in per capita private consumption, while holding the debt service ratio and limiting external financing of investments to 23.5 percent. In framing its strategy, the Government has placed overriding emphasis on the non-agricultural sectors as the primary sources of growth and the principal instruments of employment creation; it has given the private sector an important role and increased the share of investment going to directly productive projects. The investment totals are projected to increase from D 718 million under the Third Plan to D 1235 million under the Fourth, an increase of 72 percent in real terms. National savings are to account for D 945 million. This would represent an increase over the Third Plan in national savings of almost 65 percent while an increase in net external capital

flows of 55 percent would be required. About 119,000 new jobs are to be created primarily as a result of investment in the non-agricultural sectors.

xxvii. The Plan projections were made before the recent rises in oil and other commodity prices that have affected trade prospects and growth in developed as well as developing countries. A more rapid rate of growth than the 6.6 percent target of the Fourth Plan seems easily attainable now, but changed emphasis in investment will be needed if the desired impact on the level of unemployment and on regional development is to be made.

xxviii. Employment Creation. The Plan relies heavily on employment creation through export-oriented investment but recognizes that some 15,000 workers will still be added to the labor force each year for whom no full time employment is expected to be available. While emigration to France absorbed a large part of this surplus in the past, a substantial drop in such movement is expected in the medium term. The transitional equilibrium sought by the emigration of this number of workers may thus not be reached and would depend strongly on the extent of worker emigration to Libya. In addition, the Government's expectations concerning the employment effects of an export-oriented policy and of industrialization in general also seem optimistic in relation to experience in other countries. It would seem therefore that the acceleration of planned efforts in regional development and implementation of projects that create agricultural employment and employment in the poorer areas should be given a high priority, particularly if the risk of widening disparities between high and low productivity sectors is to be minimized.

xxix. Regional and Rural Development. The Government has already initiated a number of measures designed to provide for regional dispersion of economic activity to help the more disadvantaged groups, and to offset or prevent further increases in income disparity. Programs being implemented include a rural development fund and investment program for the governorates and an industrial fund for regionalization and technical assistance to medium and small scale industry. Moreover, the Government is studying changes in the regional organization to provide the appropriate administrative base. Other measures are being studied to increase the effectiveness of the tax system, improve and generalize the system of social security, and provide incentives to encourage labor intensive techniques, employment creation and regional dispersion of activity. In agriculture measures are being devised to reallocate and redistribute underutilized irrigable land and other publicly-owned land; the necessary investments and service needed for the utilization of existing irrigation infrastructure are to be increased; and a program is being slowly implemented for the transfer into private hands of public and collectively owned land. Consideration is now being given to providing entrepreneurs who wish to invest in the outlying regions an appropriate package of incentives and promotion facilities.

xxx. Economic Policies. The report supports the Government's proposals to give the private sector a stronger role in the economy and for eliminating a wide range of controls. While arguing in favor of incentives and particularly price signals as an appropriate way of guiding investment decisions and stimulating fair competition, it suggests at the same time that to meet the

immediate constraints to development the Government's role should be extended in specific fields including short term fiscal and monetary management (in contrast to investment planning), the provision of greatly expanded technical assistance services to industry and agriculture, labor training and the undertaking of pre-investment, market and sector studies.

xxxi. As a result of the remarkable improvement in the balance of payments, rationing of domestic resources and foreign exchange no longer appears necessary, and a program of relaxation of import and investment controls is compatible with high growth and could well result both in an upsurge of private activity and a rationalization of cost structures. Measures of this type include the abandonment of stringent price controls, the limitation of investment approval procedures only to projects involving access to incentives, the elimination of the bulk of quantitative controls on imports and the reduction in the degree of domestic protection. A staged program of decontrol over a period of years would allay doubts about the continuation of Tunisia's new balance of payments strength as well as cushion the possibly adverse repercussions of some measures on domestic manufacturers and domestic prices.

V. Long Term Prospects

xxxii. In revising their strategy from import substitution to export-oriented investment and in view of the limited resource base and small domestic market, the Tunisian policy makers have chosen a practical base for long term development. This strategy depends largely on Tunisia's ability to use its reservoir of cheap and underemployed labor and benefit from proximity to the EEC market. The Government has allotted the private sector, supported by foreign private investment, a key role in following this policy, but its success will depend on competitiveness in export industries. Consequently, the importance of providing an environment in which investment decisions and resource allocations can reflect market forces has been stressed in the report. Considerable progress has already been made in implementing the new policies and this has coincided with a remarkable upsurge in growth. This has, in turn, brought to the fore the problems of unemployment and regional underdevelopment, particularly in the outlying rural areas, to which the Government's attention is being increasingly directed.

xxxiii. The evaluation of long term prospects summarized in the last chapter of the main report seeks to bring out the implications of various strategies on various macroeconomic variables in the coming decade. Within the framework of a macroeconomic model, (described in Annex IV), a series of projections are made up to 1985, on varying assumptions about the rate and structure of growth and the use of various policy instruments.

xxxiv. In the medium term Tunisia will benefit from developments related to recent increases in world commodity prices. On the one hand petroleum and phosphate prices have increased about threefold since 1973, olive oil prices have also substantially increased in 1973 and 1974. Commodity export earnings are thus estimated to rise from D 179 million in 1973 to about

D 335 million in 1974 and about D 408 million in 1976 with conservative production assumptions. On the other hand the high increases in import prices experienced in 1974 and the further increases expected in the coming years will cause payments on import to grow rapidly - Tunisia's terms of trade advantage is expected to disappear by 1978, but the net effect for the medium term is still better terms of trade than assumed previously. Growth of tourism earnings and workers remittances is also likely to be adversely affected by the effects of the energy crisis in Europe.

xxxv. The present improvement in the terms of trade will have one major effect on the economy. From 1974, increased export earnings should lead to higher domestic demand which, in turn, should generate higher level of output in some domestically oriented sectors. The rate of GDP growth and savings, as a consequence, would be higher than previously projected. In addition, the influx of larger resources would offer the opportunity of somewhat increasing investments from 1976 and this also would raise the overall growth rate in subsequent years. Tunisia can thus seize opportunities to develop various manufacturing industries, particularly chemical industries based on petroleum and phosphate and other export oriented industries.

xxxvi. Having overcome the chronic balance of payments deficits of the past, and with an adequate savings level, the Tunisian economy has the financial resources that should enable it to attain growth rates ranging from 7.5 to 9 percent per annum. However, aiming at the higher rates of growth would require, after 1980, substantially higher external aid than in the past which would probably have to be obtained at harder terms. Tunisia should therefore continue to seek part of its external needs on concessionary terms so as to prevent the debt service ratio from rising rapidly in the long term. The level of future growth would also depend to an important extent on the ability of Tunisia to stimulate private investment, and to sustain it with public investments, at the necessary levels and in the appropriate sectors. There is no constraint due to the size of the labor force. The upper range of the growth alternatives could bring with it employment opportunities sufficient to solve one of Tunisia's most important problems. The high growth alternative would be expected, however, to strain the administrative and technical capacity of the country. It would therefore require that the necessary supporting policies be adopted, and that institutional development and adequate training programs be accelerated.

1. THE GEOGRAPHICAL SETTING

A. Geography and Climate

1.1 Tunisia, with an area of some 164,000 km^2, comparable with that of Greece and Guatemala, is the smallest and the least rich in natural resources of the four North African countries (Algeria, Libya, Morocco and Tunisia) which together form the geographical entity known as the "Maghreb." Its irregular coastline extends some 1,200 kms.; on it are situated five of the largest towns, Tunis (the capital), Sfax, Sousse, Bizerte, and Gabes. Good roads lead east to Libya and west to Algeria, where they connect with ancient trans-Saharan trade routes. The Mediterranean separates Tunisia from Southern Italy by a distance of less than 90 miles.

1.2 There are four main mountain ranges in Tunisia, three of which form the eastern end of the Atlas system, which extends westward into Algeria and Morocco. The Northern Chain is a continuation of the "Atlas Maritime" along the north coast of Tunisia, and receives the highest rainfall in the country, the annual average rising high as 1,000 mm. The Great Dorsal Chain, an extension of the Saharan Atlas, stretches in a north-easterly direction from the region of Kasserine on the Algerian border towards the Gulf of Tunisia and Cap Bon. It is an important barrier between north and south and protects the North against the sirocco winds in summer. One hundred kms south of the Dorsal Chain is another branch of the Saharan Atlas stretching due east from Gafsa. This Gafsa Range, which contains extensive deposits of phosphate, separates the Sahara, which lies to the south, from the rest of the country. The Matmata Chain stretches south from the Gafsa Range to the Libyan border, and is about 50 to 70 kms. from the coast.

1.3 Northern Tunisia comprises the area to the north of the Dorsal Chain, and forms about 20 percent of the country's total area. With an annual rainfall mostly above 400 mm., it contains the most fertile land and the country's only year-round water-way. Northern Tunisia, the home of 70 percent of the population and the chief area of economic activity, produces about 70 percent of the country's cereals, practically all the grapes and citrus fruits, more than two-thirds of all vegetables and milk, and about one-third of livestock and fish. The center is the steppe-like region between the Dorsal Chain to the north and the Gafsa Range to the south. It covers about 20 percent of the country's total area, and has an annual average rainfall varying between 200 mm. in the interior and south and 400 mm. in the north. Towards the coast the climate is more temperate; rainfall is generally above 200 mm., and settled farming, based mainly on the olive, predominates. In the interior grazing is the main form of agricultural activity, cereals, olives and alfa playing only a secondary role. The south, comprising the rest of the country, covers about 60 percent of the total land area. Outside the thinly populated coastal area, where rainfall approaches 200 mm., and the irrigated oases where some cultivation and grazing is possible, the south consists mostly of a desert, covering about 60,000 km^2, and bounded by the Gafsa Range to the north and the Matmata Chain to the east.

1.4 The rainy season extends from September to April. Rainfall varies considerably from one region to another and from one season to the next; rainfall can be twice the average in one season and less than half the next. Most of the rainfall in any one season can also be concentrated within such a very short period as to be of little value for cultivation. Heavy rains at the beginning or the end of the rainy season, when the soil is dried and loose, can cause widespread damage and land erosion, as in the disastrous floods of October 1969 and March 1973. Over the 25 year period 1945-1970 there were six serious periods of drought, three of them lasting for three years: 1945-1948, 1959-1962 and 1965-1968. Over the last decade the average rainfall has been some 30 percent lower than in the previous decade.

1.5 In general, Tunisia has long, hot and dry summers and short mild winters. As a result of their topographical features and differences in rainfall, the three main regions have distinctive climates. North of the mountain ranges and along the central coast, the climate, influenced by winds from the Mediterranean, is relatively temperate, and summer and winter are distinguishable; the former, from May through September, is marked by warm, dry weather and the latter, from October through April, by cooler weather, high winds and frequent rains. The inland area south of the mountains is hot and dry throughout the year; seasonal changes are not clearly discernible, temperatures are generally over 100°F, and there are frequent sandstorms and duststorms.

B. Economic Resource Base

(i) Agricultural Resources

1.6 37 percent of the land area (60,000 km^2) is desert, and another 10 percent (18,000 km^2) unuseable; of the remainder, almost 20 percent (38,000 km^2) consists of natural or unimproved pastures and forest and marginal land unsuitable for crops. The remaining 53,000 km^2 (one-third of the total) is arable land which constitutes Tunisia's most important natural resource. In addition to the products already mentioned, vegetables and sugar beet are grown in the North. Livestock, in the form of camels, sheep and goats, are important in many areas, although the combined breeding of camels and goats destroys the sparse vegetation and contributes to soil erosion. Forestry resources consist primarily of 250,000 acres of government-owned cork oak trees, which annually produce 7,000-8,000 tons of cork, most of which is exported unprocessed. Whilst offshore fish resources are plentiful, the total catch is only about 40,000 tons per year.

(ii) Water Resources

1.7 The difficulties faced by Tunisian agriculture as a result of the highly erratic but in general low rainfall can be mitigated only to a limited extent by irrigation, which at present covers about 100,000 hectares, or about 2.5 percent of the cultivated area. The availability of water for irrigation is limited by the level and seasonal distribution of rainfall, and by private and industrial consumption needs.

1.8 There are two main surface water basins. The more important is in the North between the Dorsal and Maritime Ranges, and is drained by the only year-round river in the country, the Medjerda. During the winter months, the river flow averages about 400 m^3, while in summer it generally falls below 10 m^3 per second. The other basin, comprising the Zouroud and its tributaries, lies to the south of the Dorsal Chain, from which it obtains most of its running water. The system is dry most of the time, but during periods of heavy rain there can be dangerous floods. The city of Kairouan, which is situated in the delta of this system, is isolated by floods at least once a year, and during the floods of October 1969 the flow of water at Kairouan rose to more than 14,000 m^3 per second.

1.9 Besides containing most of the country's mobilizable surface water, the North is also relatively rich in suitable underground water, and the area irrigated from wells is still much in excess of that irrigated from surface sources. In some of the areas heavily irrigated by wells, notably in the governorate of Nabeul, the water table is falling and salinity is rising. The underground water resources in most parts of the center and the south are either insufficient, or unsuitable for irrigation because of their salinity. The main exceptions are found in the cases of the governorates of Gafsa and Gabes, and along the main watercourses of the Zouround and its tributaries, particularly in the plain of Kairouan.

1.10 The maximum area that could be irrigated in Tunisia is probably of the order of 150,000-200,000 hectares, of which more than 75 percent is in the North. Consequently, unless the underground water resources of the Sahara can be commercially exploited, dry farming dependent on the low and erratic rainfall will continue to predominate in the center and south. A recently completed study 1/ concludes that the Algerian-Tunisian Sahara has sufficient water to guarantee the hydro-agricultural development of the present 15,000 hectares of oases in Tunisia, which require some 150 million cubic meters of water a year. The study holds that an additional 10,000 hectares or so could be irrigated in Southern Tunisia by utilizing the latent groundwater resources of the Northern Sahara.

1.11 The maximum potential of irrigation, whether in the north or in the center and south, may never be reached because of the expected growth of demand for water outside the agricultural sector. The shortage of drinking water is already acute in the south, while over the country as a whole the growth of population, urbanization, and industry should rapidly lead to an increase of water consumption for non-agricultural uses.

(iii) Minerals

1.12 Tunisia's known non-agricultural natural resources are not great. There are substantial deposits of low grade phosphate rock in an area of about 1,000 km^2 in central Tunisia. About 18 million tons of low grade iron ore

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1/ Etude des ressources en eau du Sahara septentrional, UNDP-UNESCO, Paris, April 1972.

deposits are found in the North and Center. These iron ore deposits comprise some 3.8 million tons of hematite, grading only 55 percent Fe, with barely five to six years of additional life, and 14 million tons of iron carbonate, grading 40 percent Fe, of doubtful technical and economic feasibility. Lead, zinc, silver, manganese and fluorspar are mined in small quantities. Salt is produced along the coast by the evaporation of seawater. After many years of exploration, oil was discovered in mid-1964 at El Borma in south-western Tunisia near the Algerian border. Output from recoverable deposits levelled to 4.0 million tons in 1972. Four more discoveries have been made following intensive exploration, but three of these are expected to provide only about 0.5 million tons per year. The fourth discovery, at Ashtart, off-shore in the Gulf of Gabes, is expected to provide between 1 and 1.5 million tons a year, beginning at the end of 1974. A natural gas deposit which reached a peak output of 9.5 mm. m^3 in 1968 now provides less than 1 mm. m^3 annuall, and has been surpassed as a potential source of gas by the El Borma oil fields which, although providing only 1.2 million m^3 of gas in 1971, will in future be able to use the new gas pipeline to Gabes, with a capacity of 300 million m^3 a year, which came into service in 1973.

(iv) Population

1.13 Tunisia had a total population of 5.4 million people at the end of 1972, including some 50,000 Europeans. Between 1956 and 1966 (census years), an estimated 200,000 Europeans and 50,000 Tunisian Jews emigrated. Yearly average emigration of the Tunisian population has increased from 10,000 for 1960-1968 to 25,000 for 1969-1973. The population is Arabic-speaking, with widespread use of French as a second language. Forty-five percent of the population lives in the four northeastern coastal provinces of Tunis, Sousse, Sfax and Bizerte, where population density approaches 100 per km^2, as opposed to fewer than 20 inhabitants per km^2 in the southwestern interior. The rate of natural growth of population increased from less than 2 percent in 1930 to about 2.6 percent since 1956. The real population growth rate (taking into account emigration) from 1956 to 1972 was 1.9 percent.

2. ECONOMIC TRENDS, 1961-1973

A. The Economic Situation at the End of the 1950s

2.1 When Tunisia became independent in 1956, the economy consisted of a large traditional subsistence sector side by side with a small modern sector. The traditional sector comprised some 75 percent of the working population, but accounted for only about 20 percent of GDP. While average GDP per capita for the country was roughly $150, incomes of most people in the traditional sector, especially in the south and west, were much below this average. Underemployment was widespread in the countryside, and the resulting migration to the urban areas aggravated the problems there of unemployment and urban planning. On the other hand, the modern sector, which was essentially an offshoot of the French economy, concentrated in the northern part of the country, had for many years accounted for practically all the growth registered by the Tunisian economy. 1/

2.2 In the months preceding and following independence, the departure of a large number of Europeans, coupled with considerable repatriation of private capital, caused a further slowdown in investment. This movement not only reduced the level of private investment, but also contributed to a severe shortage of skilled manpower, particularly in the middle levels of administration and in many technical fields. Moreover, in 1957 the French Government suspended its financial assistance. In that year, gross fixed investment fell to an all-time low, and GDP declined by 4.1 percent in real terms, whereas it had increased by 6.6 percent in 1956 and an average 3.3 percent a year from 1950 to 1956 (Statistical Annex, Tables 2.1 and 2.2).

2.3 The excellent harvests in 1958 and 1959 facilitated the upturn of economic activity. Moreover, the increase in public investment, facilitated by the granting of credits under an agreement with the United States signed in March 1957, more than offset the reduction of investment by the private sector. Accordingly, the ratio of gross fixed investment to GDP, which had declined to less than 10 percent in 1957, increased to nearly 16 percent in 1960 and to 19 percent in 1961. GDP rose at an annual rate of 4.1 percent in real terms during the period 1957-1961. This represented an improvement over the rate of growth achieved between 1950 and 1956, but it meant only a modest increase in the standard of living and the level of employment.

1/ A detailed analysis of the state of the Tunisian economy at the time of independence and of developments during the period 1956-1961 is provided by Moncef Guen, La Tunisie independante face a son economie (Paris, Presses Universitaires de France, 1961). Some background information is also provided in "Project FAO de developpement mediterraneen, Tunisie: Rapport National (Rome, 1959).

2.4 Whereas during the period 1951-1955 trade deficits averaged about D 21 million annually and were generally offset by receipts from the French Government for civil and military expenditures in Tunisia and by the inflow of capital, in the first years after independence the trade deficit was cut sharply by the slowdown of investment and exceptionally high agricultural exports. In spite of the substantial volume of capital repatriated to France (D 46 million in 1958), there were no payments problems during those years. United States aid, mainly in the form of gifts of surplus food distributed to the unemployed and to refugees from Algeria or of general economic aid, played an ever greater role, rising from D 2.4 million in 1957 to D 9.4 million in 1958, D 13.4 million in 1959 and D 18 million in 1960. Tunisia's foreign exchange reserves rose substantially up to 1960. The reappearance of large trade deficits in 1960 and 1961, as a result of stepped-up investment and a fall in agricultural exports, marked a return to a more normal situation for a developing country. The main features of the balance of payments structure in 1960-1961 (trade deficit, current account deficit, large inflows of official capital) were to continue to characterize Tunisia's external position during the 1960s.

2.5 At the institutional level, during the period 1956-60 the Government began to take economic planning measures. Nonetheless, most economic activity continued to be governed by ad hoc decisions aimed at reconciling the national objectives born of independence with the legacy of the former regime. A Planning Office was set up in 1956 and a National Planning Council in 1957. In 1958 the Government launched a vast program of relief-work projects to combat unemployment and underemployment. The workers were employed on hillslope preparation for terrace farming, on tree planting and on other agricultural tasks.

2.6 In November 1958 the Government created a Central Bank and replaced the Tunisian franc with the dinar, equal to 1,000 francs. The introduction of this new monetary unit left intact the parity then existing with the French franc. However, when the latter was devalued by 17.5 percent in December 1958, Tunisia decided to maintain the value of the dinar at US$2.38. In order to halt the speculative flights of capital that had led to the devaluation of the French franc, in January 1959 the Government extended the controls on capital transfers to remittances to the franc area. In late 1959 it terminated the Franco-Tunisian Customs Union, introduced an independent tariff, and concluded a new financial and trade agreement with France. In this way Tunisia was able to obtain far-reaching autonomy in managing its trade and payments system while remaining closely associated with France and with the franc area.

2.7 The Government also extended its influence over the banking sector by setting up, in 1958, the Societe Tunisienne de Banque (STB), which took over the commercial banking activity of the former Banque de l'Algerie et de la Tunisie and rapidly became the most important commercial bank. The Banque Nationale Agricole (BNA), created the same year, was to specialize in crop and medium-term agricultural equipment loans. The Tunisian branch of the French Caisse d'Epargne was replaced by a national institution. Five important branches of foreign banks remained to share commercial banking with STB.

B. Planned Economic Development

2.8 In 1961 the Government decided to undertake a long-range program of economic and social development. In order to coordinate the development effort, the Planning Office was combined with the Ministries of Finance and Industry and Commerce to form a new Department (Secretariat d'Etat) of Planning and Finance.

2.9 In August 1961 the new Department completed a study entitled "Perspective Decennales de Developpement, 1962-1971", 1/ which afterwards served as the broad framework of economic planning. This study made clear that the Government would assume responsibility for the direction of future development, although it affirmed that private enterprise would also have an important role in the economy. According to the "Perspective", the fundamental objectives of planning were: (a) "Tunisification" of the economy through the transfer to Tunisian professionals of the management of key enterprises and of foreign-owned farms; (b) the promotion of equal access to education for all citizens, improvement of living standards, development of the health and social services, equitable distribution of income, full employment, and removal of the imbalances between the different sectors of the economy and regions of the country; (c) structural reforms, involving an overhaul of institutions, the introduction into agriculture and certain other sectors (such as trade and handicrafts) of a system of cooperative ownership and management, and the assignment to the State of special responsibilities in economic development through the creation of publicly owned enterprises in the production sectors; and (d) the attainment of self-sustained growth by 1973. For a period of six months the "Perspectives" were discussed by a number of sectoral committees composed of representatives of the Government, the Party, the employers' associations, the trade unions and the universities.

2.10 The "Perspectives" projected a growth of GNP of 6 percent per year during the period 1962-1971 and a volume of investment amounting to D 1.2 billion at 1957 prices. Investment was projected to increase from 19 percent of GDP in 1961 to 26 percent in 1962, the first year of the Plan, and to reach the high rate of 32 to 33 percent in 1971. Virtually the whole of the increase in investment was to be publicly financed. The "Perspectives" assumed that gross domestic savings would increase from 11 percent of GNP in 1961 to 20 percent in 1965 and 26 percent in 1971. Export growth was projected at 4.8 percent per year and import growth at 3.8 percent per year. It was also expected that foreign grants and loans would total nearly half a billion dinars during the period and would finance about half of net investment. Most of the growth was to come from manufacturing and construction (9 percent per year), with an increase of 3 percent per year in agriculture and mining.

1/ Republique Tunisienne, Secretariat d'Etat au Plan et aux Finances, Perspectives decennales de developpement, 1962-1971 (Tunis: Imprimerie Officielle, 1961).

2.11 The "Perspectives" focused more on objectives, and needs, and on general and sectoral policies, than on ways and means. More precise attention was to be given to the identification and preparation of projects, as the means by which the target increases in production were to be achieved, in successive plans. The first Three-Year Plan (1962-1964) was drafted at the same time as the "Perspectives"; it was followed by two Four-Year Plans (1965-1968 and 1969-1972), formulated within the broad framework given by the "Perspectives".

2.12 In the First Plan the planned increase in investment, 13 percent per annum, was very high, and was more than could be financed by domestic savings and external aid. The heavy claims of government for both investment and current expenditure led to expansion of the money supply, rising prices, and a deterioration of the balance of payments culminating in devaluation in September 1964. The Second Plan was one of stabilization. The investment program was more realistic, and in 1966 provision was made for short-term adjustments through the medium of annual economic budgets. In the preparation of the Third Plan, the choice of projects began to receive greater attention, and total investment was itemized project by project. The lessons of the first two plans led the Government to frame the Third Plan with more concern for balance of payments constraints and for the need for a large expansion of foreign exchange earnings which would permit a relaxation of direct controls on trade and payments and clear the way for the convertibility of the dinar. Table 10.5, Statistical Annex, shows the investment-program goals and achievements for each plan. Whereas the goals of the First Plan were not attained, those of the two succeeding plans were substantially exceeded.

2.13 The Third Plan was originally designed to provide a basis for an intensive effort to extend the role of the cooperative system to all parts of the agricultural sector as well as to parts of wholesale and retail distribution. Toward the end of 1969 this policy had to be abandoned and the dismantling of the cooperative system was followed by a radical reassessment and revision of Tunisia's development policy. In the light of the too slow economic growth achieved during the preceding decade, a new strategy was formulated which aimed at accelerating growth, exports and job creation; direct government intervention in the economy was to be reduced, administrative controls relaxed, and incentives strengthened in order to support the private sector. In agriculture, because of the large infrastructure investments made in the past, more efforts were to be put into providing support to production. In industry, because of the small domestic market, further expansion was to be oriented primarily toward export; private investment, both domestic and foreign, was to be encouraged.

2.14 Thus, many measures have been taken or prepared since 1970 to promote private investment, relax administrative and legal controls on imports, trade and prices, improve the mobilization and allocation of financial resources and increase the general competitiveness of the economy. The policy of State intervention in economic activity during the decade and the measures taken within the framework of this new orientation are examined in Chapter VII.

C. The Growth Record

2.15 Over the decade 1962 to 1971, gross domestic product 1/ grew at an annual rate of 4.7 percent. This result falls short of the target of 6 percent for the ten-year period; moreover, it is partly to be attributed to the change in economic policy since 1969 and the good crop in 1971. By way of comparison, the average growth rate of most African countries in the same period was about 3.5 percent, that of the underdeveloped countries in Latin America about 4.2 percent and that of North America about 6.7 percent. National income grew by 3.9 percent, equivalent to a rise in per capita income of 1.9 percent. (Income distribution is reviewed in Chapter 4).

Table 2.1: SECTORAL AND GDP GROWTH TRENDS, 1961-71 AND 1971-73

	Rate of Growth of Value Added At Constant Prices		Percentage Distribution of Value Added At Current Prices		
	1961-1971	1971-1973	1961	1971	1973
Sector					
Agriculture and Fisheries	1.5	7.8	23.7	20.3	19.5
Industry	8.1	12.2	18.2	25.5	26.8
Mining	1.6	5.2	2.1	1.3	1.3
Petroleum	31.0/1	4.8	-	5.4	4.9
Energy and Water	13.4	12.1	1.2	2.0	1.9
Manufacturing	7.9	14.4	7.7	9.6	10.7
Construction and Public Works	3.4	14.9	7.2	7.2	8.0
Services	4.0	9.3	43.4	39.3	38.7
Transport and Communications	7.2	12.9	6.5	6.5	6.7
Housing	1.6	2.0	11.4	7.2	6.1
Tourism	28.3	8.4	0.4	3.9	4.1
Trade	2.6	12.4	15.3	13.2	13.9
Other Services	2.0	7.8	9.8	8.5	7.9
Government Services	5.8	8.0	14.7	14.9	15.0
GDP at Factor Cost	4.7	9.6	100.0	100.0	100.0
Indirect Taxes and Duties	4.6	9.2	14.7	15.3	16.9
GDP at Market Prices	4.7	9.5	114.7	115.3	116.0

/1 1966-71.

Source: Ministry of the Plan (Statistical Annex, Tables 2.6 and 2.7).

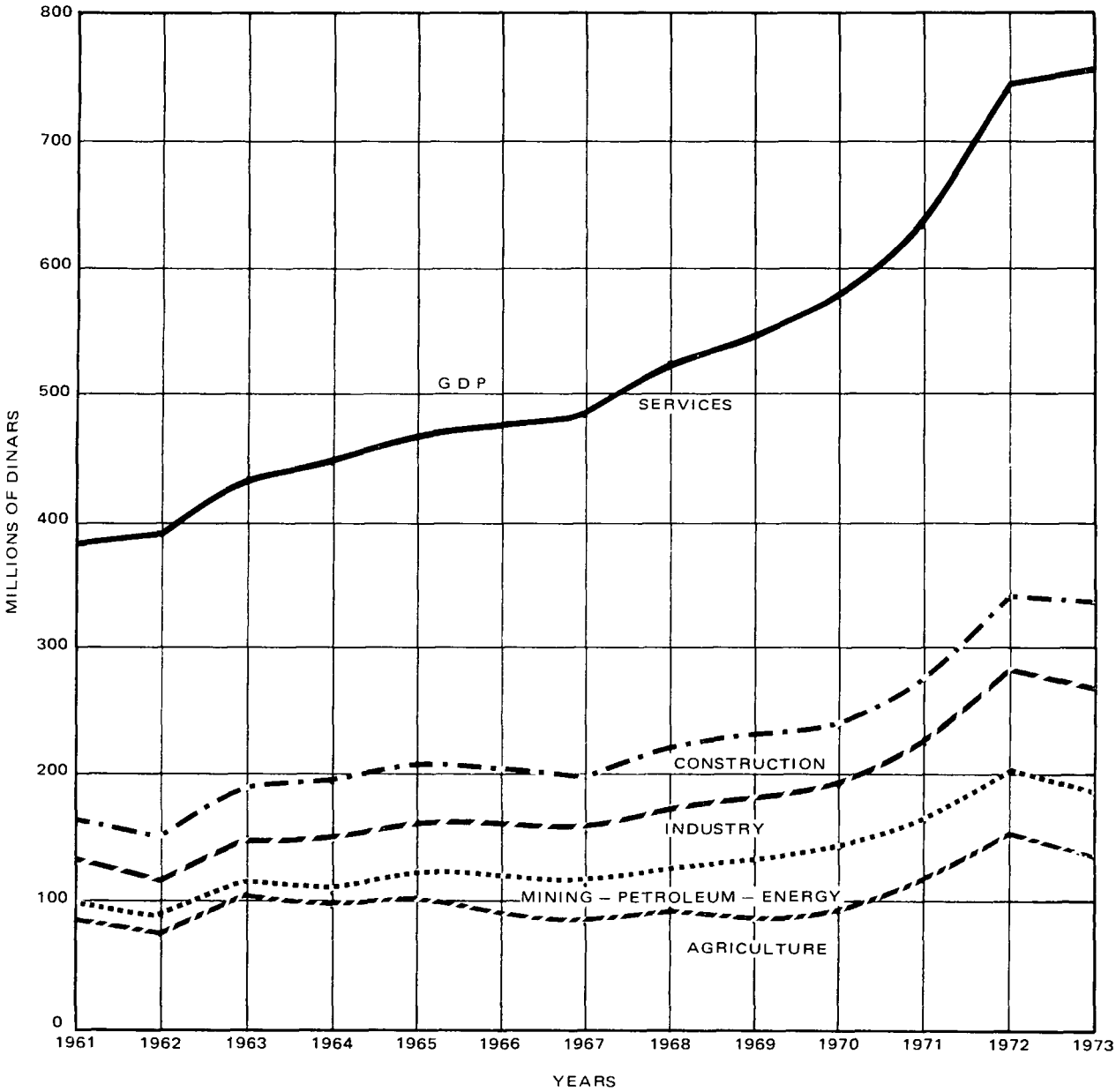
1/ The analysis that follows is based on the new national accounts series published in April 1974. Since the basic mission in March 1973 national accounts series (1961-1971) have been revised twice.

Graph. 2.1

TUNSIA

GDP AND SECTOR GROWTH

(at 1966 Constant Prices)



World Bank—8803

2.16 The main sectors where performance fell short of the Ten-Year Plan targets were agriculture, trade, construction and public works and, to a less degree, manufacturing. In contrast, petroleum and tourism grew faster than projected. There was some slight change in the structure of GDP over the decade. The shares of agriculture and services declined, while that of industry rose from 18.2 percent in 1961 to 25.5 percent in 1971--largely as a result of the appearance of petroleum and of the increased share of manufacturing, which rose from 7.7 to 9.6 percent.

2.17 During the period 1961-1965, agricultural output grew by 5.6 percent a year, while the rest of the economy grew by 5.1 percent, giving an overall growth of 5.2 percent. In 1966-1969, as the result of the unfavorable weather of 1966 and 1967, followed in 1969 by severe floods, together with the problem created by cooperativization, agricultural output fell by 3 percent per annum, while output in the rest of the economy increased during the same period by 5.4 percent per annum, giving an overall annual growth rate of only 4 percent. In 1970-1971, agriculture grew by 15 percent, and the economy as a whole by close to 8 percent per annum. These figures emphasize the overriding importance of agricultural output for the overall growth of the economy.

2.18 Mining production as a whole grew until 1966 then, after a fall due to the decline of certain secondary ores, was also affected by the 1969 floods; phosphate production did not regain its previous level until 1971. The expansion of manufacturing, in spite of the substantial production growth rates (nearly 8 percent), is not impressive in comparison with the high investment made in the sector over the decade, mainly in the public enterprises; the incremental capital-output ratio of manufacturing for the period 1961-1971 comes out at 4.2 (Statistical Annex, Table 8.9). The factors that affected the performances of agriculture and industry are examined in Part E of this chapter. These sectors are also reviewed in detail in Annexes I and II to the report. The incremental capital-output ratio for the economy as a whole for the decade 1961-1971 was 5.7; however, the ratio was only 4.7 for the economy excluding agriculture, in which substantial infrastructure investments have been made that have not yielded immediate returns. This relatively high figure is explained partly by the low rate of return of the productive investments made but also partly by the fact that substantial investments have been made for development of the infrastructure of the economic sectors, public infrastructures and social services; thus, public infrastructures and social services alone absorbed nearly 18 percent of total investment made from 1961 to 1970, i.e. D 212 million out of D 1,206 million.

2.19 The rate of growth of the economy has risen sharply since 1970. GDP in real terms grew by 9 percent in 1971 and nearly 17 percent in 1972. This improvement was due to a combination of several favorable factors. First, the exceptional olive oil and cereals harvests of 1971 and, particularly, 1972 were accompanied by a very rapid growth of tourism and a steady increase in remittances from emigrant workers. Second, the new orientation of economic policy initiated in 1970 has generated a resurgence of confidence and initiative in the private sector and thereby speeded up economic growth, particularly in agriculture, manufacturing, construction and trade. In 1973, GDP rose by

only 2.8 percent (on the basis of provisional statistics) because of a decline in olive oil production to a more normal, though still high, level and stabilization of services activity, particularly of tourism. However, taking the two years 1972 and 1973 together, the average annual growth of GDP was 9.5 percent (Table 2.1); the sectors which showed the fastest growth over those two years were industry (12.2 percent a year), particularly manufacturing (14.4 percent) and construction (15 percent), transportation (12.9 percent) and trade (12.4 percent).

2.20 The Economic Budget for 1974, published in 1973, forecast a growth of 9 percent. However, the growth of GDP for 1974 might well substantially exceed this initial forecast in view of the improvement in terms of trade due to the substantial rise in world prices of petroleum, phosphates and olive oil and its effect on the economy as a whole. These aspects are examined in Chapter 9.

D. The Financing of Development

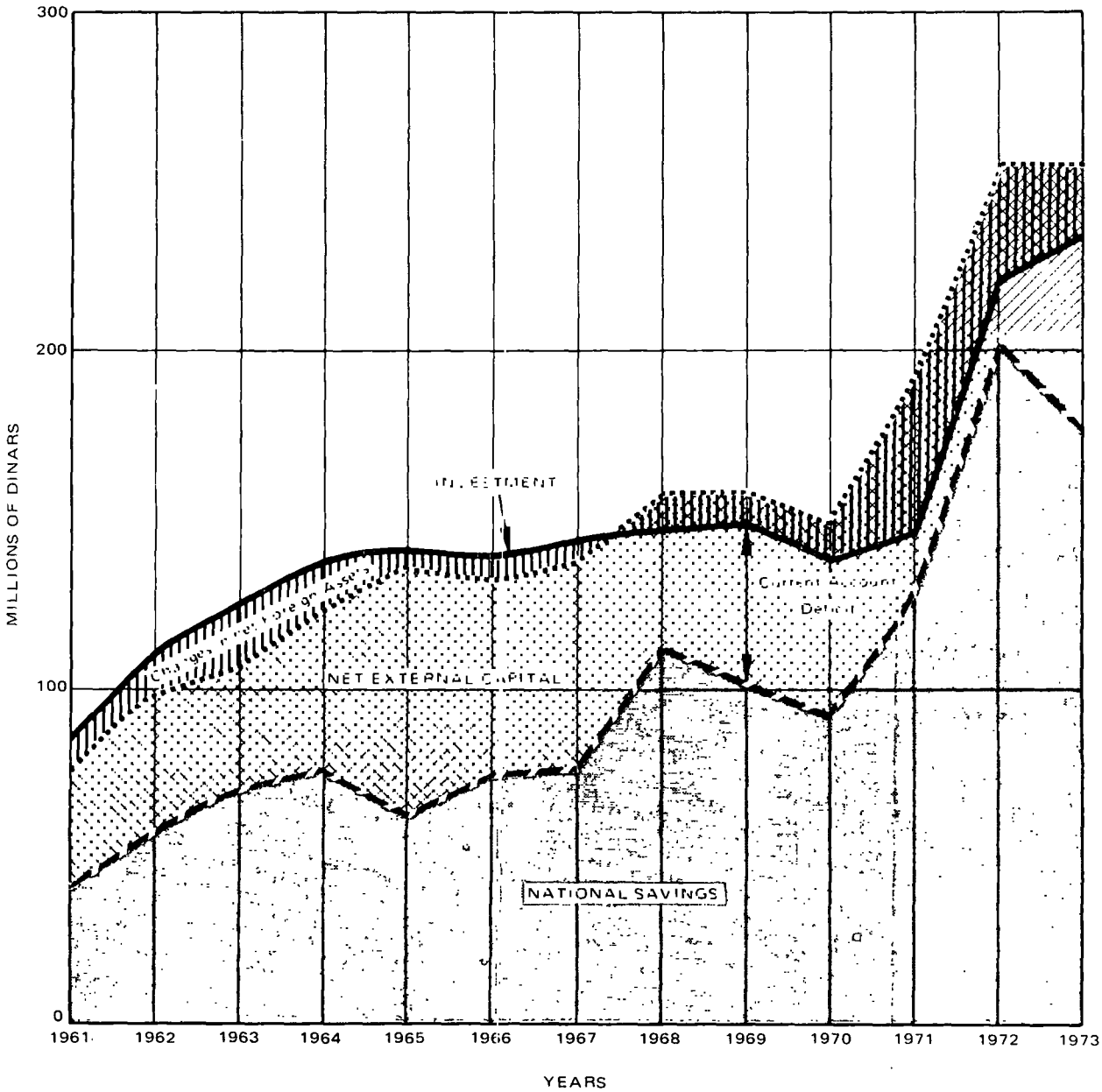
2.21 Over the ten years 1962-1971, gross capital formation rose to almost D 1.4 billion at current prices (Table 2.2), with annual investment rising from D 89 million in 1962 to D 182 million in 1971. Investment as a ratio of GDP climbed from 23.8 percent in 1962 to a peak of 27.6 percent in 1965, then declined steadily to 21 percent in 1970-71. The rate of investment for the decade as a whole averaged 23.5 percent; that for gross fixed capital formation alone was 22.4 percent. Although this result was less than the target set in the Perspectives Decennales, it is nonetheless a remarkable performance. Until 1968, national savings and net foreign capital inflow were insufficient to finance investment and the deficit had to met by drawing on reserves; thereafter, the slowdown of investment, combined with the increase in national savings and the continuous growth of external capital inflow, made it possible to correct the country's financial situation (Graph 2.2). The trend of national savings as a ratio of GNP was rather irregular, with a low of 12.6 percent in 1965 and peaks of 18.3 percent in 1968 and 18.9 percent in 1971; the average for the decade 1962-1971 was 15 percent (Statistical Annex, Table 2.3). National savings were supplemented by large foreign capital transfers and loans, mostly from public sources; national savings financed 62 percent, and external capital 38 percent, of investment over the decade as a whole.

Graph. 2.2

TUNSIA

NATIONAL SAVINGS AND INVESTMENT FINANCING

(at 1966 Constant Prices)



World Bank—8802

Table 2.2: INVESTMENT AND FINANCING

	Millions of dinars at current prices	Percent of GFCF/GCF	Percent of GNP
Gross Fixed Capital Formation (GFCF)	1,310.4	100.0	22.4
Agriculture	270.5	20.6	4.6
Mining and Petroleum	140.9	10.8	2.4
Manufacturing	150.7	11.5	2.6
Transport and Power	203.0	15.5	3.5
Tourism	123.8	9.4	2.1
Housing	184.3	14.1	3.2
Services	22.5	1.7	0.4
Public Infrastructure of which:			
Education	(80.9)	(6.2)	(1.4)
Change in Stocks	62.3	4.8	1.1
Financing of Gross Investment (GCF)	1,372.7	100.0	23.5
National Savings	855.1	62.3	14.6
Government	170.1	12.4	2.9
Enterprises /a	543.7	39.6	9.3
Households /a	141.3	10.3	2.4
Net Foreign Capital	537.3	39.1	9.2
Public	401.1	29.2	6.9
Private	136.2	99.9	2.3
Change in Reserves	-19.7	-1.4	-0.3

/a The new National Accounts series do not show the analysis of savings between enterprises and households; the figures given here have been estimated from the data of the old series.

Source: Ministry of the Plan (Statistical Annex, Table 2.11).

2.22 The greater part of national savings derives from the depreciation allowances and retained earnings of public and private enterprises, although these savings have not been high enough to finance their own investment expenditures. At the beginning of the decade 1961-71, household savings were an insignificant source of financing of capital formation, but since 1970 their volume has exceeded that of government savings. The share of government savings in GDP increased in the early sixties and then held steady at around 3.5 percent, except for a marked fall in 1968 (Statistical Annex, Table 5.3). However, the Government's savings have been well below its gross capital formation, the gap being bridged by borrowing abroad and from internal sources (the banking system in the early sixties and households in the late sixties). The Government has in this way mobilized resources far beyond its own needs, and has

supplied funds to state enterprises and other sectors. The relatively low level of government savings is attributable to the fact that the substantial effort in raising revenue has been more than offset by fast increasing current expenditures. This increase was due to the high level of investment in community infrastructure and social services, which created new operating expenditures. (Public-sector savings and the mobilization of resources are examined in Chapter 5).

2.23 The course of events over the period 1962-71 reflects the progress that has been made in the mobilization of resources. The ratio of gross national savings to GNP, which was about 8 percent in 1961, was well below the target of 16 percent in 1964. Furthermore, owing to a lag in disbursements of foreign aid, foreign capital inflow was below the amount envisaged under the First Plan (1962-64). The overall central-government deficit rose from D 28.6 million in 1961 to D 30.9 million in 1962 and to D 40.3 million in 1963. These deficits were financed in part by foreign loans and grants, heavy recourse to suppliers' credits, and borrowing from the private sector, but there was also substantial recourse to the banking system.

2.24 The rapid expansion of money and credit in 1962 and 1963 exerted severe pressure on prices, which were held in check through a strengthening of the already comprehensive system of price control. Wholesale prices increased by 9 percent between December 1961 and June 1964, while the cost of living in Tunis rose by only 2 percent. However, the methods used to suppress inflation created parallel markets for several commodities and for foreign exchange and distorted the structure of prices and costs. The increase in demand for imports of capital goods, fuels and raw materials for the development program reinforced the existing deficit on current account, which foreign capital inflows were insufficient to cover, despite their steady improvement. This led not only to a considerable loss in foreign exchange reserves, but also to the accumulation of short-term foreign liabilities as well as a marked rise in medium and long term external indebtedness of the public sector. (These aspects are examined in Chapter 8, on the balance of payments).

2.25 Tunisia's financial difficulties in mid-1964 posed a grave threat, not only to the gains already achieved under the Three-Year Plan, but also to the further growth of the economy. Faced with this situation, the authorities took some corrective measures in August 1964, and in October 1964 adopted a comprehensive stabilization program. These measures provided for (a) the slowing down of investment; (b) containment of the overall deficit of the Central government; (c) the application of prudent monetary policies; (d) a 20-percent devaluation of the dinar; and (e) a more cautious policy in external borrowing. These stabilization measures were reasonably successful from 1966 and continued to shape the Government's approach to development in the ensuing years.

Table 2.3: EXPENDITURE ON GDP, 1961-1972

	1961	1964	1965	1968	1970	1972	1973
			(millions of dinars)				
Consumption	340.3	398.1	450.6	497.2	626.6	799.3	880.3
Private	278.8	327.5	371.5	387.9	495.8	646.4	710.9
Public	61.5	70.6	79.1	109.3	130.8	152.9	169.4
Investment	63.1	115.7	145.3	148.0	154.3	228.6	241.0
Exports	73.2	84.9	99.1	133.5	166.2	272.1	266.0
Total Demand	476.6	598.7	695.0	778.7	947.1	1,300.0	1,387.3
Real GDP (at 1966 prices)	446.6	516.9	535.9	597.4	667.1	848.8	872.9

	Average Increases			
	1961/64	1964/68	1968/70	1970/72
		(percent p.a.)		
Consumption	5.4	3.3	12.3	12.9
Private	5.5	1.5	13.1	14.2
Public	4.7	11.4	9.4	8.1
Investment	22.5	0.6	2.1	21.7
Exports	5.1	10.4	11.6	28.0
Total Demand	7.9	3.9	10.3	17.2
Real GDP	5.0	3.7	5.6	12.8

Source: Ministry of the Plan (Statistical Annex, Tables 2.7 and 2.8).

2.26 Between 1965 and 1968 gains in real output were modest and aggregate demand grew at an average rate of only 3.9 percent a year. However, there were substantial increases in public consumption (11.4 percent) and exports (10.4 percent) and the Government found it increasingly difficult to contain the renewed demand pressure. During 1969 and 1970 the gap between overall demand and real production widened and private consumption rose rapidly. This situation led to a rapid rise in imports and to pressure on the domestic price level. From 1968 to 1970, total imports of goods and services rose by 14.7 percent per annum and while from 1965 to 1970 the average rate of increase in the price level had been no more than about 2.6 percent a year, there was a marked acceleration in early 1971, so that in February 1971 the cost of living was 13 percent higher than in February 1970.

2.27 However, 1971 and 1972 were outstanding crop years, and while imports grew at the rate of 19 percent per annum over the two years, exports grew by 28 percent per annum. As a result of the progress made in these two years, most of the objectives of the Third Development Plan were achieved and in some cases exceeded. The economy grew at an average rate of 9.2 percent against a Plan estimate of 6.5 percent. Investment, at D 667 million, exceeded the Plan estimate of D 617 million, making the average capital-output ratio for the Plan period about 2.2. 1/ Private and public consumption increased at an average rate of 13.6 and 8.7 percent respectively at current prices. The ratio of domestic savings to GNP was nearly 18 percent, for the period 1969-1972 again higher than the Plan estimate. In the balance of payments there was a basic structural improvement arising from the development of export earnings from petroleum, manufactures, tourism and workers' remittances, and this was reflected in a fall in the deficit on current account from an average of D 60 million in 1962-1967 to D 20 million in 1972. Furthermore,net capital inflow, which averaged D 54 million over 1961-1970, rose to D 68 million in 1971 and D 57 million in 1972. For the whole period, net foreign assets grew by D 105 million instead of D 31 million targetted; however, D 85 million of this was attributable to the years 1971 and 1972. Finally, retail prices rose only 2 percent in 1972 over 1971.

2.28 In 1973, in spite of the slowdown in the growth of the economy to 2.8 percent, as anticipated by the Fourth Plan, the drop in exports from the exceptionally high level of 1972, and the continued increase in total consumption (10 percent up on 1972, at current prices), the national savings was sustained at over 17 percent of GNP. In absolute terms, national savings declined from the 1972 level but the decrease in the savings of enterprises and households was partly offset by a substantial growth in public-sector savings. The lifting of controls on a number of import categories stimulated a new rise in total imports of 12.4 percent but the current balance of payments deficit was limited to D 56 million, i.e. 5.3 percent of GNP against 7 percent in 1968-1970. The continued inflow of foreign capital pushed net reserves up by D 20 million, to an amount equal to 5-1/2 months imports of goods at the end of 1973. Fixed investment rose to D 241 million, slightly below the Fourth Plan forecast but still 22.6 percent of GDP; it was financed 77 percent from national savings. Retail prices rose 4.4 percent over 1972. The first measures taken to improve the mobilization and allocation of resources by the banking system (see Chapter 6, on financial institutions and policy) led in 1973 to increases of 21 percent and 18 percent in medium and long-term bank resources and utilizations.

E. Investment Policies

2.29 During the decade 1962-1971, the capital-output ratio was high as a consequence of the magnitude of investment in social and economic infrastructure. In agriculture, the Government committed itself to the cooperative system as a vehicle for the reform and education of the farmer, and to heavy public outlays -- in irrigation, land conservation and afforestation -- with little effect on production, at least in the short run. In industry, substantial

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1/ Calculated at constant prices, with a 1-year lag between investment and production.

investments were made to establish public enterprises with insufficient study of their production costs or market prospects. Once these industries were established their technical shortcomings emerge and conflicts between profitability and employment became apparent. Apart from tourism and petroleum exploration, there was little development of the private sector and foreign investment was limited.

2.30 The investment effort has focussed mainly on new projects to consolidate the growth base. The association of foreign aid predominantly with investment projects only has stimulated investment at the expense of current expenditure and developmental expenditure of a less tangible nature. Sufficient attention has not always been paid to the need to ensure the full utilization of existing capacity by means of appropriate current budgetary outlays, and to provide industry with adequate inputs and incentives. In many fields, notably in irrigation, a greater contribution to growth and productivity could have been obtained by increasing current outlays. In industry, many public enterprises have lacked working capital. Government departments have suffered from inadequate personnel budgets to develop their field services, particularly in agricultural research, extension and land registration work.

2.31 The investment policy pursued during the decade has nevertheless made possible considerable development of the country's economic and social infrastructure, as well as the laying down of an industrial base, thereby providing the foundation for more rapid growth in the years ahead. Since 1970, a different strategy has been initiated, with priority going to directly productive investments, the development of labor-intensive export industries, and full utilization of existing capacity; the private sector is assigned an essential role, and foreign investors are encouraged to provide finance, know-how and access to export markets.

Investment in Agriculture

2.32 Agriculture absorbed more than 20 percent of the country's investment in the ten years 1962 to 1971, much of it in the form of major infrastructure. Public investment, mainly in agricultural infrastructure, such as irrigation works, accounted for 70 percent of the total investment in agriculture, so that the share of public and private enterprises, including cooperatives, was limited to 30 percent and, of this, private enterprise and cooperatives accounted for only 16 percent. There has been heavy concentration of investment in projects of a long term nature, such as those under the food-for-work, forestry and conservation programs, much of the investment undertaken by land offices and publicly-owned cooperatives, and a large part of the tree planting program. Since 1965 the share of private enterprise has increased slowly, except for the major setback in 1969 due to the stepped-up cooperative program. Private farmers outside the cooperatives were slow to invest during the second half of the 1960s, but private investment in agriculture has been increasing since 1970.

2.33 Irrigation has received about 30 percent of the sector's investment resources with little increase in production to show for it. The total area equipped for irrigation is about 100,000 ha, but owing to deficient land and water management, only one-half is at present being irrigated. A great effort

needs to be made, particularly in on-farm development, before any new investment in irrigation can be justified. This requires a much greater emphasis on extension work, the provision of inputs and credit, and land reform, and this implies a radical increase in current budgetary expenditure rather than in investment. Furthermore, it remains to be determined, by production and market studies, to what extent investment in irrigation can be made to pay off in intensive cultivation of crops for which there is a profitable market at home or abroad. Outside the irrigated farming areas, new public investments in agriculture could include intensive livestock development accompanied by an expansion of forage production, integrated rural development projects, particularly in southern and central Tunisia, and the large-scale exploitation of the subterranean water resources in the south. The Fourth Plan contains important proposals along these lines which are reviewed in Chapter 9 and in the Annex on Agriculture.

(i) The Role of the Cooperatives

2.34 No other factor has dominated the political and economic life of Tunisia during the period 1960-1969 as much as the cooperative system. For a number of years the system took priority over all other ways of stimulating development. This movement was rapidly extended into the main sectors of the economy despite inadequate financial resources, lack of managerial and qualified technical personnel, and the absence of built-in incentives and controls.

Table 2.4: NUMBER AND AREA OF AGRICULTURAL COOPERATIVES CREATED ANNUALLY, AND SHARE OF CREDIT TO COOPERATIVES

At End of Year	Production Cooperatives		Other Cooperatives		Cumulative Total Area in 000 ha.	Share of cooperatives in total agricultural credit (percent)
	Number	Area	Number	Area		
1962	15	10	-	-	10	-
1963	81	64	-	-	74	-
1964	51	40	14	45	159	51
1965	66	72	26	108	339	69
1966	88	118	33	100	557	64
1967	37	49	33	109	715	82
1968	5	8	111	355	1,078	88
1969	-	-	-	-	4,667	-
1970	-	-	-	-	1,172	-

Source: N. Attia, "L'evolution des structures agraires en Tunisie depuis 1962", Revue Tunisienne de Sciences Sociales, Novembre 1966, No. 7.
- Rapport d'execution du plan 1962-1964, 1965, 1966, 1968.
- Plan 1969-1972, Agriculture et Peche, section on Réforme des Structures.
- John L. Simmons, "Agricultural Cooperatives and Tunisian Development", The Middle East Journal, 1970, No. 4.

2.35 The aim of the cooperative movement in agriculture was described in the "Perspectives Decennales" as the integration of agriculture into the economy through a better organization of production and a greater participation of farmers at all stages of production and commercialization. Five different types of cooperative were envisaged: a) production units for cereals and livestock in the north, b) units designed to develop multi-crop production (in large part tree crops), and manage extensive grazing in the center and south, c) cooperatives to manage irrigation projects, d) service cooperatives, and e) cooperatives to transform or preserve agricultural commodities.

2.36 The first agricultural cooperatives were set up in 1961 to manage the farms taken over from European settlers. Later, the consolidation of the small plots of traditional farmers was favored, and the farmers were encouraged to combine their holdings into cooperative farms. At the end of 1967 there were 700 cooperatives, mainly on public land; only one-tenth of private farm lands was organized as cooperatives. From 1964 onwards a growing share of agricultural credit had been allocated to the cooperatives. By August 1969, as a result of the decision earlier in the year to organize all agricultural production in cooperatives, the number of cooperatives had increased to 1,170, covering about 80 percent of all land under cultivation. In November 1969, however, this policy was reversed and cooperatives of private farmers were dissolved, so that agricultural production cooperatives have since been confined to publicly owned land.

(ii) Land Reform

2.37 The need for land reform and land registration had long been recognized as a vital condition for the efficient use of land and a more equitable distribution of the means of livelihood; it was thus seen as essential to the expansion of agricultural production and the reduction of rural underemployment. A number of legislative provisions have been adopted in this field, but the actual changes have been marginal and, following the reversal of the cooperative experiment, little permanent progress has been made.

2.38 On the eve of independence most of the land in the north or west was held under a form of full private ownership and usually registered under the land law of 1885. Most of the remainder of the country comprised unusable land, land held under collective (tribal) ownership or as private or public trusts. One of the first acts of the new Government was to take over land held by public trusts (habous) and lease it to private farmers. The 785,000 hectares farmed by foreigners were progressively taken over by the State. On the eve of independence there were some 2,600 French farmers, of whom nearly 800 were landowners, while the rest were share-croppers or tenants. By May 1964 the takeover was complete and the State owned and operated over 1,000,000 hectares. In 1969 cooperative lands previously privately owned were returned to their previous owners, but most of the farms acquired from European farmers are scheduled to remain for the present as "agro-combinats", large pilot farms or cooperatives although the long-term future of the 400,000 hectares of cooperative land is not clear. Of the remaining land under state control, the Government has undertaken to sell or otherwise dispose of over 200,000 hectares.

2.39 The main features of the distribution of land ownership in Tunisia are shown in Table 7.7, Statistical Annex. The majority of private farms are less than 50 hectares in size, and nearly two-thirds of the land is in farms within this limit. There is a small number of large farms (above 500 hectares), which cover 270,000 hectares, almost as much as the two-fifths of all farms which have less than five hectares each (305,000 hectares).

2.40 Privately-held land is important in size. Out of a total of 5.3 million hectares of usable agricultural land (excluding forests and collective pasture land), 4.5 million hectares, or 85 percent, are privately owned and operated. While this includes much that is farmed by traditional methods, the relative size of this part of the sector gives it a strategic importance for the planning of sectoral development. Little is known, however, about the use of the private lands, the extent and conditions of tenancy, or of the degree of fragmentation. Out of the 4.5 million hectares of private land, only about one million hectares are actually registered under clear title. Another 1.5 million hectares are covered by a land registration certificate, which is considered to be less secure than a title. The rest of the land is without title of any kind, most of it used under traditional rights. In both irrigated and rainfed areas, this has created complex problems of reorganizing holdings, which is essential for efficient land and water utilization. Lack of clear title also limits access to credit. The Government plans to speed up the process of land registration started in 1964.

(iii) Work Relief Program

2.41 An important part of agricultural investment has been channelled through the food-for-work program known since 1958 as the "Lutte Contre le Sous-Developpement" (LCSD). The main development objectives of this program were defined in the "Perspectives Decennales" as:

(a) to raise agricultural production;
(b) to create permanent employment;
(c) to train workers and help to settle nomadic groups.

These objectives were to be fulfilled through:

(i) Extension and improvement of exploitable forest and alfa domains,

(ii) Control of erosion and development of previously non-cultivated or badly utilized areas,

(iii) Rationalization of grazing areas, and creation of forage reserves.

2.42 During the period 1962-1968, investment in reforestation under this program and the planting and maintenance of fruit and olive trees amounted to 50 percent of total public and private investment in the agricultural sector. This sum, however, did not include food rations and other foreign aid which

if taken into account would bring the share to 55 percent. In terms of visible results this investment has been very costly. Fruit and olive trees alone absorbed 15 percent of government investment in agriculture in the period 1956-1968, not counting food rations and bank advances, but most of these trees were either totally lost, as was the case with thousands of hectares planted with apricots and almonds in Central Tunisia between 1958 and 1964, or are in a state of abandonment and rapid deterioration. Generally speaking, the program has not had the success expected, owing to low labor productivity and inadequate maintenance of the projects carried out. The labor aspects of the program are examined in Chapter 3, on population and employment.

Industrial Investment

2.43 Industrial development has been carried out mainly by the public sector. Almost three-fourths of the investment in mining and manufacturing since 1960 has been undertaken by public enterprises; excluding petroleum exploration, the share of public investment amounted to 85 percent (Statistical Annex, Table 8.5). The Government has intervened directly in the industrial sector by taking control of and purchasing a large variety of undertakings which were formerly foreign-owned. As a result, by far the greater part of industrial capacity is now publicly owned.

2.44 Private enterprise in industry has been handicapped by administrative controls on investment decisions, imports and exports, foreign exchange, and prices. The import restrictions protected established producers, while the approval of domestic prices by Government authorities on a cost-plus basis has removed much of the incentive to efficiency. A further impediment to the expansion of private industry during the years before 1969 was the lack of encouragement to direct foreign investment. These aspects are examined in Chapter VII. During the years 1969 to 1972, direct foreign investment in industry averaged D 13 million per annum and mainly concerned petroleum research and development.

2.45 The industrial investment policy embodied in the "Perspectives Decennales" sought to create a nucleus of modern basic industries on which to base future industrial growth. In this way the Government set out to establish publicly owned enterprises in the public utilities sector (power and transportation), in key sectors requiring a scale of investment beyond the capacity of private enterprise (iron and steel and mining), and in cases where private industry had proved to be inadequate to meet its responsibilities (for example, textiles) or where the State wished to introduce a new activity (pulp and paper or canning). By 1972 there were about 80 State administrative agencies and public enterprises (about 50 of them in industry, mining and power).

2.46 Industrial development strategy was generally based on import substitution, with the creation of such industries as beet sugar refining, petroleum refining, textiles, mechanical and electrical industries and vehicle assembly. However, this strategy was made more difficult by factors such as the small size of the domestic market, imperfect knowledge of the market, and lack of local raw materials and of skilled workers and managers.

2.47 Employment creation, an improved level and distribution of income, and a better balance between regions were subsidiary goals of the investment program, and sometimes conflicted with the primary objectives. High salaries paid to an elite of industrial workers tended to worsen the distribution of income and increase migration to urban areas. An effort was made to disperse industrial plants in the countryside in the hope that they would become nuclei of economic activity (pulp and paper at Kasserine, sugar refinery at Beja, textiles at Hadjebel Aioun, cork at Tabarka), but their integration into the regions remained limited.

2.48 The conclusions of a study 1/ made in 1965-1966 of 20 principal new industrial investments undertaken in Tunisia since independence pointed to inadequate project preparation, which had been mainly left to foreign manuturers of capital equipment. Cost overruns averaged about 56 percent. Several projects faced problems arising from supply, operational bottlenecks and an inadequate infrastructure. Few had become fully operational by 1965. Capital-output ratios based on the theoretical capacity of the plants averaged 3.99 for the investments studied, as against a planned ratio of 2 in the "Perspectives Decennales". The actual capital-output ratio for manufacturing was 4.2 for the decade 1962-1971; it was only 3.8 if we exclude the food industries whose activity is conditioned by fluctuations in agricultural production (Statistical Annex, Table 8.9). The average cost of creating an industrial job was D 4,000 at constant 1966 prices; however, the cost varied widely from one sector to another, being much higher in the capital-intensive industries such as iron and steel and oil refining.

2.49 The substantial operating deficits of the bulk of the publicly owned industrial enterprises imposed a drain on the economy. The largest deficits were those of phosphate mining, iron and steel, and pulp and paper. If the D 26 million from the profits of petroleum operations are excluded, the net profit of state enterprises in 1972 was negligible (Statistical Annex, Table 8.10). In contrast, their share in total capital formation was very high. The gap between the gross savings and gross capital formation of state-owned enterprises was bridged by government funds and by domestic and foreign borrowing. Government transfers to public enterprises absorbed a large volume of public savings.

1/ Investissements Industriels et Developpement en Tunisie, by P. Brugnes Romier, published in Cahiers du Centre d'Etudes et de Recherches Economiques et Sociales, Universite de Tunis, Series Economiques No. 2, Dec. 1966.

Table 2.5: PRINCIPAL INDUSTRIAL INVESTMENTS UNDERTAKEN 1956-1965

Company (Creation) Location 1/	Industry	Investment 2/ ('000 D)	Employment	Investment Per Employee (Dinars)
El Fouladh (1962) M. Bourguiba (B)	Metallurgy	23,873 (14,000)	900	26,526
S.T.I.R. Bizerte (B)	Refinery	9,000 (7,400)	333	27,027
S.N.T.C. (1956) Kasserine	Cellulose	6,934	640	10,834
Hadjebel Aioun Hadjebel Aioun	Wool	5,750	750	7,667
N.P.K. (Fornade) Sfax	Fertilizer	5,678 (4,950)	400	14,195
S.T.S. (1960) Beja	Sugar	5,280	440	12,000
SOGICOT Bir Kasaa (T)	Textiles	3,827	353	10,841
Vignone Monastir (S)	Textiles	3,695	440	8,398
SOGICOT Ksar Hellal	Textiles	3,092 (1,225)	584	5,295
SOGICOT Sousse (S)	Textiles	1,525 (700)	151	10,099
Djemmal Djemmal (S)	Bricks	1,485 (280)	100	14,850
A.M.S. Sousse (S)	Mech. & Elec.	1,260 (828)	550	2,291
Industrial Zone Bizerte	(2 enterprises)	32,873 (21,400)	1,233	26,661
Industrial Zone Sousse	(6 enterprises)	9,460	1,616	5,854
Industrial Zone Tunis	(6 enterprises)	6,789	1,453	4,672
Total Country	(20 enterprises)	76,162	7,161	10,636

1/ Industrial zones of Bizerte (B), Sousse (S), Tunis (T)

2/ Figures in brackets are the original cost estimates.

Source: Investissements Industriels et Developpement En Tunisie, M.P. Brugnes, Tunis, 1966.

2.50 Prospects have brightened in several branches of industry with the rise in raw materials prices, and the financial situations of a number of enterprises will be considerably improved as a result. Moreover, in 1970 the Government set up an interministerial committee to examine the financial and technical situation of the publicly owned enterprises. The Committee has submitted its recommendations for correcting the situations of the hotel, iron and steel and textiles companies (SHTT, El Fouladh and Sogitex), and is continuing its work.

2.51 Industrial development and the new strategy for industry are examined in detail in the Annex on Industry.

3. POPULATION, EMPLOYMENT, AND MANPOWER NEEDS

A. Population and Migration

(i) Population

3.1 Tunisian demography was affected by such factors as a war fought on Tunisian soil, several major epidemics, the struggle for independence and the resultant departure of 270 thousand foreigners, the temporary residence of Algerian war refugees, and labor emigration leading to perhaps 170,000 Tunisians working in other countries. Then there are the familiar problems of the movement from a traditional, often pastoral, life into a growing modern sector. Population censuses show that the rapid growth of population began between the two world wars. By 1973 the population was estimated at 5.4 million.

Table 3.1: CENSUS RESULTS 1921-1966
(Rural Population in Percent Where Available)

1921 - 2,094,000	1936 - 2,608,000 (79.6%)
1926 - 2,160,000	1946 - 3,231,000 (74.2%)
1931 - 2,411,000	1956 - 3,921,000 (71.1%)

1966 - 4,533,000 (60.3%)

3.2 The annual population growth rate increased from 1.9 percent between 1926 and 1936 to 2.3 percent between 1956 and 1966. The non-Tunisian population decreased between 1956 and 1966, while the Tunisian population grew at about 2.6 percent per year. At the time of the 1966 census, 45.3 percent of the population was under fifteen years of age and 4.4 percent of the population was sixty-five years or older. This implies a ratio of almost one to one between population of the active and inactive ages.

3.3 On the basis of the preliminary results of the National Demographic Survey carried out in 1968 and 1969, the annual rate of natural increase in 1968 is estimated at approximately 2.5 percent, with an indicated birth rate of 40.2 per thousand and a death rate of 14.4 per thousand. From 1956 to 1972 the birth rate fell from 46.4 to 39.1 per 1000, and the death rate from 20.2 to 12.3 per 1000. It is expected by the end of the century a decline in death rates to about 6 per 1000, in birth rate to about 28 per 1000, and eventual stabilization of the population growth rate at about two percent. Life expectancy in 1968 was about 53 years and may rise to 64 years by the end of the century.

3.4 The projections madeswhen the Fourth Plan (1973-1976) was prepared are for two variants: A and B. 1/ The same target was assigned to both variants: attainment by the end of the century of Italy's present age-group fertility rates. Variant A assumes a linear decline in age-group fertility rates; Variant B assumes an accelerated decline in these rates over the period 1971-81. Variant A, which prolongs the observed evolution since 1966, has been taken to be the more probable of the two and has been adopted for the Fourth Plan. This projection produces a natural growth rate of 2.4 percent for 1971-81, declining to 2.3 percent for 1981-91 and to 1.6 percent for 1991-2001. On the basis of a 1971 population of 5.2 million, these rates yield population figures (including potential emigration) of 6.6 million in 1981, 8.3 million in 1991 and 9.8 million in 2001.

Table 3.2: OFFICIAL POPULATION PROJECTIONS 1971-2001

Year	Males	Females	Total
1971	2,537,000	2,642,000	5,179,000
1972	2,603,900	2,707,000	5,310,900
1973	2,670,800	2,771,900	5,442,700
1974	2,737,800	2,836,900	5,574,700
1975	2,804,700	2,901,800	5,706,500
1976	2,871,600	2,966,800	5,838,400
1977	2,974,900	3,041,000	5,989,500
1978	3,024,000	3,116,300	6,140,500
1979	3,100,500	3,191,100	6,291,600
1980	3,176,800	3,265,800	6,422,600
1981	3,253,100	3,340,600	6,593,700
2001	4,860,700	4,911,900	9,772,600

Source: Ministry of Planning

3.5 Other projections have been made by the U.S. Bureau of Census. 2/ There are four series calculated from 1967-2000. Projections are in Table 3.3.

3.6 The official Variant A projections are probably optimistic and should be regarded as national objectives rather than probabilities. Thus, although they take account of the effects of age structure on fertility in the years ahead they perhaps underestimate the relative size of the female 15-19 age group. Series C appears to be the most probable of the Census Bureau series, but it assumes that family planning will be well received.

1/ Note Recapitulative Sur les Perspectives d'evolution de la population et Evolution de la demographie, la Scolarisation et l'emploi durant la periode du IVe Plan 1973/1976. Ministere du Plan, 16 March 1973.

2/ U.S. Bureau of the Census, Population of Tunisia Estimates and Projections: 1967-2000 Demographic Reports for Foreign Countries Series P-96, No. 3, U.S. Government Printing Office, Washington, D.C., 1971.

TABLE 3.3: ALTERNATIVE POPULATION PROJECTIONS, 1971-2000[1/]

Series		Population	Natural Increase	Birth Rate	Death Rate
A.	1971	5,299,000	2.78	42.5	14.7
	1976	6,118,000	3.05	44.0	13.5
	1981	7,183,000	3.45	46.5	11.9
	2000	14,662,000	3.79	44.3	6.4
B.	1971	5,297,000	2.70	41.7	14.6
	1976	6,071,000	2.80	41.2	13.2
	1981	7,015,000	3.03	41.7	11.5
	2000	12,537,000	2.77	33.9	6.2
C.	1971	5,291,000	2.49	39.3	14.4
	1976	5,940,000	2.21	34.0	12.3
	1981	6,668,000	2.47	33.0	10.6
	2000	10,812,000	2.20	27.8	6.1
D.	1971	5,291,000	2.49	39.3	14.4
	1976	5,940,000	2.17	34.0	12.3
	1981	6,630,000	2.24	33.0	10.6
	2000	9,572,000	1.17	17.8	6.1

1/ The underlying assumptions for the projections were:
Series A -- Constant fertility and declining death rates, a rate of natural increase of 2.8 percent in 1970, rising to 3.8 percent in 1990; a birth rate of 42.6 in 1970 to 47.7 in 1985 to 44.3 per 1000 in the year 2000. This is a particularly pessimistic series assuming indifference to family planning. It is noteworthy that the actual growth in 1970 was 2.5 percent.
Series B -- Decline in fertility of about one percent a year. This projection assumes the present impact of the family planning program.
Series C -- Decline in fertility of about 1.5 percent a year. This projection assumes improvement in the effectiveness of family planning.
Series D -- This series shows a marked decline in fertility of about 2 percent per year.

Series C has an initial growth comparable with that of the official projections, but uses different long-range figures. At all events, if the natural increase could be held at about 2.5 percent in the present decade, and reduced afterwards, the population would no more than double. In the least favorable hypothesis, with the birth rate holding at an average 2.5 percent over the entire period, the population could reach 10,900,000 -- a million more than the present official projections.

3.7 Regardless of the accuracy of these various projections, Tunisia would need to make annual or intercensal adjustments. There is disagreement about what actually happened in the late 1960's and early 1970's, and all the population projections are "soft". The 1975 census will settle some issues, but, pending its results, a periodic household population survey would give additional data on employment, health, income and housing, and would be an invaluable guide to fiscal policy. In the absence of such surveys, empirical population data will be scarce, and for most of the 1970's the Government will have to rely on the 1966 census, poor historical data for the period before 1966, and supplemental data derived from unreliable sources such as civil registrations of births and deaths.

(ii) Internal Migration 1/

3.8 The distribution of population in Tunisia reflects differences of regional resources and methods of cultivation: in the north and east, there is a fertile coastal plain with settled villages, commercial life in urban centers and specialized agriculture; in the center there is a relatively dry plateau on which, outside a number of irrigation perimeters, low-density farming and stockraising are carried on; and in the south, largely waste also traversed by nomads, a settled population is found only in oases and on the island of Djerba.

3.9 Before independence economic forces had stimulated internal migration. Nomads moved toward the north and east, and many settled down. The oasis population declined as the cross-Sahara traffic came to an end. Djerbiens, oriented to coastal trade, began to disperse to towns and cities. The modernization of many sectors created a new division of labor and new centers of growth. Since independence migration has accelerated and has been influenced by (i) extended periods of drought in the center and south, (ii) chronically low wage levels in agriculture, and (iii) modern sector opportunities in coastal cities, particularly as education levels rose and middle and high level jobs were vacated by foreigners.

3.10 The main flow of internal migration has been towards Tunis and its suburbs. From 1931 to 1966 the population of Greater Tunis grew from 230,500 to almost 650,000, or by 275 percent, and from 1966 increased by another

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1/ Michel Picouet, "Apercu des migrations interieures en Tunisie "Population, March, 1971. The migration and regional growth analysis is based on Picouet's work and on data furnished by the National Statistics Institute (INS).

250,000 to an estimated 900,000 in 1972. In 1966, 36 percent of all people living in the Tunis governorate had come from some other region. Out of every 100 migrants in Tunis, 36 had come from Beja-Jendouba-Le Kef and 10 from Medenine, all basically rural areas, while 19 had come from Sousse/Sfax, 18 from Bizerte/Nabeul, 10 from Gafsa/Gabes, and 8 from Kasserine/Kairouan, all essentially urban areas. Tunis as an economically integrated and diverse city, surrounded by rich and varied farmland, attracts rural and urban population from all over the country and is only a day away by bus from everywhere else in Tunisia. Outside Tunis there are five centers which attract migrants: Bizerte (industry, refining); Nabeul (agriculture and tourism); Sfax (phosphate refining, chemicals, olives and shipping); Gafsa (mining); and Sousse (trade, manufacturing). There has also been internal migration to certain urban centers that constitute stages in the general migratory movement.

3.11 There are several types of movement. The wandering of the desert Bedouin has almost ceased. However, there are also nomads and semi-nomads differentiated from the Bedouin by attachment to an ancestral place and to agriculture. Sometimes there is a traditional pattern of movement towards some source of employment, i.e. harvesting or even a family occupational outpost in a city. The movement is controlled and conscious. The migration of single men is characteristic, as is their ultimate return to the village of their birth. A third kind of movement, and a twentieth century phenomenon, is total rural displacement.

Table 3.4: POPULATION BY ZONE AND REGION

	1936	1946	1956	1966
		Percent		
LITTORAL ZONE				
Northeast (Tunis, Bizerte, Nabeul)	21.9	28.5	29.7	31.3
Sahel (Sousse, Sfax)	23.0	20.6	20.3	20.9
NORTH-CENTRAL PLATEAU				
Haut-Tell (Beja, Jendouba, Le Kef)	22.2	20.6	21.4	19.6
CENTER (Kasserine, Kairouan)	12.2	10.4	10.1	10.9
SOUTH (Gafsa, Gabes, Medenine)	20.7	18.9	18.5	17.0

Source: Picouet, p. 126.

3.12 The northeast has grown at the expense of all other regions, and Tunis at the expense of all other governorates. From 1966 to 1971 the population of Tunis grew at an estimated 4.0 percent per annum. The population figures for the governorates for 1966 and 1971 show that less than average growth was achieved by Beja, Jendouba, Le Kef, Medenine, Gabes, Sfax and Sousse. The rest grew slightly more than the average, except for Tunis North, which clearly eclipsed the others with a 4.0 percent annual increase. Table 3.5 shows net migration gains and losses from 1966 through 1970.

Table 3.5: NET MIGRATION GAINS AND LOSSES BY GOVERNORATE, 1966 THRU 1970

Tunis North	+ 50,950 /1	Gafsa	+ 799
Tunis South		Medenine	- 8,600
Bizerte	+ 1,202	Gabes	- 3,231
Beja	- 8,429	Sfax	- 3,560
Jendouba	- 5,892	Kairouan	- 1,176
Le Kef	- 7,928	Sousse	- 15,496
Kasserine	+ 615	Nabeul	+ 746

/1 The Government of Tunis South did not exist in 1966; it has been assumed that it had a net migration balance of zero.

Source: Picouet, p. 126.

3.13 A straight extrapolation of the population for 1981 (Table 1.2, Statistical Appendix) presents no surprises. If the trend of natural growth plus migration continues, the northeast governorates of Tunis-North, Tunis-South, Bizerte and Nabeul would contain 2,368,500 persons, or 36 percent of the total population, in 7 percent only of the country's total land area.

3.14 This accelerated and uneven urbanization will create problems of urban planning and development and make it difficult to encourage skilled manpower to return to rural areas in the absence of new incentives. There is a need to examine seriously the consequences of a continuation of the present laissez-faire attitude towards internal migration. This could well bring in its train regional concentration and urbanization, a general shortage of labor in agriculture which would particularly affect subsectors requiring intensive cultivation, and an excessive emigration of workers to foreign countries.

(iii) External Migration

3.15 When the First Plan was prepared in 1961, only a few thousand Tunisians had obtained work abroad, and no significant increase was forecast. By the end of the First Plan the number abroad was probably less than 30,000. By the end of 1972, it was estimated that there were about 170,000 males and a total of some 200,000 persons abroad. Estimates derived from remittances indicate a figure nearer 200,000 males. In 1972 the distribution of workers going to various countries was as follows: France, 52 percent; Libya, 36 percent; Germany, 9 percent; Netherlands, 0.8 percent; Switzerland, 0.8 percent; and others, less than 1 percent. The age breakdown of workers leaving in December 1972 was: (i) less than 20 years old, 6 percent, (ii) 20-29 years old, 55 percent; (iii) 30-39 years old, 28 percent; (iv) 40 years and older, 11 percent. In 1961, the remittances sent home by workers were too small to appear in the balance of payments. In 1967, they were D 6 millions, and in 1972 amounted to D 26 millions, ranking fourth after tourism, petroleum and olive oil as a source of foreign exchange.

3.16 The Office de la Formation Professionelle de l'Emploi 1/ reports the following numbers of Tunisian male workers going abroad: 1970, 13,808; 1971, 14,658; 1972, 16,319. However, this clearly understates the numbers. Unofficial emigration appears to be substantial, especially to France and Libya where Tunisians enjoy language advantages. French authorities state that in 1972 about 38 percent of Tunisian workers were "qualifies" or "specialises", i.e. had some skill and education, as opposed to 25 percent for other foreign workers.

3.17 The Tunisian Government expects a yearly emigration of 15-18,000 workers to Europe to continue through the period of the Fourth Plan and beyond. This is a reasonable expectation, at least until the end of the decade. Over 5 million emigrant workers from southern European and Mediterranean countries are at present working in Germany, France, Switzerland and other countries. While there have been slowdowns from time to time, and economic, social and political objections have arisen in host countries the Tunisian traffic is probably not in danger of serious curtailment, especially considering the possibilities in Libya. In any event, a transfer could well take place of European industries to labor-surplus countries. Tunisia has already oriented its policy with this in mind by creating incentives and "host" structures for foreign investment on its territory.

3.18 The movement of Tunisian workers needs to be brought under effective control as soon as possible, regardless of decisions as to its future. Training on Tunisian soil, which is conducted by OFPE, is already increasing the numbers of trained personnel and thereby helping in the finding of suitable jobs in the host country. Some attempt needs to be made to improve the benefits Tunisia gains from exporting workers by laying stress on training and experience, to be acquired in host countries, of a kind useful to Tunisia, and on participation by those countries in prior training of workers in Tunisia itself.

B. The Labor Force

3.19 The published Tunisian data on the labor force are still inadequate. There are three main reasons for this:

(a) The authorities began their collection of data on the labor force only recently, and methods of collection and classification have still to be established.

(b) The labor force is dominated by non-skilled workers, many of whom tend to shift from job to job according to demand. This movement is particularly marked between agriculture and the rest of the economy, and makes it difficult to determine the occupational distribution of the labor force.

1/ Office des Travailleurs Tunisiens a l'Etranger, de l'Emploi et de la Formation Professionnelle, Tunis (formerly OFPE): Situation du Marche de l'emploi, p. 6 (mimeo).

(c) In peasant areas it is difficult to determine the size of the labor force because of temporary work and the existence of family aids.

Table 3.6: POPULATION AND LABOR FORCE PARTICIPATION, 1966

	Total Population	Population of working age	Labor Force	Labor Force Participation	Labor Force as percent of total population
Males	2,314,000	1,230,000	1,027,000	83.5%	44.4%
Females	2,219,000	1,203,000	317,000/1	26.3%	14.9%
TOTAL	4,533,000	2,433,000	1,344,000	55.2%	29.6%

/1 Adjusted for comparability with earlier years to include 250,000 family aids in agriculture.

Source: 1966 Census, Part 3, Economic Characteristics.

3.20 Table 3.6 shows the high ratio of male to female employment and the low ratio of labor force to total population. Each member of the labor force has more than three persons to support and, if the unemployed are excluded, the number supported by each working member is five, against less than three for more advanced countries. The relatively high ratio of male employment is mainly due to the very small proportion of old and retired people. The average life expectation is about 55 years and, except for those, mainly employees of government or big businesses, for whom there is a compulsory retirement age, most of the men remain in the labor force until they become too old to work. Consequently, the census counted only 53,000, or about 4.3 percent of males of working age, as old and retired males.

(i) Employment By Sector

3.21 The results of the population survey of 1956 and the census of 1966, particularly those for the agricultural sector have been adjusted to obtain a comparable series in Table 3.7, including an estimate of the distribution of the labor force among the different sectors of the economy in 1972. The employed population was affected by the departure of some 70,000 foreign male and some 20,000 foreign female workers following independence, which left a gap (largely filled by Tunisian men, but to some extent by Tunisian women), by the emigration of male workers, and by the increase in the number of males and females of working age receiving training.

Table 3.7: DISTRIBUTION OF EMPLOYMENT BY SECTOR /1

	1956		1966 /2		1972	
	Number (000)	Percent	Number (000)	Percent	Number (000)	Percent
Agriculture and Fishing	955	73.6	844	62.8	800	57.7
Mining and Quarrying	17	1.3	19	1.4	19	1.4
Manufacturing	90	6.9	117	8.7	171	12.3
Construction and Public Works	33	2.5	67	5.0	59	4.3
Electricity, Gas, Water	3	0.2	5	0.4	6	0.4
Transport and Communication	31	2.4	43	3.2	43	3.1
Services	168	13.1	249	18.5	289	20.8
Totals	1,297	100.0	1,344	100.0	1,387	100.0
Of which:						
Males	923	71.2	1,027	76.4	1,047	75.5
Females	374	28.8	317	23.6	340	24.5

/1 The distribution by sex and sector is shown in Statistical Appendix 1.4.
/2 Includes 167,000 recorded as unemployed.

Source: 1966 Census, Part 3, Economic Characteristics.

3.22 The most interesting development is the absolute decline in the agricultural labor force. The number of males in this sector appears to have fallen from 620,000 in 1956 to 550,000 in 1972, while the proportion of the total male labor force declined from 67 percent to 48 percent. The change in proportions between 1956 and 1972 reflects the decline of the agricultural sector, and the rapid growth of manufacturing, construction and services. The absolute figures are less meaningful, and conceal the underemployment of seasonal and temporary workers, and the unusual role of female employment. Female employment trends are concealed by the generally downward tendency of the number of family aids. But female employment would have grown faster (5.5 percent a year) in the non-agricultural sectors than male employment (3.1 percent), particularly in the last six years. Female employment has also been concentrated in textiles, commerce and services, where (except for commerce) total employment has also tended to grow fastest.

3.23 Since 1956 there has been a considerable change of attitude towards female employment, mostly due to the official campaigns which accompanied the legal reforms of 1957 forbidding polygamy and giving women a civil status equal to that of men. Over the same period there has also been a rapid increase in the number of females receiving secondary and higher education, and in the opportunities for their employment. However, despite the opening of

new fields of employment to women, opportunities for women outside agriculture are still limited.

3.24 These series suggest that over the 16-year period 1956-1972 non-agricultural employment grew by 3.5 percent a year. The figures for the two periods 1956-1966 and 1966-1972 are not fully comparable because the 1966 figures include 167,000 persons reported unemployed and may be underestimated in some sectors. 1/ However, it is probable that most of this unemployment was in agriculture, and comparison of the figures for non-agricultural employment suggests that growth was faster in the first ten years than in the last six. The figures indicate that since 1966 there has been no growth in employment in mining, power and transportation.

3.25 The growth of services, which constituted some 50 percent of the total increase in the non-agricultural sectors, was largely due to the increase of central and municipal government employees from about 50,000 in 1956 to 117,000 in 1972; this development is in turn largely explained by the substantial increase in education and health services staffs. Tourism development also contributed to direct creation of about 18,000 jobs in the sector from 1961 to 1971.

3.26 Manufacturing continues to occupy a relatively modest place in the labor force. Taking males and females together the share of this sector in the labor force rose from about 7.0 percent in 1956 to 12.3 percent in 1972. This sector, which is dominated by textiles and food processing, has a greater proportion of female workers than any other sector. More than 40 percent of the female labor force was in this sector in both 1956 and 1972, against 7.7 percent for males in 1956 and 12.0 percent in 1972. With activity depending on agricultural output, employment is extremely seasonal and may significantly change from a year to another.

(ii) Employment by Occupation

3.27 The census of 1966 gives the following distribution of labor force by occupational activity.

1/ Both total labor force and employment may have been underestimated (Table 1.6, Statistical Appendix). For instance, other sources indicates 130,000 employed in manufacturing in 1961.

Table 3.8: OCCUPATIONAL GROUPS BY SEX AND RURAL PROPORTIONS, 1966

Occupational Group	Total	Male	Female	Group As % of Total Reported	% Living In Rural Areas
Administrative, liberal and technical professions	43,913	36,302	7,611	4	23
Supervisory personnel	7,222	6,970	252	1	18
Office employees	29,757	24,434	5,323	3	14
Traders and sales personnel	59,482	58,450	1,032	5	32
Agricultural workers	424,852	416,839	8,013	39	86
Miners	19,609	19,537	72	2	67
Qualified Transport and Comm. Workers	28,627	28,052	575	3	24
Laborers and Artisans	351,356	323,179	28,177	32	47
Qualified Service and Sport Workers	64,430	52,417	12,013	6	25
Not elsewhere classified	64,480	61,079	3,401	6	43
Unknown	7	7	-	-	-
TOTAL	1,093,735	1,027,266	66,469	100	57

Source: 1966 Census.

3.28 The highly qualified occupational groups are small in size and concentrated in urban areas. For example, 647 doctors and dentists were reported, giving the low ratio of one per 7,000 persons in the population. More than half of this group lived in Tunis. At the other end of the scale are persons with little or no skill. Laborers, artisans and agricultural workers formed two thirds of the labor force. Some occupations in this group obviously require some skill, but the data throw no light in this point.

(iii) Regional Employment

3.29 Statistical Appendix 1.5 shows the unadjusted 1966 industrial distribution of employment by governorate. More than half of all employment in manufacturing, construction, retail and wholesale trade, transportation and almost half in services was in the governorates of Tunis, Sfax and Sousse. The distribution of agricultural employment is fairly uniform despite wide population differentials. The governorate of Nabeul, with the highest rate of agricultural-employment, has a little more than twice as many farm workers as the Medenine. Other than the sheer weight of Tunis employment in the non-agricultural sector, the only noticeable exception in this distribution is in mining, Gafsa claiming 9,402 miners because of the phosphate mines. Tunis accounts for 55 percent of employment in services, against an average outside Tunis of 25 percent.

(iv) Unemployment and Underemployment

3.30 Probably the weakest point in the population census of 1966 is the measurement of unemployment. It is pointed out that persons were declared unemployed who had not worked during the preceding month; this happened to be April, a month of relatively low seasonal activity. This census gave the following unemployment figures:

Table 3.9: UNEMPLOYMENT, 1966 CENSUS

Sex	Urban	Rural	Totals	% of Labor Force
Males	53,000	105,000	158,000	15.3
Females	6,000	3,000	9,000	13.5
Totals	59,000	108,000	167,000	15.2

Source: 1966 Census, Part 3, Economic Characteristics.

Table 3.10: MALE UNEMPLOYMENT BY OCCUPATIONAL CLASSIFICATION, 1966

Profession	Number	% of Group
Laborers and Artisans	71,800	22.2
Non-determined	39,300	64.3
Agricultural	35,600	8.5
Qualified personnel in services and sports	2,900	5.5
Salesmen	2,700	4.6
Qualified personnel in transport & communication	1,600	5.7
Office employees	1,500	6.1
Miners and quarrymen	1,100	5.6
Administrative, liberal, & technical professions	1,100	3.0
Totals	158,000	15.3

Source: 1966 Census, Part 3, Economic Characteristics.

3.31 One surprising feature of Table 3.10 is the low figure for agricultural unemployment, though rural male unemployment was given as twice as high as that in urban areas. However, a large proportion of the unemployed classed as laborers and artisans should be attributed to agriculture. The same also applies to those who were undetermined.

Table 3.11: UNEMPLOYMENT BY AGE GROUP, 1966

Age Group	Percent
15-19	39.1
20-24	16.3
25-29	13.2
30-34	11.8
35-39	10.9
40-44	10.7
45-49	11.1
50-54	12.2
55-59	13.6
60-64	15.0
65-over	17.0

Source: 1966 Census, Part 3, Economic Characteristics.

3.32 The distribution curve of unemployment by age group is similar to those for other countries. The very high ratio for the age group 15-19, and to a less extent the 20-24 group, was due mainly to the effect of new entrants to the labor force who were still looking for their first job. The census recorded 36,300 unemployed who were still looking for their first job; of these, 75 percent were in the 15-19 group, and 18.3 percent in the 20-24 group. In other words, 70.7 percent of the unemployed in the age group 15-19 and 31.5 percent in the age group 20-24 had not been previously employed. Most of the unemployed in the age group 15-19 were primary school leavers and drop-outs from secondary schools who tend, on the one hand, to be insufficiently educated to do non-manual work, and on the other hand to lack experience for manual jobs. As far as the other age groups are concerned, rates of unemployment have been lowered by the inclusion of men working in food-for-work projects (work relief program, para 3.51) among the occupied. There were at the time of the census some 80,000 men working in these projects. From then on this number has been reduced to 15,000 in 1972.

3.33 Employment in Tunisia is considerably influenced by agriculture. Total male unemployment, taking into account food-for-work projects and similar measures, has been of the order of 200-250,000 since 1960. It has risen as high as 350,000 in bad years, such as 1960 and 1961, and fallen to less than 150,000 in 1972. These fluctuations in unemployment tend to be quite severe in the rural areas, particularly those of the interior and the south. But urban unemployment also tends to be affected by the fluctuations in agricultural income and employment, the sectors most affected being services, commerce, transport and construction.

3.34 In addition to this high level of unemployment, the Tunisian economy is troubled by widespread underemployment. This takes two forms, irregular and few working days per month, and underutilization of energy during working time. Although the census throws no light on underemployment, the resulting waste is

probably greater than that due to irregularity of employment. Underutilization of labor is quite apparent, not only in agriculture, but equally so in services, commerce, and transportation.

3.35 Official estimates to measure unemployment and underemployment are based on an estimate of the labor force from which is subtracted the estimates of current employment, as reported by employers. For the end of 1972, the result was as follows:

Male Labor Force	1.180.000
- Agriculture	550.000
- Other Sectors	630.000
Employment (permanent or seasonal)	1.047.000
- Agriculture	550.000
- Other Sectors	497.000
Male Unemployed	133.000

The Plan estimates that there are 334,000 seasonal and temporary workers, including 250,000 in agriculture and 84,000 in other sectors. Male unemployment and underemployment therefore would total about 470,000. In relation to total male labor force, the rate of male unemployment would be 12% percent; however, comparing the figure of 133,000 unemployed to the labor force in non-agricultural sectors, the rate of unemployment would be 21 percent. 1/ It is stressed that these assessments of the employment situation are only approximate, particularly in the case of agriculture, for which there are no complete statistics beyond the 1966 Census and in which it is difficult to draw a firm line between permanent and seasonal employment.

3.36 As regards female employment, the 1972 estimates show about 250,000 women working in agriculture, as family aids, 47,000 in industry and textile handicrafts and 43,000 in services and government. Thus, the female labor supply is only a quarter of the theoretical demand.

3.37 The official estimate put the permanent working population in agriculture at 800,000 in 1972, of which 300,000 male permanent workers, 250,000 male seasonal workers and 250,000 women (family workers). Using an estimate of the number of days of work (Table 3.12), the theoretical number of fully employed people would be 420,000 and 380,000 people would be underemployed.

1/ The distribution of sector of the estimated 133,000 unemployed is not known, but the method of calculation implies that they are in non-agricultural sectors.

Table 3.12: AGRICULTURAL LABOR FORCE IN 1972

		Estimated Work Year in Months	Fully Employed (250 or More Days of Work a Year)	Under-employed
Owner-operators	344,000	6.9	172,000 (1/2)	172,000
Unpaid family workers	250,000	4.3	63,000 (1/4)	187,000
Farm workers	206,000	10.0	185,400 (9/10)	20,600
	800,000	21.2	420,400	379,600

3.38 Taking the above figures in agriculture, a reasonable approximation of total unemployment and underemployment in all sectors would then be as follows (Table 3.13):

Table 3.13: ESTIMATED EMPLOYMENT, UNDEREMPLOYMENT AND UNEMPLOYMENT, 1972

Total labor force /1	1,520,900
- of which: Labor force in agriculture	800,000
Fully employed in agriculture /2	420,000
Underemployed in agriculture /2	380,000
Fully employed in other sectors	503,000
Underemployed in other sectors	**84,000**
Unemployed	**133,000**

/1 Theoretical male labor force 1,180,000; add 340,000 women actually employed.

/2 Including female workers.

Total unemployment and underemployment could reach as high as 600,000 workers, nearly 40 percent of the labor force 1/ including women actually working, or 2 out of 5 Tunisian workers. Excluding the agricultural sector, unemployed and underemployed would amount to 217,000 workers or 30 percent of total labor force in non-agricultural sectors. Comparing the figure of 133,000 unemployed to total labor force - including women actually working - 720,000 workers - the rate of unemployment would be 18 percent only; however, this rate is underestimated since the figure of 133,000 unemployed include men only, assuming that supply equals demand for female employment.

3.39 The unemployment of literate persons presents a special problem. "Dropouts" from secondary school were estimated at about 26,000 males in 1970, with another 12,000, 15 and older, who left the fifth and sixth grades. About 13,000 females also dropped out in 1970. Of the unemployed reported in 1966, about 30 percent had never worked before. Of all unemployed workers reported in 1966, about 5 percent were considered to have some skills. More recently, unemployment among the educated has grown, and there is evidence that lycee and university graduates may be unqualified for the available professional work. The Ministry of Social Affairs is trying to deal with this problem by providing vocational training for school leavers, and perhaps a quarter of them have received further training for the job market.

3.40 Regardless of the degree of accuracy of the above figures it is clear that this pattern of human resource allocation merits high priority in the formulation of development programs and policies. With this underutilized section of the labor force are associated the structural problems which are common to a large number of developing countries. On the one hand there is a rapid growth of labor force, on the other hand there is limited capacity for employment creation in agriculture, seasonality of rainfed farming, difficulties for accelerating training of skilled workers and insufficient occupational and social mobility despite important social programs in health and education. However, this half million should furnish a target for a vigorous employment policy. In this connection, the Fourth Plan provides for a large effort in the creation of manufacturing jobs (Section D).

1/ By comparison, a government commissioned study, L'emploi en Tunisie en 1961 et 1971, Secretariat d'Etat au Plan et aux Finances, Tunis, 1964, estimated the theoretical labor needs of the economy as follows, in the light of the planned investment objectives:

	1961	1971
Agriculture	344,000	410,000
Other Sectors	273,000	450,000
Redundant	419,000	400,000
Total	1,036,000	1,260,000

The theoretical requirements for agriculture were estimated on the basis of 250 annual working days per man, and the absolute increase between 1961 and 1971 was due to the expected extension of irrigated areas and tree cultivation, which are more labor-intensive.

C. Government Bodies and Employment Functions and Policies

(i) General

3.41 Tunisia has taken a series of actions in the employment field which constitute elements in an employment policy: measures to improve education and vocational training, establishment of employment exchanges, work relief programs, employment standards and wage directives and its own current expenditure and investment, which enable the Government to exert a powerful influence on the level and composition of employment. As in most other countries, however, developed or undeveloped, there is a lack of coordination and a diffusion of responsibility which leaves the unemployed without a natural spokesman.

3.42 The Ministry of Social Affairs is responsible for the administration of employment services, manpower training outside the formal school system, labor inspection and social insurance. Within the Ministry the chief manpower body is the Office of Vocational Training, Migration and Employment (OFPE) 1/, which administers employment exchanges, conducts a wide variety of training programs, and supervises external migration. A number of ministries, including the office of the Prime Minister, the Ministries of Public Works and Housing, Youth and Sports, Public Health, National Defense and Interior, train personnel in formal schools to meet their own needs.

3.43 There are several national consultative bodies, including the Economic and Social Council, a National Labor Committee and a National Council on Vocational Education and Employment. Organized labor is represented by the Union Generale Tunisienne du Travail (UGTT) and there are several employers' organizations, notably the Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA), and several Chambers of Commerce.

(ii) Placement Activities

3.44 A Placement Bureau within OFPE maintains offices in every governorate and every sizeable town where the unemployed register and are occasionally referred to local jobs, especially relief work. These offices appear, however, to be mainly engaged in processing workers for overseas employment. Although required to use the exchanges, employers make little call on them except for skills hard to find locally and marginal jobs with high turnover, low wages, poor working conditions, or intermittent demand. This is in line with experience in other countries. It is difficult to get employers to list jobs and, even when they do, they usually ignore referrals.

(iii) Training Activities

3.45 The OFPE is an important training institution, with a program for training about 67,000 persons during the period 1973-1976, of whom 13,000

1/ Until recently the Office de Formation Professionnelle et d'Emploi (O.F.P.E.), now L'Office des Travailleurs Tunisiens a l'Etranger, de l'Emploi et de la Formation Professional. "OFPE" is used in the text.

will be apprentices and 12,000 in the pre-apprentice stage. The training provided is mainly in the skills in demand in industry; none of it is for the agricultural sector, and only one small program deals with the repair of agricultural equipment. Ten of seventeen centers for adult training are in or near Tunis. Centers for training construction workers are more scattered, the majority being far away from Tunis.

3.46 About two-thirds of OFPE's annual intake consists of primary and secondary school dropouts, so that its effectiveness in supplying industry with skilled manpower is limited by a less than ideal selection process, and there is a danger that the dropouts will drop out again, so that the stream of trained workers will be smaller than it could be.

3.47 Thus, in Tunisia as in many other countries, vocational education tends to be regarded as a remedial catch-all for those rejected by the formal school system. The irony is that trainee costs under vocational education programs are likely to be more expensive than classroom costs. The return, however, is potentially high, provided that initial selection brings in well-motivated youth. Because of Tunisia's highly competitive school system, many of the so-called "drop-outs" may really be "push-outs", and though adequately motivated not necessarily vocationally suited.

3.48 Manpower training in Tunisia should be associated more closely to economic objectives and to social needs. The existing manpower training structure in Tunisia could without difficulty place annually 20,000 or more qualified workers. The training periods are not so long that employers could not contract in advance for workers, and identify their specific needs turning the candidates over to OFPE for training.

(iv) Relief Work - The "Chantiers de Lutte Contre le Sous-Developpement"

3.49 In the years immediately following Independence, Tunisia experienced economic difficulties which were reflected in serious unemployment, especially in agriculture. Unemployment was estimated at 14 percent of the labor force, while under-employment was estimated at about 30 percent. The Tunisian Government applied for aid from the United States, which sent an emergency shipment of 45,000 tons of food which was used to establish a large program of "food for work" projects to provide emergency relief. In December 1958 the President described the food-for-work program as the "Lutte Contre le Sous-Developpement" (LCSD). In 1959 the responsibility for the program was transferred from the Ministry of Social Affairs to the Ministry of Finance and Economics, and from 1962 onwards the program was integrated in the economic investment plan of the country, and the cash allocation formed part of the investment budget of the Government. In addition to the food costs of the program there was considerable cash expenditure on the part of the Tunisian Government. In 1963 the program was divided into national and regional programs. The Ministry of Agriculture was made responsible for the national program, which consisted of forestry and water and soil conservation projects, while the regional program continued under the direct control of the Governors. The regional program covered development work programs, the "service civil" providing a program of training for youth drop-outs from primary education, and the "special program" providing major hospitals and two youth centers with the manual workers to take care of the grounds, gardens and paths.

Table 3.14: ESTIMATED ANNUAL EMPLOYMENT IN WORK RELIEF PROGRAMS

Year	Workers 000	Man/days millions	Year	Workers 000	Man/days millions
1958/59	118	29.5	1966	65	16.3
1960	124	31.0	1967	80	20.4
1961	222	55.4	1968	65	16.5
1962	232	57.9	1969	70	18.5
1963	141	35.3	1970	65	16.5
1964	120	28.0	1971	34	8.5
1965	103	25.8	1972	15	3.8

Average Workers 1958-72: 104

Source: OFPE and USAID

3.50 Employment provided under the LCSD rose from the equivalent of 118,000 in 1958 to a peak of 232,000 in 1962 and then dropped steadily to an average of some 65,000 from 1966 to 1970, and then falling in successive stages to 15,000 in 1972. The cost of the investment program totalled approximately D 150 million from 1958 onwards, and accounted for some 15 percent of the Government's total capital budget throughout the 1960's.

3.51 A feature of the program was the development of projects where the unemployed were to be found and where the work itself was needed and could be accomplished using the tools, materials and skills available. This was a promising approach, but the lack of adequate project planning, low wages and the lack of suitably qualified and motivated supervisory staff, doomed the program to failure except in the sense that food and money found its way into the hands of those in need of it. The part played by LCSD in agricultural investment is described in Chapter II.

3.52 Labor was often gathered through employment exchanges, but word-of-mouth was equally effective. The usual payment was a daily wage of flour and sometimes cheese and milk powder, and cash. Generally, a worker received 200 millimes and 1-1/2 kilograms of semolina flour a day, but the wages varied from time to time. The present combination of cash and flour is estimated as worth about 500 millimes, which is four-fifths of the agricultural minimum wage.

3.53 In 1973 the program seems to be at a crossroads. The total budget item for cash support was about D 2,600,000 and flour allocations were about 21 million tons, compared with more than D 18 million and 108 million tons of grain in 1962, when about 232,000 men were employed, (Table 3.14). About 15-20,000 men are now employed at any one time. Although the Government has recently carried as much as 80 percent of the financing, the future of the program in its present form is not clear, in view of the fact that under the Fourth Plan D 40 million has been set aside for rural development under various headings. In any event, however, the principle of providing employment with wages in cash and kind for necessary and appropriate development projects

in the rural areas should not be lightly discarded. Such projects could take the form, for example, of integrated rural development projects or rural housing. Such a program could be successful if it were organized as an element of an integrated development program for the region and administered by a competent team of specialists, and if provision were made for a brigade of skilled workers to complement and reinforce the activities of the majority of unskilled participants in the scheme, and for payment of a normal incentive wage.

D. Job Creation and Manpower Needs

3.54 While the Government has made the creation of employment one of the objectives of its Fourth Plan, it has placed over-riding emphasis on the role of the non-agricultural industrial sector as the primary source of growth and the principal field for employment creation, both being determined by the level of investment. Agricultural output has been regarded as a function of effective demand and weather rather than investment. While the choices made in the area of agriculture, particularly the irrigated farming, livestock and fishery sectors, are evidence of a determination to reduce underemployment, insufficient consideration has been given to the potential labor absorptive capacity of all sectors of agriculture. The potential for creating new jobs through an expansion of the service industries outside Tunis has also been under-estimated.

(i) Job Creation and the Fourth Plan

3.55 Over the period of the Fourth Plan, jobs in the non-agricultural sector are projected to increase by some 119,000, i.e. 29,750 a year. While mining and agriculture are projected to show no growth, overall employment is expected to increase by 8.6 percent over the 1972 level of 1,387,000. These represent calculations of what employment can be expected to result from an investment program based on overall and sector growth targets rather than objectives of a program for employment creation. One out of four new jobs will be for women.

3.56 Table 3.15 shows the expected distribution of the new jobs to be created by the Fourth Plan.

3.57 For the period covered by the Fourth Plan a net growth in the active-age population 15-64 years) is projected of 384,000 (195,000 men and 189,000 women); of these 46,000 will be in the training institutions. The proportion of women of economically active age that will actually enter the labor market is estimated at 20 percent of the total of women not undergoing education. The incremental employment demand would thus be 163,000 males and 35,000 females. On this basis the employment position in 1976 would be as follows:

TABLE 3.15: 1972 EMPLOYMENT AND NEW JOBS CREATED FOR 1973-1976 BY INDUSTRY AND BY SEX

Industry	1972 Total Employed	New Jobs (1973-1976) Total	Male	Female	Percent Change 1973/76	Projected Employment in 1976
Agriculture, forestry and fishing	800,000	-	-	-	0	800,000
Mining and energy	25,300	-1,200	-1,200	-	-4	24,100
Mining	19,000	-2,000	-2,000	-	-10	17,000
Energy	6,300	800	800	-	+13	7,100
Manufacturing	171,000	40,800	21,400	19,400	+24	211,800
Food Processing	35,600	3,300	3,100	200	+ 9	38,900
Textiles, clothing and leather goods	79,000	27,000	8,000	19,000	+34	106,000
Wood Products, Cork and Furniture	9,200	1,500	1,500	-	+16	10,700
Paper and printing	7,700	3,000	2,900	100	+39	10,700
Chemicals and Rubber	7,600	1,000	1,000	-	+13	8,600
Construction materials	18,200	3,500	3,500	-	+19	21,700
Metals and metal Products	13,700	1,500	1,400	100	+11	15,200
Construction	59,000	19,000	19,000	-	+32	78,000
Services	331,400	60,100	50,100	10,000	+18	391,500
Transportation and Warehousing	42,900	6,100	5,800	300	+14	49,000
Tourism	19,900	13,600	12,100	1,600	+68	33,500
Commerce, Banking, Insurance	83,000	10,000	9,000	1,000	+12	93,000
Public Administration	116,600	19,400	17,200	2,200	+17	136,000
Other Services	69,000	11,000	6,000	5,000	+16	80,000
TOTAL	1,386,700	118,700	86,400	29,400	+ 8.6	1,505,400

Source: Ministry of Plan

Table 3.16: PROJECTED LABOR FORCE AND EMPLOYMENT, 1976

	1972	Growth	1976
Labor force	1,520,000	198,000	1,718,000
Males	1,180,000	163,000	1,343,000
Females	340,000	35,000	375,000
Employment	1,387,000	119,000	1,506,000
Emigration	(170,000)	60,000	(230,000)
Unemployment	133,000	19,000	152,000
Underemployment:			
Agriculture	380,000	-20,000	360,000
Other Sectors	84,000	- 4,000	80,000
Total unemployment and underemployment	597,000	- 5,000	592,000

Source: Ministry of Planning

3.58 Thus, with emigration estimated at 60,000 (15,000 a year), the net growth of unemployment over the period of the Four-Year Plan would be 19,000. Assuming, as it is in the Fourth Plan, that the increase in labor force - 198,000 workers - would be in non-agricultural sectors, the rate of unemployment would reduce from 18.5 percent to 16.5 percent. Considering male labor force only, the rate of unemployment would reduce from 21 percent to 19 percent (See para 3.39 and 3.40). With a projected slight fall in agricultural underemployment -- through fishery and truck-crop development and the institution of rural animation programs --total unemployment and underemployment would continue to reach about 600,000 in 1976. However vulnerable these estimates may be -- the total 1976 labor force, in particular, may have been underestimated -- they suggest that little progress in dealing with the problem of unemployment and underemployment can be expected over the period 1973-76.

(ii) Manpower Needs of the Fourth Plan

3.59 To determine the occupational needs of the Fourth Plan by industrial branch, the Government regroups industries into three classes according to the proportion of unskilled workers. Group I is 55-70 percent unskilled; Group II is 35-55 percent unskilled; and Group III is less than 33 percent unskilled. A four-tier occupational grouping was devised because of the limited value of census categories:

Category A - Managerial, professional and technical employees
Category B - Office and salaried employees
Category C - Skilled workers
Category D - Unskilled workers and apprentices

In 1972 the industrial structure was divided as follows:

Table 3.17: PERCENT DISTRIBUTION OF INDUSTRY, CONSTRUCTION, TRANSPORTATION AND TOURISM BY OCCUPATIONAL GROUPS, 1972

Group	Industry Branch	A	B	C	D
I	55-70 Percent Unskilled				
	Mining	1.1	6.3	23.6	69.0
	Food processing	2.7	6.0	31.5	59.8
	Chemicals and rubber	4.6	13.0	23.1	59.3
	Construction materials	2.6	6.4	36.1	54.9
	Construction	1.1	2.2	38.0	58.7
II	33-55 Percent Unskilled				
	Textiles and clothing	3.1	8.3	55.3	33.3
	Wood, cork, furniture	4.6	5.6	24.0	35.8
	Paper, printing, misc.	5.0	12.6	39.6	42.8
	Metals and metal products	4.6	10.8	39.6	45.0
	Transportation	1.7	17.0	45.0	20.0
III	Less Than 33 Percent Unskilled				
	Petroleum and fuels	6.5	17.5	44.7	31.3
	Electricity, gas, water	5.5	17.6	54.4	22.5
	Tourism	8.0	27.0	45.0	20.0

Source: Ministry of Planning

For comparison, the industrial breakdown of new employment distributed in these groupings would be:

Group I	-	26,800
Group II	-	37,500
Group III	-	14,400
Not classified	-	38,000
Total		116,700 /1

/1 This figure has been adjusted to 118,700 in the final version of the **Fourth Plan.**

3.60 For the three groups I, II and III, the total absorptive capacity for D level unskilled workers is 31,000, or about 40 percent, which is a little less than the average absorptive capacity of the 13 industry branches. In the branches not classified into categories, i.e. public administration, commerce and other services, it is hard to conceive of a high proportion of D level unskilled jobs.

3.61 The demand by occupational group can be estimated by distributing the new employment on the basis of 1972 experience. This method uses questionable data and takes no account of productivity changes over the four years (arising from, for example, new equipment, job redesign, increased educational attainment), prospective redundancy in certain industries, and skill shortages, particularly at the A and C levels.

3.62 On the basis of the averages for the 13 industry branches analyzed, the total demand by level of qualification for the non-agricultural sector is as follows:

Table 3.18: 1976 ADDITIONAL DEMAND IN NON-AGRICULTURAL INDUSTRIES BY OCCUPATIONAL GROUPS

		Percent
A.	4,318	3.7
B.	13,187	11.3
C.	52,865	45.3
D.	46,330	39.7
	116,700	100.0

3.63 Table 3.18 indicates the grades needed to fill the limited number of jobs to be created by the Fourth Plan. The A, B and C level needs for the whole of Tunisia are obviously higher, since shortages exist, and future needs will be higher than the method of calculation suggests, but how much higher is problematical. Thus an increase of 66,000 B and C level jobs, for example, is simply a maintenance estimate for a limited segment of the economy. The economy could certainly use a far greater number of persons in these grades, though many with the requisite qualifications would probably end up working in Europe.

3.64 Although the school system could meet any such need for workers of categories B and C, vocational and industrial training, for additional periods of from three months to two years, would be needed to fill the gap between formal education and actual job requirements. The output of OFPE programs, together with private training, could possibly meet the B and C level needs, if drop-out rates run not more than a third of school enrollments. Moreover if losses to emigration whittled down the output available for Tunisian industry, a troublesome shortage of skills would continue beyond the Fourth Plan. The key to the problem of skilled labor in Tunisia really lies in the reorientation of formal education.

3.65 There is no model occupational structure for agriculture on which to base estimates of skilled manpower needs, but there are tabulations of rural and urban employment. In 1966, 11,302 A level persons lived in rural areas, as opposed to 39,833 in urban areas, i.e. 1.8 percent and 9 percent respectively of each labor force. A doubling or trebling of demand for A level workers in rural areas would therefore not be unreasonable. Assuming an addition of 119,000 in urban areas between 1972-1976, perhaps 20,000 to

25,000 additional A level people could be absorbed in the countryside. Imprecise as are such estimates, they are the kind that is necessary to provide a basis for planning.

3.66 The estimated 119,000 new jobs, in the non-agricultural sector or an average rate of increase of less than 5 percent per year, can only be regarded as a modest return on D 1.0 billion of new investment. 1/ Far greater efforts would need to be made to have a substantial impact. There appear to be three possible lines for further action:

(i) in agriculture, to translate the decision to bring about a shift to activities that require more labor into precise operational programs (See Chapter 11 on Agriculture);

(ii) to organize rural development more rigorously in the integrated regional framework so that the rural areas can support growing service industries and rural industries, which would be largely resource based; and

(iii) to give greater encouragement, in the non-agricultural sector and in the smaller urban centers, to small-scale private enterprise in manufacturing, construction, service industries and transport to so that they may develop in a liberal environment.

1/ Excluding agriculture.

4. INCOMES AND INCOME DISTRIBUTION

4.1 The ten-year Perspectives published in 1961 assigned priority to human development - la promotion de l'homme. One of the many facets of human development is equity in the distribution of income. Thus the statement of national objectives provided that the growth of national income would be accompanied by a more equitable distribution. This was to have been achieved primarily by means of a progressive tax structure and judicious public expenditures designed to benefit low income groups in particular. Although an incomes policy was not detailed, the Perspectives called for raising the incomes of the poorest by 25 percent and lowering the incomes of the wealthiest by 22 percent. By 1971 the entire population was to have achieved a minimum per capita income of D 45 at 1957 prices. This was a relatively high target since in 1959 an estimated 70 percent of the population had an income below D 45 and an estimated 37 percent had below D 20.

4.2 The available statistics are inadequate for a systematic analysis of income-distribution patterns and trends over the decade. There are, however, some more or less disparate data from which certain trends can be identified. This is the purpose of the first part of the following analysis. The second part deals with the present system of remuneration in the various sectors of activity. The third section examines the effects of the various aspects of economic policy on income distribution and the proposals of the Fourth Plan in the area of incomes policy.

A. Income Structure and Trends

4.3 The available data for estimation of the pattern of evolution of incomes are: (i) the data on income distribution in 1959 published in the Perspectives Decennales; (ii) a consumer budget survey taken in 1965-68; (iii) public social expenditures, and (iv) the national accounts series and trends in per capita value-added by sector; and (v) land distribution, by farm size. There are also tax-return statistics for certain years (1962 and 1968) but their coverage is incomplete.

4.4 No general inquiry on family incomes and expenditures existed when the Perspectives Decennales were prepared. However, certain studies of the "Societe d'Etudes et de Recherches Economiques et Sociales en Agriculture" on the level of family income in the rural sector had been prepared in 1959, at which time an inquiry into family budgets in Tunis was also under way, from which certain results were available to planners. On the basis of this limited material, which was extrapolated to the country as a whole, and of a number of assumptions, the distribution of Tunisia's population by per capita income was estimated, with separate estimates for the rural and urban sector. These estimates were used as a reference to set up the targets of the Perspectives Decennales, but their reliability is rather uncertain.

4.5 The household consumer budget survey made in 1965-68 gives an idea of the distribution of Tunisia's households by per capita consumption level and by sector of employment of the head of household (Table 4.1). The survey extended over four years and it is not stated in what prices the expenditures are measured; it may be assumed that these are average 1966 prices.

The survey covered a representative sample of about one percent of the population (45,589 persons) and gave the figure for consumption level but did not indicate income level. It is therefore necessary to add back savings to obtain an income estimation comparable to the 1959 estimates; however, since savings are negligible in the low-income group, the consumption figures are an adequate estimation for study of the trend of income in that group. So far as the actual distribution of income is concerned, however, taking savings into account would only increase the gaps between the different income categories. This survey is fairly reliable 1/ even though there was perhaps some under-representation of the low-income groups in agriculture.

Table 4.1: HOUSEHOLD EXPENDITURE PER PERSON, BY SECTOR

(In Percentages of Total)

Household Consumption per Person, in Dinars	Agri-culture	In-dustry	Construc-tion	Serv-ices	Others	Total	Cumulative Total (%)
0 - 30	9	1	1	1	3	16	16
30 - 50	13	2	2	3	3	24	40
50 - 70	10	3	2	3	2	21	60
70 - 100	8	3	1	4	1	17	77
100 - 140	4	2	1	4	1	12	89
140 -	3	3	1	4	1	11	100
Total	48	15	7	20	10	100	

Note: One dinar in 1966-68 equalled US$1.90.

Source: La consommation et les depenses des menages en Tunisie, 1965-1968: Secretariat d'Etat au Plan et a l'Economie Nationale, December 1968. Statistical Annex, Table 9.1.4.

4.6 The survey shows that in 1968 40 percent of the households surveyed had a per capita monetary expenditure (excluding consumption of home produce) of less than D 50 a year (at 1966 prices), and that this group included a large proportion of the agricultural population and of rural and urban seasonal workers. The figure of D 50 at 1966 prices is equivalent to D 43 at 1957 prices, 2/ corresponding to the minimum of D 45 set in the Perspectives Decennales for the whole of the population in 1971. It is thus possible to

1/ On the basis of the survey, total household consumption was estimated at D 336 million, compared with the estimated D 372 million for the same aggregate given in the national accounts.

2/ The consumer prices index rose 16 percent from 1959 to 1966 (Statistical Annex, Tables 9.1.2 and 9.1.3).

claim that the proportion of the population with a monetary income under D 45 (at 1957 prices) fell from an estimated 70 percent in 1959 to 40 percent in 1968. This would suggest a substantial transfer from the low-income toward the higher-income groups. There is no doubt that incomes in the rural sector have appreciably risen during the period 1971-73 by reason of the substantial growth of production, and have greatly changed past relationships, reducing earlier disparities.

4.7 In the 1965-1968 inquiries the percentage of households spending less than D 50 per head ranged from 20 percent in the northeast to 53 percent in the northwest, and averaged about 47 percent in the center and south. Average expenditure per household was D 405, ranging from D 521 in the northeast to D 334 in the northwest, with D 351 in the center and D 373 in the south. In urban areas, less than 17 percent of families had an average expenditure of less than D 50 per head, average expenditure per family was D 634; this compares with 51 percent in rural areas, with an average expenditure per family of D 330. Income disparities thus remained wide. However, these figures are for monetary consumption. If account were taken of consumption of home produce (particularly important in the rural sector), the disparities would be narrower.

4.8 As part of the consumer budget survey, statistics were obtained on calorie consumption through which account can be taken, to some degree, of consumption of home production. Home production as a percentage of total rural consumption of foodstuffs ranges from 53 percent for eggs to 20 percent for cereals and 7 percent for meat. These figures would probably be higher for farmers' than for farmworkers' families. Table 4.2 presents the distribution of the rural population by average daily consumption of calories. These data include home produced as well as purchased calories. They show that 26 percent of the rural population consumed an average of 2,000 calories or less per day, and 11 percent had less than 1,500 calories.

Table 4.2: CALORIE CONSUMPTION OF THE RURAL POPULATION, 1965-68

Calories per Day	Percent of Population
Less than 1,500	11.0
1,500-2,000	15.5
2,000-3,000	41.4
More than 3,000	32.1

Source: Consumer Survey 1965-68.

4.9 In addition to money income, an important factor in actual or effective income is the value of the social services received by the population. Very substantial progress was made during the decade in this field. Table 4.3 below summarizes the trend of total social expenditure per capita, which increased from D 7 in 1962 to D 19 in 1971 in current prices (nearly 7 percent a year in real terms). Social expenditures as a percentage of GDP rose from 8.5 percent in 1962 to 11.4 percent in 1971; and as a percentage of

private consumption, from 12.2 percent in 1962 to 17.5 percent in 1971. Education absorbs 58 percent of social expenditures, health 18 percent. 1971 enrollment at all levels was from twice to 5 times the 1962 figure (Statistical Annex, Table 9.7.1). By 1971 about 73 percent of the primary school age-group was attending primary school, compared with 29 percent in 1956. No precise information is available on regional distribution of social services.

Table 4.3: TRENDS IN SOCIAL EXPENDITURE
(Dinars per capita)

Expenditures/capita /1	1962	1966	1971	Growth Rate 1962-1971 Current Value	Growth Rate 1962-1971 Actual Value /2
Ordinary budget expenditures	4.7	8.2	14.0	12.9	8.7
Capital budget expenditures /3	1.2	2.6	1.9	5.2	1.3
Social benefits (social security)	1.5	2.0	2.8	7.2	3.2
Total	7.4	12.8	18.7	10.9	6.7
Social expenditures as % of GDP	8.5	9.1	11.4	-	-
Social expenditure as % of total public expenditure	25.8	27.5	39.1	-	-

/1 The annual population figures are given in Table 1.1 of the Statistical Annex, and the budget and social services figures in Tables 5.1, 5.2 and 5.6. Social expenditures have been taken to comprise, in addition to social security, expenditures for education, health, social affairs and cultural affairs.

/2 On the basis of an average inflation rate of 3.9 percent from 1962 to 1971 (Statistical Annex, Table 2.7).

/3 It should be noted that, following the fixed-investment effort of the early years of the decade, capital expenditures on education and health have fallen since 1967, when they totalled D 2.9 per capita.

4.10 The overall state of public health in Tunisia has improved during recent years. The infant death rate fell from 202/1000 in 1945 to 106/1000 in 1970. Life expectancy rose from 38 to more than 55 years. Per capita current expenditure on health went up by more than four times in constant price terms. In addition, with the introduction of the system of health care cards, a large part of the population has the right of access to medical care free of cost. In 1971 the 650,000 cards issued to heads of households covered an estimated 2.6 million people (Retrospectives Decennales, Planning Ministry). Still, even though the fixed-investment effort in health over the decade has extended to the whole of the country, substantial disparities

remain in the distribution of health services, particularly between rural and urban areas. Thus, comparing governorates, in 1971 the number of inhabitants per hospital bed ranged from 226 in Tunis to 295 in Bizerte, 500-700 in the Center and 1,400 in Kasserine (Chapter 21, Table 6).

Table 4.4: TRENDS IN HEALTH INDICATORS

	945	1955	1960	1965	1970	
Gross Death Rate (n/1000)		26	20	19	18	14
Infant Death Rate (n/1000)		202	155	90	113	106
Life Expectancy (yrs.)		38	47	34	55	56
Piped Drinking Water (% population with access)		23	29	-	40	/1
Per Capita Expenditures on Health, (1964 prices)		480	1,207	-	1,934	2,200 /2

/1 In 1972, 49.7 percent of the urban population had access to piped water.
/2 Estimates.

Source: Statistical Appendix and Chapter 21.

4.11 There is a National Social Security Fund through which social security benefits are transferred to a limited but growing number of employees. The Fund is administered by the Ministry of Social Affairs and has a considerable degree of autonomy. It operates rather like a private insurance fund, receiving a contribution of 15 percent of base salary from the employer and 5 percent from the employee. It pays family allowances, sick benefits, maternity benefits, death benefits, medical payments, workmen's compensation and, recently, retirement benefits. Family allowances are by far the largest item of expenditure of the Fund. These allowances can amount to about 32 dinars per annum per child up to a maximum of 4 children or an actual maximum of 126 dinars per annum. Benefits are calculated on the basis of 15 percent of salary. Pensions and sick and vacation pay are also tied to wage levels. Social security coverage increased from 120,000 persons in 1961 to 350,000 in 1971 (Retrospectives Decennales). Most of the beneficiaries are in the urban centers and work for the government or for the large enterprises.

4.12 Housing construction is largely left to the private sector. In 1966, little more than half of all Tunisians were living in houses or apartments. Disregarding the quality of housing in general, it is clear that the remaining half of the population, living in ghourbis (huts) or other kinds of accommodation, require better housing. This half live mainly in the rural areas and the urban fringes. The proportion of the population with piped drinking water rose from 29 percent in 1955 to 40 percent in 1965 (but only 20 percent for the rural population). The number of houses with electricity rose from 203,000 in 1962 to 303,000 in 1972 (Statistical Annex,

Table 9.6.5), an increase of 50 percent for a population increase of 20 percent in the same period. Moreover, the number of electricity subscribers has grown faster in the Center and South regions, less favored at the beginning, than in the North.

4.13 Social expenditure per capita increased by 2.5 from 1962 to 1971. In absolute terms, this means an average addition to per capita money income of D 12 over the decade, which would represent a substantial proportion of the lowest incomes. Nevertheless, the overall impact on income redistribution of social expenditures is difficult to assess, considerable progress remains to be made in order to obtain a more equal distribution of social services over the whole country. It appears that people in the urban areas, whose incomes are higher, have easier access to the social services, particularly medical care and education (at least above the primary level). Moreover, the quality of housing and access to public services (water, electricity, transportation) are still very unequally distributed across the country.

4.14 In studying the evolution of incomes certain overall trends can be derived from the national accounts but, disaggregated, the latter is an uncertain tool. The statistics on sectoral employment trends, particularly for the agricultural sector, are very sketchy, while the information on the breakdown of value added among wages and salaries, depreciation and profits are incomplete.

4.15 On the basis of the revised national accounts series published by the Planning Ministry in May 1974, Table 4.6 attempts to reconcile the actual and nominal rates of growth in value added with the estimated changes in the sizes of the sectoral labor forces. The data on employment in the modern sector (industries, services, administration) according to the various sources agree more or less, making it possible to reconstitute the trend from 1961 to 1971. However, for the agricultural sector the problem is a more difficult one. In the first place, only very limited data are available; in the second place, these data relate to the active population in the agricultural sector, which includes seasonal and temporary workers, female workers (the number of whom is very uncertain) and unemployed persons, whose numbers vary with the size of the harvest and who may move from one economic sector to another as opportunity offers.

4.16 It appears from a number of sources (1956 and 1966 censuses and Fourth Plan estimates), and from certain cross-corroborating information, that the active population of the agricultural sector has probably declined in the past 15 years. 1/ A theoretical arithmetic calculation (based on the increase in the male population of active age for the country as a whole, the increase in the number of children enrolled in school and the numbers of jobs for males created during the decade (1961-71) shows that the additional male jobs in the modern sector would have absorbed not only the

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1/ The male active population apparently fell from 620,000 recorded in the 1956 Census to a government estimate of 550,000 in 1972. (Cf. Chapter 3 and Statistical Annex, Table 1.4).

total growth of the active-age population entering the local labor market but also a part of the existing active population of the agricultural sector - perhaps 20,000 or 30,000 people. With regard to female workers in the agricultural sector (family aids) there has been no statistical survey but government estimates suggest that their number has declined since 1956 1/; however, a number of migrant male workers from the agricultural sector may have been replaced at work by female workers.

	1961-71 (000s)
Increase in male active-age population /1	+ 140,000
Increase in school enrollment of over-15s and in non-active population /2	- 60,000
Incremental male labor force =	+ 80,000
Male jobs created in the modern sector /3	- 110,000
Balance	- 30,000

Sources

/1 Statistical Annex, Table 1.3: 15-65 years age group, not including emigrant workers (about 130,000 from 1961 to 1971).

/2 Statistical Annex, Table 9.7.1: It has been estimated that the 15-19 years of age group accounts for 50% of the growth in secondary school enrollment.

/3 Retrospectives Decennales.

1/ According to The Fourth Plan estimates, the 1972 agricultural active population was 800,000, comprising 550,000 active males (300,000 in permanent jobs, plus 250,000 seasonal workers) and 250,000 active females; 330,000 active females had been recorded in the 1956 Census (Cf. Chapter 3).

Table 4.5: RRAL AND URBAN POPULATIONS, 1956-71
(In 000s, at end of year)

	1956	Annual Growth	1961	Annual Growth	1971
Urban Tunisian population /1	1,430	3.9%	1,730	4.0%	2,560
Rural Tunisian population	2,180	1.9%	2,400	1.1%	2,670
Total Tunisian population	3,610	2.7%	4,130	2.4%	5,230
Foreign population	340	-13.0%	170	-11.5%	50
Total resident population	3.950	1.7%	4,300	2.0%	5,280

/1 In towns of over 2,000 inhabitants.

Source: "Villes et developpement", published by the Ministry of National Economy, and Statistical Annex, Table 1.1. The data for 1961 have been calculated by interpolation between the 1956 and 1966 censuses; the statistical bases for the 1971 data published in "Villes et developpement" were not stated.

4.17 The hypothesis of a stagnation, at best, in the size of the agricultural labor force is corroborated by the observations that can be made concerning the population trend in the rural areas. Thus, it appears from **Table 4.5** that, as a consequence of the relatively rapid urban growth, the rural population rose by only 1.1 percent a year from 1961 to 1971. Since, according to the statistics on age-group population distribution (Statistical Appendix, Table 1.3), the proportion of the male labor force has declined (from 52.3 percent to 49.6 percent) for the whole of the country, and this decline was greater in the rural areas because of emigration of male workers, it follows that the agricultural labor force cannot have grown and has probably decreased.

4.18 Subject to all the reservations called for by these uncertain evaluations of agricultural employment and active population, the figures for value added per worker and per sector (Table 4.6) appear to indicate the following trends. From 1961 to 1971, value added in real terms per worker increased more or less in the same proportions in the agricultural sector as in the modern sector as a whole, and particularly in construction and services. However, in the agricultural sector the value added has been referred to the whole of the active population, while in the other sectors it has been referred to the actually employed population; this means that the increase in average income in the agricultural sector, where there is substantial under-employment, may well have been a reflection more of a rise in the actually employed labor force than to an absolute increase in income per individual. Moreover, taking the population as a whole, per capita value added for the rural population apparently increased by only about 0.4 percent in real terms, against 0.8

Table 4.6: VALUE ADDED PER WORKER AND PER SECTOR, 1961-71

	Rate of growth of value added 1961-1971 (percent per annum)		Employment (000s)		Rate of growth of value added per worker 1961-71 (percent per annum)	
	at constant prices	at current prices	1961	1971	at constant prices	at current prices
Agriculture	1.5	5.6	(800-850) a/	(800)	(1.6-2.1)	(5.6-6.2)
			Total labor force			
			Employed labor force			
Mining	1.6	4.1	14	18	-0.9	1.6
Oil c/	...	...	..	(1)	....	...
Power	13.4	13.6	4	6	8.9	9.1
Manufacturing	7.9	12.0	134 b/	167	5.6	9.6
Construction	3.4	7.4	50	59	1.7	5.6
Services	4.0	7.2	170	212	1.8	4.9
Administration	5.8	9.7	74	116	1.1	4.9
TOTAL (excl. oil and agriculture)	4.8	8.3	446	578	2.1	5.6

a/ These figures are very uncertain estimates of the total agricultural labor force; they include seasonal workers, female workers, and some proportion of unemployed.

b/ The sources differ with respect to the increasing in manufacturing employment (33,000 or 38,000 from 1961 to 1971). The figure of 33,000 has been adopted here for the sake of consistency with the chapter on Industry.

c/ Oil production started in 1964-66 and little information is available on employment in this sector.

Source: National accounts: Statistical Annex, tables 2.5 and 2.7
Employment: Fourth Plan; estimates based on data for 1971 and 1972, job creation from 1961 to 1971 (Rétrospectives Décennales) and the data on employment in 1960 (Rapport sur les comptes économiques de la nation).

percent for the urban population. It should be noted that prices have risen more in agriculture (4 percent a year) than in the modern sector (3.3 percent), which indicates an improvement in the terms of trade in favor of agriculture and narrows the gap between growth rates in real terms (see Chapter 10 (Agriculture), Section E).

4.19 In order to assimilate the incomes trend to the value-added trend it would be necessary to assume that the proportions attributable to labor and to capital have remained the same, i.e. that the respective shares in value added of wages, depreciation and profit have remained unchanged. It should be added that other important factors affect the trend of distribution of money income both within and between the different sectors, including in particular remittances by emigrant workers and the structure of land tenure. These points are discussed later.

Table 4.7: WAGES AS A PERCENTAGE OF VALUE ADDED*

Sector	1960	1970
Extracting Industries	66.8	102.2
Electricity	39.3	35.7
Manufacturing Industries	25.5	59.5
Services	25.9	46.9
Total	27.6	46.9

* The figures given in this table are taken from old national accounts series; however, they continue to have indicative value.

Source: Unpublished document, Planning Ministry.

4.20 To obtain a more precise idea of the relative increase in wages in the various sectors we have to examine the trend of the share of wages in value added. It is here that substantial differences emerge. Table 4.7 presents the percentage ratios of wages to value added in the main sectors (excluding agriculture). It shows that wages accounted for a much greater share of value added in 1970 than in 1960. This increase can be interpreted as an appreciable improvement in income distribution in the modern sector in favor of the workers. It is important to note that the figures relate to the year 1970, when activity in manufacturing - particularly the food industries - was relatively weak; for 1971, the share of wages in value added was probably lower. Taken in conjunction with the growth in nominal value added per worker (Table 4.6), these figures show that in the modern sector wages have risen much faster than productivity and the cost of living. These ratios are, moreover, appreciably higher than in other countries and they highlight in particular the low returns in mining and industry (see Annex II, Industry). In agriculture, on the other hand, where the essential component of value added is farmworkers' wages and the incomes of individual farmers, wages and incomes cannot have risen faster than value

added itself. 1/ These observations are an important indication of the fact that in the agricultural sector, which contains the lowest income classes, incomes would not have risen in the same proportion as wages in the modern sector.

4.21 To apply these trends to the rural sector generally, which is in a sense larger than the agricultural sector, it would be necessary of course to be able to take into account other factors apart from agricultural value added. First of all, a substantial share of remittances by emigrant workers - a large number of whom come from rural backgrounds - benefits the rural sector. These remittances, negligible in 1961, reached D 23 million by 1971, and a proportion, which it would be useful to determine, of this amount was added to incomes in the rural sector, constituting an appreciable supplement. In addition, the rural sector engages in activities other than farming, often supplementing farming or farmwork in the cases of particular individuals, such as handicrafts, business, transport, tourism, which have developed over the decade and created additional sources of income, in specific regions, which it is very difficult to quantify.

4.22 Apart from agricultural production and price levels, other factors, including measures that affect the pattern of land ownership and the distribution of credit, have had an effect on the level of incomes in the agricultural sector owing to the fact that a large share of agricultural income is linked to the ownership of land. With some simplification, three social groups can be distinguished: (i) agricultural workers, sharecroppers and tenants, who own no land or capital; (ii) small-farm owners, who own their land but have virtually no other capital; and (iii) large-farm owners, who have both land and capital.

Table 4.8: DISTRIBUTION OF AGRICULTURAL LAND (1970)
(percentage)

	Northern Tunisia		Whole of Tunisia		
	Number of Farms	Area	Number of Farms	Area	Area
PRIVATE SECTOR					84.73
1- 20 ha.	83	24	83.27	37.41	
20-100	14	22	15.43	40.47	
100+	3	54	1.29	22.12	
	100	100	100.00	100.00	
PUBLIC SECTOR					15.27
TOTAL					100.00

Source: Ministry of Agriculture.

1/ The legal minimum agricultural wage rose during the decade from 325 to 600 millimes a day. This is equal to a nominal increase of 6.3 percent a year, i.e. about the same rate as for nominal value added per member of the labor force (Table 4.6).

In 1970, farms of over 100 ha accounted for 3 percent of all farms and 54 percent of the land in the fertile north. For the country as a whole, they accounted for 1.3 percent of farms and 22 percent of land area, while at the other extreme 83 percent of all farmers together shared only 37 percent of the land. This means that there is still a very unequal division of agricultural land, with the consequence of substantial income disparities within the sector itself. In addition, it is common for the owners of large or medium-sized farms to live in the urban areas, where they carry on other activities while their lands are cultivated by sharecroppers and wage-earners who take out only a small share of the income generated by the land.

4.23 During the decade the small farmers were perhaps adversely affected by certain agricultural policy measures: priority was given to the cooperatives, there was little agricultural credit or organization of agricultural training and extension outside the north, and indeed during the greater part of the decade the granting of agricultural credit to farms of under 50 ha was practically impossible. Since 1970 efforts have been made to experiment with new methods giving easier access to credit and to develop the extension services throughout the country. These points are examined in the section on Agriculture. With regard to price policy, as has already been brought out, the terms of trade evolved to a certain degree in favor of agriculture. Because of the importance of certain crops such as olive oil, it would be necessary, in order to measure the price effects more precisely, to study the price trends for each type of crop; it would be useful also to study the extent to which price increases are reflected in agricultural wages. It may be remarked that an improvement in the terms of trade for agriculture is reflected more in an improvement in real income in the agricultural sector in relation to other sectors than in a more equitable distribution of income within the agricultural sector itself, considering that the low-income groups devote a smaller part of their incomes to the purchase of non-agricultural products than do the high-income groups.

4.24 To sum up, while the analysis that has been attempted in this section does not enable precise conclusions to be drawn, certain observations can be derived concerning income and income-distribution trends over the decade 1961-71. These observations must, however, be accompanied by all the reservations imposed by the quality of the data and the diversity of the factors to be taken into account. It would appear that (i) the proportion of the population with an insufficient income may have been reduced (perhaps from 70 percent in 1959 to 40 percent in 1968), thanks in particular to the income-redistribution effects of the social services and social security; moreover, the data on agricultural production suggest that it has fallen during recent years (1970-73); (ii) total incomes increased in all sectors but in proportions varying from one sector to another; thus, incomes rose by a smaller percentage in the rural sector, which contains the largest part of the lowest-income group, than in the modern sector; (iii) moreover, within the rural sector itself, important income disparities continue to exist as a consequence of the maintenance of a very unequal land ownership structure; and (iv) in the modern sector, particularly in industry, the increase in real income was greater than the rise in productivity, and the income-distribution trend was in the workers' favor.

B. Wage Levels

4.25 Rates of base pay for workers and employees vary according to geographic area, type of industry, and the degree of skill required for specific jobs. Rates are established by the Government on the basis of the recommendations of tripartite wage commissions representing labor, employers and Government. In certain instances the Government can fix minimum wages directly, without consultation with the commission. The statutory rates apply to employees and workers in both public and private employment.

4.26 Minimum pay rates for workers in agriculture are set mainly by government decrees. In agriculture, the rate of 600 millimes per day in force since May 1, 1971 was raised to 800 millimes in May 1974. Premium rates have been established for workers with special skills, e.g. operators of tractors and other equipment, and for workers qualified for special tasks, such as pruning and grafting fruit trees and vines. These rates are from 20 to 25 percent higher than the minimum daily rates for agricultural workers in general. In the traditional economy, it is estimated that 1972 wages ranged from 400 to 800 millimes a day. The lower figure, for example, was the return for one day's work under the government's relief work program (LCSD - Lutte contre le Sous-Developpement), half of it in kind.

4.27 Minimum rates for most non-agricultural workers were 84 millimes an hour in 1971 and were raised to 130 millimes in January 1974. The available data on actual wage levels relate to 1970 and are given in Tables 4.9 and 4.10. Base rates for semi-skilled and skilled workers are up to 80 percent higher than those for unskilled workers, and the rate for each occupation is specified by a statutory order. The wage level for women is 85 percent that of men; for workers 16-18 years of age, 75 percent of men's wages; and for those under 16, 33 percent. Working hours range from 40 to 54 hours, with striking differences according to occupation.

Table 4.9: TOTAL LABOR COSTS PER EMPLOYEE, 1970, BY INDUSTRY

Industry	A No. of reporting establishments	B Full-time Personnel/ Equivalent	C Total Personnel Costs (D 000s)	D $\frac{C}{B}$ (dinars)
Electricity, gas water	2	5,167	4,450	861
Extracting industries	29	17,756	8,887	501
Petroleum	4	740	1,323	1,788
Metal products	227	12,848	8,488	661
Shipbuilding	5	905	463	512
Building materials	102	6,996	3,807	544
Construction	99	8,874	6,141	692
Chemical industry	97	4,513	3,913	867
Tobacco	1	835	938	1,123
Food	210	8,860	6,081	686
Textiles and leather	176	14,394	6,109	424
Paper and pulp	150	6,253	3,362	538
Misc. industries	17	1,343	587	437
Road and rail transport	22	18,339	13,017	710
Maritime and air transport	10	2,708	5,560	2,053
All branches	1,051	110,531	73,126	662

Average earnings D 582
Average basic wage D 462

Source: Recensement des activites industrielles, No. 2, 1972.

Table 4.10: STATUTORY HOURLY RATES FOR SELECTED ECONOMIC ACTIVITIES, 1971
(In Millimes)

	Clothing Manufacturers	Weaving	Wood Industries	Paper Industries	Mines and Quarries	Building
Exceptional-class worker	-	163.2	153.9	125.2	153	153.9
Skilled worker	155	140.2	157.7	115.2	150	154.9
Worker	125.2	115.2	145.3	110	136.2	140.2
Unskilled worker	115.1	115.2	122.2	107.9	122.6	120.2
Semi-skilled laborer	104	104	106.8	107.9	109.6	104
Laborer	104	104	104	104	104	104
Apprentice	43.4	43.4	43.4	-	-	-

Source: Office de la Formation Professionnelle et de l'Emploi (Office of Vocational Training and Employment).

4.28 Income in kind, e.g. housing, transport, clothing, medical care, is frequently an important part of net remuneration, and this is largely determined by the individual employer, outside the administered wage base. On the basis of the gross wage the employer must pay total non-wage charges of up to 31.75 percent, viz: (i) training tax 2 percent; (ii) social security 15 percent (employee pays additional 5 percent); (iii) paid vacation 3.5 percent; (iv) paid holidays 1.30 percent; (v) other social charges 1.25 percent; (vi) stamps and records 0.55 percent; (vii) workman's compensation 2 percent; (viii) work clothes 1 percent; (ix) insurance 5 percent.

4.29 Wages and other benefits in the government sector tend to establish the general level of wages in the economy as a whole. However, it apparently tends to be a minimum standard. The large sector of public enterprises in general adopts the standard wage and salary scales of the Government and adds to this allowances and income in kind considered appropriate to attract the numbers and quality of employees required.

4.30 Increases in minimum wage rates have in the main been based on the rise in the cost of living. From 1956 to 1974 there were four general increases in minimum wage levels for employees in trade and industry (1961, 1966, 1971 and 1974), and five for agricultural workers (1961, 1963, 1966, 1971 and 1974). In 1961 the Government decreed a 5-percent general increase in minimum wages; its purpose, however, was not to increase take-home pay but

to prevent a reduction in pay which would have resulted from legislation requiring employees to contribute 5 percent of their earnings to the newly-established social security program. In 1966 a general increase of 5 percent was granted to employees in the public sector, representing an adjustment for the rise in the cost of living that followed devaluation of the dinar at the end of 1964. In 1971, because of the increase in the cost of living since the previous wage and salary adjustment in 1966, the Government decided on a general increase in wages and salaries for workers in both the private and the public sectors. In the private sector and in public enterprises the legal hourly wage was raised by about 24 percent for the lowest-paid categories of workers and by about 13 percent for the highest. Legal monthly salaries were raised by D 4, an average increase of about 12 percent. The minimum daily wage for agricultural workers was raised by 9 percent. In the government sector, salaries were raised by about 7 percent for the highest salary categories and by about 10 percent for the lowest grades. In 1973 the salary scales for government personnel were in process of revision, most likely leading to a significant increase in salaries. In 1974, legal minimum wages were raised by 55 percent in the non-agricultural sectors and 33 percent in the agricultural sector.

4.31 The General Confederation of Tunisian Workers (UGTT) has in recent years concentrated more on practical matters of organization and of negotiation of conditions of remuneration than on wages pressure. Its membership is largely in the urban sector and in government employment, and thus constitutes an urban, industrial elite in a position to exert strong pressure, but the Union seems to have followed a policy of voluntary restraint. Trade unionism is thus a force that could play a more important role in Tunisia.

C. Income Policy

(i) Introduction

4.32 The limited success of so many government efforts during the past decade has been due largely to the counter-effects produced by certain other income-redistribution measures. For example, as in other countries, the incidence of direct taxes has had little progressive impact, while indirect taxes have hit low incomes proportionately more heavily than the upper income groups. The low-income classes spend a higher share of their income on consumer products. (However, the policy of control of the prices of essential consumer goods has probably reduced the effect on the poorest strata). Upper income groups, particularly when self-employed, escape income tax to a large extent, while middle income groups have the tax deducted from their wages. In addition, the control of access to imports and investment can have had a selective influence on individual projects to the detriment of the least privileged social groups. Moreover, the policy of cheap capital has brought the real rate of interest down to a relatively low level and may thereby well have favored those in a position to invest and to borrow and have stimulated fixed-capital investment to the detriment of job-opportunities development. While substantial progress has been made in income redistribution overall through the instrument of government social expenditures, it appears that access to education and to the health services is still very unequal, as between regions and social groups.

4.33 The delays in implementing the land reform laws have helped to sustain a very unequal land tenure structure and thus to sustain income disparities within the rural sector and between it and the modern sector. Further, the history of the cooperative movement and the maintenance of a very unequal land ownership pattern, together with the lack of extension and adequate credit services outside certain areas, explain the poor results of the 1960s in the rural sector.

4.34 As regards remuneration, movements of wages have not always been determined over the past ten years within the context of an income policy. Nor have they been associated with employment policy, particularly the problems of the supply of skilled manpower. Minimum wage rates have tended to follow the market rates rather than to keep ahead of them. Moreover, because of the way in which wage-setting has worked, largely by administrative regulation without any direct link to productivity, there are substantial differences in employment conditions between industries. The administrative influence seems also to have had the effect of linking employment opportunities and wage levels too closely to formal academic attainments.

4.35 However this may be, precise evaluation of the income-distribution disparities, which must accompany any formulation of an incomes policy, would call for an effort to **improve** income statistics. First of all, it would be desirable to establish complete employment statistics and to process them in conjunction with the national accounts, using the same sectoral nomenclature. This could be followed by a sixfold effort: (i) development of the national accounts to make it possible to evaluate wage levels and value-added structure in each branch of the economy; (ii) direct surveys to ascertain income and wages levels in those sectors that receive poor coverage in the national accounts, such as handicrafts, retail trade and domestic service, and to assess the level of home-produce consumption in the rural sector; (iii) systematic utilization of the fiscal statistics on income tax; (iv) periodic consumer budget surveys, at the national and regional levels; (v) utilization of the other sources of information about wages, such as social security returns, and (vi) the formulation of price indexes providing better means of assessing the trends of real income by region and by consumption level.

(ii) Fourth Plan proposals, and outline of an income policy

4.36 While growth generates a rise in average income, it does not necessarily bring about a redistribution of income. In this connection, the Fourth Plan states that economic growth is an essential - but not a sufficient - condition of the raising of the level of living of the population as a whole, and that it is in the context of this growth that measures must be taken to ensure that each individual receives his fair share of its fruits.

4.37 The Fourth Plan presented a synopsis of the present situation in the social area which, generally speaking, corroborates the observations made in the first part of this Chapter. Thus, it finds that in spite of the considerable social progress made over the last decade a substantial proportion

of the population still does not enjoy stable employment and an adequate income. The Plan identifies two fundamental imbalances in addition to - and in correlation with - the employment problem. These are (i) the regional imbalance: as things stand at present, the fruits of economic growth accrue largely to the populations of the coastal regions, while the development of the inland regions, where the main activity is agriculture, is much more slow and precarious; (ii) the income imbalance: analysis of the income distribution trends shows a need to apply far-reaching corrective measures. On this point the Plan reports two major conclusions: The medium class with incomes above the poverty threshold has apparently expanded from 20 percent of the population at the beginning of the decade to 55 percent at the end. This still leaves a high proportion of the population, estimated at 40 percent, with an income below the poverty threshold and together aggregating less than 10 percent of the national income; this 40 percent of the population represents 400,000 households, distributed among the small farmers, seasonal agricultural workers, artisans or casual workers in industry and services, and the unemployed.

4.38 The policy proposed in the Fourth Plan to tackle these problems hinges on the following two strategy elements: resolution of the employment problem, and correction of the social imbalances. Employment policy was studied in Chapter 3. The Fourth Plan puts forward the following general proposals to correct the social imbalances. The national investment programs in the fields of education, public health, drinking water and electricity supply, and transportation will be slanted, within a regional planning framework, so as to favor the inland regions, particularly the rural areas; so far as possible, economic investments will be regionalized, and incentives have been provided to that end. As regards wage, price and tax policies, the Plan proposes to restore balance to income distribution by fostering increases in the lowest wages, particularly in agriculture, to take measures affecting the distribution circuits and prices of prime-need goods, to revise indirect taxation so as to improve production costs, and to strengthen the tax administration to reduce tax evasion. These aspects have been reviewed in the various sections of the report. Finally, it is planned to take specific measures to help the most underprivileged areas and populations. Important examples of such initiatives are the setting up of the Industrial Stabilization Fund and the promotion of small and medium-scale business, as well as the implementation of a rural development program.

4.39 Within the framework of the above general strategy, a number of principles and elements of an incomes policy can be defined. Generally speaking, economic measures in most fields have an impact on income. This is true of measures affecting the pattern of land ownership and production methods; the taxation system - through its direct effects on income levels and its indirect effects on demand and consumption patterns; the structure of public expenditure; the prices structure; the supply of intermediate goods and production factors, and the mobilization and allocation of resources. It follows that the whole range of economic policy instruments can be developed and evaluated within the framework of a comprehensive national incomes policy. Wage increases have an impact not only on the incomes scale but also on job supply,

consumption and the nature of investments; they should therefore be related to a greater extent to productivity in order to encourage the acquisition of manpower skills and to stimulate competitivity. In view of these interactions, it is important to coordinate economic measures within the framework of an incomes policy and that this coordination be entrusted to the institution responsible for the short-term management of the economy.

4.40 In the area of specific measures influencing wage levels, the State could assume more and more a protective and a corrective role. Thus, a particular function of the State would be to guarantee the minimum wage levels and the compensating of cost of living increases for the lowest-income groups while progressively leaving the wages structure to adapt in response to productivity and to supply and demand. In this connection, the establishment in 1974 of the guaranteed agricultural minimum wage (SMAG - Salaire minimum agricole garanti) was an important protective measure in favor of the low-income groups in the rural areas. However, excessive use of such an instrument to raise real incomes without ensuring conditions leading to increased productivity could cause agricultural employers to make labor cuts which could in turn adversely affect production. From another point of view, the guaranteed minimum wage instrument can be used to ensure that the wage-earners receive their fair share of the fruits of productivity improvements, as and when such improvements materialize.

4.41 The corrective measures affecting wages could take several forms. For example, wage increases fixed at the national level could be higher at the bottom of the wages scale, i.e. biased in favor of the low-income groups. Such corrections could be made by calculating changes in real wages by reference to a special cost of living index for the low-income groups. However, in order to meet the shortage of skilled manpower in certain occupations, particularly industry, tourism and agricultural professionals, it would be necessary for some time to offer higher pay and more attractive working conditions than the norms in these occupations. In this connection there is a need to reduce the "premium" commanded by academic attainments and university qualifications particularly in those fields of specialization where supply exceeds demand; this would help to orient students toward the particular technical skills needed by the economy (see chapter on Education). Consideration could also be given to the introduction of a system of regional pay differentials to remedy the regional shortages of skilled manpower and professionals. This series of corrective measures could be studied in the context of a general study of the wages structure and be applied, by way of example, in the government service and the public sector generally.

4.42 In the area of social expenditures and workers' benefits, family allowances are an important instrument in redistributing income; this is an instrument whose impact appears to be still limited in Tunisia and of which more effective use could be made. For example, consideration could be given to a redirected program for about 1,300,000 children 1/ of the lowest income group which, with a flat-rate benefit of about D 8 per child per year (i.e.

1/ About 50 percent of all children aged 14 years or under in 1974.

D 16 per family, at 2 children per family), would cost about the same as the present program. If the funding of the program were borne by the general revenue, company labor costs would be reduced by about 10 percent (assuming that family allowances at present absorb about half of the social security fund). Such a program would, of course, have to be designed so as not to conflict with the objectives of family planning, e.g. by setting a ceiling. The income-distribution effect would be substantial to the extent that children of the unemployed and underemployed were covered.

4.43 Turning to taxation, the direct tax rates seem to be already sufficiently progressive, but efforts need to be directed at strengthening tax collection staffs and techniques in order to reduce evasion and broaden the real base of the tax, and measures to this end are being studied by the government. Consideration could be given to a progressive land tax in the rural areas to stimulate more intensive utilization of land and perhaps subdivision of under-utilized large farms, and thus contribute to increased employment and improved income distribution. As regards indirect taxation, the reform of the Customs tariff and the proposals for the introduction of a value added tax are very positive steps forward. However, attention must be drawn to the problem of taxation and the exemptions on capital goods; it is essential that the taxation of capital goods be carefully modulated so as to favor labor-intensive techniques to a greater degree than excessively capital-intensive techniques, which have a minimal impact on employment and in respect of which relatively advantageous exemptions have been granted.

4.44 Prices constitute the most delicate problem. As shown elsewhere in this report, it is important that the system of direct control be progressively abandoned, leaving prices to find their own level through the forces of domestic and foreign competition. However, to avoid sharp price movements and the resulting repercussions on the purchasing power of the low-income groups, government intervention should be directed to maintaining the stability of the prices of a few essential foodstuffs and certain major consumer goods and to controlling profit margins. As regards agricultural prices, any policy of using prices as a means of increasing rural incomes should be avoided; this result should be sought through direct action, through the extension services, to increase production and productivity. A reduction in the prices of agricultural inputs, possibly through subsidies, would also be an effective instrument. In the final analysis it is social expenditures, particularly family allowances and tax relief, that should be the main instruments for balancing any unfavorable effects on incomes resulting from the freeing of wages and prices.

4.45 Finally, the redistribution of income will depend greatly on the effectiveness of the measures, defined in the Fourth Plan, taken in the context of regional and rural development policy and assistance to small business. On this aspect, the organization of effective financial and technical assistance to small and medium-sized enterprises will be decisive, in that this category of enterprises makes a substantial contribution to job creation. Success of the policy of improving the regional distribution of the social services, particularly health and education, as well as public infrastructure investments - transportation, water supply and electricity distribution - will also be essential to the raising of incomes in the rural areas.

5. DOMESTIC RESOURCE MOBILIZATION

A. Capital Formation and Sources of Financing

5.1 The attainment of a high rate of gross capital formation in Tunisia in the early 1960's was a remarkable achievement, for during the year immediately following independence, the rate of gross capital formation was as low as 10 percent and domestic savings much lower. In 1956, the year of indeendence, the savings rate was negative. The government succeeded in nearly doubling the investment in three years (1959-1961), so that in 1961 gross capital formation represented 17 percent of GDP. It reached a record level in the mid-sixties (27.6 percent in 1965). Although it has declined slightly from this level, the rate of investment has remained above 20 percent of GDP since 1961 (Table 5.1).

5.2 Domestic savings 1/ contributed less than one half of capital expenditure in the mid-1960's. During the past decade, however, the savings rate has risen steadily -- the only exception being 1967 -- reaching 18.6 percent of GDP in 1971. Except in the early 1960's and, to a less extent, in 1969, when there was some resort to the issue of new currency, the gap between domestic saving and investment was filled by foreign capital, which was mainly used to meet the needs of the Government or of government enterprises.

5.3 The most important domestic sources of saving in Tunisia have been public and private non-financial enterprises. The bulk of the gross savings of the enterprises consisted of their depreciation allowances, as is often the case in the early stages of industrialization, when profits tend to lag behind investment. This was certainly true of Tunisian state-owned enterprises, which often incurred losses over a long period.

5.4 General government savings increased during the 1960's except in 1967 and 1968, when they registered a sudden and sharp decline. Although they have continued to increase in absolute terms in the 1970's, they have remained steady as a proportion (3-3.6 percent) of GDP. Throughout the whole period, the Government's saving has been far below its gross capital formation, the gap being closed by external or internal resources (the latter from

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1/ National savings figures are calculated as residual magnitudes (investment less net foreign capital). The savings of the Government, financial intermediaries, and households are calculated directly, and the balance is considered as the savings of enterprises. National savings and, *a fortiori*, enterprises' savings, reflect the defects of the calculation of the gross fixed capital formation, stocks, and the foreign trade deficit. Of these the figure for stocks is usually the weakest in terms of year to year changes. Although the general trends are similar, there are differences in the behavior of gross domestic savings and gross national savings. Gross national savings differ from gross savings by the amount of net factor income transfers.

Table 5.1: FINANCING OF GROSS CAPITAL FORMATION

(In Percentage of GDP)

	1961	1963	1965	1967	1969	1971	1973
Gross Domestic Savings	7.6	15.0	14.5	15.3	18.1	19.0	17.6
Net income from abroad	0.4	-1.5	-2.8	-3.4	-3.5	-1.4	-0.7
Current transfers from abroad	1.1	-0.2	0.6	0.7	0.6	1.0	0.4
Gross National Savings a)	8.3	13.3	12.3	12.6	15.2	18.6	17.3
General government	1.3	1.5	3.8	2.6	3.6	3.3	6.2
Non-financial enterprises	5.1	9.8	6.6	7.6	8.6	10.3	6.0
Financial enterprises	0.4	0.3	0.4	0.6	0.7	0.4	0.5
Households	1.5	1.7	1.5	1.8	2.3	4.6	4.6
External Resources	7.0	9.3	17.2	15.0	12.8	11.4	9.9
Less: Repayments	0.3	2.4	2.5	4.0	3.9	3.4	2.8
Changes in Foreign Assets (increase = -)	2.1	3.6	0.6	1.2	-1.5	-5.5	-1.8
Gross Capital Formation	17.1	23.8	27.6	24.8	22.6	21.1	22.6
GDP at Market Prices	100	100	100	100	100	100	100

a) The new national account series does not show the distribution of savings between enterprises and households; figures shown are estimates based on the previous series.

Source: Statistical Appendix, tables 2.3 and 2.11

the banking system in the early 1960's, and households in the late 1960's and early 1970's). The resources mobilized by the Government far exceeded its own needs and enabled it to supply funds to state enterprises and, to a less extent, other agents. However, the proportion of the Government's investments covered by its own savings has started to rise in recent years, although this tendency to self-sufficiency does not seem to induce the Government to restrict its role as a financial intermediary. On the contrary, it remains the chief mobilizer of both foreign and domestic savings.

5.5 Over the last decade there has been a marked decline in dependence on foreign capital, due largely to a steady increase in the savings of both the Government and enterprises. There has also been a relaxation in the tight control that the Treasury exercised over private financing. However, the Treasury still dominates the allocation of funds mobilized by the banking system; there is a significant loss of potential revenue due to the shortcomings of the tax system in that taxes are not progressive and there are considerable opportunities for tax evasion and the grant of tax incentives to investors; state economic enterprises continue to incur important deficits, and there is still a substantial dependence on foreign capital.

B. Savings of Enterprises

5.6 The level of enterprise savings in Tunisia is influenced by such factors as demand, prices (normally fixed by the Government) of factors of production, raw materials and final products, taxation, imposed transfers to the Government and expenditures on social services. Taxation on corporate income, at a rate of about 45 percent, appears to be adequate. Any reductions in the rate to enable enterprises to generate more funds internally would have to be weighed against the consequent loss of government revenue and the contribution of that revenue, at the margin, to public investment, as well as the likelihood that the enterprises would distribute the resulting increment of earnings as dividends. Although dividend rates in Tunisia for companies are high, thus reflecting investor preferences for current income over capital gains, some reinvestment of earnings through stock dividends and rights issues does take place. Some enterprises enjoy tax exemption because of their "developmental" features. On balance, it is doubtful whether a reduction of corporate taxation would lead to any appreciable increase of retained earnings.

5.7 Depreciation rates present a more problematic issue. Internal prices in Tunisia have risen at a moderate rate; thus there is no strong argument for a revaluation of assets (and hence for accelerated depreciation schedules), except as far as imported capital equipment is concerned. Taking account of the administrative difficulties that a two-tier depreciation structure would present, it appears that changes in the current depreciation allowances ("straight line" for most enterprises, and accelerated for priority enterprises) should not be contemplated.

Table 5.2: SAVINGS - INVESTMENTS OF PUBLIC AND PRIVATE SECTOR ENTERPRISES BY SECTOR IN 1968
(in 000 Dinars)

Sector	PUBLIC SECTOR ENTERPRISES				PRIVATE SECTOR ENTERPRISES				GROSS FIXED CAPITAL FORMATION	
	SAVINGS				SAVINGS					
	Net Profits	Depreciation	Transfers	Gross Savings	Net Profits	Depreciation	Transfers	Gross Savings	Public Sector Enterprises	Private Sector Enterprises
I. AGRICULTURE	-335	451	-176	-60	665	-	-	+665	1,829	5,561
INDUSTRY	6,050	17,245	-5,432	+17,863	1,898	1,616	-191	+3,323	22,618	11,495
(i) Extractive industries	-1,266	1,735	768	+1,257	-	-	-	-	5,908	149
(ii) Petroleum	10,114	4,498	-5,723	+8,889	144	117	108	+369	6,269	7,691
(iii) Electricity, gas and water	-928	3,918	455	+3,445	10	10	-45	-25	2,468	76
(iv) Agro-industries	2,258	1,518	-520	+3,256	368	346	10	724	2,004	871
(v) Building materials, glass and ceramics	641	1,127	-546	+1,222	180	43	-91	132	2,802	144
(vi) Mechanical and electrical	-1,905	2,046	6	+147	212	118	-11	319	1,246	491
(vii) Chemical	630	403	17	+1,050	367	568	-20	915	632	627
(viii) Textiles and apparel	-3,467	1,403	146	-1,918	226	135	-53	308	917	306
(ix) Wood and furniture	127	56	-55	128	110	102	-11	201	33	416
(x) Paper and printing	-154	541	-	387	183	123	-42	270	339	306
(xi) Other	-	-	-	-	98	54	-38	110	-	468
II. SERVICES	10,133	6,114	817	+17,064	2,431	2,077	-134	+4,374	13,275	13,766
(i) Transport and Communications	2,543	4,436	597	+7,576	198	104	-	302	7,230	1,866
(ii) Housing	107	4	100	+211	-	-	-	-	489	977
(iii) Tourism	125	966	-	+1,091	1,600	1,600	-	3,200	3,477	10,278
(iv) Commerce	7,393	544	80	+8,017	633	369	-134	868	1,330	567
(v) Other	-35	164	40	+169	-	4	-	4	749	78
TOTAL	15,848	23,810	-6,425	+34,867	4,994	3,693	-325	8,362	37,722	30,822

Source: Ministry of Planning

5.8 The ability of enterprises to save is also affected by the control of the prices of their inputs and outputs. While minimum wage levels are not particularly high, pressure to retain excessively large labor forces -- particularly in public manufacturing enterprises -- inflates the total wage bill. In chapter 4 reference was made to the increase in the proportion of value added going to labor costs. This averaged some 28 percent in 1960 and 47 percent in 1970. For Tunisia the appropriate proportion would be closer to that prevailing in 1960. In these circumstances the share of profits and depreciation of enterprises is clearly much less than it might be. This is, of course, partly due to the small absolute size of value added. The reasons for this are examined elsewhere but clearly the system of administrative controls and intervention has hampered management, and the regulated prices (on a cost plus profit basis) of domestic intermediate goods have raised costs of production. On the other hand, some government-owned commercial monopolies benefit substantially from artificially high selling prices and realize considerable savings.

5.9 When this report was drafted, the only available data on the sectoral distribution of the savings of public and private enterprises were for 1968. On the other hand, more recent data (1970-71-72) were available only for public enterprises in the industrial sector. However, the 1968 data does provide a useful indication of the relative profitability of private and public enterprises. Table 5.2 shows the capital flows of public and private enterprises in 1968, by sector. The net profits of public enterprises (D 15.8 million) were mainly due to commercial enterprises and the petroleum industry. Nearly all government-owned manufacturing industries experienced large losses (up to 3.5 million for textile industries) and the total losses of public manufacturing enterprises, excluding petroleum, were over D 4 million. All government enterprises, however, except textiles, showed positive gross savings (profits plus depreciation plus transfers). The Government's commercial enterprises contributed nearly a quarter of these gross savings.

5.10 In 1968 all private enterprises yielded net profits and all had positive gross savings. Tourism accounted for nearly 40 percent of all private sector saving in 1968. Nevertheless, private enterprises relied less on self-generated funds than public enterprises. In 1968, public enterprises financed nearly 92 percent of their investment financing needs from internally generated funds, compared with 28 percent for the private sector. However, in manufacturing industries proper (i.e., excluding mining, petroleum and utilities), public enterprises financed only 54 percent of their gross fixed capital formation from internally generated funds, compared with 83 percent for private enterprises.

5.11 The 1968 figures show that the bulk of public sector savings originated in the Government's commercial enterprises and its non-manufacturing industrial enterprises. These savings helped to finance the shortfall in public sector manufacturing enterprises. The savings of private enterprises are more evenly distributed among sectors and, although there is some balance between savings and investments of private manufacturing enterprises, there are large savings deficits in agriculture, petroleum, mining and tourism. 1968 inaugurated a boom in hotel construction, and the required outlays could not possibly be met by savings of the hotels already in existence.

Table 5.3: SAVINGS OF THE INDUSTRIAL PUBLIC ENTERPRISES BY SECTOR, 1970-1971/1972
(thousands of dinars)

	1970	1971	1972
Extractive industries	-1,513	-740	-1,314
Petroleum	24,000	31,241	33,165
Water, gas, electricity	6,963	8,259	8,012
Manufacturing industries	10,238	10,005	13,888
Agro-industries	3,422	3,811	3,184
Construction materials and glass	1,946	2,002	2,622
Mechanical and electrical industries	2,107	533	3,491
Chemical industries	1,492	2,575	3,214
Textiles, clothing	535	1,133	1,440
Wood, cork, furniture	226	237	232
Paper, printing	510	-286	-295
Total industries	39,688	48,765	53,751

Source: Ministry of Planning.

5.12 More recent data on the public enterprises in the industrial sector (Table 5.3) show that their gross savings considerably increased in absolute value. They rose from D 18 million in 1968 to nearly D 40 million in 1970 and D 54 million in 1972. In 1972 the gross savings of the public industrial sector were higher than its investments. The petroleum sector accounted for 62 percent of the total savings of the public industrial sector and the manufacturing industries sector contributed 26 percent. On the other hand, the sectors of the extractive industries, which had savings of D 1.25 million in 1968, showed negative savings for the years 1970-71-72 because of their operating difficulties. For the whole public industrial sector gross savings in 1972 represented 49 percent of the value added; however, this rate amounted to 78 percent in the petroleum sector but only 34 percent in the manufacturing industries.

5.13 Other sources of investment finance include direct government loans and grants, term credits from commercial banks and development banks, suppliers' credits and new share issues. Direct government loans and grants to enterprises have been significantly reduced since 1970. Government subsidies and grants to cover operating losses and to finance new installations are now channelled through such financial institutions as STB 1/, or to a lesser extent BDET 2/

1/ Societe Tunisienne de Banque.

2/ Banque pour le developpement economique de la Tunisie, ex Societe nationale d'investissement (SNI).

and COFITOUR 1/. In 1968, direct government subsidies to and participations in public enterprises reached D 14.6 million, of which industrial enterprises accounted for D 7.7 million. Private enterprises, on the other hand, received only D 900,000 in direct government support (including equity participations), and this was entirely accounted for by enterprises in the agricultural or agro-industrial sectors. In 1972, government support to all enterprises was estimated at D 11.1 million. The form of government support ranges from investment in ordinary shares, non-dividend earning stock or low interest loans to outright subsidies. Support for public enterprises mainly takes the form of low or no-interest rate loans and subsidies.

5.14 Commercial bank credit plays a relatively important role in investment financing. Nearly 38 percent of the commercial bank credit outstanding at the end of 1972 (D 320 million) was in the form of medium- and long-term loans (including one-quarter of short-term loans which are automatically revolved). Long-term lending by deposit banks is forbidden except from resources derived from the Government, counterpart funds and foreign loans, to which only STB and BNT 2/ have access. On the other hand, medium-term lending by commercial banks is encouraged, and banks must have at least 10 percent of their deposits in medium-term loans before they can rediscount medium-term loans with the Central Bank. (Regulation of credit is analyzed in Chapter VI.)

5.15 The sectoral distribution of commercial bank credit over the period 1967-1972 is shown in Table 5.4. Over this period agricultural credit maintained its share of the total volume of credit at about 12 percent. Credit to industry, on the other hand, declined from nearly 39 percent of total credit in 1967 to 32 percent in 1972. This decline was nearly entirely accounted for by the manufacturing sector, whose share fell from 34 percent in 1967 to 27 percent in 1972. The services sector, on the other hand, expanded its share of total credit from 36 percent in 1967 to 46 percent in 1972. Credit to tourism, to commerce and to the services sector in general increased faster than total credit. While tourism accounted for 13 percent of total credit in 1967, it accounted for 18 percent in 1972; the corresponding figures for credit to trade were 21 percent and 22 percent.

5.16 For most sectors fluctuations in the share of total credit corresponded fairly closely with fluctuations in their share of total value added. For example, the credit/value added ratio for manufacturing was 78 percent in 1968 and 75 percent in 1971. On the other hand, although tourism enjoyed a larger share of total credit in 1971 than in 1967, its credit/value added ratio declined from 214 percent in 1968 to 175 percent in 1971. This points to the conclusion that government policy, which mainly dictates the sectoral distribution of credit, has not caused credit "starvation" in particular sectors, a conclusion partly borne out by the observation that enterprises in Tunisia (with the exception of loss-making public enterprises) do not as a rule experience much difficulty in covering their working capital requirements.

1/ Compagnie Financiere et Touristique (COFITOUR).

2/ Banque Nationale de Tunisie.

However, it is not known whether this is also true of the distribution of credit between small, medium-sized and large enterprises within the same sector. Term lending to enterprises is also provided by the development banks, chiefly BDET. BDET's investment in tourism and industry increased from D 2.7 million in 1969 to D 6 million in 1972.

Table 5.4: SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDITS RECORDED BY THE CENTRAL BANK OF RISKS (in percentage)

	Year-end					
	1967	1968	1969	1970	1971	1972
Agriculture	10.5	12.0	12.5	12.4	12.3	10.5
Industry	38.9	37.2	34.3	33.7	33.4	31.6
Mining	2.7	2.5	2.8	2.9	3.4	3.5
Energy	2.0	2.1	1.2	0.8	0.8	0.8
Manufacturing	34.2	32.6	30.3	30.0	9.2	27.3
Buildings & Public Works	14.3	15.2	14.4	13.1	12.2	12.4
Services	36.3	34.7	38.8	40.8	42.1	45.5
Transport & Telecommunications	1.5	1.4	1.8	2.2	1.7	2.7
Tourism	12.6	13.4	16.6	18.2	18.5	17.9
Commerce	20.9	18.3	18.9	18.7	20.5	22.3
Other	1.3	1.5	1.5	1.7	1.4	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

5.17 Enterprises must obtain the approval of the Central Bank before obtaining suppliers' credits, which have been made available mainly to public sector enterprises, especially airlines, textiles, automobile assembly and transport companies, and the post and telephone system. Table 5.5 shows the volume of suppliers' credits between 1967 and 1972. Suppliers' credits, especially to the large public enterprises, usually carry concessionary interest rates. No detailed breakdown of the cost is available, but the Central Bank estimates that most suppliers' credits have carried rates of between 4 percent and 6 percent and have been repayable over 5 to 7 years. Since 1968 the policy has been to curb the use of suppliers' credits in order to avoid increasing the burden of the public debt and access by the private sector to this kind of financing continues to be limited, despite the improved balance of payments.

Table 5.5: SUPPLIERS CREDITS TO TUNISIAN ENTERPRISES
(in Million Dinars)

	1967	1968	1969	1970	1971	1972
Suppliers' credits	8.2	9.7	11.1	10.4	13.5	16.6
As % of Enterprise Investments	11.9	14.6	15.7	11.7	11.5	11.7

5.18 Direct foreign exchange borrowings from foreign financial institutions, by either private or public enterprises, has been very small. While total borrowings from foreign private sources were D 10.7 million in 1968, D 2.4 million in 1969, and nearly D 500,000 in 1970, the amounts going to enterprises (including financial institutions) were D 700,000, D 3 million, and D 400,000 respectively. In 1970, the Banque du Sud's D 400,000 borrowings from foreign private sources accounted for all the credit to enterprises from foreign private sources in that yer. Foreign-owned enterprises can, of course, tap this source of funds far more readily than Tunisian corporations. While large private enterprises have recently shown interest in the possibility of direct borrowing from foreign banks -- especially the Arab-European banks such as UBAF --and the rates quoted for medium-term loans (8 percent - 8.5 percent) did not appear excessive, the Central Bank has yet to allow any large direct foreign exchange borrowings by private enterprises, and all recent requests for authorizations for such borrowings have been rejected.

5.19 The volume of new equity issues cannot be exactly determined. The available data does not distinguish between genuine public issues of new shares and earnings retention, or between the financing of new and existing enterprises. Nevertheless, some general observations can be made on the role of new equity issues in investment finance. Public enterprises -- especially in the manufacturing sector -- are frequently undercapitalized and are marginal profit-makers. In the past, their expansion was financed by borrowing rather than by new share issues. It is unlikely that these enterprises can broaden their ownership in the near future without major reorganization. The volume of genuine new share issues by Tunisian private companies is also small. Some corporations with a reasonably broad ownership issue new shares in the form of rights but, as earlier noted, few shares are issued to the public, mainly because of the underpricing of rights. Some entrepreneurs avoid new public share issues in order to retain control of their enterprises. The only institutional source of venture capital is BDET, whose equity holdings are mainly in relatively large enterprises.

C. Public Finances

5.20 The central government budget plays a major role in the finance system of Tunisia. In addition to the central budget proper, there are special

extra-budgetary funds and revolving funds, e.g. annexed budgets 1/; autonomous budgets 2/; fonds speciaux 3/; and fonds de concours 4/, social security funds and local government budgets of municipalities and governorates. The extra-budgetary and revolving funds are subject to more lenient budgetary rules. The revenue and expenditure accounts of extra budgetary funds are presented to the legislature as an appendix to the general budget. In the case of the revolving funds, only the net deficits or surpluses are reflected in the central budget accounts.

5.21 Local governments, governorate and municipalities, play only a minor part in mobilizing resources. Local authorities are largely financed by the Central Government and have no treasuries of their own, their cash balances being managed by the national Treasury. Their powers of taxation and borrowing are very restricted.

(i) Taxation

5.22 (a) Outline of System: The fundamental features of the Tunisian tax system were inherited from the French Protectorate. Modifications introduced into the tax system since independence related mainly to agricultural taxes and such matters as enforcement, rates, coverage, and tax incentives.

1/ Annexed Budget (Budget annex): Government services and activities of industrial and commercial nature that do not possess a separate legal identity.

2/ Autonomous Budgets (Budgets autonomes): These are the budgets of etablissements publics, such as schools and hospitals, which possess a legal identity and carry on administrative rather than commercial activities. They are subject to the same rules for current expenses as the general budget, and their capital expenditures are appropriated in the general budget.

3/ Special funds of the Treasury (Fonds speciaux du Tresor): These accounts are opened in the Treasury in order to earmark certain receipts for specified purposes. The balances of these accounts can be carried forward to subsequent fiscal years. Such funds have existed since 1956. The number of special funds decreased from about 40 in 1965-1966 to 15 in 1973 for a total expenditure of D 23 million.

4/ Participation funds (Fonds de Concours): These are the Treasury accounts in which the contributions of the private sector to the costs of some public activities are accumulated. The balances of these accounts, too, can be carried forward indefinitely to be spent for the same purpose. The creation of these accounts, which held almost D 5 million at the end of 1973, enables ministries to avoid strict budgetary expenditures rules.

5.23 Tax rate changes have been mostly in an upward direction. In three instances -- in 1965, 1968 and 1969 -- the rates of all direct and indirect taxes were raised by 10 percent, 5 percent and 10 percent respectively. Substantial tax deductions have been granted for new investments in enterprises or government bonds. After independence, the Government passed increasingly generous tax incentive legislation; in 1958 new enterprises were exempted from the effect of tax increases for a certain period; in 1962 profits reinvested in government-approved new shares and bonds were exempted from income tax. The Investment Law (1969) codified existing incentives and introduced some new exemptions (such as farm buildings tax, registration tax, and import duty on equipment). The Export Promotion Law (1971) granted full refund of internal excise duties on exports, as well as a part of the profits tax.

5.24 Each new incentive law first confirmed the existing exemptions, and then introduced new and more generous exemptions. The consequent revenue losses grew more rapidly than the investments in respect of which they were granted, particularly after 1969. The annual revenue loss due to the exemptions granted by the Investment Law of 1969 alone was estimated by the Mission to be around D 7.5 million on conservative assumptions. These amounts should of course be compared with the tax revenues obtained through the creation of enterprises that would not have come into being without these incentives.

5.25 Other tax reliefs were unimportant, limited in scope, and mostly benefitted self-employed professionals, small traders, low wage earners, agricultural income-earners, and consumers of specific products.

Table 5.6: GENERAL GOVERNMENT REVENUES AND EXPENDITURES
(as percentages of GDP)

	1961	1965	1968	1970	1972
Direct taxes	5.3	6.2	6.6	7.4	6.6
Indirect taxes	13.9	13.5	13.4	14.2	14.0
Total Taxes	19.2	19.7	20.0	21.6	20.6
Other revenues /1	3.1	3.5	3.7	4.6	4.1
Total revenues	22.3	23.2	23.7	26.2	24.7
Current expenditures	20.9	19.4	22.8	22.7	20.4
Savings	1.4	3.8	0.9	3.5	4.3

/1 Petrol revenues, social security receipts, property income, current transfers and international cooperation.

Source: Ministry of Planning. (Statistical Appendix, Table 5.3).

5.26 (b) Trends in Revenue: General government revenues as a ratio of GDP are high and show a rising trend. From 1961 to 1972, the ratio increased from 22.3 percent of GDP to 24.7 percent. During the same period, the share of the central government and of social security in total government revenues registered slight increases, while the share of local governments and extra-budgetary accounts declined (Statistical Appendix, Table 5.1). The increase in the share of social security follows naturally from the growth of salaried employment and the extension of social security to agriculture in 1970. The decline of the extra-budgetary receipts is due to changes in the budgeting system arising from the preference for "budgetized" procedures, and hence is formal rather than real. But the fall in the share of local government revenues is noteworthy in view of the increasing needs for local expenditure, and reflects the lack of adequate taxation power at the local government level, and in particular the failure to reevaluate the base of urban property taxes.

5.27 (c) Trends in Tax Revenue: The slow rate of increase of tax revenues in response to the growth of GDP and the tax base shows the low income buoyancy of the tax system. Tax incentive concessions have more or less attenuated the effects of the three general increases in all tax rates, the lowering of personal allowances for income taxes (in agriculture, in trade, and in some services), progressive increases in the rate of direct taxes, and improved enforcement measures. Taxes declined from 78.6 percent of current central government revenues in 1961 to 75.0 percent in 1972. Other treasury receipts also declined considerably, from 16.8 percent of total revenues in 1961 to 8 percent in 1972. The shares of direct and indirect tax revenues in GDP did not change much. The elasticity of both direct and indirect taxes was close to unity. Indirect taxes, which bring in more than three times as much revenue as direct taxes, continued to dominate the central government's revenues. The relatively slight increase in tax revenues may be explained by a very fast increase of petroleum revenues (pipeline dues and oil production profits) from 0.6 percent of the total in 1961, to 9.4 percent in 1972 and by the relatively high rate of tax evasion; during the period the yield of direct taxes, particularly those on business income and agriculture, did not improve much. Income taxes paid by the agricultural sector actually declined from their already low level of 3.8 percent of total revenues in 1961 to 1.8 percent in 1972.

5.28 Taxes on imports and exports represent a high percentage of total indirect taxes. Although important in the early 1960's, export taxes, levied mostly on agricultural products, were abandoned in the late 1960's in order to stimulate exports. In 1961, 42 percent of all indirect taxes were levied on foreign trade; in 1972 the proportion reached 46 percent. Due to the rapid growth of import and notwithstanding the exemption of equipment imports from import duties, the share of import taxes in total revenues has kept rising during recent years.

5.29 A law modifying custom duties was passed in 1973. The rates formerly ranged between 6 percent and 101 percent. The new law narrowed the range to between 2 and 6 percent. The new customs tariffs are based on the following principles: (i) Low rates on investment and intermediate goods not produced domestically; (ii) Protective rates for goods that are, or can be, domestically produced; (iii) Higher rates on consumption and luxury goods.

Table 5.7: CENTRAL GOVERNMENT CURRENT RECEIPTS: 1961-1972
(millions of Dinars)

	1961	1965	1968	1970	1972
- Direct Taxes	11.7	13.8	21.0	31.9	42.6
Income Taxes	9.1	11.9	19.5	29.5	39.0
Agricultural Taxes	2.6	1.9	1.5	2.4	3.6
- Indirect Taxes	42.2	62.9	69.8	89.4	118.6
Excises on goods and transport	7.5	8.6	9.6	10.4	14.7
Import duties	5.8	9.7	6.7	10.0	13.6
Export duties	0.1	3.6	2.7	1.2	-
Customs fees	2.0	2.8	2.9	4.1	6.7
Turnover taxes	14.8	24.1	28.7	41.7	55.1
Registration taxes	3.2	3.7	4.3	5.4	7.6
Fiscal monopolies	8.8	10.4	14.9	16.5	20.9
- Petroleum Revenues	0.4	5.3	10.6	18.1	20.4
- Other Taxes and Revenues	2.8	5.8	11.9	15.9	17.4
Total (Title I)	57.1	87.8	113.3	155.3	199.0
Other Treasury Receipts	11.5	15.8	9.7	9.9	17.3
Total Current Revenues*	68.6	103.6	123.0	165.2	216.3

* Excluding transfer receipts

Source: Ministry of Planning

5.30 The general turnover tax is paid on imported products and domestic production. The tax on domestic production (including consumption tax, which is a supplement on some goods subject also to production tax) rose from 5.7 percent of total revenues in 1961 to 7.3 percent in 1971. The share of the other domestic component of the turnover tax, service taxes, rose from 1.5 percent to 3.0 percent. The usual effect of industrial development on the fiscal structure is a relative increase of tax revenue on domestic production. Despite progress in manufacturing industries this trend is not yet obvious in the Tunisian economy. Despite important tax exemptions granted to equipment imports and the disappearance of export duties, the relative importance of taxes levied on foreign trade remains high.

5.31 (d) Trends in Other Revenues: The form of revenue which increased fastest in the period 1961-1972 was oil production profits, which did not begin to yield revenue until 1967 but have become a major source of revenue (about 10 percent of the total). Recent increases in petroleum prices have increased the share of this source to 20 percent of total Government current revenues. Government profits from other enterprises and interest on loans are insignificant, although they increased during the last years of the decade (1.7 percent in 1971).

5.32 Other taxes and revenues, besides the profits of government enterprises transferred to the Treasury and interest on loans, include such diverse revenues as user's charges for government services, participation in the cost of government activities, proceeds of the sale of goods and services, duties and fines, arrears of abolished taxes, and rents on government properties. Receipts from these sources are not declining; on the contrary, they rose from 4.6 percent of total in 1961 to 8 percent in 1972. Most of these payments are either related to arrears on abolished taxes, duties and fines, or to the payments of other public administrative units for central government services.

5.33 If the sale of government services becomes such an important source of revenue that they can be financed solely by user charges, it is sound financial policy to separate them from the general budget. The policy of the government can also consider users as taxpayers, which is the case with fiscal monopolies. (Some of the government's market enterprises were created for this purpose). In any event, user charges have not become, and are not likely to become, an important source of general budget revenue.

5.34 Throughout the whole period, social security funds continued to create surpluses that kept increasing in absolute and relative terms. Their contribution to general government savings was about one-third or fourth of the total in recent years. Those surpluses are the net total of three separate funds: (1) Caisse Nationale de Securite Sociale, which provides family allowances, medical care and retirement benefits for non-government employees and agricultural workers; (2) Caisse Nationale de la Retraite: A retirement fund for government employees; (3) Caisse de Prevoyance Sociale: insurance for government employees against long illnesses. Of these three funds, the first has the largest coverage and highest premium revenue; it contributed half of all surplus accumulation over the period 1962-1971. The second, Caisse Nationale de la Retraite, although with only about one-third as much

premium income as the first, contributed as much to government surplus, since not many of the insured employees have yet reached retirement age. The third fund has a low turnover (about 4 percent of total premiums over the whole period), but after 1965 it started to show a small deficit, amounting to about 1 percent of the total surplus for the period 1961-1972.

(ii) Current Expenditures and Transfers

5.35 General government current expenditures represent a substantial proportion (about one-fifth) of GDP, which has remained more or less stable over the period 1961-1972, but their annual real rate of increase was high in the two years 1966 and 1968 (14.4 and 11.5 percent). A high proportion of current expenditures is spent through the central government budget. Some central government expenditures are made through two special Treasury accounts: fonds de concours, fonds speciaux, which are subject to less strict budgetary discipline. In recent years the relative importance of these accounts has diminished as a result of deliberate policy, and a further cutback is contemplated.

Table 5.8: GENERAL GOVERNMENT CURRENT EXPENDITURES BY AGENTS
(In percentage)

	1961	1965	1969	1972
General Government	100.0	100.0	100.0	100.0
Central government	78.2	77.4	78.6	81.5
Local government	7.5	7.0	5.4	4.6
Social security	7.1	8.5	8.5	8.4
Extra-budgetary funds	7.1	7.2	7.5	5.5

5.36 The other three public spending agents, namely, local governments, social security and extra-budgetary balances, dispose of a small proportion of total current expenditures. At about the same level in 1961 (each 7 percent of the total), their respective shares grew differently over the period; social security expenses increased slightly (to 8.4 percent), while the shares of local government and extra budgetary balances declined (to about 5 percent). While the decline in the relative size of the extra-budgetary funds is healthy, the relative decline of local government expenditures, due to the lack of elasticity in their revenue system and to their inadequate own power of taxation, is cause for concern because of the increasing needs for equipment.

5.37 Salaries constitute the largest (about 60 percent) and most stable part of the current expenditures of general government. In the 1960's, increases in this item were mostly due to the expansion of public services and the creation of new government organizations but, in the 1970's, to increases in individual salaries. The public consumption of goods and services was also a stable item of expenditure, comprising about 15 percent of the total.

(iii) Capital Budget Operations

5.38 General government capital expenditures are particularly high; about one-tenth of GDP (Statistical Annex, Table 5.3). Their relative importance rose in the first half of the 1960's and then declined. Other capital expenditures (transfers to enterprises, transfers to households, land purchases, loans and advances) were higher in the second half of the 1960's and the early 1970's than in the early 1960's. Government loans and advances were insignificant in the 1960's but represented more than one-tenth of general government capital expenditures in the 1970's. The rapid increase in loans over this period was the result of the Treasury's siphoning of liquid funds from the money market to use in government loans.

(iv) State Enterprises

5.39 Over the last decade, the investments of the state-owned and mixed enterprises increased about four-fold. As a proportion of GDP, the capital formation activities of these enterprises rose from 4.1 percent in 1961 to 7.3 percent in 1971. There is no complete data on the respective savings performances of public and private enterprises. But total enterprise savings indicate that, after a decline in the mid-1960's, the proportion of their investments financed from their own resources has again gone up although, as a group, they remain dependent on external finance. Public enterprises as a whole have been increasingly dependent on treasury funds and external resources to cover their current deficits. Since 1965, transfers from the general government to public enterprises have represented about 3.5 percent of the GDP yearly. Of these transfers, roughly one-third are needed to take care of current deficits and two-thirds to meet capital expenditures (Table 5.10).

Table 5.9: NET FLOW OF FUNDS BETWEEN GENERAL GOVERNMENT AND PUBLIC ECONOMIC ENTERPRISES

	1961	1965	1969	1972
In million dinars				
Current subsidies	4.1	5.5	6.9	12.0
Transfers to enterprises	6.0	14.5	22.4	22.7
Transfers from enterprises	1.3	1.2	3.0	1.9
Net transfers to enterprises	8.8	18.8	26.3	32.8
In percentage of GDP				
Current subsidies	1.2	1.1	1.0	1.2
Transfers to enterprises	1.7	2.8	3.3	2.2
Transfers from enterprises	0.4	0.2	0.4	0.2
Net transfers to enterprises	2.5	3.7	3.9	3.4

Source: From Statistical Appendix Table 5.2.

5.40 The measures recommended by the Commission of Rehabilitation dealt mostly with the results of deficits in the shape of heavy indebtedness, rather than with their causes. The recommendations included the consolidation of accumulated debts and adequate capitalization through increased government participation.

D. Deficit Financing and Monetary Policy

5.41 The need to reconcile investment plans with the maintenance of monetary equilibrium has presented an important problem, especially during the First Development Plan. The task of demand management was complicated by the dominant role of the Treasury, which evolved as a result of the lack of instruments at the disposal of the Central Bank. In recent years, the Government has been studying means to revive the role of the market in credit allocation, by providing the Central Bank with more suitable instruments of monetary policy and encouraging the development of a financial environment in which these could be effective.

5.42 The Government's domestic borrowing was not always long-term. Particularly when the First Three Year Plan, with its high investment targets, was launched, the Government resorted to extensive short-term financing to bridge the gap between its current surplus and its capital expenditures. The financing methods practiced included the siphoning of liquid funds from the economy (through Treasury deposits and borrowing from Banks) as well as the issue of currency. The resulting inflationary pressure spurred prices upwards and spilled into large foreign trade deficits, finally necessitating the 20 percent devaluation of the dinar in 1964. In the period that followed (1965-1968), monetary stability was preserved with a relatively lower level of investment. The period since 1969 has been characterized by rising investment and by a relative rise in prices.

5.43 Parallel with the devaluation, a series of stabilization measures were put into effect. First, long-term Treasury borrowing from the Central Bank was prohibited. The advances of the Central Bank were restricted to what was called for by the management of the budget, and limited to 5 percent of the budgetary revenues of the previous fiscal year. In the years that followed the stabilization measures of 1964, government net borrowing from the Central Bank was much lower than in the First Plan years. Treasury borrowing from the commercial banks declined as well. However, borrowing by state enterprises from commercial banks increased rapidly in 1965 and 1966.

5.44 Inflationary pressure started building up again after 1968, this time mainly because of a rapid increase in foreign exchange reserves, but after 1969 commercial bank lending to enterprises made possible by the Central Bank rediscount policy also added to the pressure. The Government's policy of reducing its net indebtedness to the Central Bank in 1971-1972 neutralized part of the pressure. Prices increased 3 percent in 1970 and 6.3 percent in 1971. Price increases in 1972 were negligible.

5.45 The effective management of the money market has become an important issue in the 1970's because of the increased liquidity of the economy. Because the Central Bank lacked a supply of readily negotiable bonds and equity, its capacity to absorb liquid funds by means of open market operations was limited. For this reason, in the 1970's, the Treasury has supplemented the efforts of the Central Bank by selling Treasury bonds to the commerrcial banks and depositing the proceeds with the Central Bank. Since the devaluation of 1964, demand has been contained sufficiently to avoid serious rises of the price level.

E. Fourth Plan Targets and Prospects

5.46 The growth and resource mobilization targets of the Fourth Plan do not represent a radical change from those of the past decade. The target growth rate of a 6.6 percent yearly increase in real GDP is comparable to that attained under the Third Plan (7.8 percent), but higher than those of the past decade and the Second Plan. Objectives of the fourth Plan are reviewed in chapter 9. For the public sector the only important change is the expected increase in government surplus. Though playing a relatively modest part in the financing of total capital formation, the expected government surplus represents an important effort for the public sector, given the present revenue structure and the Plan's public consumption targets.

5.47 In order to attain a 6.6 percent yearly growth over a particulary high 1972 base, the Fourth Plan proposes to invest 25.3 percent of GDP on the average, considerably more than the 21.6 percent already realized under the Third Plan. To finance this investment, both domestic savings and external financing are expected to rise as a proportion of GDP. Domestic savings are expected to rise from their average level of 17.7 under the Third Plan to 19.6 percent during the Fourth Plan, while external financing would rise from 3.8 percent to 6 percent. The bulk of the increase in domestic savings is expected to come from government surplus. During the Fourth Plan, the surplus is expected to rise on an average to 5 percent of GDP from 3.5 percent during the Third Plan.

Table 5.10: FINANCING NEEDS AND SOURCES OF THE FOURTH PLAN
(In Million Dinars)

	1973	1974	1975	1976	1973-1976 Total	Percentages For 1973-1976 Of Total	Of GDP
Gross fixed capital formation /1	276.2	330.6	342.5	375.4	1324.7	100.0	
Domestic Finance							
Government	46.8	58.0	66.0	71.5	242.3	25.7	5.0
Enterprises	80.8	106.0	108.9	118.1	413.8	43.8	8.5
Households	55.2	63.8	68.7	77.3	265.0	28.0	5.4
Financial institutions	4.9	5.7	6.4	7.0	24.0	2.5	0.5
Total	187.7	233.6	250.0	273.9	945.2	100.0	19.4
Foreign Savings	88.5	97.0	92.5	101.5	379.5	-	5.9
Total	276.2	330.6	342.5	375.4	1324.7	-	25.3

/1 Including increase in reserves.

5.48 According to the Fourth Plan, current government expenditure will increase at an average rate of 7.2 percent in real terms. The total public consumption of the central government, that is, current expenditures less current transfers, is planned to increase by 7.5 percent yearly. Current government expenditures and public consumption increased at similar rates over the past decade (1962-1972), against the background of a lower growth in GDP. The income elasticity of demand for public services assumed in the Fourth Plan is thus slightly lower than that during the past decade. This points to an underestimation of the projected level of public expenditures. This level of expenditure could easily be exceeded if welfare programs are enlarged or much needed extension services expanded.

5.49 Nearly eighty percent of central government current revenue comes from taxes, and it is important to determine how much revenue the present tax system can yield if GDP grows as projected in the Fourth Plan. A Bank mission projection based on the performance of the Tunisian tax system during the period 1961-1972 yielded figures that differed somewhat from the estimates of the Tunisian Ministry of Planning. These projections were based on the assumption that the present tax system will not change during the period of the Plan. Furthermore, they did not take into account non-tax revenues, particularly petroleum revenues, local government and social security transfers, for which the projections of the Ministry of Planning were used.

5.50 The difference between these estimates of current receipts over the whole Fourth Plan period was about D 50 million. It represented a small fraction (7 percent) of total predicted investments, but was high enough to create short-term imbalances. Moreover, should the projections of current expenditures prove to be underestimated, the general government savings would have been still lower. Therefore, the expected increase in government savings was not likely to be secured under the present revenue system.

5.51 However, as a result of the increase in petroleum prices at the end of 1973 and increases in prices of other commodities, such as phosphates and olive oil, the basic assumptions have substantially changed. On the one hand Government petroleum revenues will more than double, rising from one-tenth of current receipts in 1973 to one-fifth in 1974. On the other hand other fiscal revenues - direct and indirect taxes - will be higher than originally forecasted due to the more rapid economic growth which will result from improved terms of trade. From the new projections (chapter 9, part E), central government savings is likely to double in 1974 in comparison to 1973 and exceed by more than one-third original forecasts for the Plan period. However, the expected increase in Government savings would be of lesser importance if the expected increase in import prices and domestic prices were to be offset by a decrease of indirect taxation.

5.52 Notwithstanding the increased contribution of the Government's current surplus to domestic savings, its investments are projected to decline from 30 percent of total capital formation in the Third Plan to 24 percent during the Fourth Plan. This decline is due to the emphasis of the Fourth Plan on productive investment. Government savings however was expected to remain lower than their investment but was to finance a larger share of these than the share realized during the Fourth Plan (85 percent compared with 69 percent). Recent developments would now allow general Government savings to finance total general Government investment (excluding capital transfers to public enterprises).

5.53 The Government planned to borrow more heavily in the domestic capital market under the Fourth Plan. It was expected that domestic borrowing will finance 27 percent of the government's capital expenditures during the Fourth Plan. It financed 11 percent under the Third Plan. The relative importance of foreign borrowing in government capital expenditure was to decline from 28 to 23 percent, despite the increased share of foreign financing in total gross capital formation. Debt repayment was expected to remain stable - 21 percent of the total under the Fourth Plan instead of 19 percent under the Third Plan. The Treasury is still expected to obtain deposits, but their relative size would remain low (6 percent under the Fourth Plan instead of 4 percent under the Third Plan). The contribution of savings deposited with the Caisse Nationale d'Epargne, however, is expected to rise rapidly (from 1.5 percent of government capital accounts to 4.5 percent).

5.54 Although an active borrowing role is assigned to the Treasury, its loan operations would remain low: 4 percent instead of 4.6 percent of the capital budget account. Resources mobilized through domestic borrowing would be used mostly in the capitalization of existing and new state enterprises

or in participations in other enterprises. The funds used for equity investment, which represented one-fifth of capital expenditures under the Third Plan, are expected to rise to one-third under the Fourth Plan. As in the past, the role of the Treasury in the capital market would be closer to that of a holding company transforming long-term borrowing into equity capital than that of a bank active in borrowing and lending.

5.55 The savings capacity of the public enterprises was to be one of the determining factors in the financial equilibrium of the Fourth Plan. However, the Plan did not explicitly state their savings target. Only total savings expected from enterprises, both public and private, were given explicitly. As a whole, enterprise savings were expected to decline from 11.7 percent of GDP in 1972 to 8.5 percent during the plan period. Although this was not stated explicitly, the factors responsible for this decline were either the expected deficits of public manufacturing enterprises, or the less extensive use of monopoly pricing by public sector commercial enterprises, or both. The contribution of households savings, which were expected to rise from 4.7 percent of GDP in 1972 to 5.4 percent during the Fourth Plan were to be small in comparison.

5.56 Apart from the projected increase in government savings, the increase of 65 percent in national savings needed for the Fourth Plan was to be achieved through recourse to the financial market and by increasing the utilization of the liquid resources of the banking system. It is proposed to float some 65 million dinars of bonds to be subscribed by public enterprises and households. Some D 20 million will be floated directly by the State, D 26 million by banks and D 19 million by other financial institutions. The capacity to achieve this will depend on continued confidence in the economy, the development of the financial institutional framework and on an efficient mechanism for mobilizing and allocating resources.

F. Fiscal Policies

5.57 The objectives of fiscal policy under the Fourth Plan are to favor the best combination of factors of production, to improve fiscal equity, and to contribute to regional development, which despite past improvements in the Tunisian fiscal regime still represent major shortcomings. During the period of the Fourth Plan, it is proposed to introduce a value added tax in three successive stages by (1) suppressing authority for financial deductions in the application of the tax on production, as from the beginning of 1974; (2) extending the tax on production to all productive agents in the building and energy sectors and other selected sectors as from 1974, and to other sectors from 1975; (3) extending the tax to payments for services, in particular in the transport sector, during the course of 1975. By the end of 1975, the value added tax is to cover all economic activities other than agriculture and financial services. In the case of commerce, in view of the difficulty of drawing a sharp dividing line between wholesale and retail trade, businesses which do not clearly fall into one category or the other will be allowed a choice.

5.58 In the field of direct taxation, which accounts for a relatively small part of total tax revenue, the Government sees the problem as being one of considerable tax evasion by all social classes other than salaried personnel subject to tax at source. The government wishes to use direct taxes more clearly because of their obvious advantages as instruments to control inflation, provide revenue and increase savings. To accomplish this it is planned to strengthen the administrative structure and to extend the range of taxable items. During the period of the new Plan the Government proposes to establish a closer liaison between census activities and those of tax control, to expand the collection administration, and to develop a system of instalment payments of taxes tied to a number of indicators of economic activity. It is proposed to abandon the categorization by nature of tax and to replace it by a classification based on socio-professional groupings and to charge these groups with responsibility for controlling member registration for tax purposes. Measures to extend the tax base constitute another important objective. In addition, a number of studies would be undertaken (i) to review the progressive nature of tax on the groups subject to taxation at the source; (ii) to modify the rate of progressiveness in order to lighten the impact on small incomes and to increase it on higher revenues (implementation of any new proposals would be delayed until the tax net is made more universal); (iii) to introduce a number of minor changes covering taxation on patents, provisions for depreciation, raising of minimum income ceilings and those affecting the revision of balance sheets, deductions in favor of pensions, exemptions, etc.

5.59 During the past decade, increases of tax rates were largely offset by the exemptions granted to stimulate investment and saving. As a result, the coverage and structure of the Tunisian tax system became less equitable. A better coverage of agricultural and property incomes and capital gains, and a unification of the rates for incomes of various kinds are needed to achieve equity at the same levels of income. The heavy reliance upon import duties needs reconsideration, and taxes on domestic production will need to be increased as domestic industrial production expands. Moreover, local governments should be given increased tax power to meet their expanding current expenditures and to create a surplus for financing their own investments.

5.60 Tax incentive legislation is proving costly in terms of government revenue foregone. It also favors capital intensive techniques at the expense of employment. A revision of incentive legislation has been carried out particularly to encourage employment, especially with respect to unskilled workers. The new draft law is described in Chapter 7.

5.61 The financial performance of state economic enterprises remains a major issue. When they enjoy a situation of de facto monopoly a surplus is not necessarily an indication of effective management. On the other hand, those exposed to some degree of competition show large deficits. Financial reorganization of a small number of key enterprises has made considerable progress but, except in two cases, has not been accompanied so far by the technical reorganization, rationalization and strengthening of management required to convert many enterprises into profit making bodies. No firm decision has yet been taken to distinguish between deficits incurred under conditions of competition and those resulting from political decisions imposed by the government. The latter should be met from the government budget.

5.62 In line with the increased emphasis on regional disparities and the need for rural and regional development, the Fourth Plan provides for efforts to decentralize and strengthen the economic and social structures in the interior. The Plan sets aside funds for financing of rural development, the development of local and regional institutions which will eventually take over national efforts in these fields, and for manpower and financial resources. Three series of measures are under consideration: (i) improvement in recovery of land taxes, (ii) eventual transfer of certain national taxes to regions and finally, (iii) a new policy of allocating resources from the common funds for local government. The tax on property is the relic of a multiplicity of legislation dating back to the beginning of the century and lacks equity and is difficult to apply. Property tax applies to the rental value of a building whether used as private housing, the exercise of a profession or for other business purposes, and the evaluation of the tax in each case gives rise to interminable disputes between the communes and the tax-payers.

5.63 In the past decade domestic savings were channelled into Treasury bonds in line with the government's policy of restricting long-term bank lending, and obliging the banks to purchase government bonds; tax free government bonds were also more attractive to investors than available alternatives. Since 1969, the impact of both of these forces has diminished. The Government has modified the restrictions on long-term lending, and a more favorable climate for private investment has developed. However, the tax exemption of Treasury bonds should be abolished in order to place public and private borrowing on an equal footing.

5.64 In the Fourth Plan the Treasury will continue to mobilize a large proportion of private savings to provide equity capital for state enterprises. To encourage financial institutions to take-up government issues, it is proposed to associate each issue with a particular sector of national importance, one bank being nominated as responsible for the necessary publicity and other procedures for the loan. In certain cases some form of marketability or system of transfer might be envisaged, and consideration is being given to other incentives, including a State guarantee and some form of tax exemption. Laws 62-75 of 1962 provide for certain incentives to encourage participation by enterprises in other enterprises, but at the expense of reinvestment. It is proposed to revise and extend application of this law. Changes would concern exemptions allowed, distinguishing between income originating from reinvestment in the enterprise or subscription to the capital of another enterprise.

5.65 As regards the liquid resources of the banking system, including the postal checking system and the system of savings for home construction, the Plan provides for a re-examination of rates of interest, and special incentives to encourage banks to make greater use of their resources. The measures provided in the Plan to encourage the mobilization of private savings and to increase their role in development and those concerning more generally the money and credit policy are analyzed in Chapter 6.

6. FINANCIAL INSTITUTIONS AND POLICIES

A. Banking and Investment Institutions

6.1 Tunisia's banking system comprises the Central Bank of Tunisia, which is the bank of issue, 12 deposit money banks, 3 development institutions, Postal Checking accounts, the National Savings Fund, 1 development finance company, a number of local mutual credit banks, and several insurance companies. In addition, the Treasury receives deposits and performs some banking operations for government agencies and public and semipublic enterprises. The Banking Law 67-51 of December 7, 1967 sets forth the conditions governing the operations of domestic and foreign banking institutions.

(i) The Central Bank

6.2 The Central Bank (Banque Centrale de Tunisie (BCT)) began operations on November 1, 1958. The Bank has its headquarters in Tunis, and maintains agencies in Bizerte, Sfax, and Sousse. The capital of the Bank, as authorized by Law 58-110 of October 18, 1958, is D 1.2 million, all subscribed and paid up by the Government. The principal functions of the Central Bank are to issue currency and to maintain official foreign reserves so as to safeguard the international value of the currency. In performing these functions, the Central Bank formulates overall monetary and credit policies, including exchange regulations. It acts as banker and fiscal agent to the Government and may also act as banker to the deposit money banks and other credit institutions. It does not engage in direct lending to the private sector.

6.3 As banker and fiscal agent of the Government, the Central Bank receives deposits and makes payments on behalf of the Government; it may also discount for the Government or accept as collateral customs duty bills, and provide it with direct advances. Short-term advances to the Government may not exceed 5 percent of the previous year's actual ordinary budget revenues and are available in full or in part for not more than 240 days, consecutive or not, out of a calendar year. Before 1970, by increasing its deposits with the Postal Checking System, the Central Bank had indirectly provided financing to the Government on a scale exceeding that of the direct financing authorized by the statutes. Within the framework of a program designed to improve public finances, a law provided for a consolidation of government borrowing through the Postal Checking System, which on March 31, 1970 stood at D 42.5 million. This borrowing was converted into a permanent advance of D 25 million and the balance into a long-term loan repayable over a 40-year period. The law also provided that henceforth direct long-term advances would be fixed annually within the provisions of the Budget Law.

6.4 As banker to the deposit money banks and other credit institutions approved by the Board of Directors, the Central Bank accepts deposits from them and makes payments on their behalf. It may discount Treasury bills or securities guaranteed by the Government maturing within three months or accept them as collateral for temporary advances. The Bank is also authorized to

rediscount or accept as collateral commercial paper with a maturity not exceeding three months, or six months in certain cases approved by the Board of Directors. It may also rediscount credit for crop financing for a period of time not exceeding nine months. The Central Bank is empowered to rediscount financial paper related to medium-term credit extended by the deposit money banks or other credit institutions and previously approved by the Ministry of Finance. Such credit must aim at developing production capacity or financing certain exports or housing and must have received prior authorization by the Central Bank. The Board of Directors periodically determines the overall maximum amount of medium-term credit that may be rediscounted.

6.5 Finally, the Central Bank may grant deposit money banks advances against gold, foreign exchange, and certain securities other than Treasury bills for periods not exceeding three months and renewable. It may also purchase and sell on the money market Treasury bills with maturity not exceeding six months and rediscountable private paper. These operations can be performed in favor of the Treasury and issuing agencies. The total amount of Treasury bills discounted, rediscounted, accepted as collateral or for temporary advances, and/or purchases on the money market may not exceed 10 percent of the previous year's actual ordinary budget revenues.

6.6 In order to control the overall volume of credit extended by the deposit money banks, the Central Bank relies primarily on the following: (a) changes in the rediscount rate; (b) prior approval of Bank loans above specified amounts; (c) various types of rediscount ceilings; (d) different ratios affecting the operations of the deposit money banks, including a minimum ratio of employment of deposits for medium term credit (10 percent) and a minimum liquidity ratio of 60 percent between liquid and other negotiable assets and their short-term liabilities, a solvency ratio of 10 percent between their capital and surplus and their deposit liabilities; (e) variable reserve requirements; and (f) moral suasion and instructions to banks. While the Central Bank has made use of all these tools since its establishment, it has relied excessively on quantitative and direct controls.

(ii) The Deposit Money Banks

6.7 There are twelve deposit money banks operating in Tunisia, nine of which are Tunisian and three are foreign. The Tunisian banks registered as deposit money banks are: the Societe Tunisienne de Banque (STB), the Banque Nationale de Tunisie (BNT), both mainly government-owned, the Caisse Mutuelle de Credit Agricole en Tunisie (CMCAT), 1/ the Banque Franco-Tunisienne, the Banque du Sud, the Banque de Tunisie, the Credit Foncier et Commercial de Tunisie, the Union Internationale des Banques, and the Union Bancaire pour le Commerce et l'Industrie. The three foreign-owned deposit money banks are the Arab Bank, the British Bank of the Middle East, and the Societe

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1/ CMCAT is at present in the process of liquidation.

Marseillaise de Credit. The larger deposit money banks are the two public banks (STB and BNT), which account for more than two thirds of total credit to the economy and receive less than half of total deposits. While the former is mainly engaged in extending credit to the industrial sector, the latter concentrates on agricultural financing.

(iii) The Postal Checking System and the National Savings Fund

6.8 The Post Office accepts demand deposits through the Postal Checking System from the private sector, the Central Bank, deposit money banks, public corporations, and the Government. Private sector deposits with the Postal Checking System accounted for about 5 percent of demand deposit with banks at the end of 1972. The National Savings Fund (Caisse Nationale d'Epargne) was established in 1956 and is administered by the Post Office. Savings deposits with this Fund amounted to D 13.4 million at the end of 1972.

(iv) Other Financial Institutions

6.9 Other financial institutions operating in Tunisia include three development financing institutions, the Banque pour le Developpement Economique de Tunisie (BDET), the Banque Generale d'Investissement (BGI) and the Compagnie Financiere et Touristique (COFITOUR), 45 Caisses Locales de Credit Mutuel, the Societe Financiere et de Gestion (SOFIGES), and several insurance companies.

(v) The Interbank Money Market

6.10 For some time there has been a structural imbalance within the Tunisian banking system; while some banks have had an abundance of loanable funds, others have experienced difficulties in finding sufficient resources to meet legitimate requests for loans. The volume of demand and time deposits accruing to private banks has generally been larger than their direct use, while the public banks did not have all the funds needed to meet their commitments. This imbalance has been corrected through the channeling of special lending funds to the latter banks and through the operation of an interbank money market in which the Central Bank acts as a clearinghouse and determines the interest rates applicable in this market. To encourage private banks to undertake more direct operations, Central Bank intervention has also ensured that the rates of interest on inter-bank loans of up to 28 days have not exceeded 4.5 percent. During 1970 the funds channelled through the interbank money market averaged D 5.5 million a month. This average declined markedly in 1971 and first half of 1972 because of the increase in liquidity of all banks.

Table 6.1: KEY INDICATORS OF THE COMMERCIAL BANKING SYSTEM

(In Million Dinars)
Year-end

	1968 (Dec.)	1969 (Dec.)	1970 (Dec.)	1971 (Aug.)	1972 (Aug.)
Capital and Reserves	21.5	26.3	29.0	31.6	34.0
Sight Deposits	99.5	108.7	117.5	153.1	175.2
Term Deposits 1/	45.5	48.4	58.2	62.7	76.4
Government lending funds	15.0	16.2	17.0	19.0	27.7
Long-term foreign loans	11.4	14.6	18.1	24.8	27.3
Counterpart funds	10.0	10.0	10.0	10.0	10.0
Credit to the Government	27.0	29.5	32.2	29.9	41.3
Domestic loans	200.4	213.0	231.5	264.8	298.1
Assets	264.0	283.3	307.6	355.8	409.6

As Percentage Of Assets

	1968	1969	1970	1971	1972
Capital and Reserves	8.1	9.3	9.4	8.9	8.3
Sight Deposits 1/	37.7	38.4	38.2	43.0	42.8
Term Deposits	17.2	17.1	18.9	17.6	18.7
Government lending funds	5.7	5.2	5.5	5.3	6.8
Long-term foreign loans	4.3	5.1	5.9	7.0	6.7
Counterpart funds	3.8	3.5	3.3	2.8	2.4
Credit to the Government	10.2	10.4	10.5	8.4	10.1
Domestic loans	75.9	75.2	75.3	74.4	72.8
Assets	100.0	100.0	100.0	100.0	100.0

1/ Includes other quasi-monetary elements

Source: Banque Centrale de Tunisie, financial statistics

Table 6.2: SOURCE AND USE OF FUNDS IN THE BANKING SYSTEM

	Year-end (In Million Dinars)				
Sources	1968	1969	1970	1971	1972
Money	171.4	181.5	192.7	241.2	278.4
Quasi-Money	52.6	56.2	66.7	73.2	89.8
Special Resources	37.9	45.1	52.0	55.8	68.0
Net worth	24.9	29.8	33.0	36.1	39.1
Other	11.8	14.2	12.5	21.4	23.7
Total	298.6	326.8	356.9	427.7	499.0
Uses					
Net Foreign Assets	-11.9	-2.1	8.0	55.2	92.9
Credit to the Government provided by:	87.3	94.2	93.3	87.0	74.5
(a. Central Bank)	(43.8)	(48.7)	(45.1)	(39.1)	(11.0)
(b. Commercial banks)	(27.0)	(29.6)	(32.2)	(29.9)	(41.3)
(c. CCP /a of individuals)	(9.4)	(8.1)	(7.5)	(7.5)	(8.8)
(d. CNE /b)	(7.1)	(7.8)	(8.5)	(10.5)	(13.4)
Credit to the Domestic Economy	223.2	234.7	255.6	285.5	331.6
Total	298.6	326.8	356.9	427.7	499.0

/a Deposits by individuals in the Postal Checking Account.
/b The "Caisse Nationale d'Epargne".

Source: Banque Centrale de Tunisie, financial statistics.

6.11 Apart from intervening in the money market, the monetary authorities have also encouraged the joint financing of certain loans, especially loans for government-guaranteed projects which had previously been handled almost exclusively by government-controlled banks. In this context the aim of the authorities has been to regroup the short-term debts of the public enterprises under a banking pool arrangement and to redistribute them among all the deposit money banks. Such operations have already been carried out for some public enterprises such as the El Fouladh steel mill, the SOGITEX textile firm, and the SHTT hotel construction company. Some of these short-term debts have also been refinanced by medium-term credits.

6.12 The movement of some key indicators of the banking system between 1965 and 1972 is shown in Table 6.1. Although there has been little change in recent years in the relative importance of the various sources of funds, the uses of funds have undergone important changes, particularly since 1970 (Table 6.2). The Government steadily reduced its obligations to the banking system from D 94.2 million in 1969 to D 74.6 million by 1972. This reduction in government obligations affected the Central Bank, whose holdings of government obligations fell from D 48.7 million in 1969 to D 11.0 million in 1972. Commercial banks, on the contrary, increased their holdings of government obligations from D 27 million in 1968 to over 41 million by 1972, thus becoming the principal source of government borrowing.

6.13 The development of domestic credit in recent years is shown in Table 6.3. The special resources of the commercial banks are credits and grants from foreign governments, usually with special conditions attached (e.g. sector preferences, tied procurement). Compared with official credit to the economy, credits from special resources remained relatively stable around 20 percent of the total. The distribution of credit by term has changed since 1968; the share of short-term credit declined from 59 percent of the total official credit at the end of 1968 to 52 percent at the end of 1972, while medium and long-term credit, including short-term credits automatically renewed, rose from 41 percent to 48 percent of the total. Throughout this period, 55 percent of the medium and long-term bank credit came from ordinary funds and 45 percent from special resources. Despite the increase in the share of medium and long-term credit, it is apparent that the total of long and medium-term use by the banks remains lower than the total of their long and medium-term resources (See Appendix Table 6.5). The share of official credit rediscounted at the Central Bank remains relatively small at about 8 or 9 percent of the total. On the whole, the total credit to the economy decreased slightly in comparison to the GDP, from 35 percent in 1968 to 31.5 percent in 1972. However, this reduction was partly explained by the exceptional level of GDP in 1972, and in 1973 the relative importance of credit in the economy increased considerably.

Table 6.3: DEVELOPMENT OF CREDIT TO THE ECONOMY
(In millions of dinars)

	1968	1969	1970	1971	1972
Short-term credits	98.0	96.9	103.0	113.5	131.8
Long and medium-term credits	68.1	79.8	86.6	101.6	122.5
(a) out of special resources /1	30.2	35.4	38.5	45.2	58.8
(b) out of ordinary resources	37.9	44.4	48.1	56.4	63.7
Total credits recorded /2	166.1	176.7	189.6	215.1	254.3
of which (credits rediscounted at the Central Bank)	(16.7)	(15.2)	(16.1)	(11.8)	(22.2)
Credits not recorded /3	51.0	51.5	58.1	61.5	65.9
Total credits to the economy	217.1	228.2	247.7	276.6	320.2
(In percentage)					
Short-term credits	59.0	54.8	54.3	52.8	51.8
Long and medium-term credits	41.0	45.2	45.7	47.2	48.2
(a) out of special resources	18.2	20.0	20.3	21.0	23.1
(b) out of ordinary resources	22.8	25.2	25.4	26.2	25.1
Total credits recorded	100.0	100.0	100.0	100.0	100.0
of which credits rediscounted at Central Bank	10.1	8.6	8.5	5.5	8.7
Total credits to the economy in relation to GDP	34.7	33.6	33.2	32.1	31.5

/1 Including renewed short-term credits.
/2 By the Risks Office of the Central Bank.
/3 Chiefly short-term credits.

Source: Banque Centrale de Tunisie and Ministry of Planning.

(vi) Societe Tunisienne de Banque

6.14 The Societe Tunisienne de Banque (STB) is the single most important financial institution in Tunisia. Its activities cover the whole range of commercial banking, development finance, housing and tourism finance and, through its subsidiary, SOFIGES, portfolio management, brokerage and equity investment. It is the principal competitor of the commercial banks, development institutions and the specialized financial institutions, having the

advantage of size and readier access to resources. STB's equity capital, which was D 2 million in 1972 and rose to D 4 million in 1974, is 58 percent owned by the Government and state-owned companies, the rest being owned by private foreign and domestic stockholders.

6.15 STB was created in January 1957, shortly after independence, and was the first Tunisian-owned bank. From 1958 onward STB was increasingly able to obtain loans from external sources such as US-AID and KfW. STB started the development of tourism in Tunisia, and financed the tourism state company SHTT. STB played an important role as an instrument of government policy and was led to make loans the justification of which depended more on development objectives than on strict banking criteria; it could, however, turn to the Central Bank and the Government for help when difficulties arose.

6.16 Thus STB is more than a commercial bank, although it relies to a large extent on resources derived from its 37 branches in Tunisia (there are also two branches in France and one in Beirut) in the form of demand, savings and time deposits. STB holds about 35 percent of all demand deposits (including savings) and about 25 percent of all term deposits in Tunisia. About 40 percent of the demand deposits are those of public companies and public agencies. STB also handles the Government's non-agricultural lending funds, counterpart funds and international loans and lines of credit. STB has issued three long-term bond issues, D 1.1 million in 1959, D 0.9 million in 1965, and D 1.3 million in 1967, all at 5 percent. These bond issues are guaranteed by the Government, and are regarded as Government securities for such purposes as reserve requirements.

6.17 STB's operations fall into the following categories: (i) straight commercial banking; (ii) term lending to manufacturing companies; (iii) lending to state-owned enterprises; (iv) lending for housing and tourism; and (v) equity investment. (The activities of its subsidiary investment trust, SOFIGES, are described below.)

6.18 Sixty percent of STB's outstanding credit is in the form of short-term credits to the commercial, services, and manufacturing sectors. STB is subject to the Central Bank's "free limit" restrictions and the interest rates charged on its short term lending are regulated by the Central Bank. STB's liquidity ratio 1/ is relatively low; this low liquidity is due mostly to STB's financing of public enterprises by means of non-rediscountable short-term loans. To correct this, the Central Bank, while exempting STB from the 60 percent ratio regulation, organized an "interbank" money market through which more liquid banks can lend to STB. It is probable that between 40 and 60 percent of STB's short-term loans, if not more, are used to provide public companies with capital, either on a revolving basis (the loan being renewed every 6 or 9 months over several years) or, less often, as a prefinancing device (the short-term loan being replaced after one or two years by a medium-term loan).

1/ Cash-on-hand + deposits with Central Bank + funds lent on the interbank money market + deposits with correspondents + rediscountable bills, divided by short-term liabilities.

6.19 STB's term lending, excluding construction and mortgage financing, stood at over 25 million dinars in 1971. The majority of STB's term lending resources are derived from special lines of credit provided by the Government. Term lending with resources derived from STB's deposits is of secondary importance. STB also manages counterpart funds on behalf of the Government (French CCCE fund: D 12.6 million; Polish CET fund: D 0.5 million).

6.20 STB was for a time the only channel for funds for development in Tunisia. The situation is now changing as the Government is pursuing a policy of recapitalization and reorganization of its unprofitable enterprises and has stated its intention to provide subsidies, when necessary. At the same time, BDET is assuming a greater share of the responsibility for financing public enterprise.

6.21 As stated above, STB holds substantial equity investments, both directly and through its investment trust subsidiary, SOFIGES. STB's own investments, in 58 separate companies, stood at nearly D 5 million at end-1972, and had a participation of more than 20 percent in 22 companies. More than 80 percent of STB's equity portfolio is in public companies. The average STB participation in a public company is D 110,000, compared with an average participation in private companies of D 59,000. About 40 percent of STB's portfolio is in manufacturing enterprises, 30 percent in banks and insurance companies, and 25 percent in tourism and real estate. At least 30 percent of the portfolio consists of shares of unprofitable companies with little hope of profits in the near future. Less than 30 percent is invested in companies that distribute dividends. The most profitable sectors seem to be sea transportation and banks; the least profitable, tourism.

6.22 Another area in which STB has been very active is that of residential construction and mortgage finance. STB has D 18.2 million in outstanding mortgage loans. Nearly 60 percent of the housing units financed in this way were for government employees, and nearly 50 percent of the units were in the lower-middle income cost range from D 1,500 to D 3,000. Mortgages are for twenty years and are rediscountable with the Central Bank for the first five years. The rate is 5.75 percent for the first five years, and 7.65 percent for the last fifteen years, when STB cannot rediscount them.

6.23 STB provides most of its mortgage financing from its deposits. In addition, the proceeds of the bank's two "Emprunt Foncier" bond issues, amounting to about D 2.4 million, are earmarked exclusively for housing finance. The Government has also provided STB with a D 4.5 million medium-term loan to finance home improvement. Nearly D 3.8 million of this line of credit have been drawn down. STB may lose its role as the main institutional source of mortgage finance if the proposed Caisse nationale d'épargne-logement is established.

6.24 STB has been active in the field of promotion. It has undertaken the creation of several public companies, making financial arrangements and engaging personnel. In the course of this work, STB's Promotion Department, whose staff is of high quality, has given much assistance to foreign as well

as to Tunisian investors. It is now concentrating on the promotion of export-oriented industries in the context of the April 1972 incentive law. Recently, STB has been cautiously moving towards a more independent position vis-a-vis the government. It has increased its lending to private enterprises and has attempted to sell some of its participations in public enterprises.

(vii) The Development Institutions

6.25 The Societe Nationale d'Investissement (SNI), now called Banque pour le Developpement Economique de la Tunisie (BDET), is the largest and most important development institution in Tunisia. Created in 1959 under the auspices of STB, SNI was intended to invest solely in equity. In 1965 SNI was reorganized as a privately-owned development institution, with IFC and IBRD financing. It entered into a collaboration agreement with STB, and the two institutions were headed by the same President until 1969. Since 1965, SNI has played an important part in the financing of industry and tourism.

6.26 Table 6.4 shows SNI's long term, short-term and equity resources as of December 31, 1972. SNI relied heavily on foreign borrowing (73 percent of total resources, 85 percent of total borrowings and 94.5 percent of total long term borrowings) and especially on IBRD loans (D 17.8 million, 58 percent of total resources). The cost of SNI's funds ranged from zero on the subordinated government loan to 7.25 percent on the most recent IBRD loan. The average weighted cost of SNI's total borrowings of D 26.3 million was 5.8 percent, and of its long term borrowings 6.42 percent. SNI's long term borrowing costs were therefore about 2 percent above STB's.

6.27 A few large institutional and corporate depositors, furnishes most of SNI's resources. One government agency, the Caisse de Prets aux Communes, has a non-interest bearing deposit of D 1.6 million, which represents a disguised subsidy for SNI. The other depositors are mainly SNI's borrowers. Since SNI has no branch network, it cannot compete effectively with the commercial banks for the deposits of individuals. In 1972 it was permitted to accept time deposits for up to 5 years. SNI has also considered the possibility of establishing branches or even of buying a commercial bank. In 1973 SNI successfully placed a bond issue of D 1 million at 5.75 percent for ten years, tax exempt, the first non-guaranteed private bond issue in Tunisia. It will have recourse to a capital increase and to another bond issue in the next few years.

Table 6.4: RESOURCES OF SNI AS OF DECEMBER 31, 1972 ('000 D)

Source	Amount	Cost (%)
A. Deposits	2,700.9	(0.43)
1. Interest bearing demand deposits	626.7	1.00
2. Term deposits	151.0	3.50
3. Blocked deposits and non-interest bearing demand deposits	1,923.2	0.00
B. Foreign long-term borrowings	11,278.3	(6.67)
1. SIDA	1,793.7	(6.20)
1	1,102.7	6.42
2	691.0	5.85
2. IBRD	9,484.6	(6.76)
449	1,139.2	(6.02)
512	3,858.1	(6.64)
618	3,619.2	7.00
798	868.1	7.25
C. Domestic long-term borrowings	1,017.5	(1.72)
1. BCT	140.0	5.00
2. CNSS	262.5	4.00
3. Government	6 5.0	0.00
D. Total long-term borrowings	12,295.8	(6.25)
E. Total borrowings	14,996.7	(5.21)
F. Equity and quasi-equity	4,420.0	-
1. Share capital	3,000.0	-
2. Reserves	920.0	-
3. Government's grant	500.0	-
G. Total	19,416.7	-

Source: SNI Balance Sheet, 1972

6.28 External borrowing will probably continue to be SNI's largest source of funds. SNI borrows not only from IBRD but also from bilateral agencies like SIDA and KfW. In the light of current conditions in the international capital markets, SNI could probably place bond issues of up to D 5 million in 1974, assuming, of course, approval by the monetary authorities of such placements by a private sector institution. However, access to foreign capital markets at reasonable cost to SNI will prove difficult. Nevertheless the Government set up a Development Fund with low-cost resources from the budget and bilateral credits, managed by SNI, which would thus have access to a greater pool of resources at lower cost.

6.29 SNI provides long term loans in dinars and in foreign exchange to industrial, tourism and transportation enterprises. The proportion of loans for tourism increased from 25 percent in 1966 to 63 percent in 1972. The proportion of foreign exchange loans decreased from 68 percent in 1966 to 55 percent in 1972. By the end of 1972 SNI had approved loans for D 29.3 million on which it had disbursed D 18.1 million. The principal sectors other than tourism to which SNI lent were textiles, foodstuff and transportation.

6.30 SNI's equity investments have been more successful since its reorganization in 1965. At end-1972 SNI held shares worth D 2.7 million in 39 companies, mainly in the foodstuff, mechanical and electrical industries and in tourism. SNI's average equity participation was about 11 percent. The portfolio now earns about 5 percent, a marked improvement over the years before 1970, and there seem to be good prospects for capital gains.

6.31 In 1964 regional investment companies, "Societes Regionales d'Investissements", were created in all Governorates, and SNI bought shares in two of them. These companies were intended to act as development banks for small enterprises at the regional level. It soon became apparent that they lacked adequate resources and qualified staff, and the experiment was not very successful. In 1968/69 the Government tried to persuade SNI to assume the general supervision of these companies, but SNI, seeing no prospect of profit, refused, and sold the shares it already held. By 1972, however, the outlook for the regional investment companies had changed, the Government and the Governors having decided to review their methods of operation. SNI therefore agreed, as a first step, to invest in two or three of them and to take part in reorganizing them.

6.32 The Banque Generale d'Investissement (BGI) was founded in June 1971 by a former manager of SNI. Its capital of D 520,000 was provided by a small group of private Tunisian businessmen. It is intended mainly to complement SNI by serving enterprises smaller than SNI's usual clients. BGI sees its role as threefold: long-term financing through loans and equity (especially the latter), in the style of a "banque d'affaires"; assistance in management and organization; the promotion of new business, in some cases by means of joint ventures with foreign investors.

6.33 BGI's first step has been to purchase a former French-owned commercial bank, the Credit Commercial et Foncier, thus following the current tendency of Tunisian banks to combine commercial and investment banking. In this

way the banks can cover all the financial needs of their customers and can have more complete access to business information. It also permits better promotional activities, since the commercial branches can refer investment opportunities to the investment unit.

6.34 COFITOUR (Compagnie Financiere et Touristique) is exclusively concerned with tourism financing. Excessive debt, much of it in the form of short-term bank credits, had led to the failure of some of the earlier tourism projects. COFITOUR, which is a mixed capital company, was set up in 1969 to provide long-term financing for tourism, which had previously been mainly financed by loans from SNI, STB and, to a lesser extent, from STAR.

6.35 COFITOUR has a capital of D 5.0 million, and a grant from the Government of D 2 million. Its long-term debt includes nearly D 6 million in 15-year government loans (at 4 percent), a D 4 million loan (at 6 percent) from counterpart aid funds, and a D 4 million (equivalent) loan from IFC (at 8-1/2 percent). The weighted average of its borrowing costs is thus 5.85 percent. The company charges a basic 8.5 percent on its long-term loans, a 1 percent study fee, and 1-1/2 percent on unutilized outstanding balances. COFITOUR has not yet made much effort to sell long-term financial instruments domestically, nor has it attempted to revolve its loan and equity portfolio.

6.36 If the objectives of the Fourth Plan for the tourism sector are to be met, more capital than is at present in sight will be needed. Part of this financing gap will be filled by foreign investors, but unless the Central Bank allows domestic private investors to borrow abroad, Tunisian developers will have to rely mainly on SNI, STB, and COFITOUR, especially the latter, for their long-term financing, and it will be desirable for COFITOUR to turn to the domestic capital market to augment its resources.

(viii) Credit to Agriculture

6.37 The Banque Nationale de Tunisie (BNT), formerly the Banque Nationale Agricole, is the principal source of credit to agriculture. In addition, it controls and administers 45 local mutual credit banks, the Caisses Locales de Credit Mutuel, which provide credit to small farmers.

6.38 BNT was created in 1959 and has a share capital of D 2.0 million, soon to reach D 4 million, of which the Government owns 25 percent, the government-controlled corporations and cooperatives 29.5 percent, the Caisses Locales de Credit Mutuel 23.8 percent, and private shareholders 21.7 percent. It has its headquarters in Tunis and maintains 23 local agencies in the countryside. BNT is administered by a Board of 11 members who serve for 6-year periods. The Board is chaired by the Managing Director and has 3 representatives of Government, 4 representatives of the government-controlled corporations and cooperatives, and 2 representatives of private shareholders. BNT derives its resources from its own capital, deposits, central bank rediscounts, and borrowing. Deposits with BNT, including time deposits, amounted to D 37.5 million at the end of May 1972. BNT has access to the rediscount facilities

of the Central Bank, which sets the various seasonal ceilings for the main agricultural crops. In addition, BNT administers "Special Funds" made available to it by the Government or by external agencies under a government guarantee for the financing of medium- and long-term credit to agriculture. BNT also extends substantial credit for industrial and commercial activities. Medium- and long-term outstanding credits extended by BNT amounted to D 16.4 million at the end of 1971. Private farmers accounted for 22.4 percent of these credits, the remainder going to production cooperatives. Depending on the source of the loan and its nature, interest rates for medium- and long-term lending vary from a low of 1.5 percent (for improvements) up to 5 percent (for agricultural equipment purchases).

6.39 The Caisses Locales de Credit Mutuel which are private cooperative agencies that extend credit to small farmers, were introduced for the first time in Cap Bon in 1963. Since then they have spread throughout the country, especially in the northern part. By the end of 1971 mutual credit banks were operating with a membership of 77,688 small farmers and a paid up capital of D 735,000. These banks extend credit mainly to the agricultural sector and also to small traders and craftsmen in the rural areas. The minimum capital of any mutual credit bank is D 25,000, of which one quarter must be paid up. The minimum value of a share is D 5. In addition, 1 percent of the amount of any loan extended by the bank to its members must be invested in its shares. Each mutual credit bank is controlled by a board of directors which evaluates and extends loans up to D 500. Applications for loans above this amount are forwarded to BNT for approval. Loans extended by these banks cannot exceed 90 percent of their subscribed capital plus 60 percent of their deposits. Moreover, outstanding credit to a borrower is limited to 50 times the amount of shares he holds. The interest rate charged on these loans is 6 percent. BNT provides rediscount facilities for the mutual credit banks at a rate of 4 percent or 5 percent, depending on the origin of the funds used by BNT for its rediscount operations (special funds or BNT's own funds).

6.40 Mutual credit banks may receive deposits from the general public in current accounts as well as in savings accounts. At the end of 1971 deposits with the mutual credit banks amounted to D 4.5 million, with credit extended by them amounting to D 3.9 million.

(ix) Insurance Companies

6.41 The insurance market in Tunisia is relatively underdeveloped, particularly in the case of life insurance which is not a large source of premium income. Premium income totalled about D 9 million in 1971, having grown at 6 percent per annum over the 1965-1971 period. As a percentage of national income, insurance receipts reached about 1.3 percent in 1971. The insurance market is dominated by the state-owned Societe Tunisienne d'Assurances et de Reassurances (STAR). STAR accounts for nearly 50 percent of premium income, and has grown much faster than the market as a whole. STAR's premium income reached D 4.5 million in 1971. The distribution of STAR's premium income among the chief categories of insurance is shown in Appendix, Table 6.9.

6.42 Insurance premiums are regulated by the Ministry of Finance and, as a result, do not always reflect actuarial requirements. Thus, from 1968 to 1971 life and acceptance insurance consistently showed a gross operating margin, while all other groups were loss-makers in one or more of the four years. In particular, automobile insurance experienced considerable ups and downs, moving from a D 224,000 loss in 1970 to a D 149,000 profit in 1971. During the 1968-1971 period, the cumulative losses on STAR's automobile insurance were over D 130,000 (see Appendix Table 6.9), reflecting premiums that had not been adjusted since 1956.

6.43 STAR's total assets in 1971 amounted to D 10.9 million, of which nearly D 5.1 million were in securities and real estate. By law, 70 percent of an insurance company's security and property portfolio must be in government securities. This obligation has been reduced to 45 percent for STAR. Each of STAR's investments has to be approved by the Minister of Finance, and STAR has played a prominent role in the capitalization of state-owned or private companies to which the Government has assigned developmental priority. In this way, STAR has been an important source of equity and loan capital for tourism.

6.44 STAR's investment portfolio is shown in Table 6.7. Nearly 55 percent is in fixed income government obligations, which in 1971 yielded nearly 5.65 percent on D 2.8 million of investments.

Table 6.5: STAR SECURITIES AND PROPERTY PORTFOLIO, 1971
(in 000 dinars)

Category I /1	
a. Government fixed income securities	2,794.5
b. Shares in ten Tunisian corporations /2	499.5
Category II /3	
a. Shares in 35 corporations	754.2
b. Foreign stocks	3.2
c. Loans to Tunisian corporations /4	363.1
d. Real estate	491.2
e. French bonds	178.9
TOTAL	5,084.7

/1 No limitation on the amount of permissible investments.
/2 The ten companies are either state-owned (e.g. Societe el Fouledh, Compagnie Tunisienne de Navigation) or of a "developmental" character (SNI, Cofitour).
/3 Cannot exceed 55% of total portfolio.
/4 Loans to tourism companies.

STAR's equity portfolio in 1971 stood at D 1.2 million, distributed among 10 companies, either state-owned or of a "developmental" character, and a further 35 companies in the private sector. STAR has also made loans to private tourism enterprises amounting to D 363,000. The yield on the equity portfolio and the loans for tourism was nearly 4.4 percent in 1971. Real estate investments of D 491,000 generated revenues of D 15,000, i.e. 3.5 percent.

6.45 Agricultural sector insurance in Tunisia is dominated by the "Caisse Tunisienne d'Assurances Mutuelles Agricoles" (CTAMA), a mutual insurance company. In 1971, CTAMA generated premium income of about D 976,000, principally from hailstorm insurance (37 percent), agricultural vehicle insurance (19 percent), and work accident insurance (18 percent). Its securities and property portfolio stood at nearly D 1.1 million, of which slightly under 70 percent was in government securities, 12 percent in equities, and 18 percent in property.

(x) The Societe Financiere de Gestion de Portefeuille

6.46 The Societe Financiere et de Gestion (SOFIGES) was created in 1967 as an STB subsidiary to manage and to take over part of STB's equity portfolio. SOFIGES' equity capital, initially D 300,000, was increased in 1969 to D 600,000, of which STB holds 80 percent, private interests 13 percent and state-owned companies 7 percent. SOFIGES' other resources are a 14-year loan from STB of D 500,000 at 4 percent, a 22-year loan from the Netherlands Government (through STB) of D 725,000 at 5.6 percent, and an interest-free medium-term loan from COFITOUR of D 65,000. The average borrowing cost is 4.7 percent. SOFIGES relies heavily on short-term resources and on overdraft facilities with STB (estimated at D 760,000 in March 1973) at a preferential interest rate below the official rate of 8 percent.

6.47 The role of SOFIGES changed significantly in 1970 following the revision of economic policy and a change in STB's management. Having doubled its capital, SOFIGES started buying equity on its own in addition to the portfolio acquired from STB. SOFIGES is contemplating an increase in capital which would create a majority of private shareholders and enable it to become more of a "banque d'affaires".

6.48 Out of SOFIGES' total investments of D 2.8 million (as of March 1973), D 1.24 million is in unprofitable public companies. The remaining D 1.56 million is invested more profitably, D 1 million being in banks and insurance companies, D 0.16 million in fixed income Tunisian securities, and D 0.4 million in other securities (including some "blue-chip" investments in France). The overall return on the portfolio in 1972 was 2.47 percent, while the return on the "profitable" portfolio, i.e., that part of the portfolio not taken over from STB, was 5.5 percent. SOFIGES has never distributed any dividends, and operated at a loss in 1972. The liberalization of economic policy and the encouragement of private enterprise might be reflected in an increase in the demand for the kind of financial services that SOFIGES can provide, and it would then have an opportunity to play an active and developmental role in the country's capital market as a private investment company, subject to reorganization and recapitalization.

B. The Bourse and Securities Market

6.49 The establishment of the Bourse was authorized in February 1969, and it came into full operation in May 1970. The Bourse is a combination of an exchange and a regulatory authority. By law, the Bourse is authorized to: (i) organize the securities markets, (ii) regulate securities trading, (iii) promote securities ownership by the public, and (iv) establish listing criteria. In addition, all transactions in securities not listed on the Bourse must be reported to the Bourse, which must approve the price.

6.50 The Bourse is an autonomous government agency administered by a Bourse Committee of six members, three from the public sector, two from banks, and one from the Brokers' Association. The latter comprises the ten brokers (SOFIGES and nine banks) currently authorized. To qualify for the listing of its shares on the Bourse, a company must: (i) have a minimum paid-up capital of D 50,000, (ii) have been in business for not less than three years, and (iii) have paid at least one dividend. The current list contains 19 stocks, three pre-independence government bond issues, and seven bond issues of quasi-government agencies.

6.51 Tables 6.6 shows the volume of transactions on the Bourse from its inception up to April 1, 1972, for both regularly listed securities and over-the-counter transactions. Government stock has accounted for the bulk of the transactions in listed securities, whilst transactions in non-listed securities are overwhelmingly accounted for by share trading.

Table 6.6: THE BOURSE
(In Dinars)

	TRANSACTIONS IN LISTED SECURITIES			
	Government Stock	Bonds of Quasi-Government Entities	Shares	Total
May - December, 1970	438,678	14,539	62,417	515,634
1971	747,009	31,328	213,605	991,942
January - March, 1972	182,771	884	151,045	334,700
May 1970 - March 1972	1,368,458	46,751	427,067	1,842,276
	TRANSACTIONS IN NON-LISTED SECURITIES			
	Government Stock	Bonds of Quasi-Government Entities	Shares	Total
May-December, 1970	389	6,244	310,602	317,235
1971	27,509	8,304	1,884,547	1,920,360
January-March, 1972	3,496	3,376	234,827	241,699
May 1970-March 1972	31,394	17,924	2,429,976	2,479,294

Turnover on the Bourse is very small. On the nineteen share issues listed in 1971, with a market capitalization of D 25 million, turnover was only D 213,000, or slightly over 0.8 percent. Similarly, the volume of listed bonds outstanding in 1971 was about D 16 million, but trading amounted to only D 778,000, or about 5 percent of the volume outstanding. Brokerage costs are fixed by the Bourse, which receives one-half of all brokerage revenues.

6.52 The Bourse can provide valuable services in the placement and trading of government and corporate securities. There are, however, several obstacles to its developing more active trading, ranging from investor preferences to taxation. The most acute problem is to increase the supply of securities, including securities in already listed companies.

C. The Regulatory Framework And The Capital Markets

6.53 The government recently undertook to reduce its direct intervention in Tunisia's economic life and to ease its regulations. It is now considering how this new policy can be extended to the financial sector, which continues to operate under detailed regulations issued by the Central Bank and, although to a less extent than in the sixties, is expected to accept investment decisions made by the Ministry of Planning and the Ministry of Finance. The monetary authorities continue to regulate the rate of interest payable on deposits and on the various types of loans and, until quite recently, investment in state-sponsored enterprises was more or less obligatory. In effect, in the past decade the authorities, in their concern to put Tunisia's limited resources to best uses, had regarded the financial sector as a conduit for the flow of funds in directions which they, and not market forces, determine.

6.54 The Central Bank exercises a close control over the kinds of loans, and their terms, rates, and discountability, made by the commercial banks and the insurance companies. All short-term credits of more than D 5,000 qualifying for rediscount, all other short-term credit of more than D 50,000, and all medium-term credits of any amount require specific Central Bank approval. Moreover, prior approval by the Central Bank for all medium-term credits depends, in the case of new projects, on prior approval of the investment proposals by the Ministry of the National Economy. Approval of an investment also determines the maximum amount of borrowing authorized for that investment.

6.55 A legal minimum of 30% of commercial bank deposits must be invested in Treasury securities or other government obligations. A minimum of 10% of the deposits of a commercial bank must be invested in medium-term loans before any medium-term loans can be rediscounted for that bank. Lending by commercial banks for more than five years is forbidden except for resources derived from foreign loans, government deposits or counterpart funds. The capital, reserves and surplus of banks can be invested in equities or in fixed assets. A regulation limiting to 20 percent the proportion of any particular company's equity capital that can be held by the commercial banks has not been strictly enforced.

6.56 The burden of such investments and credits to the profit of the public enterprises has fallen almost entirely on government-owned financial institutions and, in particular, on the two banks, the Societe Tunisienne de Banque (STB) and the Banque Nationale de Tunisie (BNT), and on the insurance company, the Societe Tunisienne d'Assurances et de Reassurances (STAR). These three institutions have played a central role in the Government's credit and capital market policies.

6.57 The obligation to purchase government securities imposed on the banking system now helps to restrain the broadening of the securities markets. This obligation was justified during the last decade by the policy of direct government intervention in economic activity which played an important role in mobilizing and using savings. Government debt issued for purchase by the banking and insurance sector is either in the form of ten-year bonds ('bons d'equipement') or three, six and nine-month Treasury bills. The bills and most "bons d'equipement" are non-negotiable. The public marketing of government debt has been limited to three post-independence issues, the last in 1967. The offering to the public of government securities with competitive yields and with maturities reflecting the investment preferences of different classes of investors would substantially broaden the capital market and introduce the possibility of open market operations as a means of credit management.

TABLE 6.7: RATES OF COMMERCIAL BANK SHORT AND MEDIUM-TERM LOANS /a

	Rediscountable		Non-rediscountable	
Short-term	Min.	Max.	Min.	Max.
Commercial				
Domestic	5.75%	6.50%	6.25%	7.50%
Foreign	4.75%	5.75%	5.25%	6.50%
Export	4.75%	5.75%	5.25%	6.50%
Other/b	5.75%	7.50%	6.50%	8.50%
Medium-Term				
Residential construction finance with state guarantee	5.50%	NR/c	NR/c	NR/c
Agricultural equipment	6.25%	7.25%	NR/c	NR/c
Industrial plants	6.25%	7.25%	NR/c	NR/c
Other	7.25%	8.00%	NR/c	NR/c

/a Unchanged since 1966.
/b Includes several categories whose rates are set between the above minimum and maximum levels.
/c Not regulated.
Source: Banque Centrale de Tunisie (Appendix, Table 6.8).

6.58 Government intervention in determining interest rates for both saving and lending is relatively extensive and has resulted in a multiplicity of rates. It has also made it possible to effectively insulate Tunisian capital markets from external influences, resulting in a relatively low interest rate structure, shown in Table 6.9. The interest rate structure today reflects the availability of a large volume of concessionary external aid, the rigorous limitation of private borrowing abroad and of all borrowing through suppliers credits. In other words, the resource gap is being filled on terms significantly below market rates. As a result, the interest rate structure is not sufficiently representative of the opportunity cost of capital that might exist in an open market situation, and which might well range above 10 percent.

6.59 Interest rates charged by the banks on rediscountable short-term and medium-term loans are all strictly regulated by the Central Bank. The rates are determined by adding to the official rediscount rates percentages of between 1.5 and 2.5%, varying according to the type of credit. Interest rates on short-term lending range from 4.75 percent to 7.5 percent for rediscountable paper. For certain transactions, such as the financing of exports, seasonal crops, claims on Government and stocks of some products, rediscount rates are lower. Rates on non-rediscountable short-term advances and credits are free and at the present time vary from 5.25 to 8 percent. Medium-term loans to agriculture and industry carry rates between 6.25 and 7.25 percent, provided that they are rediscountable. Other rediscountable medium-term credits are subject to rates between 7.25 percent and 8.0 percent. For non-rediscountable medium-term loans, the banks are free to charge rates in accordance with normal banking practice.

6.60 The Central Bank also regulates interest rates paid on commercial bank demand and time deposits. Before June 1971, the interest rate was 1.75 percent on demand deposits and ranged from 3 to 4 percent on time and savings deposits. In order to encourage savings for the financing of investment, in June 1971, the authorities reduced the interest paid on demand deposits to 1 percent and fixed interest rates on time, savings deposits and bonds issued by the banks at between 2 and 5.5 percent. Interest rate on savings deposits denominated in convertible currencies is 4 percent. In August 1973 interest paid on demand deposits was reduced to 0.5 percent; interest paid on term deposits, bonds and savings accounts with maturity of more than six months was raised and may go up to 6.5 percent for deposits of more than two years.

6.61 Table 6.8 shows that the officially fixed rates increase as maturities lengthen until a plateau of 5.5 percent is reached for 3-year time deposits. This rate also applies to the 10-year "bons d'equipement" which the banks are compelled to buy. For longer maturities, there is a substantial divergence between administratively set yields (as for the "bons d' equipement") and the yield on freely traded government bonds. Thus the yield to maturity of the "Emprunt 1931" stands at 9.11 percent, compared with the 5.5 percent yield of the "bons d'equipement", although both issues have a ten-year life. There is also a considerable divergence in yield between similar freely traded securities. For example, the yield on publicly marketed bonds ranges from 5 percent on STB's "emprunt Tourisme" to 10.44 percent yield on CTET's 1949 issue.

TABLE 6.8 : YIELDS ON INVESTMENT OPTIONS IN TUNISIA

	Volume Million Dinars	Nominal Interest % P.A.	Current Nominal Yield % P.A.	Nominal Yield To Maturity % P.A.	Tax Exempt Share %	Taxable Yield %	Pre-tax Equivalent Yield at k/ Marginal Rate Of 10%	25%	50%	After-tax Equivalent Yield at k/ Marginal Rate Of 10%	25%	50%
I. BANKING SYSTEM												
a. Demand Deposits	167 60/a	1.00	0 50/b	0.50	0	0 50	0.50	0.50	0 50	0.45	0.38	0.25
b Certificates of Deposits	N/A											
(i) 15 days-3 months	"	1.00	1.00	1.00	0	1.00	1.00	1.00	1.00	0.90	0.75	0.50
(ii) 3 months-6 months	"	2.00	2.00	2.00	0	2.00	2.00	2.00	2.00	1.80	1.50	1.00
(iii) 6 months-1 year	"	2.75	2.75	2.75	0	2.75	2.75	2.75	2.75	2.48	2.06	1.68
(iv) 1 year-3 years	"	3.50-4.25	3.50-4.25	3.50-4.25	0	3.50-4.25	3.50-4.25	3.50-4.25	3.50-4.25	3.15-3.82	2.62-3.19	1.75-2.13
(v) More than 3 years	"	5.00-5.25	5.00-5 25	5.00-5.25	0	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	4.50-4.73	3.75-3.94	2.50-2.63
c. Savings Accounts	28.30c/											
(i) 1 month-6 months		3.00	2.40d/	2.40	100	0	2.67	3.20	4.80	2.40	2.40	2.40
(ii) 6 months-1 year		3.00	2.40	2.40	100	0	2.67	3.20	4.80	2.40	2.40	2.40
(iii) 1 year and more		3.00-5.00	2.40-4.00	2.40-4.00	100	0	2.67-4.44	3.10-5.33	4.80-8 00	2.40-4.00	2 40-4.00	2.40-4 00
d. Time Deposits	56.40e/											
(i) 3 months-6 months		2.00	2.00	2.00	0	2.00	2.00	2.00	2.00	1.80	1.50	1.00
(ii) 6 months-1 year		2.75	2.75	2.75	0	2.75	2.75	2.75	2.75	2.48	2.06	1.38
(iii) 1 year-3 years		3.50-4.25	3.50-4.25	3.50-4.25	0	3.50-4.25	3.50-4.25	3.50-4.25	3.50-4.25	3.15-3.82	2.62-3 19	1 75-2.13
(iv) 3 years and more		5.00-5.50	5.00-5.50	5.00-5.50	0	5.00-5.50	5.00-5.50	5.00-5.50	5.00-5.50	4.50-4.95	3.75-4.13	2.50-2.75
II GOVERNMENT BONDS												
(i) Bons du Tresor	9.80/d	2 00-3.00	2.00-3.00	2.00-3.00	100	0	2 22-3.33	2.67-4.00	4.00-6.00	2.00-3.00	2.00-3.00	2.00-3.00
(ii) Bons d'Equiment	21.80/a	5.50	5.50	5.50	100	0	6.11	7.33	11.00	5.50	5.50	5.50
(iii) Emprunt 1892	0.07/b	3.00	5.00	8.12	100	0	9 02	10.83	16.24	8.12	8.12	8.12
(iv) Emprunt 1907-1907	0.06/b	3.00	5.00	8.12	100	0	9.02	10.83	16.24	8.12	8.12	8.12
(v) Emprunt 1931	0.01/b	4.00	5.36	9.11	100	0	10.12	12.15	18.22	9.11	9.11	9.11
(vi) Emprunt Nat. Ind. 1957	0.58	5.00	5.24	6.21	100	0	6.90	8.28	12.42	6.21	6.21	6.21
(vii) Emprunt Fin.Plan T, 1964	2.47	5.00	5.18	5.69	100	0	6.32	7.58	11.38	5.69	5.69	5.69
(viii) Emprunt Fin.Plan Q, 1967	10.50	5.00	5 62	8.77	100	0	9.74	11.69	17.54	8.77	8.77	8.77
III. GOVERNMENT GUARANTEED BONDS												
(i) Emprunt Foncier, STB 1959	0.28	5.00	5.29	8.20	100	0	9.11	10.93	16.40	8.20	8.20	8.20
(ii) Emprunt Foncier, STB 1967	1.04	5.00	5.56	6.57	100	0	7.30	8.76	13.14	6.57	6.57	6.57
(iii) Emprunt Tourisme, STB 1965	0.61	5.00	5.00	5.00	100	0	5.56	6.67	10.00	5.00	5.00	5.00
(iv) CTET 1930g/	0.01f/	5.00	7.14	10.44	100	0	11.60	13.92	20.88	10.44	10.44	10.44
(v) CTET 1949g/	0 21f/	6.50	6.91	7.82	100	0	8.69	10.43	15.64	7.82	7.82	7.82
(vi) CTET 1956g/	0.16f/	5.00	6.67	9.23	100	0	10.26	12.30	18.46	9.23	9.23	9.23
IV. PRIVATE BONDS												
(i) SNI 1973h/	1.00	5.75	5.75	5.75	100	0	6.39	7 67	11 5	5.75	5.75	5.75
V. EQUITIES												
(i) Financial Equities	-	-	13.34i/	-	0	10.67j/	10.67	10.67	10.67	9.60	8.00	5 34
(ii) Industrial Equities	-	-	12.34i/	-	0	9.87j/	9.87	9.87	9.87	8.68	7.40	4.94

a/ August 1972
b/ Interest is paid on minimum balances, and assuming effective rate is one-half of nominal rate.
c/ August 1972. Includes savings accounts with the commercial banks and the CNE.
d/ Interest is paid on minimum balance, and assuming effective rate is 80% of nominal rate.
e/ August 1972 Includes time deposits with non-bank intermediaries.
f/ Pre-independence issues.
g/ Denominated in French francs. Equivalent dinar value calculated on the basis of January 1973 exchange rates.
h/ Bonds have been placed but not yet listed. Assuming listing will be at par.
i/ Yields include capital gains. Calculation made on the basis of securities listed on the Bourse, taking average dividend yield and capital gains on 7 financial stocks and 11 industrial stocks.
j/ A 20% non-refundable witholding tax is applied at source.
k/ This shows the tax windfall to various classes of investors

6.62 In thus keeping interest rates on medium- and long-term loans relatively low, the authorities have been concerned to minimize the financial costs of investment. This low interest rate policy has been encouraged by the Government's ability to obtain relatively low cost credit from foreign sources which it has relent to banks and enterprises. The lowest-cost credit has mainly come from bilateral sources. Multilateral credit has usually carried rates high by Tunisia's internal standards, and the Government, having unsuccessfully attempted to obtain lower rates, has blended funds from multilateral agencies with lower-cost funds when relending to financial institutions.

6.63 Short-term interest rates appear to be more in line with Tunisian realities and the Central Bank discount rate appears to be appropriate. As regards credit rates paid by the banks on term deposits and savings accounts, it is doubtful whether, given the present high liquidity, savings would be substantially increased by raising them. This view is supported by the fact that the volume of term deposits and savings accounts grew at an average annual rate of over 18 percent between 1968 and 1973. The credit rates, like the debit rates, should nevertheless take into account the rate of inflation should the latter increase.

6.64 The differences in tax treatment of various classes of securities have resulted in marked variations in yields and some distortion in the allocation of capital among different uses. All government and government-guaranteed securities are fully tax-exempt, as are also bank savings deposits. SNI's D 1 million bond issue is also free of income taxes. Of course, this is the first private bond issue and it should not be assumed that future bond issues will be tax-exempt. The rate of taxation of equities leads the large savers to prefer investments in tax-exempt fixed income obligations to equities (see Table 6.8). The tax exemption features of these securities are obviously less attractive to low income investors. The only investments for which tax exemption can be justified are savings accounts. The main beneficiaries would be lower and middle income investors in so far as these accounts cannot exceed D 3,000 per person.

D. Towards a New Strategy

(i) Introduction

6.65 Now that the Government has embarked on a policy of support and encouragement for the private sector and greater reliance on the market mechanism, the Tunisian monetary authorities have to decide to what extent a system of financial regulation designed to meet the needs of central planning calls for modification.

6.66 The dominance of a few state-owned banks, the reliance on loans to enterprises rather than on the development of a security market, and the use of quantitative controls are characteristic of a controlled and regulated financial system. Most of the controls reflect real concerns -- the need to ensure a flow of resources to priority sectors, the mistrust of market forces

as regulators of prices and interest rates and the need to ensure the viability and liquidity of the financial institutions themselves. Such a system may have been appropriate during the sixties, but its continued operation appears to be ill-adapted under the new economic policies.

6.67 The money market and the securities market cannot be developed in the absence of flexible tools of monetary and credit management, including differential interest rates reflecting market relations between supply and demand and degrees of security and maturity. The Tunisian authorities have expressed the intention of introducing open-market operations and to strengthen the role of the Bourse. True open-market operations necessarily imply reliance on market forces to determine short-term interest rates. Inversely, the very existence of a market in Treasury securities opens up the possibility of the development of a market in other short-term credit instruments. The development of the Bourse would make it possible for enterprises to place equity and debt directly, and to lessen their reliance on the present institutional sources of long-term finance. It would also entail the provision of services (e.g. underwriting and investment management that are at present either not provided at all, or inadequately provided). In redefining the financial and monetary policy it is advisable to see whether it is possible to introduce only a partial liberalization without detriment to the development of an authentic financial sector.

(ii) Monetary and Credit Policy under the Fourth Plan

6.68 The Government proposes to modify the use of a number of monetary instruments, such as the compulsory reserve ratio, and create others by expanding public and central bank bond issues needed to make operations effective. The compulsory reserves obligation would be applied to total deposits rather than, as at present, to increments in them. The latter method penalizes the more dynamic banks and reduces the effectiveness of the central bank's recourse to changes in the reserve ratio. The latter would be changed in a more flexible way to reflect domestic monetary needs. The authorities also propose to relate compulsory reserves in part to the amount of short-term credit provided by the commercial banks, but to allow the latter to set part of their savings and time deposits against the compulsory reserve requirement; this would have the object of encouraging savings and persuading the banks to become more conscious of their monetary responsibilities. Recognizing the limited role of these measures in day-to-day control, the Central Bank is expected to play a more important role in the development of an open market so that it can influence the volume of business, the rate of interest, and the behaviour of the banking system in the interest of monetary equilibrium.

6.69 In order to induce the banks to play a more active part in development financing, the Government proposes to reduce to 20 percent the minimum proportion of assets that must be invested in public securities, at the same time increasing the proportion invested in medium-term loans before these loans may be accepted for rediscount. To the extent that the total invested in these two ways falls short of 40 percent of its total assets, a bank would be required to place an equivalent sum on deposit with the Central Bank,

without interest. These measures would be reinforced by a review of the interest rate structure so that it would be advantageous for the banks to use their resources for medium-term loans rather than short-term credits. It is anticipated that the banks will have a smaller margin on short-term credits in order to prevent an increase in the cost of medium-term credit. In addition, interest on demand deposits would be abolished and rates on term deposits and savings accounts would be raised so as to encourage savings. Some steps in that direction have already been taken in August 1973.

6.70 The proposals affecting medium term credit, and in particular that to increase the limit on medium-term from 5 to 7 years, are likely to affect the resources available to meet the requirements of enterprises. To ease the liquidity squeeze on banks, it is proposed to permit the increase in the Central Bank discount rate on medium-term paper to 7 percent and to allow seven year bills to be rediscounted at the Central Bank.

6.71 The Government intends to give banks a greater role in promoting investment and to reduce the difference between the functions of a deposit money bank and those of an investment bank. Commercial banks would be authorized to hold more than 20 percent of an enterprise's capital through financial subsidiaries while investment banks would be authorized to receive demand deposits, grant short-term credit, and have access to rediscounting facilities, at least in support of their clients for long or medium-term credit. The Government also plans to set up a special industrial fund (see Chapter IX) to make credit available to small- and medium-size enterprises through the banks and the regional investment corporations, which would be revived for the purpose.

6.72 The provisions of the plan in the financial and monetary fields form an essential part of the Fourth Plan's proposals to adapt the tools of government to the needs of a more modern and complex economy and should lead in the right direction. In order to implement these provision, however, it will be necessary to resolve the administrative and technical problems presented by the transition from a system of administrative regulation to a more automatic market mechanism. No proposals have yet been put forward for modifying certain features of the present system, in particular the continued requirement that the Central Bank should approve all medium-term credits and all short-term credits above D 50,000. Other problems are examined below.

(iii) The Regulatory Framework

6.73 The liberal provision of government guarantees for bank loans, together with the Central Bank's willingness to rediscount them have not encouraged the commercial banks to take risks or to make a searching appraisal of the creditworthiness of their clients. The commercial banks should be allowed to assume a much more responsible role. This implies, *inter alia*, greater freedom to set their own lending and deposit rates. Greater competition is desirable in order to encourage saving; savings and time deposit rates need to be determined competitively to reflect more appropriately the liquidity preferences of Tunisian investors. Rediscount facilities could be reduced

and new lending rates allowed to find their own level, depending on the risk and maturity of each loan. The term structure of interest rates could be improved if more government securities carrying maturities of between 1 year and 10 years were introduced, and were auctioned to the banking system and to individual and institutional investors. To encourage trading in such securities would, as contemplated in the Fourth Plan, establish a basis for open market operations as a method of monetary control.

6.74 All the same, the revision of the interest rate structure contemplated in the Fourth Plan, reducing short-term rates in order to increase the gap between short-term and medium-term rates, is perhaps open to question. In fact it would be advisable to raise the medium and long-term rates, which, as mentioned above, have been kept artificially low. The cheap credit policy was justified during the past decade by the need for creating an industrial base. It would now tend to support noncompetitive enterprises and might favor capitalistic techniques at the expense of creating jobs.

6.75 To enable the banks to take risks and to promote private investment, the advantages given to public enterprises by government subsidies and guarantees of their borrowing should be removed, and the obligation of banks to invest a share of their deposits in the public sector further relaxed. It is also necessary to free the commercial banks from the requirement to obtain prior approval from the Central Bank for medium- and long-term loans. The role of the state-owned banks in the context of a more open capital market policy also needs to be reviewed. Measures should aim to gradually put government-owned Banks on the same footing as other commercial and development banks by suppressing their privileged access to long-term government resources at favorable rates. Their role as principal instruments of the Government in financing public enterprises should be reconsidered in order to enable them to operate on a more commercial basis.

6.76 Mention should be made inter alia of adjusting the tax system to encourage the development of shares, eliminating tax exemptions that benefit high-income more than the low-income investors, decreasing the tax withheld at source on bearer shares, and abolishing registered shares.

6.77 To rely more on commercial banks to promote and finance investment implies reorganizing their structure. At present, STB, BNT and SNI are the only banks with some experience in appraising and following through projects. Since it is likely to take a long time for other banks to acquire experience and to set up adequate appraisal units, it may be necessary to encourage consortia of banks to provide joint credits. The three major banks could play an important role in leading other banks in this type of joint operation. Given the shortage of qualified specialists, this would avoid an excessive dispersion of effort in identifying and studying projects, and reduce risks stemming from lack of experience in this new role.

6.78 Development of the institutional framework for industrial financing should include the strengthening of the Bourse and the encouragement of the issue, trading and ownership of securities. Some enterprises are already

sufficiently large and reputable to be able to place bond issues successfully. Changes in taxation are needed, and tax discrimination between various categories of securities should be eliminated. The banks could also play a major role in promoting bond issues and in channelling private savings into this type of investment. Moreover, the development of an equity market might eventually provide a means of transferring public enterprises shares to private investors.

(iv) Financial Intermediaries

6.79 The insurance industry in Tunisia could play a more active part in resource mobilization, if (i) premia on various categories of insurance, especially automobile insurance, were substantially increased to reflect the cost of benefits; (ii) life insurance were more actively promoted by the industry itself; and (iii) more effective measures could be taken to overcome the various sociological obstacles. Compulsory investment in government securities could usefully be reduced from the present 70 percent to, say, 50 percent of the portfolios of insurance companies. This would permit the Government to offer securities with a competitive yield and to rely to a greater extent on voluntary public purchases, as well as release resources for long-term investments by the insurance sector in industry, tourism and housing.

6.80 Measures are required to strengthen the Bourse and encourage security trading and ownership if the capital market is to function effectively and provide a market in which the Central Bank can make its policies effective. Some of these measures have already been adopted. The results were not very conclusive because the measures were taken separately and in a general context less favorable than at present. These measures might include: (i) a broader spectrum of maturities for government issues and an increase in their marketing and the volume of trade; (ii) elimination of tax discrimination between various categories of securities; (iii) authorization for existing enterprises to offer new share issues to the public, and not just rights offerings; (iv) regulations to prevent the underpricing of rights issues to encourage trading; (v) changes in the capital repatriation laws to encourage the sale of securities of foreign-owned companies in Tunisia; (vi) exemption of dividends on nominative securities from double taxation with a system of tax credit to be deducted from taxable income. To the extent that tax evasion on income from bearer shares is important, some withholding tax on bearer securities is desirable, but probably at less than the current 20 percent rate. In the early stages of the development of a securities market, it may be desirable to increase investor confidence by means of a "securities stabilization fund" of a recognizably temporary character. The Bourse and the financial institutions could also undertake promotional activities to familiarize the Tunisian public with the idea of investment in securities.

6.81 Another way of increasing the supply of securities would be to encourage foreign-owned companies, particularly those long-established in Tunisia, to sell some of their shares to domestic investors. The disadvantage of the foreign exchange outflow resulting from such sales would be

counterbalanced by the broadening of ownership, increased trading on the Bourse, and the retention in Tunisia of dividends on shares sold to Tunisian investors. The listing of the securities of foreign companies, particularly of long-established and reputable enterprises, would also enhance investor confidence.

6.82 Some gaps in the Tunisian financial system could also be filled if existing intermediaries undertook new activities. For example, the development institutions, STB and SOFIGES could enter the field of underwriting. By the same token BDET (formerly SNI) or SOFIGES could undertake investment management and the organization of investment trusts. More generally the commercial banks could play a major role in the promotion of bond and share issues and in the placing of private savings in that type of investment. To fill other gaps would require the creation of new types of institutions, e.g. savings and loans banks or mutual savings banks which could finance housing. The creation of the Caisse Nationale d'Epargne-logement at the end of 1973 should help to meet this need.

(v) Investment Finance

6.83 In the case of some public sector enterprises their reorganization, recapitalization and possible liquidation would contribute to opening up the possibility of increased market operations, particularly if the Government made itself entirely responsible for the financing of unprofitable enterprises which it considers of developmental importance, instead of letting financial intermediaries bear part of the burden. Other public enterprises could be thoroughly reorganized and placed on a commercial footing as a preliminary to offering their shares to the public.

6.84 The pool of investment resources available to private enterprises could be expanded through measures designed to encourage direct financing, such as the public placement of securities. Some enterprises are sufficiently large and reputable to be able to place bond issues domestically. The broadening of the equity market will also make it easier for enterprises to raise funds directly. Given the favorable outlook for Tunisia's balance of payments, limited direct foreign exchange borrowings by the private sector could be allowed in order to familiarize Tunisia and its overseas partners with common trading relationships.

6.85 Apart from the measures described above, major changes in the taxation of corporate income and in depreciation schedules do not appear necessary at this stage. Other governmental policies that reduce profitability, such as those relating to price, imports and manpower, are dealt with elsewhere (see Chapter 7 in particular).

7. THE REGULATORY AND INCENTIVE FRAMEWORK

A. The State's Growing Role, 1956-1969

7.1 At the time of independence, Tunisia's economy had a modern sector based on the exploitation of natural resources for export markets, and a traditional sector mainly comprising subsistence agriculture, retail trade and handicrafts. Following independence, there was a decline in private investment, accompanied by repatriation of French private capital, which reinforced the new Tunisian Government's desire to increase its direct intervention in the economy. After 1960, this intervention took the form of regulation of investment and trade, the setting up of public enterprises and monopolies, and extension of the cooperative system. A policy giving the public sector a major role in development was adopted by the Congress of the Neo-Destour Party (the sole political party) in 1958. Specific developmental objectives and the economic strategy by which they were to be attained were defined in the Perspectives Decennales of 1961.

7.2 The Perspectives and the 1962-64 Three-Year Plan indicated the roles of the private and public sectors. Agriculture was to be organized collectively by progressively establishing cooperatives for production, services, processing and marketing. Large public investments were to be made in irrigation. A three-fold role was envisaged for the State in industry, through: (i) the establishment and direct control of enterprises in key sectors, (ii) association with private investors in creating new industries, (iii) the control and guidance of private investment through investment approval, allocation of credit, taxation, and regrouping of small enterprises into producer cooperatives. Defining the role of the state as entrepreneur, the Perspectives stated that:

(a) "Investments in energy, transport, and industrial water supply, which determine production costs of most other industries and therefore should be conceived and managed in response to national policy, will be undertaken by the State;

(b) "Projects exceeding the capacity of private initiative because of their size and other factors which must be combined to achieve them will also be undertaken by the State;

(c) "Projects which call for a monopoly in a key sector (for example, steel) or require the concession of excessive privileges by the State should be taken out of the realm of private initiative."

7.3 The Four-Year Plan 1965-1968 defined the private investor's role in the following terms:

"The Four-Year Plan reserves an important place in industrial development for the private sector. This sector can enter into all activities where public interest does not indicate that the State must intervene because of considerations of public interest and social order. Industrial activities are wide open to private initiative, Tunisian as well as foreign. The public authorities already accord fiscal, credit, and exchange advantages; they will expand them, if necessary. Special incentives will be given to merchants who proceed to convert trading into industrial activities. Moreover, encouragement in the form of technical and financial assistance will be given to private producers who group themselves into production and service cooperatives."

7.4 On the role of foreign investment, President Bourguiba stated at the time of the nationalization of French land in 1964: "I wish to note that the Tunisian government has never failed in its engagements vis-a-vis capital invested in Tunisia since our independence. When we decide to recover property obtained during the colonial period by theft we are only pursuing the effort of decolonization. As to investments made by foreigners with the aim of helping us to achieve our development plan, they are the object of our respect and gratitude, for they represent a form of cooperation which seems to us to be most desirable."

7.5 A socialist economic policy was reaffirmed once again in the 1969-1972 Plan, which recalled the basic policies laid down in the Perspectives. However, after stating that socialism did not mean state control over all productive equipment, the Plan emphasized the necessity for the coexistence of the three sectors. The Plan also emphasized that the cooperative movement should increasingly extend into agriculture and commerce. It also included a proposal to consolidate small-scale agricultural processing enterprises.

7.6 During the decade 1960-1970 the State in fact extended its participation in industrial and commercial undertakings by nationalizing private firms operating in the basic sectors or establishing state enterprises. The general pattern was one of mixed ownership, the Government or its financial affiliates providing 50 percent of the capital, the remainder being offered to private investors. However, some enterprises were wholly state-owned, while others had majority or minority state participation in association with domestic or foreign private capital. In some sectors, competition with the private sector continued; in others, state enterprises were granted a monopoly. The public or semi-public enterprises accounted for about one-half of total industrial production in 1964 and two-thirds in 1968. In 1970 there were about 80 state-owned enterprises, of which 15 were either purely administrative or had a partly industrial and commercial function. Nine were government-owned (public utilities, tobacco, cement, transport, pharmacy, housing, publishing and banking) and about 56 were controlled by the government or its financial affiliates (agriculture, petroleum, mining, manufacturing and services).

7.7 The organization of the agricultural sector into cooperatives began during the 1962-64 Three-Year Plan following the reform and expropriation of public and private trust lands, and was extended to other public lands after the nationalization of remaining French-owned lands in 1964, when there were about 180 production cooperatives. The cooperative system was regarded as

a suitable solution to the problem of the management and large-scale operation of these lands. The movement was expanded during the 1965-1968 Plan, when it began to take in private farms; at the end of 1968 there were 700 cooperatives, covering all public lands and about one-tenth of private lands.

7.8 At the same time, cooperatives were organized for various other activities, first for wholesale trade, and then for retail trade, including consumers' cooperatives, and for the shoe and clothing industries and handicrafts. Local cooperatives joined together to form regional societies and unions. At the end of 1968 all wholesale trading, except for some specialized commerce, particularly in Tunis, had been organized in this way. Furthermore, a number of central unions of cooperatives were formed for the purpose of supporting the regional unions, supplying inputs to their members and providing them with an assured market for their production. These central unions covered agriculture, small-scale manufacturing, handicraft and commerce.

7.9 The acceleration of "cooperativization" amounted to a radical transformation of Tunisian society. While it aimed at integrating individual entrepreneurs into a homogenous society, the cooperative system did not abolish private ownership; although production was organized collectively, each member of the cooperative retained ownership rights to the extent of his original contribution. In principle, the profits of cooperatives were distributed among members and employees.

7.10 Early in 1969, the extension of the cooperative movement to the whole of agriculture was undertaken. A National Union of Cooperatives was established to coordinate and promote all cooperative activities. By August 1969, there were about 1,170 production cooperatives in agriculture, covering about 50 percent of the land under cultivation. All trade was taken over by the state or by cooperatives.

7.11 In addition to state enterprises and cooperatives, the Government introduced a system of restrictions and controls on external and domestic trade, foreign exchange, prices, investment and credit. While this system aimed at making the best use of Tunisia's limited resources and while, given Tunisia's balance of payments difficulties, some control of imports and foreign exchange was probably unavoidable, its effect was to discourage private investment, already low, in most sectors. Moreover, the excessive protection and monopolistic privileges conferred by the system on the state-controlled and on certain private enterprises reduced incentives to efficiency.

7.12 This system affected all aspects of the operation of an enterprise. It resulted in increased costs to the private investor in terms of delays and added administrative expense, and limitation on the ability to adjust costs and prices to changing economic conditions. An investment did not simply require initial approval; every subsequent step was subject to control--access to fiscal and other incentives, access to bank credit, authorization to import equipment or raw materials, the right to transfer profits and dividends.

7.13 Costs of inputs as well as sales and profit margins were affected by price regulations and controls. While the prices of some essential goods and services were directly fixed, the prices of other goods were determined through regulation of industrial and commercial margins. In addition to directly administered controls, prices were in some instances fixed by government agencies or by enterprises having a monopoly over the production or sale of certain products. Prices were also influenced by the structure of the wholesale distribution system, which had been organized in para-public regional trading companies and which therefore led to a system of single "administered" prices. While the system did not always ensure normal profits for the private enterprise, its most serious disadvantage was the complete elimination of external competition, which could have served as an efficiency incentive in the absence of internal competition, since imports were strictly controlled by the system of quotas, tariffs and import monopolies. Access to medium and long term credit was also controlled and limited. Each credit was linked to prior investment approval and then had to be approved by the Central Bank.

7.14 At the start of the 1965-1968 Plan success in reviving private investment was limited as a result of the exodus of the European entrepreneurs, the weakness of the Tunisian private sector and the continued need for controls following the 1964 monetary stabilization program. Nevertheless, as the result of the Government's ratification of the Convention for the Settlement of International Investment Disputes, its negotiation of compensation for the nationalized farm lands, and its acceptance of conciliation procedures for nationalized public utilities, the climate for private investment improved considerably. An attempt was made to increase private foreign participation in the newly developing tourism sector by offering incentives. Moreover, a National Seminar on Savings in June 1967, attended by both public and private sector representatives was followed by some efforts to mobilize the savings of households and business enterprises and to increase private participation in existing public enterprise. In a few cases this policy led to the transfer of publicly held enterprises to private owners.

7.15 In 1967 an Investment Promotion Center was established to provide foreign investors with information and advice on investment opportunities, administrative procedures, potential Tunisian partners, existing feasibility studies and investment plans. Although responding to a real need, the Center had only a marginal influence. The most significant step in promoting private investment was the promulgation in 1969 of an Investment Code designed to simplify and consolidate all previous legislation. However, although the Code offered further incentives to new private enterprises, including protection through the grant of monopoly or the prohibition of competitive imports, it retained the requirement of compulsory prior approval of all investments, regardless of size and origin.

7.16 The general emphasis on the public sector was accompanied by a drastic decline of the private sector up to 1965, but thereafter by a slow but steady growth. During 1961-1970, public investment accounted for 72 percent 1/ of

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1/ This and the following figures are taken from the national accounts series.

total gross fixed investment, while private investment represented 19 percent, and household investment 9 percent. In industry, mining and energy, public and mixed enterprises were responsible for some 75 percent of all investment--86 percent if the petroleum sector is excluded. In agriculture, 84 percent of total investment was public. Between 1961 and 1965, private investment stagnated around D 15 million per year and its share in total investment declined from 30 percent to 12 percent; it then increased steadily to D 34 million by 1970, when it accounted for 23 percent of the total. Most domestic private investment went into small industry, services, housing and, especially after 1966, into tourism which accounted for about 45 percent of all domestic private investment from 1966 to 1970.

7.17 Foreign private direct investment, which accounted for 22 percent of total private investment and for 6 percent of total investment, was mainly in petroleum, fertilizers and tourism. Foreign private firms obtained mining concessions, although they have not yet led to any significant discoveries. Increased Tunisian private investment after 1966 took the form of doubling investment in hotels and a revival of investment in manufacturing.

7.18 To sum up, policy during the decade with respect to private initiative was often ambivalent. On the one hand, the importance of the private sector was frequently emphasized and steps were taken to encourage it. On the other hand, implementation of these measures was reluctant, and subject to slow and tedious procedures. While the lack of experience and resources of the Tunisian private sector certainly justified state intervention to lay the bases of a modern economy, the attempt to regulate and control almost every aspect of economic life gravely handicapped day-to-day business operations and discouraged private investment. It would probably have been just as useful to have placed increasing reliance, in step with the development of the economy, on the forces of domestic and external competition as regulators of private enterprise in both agriculture and industry, while providing incentives to increase efficiency and enlarge markets.

B. The New Orientation After 1969

7.19 The limited achievements of the economic policy followed between 1960 and 1969 led the Government to reorient this policy and to define a new strategy. The following paragraphs review the measures introduced between 1970 and 1973.

(i) Re-evaluation of Institutional and Sector Roles

7.20 The principal objectives of the new development strategy were to accelerate growth, especially in industry to increase exports and to create employment, while maintaining financial stability. These objectives were to be achieved by increasing public and private savings, reducing direct government involvement in, and decentralizing economic decisions, encouraging private initiative, and relying more extensively on market forces to guide investment and production. The Government stated, "Our doctrine may permit profit and private ownership of productive equipment without ceasing to be

fundamentally a social doctrine in the human sense, on condition that profit and private ownership be not conceived of as objectives in themselves"; furthermore, "Economic development of the country can be achieved only by restoring an economy directed by the laws of efficiency and profitability and by the basic market mechanisms." 1/

7.21 The law of September 20, 1969 reversed the previous policies on agricultural organization and reaffirmed the co-existence of public, cooperative and private farming, and the right of individuals to join or leave cooperatives. Previous measures introducing cooperatives in handicrafts and trade were modified, and restrictions on individual enterprises largely eased. The law of April 22, 1970 authorized private wholesale and retail trade. In October 1971 the Congress of the Neo-Destourian Party endorsed the new economic policies of the Government, and in its economic resolution emphasized the need to encourage private enterprise and to confine the Government's economic intervention to indirect promotion, the public services, and activities where private initiative was lacking. Investment was to be guided by the criteria of profitability and employment creation. In agriculture, it recommended that the State retire from the direct exploitation of public lands and concentrate on the provision of extension services, training, inputs and credit, the consolidation of land tenure and encouragement of production through tax and price incentives.

7.22 In industry, the Congress recommended that expansion should be directed primarily towards exports, and towards the creation of small- and medium-size enterprises. The Government was to provide incentives, extension services, training facilities, and credit. Trade, investment and price regulations were to be relaxed. The performance of state-owned enterprise was to be improved through reorganization and better management.

7.23 The 1972 Economic Budget recommended fiscal and foreign exchange incentives for export-oriented industries; relaxation of the rules for prior investment approval; gradual substitution of tariffs for quotas; import liberalization for spare parts and raw materials; a greater role for market forces in fixing prices, and for the banks in financing development. The 1973 Economic Budget, published in October 1972, reaffirmed these points, and emphasized the need to liberalize imports and relax price control to stimulate competition. It also emphasized the need for more medium and long-term credit. It called for a greater provision of extension services and credit for agriculture.

7.24 Since 1970 legal, administrative and institutional steps have been taken to implement these policies, while other measures are still under way. There are two parallel series of measures: the first consists of the progressive removal of protection and controls, and the second of the setting up of machinery and incentives to promote competition and private initiative in industry, with special reference to exports.

1/ Address by the Prime Minister to the National Assembly.

(ii) Liberalization of Trade and Payments

7.25 In the 1960s trade and payments were conducted under a restrictive system, administered in part by the Department of Planning and Economic Affairs (Secretariat d'Etat au Plan et a l'Economie Nationale), which established import quotas and issued import and export licenses, and in part by the Central Bank, which authorized payments and transfers. The import of some raw materials and equipment, although theoretically not subject to licensing, was also controlled in practice. Some commodities were imported by the State itself or by monopolistic government agencies, and others by importers who had been granted de facto monopolies. In order to service supply industries and to introduce some competition, the Ministry of National Economy made two important changes. In March 1971, it introduced a system of annual import authorizations for industries and for trading companies which specialized in supplying industry; in 1972, 250 enterprises were in this way authorized to import a total of D 73 million worth of goods; in 1973, 281 enterprises were authorized to import a total D 75 million worth. In February 1972, an "import certificate" system was extended to manufacturers, artisans and traders, authorizing free imports against a list of commodities or groups of commodities the number of which was steadily raised. In 1973 this list comprised 230 items, mainly spare parts, raw materials, semi-finished products, and specialized instruments and equipment, representing about 20 percent of the total value of imports. Import certificates are issued by banks, while annual import authorizations are granted by the Ministry of National Economy. Together, these two liberalization measures affect about 40 percent of total commodity imports. In addition, export-oriented industries have been granted freedom to import in accordance with the provisions of the incentive law of April 1972 (see below). Except for imports covered by these provisions, imports are still subject to licensing.

7.26 In September 1973 these provisions were supplemented by the introduction of a new Customs tariff. The major changes were a reduction in import duties on capital goods, raw materials and semi-finished products, and major consumer goods, an increase in the cost of luxury goods; and, in general, adjustment in the rates to reduce, to some extent, the protection enjoyed by domestic industry. Provision was also made for altering the rates as required by the needs of the economy, particularly by progressively reducing the degree of protection so as to foster competition, without the need for legislative action.

7.27 Import and trade monopolies constituted another aspect of the restrictive system. There were roughly three types of monopolies: (i) state monopolies of commodities such as tobacco and matches; (ii) monopolies conferred on government agencies such as the Commerce Office, the Central Pharmacy and the Cereal Office, for the import and distribution of certain basic consumer goods and foodstuffs; and (iii) de facto monopolies of commodities, such as metallurgical and paper products, granted to some public enterprises. Imports by such agencies and enterprises were subject to the same licensing arrangements as private imports. Export monopolies were granted to the Olive Oil,

Cereal and Wine Offices. In 1971 the Government decided to restrict monopolies to certain goods--tobacco, matches, some fruits, cereals, and educational books.

7.28 All payments for invisible transactions abroad required Central Bank approval; in some cases this authority was delegated to banks. Approval was also needed for the remittance of profits and dividends to non-residents. Transfers abroad by residents or foreign workers in Tunisia were subject to various regulations. Transfers of principal of, and income from, foreign investment in Tunisia were linked to prior approval of the investment. Applications to repatriate foreign investments not covered by a transfer guarantee were authorized only in a limited amount. The balances of these funds could be used for payments in Tunisia under certain conditions, or sold on the free market to non-residents for specified expenditures in Tunisia. All proceeds from exports of goods and services must be repatriated, except for a part which may be credited to a special foreign exchange account and used for specified payments abroad. During the decade these restrictions on transfers were administered equitably, but with complicated procedures and long delays.

7.29 This transfer system has not been basically modified, although since 1971 there has been some relaxation and acceleration of procedures. The transfer limit for foreign workers in Tunisia has been enlarged, as has the capital transfer limit. Investors in Tunisia have been authorized to buy local currency--up to a third of their investment--on the free market. The amount of export proceeds which may be credited to EFAC accounts has been increased, and the purposes for which these accounts may be used have been extended. The Central Bank is seeking to delegate more initiative to banks to process invisible payments, and to relax further restrictions on transfers. Moreover, the law providing incentives for export-oriented industries gives these industries special privileges in this field.

(iii) Modification of Price Controls

7.30 Government intervention to control prices was widespread up to 1969. At the beginning of 1970 there were roughly four degrees of price control: (i) strict price fixing for basic consumer goods and foodstuffs regardless of production cost; (ii) so-called "regulation" of prices for imported goods and domestic manufactured goods on a "cost plus" basis; (iii) "self-regulation" of prices for some imported goods by importers subject to subsequent official approval; (iv) freedom of prices for certain agricultural products and fish, and for some services.

7.31 In May 1970 a new law, introduced as a preliminary step towards the relaxation of price controls: (i) grouped all previous laws and regulations; (ii) extended the "self-regulation" procedure to domestic manufactured goods, subject to profit margins determined by the authorities; (iii) as an interim procedure, pending the determination of these margins, instituted a new "controlled freedom" procedure for a number of manufactured goods; (iv) created a consultative National Committee for Prices on which business associations and trade unions will be represented.

7.32 This new law has resulted in no more than a slight relaxation of price control. The "controlled freedom" procedure, which applies to twenty branches of manufacturing, will only apply until the authorities determine appropriate profit margins and cost components to make it possible to apply the "self-regulation" procedure. The latter procedure constitutes an ex post control, enterprises having the right to charge the prices they calculate after a certain period if the authorities do not object. The Government is considering extending the "self-regulation" procedure to a wider range of goods, and freeing further goods from price control.

7.33 In agriculture, the intervention by the State to ensure price stability and protect the interests of urban consumers had consisted mainly in the creation of new, or the strengthening of the existing, marketing agencies to implement the price controls. The commodities affected included cereals, olives and olive oil, milk, meat, pulses, forage, dates, sugar beets and tobacco. The prices of agricultural inputs and factors of production were also regulated. The price of irrigation water has always been subsidized. At the end of 1969 price control was lifted on a number of commodities, such as pulses, forage and dates.

7.34 During the previous decade the organization of commerce under government agencies or cooperatives, with legal or de facto monopolies for a product or area, also contributed to inflexibility of prices. Considerable progress has been made since 1970 in liberalizing commerce and restoring competition. The law of April 1970 authorized private retail and wholesale trade. The latter was restricted to companies with not less than a prescribed minimum capital and was subject to the prior approval of the Ministry of Economic Affairs. As a result, some 5,000 retail enterprises, mostly created without prior approval, have been established since 1970. At the end of 1972, there were about 12,000 private individual retail establishments, 1,900 retail societies and 25 retail cooperatives, while there were 240 wholesale societies and 3 wholesale cooperatives. The Government is anxious to avoid any excessive multiplication of retail businesses and is studying the possibility of offering fiscal incentives to induce shops to group themselves into department stores. In this connection, the 1974 Budget provides for the formulation of a law to "steer" wholesale and retail trade, and of a Code of incentives to investment in trade. It also provides for restructuring of the National Trade Council and for reorganization of the General Equalization Fund. Account should be taken in the proposed measures of the fact that the establishment of new shops, even small ones, has a favorable impact on employment and must be presumed to meet a need and stimulate production. Moreover, the number of shops and the resulting competition should provide a safeguard against excessive profits.

(iv) Relaxation of Investment Controls, Incentives, and the New Promotional Framework

7.35 One of the most significant steps towards a market economy is the stimulation of private investment through a comprehensive system of incentives and promotional machinery, combined with the relaxation of controls on investment. Under the Investment Code of June 1969, all investment required approval

by the Ministry of National Economy on the advice of the Investment Approval Commission at the Prime Minister's level, and by two sub-commissions dealing with minor projects in industry and tourism respectively. Since 1971, an effort has been made to relax the conditions for approval, particularly as regards competition with existing enterprises, to simplify administrative procedure and to accelerate decisions. As a result, 536 industrial projects, amounting to D 48 million, were approved in 1972 and 643 projects (D 119 million) in 1973, compared with 440 projects for D 25 million in 1971 and 270 projects for D 8 million in 1970 (Statistical Annex, Table 8.11).

7.36 In April 1972 a law established incentives for export-oriented industries and created an Investment Promotion Agency. A decree in January 1973 defined the role of the agency as: to assist enterprises in preparing approval applications; to analyze applications on behalf of the Commission of Investment; to make recommendations to the Ministry of National Economy; to initiate research and studies, by itself or in collaboration with other agencies, public or private, domestic or foreign, for the promotion of investment; and finally, to disseminate information, both outside and inside Tunisia, about investment opportunities and relations between foreign and Tunisian investors. The creation of this agency means that enterprises now need to deal with a single government agency only, as opposed to the nine units in various ministries which were previously responsible for giving the necessary approvals.

7.37 The agency has concentrated on the appraisal of investment applications and has made a serious effort to clear the backlog and to accelerate decisions, although it has only a very small staff. In addition to making appraisals, it assists investors in dealing with the authorities and financial institutions. It will rely to a great extent on the Center for Industrial Studies to appraise projects and to provide investors with technical advice. It intends also to coordinate the activities of specialized agencies, such as the National Institute of Productivity and the Center for Promotion of Exports, which it will employ as consultants. It will prospect for possible investors and markets abroad, and will seek to bring foreign and Tunisian investors together, and to introduce foreign capital and "know-how" into Tunisian firms.

7.38 To help investors to find factory sites, the new agency intends to promote the establishment of industrial estates. Three autonomous real estate agencies have been created by the Government and are responsible for land purchase and site preparation, housing construction, and the establishment of hotels and other tourist amenities, and of industrial estates. Responsibility for equipping and developing industrial estates or industrial areas has not yet been allocated.

7.39 The law of April 1972 provides substantial incentives and trade facilities for export-oriented industries, both domestic and foreign, and particularly advantageous foreign exchange regulations for foreign enterprises; it also provides some incentives for partly export-oriented industries. Incentives can be classified under five headings:

(i) fiscal incentives: exemption from income tax during the first ten years, and a reduced rate (10 percent) for the next ten years; exemption for twenty years from taxes on the rental value of industrial premises, on income from securities deposited as collateral for borrowing; reductions of the registration fees on documents, of taxes on distributed profits, and of transfer registration fees;

(ii) tax exemptions on equipment and supply: exemption from customs duties and turnover taxes on all imports required for production, exemption from turnover tax on purchases from domestic sources of goods required for production; refund of customs duties and turnover taxes on local purchases of imported equipment and other inputs;

(iii) trade incentives: subject to customs declaration, export-oriented enterprises may freely import the goods needed for their production. Their sales in Tunisia, however, are subject to the same formalities as foreign trade, including administrative control and customs surveillance; moreover, exports benefitting from this law may not be made under bilateral payments agreements, or as part of quotas granted to Tunisia;

(iv) foreign exchange incentives: these are applicable to non-resident investors only (corporate bodies are regarded as non-resident when 66 percent of their capital is held by non-residents); they waive the obligation to repatriate proceeds of exports, except for amounts corresponding to local expenditures (resident companies must repatriate the proceeds of their exports, while they have the right to transfer dinar funds to meet payments abroad through banks authorized by the Central Bank); participation by residents in the capital of such enterprises, and transfers between residents and non-residents of the securities or physical assets of these enterprises must be authorized by the Central Bank;

(v) the law authorizes export-oriented enterprises to recruit training staff and supervisors of foreign nationality, subject to a program of "Tunisification" of senior staff.

7.40 For enterprises exporting at least 20 percent of their production, the law provides for income tax on profits from exports at a reduced rate of 10 percent, for the relaxation of the industrial entrepot regulations for imports of inputs needed for the production of goods to be exported, and for the suspension of turnover tax on purchases in the domestic market. Moreover, the law specifies that enterprises established before its effective date may, by special arrangement, enjoy all or part of its benefits. Particularly detailed procedures are laid down in a series of implementing decrees.

7.41 To promote exports, a National Equalization Fund intervened from time to time to subsidize exports of certain products, and the Commerce Office controlled exports in terms of quality, encouraged the grouping of exporters, and established trade relations abroad. A Committee for External Trade was created, but never functioned. Although Tunisia concluded an association agreement with EEC in 1969, its exports to EEC countries did not grow significantly. This was due to the introduction of EEC's generalized preference scheme in 1971 and the conclusion of EEC agreements with other Mediterranean countries, both reducing the advantages of association for Tunisia. The agreement with the EEC is to be revised in 1974, and in the new agreement the Tunisians are seeking provisions for economic and financial cooperation and the control of migrant manpower in the host country. An Export Promotion Center was recently created, and is to concern itself with commercial intelligence, market research and commercial relations with other countries. The Sectoral Commission for Commerce, in preparing the Fourth Plan, recommended making the Committee for External Trade more effective, the creation of an Export Aid Fund -- a proposal put forward in the Perspectives -- and the institution of export credit insurance.

7.42 To promote private investment directed towards the domestic market, in 1972 the Government appointed a committee of representatives of the Prime Minister's Office, the Ministry of Finance and the Ministry of Planning to study in detail legislation on concessions to enterprises, particularly those under the 1969 Investment Code, and the procedure for the prior approval of investments, with a view to proposing new measures. Once an investment was approved, the 1969 Code granted various concessions depending on the size of the investment and the number of permanent jobs created. These concessions could include reduction of or exemption from income tax, registration fees, and income tax on securities deposited as collateral. Larger investments could benefit from the suspension of fees and taxes on imported capital goods, unless the corresponding goods were produced in Tunisia.

7.43 In addition to these automatic concessions, which affected profits or, in the case of investments of a certain minimum size, on the cost of imported equipment, large projects could be granted further benefits: they could qualify for exemption from fees and taxes on imported equipment, exemption from customs duties, long-term fiscal incentives, a monopoly of import or export, or the total or partial prohibition of competing imports, interest subsidies, and assistance in purchasing factory sites and installing infrastructure. The Investment Code also guaranteed the transfer of capital invested in foreign currency and of the income on that capital for non-resident investors. The Code also provided for the reduction of taxes, under specified conditions, on reinvestment in the form of increased participation, purchase of bonds, or expansion of installations.

7.44 These provisions favored large rather than small or medium enterprises, although the latter are generally more labor-intensive and have accounted for most of the projects submitted for approval, the average project size over the period 1969-1973 being D 100,000 (Source: Statistics on projects approved by the Ministry of National Economy). Incentives to encourage a wider regional distribution of investments have not been adequate, being limited for

the most part to some fiscal advantages for enterprises investing in the south. The problem is really one of excessive concentration in Tunis, rather than one of disparities between the remaining regions or between the south and the rest. In 1972, for example, more than half of total investment concerned the Tunis area.

7.45 In deciding whether to grant incentives, the Government retained the right to decide such matters as the priority of the investment, the nature of the activity, the value added, the degree of local integration, the origin of the capital, the employment created, and the prospective quantity of exports. The range of concessions that could be granted under the existing system was very wide. Besides tax exemptions for excessively long periods which meant the sacrifice of considerable revenue, the Code provided for concessions that affected the cost of production rather than the cost of the investment such as exemption from duty on imported intermediate goods. The Code provided that it was for the administration to determine the eligibility of new enterprises for credit. This requirement had become inconsistent with the policy of encouraging the banking system to be more active in promoting investment.

7.46 The work of the committee on revision of the Investment Code culminated in the preparation of a draft law more consistent with the present directions of economic policy. The law will be put into effect in 1974, and the 1974 economic budget defined its main features. The draft introduces greater flexibility into the approval procedure and modulates the financial and fiscal concessions by reference to three main criteria: the number of permanent jobs created, the regionalization of investment, and the volume of production exported.

7.47 As regards employment creation, the draft Code provides for five investment categories based on the number of jobs to be created. The concessions granted increase with the number of jobs. In addition to certain special fiscal arrangements for registration and reinvested profits, they include suspension of import duties and taxes, and exemption (ranging from 40 to 90 percent) from tax on profits. As for regionalization, the draft Code introduces incentives to decentralization of industrial investments that include, in addition to the benefits under job creation, an investment subsidy, an interest rebate on loans, and the undertaking of certain infrastructure works. The regions to be benefitted will be determined during 1974. For exports, consolidating the guidelines of the Law of April 27, 1972, the draft Code introduces, in addition to the job-creation and decentralization benefits, extension by a further year of the exemption of profits at a rate corresponding to the category to which the investment is assigned. Finally, the draft Code introduces, for job creation, an additional, permanent incentive in the form of exemption of profits at a rate geared to the rate of increase in employment after the end of the initial period of encouragement.

7.48 These provisions appear to be well conceived on the whole, and the appraisal criteria -- job creation, regionalization, export performance -- are in line with the Government's economic policy. The details of the incentives are not yet known but the non-fiscal incentives envisaged, such as investment

subsidies, interest rebates and the undertaking of certain infrastructure works, appear to be particularly appropriate and will probably have a greater impact than the purely fiscal incentives. With regard particularly to the regionalization criterion, the incentives could be amplified by making sites available to entrepreneurs within the industrial estates scheme and by abatements of transportation and public services costs.

7.49 Generally speaking, it is essential to define the types of incentives to be accorded after having evaluated the costs and benefits of the investment and to specify which advantages or concessions will be granted automatically and which will be granted only selectively. The discretionary concessions should be reduced to the minimum. Suspension of import duties is a concession to be wielded with care; exemptions from import duties on capital goods should be carefully weighed to avoid excessive encouragement causing capital-intensive investments to be made at the expense of employment creation. Exemptions from import duties on intermediate goods -- raw materials, semi-finished products -- relating specifically to production costs (as was the case with the old Code) are best avoided since they can distort competition vis-a-vis existing enterprises in the same branch of industry and impair development, on normal bases, of the competitiveness of the new enterprises.

7.50 For building and construction enterprises, which cannot meet the large investment programs under the Fourth Plan, the 1974 Economic Budget provides for the introduction of a system of incentives to the establishment of private firms. The construction sector also suffers from a shortage of skilled manpower and it is planned to strengthen the vocational training programs to meet this need.

7.51 As regards agriculture, the role of the State in investment policy, control of production and marketing is examined in Chapters X and XII. The reorientation of government policy in September 1969 brought a number of measures designed to strengthen private-sector development. The option of withdrawing private land from the state-controlled production cooperatives led to the wholesale dissolution of these cooperatives. There was also some divestment of public land by allotment, outright sale and lease arrangements. Credit policies were reoriented toward facilitating production and investment credits for private farms. Small farmers' production credits were to be provided in kind and channelled through the existing marketing network of the Cereals Board and other public agencies. Some input prices were reduced - substantially, in the case of nitrogenous fertilizers - as were long-term interest rates for certain types of investments, along with Government subsidies. Tax policies were also revised with the object of encouraging agricultural development. Import duties on inputs and spare parts were reduced or eliminated and producer taxes reduced.

7.52 Investments in tourism, where private initiative has always been encouraged, are also eligible for benefits under the 1969 Investment Code, although they are also entitled to special incentives under a 1966 decree which provided:

(i) subsidies for minor infrastructure works linking up hotel sites with the main infrastructure system;

(ii) exemption from or reduction of customs duties on imported equipment for hotel construction;

(iii) interest rebates of up to 3 percent on loans;

(iv) access to medium and long term credit;

(v) facilities for the purchase or long-term leasing of sites.

7.53 The tourism incentive system has grown in a haphazard way, and it is doubtful whether the incentives meet the Government's objectives or the needs of investors. Incentives are granted indiscriminately to all hotels, irrespective of their location and type. The Government has initiated studies with a view to revising the system on the basis of the orderly development of tourism development zones graded according to priority. (See the chapter on Tourism).

7.54 The way in which the financial sector works, and the measures proposed on the financial aspects of investment, are reviewed in Chapter VI.

7.55 Other measures to promote private investment and make the economy more competitive, such as the creation of an industrial promotion and decentralization fund, were proposed in the Fourth Plan. The Plan and its economic policy aspects are reviewed in Chapter IX.

C. New Perspectives

7.56 The direct impact of the new policies and the measures already taken is difficult to assess precisely at this stage. Their effects have been overshadowed by other factors, such as the exceptionally favorable weather in 1971 and 1972, which increased the output of agriculture and agro-industries, and the rapid growth of tourism, petroleum exports, and workers' remittances. There can be little doubt, however, that the new measures have contributed to the renewed confidence and vitality of the private sector. As noted earlier, private industrial projects approved in 1971, 1972 and 1973 increased substantially in amount and number. Investment in private enterprise (expressed in constant 1966 prices) increased by 62 percent in 1972 and by 28 percent in 1973. Moreover, the efforts to promote foreign investment in export-oriented industries have generated a growing number of projects since 1973, about half of which have been presented in association with Tunisian investors.

7.57 The partial liberalization of imports and foreign exchange controls contributed to increases (at constant prices) in total imports of goods and services of about 18 percent in 1971, 25 percent in 1972, and 12 percent in 1973. The initial measures to mobilize development finance and to improve the availability of credit for investment have probably helped to increase medium and long-term lending; here again, however, it is difficult to separate the effects of government policies from those of economic growth and increased foreign exchange reserves. Saving and term deposits grew by 10 percent in 1971, 23 percent in 1972 and 30 percent in 1973, while medium and long-term credits increased by 16 percent in 1971, 24 percent in 1972 and 18 percent in 1973 (the available data does not distinguish between credit to public enterprises and credit to private enterprises).

7.58 While the administration of import controls has been greatly simplified, the liberalization of imports is limited to certain raw materials and semi-finished products and eligibility still depends to some extent on the discretion of authorities. The procedure for payment authorizations by the Central Bank has not apparently been modified. The annual import authorization system, which applies to a limited number of enterprises, tends to make them over-estimate their needs and build up excessive stocks. The system is also difficult to manage, and the Government is considering abandoning it and extending the import certificate system to a wider range of commodities. Although there is no longer any Central Bank ceiling on them, equipment imports still have to be licensed, and this, together with the other investment controls, does not facilitate private investment. Price control has been relaxed but government intervention subsists in the system of "self-regulation" of prices, which can result in continuation of the present prices structure and too slow adjustment to market conditions.

7.59 Moreover, there seems to be inadequate coordination between the system of controlled prices and the new Customs tariff for imported products that compete with Tunisian products. In this connection the Fourth Plan rightly makes the point that the system of calculating prices on the "cost-plus" basis does not stimulate industry to reduce its costs and tends to "official recognition to" production costs without any real assurance that they are not abnormally high. The Plan therefore proposes to extend the system of "controlled freedom" and to make the action of the price control services more effective, where necessary. The Fourth Plan also proposes phased elimination of quantitative restrictions and quotas, and their replacement by a simpler system of protection based on the Customs tariff. However, it appears that, apart from the enactment of the new Customs tariff, the necessary measures have not yet been implemented.

7.60 The most important innovation, and the key-piece among the means deployed in the context of the new strategy for industry, is the new system of incentives introduced by the 1972 Law on export industries and the 1974 Investment Code. The underlying principle of the 1972 Law is an excellent one and puts Tunisia in a position to compete with other countries enjoying comparable advantages in attracting the necessary foreign investment for its development and for the orientation of its economy toward exports. However, the nature and scope of the incentives provided mean that qualifying projects must be selected carefully, in the light of the main economic policy objectives. Two of the most important of these objectives are employment creation and the regionalization of development.

7.61 Under this Law, export industries are placed in a virtual free Customs zone where they may effect imports free of duty and dispose of the proceeds of their exports (except for the portion needed to cover their local expenditures). To ensure that these provisions do not lead to a concentration of industrial development in some coastal areas, to the detriment of regional development and industrial integration, special incentives should be offered to "steer" new enterprises to particular geographic areas and to encourage them to use intermediate goods of local origin. A particularly effective

incentive of this kind would be the establishment of industrial estates, provided with infrastructure facilities (for which the new land agency has been made responsible), on which sites would be offered to both export and local-market industries. These estates would be additional to the areas to be established specially for industries oriented to the domestic market.

7.62 On the employment aspect, it is important to ensure that the number of jobs created is in normal ratio to the investment, so as to make sure that the facility of importing equipment duty free does not favor the establishment of capital-intensive industries, in which case the economic and financial benefit to the country would not be commensurate with the benefits accorded by it. Enterprises that qualify under the Law are exempt from taxes and duties; moreover, the exemption from taxation of profits is granted for a very long period, much longer than the normal period of amortization of industrial equipment. In view of the attraction to investors of the cost of labor in Tunisia, this risk has not so far materialized. On the contrary, it appears from the number of projects already approved and implemented that the employment-creation goals for industry set by the Fourth Plan will be exceeded. However, in order to satisfy this job supply it is important, in view of the shortage of skilled manpower, to step up the vocational training programs. It is essential also that the institution responsible for implementing this scheme of incentives keep close track of the execution of the projects approved and of proper compliance with the conditions imposed.

7.63 For this system of incentives to be fully effective, the related administrative procedures need to be simplified. Complicated procedures and controls have been laid down in the implementing decrees to the Law. These controls could hamper the day-to-day operations of enterprises and appreciably increase their costs. The regulations imposed by the Central Bank on foreign-exchange payments and transfers, and on transactions between enterprises operating under the benefits of this Law and residents producing for the local market, could well be simplified. For instance, purchases and sales between "non-resident" enterprises and "resident" enterprises are subject to the same procedures as imports and exports; this encourages neither industrial integration nor marginal sales to the domestic market. Moreover, it is difficult to see why resident participation in the capital of foreign enterprises eligible under this Law, and the transfer of securities between residents and foreign enterprises, should be subject to Central Bank control when the authorities wish to encourage such association. Aware of the problems caused to investors by the administrative formalities and regulations, the Investment Promotion Agency, whose function is to assist investors, has already managed to obtain substantial simplifications of these various procedures.

7.64 The economic orientation adopted in Tunisia during recent years demonstrates an awareness of the necessary conditions for the development of a market economy open to the outside: essentially, rising productivity and competitiveness through the growing effects of competition and the gradual abolition of restrictive and protective measures, as well as industrial growth on a broadened and strengthened base. The Fourth Plan and the 1974 Economic Budget contain many proposals along these lines; these are reviewed in Chapter 9 and elsewhere in this report. The next step is to program the introduction

of effective measures to implement these proposals. Tunisia enjoys substantial comparative advantages for the placement of its products on the world market, but some of these advantages may well be only temporary and Tunisia has many competitors, particularly the Mediterranean countries, which enjoy the same advantages and some of which are ahead in export capacity. It is therefore essential that the required evolution take place rapidly.

7.65 The present economic and financial recovery of the country, and very particularly its strong external position, together with the prospects recently opened up by the rise in world prices of petroleum, phosphate and olive oil, justify a more rapid reduction of controls and restrictions on foreign trade and exchange transactions. The next steps could include new measures to reduce, in conjunction with the Customs tariff, most of the remaining quantitative controls on imports and to simplify import, transfer and financial control procedures. Furthermore, all traders and entrepreneurs should have equal access to import rights and to foreign exchange.

7.66 To rationalize relationships between domestic prices and external prices of competing products, and to increase exports, the "cost-plus" system of pricing should be gradually abandoned. To avoid sudden fluctuations, the liberalization of prices should proceed pari passu with the liberalization of imports and the adjustment of Customs tariffs. Tunisian prices for most manufactured goods (textiles are an exception) are above the world level. This is because Tunisian industry has been heavily protected, has low productivity, and in most cases has not attained an economic scale. Prices could be reduced through the effects of foreign competition, by progressive tariff reductions on competing imports, following their complete liberalization; and through the adoption of efficient production methods, applied on an economic scale, in manufacturing. Quality control should also be developed.

7.67 In following this strategy, the need must not be overlooked for the temporary protection of new enterprises likely to make a major contribution to the country's industrial development. Protection would rarely be granted to small-scale enterprises whose needs could be met by investment allowances and tax incentives. Furthermore, instead of quotas, protection should take the form of tariffs, which can be applied flexibly, be reduced progressively, and be restricted to particular enterprises or particular lines of production and authorized for specified periods. When applying for protection, an enterprise should define its production program and the period for which it will need protection. Similar temporary protection could be given to existing enterprises to permit them to reorganize to face new market conditions. This protection could include temporary subsidies for certain intermediate inputs. It should, however, be made conditional on a reorganization program, and in the medium term it should not shelter inefficient producers; survival should depend on keeping prices and quality competitive with foreign and domestic goods.

7.68 Finally, the private sector, which has been unable in the past to acquire the desired experience, now needs technical assistance if it is to play an effective part.1/ This assistance should be furnished in particular in the areas of sector and market studies, project preparation, engineering and accounting, and vocational training. Some of these services could moreover be organized within the context of the industrial estates scheme. Furthermore, control of private investments which do not qualify for the benefits of the Investment Code could be reduced to the minimum.

1/ The proposals and needs in the areas of financing of industry, promotion, and direct assistance to enterprises are reviewed in Chapter 15, An Industrial Development Strategy.

8. THE BALANCE OF PAYMENTS, EXTERNAL RELATIONS, AND EXTERNAL DEBT

A. Developments and Institutional Changes 1961-1972

8.1 Since 1961 Tunisia's balance of payments has undergone a number of major structural changes. Exports of crude oil and manufactures became increasingly important. The substantial expansion of public development expenditures and the emphasis on import substituting enterprises affected the composition of imports. Tourism and the remittances of emigrant workers became important sources of foreign exchange. Development led to increased external borrowing, mainly medium and long term, which brought about a sustained rise in debt service.

(i) General

8.2 The period 1961-1972 may be divided into three parts from the point of view of the balance of payments. From 1961 to 1964, the current account deficit increased and exceeded capital inflows, so that foreign exchange reserves were depleted. Following the 1964 devaluation and the introduction of the stabilization program, except for the bad year of 1965, the current account deficit began to decrease. Petroleum exports and tourist receipts increased, while imports fell substantially. As a result, an overall balance of payments surplus reappeared in 1968, despite reduced net capital inflows. Then, from 1969 to 1972, the period of the Second Four-Year Plan, the balance of payments improved considerably. In 1970, the current deficit was for the first time lower than the trade deficit as services showed a surplus. Moreover, during the two following years, exceptionally good crops, increasing petroleum exports, the continuing expansion of tourism and workers' remittances, and a new increase in capital inflows led to large overall surpluses and the rebuilding of foreign exchange reserves, in spite of a rapid increase in imports due to the general increase in economic activity and the first liberalization measures.

8.3 The changes in Tunisia's external position over these three periods can be summarized by comparing the main aggregates of the balance of payments with GDP. The ratio of exports to GDP changed from about 12 percent during 1961-64 to a little more than 13 percent over the period 1961-1972, except for the incidental rise to 14.7 percent in 1971-1972. The ratio of imports, which averaged 22 percent in 1961-1964, decreased to 21 percent in 1966-1968, and then more or less levelled off. As a result, the trade deficit, which averaged 10 percent of GDP in 1961-1964, decreased to 7-8 percent during the following years. Largely as a result of the emergence of tourism earnings and worker's remittances, the current account deficit, which averaged 10.5 percent of GDP in 1961-1964, fell to 7 percent in 1969-1970, and to only 2.2 percent in 1971-1972. If 1971 and 1972 GDP, olive oil exports and induced imports are adjusted to a normal level by eliminating the effects of exceptional weather, the ratio of the current deficit to GDP would remain about 4 percent, and would still represent a fundamental improvement in Tunisia's balance of payments. Net external capital, although very high compared with GDP, did not offset the current deficit during the years 1961-1967, but after 1967 greatly exceeded the deficit, although it decreased in relative value as a result of increasing debt repayments.

TABLE 8.1: SUMMARY BALANCE OF PAYMENTS 1961-1972

Annual Average
(in millions of Dinars)

	1961-64	1965	1966-68	1969-70	1971-72	Adjusted[1] 1971-72
Merchandise Exports	51.4	63.4	78.7	94.0	138.5	119.3
Merchandise Imports	92.5	122.5	124.3	145.4	197.0	193.3
Trade Balance	-41.1	-59.1	-45.6	-51.4	-58.5	-74.0
Net Services and Transfers	-3.0	-21.6	-12.0	1.7	37.8	37.3
Current Account	-44.1	-80.7	-57.6	-49.7	-20.7	-36.7
Gross Capital Inflow	37.8	89.4	76.6	84.3	91.4	91.8
Less: Repayments	3.9	13.1	20.7	26.2	30.6	30.3
Net Capital Inflow	33.9	76.3	55.9	58.1	60.8	61.5
Overall Balance [2]	-10.2	-4.4	-1.7	8.4	40.1	24.8

(as percentage of GDP)

	1961-64	1965	1966-68	1969-70	1971-72	Adjusted[1] 1971-72
Merchandise Exports	12.3	12.0	13.4	13.2	14.7	13.1
Merchandise Imports	22.1	23.3	21.2	20.4	21.0	21.3
Trade Balance	-9.8	-11.2	07.8	-7.2	-6.3	-8.2
Current Account Balance	-10.5	-15.3	-9.8	-7.0	-2.2	-4.0
Net Capital Inflow	8.1	14.5	9.5	8.1	6.5	6.8

1/ By correcting olive oil exports and their induced effects to their normal level

2/ Excluding SDR

Source: Ministry of Planning and IBRD

8.4 During the second half of the decade the improvement in Tunisia's balance of payments was accompanied by major changes in the structure of receipts as well as payments which reflected the developments in Tunisia's economy.

Table 8.2: MAIN SOURCES OF FOREIGN EXCHANGE EARNINGS

(annual average)

	Percentage Distribution					
						adjusted (1)
	1961-62	1963-64	1966-67	1969-70	1971-72	1971-72
Olive Oil	13.8	12.5	8.4	5.3	12.7	6.6
Wine	9.7	10.9	3.8	2.3	0.8	0.6
Other agri. prod.	14.5	17.5	13.8	8.9	6.4	6.8
Sub-total	38.0	40.9	26.0	16.5	19.9	14.0
Rock phosphate	7.7	8.9	9.7	5.9	3.9	4.0
Processed phosphate	4.0	4.2	6.7	4.9	3.8	4.2
Other mining prod.	5.4	4.4	4.9	5.1	3.4	3.7
Sub-total	17.1	17.5	21.3	15.9	11.1	11.9
Petroleum	-	-	6.4	13.4	12.8	14.2
Manufacted prod.	3.0	4.8	5.8	6.1	5.1	4.9
Total goods	58.1	63.2	59.5	51.9	48.9	45.0
Tourism	2.3	5.5	12.6	17.3	22.6	24.6
Workers remittances	3.2	2.9	4.1	7.3	9.2	9.1
Other invisibles	36.4	28.4	23.8	23.5	19.3	21.3
Total invisibles	41.9	36.8	40.5	48.1	51.1	55.0
Total current receipts	100.0	100.0	100.0	100.0	100.0	100.0

/1 By correcting olive oil exports.

Source: Ministry of Planning.

8.5 The composition of foreign exchange earnings changed greatly. The share of agricultural exports decreased from 38 percent of total earnings in 1961-1962 to 20 percent in 1971-1972. This latter figure would have been about 14 percent without the exceptional olive crop. In any event, this sharp decrease has considerably reduced the dependence of Tunisia's external position on the weather. The share of primary mining exports, mainly rock phosphate, also decreased, while processed mining exports grew in line with total earnings. This change also reduced Tunisia's dependence on world market conditions for primary products. The share of manufactured exports went up from 37 percent of total receipts to about 5 percent. But the major change

was the emergence of petroleum exports, which are now the largest source of commodity export earnings, representing about 30 percent of commodity exports and 14 percent of total foreign exchange earnings.

8.6 Another trend has been the increasing predominance of earnings from invisibles, which increased from 42 percent of total earnings in 1961-1962 to about 55 percent in 1971-1972, as a result of the spectacular expansion of tourism, now the most important source of Tunisia's foreign exchange earnings, and of workers' remittances. This diversification and expansion of sources of foreign exchange earnings over the last ten years is an important achievement and constitutes a strong base for further economic development. However, the diversification is still limited. During the 1950's five items provided about 68 percent of total foreign exchange earnings: olive oil, wine, phosphate products, cereals, and French government expenditures. In 1971-1972 a different group of five still contributed up about 63 percent of total earnings (assuming a normal olive crop): tourism, petroleum, workers' remittances, phosphate products, and olive oil. While the new group is probably more stable, Tunisia's economy is still rather sensitive to the world prices of some basic commodities, and highly vulnerable to unfavorable developments in both the labor market and tourism in Europe. This underlines the continuing need to develop and diversify industrial exports in line with the Government's new economic policy.

8.7 The structure of foreign payments has also largely changed in response to Tunisia's internal development. The share of equipment imports increased from 15 percent of total payments in 1961-1962 to almost 20 percent in 1971-1972 in line with the investment effort. On the other hand, the share of consumer goods went down by a half as the result of industrial development based on import substitution and a restrictive import policy. This change was also reflected in the growth of intermediary goods. Other payments which increased during the last ten years were those for technical assistance and foreigners' remittances, as well as interest payments on external debt, which rose steadily to reach 4-5 percent of total payments. The share of cereals and other foodstuffs has decreased from 19 percent of total payments in 1961-1962 to 14 percent in 1971-1972. However, this item is still important and shows Tunisia's continuing deficit in such products, which is partly due to the rising demand of the tourism sector. An effort is needed to develop agricultural and meat production and food processing to meet this demand.

(ii) The Deterioration of Tunisia's External Position, 1961-1964

8.8 From 1961 to 1964, Tunisia's external position was subject to increasing pressures, due largely to the lack of growth of exports, particularly in mining, and the emergence of a substantial deficit in services. Imports did not grow significantly in value, and their volume remained about the same during the first three years, but went up in 1964. However, their composition reflected the rapid increase of public investment after 1961. Imports of capital and intermediate goods almost doubled and rose from 40 percent to 60 percent of total imports. Imports of consumer goods declined somewhat, partly because of a reduction in demand by foreign residents in Tunisia and partly because of stricter controls. Imports of cereals, which has been very high in 1961-62, fell thereafter because of better domestic crops.

TABLE 8.3: MAIN SOURCES OF FOREIGN EXCHANGE PAYMENTS

(Annual Average)

	Percentage Distribution				
	1961-62	1963-64	1966-67	1969-70	1971-72
Capital goods	14.7	18.7	16.2	14.9	19.5
Intermediate goods	23.2	27.2	28.9	26.9	24.0
Consumer goods	18.8	15.9	10.8	9.2	9.6
Cereals and foodstuffs	18.8	11.8	12.5	14.0	13.1
Total goods 1/	75.5	73.6	68.4	65.0	66.2
Technical assistance and labor income	4.4	5.3	6.8	6.8	4.7
Debt interest	0.2	1.1	3.9	4.8	4.0
Investment income	0.5	0.5	0.4	1.6	2.8
Other invisibles	19.4	19.5	20.5	21.8	22.3
Total invisibles	24.5	26.4	31.6	35.0	33.8
Total current payments	100.0	100.0	100.0	100.0	100.0

1/ Total imports c.i.f., excluding temporary imports.

Source: Ministry of Planning

8.9 During this period, agricultural exports remained the chief source of foreign exchange earnings, but increased only moderately in value. They reflected developments in domestic production and a deterioration of the competitive position of several Tunisian products, such as olive oil and wine, in foreign markets. Mineral exports did not increase, as phosphate rock production reached full capacity, and the production of iron ore, lead and fertilizers stagnated. The deficit on invisibles emerged in 1962, mainly because of the decline of French Government expenditure and a rise in net factor income payments abroad due to expenditures on consultants' services and technical assistance in connection with the development effort.

8.10 During 1961-1964, Tunisia began to receive substantial amounts of official foreign aid which only partially offset the growing current deficit. The composition of aid changed significantly during the period. Grant aid declined from D 18 million 1960-61 to D 8 million in 1964, while public loans rose sharply from virtually nothing to almost D 30 million in 1964. Foreign direct investment remained small and was mainly for oil exploration. In 1963, Tunisia also began to use suppliers' credits in large amounts for equipment imports. To some extent these credits were linked to official aid. Exchange reserves were depleted at an average rate of D 10 million a year in these four years and total net foreign assets were negative at the end of 1964.

(iii) The Stabilization Program and Developments During the First Four-Year Plan

8.11 In September 1964, to halt the weakening of Tunisia's external position and realign domestic and international prices, the dinar was devalued by 20 percent in the framework of a stabilization program. As when the French franc was devalued in 1958 there were political and social reasons for maintaining the external value of the dinar. Nonetheless, the authorities concluded that the dinar was overvalued and that an adjustment was necessary. In deciding upon the degree of devaluation - 20 percent - the authorities were influcenced by: (i) the extent of the French devaluation of 1958 and of the Spanish and Moroccan devaluations of 1959; (ii) the pattern of Tunisia's trade; (iii) the likely impact of the loss of preferential treatment in the French market after the termination in September 1964 of the financial and trade agreement with France; and (iv) the free market rate of the dinar.

8.12 This devaluation was expected to encourage exports, and particularly the tourist industry. In addition, it was expected to limit imports. It was hoped that the resulting improvement in the balance of payments would facilitate the liberalization of the restrictive system and the elimination of the existing payments discrimination - neither of which in fact took place. The devaluation was accompanied by changes in export and import duties. Additional duties were levied on some exports to absorb part of the increased profits brought about by the devaluation. On the import side, the change in the exchange rate was expected to yield additional revenues to the Government. However, in order to minimize the effect of the devaluation on the cost of living, duties on some essential imports were reduced.

8.13 The short-run effects of the devaluation were disappointing because of several developments which adversely affected agricultural exports, the most important being the withdrawal of preferential treatment in the French market for Tunisian wine and other products in retaliation for the nationalization of all remaining French farmland. Although Tunisia succeeded in diverting some agricultural exports to Italy, Germany and some countries with which it maintained bilateral payment agreements, it was unable to find sufficient new markets for its wine. In addition, exports of cereals declined appreciably because of poor crops. Thus, in 1965, total exports decreased by more than 10 percent in real value. Without the devaluation, however, exports would have been even less. The devaluation enabled most Tunisian exports, except wine, to maintain their position in the French market, even though subject to full tariff rates. Moreover, in conjunction with increased world demand, the devaluation contributed to a sharp increase in exports of primary and processed mineral products. Finally, it was helpful in accelerating the development of tourism.

8.14 The devaluation also appears to have had some restraining influence on imports, since merchandise imports decreased slightly in volume. However, this influence was limited because of the rigidity of imports stemming from the restrictive system. Moreover, expenditures on transport and insurance, consulting firms and technical assistance, and debt service increased considerably. The rise in debt service resulted from the external borrowing of the preceding years.

8.15 Because of these adverse factors, Tunisia's external position deteriorated instead of improving during the year following the devaluation. The current account deficit increased from D 56 million in 1964 to more than D 80 million in 1965. But the increase in the inflow of foreign capital, stimulated by the devaluation, almost offset this deficit. In addition to increases in disbursements on public loans, this rise in capital inflow reflected a larger use of suppliers' credits and private medium-term credits which was to aggravate the debt service burden in the following years.

8.16 The devaluation had appreciable effects on the Government's budget. A substantial increase in revenue, mainly due to the rise of import taxes, enabled public savings to rise by 30 percent in spite of increasing current expenditures. As expected, the devaluation contributed to some increase in domestic prices and costs which did not pose a major threat to stabilization. In 1965, the pressures on domestic prices continued, but were not excessive due to the relative unimportance of imports in production and consumption.

8.17 The favorable effect of the devaluation only came out a year or two later. By increasing the competitiveness of Tunisian products, it prepared the way for a growth of exports and a general improvement of Tunisia's external position in the second half of the Four-Year Plan period 1965-68. As a whole, the stabilization program limited pressures on the balance of payments in 1966-68, even with the modest gains in real output during these years. There was a slowdown in total fixed investment, although it remained higher than originally planned. Moreover, in those years, private and public consumption grew more slowly than real GDP. This reflected a deliberate effort on the

part of the Government to contain effective demand. For instance, import policy was made more restrictive through administrative delays, which were reflected in a backlog of import licenses awaiting Central Bank approval at the end of 1966.

8.18 Total imports remained stable in 1966 and increased moderately in 1967. After reaching a peak in 1965, imports of capital goods declined with the reduction of fixed investment. Imports of consumer goods and foodstuffs also declined, except for imports of cereals, which doubled in 1967 as a result of the prolonged drought. Imports of raw materials and semi-finished products rose to meet the needs of Tunisia's new industries. A more selective import policy led to an appreciable decrease in the import price index in 1966 which continued until 1969 and, together with a gradual rise in the export price index, caused the terms of trade to improve from 83 in 1964-65 (100 in 1961 as a basis) to 98 in 1969.

8.19 In 1968, the final year of the Plan, there was a big drop in merchandise imports. A reduction of some 20 percent in imports of intermediate goods was made possible by the improved assessment of enterprise import requirements following the introduction of a foreign exchange budget and by limitations on access to suppliers' credits. Imports of consumer goods also declined because of further substitution of local products for imports, mostly of textiles, and a continuation of controls. Equipment imports remained at the preceding year's level.

Table 8.4: INDEX NUMBERS OF QUANTITY OF IMPORTS AND EXPORTS, AND TERMS OF TRADE

	1961	1964	1965	1966	1967	1968	1969	1970	1971	1972
Terms of Trade	100	82	84	88	94	94	98	96	111	116
Exports	100	132	118	137	141	149	152	166	178	230
Imports	100	109	106	110	119	100	125	139	151	190

Source: National Statistical Office.

8.20 On the other hand, in the three years following 1965, total exports grew at a higher rate - 9.4 percent a year in value, 8.1 percent in volume - and became somewhat diversified. This was primarily due to the appearance in 1966 of crude oil exports, which reached D 16 million, or almost 20 percent of total merchandise exports, in 1968. Exports of rock phosphate, aided by the 1964 devaluation, remained high, despite low productivity, in the face of strong international competition in both price and quality. Phosphate fertilizer exports, which had decreased in 1966, jumped in 1967 and 1968. Some new exports of manufactures appeared. In 1966, steps towards the resumption of the former trade relations with France assured markets for certain products

through tariff preferences and annually agreed quotas. Nevertheless, agricultural exports, after a rise in 1966, remained low as a result of lower olive oil production, the complete disappearance of cereal exports, and difficulties in finding sufficient quotas for wine on the French and European markets. Consequently, in the second half of the first Four-Year Plan, a basic change occurred in the composition of Tunisian exports. Exports of mining and metal products accounted for 35 percent of total merchandise exports in 1968 (55 percent including petroleum) compared with 29 percent at the beginning of the decade, and exports of manufactures reached 10 percent, compared with 5 percent, while agricultural exports of accounted only for 35 percent, compared with 66 percent in 1961-62.

8.21 These developments kept the trade deficit below the high figure reached in 1965. The deficit on invisibles decreased steadily to less than D 7 million in 1968. Tourism increased from D 10 million to D 23 million during 1965-68. Workers' remittances reached D 8 million in 1968. However, net payments for factor services still continued to exceed net receipts from non-factor services, because of the increasing debt service and payments for technical assistance, consultants and technicians. The current account deficit fell to only 6 percent of GDP in 1968, compared with more than 15 percent in 1965 and 10.5 percent in 1961-64.

8.22 After increasing until 1965, the foreign capital inflow levelled during 1966-68, and an increasing amount had to be used for debt repayments, which increase from D 13 million in 1965 to D 25 million in 1968. As a result, in 1966-67, net capital inflow was still insufficient to finance the current account deficit, and reserves declined further. In 1968, even though total net capital inflow barely reached the 1964 level, the improvement in the current account balance, due to a drastic reduction in imports, led to an overall balance of payments surplus. This was the first since 1960, and it was the first sign of the structural improvement in Tunisia's external position to come during the succeeding years.

(iv) The Structural Improvement in Tunisia's External Position During The Second Four-Year Plan, 1969-1972

8.23 During the Second Four-Year Plan the expansion of new exports, such as crude oil, metal products and manufactured goods, and the increasing importance of tourism receipts and workers' remittances, changed the outlook for Tunisia's balance of payments. The new economic policy initiated by the Government in the fall of 1969 (see chapter 7) - aimed at "opening" the economy to private initiative, both foreign and Tunisian, and to orient it towards export, after a decade in which priority had been given to production for the local market. In September 1969 an association agreement between Tunisia and the EEC became effective.

8.24 During 1968-1970 export receipts grew by 9 percent per annum. Petroleum exports rose from D 16 million in 1968 to D 23 million in 1969 and D 26 million in 1970; manufactured exports rose by 45 percent over the years 1968-1970, reaching D 11 million. This growth of export receipts was achieved despite a decline in traditional agricultural and mining exports. In 1969, exports of all agricultural products except citrus were below the 1968 figures as

a result of bad weather and floods. Exports of rock phosphates declined. Moreover, phosphate prices declined further, and sales of superphosphate fertilizers decreased in value and in volume. In 1970, agricultural exports continued to stagnate, and other traditional exports increased only moderately.

8.25 After the drastic reduction in 1968, imports increased in 1969 and 1970. Imports of equipment remained stable in 1969, but grew by more than 25 percent in 1970, reflecting the rise in investment. Imports of intermediate goods and crude oil rose sharply. An expansion in imports of foodstuffs, including cereals, was due to the combined effects of the growth in tourism, the 1969 flood damage and poor crops in 1969-1970. Imports of consumer goods remained at the same level, reflecting the expansion of local substitute production and the strict import licensing of this category of commodities.

8.26 These developments led to substantial trade deficits in 1969-1970. However, export receipts covered 65 percent of import payments in 1969-1970, compared with 59 percent in 1966-1967. Most important, invisibles, continuing the trend of the preceding years, showed a surplus of almost D 7 million in 1970. The current account deficit was therefore much lower than before 1968. At the same time, there was an increase in net capital inflow and the overall balance showed, in 1969 and 1970, surpluses of the same importance as that in 1968. The increase in net capital inflow reflected larger grants and disbursements on public loans. The net inflow of private capital remained at the same low level as in 1968, reflecting the Government's policy of containing the growth of private medium term borrowing, which was also reflected in a decrease of loan repayments in 1970. Nevertheless, while recourse to private financial credits was drastically reduced, the use of suppliers' credits was larger than in 1966-1968, reflecting the rise in domestic investment.

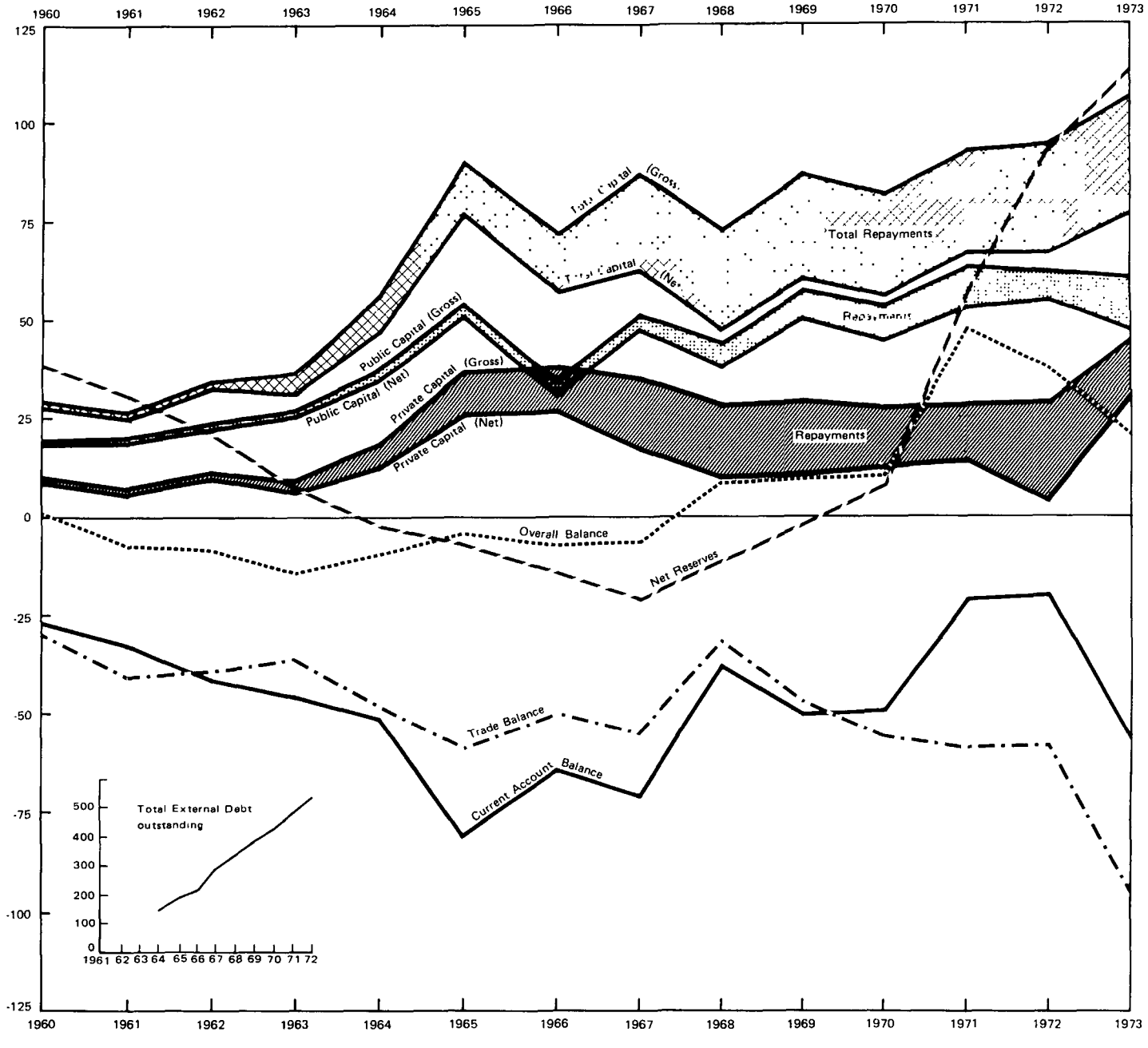
8.27 In 1971-1972 the balance of payments improved considerably, chiefly as the result of a rise in petroleum production and prices, much larger crops, which increased olive oil exports and reduced cereal imports, and a further expansion of tourism and workers' remittances. These favorable developments facilitated some limited steps towards liberalizing trade in line with the new economic policy, (see Chapter 7) which also affected the balance of payments.

8.28 Commodity exports at current prices rose by 19 percent in 1971 and by 36 percent in 1972. Olive oil exports, which had ranged between D 8 million and D 13.5 million a year during the preceding decade, according to the weather, increased to D 25 million in 1971 and to D 47 million in 1972 as a result of exceptional crops and the expansion of plantations. On the other hand, most other agricultural exports stagnated because of low production or marketing difficulties. Exports of wine, which is excluded from the association agreement with EEC, fell considerably because of restricted access to the French market. Exports of phosphate rock and superphosphate fertilizers recovered fully from the 1969 floods; yet the competition of higher quality phosphates on the world market caused a further decline in export prices for Tunisian phosphates, and the value of phosphate exports remained below the pre-1969

Graph 8.1

BALANCE OF PAYMENTS, 1960-1973

Millions current dinars



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level. In 1972 phosphoric acid was exported for the first time. Exports of manufactured goods, particularly textiles and clothing, expanded further. In 1972 crude oil exports reached D 39 million, i.e., 24 percent of total commodity exports. The rise in receipts from petroleum in 1972 was mostly due to increases in world market prices, but there was also a further expansion of production in 1972 to 3.7 million metric tons (compared to an average of 3 million per year during 1969-71).

8.29 During the same period commodity imports also rose rapidly, although more slowly than commodity exports. The high level of domestic investment, particularly in petroleum, the chemical and manufacturing industries and transportation, and the relaxation of of the official approval of industrial investments, resulted in a 37 percent increase in 1971 and 24 percent in 1972 in imports of equipment. Imports of raw materials and semi-finished goods decreased in 1971, but the relaxation of import regulations for spare parts, raw materials and semi-finished goods resulted in an increase of 15 percent in 1972. However, imports of raw materials and semi-finished goods did not grow at the same pace as the whole economic activity, in 1971 and in 1972, since growth occurred mostly in sectors, e.g. olive oil, tourism and petroleum, which use only a small proportion of imported intermediate goods. On the other hand, there were increased imports of crude oil in 1972, to be transformed into fuel oil in Tunisia, Tunisian crude oil being too light. Imports of foodstuffs other than cereals increased considerably -- from D 16.5 million in 1970 to D 31 million in 1972 -- to meet the rising demand, partly due to the growth of tourism and partly to the increase in private income. Less stringent import licensing also allowed consumer goods imports to increase.

Table 8.5: EXPORTS AS PERCENTAGE OF IMPORTS NET INVISIBLES (DEFICIT OR SURPLUS) AS PERCENTAGE OF TRADE DEFICIT

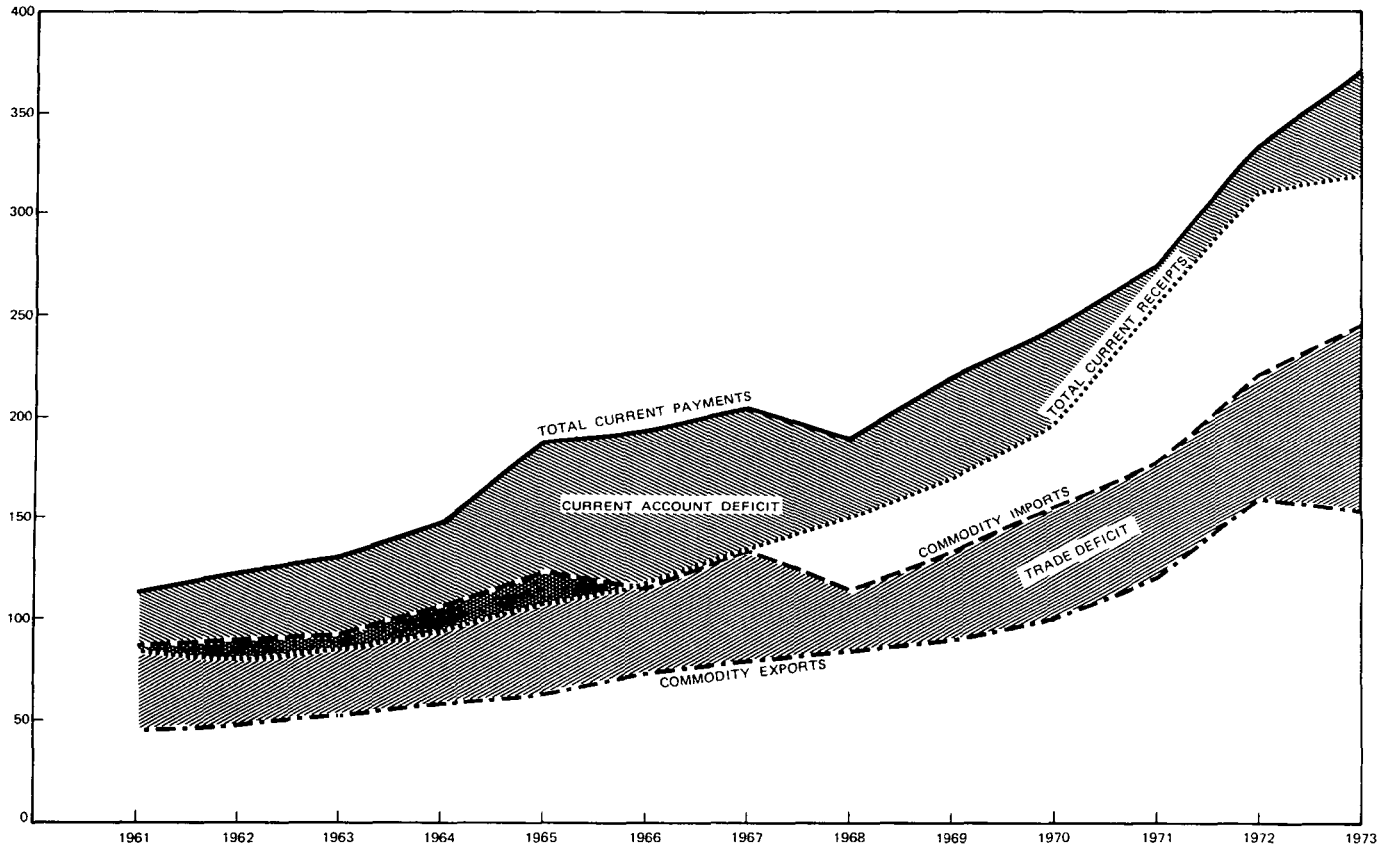
1961-62	1963-64	1965	1966-67	1968	1969-70	1971-72
			Exports as % of Imports			
54.4	56.7	51.8	59.2	72.6	64.7	70.3
			Net Invisibles (deficit or surplus) as % of Trade Deficit			
6.9	-20.8	-36.5	-27.9	-21.4	3.3	64.6

8.30 The trade deficits in 1971 and 1972 remained close to the 1969-1970 level in absolute value. Nevertheless they decreased appreciably in relative value, amounting to only 6.8 percent of GDP in 1971 and 5.7 percent in 1972, compared with 7.2 in 1969-1970, since exports grew much faster than imports. Following the trend which started in 1968, the ratio of export receipts to import payments went up to 70 percent. This relative improvement in the trade balance was accompanied by a considerable rise in the surplus on invisibles

Graph 8.2

IMPORT AND EXPORT GROWTH, 1961-1973

(Millions Dinars et current prices)



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which had appeared in 1970. Earnings from services and transfers, of which two-thirds came from tourism and emigrant workers' remittances, rose by 45 percent in 1971 and by 12 percent in 1972.

8.31 Receipts from tourism, becoming the largest source of foreign exchange earnings, increased by 65 percent in 1971 and 28 percent in 1972 to D 71.5 million due to an increased number of tourists, longer stays, and increased expenditure per tourist. The rapid rise in workers remittances, which started in 1969, reflected an increase in the number of emigrants, higher wages in Europe, and the Government's encouragement of remittances by permitting Tunisians working abroad to open convertible dinar savings accounts in Tunisia. Receipts from workers' remittances grew by 50 percent in 1971 and 30 percent in 1972 to D 30 million, more than 9 percent of total foreign exchange earnings.

8.32 Payments on invisibles, including interest, continued to increase at a normal rate. Nevertheless, as a result of better debt management and the improvement in terms of borrowing during the preceding years, the rate of growth of interest payments fell. On the other hand, payments on investment income have increased appreciably since 1969, reflecting some relaxation of Central Bank control, and profit remittances by foreign petroleum companies.

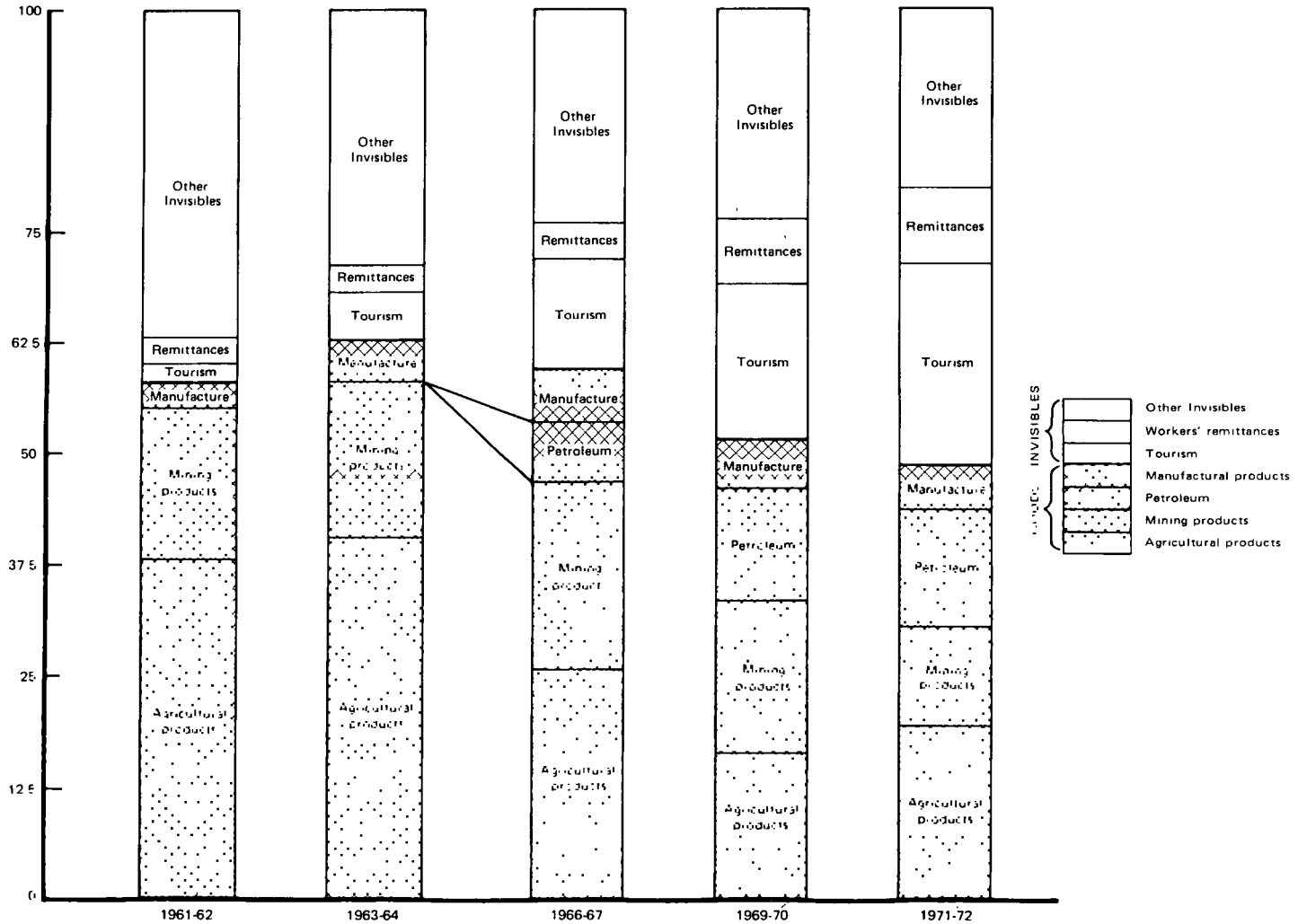
8.33 The large surplus on invisibles in 1971 and 1972 reduced the deficits on current account - D 21 million in 1971, D 20 million in 1972, compared with D 50 million in 1969-1970. This steady improvement, which started in 1968, is due to a combination of exceptionally favorable factors, such as big olive crops, and of the growth of some export sectors. However, as stated above, if olive oil exports in 1971 and 1972 were adjusted to a normal level, the balance of payments would still show a structural improvement. If olive oil export figures were reduced from D 24 million in 1971 and D 47 million in 1972 to D 15 million and D 20 million respectively, the ratio of current deficit to GDP would not be higher than 4 percent in 1971-1972 (instead of 2.2-2.4 percent).

8.34 Net capital inflow increased appreciably in 1971, but decreased in 1972 because of a peak in repayment on private credits. There was an overall surplus of D 47 million in 1971 and D 38 million in 1972, including SDR allocations of D 2.0 million and D 2.7 million respectively, reflected in a considerable increase of Tunisia's foreign assets. The gross reserves of the Central Bank and commercial banks amounted to D 120 million (US$247 million), exceeding six months of commodity imports at the end of 1972, net reserves amounted to D 93 million (US$193 million). Over 1971-1972, net reserves increased by D 85 million. Of this increase, 42 percent could be attributed to the effect of exceptional weather on the olive crop. Even without this, Tunisia's balance of payments would still have improved significantly, reducing its dependence on external capital.

Graph 8.3

DISTRIBUTION OF FOREIGN EXCHANGE EARNINGS

(Percentages)



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B. External Relations and Structure of Trade

8.35 Since independence Tunisia's external trade has been dominated by changes in its relations with France. In addition, new markets have been opened following trade and payments agreements with a number of countries and with the EEC. A second major factor, which has influenced both the direction and the structure of trade, has been the steady extension of strict control of foreign exchange transactions.

(i) The External Relations and Direction of Trade

8.36 Under the customs union with France in the years following independence, exports to France represented about 60 percent of total exports; and imports from France accounted for about 70 percent of total imports. In the latter part of 1959 the Tunisian Government terminated the Franco-Tunisian customs union and concluded a new financial and trade agreement with France, which became effective on September 14, 1959. This trade agreement, which was to be renewable each year, was not renewed in 1961 as a result of the Bizerte incident and the situation in Algeria. However, privileges accorded to Tunisian products in the French market have in fact continued, and exports to France still accounted for about 55 percent of total in 1961-1962. In particular, wine, vegetables, citrus, fruits and cereals benefitted from quotas. On the other hand, imports from France fell to 55 percent of the total in 1961 and 52 percent in 1962. This tendency was, however, limited by the effects of past trading relations and the restrictive system, which continued to favor transactions with France in the framework of payment arrangements.

8.37 There was some hope of renewal of trade relations with France after Algeria's independence in 1962, the evacuation of Bizerte by French troops at at the end of 1963 and the signing of a new agreement between France and Tunisia. However, in response to the nationalization of all remaining French farmland, France terminated the financial and trade agreement in September 1964 and Tunisian products lost their preferential treatment. Exports to France, which had declined to 50 percent of the total in 1963, accounted only for 30 percent in 1965. At the same time, as a result of Tunisia's efforts to diversify its trade and its sources of supply, imports from France also fell to 40 percent of the total, but the trade balance with France remained largely negative. In May 1966, commercial relations were partly restored with the establishment of a new quota for wine and the granting of new tariff reductions for other Tunisian exports. The list included fish products, vegetables, citrus fruits, olive oil, fruit and vegetable preserves, superphosphates and handicraft products. The Tunisian quota for preferential imports of list products from France was relatively small, and quotas opened to other countries were not reduced. Until 1969 exports to France stabilized at 26-28 percent of the total, while imports from France fell again to about one third of the total.

Table 8.6: DIRECTION OF TRADE

PERCENTAGE DISTRIBUTION

	1961		1963		1965		1967		1969		1971	
	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.
France	55.0	53.7	49.8	48.2	30.9	39.2	27.8	31.8	26.0	33.1	18.7	36.1
Germany, Italy, Benelux	12.8	11.6	20.0	17.3	17.8	15.7	24.0	17.0	27.5	19.6	33.1	19.5
Total EEC	67.8	65.3	69.8	65.5	48.7	54.9	51.8	48.8	53.5	52.7	51.8	55.6
Other countries with multilateral trade	18.6	28.0	17.4	26.5	30.0	32.6	24.7	36.2	22.0	34.4	24.4	36.1
of which: U.S.A.	0.6	14.9	0.8	11.1	1.6	16.2	2.8	25.4	0.9	20.2	1.3	14.6
Countries with bilateral payments agreements	9.3	5.2	7.5	7.0	15.1	9.5	16.5	13.2	14.5	11.0	12.2	7.9
Algeria, Morocco, Lybia	4.3	1.5	5.3	1.0	6.2	3.0	7.0	1.8	10.0	1.9	11.6	0.4
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: National Statistical Office.

8.38 Quotas on the French market were terminated with the signature of the association agreement with EEC in 1969 and exports to France declined to less than 20 percent of the total in 1971. Similarly, concessions granted by Tunisia to France on listed products were ended and 70 percent of the tariff preferences formerly accorded to France were extended to all EEC countries. Imports from the franc area have continued to benefit from favorable treatment within the general restrictive system; imports from France increased to 36 percent of the total in 1971, while total trade with France, which represented 66 percent of total Tunisian external trade in 1961, accounted for about 30 percent in 1971 and 1972.

8.39 Tunisia had already diversified its trade with EEC countries, other than France, particularly with Italy and Germany, even before the association agreement with the EEC was signed in March 1969. 1/ Trade with EEC countries,

1/ Tunisia had applied for an agreement with the EEC in October 1963.

excluding France, represented 21 percent of total Tunisian external trade in 1968 compared with 12 percent in 1961. The association agreement with EEC was limited to trade relations. The agreement was to last five years, and provision was made for negotiations to cover non-commercial aspects (capital and labor) by the end of the third year. These have not been concluded yet. The rationale of the 1969 agreement was to compensate Tunisia for the loss of French preferences to Tunisia on various products after mid-1969 and to provide opportunities for developing and diversifying Tunisia's exports and varying their destination. About 90 percent of Tunisia's industrial exports to the EEC enjoyed duty free entry into the Community, without quantitative restriction, and about half agricultural exports, mainly olive oil, citrus fruit and certain processed food, were granted tariff rebates provided their prices remained above agreed levels. Tunisia granted tariff reductions to EEC countries ranging from 20 to 30 percent of the minimum tariff on about half of its import trade and was to establish sub-quotas within existing quotas for imports from the EEC. For products not specified in the agreement, French preferences could remain in effect; the most important were wine, fish products, cork and cork products, and energy products regulated by the European Coal and Steel Community.

8.40 The general growth of Tunisia's exports in 1970-1971 was accompanied by a less rapid growth of exports to EEC - their share decreasing from 53.5 percent of the total in 1969 to 51.8 percent in 1971. This share has however increased in 1972 - 58.6 - due to the high increase in olive oil and petroleum exports, particularly to the EEC. The share of total exports which went to France decreased from 26 percent in 1969 to 19 percent in 1971 and 1972, in favor of exports to Italy and Germany. The effects of the agreement with EEC on Tunisia's trade remained limited as a result of the introduction of EEC's generalized preference scheme in 1971 and the conclusion of trade agreements with other Mediterranean countries, both eroding Tunisia's advantages. On the other hand, EEC exports to Tunisia increased from 53 percent of total Tunisian's imports in 1969 to 56 percent in 1971 and 58 percent in 1972.

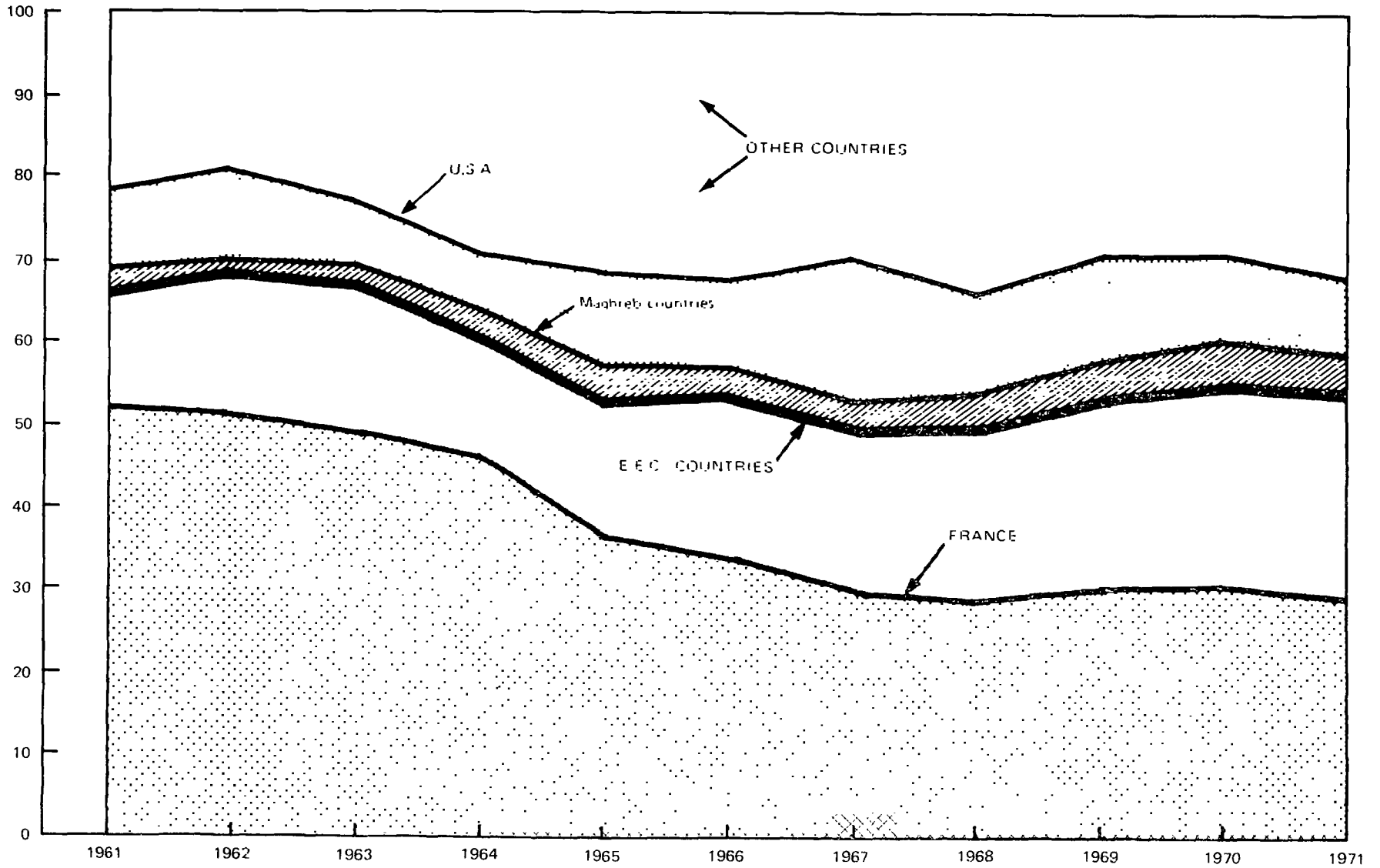
8.41 The loss of preferential treatment for agricultural products, particularly citrus fruits and olive oil, on the French market has not been offset by new markets in other EEC countries. Market conditions have been difficult due to competition of products from other Mediterranean countries such as Spain and Israel. To benefit from the provisions covering industrial products, which have been granted duty free entrance into the Community, Tunisia has still to increase its competitiveness. This may be achieved in the longer term if the new Tunisian policy to attract export-oriented industries succeeds. However, the creation of export-oriented industries will depend heavily on foreign capital and know-how provided by investors with established markets.

8.42 The revision of the agreement with the EEC was planned for 1974. In 1972 the European Committee developed a "Mediterranean policy" with the aim of combining negotiations with the three Maghreb countries, Algeria, Morocco and Tunisia, which were scheduled to take place after these with Spain and Israel. An executive committee (Maghreb-EEC) made proposals to the EEC ministers council after having its first round of talks with the Maghreb countries.

Graph 8.4

GEOGRAPHICAL DISTRIBUTION OF TRADE

(Percentages)



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These proposals included: (i) the creation of a free market zone for industrial products into the EEC, special provisions for petroleum and advantages for agricultural products from the Maghreb countries, provided that these countries will abolish, by stages, custom duties and quantitative limitations on their imports from EEC countries; (ii) economic cooperation, including provisions covering European private investments, sub-contracting and commercial agreements, technical cooperation and manpower training; and (iii) financial cooperation, including arrangement for direct investment, aid on favorable terms and lending on commercial terms.

8.43 The EEC ministers' council did not agree on all these proposals but it had defined the principles of negotiation with the Maghreb countries, Spain, and Israel: these included the creation of a free market zone for industrial products from these countries, advantages more substantial than those already granted to some of them for a number of agricultural products, excluding wine; agreements on social security for migrant workers; and the provision of financial aid (through the FED and the European Investment Bank); and the admission of Maghreb workers will have remained to be settled bilaterally. These proposals were constructive elements of a large scale agreement between the Maghreb countries and the EEC but they fell short of the wishes of the Maghreb countries, particularly Tunisia and Algeria, in the fields of economic cooperation and workers migration, except for clauses granting migrant workers the same rights as local workers.

8.44 The negotiations took place in Septeber-October 1973 and Tunisia asked the EEC to revise its stand, especially with respect to the economic and financial cooperation and workers migration. As a result of the recent developments it is likely that negotiations will start again on a broader base including oil problems.

8.45 Since 1959 the United States has become Tunisia's second most important source of supply, including commodity aid. Imports from the United States accounted for 15 percent of total imports in 1971 and 12 percent in 1972, less than the 25 percent peak in 1967-1968. On the other hand, Tunisian exports to the United States have remained negligible. A number of bilateral trade and payments agreements have been concluded with Eastern bloc and Asian countries: Yugoslavia, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania and the Soviet Union, and with United Arab Republic and China. Trade with India is, at least in part, conducted through a clearing account. Trade with these bilateral partners increased appreciably from 1961 to 1968, from 6.6 percent of total Tunisian external trade to 15 percent, but declined thereafter to less than 10 percent in 1971. This was partly because Tunisia was not able to increase its imports from these countries at the same pace as its exports to them and had to extend sizeable credits to its bilateral partners. However, the agreements with Bulgaria, Poland and the Soviet Union remain especially active, exports consisting mainly of phosphates and olive oil and imports mostly of raw materials and sugar.

8.46 Tunisia also has concluded a number of trade agreements within the OECD area (Austria, Canada, Denmark, Greece, Norway, Portugal, Sweden, Switzerland and the United Kingdom), as well as agreements with Ethiopia, Iraq and Japan. However, the quotas in these agreements have covered a relatively minor proportion of Tunisian trade with these countries. Trade has developed particularly with Canada, the United Kingdom, Austria and Spain. Trade with all the countries with multilateral trade, other than the United States and EEC countries, represented 22 percent of total Tunisian external trade in 1971 and 24 percent in 1972, compared with 15 percent in 1961.

8.47 Agreements have been reached with the other Maghreb countries on transport and cultural matters. A treaty on economic cooperation has been prepared, but has not yet taken effect. A trade protocol was signed with Algeria in 1969, providing for the abolition of customs duties on a number of industrial products and establishing quotas for others. Tunisia has substantially developed its trade with Libya, and has concluded an agreement on economic and financial cooperation in 1973. Tunisian trade with the other Maghreb countries and Libya increased from 2.4 percent of total Tunisian external trade in 1961 to 5 percent in 1971. It consisted mainly of exports of olive oil, fruits and vegetables, livestock and construction materials, mostly to Libya and to a less extent to Algeria. Tunisia has also opened new markets in African countries, particularly for wine, but the trade is still small.

(ii) The Structure of Trade

8.48 Within this framework of trade agreements, in order to protect domestic industry and foreign exchange reserves, the authorities exercised increasing direct control over foreign trade and payments throughout the 1960s. Quantitative restrictions were applied to imports, and within various quotas both import licences and foreign exchange payment authorizations were required. Imports of capital and intermediate goods have received priority, but have required separate approvals for the proposed outlays and for the proposed foreign source of finance. Import of consumption goods has been strictly limited, and for the most part imported directly by a single government agency, the Tunisian Office of Commerce. The main features of this complicated restrictive system have been reviewed in Chapter 7. Further details follow.

8.49 All imports require licenses granted by the Trade Division of the Ministry of Economy, except those that may be affected under an import card or an import certificate (see below). All import applications must be submitted for the approval (avis technique) of the competent Ministry or government agency. The prior approval of the Ministry of Finance is required for all imports that are financed with supplier's credits. Thereafter, import licenses must be approved by the Central Bank, which authorizes the corresponding payment. Imports of certain commodities (largely raw materials and certain equipment) under 230 tariff headings or their parts are liberalized and, in principle, licensed freely. Imports of some 100 commodities or groups of commodities are severely restricted to protect domestic producers. A limited number of consumer goods are licensed under annual global quotas for all

countries. Imports of certain consumer goods from France are licensed under bilateral quotas; and special quotas are fixed annually for specified imports from EEC countries. Imports from countries with which Tunisia maintains bilateral payment agreements are licensed within bilaterally agreed quotas unless the goods are among the few for which global quotas have been set. An overall foreign exchange budget was introduced in 1968 to summarize enterprise import requirements, but imports under some important foreign credits are programmed separately and exports and imports under bilateral payments agreements are on a country basis.

8.50 Import procedures have been somewhat simplifed since 1971. Industrial enterprises may obtain annual licenses covering their estimated import requirements. Certificates permitting imports without a license of specific commodities, mainly raw materials, semi-manufactures and spare parts, can also be obtained by industrialists and traders. Since 1971 these import facilities have been extended to a larger number of commodities and granted to a larger number of importers. There has also been some relaxation in controls on the import of consumer goods. Moreover a new custom tariff took effect in 1973. (See Chapter 7).

Table 8.7: STRUCTURE OF IMPORTS

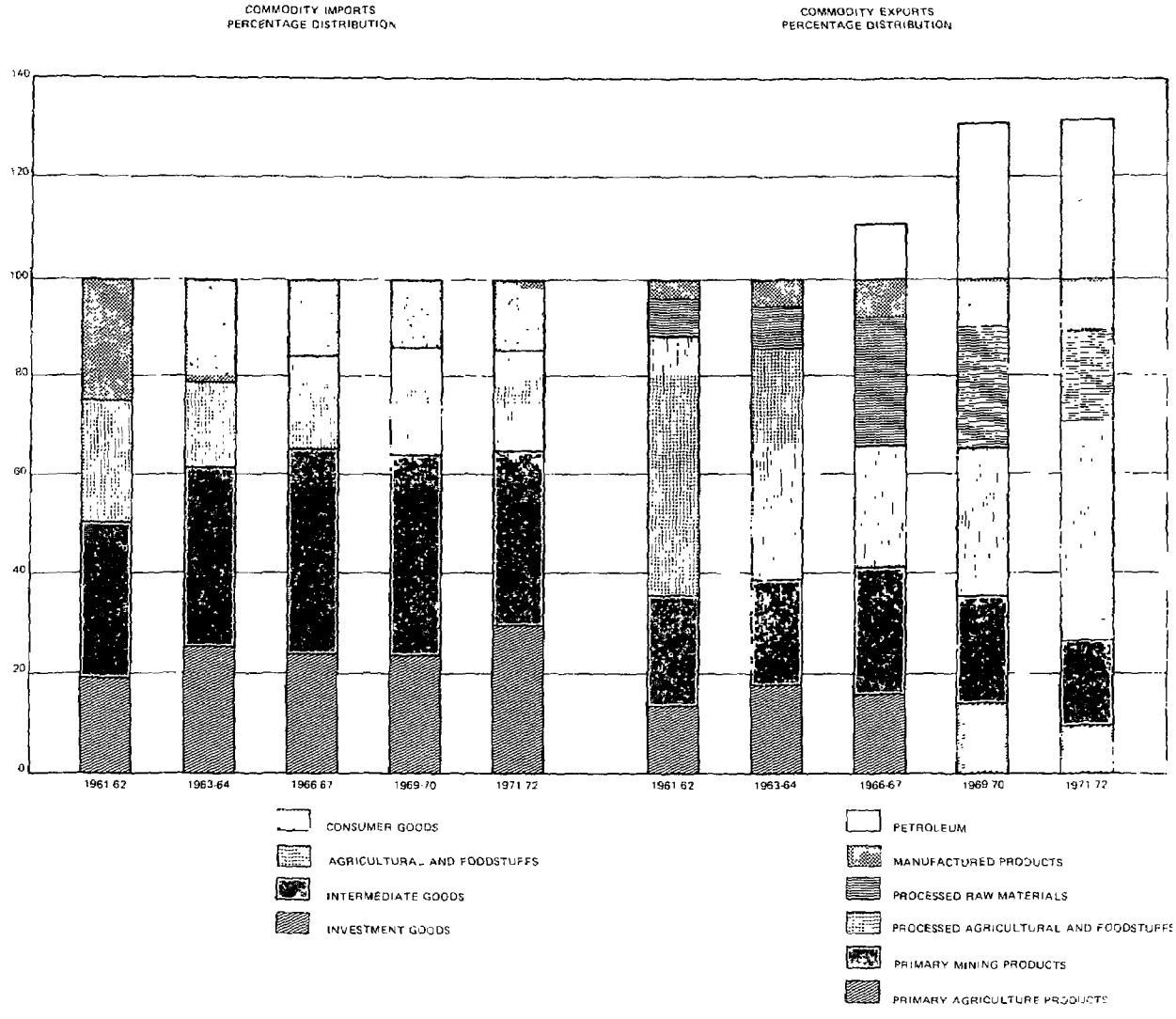
	(Annual Average) Percentage Distribution				
	1961-62	1963-64	1966-67	1969-70	1971-72
Investment Goods	19.5	25.5	23.8	23.0	29.5
Intermediate goods	30.7	37.0	42.3	41.3	36.3
Raw Materials and Semi-Finished Products	23.6	30.8	38.3	37.2	30.8
Energy Products	7.1	6.2	4.0	4.1	5.5
Agricultural and Foodstuffs	24.9	16.0	18.2	21.5	19.7
Cereals	13.6	3.8	9.5	11.2	5.8
Foodstuffs	11.3	12.2	8.7	10.3	13.9
Consumer Goods	24.9	21.5	15.8	14.2	14.5
TOTAL	100	100	100	100	100

Source: Ministry of Planning.

8.51 This restrictive system has enabled Tunisia to control the growth of imports, particularly of consumer goods, and to protect domestic industry. It has had also some impact on the terms of trade and the current value of imports. Licensing and the establishment of bilateral quotas have allowed

Graph 8.5

STRUCTURE OF IMPORTS AND EXPORTS



Tunisia to import products at a lower cost, particularly after 1965. From 1961 to 1970 the average growth of total imports at current prices was 6.6 percent per year, of which 3.7 percent in volume and 2.8 percent in price. In fact, the price index of imports grew by 6.3 percent from 1961 to 1965, and decreased thereafter. Imports of capital goods increased by 10 percent per year, imports of intermediate and energy products by 11 percent, imports of cereals and foodstuffs by 4 percent, and imports of consumption good were maintained at the same absolute level as in 1962. From 1970 to 1972 the measures of relaxation led to an acceleration in growth of total imports, particularly for capital goods, consumer goods and foodstuffs. As a result, there have been major changes in the structure of imports, reflecting the investment effort and industrial developments based on import substitution. The share of equipment in total imports increased from 19.5 percent in 1961-1962 to almost 30 percent in 1971-72, intermediate goods from 24 percent to 31 percent, while the share of foodstuffs and cereals decreased from 25 percent to 20 percent and consumer goods from 25 percent to less than 15 percent.

8.52 Tunisia did not have an active export policy during the 1960's due to the priority given to production for the local market as well as the need to expand revenue. Export licences were required and foreign exchange receipts had to be declared and repatriated within specified periods of time. Most commodities had to be exported by public or semi-public enterprises and agencies. Special taxes introduced to prevent windfall profits from devaluation were maintained on exports of a number of products. On the other hand, rebates on turnover tax were accorded to some exports, for example food products. Direct Government subsidies to exporters were not accorded on a regular basis, but some public enterprises had different prices for the domestic and external markets. Lower interest rates applied to credit for export purposes.

8.53 The second Four-Year Plan envisaged steps to encourage exports and, in 1970, in the framework of the new export oriented economic policy, the Government abolished export licenses for most commodities and all export taxes, and granted exporters higher retention and freer use of foreign exchange earnings. In 1972 the Government set up legislation granting considerable advantages to export oriented enterprises in manufacturing, and established an export promotion center (see Chapter 7).

Table 8.8: STRUCTURE OF EXPORTS BY DEGREE OF MANUFACTURING (ANNUAL AVERAGE)

	Percentage Distribution				
	1961-62	1963-64	1966-67	1969-70	1971-72
Primary Agriculture Products	13.5	17.2	15.5	13.0	9.2
Processed Agricultural and Foodstuffs	52.0	47.6	32.8	28.8	44.5
(of which: Olive Oil)	(23.8)	(19.7)	(15.6)	(13.4)	(34.2)
Primary mining products	22.4	21.0	25.6	22.8	17.1
Processed Raw Materials	8.1	8.0	18.1	24.5	18.2
Manufactured Products	4.0	6.2	8.0	10.9	11.0
Sub-Total	100 100	100 100	100 90.4	100 76.2	100 75.6
Crude Oil	-	-	9.6	23.8	24.4
TOTAL	100	100	100	100	100

Source: Ministry of Planning.

8.54 Export performance from 1961-72 has been analyzed earlier. The relatively high growth, 8.8 percent for total commodity exports from 1961 to 1970 was due, to a large extent, to the appearance of petroleum exports; excluding petroleum, the growth rate would have been little more than 5 percent per year. During the two years 1971-72 total exports increased by more than 60 percent mostly as a result of exceptional olive oil crops and increased petroleum production. Thus, the role of exports other than petroleum and olive oil in the growth of Tunisia's commodity exports has been modest. However, the industrialization led to some diversification of the export structure. The share of agricultural products has shown a decreasing trend, even though it has depended on the fluctuations of olive oil and some other major products, as has the share of primary mining products. On the other hand, the share of industrial products has appreciably increased. Processed raw materials (superphosphates, metal products and steel, phosphoric acid, refined oil products, cellulose and construction materials) represented 18 percent of total commodity exports - excluding crude oil - in 1971-1972, compared with 8 percent in 1961-1962. Manufactured products (mostly textiles and textile products) made up 11 percent of the total in 1971-1972, compared with only 4 percent in 1961-1962.

C. Capital Flows and External Debt

(i) Evolution, Structure and Use of External Capital

8.55 Tunisia has received large amounts of external capital since 1961. For the period 1961-1972 it amounted to D 821 million (in terms of actual disbursements) of which 64 percent was official capital (long term loans and grants), 24 percent was in the form of private medium term credits (suppliers' credits, financial and commercial credits), and 12 percent represented foreign direct investment. There have been significant changes in the structure of external capital over these twelve years. During the first four years, 70 percent came from governments, mostly in the form of grants and loans from the USA. During 1965-1968 the Government made more use of private credits, particularly medium-term bank credits. The share of official capital fell to 57 percent of total capital inflow. Then, because of an attempt by the Government to limit recourse to private credits, which had seriously increased foreign debt service, the share of official capital rose again to 68 percent of total capital inflow.

8.56 During the whole period 1961-72 external capital financed 35 percent of total investment, while national saving provided the remaining 65 percent. Almost 25 percent of external capital was used to repay debt and about 6 percent was added to foreign exchange reserves. However, as a result of the structural changes in Tunisia's external position during this period, and of the increasing burden of debt repayment, there have been important changes in the use of external capital. In 1962-1964, external capital inflow was not sufficient to offset the increasing current account deficit and foreign exchange reserves were extensively used. During the first Four-Year Plan period, 1965-1968, the stabilization program allowed Tunisia's balance of payments to improve steadily, and foreign exchange reserves were used to finance no more than 3 percent of gross capital inflow. On the other hand, an increasing share of external capital was used for debt repayment, mostly of private medium-term credits, and little more than 75 percent of it was used for investment. Then, during the second Four-Year Plan, external capital inflow exceeded foreign exchange needs. Only 41 percent of the inflow financed investment, while 32 percent was used for debt repayment, and 27 percent went to increase foreign exchange reserves.

(ii) Official Capital

8.57 Tunisia has benefitted from a high level of external official aid since 1961. During the twelve years 1961-1972, it amounted to D 526 million (US$1,100 million) or about D 9 (US$19) per capita per annum. Thirty-four percent (34%) of the total was in the form of grants, mainly from the United States, France, Germany, Canada, Belgium, Sweden and the United Nations. For the whole period, technical assistance accounted for 48 percent of these grants; almost 30 percent consisted of foodstuffs, and the remainder was in assistance in kind, including equipment.

TABLE 8.9: BREAKDOWN OF GROSS CAPITAL INFLOW

	In Missions of Dinars				
	1961	1962-64	1965-68	1969-72	1961-72
Total Gross Capital Inflow	25.9	125.1	319.1	351.2	821.3
Official capital	19.4	86.6	181.8	238.0	525.8
Grants	17.2	32.6	47.4	81.3	178.5
Loans	2.2	54.0	134.4	156.7	347.3
Private capital	6.5	38.5	137.3	113.2	295.5
Direct Investment	2.0	13.1	35.0	48.8	98.9
Suppliers' credits	1.7	22.8	49.5	58.5	132.5
Other credits 1/	2.8	3.6	52.8	5.9	64.1

	Percentage Distribution				
	1961	1962-64	1965-68	1969-72	1961-72
Total Gross Capital Inflow	100.0	100.0	100.0	100.0	100.0
Official capital	74.9	69.2	57.0	67.8	64.0
Grants	66.4	26.1	14.9	23.2	21.7
Loans	8.5	43.1	42.1	44.6	42.3
Private capital	25.1	30.8	43.0	32.2	36.0
Direct Investment	7.7	10.5	11.0	13.9	12.1
Suppliers' credits	6.6	18.2	15.5	16.6	16.1
Other credits 1/	10.8	2.1	16.5	1.7	7.8

1/ Including financial and commercial medium-term credits, and net short-term credits.

Source: Ministry of Planning

TABLE 8.10: USES OF EXTERNAL CAPITAL

	In Millions of Dinars				
	1961	1962-64	1965-68	1969-72	1961-72
Total Gross Capital Inflow	25.9	125.1	319.1	351.2	821.3
Uses:					
Debt repayments	1.1	14.5	75.2	113.5	204.3
On debt of public origin	0.4	4.2	15.9	38.5	59.0
On debt of private origin	0.7	10.3	59.3	75.0	145.3
Investment Financing	32.7	143.6	253.4	140.7	570.4
(= current account balance)					
Reserves 1/	-7.9	-33.0	-9.5	97.0	46.6

	Percentage Distribution				
	1961	1962-64	1965-68	1969-72	1961-72
Total Fross Capital Inflow	100.0	100.0	100.0	100.0	100.0
Uses:					
Debt repayments	4.2	11.6	23.6	32.3	24.9
On debt of public origin	1.5	3.4	5.0	11.0	7.2
On debt of private origin	2.7	8.2	18.6	21.3	17.7
Investment Financing	126.3	114.8	79.4	40.1	69.4
(= current account balance)					
Reserves 1/	-30.5	-26.4	-3.0	27.6	5.7

1/ Excluding SDR

Source: Ministry of Planning

Table 8.11: TOTAL GRANTS IN 1961-1972

	Million Of Dinars	Percent
Technical Assistance	85.5	48.0
Foodstuffs	52.6	29.6
Assistance in Kind	21.9	12.3
Equipment	18.0	10.1
TOTAL	178.0	100.0

Source: Ministry of Planning.

The share of grant aid in official capital declined from 60 percent in 1961-1962 to 27 percent in 1967-1968. There was a sharp increase in 1969-1970, associated with flood relief. In 1971-1972, with better harvests and an improvement in the economic situation, the share of grant aid decreased again.

8.58 Official loans, which represented the largest part of foreign capital inflow, increased rapidly during the first half of the twelve year period, levelled more or less between 1966 and 1970, and increased appreciably in 1971-1972. Disbursements on official loans averaged D 18 million per annum in 1962-1964, D 34 million in 1958-1968 and D 39 million in 1969-1972. While Tunisia has been very successful in obtaining foreign aid commitments, it may have obtained much more than it was able to use efficiently. Shortfalls in disbursement were due to problems arising from tied procurement, to deficiencies in project preparation and to difficulties in using program loans, at least initially. Actual disbursements on official loans always fell below Plan objectives. During the second Four-Year Plan, however, the shortfall was reduced because of improved project preparation and the increased use of public savings to finance the local currency component of projects.

Table 8.12: OFFICIAL LOANS: DISBURSEMENTS BY COUNTRY ORIGIN
(million of dinars)

	1961-64	1965-68	1969-72	1961-1972 Value	1961-1972 Percent
Total disbursements	56.2	134.4	156.7	347.3	100.0
U.S.A.	33.1	71.9	56.1	161.1	46.4
France	6.0	6.1	21.7	33.8	9.7
Italy	4.2	15.0	13.0	32.2	9.3
Germany (Fed. Rep. of)	0.5	9.5	19.8	29.8	8.6
Kuwait /1	10.2	9.6	2.6	22.4	6.4
Sweden	0.4	1.5	2.2	4.1	1.2
Other European countries /2	-	2.5	9.2	11.7	3.4
Eastern European countries /3	0.8	7.2	0.1	8.1	2.3
IBRD/IDA	1.0	11.1	30.9	43.0	12.4
African Development Bank	-	-	1.1	1.1	0.3

/1 Including Bank of Kuwait, Kuwait Government and Kuwait Fund.
/2 Netherlands, Spain, Denmark, Belgium.
/3 USSR, Czechoslovakia, Democratic Republic of Germany, Hungary, Rumania, Yugoslavia.

Source: Ministry of Planning.

8.59 During the twelve year period 1961-1972, official loans from bilateral sources accounted for 87.3 percent, the remainder (12.7 percent) coming from multilateral sources. The most important bilateral source was the United States, which provided more than 46 percent of total disbursements, mostly in the form of program loans and of PL 480 commodity aid. Other major lenders were France, for 9.7 percent of total disbursements, Italy, 9.3 percent, Federal Republic of Germany, 8.6 percent, Kuwait, 6.4 percent, and the World Bank Group, 12.4 percent. However, there were important changes in the sources of loans during the period. In 1961-1964 the USA and Kuwait supplied the bulk of official loans. During the first Four-Year Plan, a number of European countries began to lend to Tunisia, Italy providing the largest part, and there were also some loans from Eastern European countries. During the second Four-Year Plan there were important increases in loans from France, reflecting the improvement in political relations, and from the Federal Republic of Germany, which invested in a number of public enterprise projects, while the share of loans from the U.S.A. and Kuwait decreased considerably. Loans from the World Bank Group increased rapidly from 8 percent of the total in 1965-1968 to almost 20 percent in 1969-1972.

Table 8.13: OFFICIAL LOANS: BREAKDOWN OF DISBURSEMENTS
(Millions of Dinars)

	1961-1964	1965-1968	1969-1972	1961-1972	Percent
Total disbursements	56.2	134.4	156.7	347.3	100.0
Government Program Loans	28.4	43.5	35.5	107.4	30.9
Government Project Loans	6.4	29.4	31.7	67.5	19.4
Enterprise Project Loans	11.0	33.2	59.8	104.0	30.0
PL 480	10.4	28.3	29.7	68.4	19.7

Source: Ministry of Planning.

8.60 From 1961 to 1972, program loans and PL 480 food loans formed the largest part of official loans, and accounted for more than half of total disbursements. Project loans to enterprises accounted for 30 percent of disbursements, and project loans to Government for the remainder. However, the share of project loans, particularly to public enterprises, increased from 31 percent of total disbursements in 1961-1964 to 47 percent in 1965-1968 and to 58 percent in 1969-1972. This was due to better project preparation and the improvement in the balance of payments after 1968, which reduced the need for program loans to finance current imports. Moreover, since 1971, the Government has given preference to project aid over tied program aid which does not help to liberalize trade.

8.61 On the basis of the commitments during 1967-1972, the sectors benefitting most from official project loans have been public infrastructure (including health and education), transport and communication, and energy and water supply. About 67 percent of program lending has been used to finance current imports and 33 percent as budget assistance.

Table 8.14: COMMITMENTS BY ECONOMIC SECTOR, 1967-1972
(Percent)

Agriculture	10.5
Mining	0.9
Petroleum	-
Manufacturing	4.7
Energy and Water	18.5
Transport and Communication	19.4
Tourism	5.6
Banking	8.2
Infrastructure and Community Services	32.2
TOTAL	100.0

Source: I.B.R.D.

(iii) Private Lending

8.62 Borrowing from private sources amounted to D 210 million, in terms of gross disbursements, for the twelve year period, and represented 29 percent of total gross capital inflow and 36 percent of total loans. This borrowing was mostly in the form of medium-term credits and, in terms of net inflow, represented only 10 percent of net external capital because of increasing debt repayments.

Table 8.15: PRIVATE CREDITS: BREAKDOWN OF DISBURSEMENTS
(Millions of Dinars)

	1961-1964	1965-1968	1969-1972	1961-1972	Percent
Suppliers Credits	24.5	49.5	58.3	132.3	62.8
Government	-	2.5	6.7	9.2	4.4
Enterprises	24.5	47.0	51.6	123.1	58.4
Financial Credits	-	38.6	4.6	43.2	20.5
Government	-	18.2	1.1	19.3	9.2
Enterprises	-	20.4	3.5	23.9	11.3
Commercial Credits	0.8	18.1	16.2	35.1	16.7
Government	-	11.6	10.6	22.2	10.6
Enterprises	0.8	6.5	5.6	12.9	6.1
TOTAL DISBURSEMENTS	25.3	106.2	79.1	210.6	100.0
on Credits to Government	-	32.3	18.9	50.7	24.1
on Credits to Enterprises	25.3	73.9	60.7	159.9	75.9

Source: Ministry of Planning.

8.63 Tunisia began to have recourse to private medium-term credits in 1963, in the form of suppliers credits to finance public enterprise investment. The restriction of suppliers' credits under the 1964 stabilization plan led to the increased use of foreign medium-term credits which were used by enterprises, for investment and imports, and by the Government for budgetary purposes. The Government had to approve foreign medium-term credit (18 months to ten years) and various ceilings were fixed, but in 1968 repayments on private credits reached almost D20 million, and after 1968 aroused the Government's concern. The improved current balance allowed the authorities to reduce the use of financial and commercial credits appreciably, and they endeavoured to keep authorizations for suppliers' credits in line with repayments. Nevertheless, suppliers' credits remain, to some extent, linked to official bilateral project loans, and do not lend themselves to much further curtailment.

8.64 During 1961-1972, suppliers' credits represented 63 percent of gross disbursements on private credits, financial credits 29 percent, and commercial credits 17 percent. Out of the total of these credits, 76 percent were used by public enterprises and 24 percent by the Government. The bulk of financial and commercial credits was used in 1965-1968, when they reached 53 percent of total private credits, while suppliers' credits accounted only for 47 percent. Within the category of suppliers' credits, the chief creditor has been France, followed by the USA, the Federal Republic of Germany, Italy, Spain and Sweden; these countries, with the exception of Spain, have also been the chief sources of bilateral project loans. Within the category of medium-term bank credits, the largest part was provided by Italian banks, and the remainder by French, Dutch, British and American banks. The main sectors benefitting from suppliers' credits have been transport and communication, infrastructure and energy.

(iv) Direct Investment

8.65 Direct foreign investment has been rather limited during the twelve year period. It amounted to D 103 million, or 12.5 percent of total gross capital inflow. Over the period, however, it increased from D 2 million per annum in 1961 to an average of D 10 million in 1967-70 and D 20 million in 1972. Most direct investment went to the petroleum sector (76 percent of total) for exploration and equipment, and tourism (10 percent). Other sectors in which there was some foreign investment were transport, housing and manufacturing.

(v) External Debt

8.66 Tunisia's foreign debt, including public debt and debt guaranteed by the Government 1/, almost quadrupled during the eight year period from the end of 1964 2/ to the end of 1972, from D 147 million (US$280 million) to about D 528 million (US$1,100 million). Disbursed debt rose over this period from D 98 million (US$186 million) to about D 336 million (US$700), increasing slightly less rapidly than total debt. As a proportion of GDP, total foreign debt rose from 32 percent in 1964 to about 52 percent in 1972, and disbursed debt increased from 21 percent of GDP to about 33 percent over the period, although the ratio fell during the years 1971-1972, because of the sharp increase in GDP and the slower growth of external debt.

1/ Since most of external debts contracted by enterprises have been guaranteed by the Government, these figures represent about 90 percent of the total foreign debt of Tunisia.

2/ External debt data before 1964 are not available. Total external debt could be estimated at D 100 million at end-1961.

Table 8.16: EXTERNAL DEBT AS PERCENTAGE OF GDP

	1964	1966	1968	1970	1972
Debt (including undisbursed)	31.7	39.6	53.4	58.1	52.2
Disbursed debt only	21.1	30.7	38.0	36.9	33.2

Source: I.B.R.D.

8.67 The share of debt of private origin was about 40 percent of disbursed debt in 1964-1967, and then decreased to 21 percent in 1972. Moreover, there was a shift from suppliers' credits to other medium term credits. Suppliers' credits fell from 30 percent of total disbursed debt in 1964 to only 8 percent in 1972, while bank credits accounted for 12 percent in 1964 and 13 percent in 1972. At the same time, loans from public sources rose from 58 percent of disbursed debt in 1964 to 79 percent in 1972. There was also an important change in the structure of public origin debt as loans from multilateral sources, mostly the World Bank Group, rose from 1 percent of total disbursed debt in 1964 to 12 percent in 1972. As a proportion of total debt, including undisbursed, debt of public origin rose from an average of 69 percent in 1964-1967 to 82 percent in 1972. Loans from multilateral sources, with disbursements generally over a longer period, represented 7 percent of total debt (including undisbursed) in 1964-67, and 18 percent in 1972.

8.68 During the eight years 1965-1972, total official loan commitments amounted to US$819 millions, averaging $102 millions per annum. The main lenders during this period were the U.S.A., which provided 22.3 percent of the total, France, 14.1 percent, the Federal Republic of Germany, 13.4 percent, Italy, 9.0 percent and Canada, 2.9 percent. Other countries of the Consultative Group for Tunisia 1/ accounted for 4.6 percent of the total. The People's Republic of China made its first loan to Tunisia in 1972, representing 18.3 percent of total commitments during that year. Kuwait (including Kuwait Fund and Bank of Kuwait) provided 3.0 percent of total commitments during 1965-1972, Eastern Bloc Countries 1.1 percent, and other countries, including Libya, Yugoslavia and Algeria, 0.8 percent. Loans from multilateral sources represented 24.9 percent of the total, and included 24.4 percent from the World Bank Group and 0.5 percent from the African Development Bank.

1/ Austria, Belgium, Denmark, Netherlands, Sweden and United Kingdom.

Table 8.17: EXTERNAL DEBT OUTSTANDING BY ORIGIN, DISBURSED ONLY
(Percent)

	1964	1966	1968	1970	1971	1972
Loans from public source	58.3	61.8	64.8	70.5	72.8	78.8
Bilateral source	57.4	59.0	59.7	62.2	62.7	67.0
Multilateral source	0.9	2.8	5.1	8.3	10.1	11.8
Loans from private source	41.7	38.2	35.2	29.5	27.2	21.2
Suppliers' credits	30.0	20.4	15.7	11.5	9.7	7.8
Bank credits	11.7	17.8	19.5	18.0	17.5	13.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: I.B.R.D.

8.69 While many countries have lent to Tunisia, at the end of 1972 almost 90 percent of Tunisia's official debt, including undisbursed, was owed to only six creditors: the U.S.A. (24.5 percent), the World Bank (21.5 percent), France (16 percent), Germany (13.7 percent), Italy (6.8 percent) and Kuwait, including Kuwait Fund (4.8 percent.) Within the category of suppliers' and private bank credits, two major creditors were owed 84 percent of the total: France, 58 percent, and Italy (mostly bank credits) 26 percent.

8.70 Although Tunisia's total foreign debt continued to grow at a fairly rapid rate, its structure and terms have improved substantially since 1969 as a result of the efforts of the Government to limit borrowing from private sources and increase its concessionary nature. Of the outstanding debt, including undisbursed, at the end of 1972; 65 percent came from Governments (60 percent in 1968), 18 percent from multilateral sources (11 percent in 1968) and 17 percent from private sources (27 percent in 1968). These efforts were greatly facilitated by the high availability of official grants and loans, most loans being on concessionary terms. Furthermore, as the terms of borrowing from bilateral sources have appreciably improved since 1969, the grant element increased from 53 percent in 1969 to 73 percent in 1972. Although the terms of private bank and multilateral lending have hardened, the terms of total debt have significantly improved, so that the grant element of total foreign debt rose from 37 percent in 1969 to 59 percent in 1972.

TABLE 8.18: AVERAGE TERMS OF FOREIGN LOANS AND CREDITS

	1967	1969	1972	Average 1967-1972
Interest Rate (percent)	3.9	4.8	2.9	3.8
Bilateral sources	2.8	3.3	1.4	2.2
Multilateral sources	5.0	5.5	5.9	5.4
Suppliers	5.7	6.1	5.9	6.0
Private Banks	4.9	5.6	-	5.6
Grace Period (years)	4.6	4.8	8.4	5.6
Bilateral sources	5.9	6.8	9.9	6.8
Multilateral sources	5.0	5.2	5.5	5.9
Suppliers	0.9	2.6	1.0	2.2
Private Banks	3.0	3.2	-	3.4
Maturity (years)	19.4	22.5	30.0	23.2
Bilateral sources	23.6	27.4	31.8	27.0
Multilateral sources	24.8	27.8	26.5	28.0
Suppliers	8.1	12.1	4.8	9.8
Private Banks	11.7	14.0	-	12.3
Grant Element of Loans 1/ (percent)	41	37	59	46
Bilateral Sources	54	53	73	61
Multilateral Sources	37	35	31	36
Suppliers	15	20	10	17
Private Banks	26	24	-	23

1/ The grant element is the difference between the nominal value of the loan and the value of its service payments discounted at a rate of 10 percent.

Source: IBRD

Table 8.19: DEBT SERVICE/1 INDICATORS
(Percent)

	1962	1964	1966	1968	1970	1971	1972
Debt service/debt outstanding /2	..	10.7	12.1	15.0	13.3	12.7	14.2
Amortization/debt outstanding /2	..	8.9	8.5	10.7	9.3	8.6	10.5
Debt service/Export of goods & NFS	2.3	12.4	17.9	26.7	22.1	17.7	17.7
of which: service on public origin debt	0.7	4.0	5.0	7.9	9.1	8.0	7.3
service on private origin debt	1.6	8.4	12.9	18.8	13.0	9.7	10.4
Debt service/Exports of goods & NFS and workers' remittances	2.2	12.0	17.2	25.3	20.2	16.0	15.9
Debt service/Gross National Savings	3.4	17.7	27.9	32.5	34.9	23.4	22.9

/1 Calculated on balance of payments data basis (Ministere du Plan).
/2 Disbursed only.

8.71 Total service payments increased from D 1.2 million (US$2.9 million) in 1961 to D 48 million (US$100 million) in 1972, interest payments increased from D 0.1 million to D 13 million, and amortization payments from D 1.1 million to D 35 million. The rapid rise in debt service caused a large increase in all indicators up to 1968. Thereafter, they reflect improvement in the structure and terms of the foreign debt and Tunisia's economic growth. The ratio of debt service to total debt outstanding and disbursed rose to 15 percent in 1968 and decreased appreciably in 1969-71. A rise to 14 percent in 1972 was due to a peak in the amortization of private debt. The service on debt of private origin averaged 60 percent of the total during 1961-72. The most significant decreases after 1968 were in the ratio of debt service to exports of goods and services, including workers' remittances - which fell from almost 25 percent in 1968 to 16 percent in 1972 and in the ratio of debt service to national savings which fell from 35 percent in 1969 to 23 percent in 1972. These latter ratios are expected to continue to decrease slowly in the coming years as a result of rising exports, the continued limitation of borrowing from private sources and continued official borrowing on favorable terms from bilateral sources.

(vi) Aid Coordination

8.72 The principal donors of external assistance to Tunisia participate in the Consultative Group for Tunisia, which was organized by the World Bank in 1962 and has been one of the more active of the Bank's aid coordination groups. Annual meetings were held from 1967 through 1972. At the present

time, in addition to Tunisia and the Bank, the following countries and institutions participate: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Kuwait, Netherlands, Spain, Sweden, Switzerland, United Kingdom, United States, Japan, African Development Bank, European Investment Bank, International Monetary Fund, and United Nations Development Programme.

8.73 The Consultative Group has contributed to the Government's internal organization and focus on development issues. At the meetings the Government has presented its development programs and needs to its principal sources of external assistance. The Group has also provided a common base of information and analysis to donor countries and institutions with the annual economic budget and special papers prepared by the Government and the annual economic reports prepared by the World Bank, and has provided a summary of the conclusions of the meetings. Of at least equal importance have been the preparatory work, the follow-up activities and the consultations with bilateral donors at a senior level facilitated by the meetings.

8.74 Disbursements on aid loans have been often postponed, as a result of delays in project preparation and execution. Moreover, coordination between projects and between and among donors, whether or not under joint financing arrangements, has been insufficient. Thus, external assistance may not always have responded to Tunisia's economic priorities. In the future, to increase the effectiveness of assistance made available and ensure that absorptive capacity is sufficient, it would be important for the Government, in cooperation with donor agencies and institutions, to (i) improve the quality and expand the amount of project identification, preparation and evaluation; (ii) focus external aid, especially technical assistance, on areas of economic priority, including recurrent developmental activities such as extension services; (iii) ensure that greater efforts are made to develop the policy and institutional conditions for the successful execution of projects; (iv) establish an integrated program of pre-investment studies, external finance and complementary technical assistance; and (v) improve the supervision and execution of projects, particularly in the field of technical assistance.

9. THE FOURTH PLAN AND DEVELOPMENT PROSPECTS

A. Introduction

9.1 The Fourth Plan was prepared within the framework of the Ten Year Perspectives, 1972-1981, in accordance with the Prime Minister's directive of June 21, 1971. 1/ This recognized that during the last decade there was a structural discrepancy between investments and returns because of the volume of funds that had been allocated to the social and infrastructure sectors in comparison with the directly productive sectors. Rigorous priorities for more directly productive investments and the initiation of measures for increasing the returns on existing investments were recommended. In the administrative field, two weaknesses in earlier planning were identified -- the concentration of planning and economic management in one ministry, and the absence of adequate machinery for project preparation. The Ministry of Plan was therefore instructed to prepare global forecasts, set up the general goals for the plan, and assume the role of co-ordinator and synthesizer. The technical ministries were to be responsible for sectoral planning.

9.2 Sixteen sectoral commissions, with members drawn from both public and private sectors, were established. Each of these commissions was allowed to set up sub-committees, as many as 23 in the case of the two commissions dealing with the agricultural sector. Each sectoral commission was required to evaluate the results of the past decade, identify the main measures to be taken for the rehabilitation of the sector and to increase the returns to investment, and prepare plans for the next ten years on the basis of sound projects. The last phase of the technical preparation of the Plan was entrusted to four co-ordinating commissions, for employment, finance, regional development and balanced growth respectively. There were, in addition, a number of technical consultative bodies together with a regional commission for each region. The Plan was issued as a law, but is indicative rather than compulsory. The annual economic budget is the chief tool for carrying out the medium-term plan. An analysis of the results of the decade 1962-1971, and a preliminary outline of the framework for the Fourth Plan, were presented to the Commission Nationale Superieure du Plan in September 1972. The report on the Fourth Plan, 1973-1976, was submitted to the Cabinet and approved at the end of June 1973. A definitive edition of the 1973-1976 Plan was published in November 1973.

9.3 In the light of the results of the past decade, the Government established as the principal objectives of the 1972-1981 decade: (a) accelerating of growth; (b) promoting of new industrial activities to facilitate the creation of jobs to absorb additions to the labor force and reduce unemployment and under-employment; (c) bringing the problem of employment under control by reducing population growth and improving education; and (d) maintaining internal and external financial stability.

1/ Circulaire Relative a l'Elaboration du Quatrieme Plan, June 1971.

B. The Underlying Strategy

9.4 The main elements of Tunisia's basic strategy are: (a) moderate redistribution of the means of production among the public, semi-public and private sectors, and (b) an adequate redistribution of the economic return from production among the factors involved. The Plan projections reflect these principles in seeking to balance the roles of the public and private sectors, in seeking to find a middle road between systematic state intervention and leaving all activities in the hands of the private sector. The role of the state in terms of management is described as exclusive or predominant in the basic sectors of energy, transport, water, and mining. It is to be predominant, without being exclusive, in the industrial sector and may be found in a number of other sectors, on an experimental or partnership basis. The role of the state is also described as one of "orientation, advice and encouragement." This latter role is to be given ggreater importance.

9.5 The social problem is placed in the forefront of national aspirations. The Government commits itself to fight the social evils of unemployment, poverty, ignorance and illness and allocate the maximum of its resources to bridging the gap which separates the different social classes. Growth is seen as, above all, a means to the promotion of man and human dignity and must be reconciled with social progress. The Plan states that social progress can be achieved only by elimination of underemployment and unemployment, and an equitable redistribution of income at the level of the individual and of the region. Employment is thus the major Tunisian objective in the coming years and is to be achieved by: (a) accelerating economic growth; (b) reducing population growth to bring it into line with (a); and (c) adapting the education system to serve this policy of eliminating underemployment and unemployment.

9.6 The education system has expanded enormously during the 1960s. Twenty percent of the population is now at school. In the Government's view, for education to contribute to a resolution of the employment problem, it must respond to "economic" demand and moreover supply for the future generations capable of integrating into the modern world and of acting as a motor for development. The education system needs to be reorganized and re-equipped to respond. A major obstacle to progress is recognized in the excessive economic cost arising from dropouts and misfits littering the path to employment and from the encyclopaedic nature of training, the length of studies and the rigid stratification of the system. Research and study are being undertaken to find solutions.

9.7 Progress will be made to establish the technical institutions and mechanisms to achieve a greater diffusion of development across the country and to provide a more elaborate basis for a policy of redistribution of income. In the light of available information a three-fold effort would be made during the Fourth Plan: (a) to establish some balance between the interior of the country and the coastal regions; (b) to direct development in such a way as to generate increased activity in the rural areas where employment and income is more precarious; (c) by means of other measures

such as salary changes and movements in the price of staple commodities, to bring about some movement in incomes of the less-favored social categories.

9.8 The main objectives of the Government's social program are therefore to promote professional training and employment, improve living conditions in the rural regions and raise the level of income of the rural population. Other measures are to contribute to the same objectives, notably a policy of industrial decentralization to be financed by a special fund for this purpose, as well as the fiscal reforms under consideration designed to increase taxation of those who have better benefited until now from development, with a view to benefiting the population which has not yet had sufficient advantages.

C. Economic and Social Policy

9.9 The Fourth Plan contains many proposals in the area of economic and social policy. The general objectives are maximum mobilization of the country's human, physical and financial resources, and improvement of the productivity and competitivity of the various economic sectors. The Plan's proposals are reviewed in detail in the pertinent sectoral chapters of the report; only the broad lines are indicated here.

9.10 In agriculture, four areas are singled out for action: land reform, extension services, the development of credit, and water resources utilization and soil conservation. Under the heading of water resources, the plan assigns priority to completion of the studies for the two dams at Sidi Salem on the Medjerda and at Sidi Saad on the Zeroud in the south, and to the first stages of their construction. Emphasis is also laid on flood control, reforestation, and control of desert encroachment. The water resources development program will have only a long-term impact, but quicker results are expected in the Plan from the measures in the fields of land reform, extension services and agricultural credit policy. In land reform, the Plan provides essentially for the transfer to private ownership of a million hectares of collective lands suitable for cereals and tree crops, continued implementation of the 1970 law concerning the 800,000 hectares of "terres dominiales", and accelerate application of the law on agrarian reform in the public irrigated perimeters.

9.11 The Plan underlines the need for a greater technical assistance effort by, for example, increasing the capacity of the public services involved and improving the institutional infrastructure. Particular emphasis is placed on the training of new, and the retraining of existing, extension workers, and on efforts to adapt the system of supervisory and professional staffing to the needs of the sector and to motivate the young for agricultural work. While no major changes are expected in agricultural prices, it is proposed to improve the administrative procedure for determining those prices that are still regulated, in order to steer production in the desired directions. Finally, efforts will be made to accelerate the industrialization of agriculture, particularly by crop management directed toward exports, and to introduce incentives to export-oriented agro-industrial enterprises, particularly in fruits and vegetables. As regards agricultural credit, in addition to expansion of the local mutual credit funds (caisses locales de credit

mutuel), the main proposal concerns the creation of a new central agricultural credit institution. Its purposes would be: (a) to define the investment programs eligible for credit; (b) to supervise the activities of the regional credit commissions, and (c) to examine credit applications over a certain amount. The purpose of these proposals seems to be more to achieve greater control of available funds than to spread credit more equitably among the regions and give small farmers a better access to credit. It is also proposed to create a guarantee fund to cover a proportion, still to be determined, of losses arising from irrecoverable credits to small and medium farmers, as well as a stabilization fund to consolidate certain credits to carry farmers over periods of poor harvests. These proposals are reviewed in detail in the chapters on Agriculture (Annex I).

9.12 In industry and services, the Plan proposes to pursue the dual aim of stimulating investment and improving the productivity and competitivity of enterprises. The identification, preparation, execution and management of projects are seen to be the most urgent needs in the industrial sector. The public authorities are to concentrate on the preparation of large-scale public sector projects, while responsibility for evaluation of private-sector projects will be entrusted as far as possible to private promoters and banks. So far as public enterprises are concerned, it is proposed to create or reinforce planning sections in the ministries and public enterprises and to give increased support to the National Center for Industrial Studies.

9.13 The Plan further provides for the start of operations of the three real estate agencies recently created for industry, tourism and housing, and revision of the Investment Code. These proposals were put into effect in 1974. Another new development is the creation of a fund for the promotion and decentralization of industry (FOPRODI). The purpose of FOPRODI will be to attract new promoters/entrepreneurs to the industrial sector and to alleviate the effects of the lack of an active capital market, due in part to the predominance of family businesses. For this purpose the fund will give its support to executives capable of identifying, realizing and managing industrial ventures by providing the necessary capital. It will also have a role to play in the decentralization of industry by arranging for the allocation of premiums and by offering long-term credits, interest subsidies, and all other forms of incentives to new entrepreneurs who locate their projects in the priority regions. Finally, it will give particular support to small- and medium-scale enterprises.

9.14 For improving the competitivity and productivity of enterprises, the Plan contains a number of proposals which reflect the new economic orientation defined in 1970.. It provides for strengthening of the system of incentives established, in particular, by the Investment Code and the Law of April 1972, with the object of steering industry toward exports. The Plan also proposed to extend the liberalization of imports to further products, gradually to eliminate quantitative restrictions and quotas, replacing them by a system of Customs duties, and to introduce flexibility into the system of price setting. It provided also for continuance of the action to bring

order into the finances of the public enterprises. These proposals were amplified and defined in greater detail in the 1974 Economic Budget, and a number of measures implementing them have been taken since the Plan was published. The policies concerning industry and services are reviewed in detail in Chapter 7 and in the chapters on Industry (Annex II) and the chapters on Transportation and Tourism (Annex III).

9.15 As regards financial policy, the Plan contains very constructive proposals for general improvement of the mobilization and allocation of resources. In fiscal policy, the main proposals are the introduction and gradual application of a tax on value added, strengthening of administrative structures to improve the effective yield of direct taxation and development of the powers of the local authorities in the fiscal area in order to increase their role in the financing of regional development. To mobilize the necessary savings for financing of the Plan, substantial efforts are proposed to develop the financial market by facilitating the issue of bonds by financial institutions and to encourage liquid savings with the banks. In the monetary field, the Plan introduced a number of instruments concerned with the calculation of the compulsory reserves of the banks and the establishment of a portfolio of public securities to be subscribed by the banks. A number of measures were proposed to develop medium-term credit and to give greater initiative to the banking system in the financing of investments. The measures proposed, and those put into effect since the Plan was published, are reviewed in Chapters 5 and 6, on mobilization of resources and financial policy.

9.16 In the social field, the Plan puts the emphasis on overcoming the employment problem and correcting the social imbalances, from both the regional and the income standpoints. The measures proposed for employment are geared to three main lines of attack: the promotion of employment creation, control of population growth, and adaptation of the education system. Among remedial measures for income, the Plan provides for action concerning low wage levels, particularly in agriculture, revision of social security policy in favor of the lowest wage groups, and the steering of social investments toward the least privileged regions. The Plan assigns high priority to regional development; general action in pursuit of this objective includes the incentives created or proposed for the regionalization of investment, the measures proposed for development of assistance to small- and medium-scale enterprises and for strengthening of the extension services in agriculture, the orientation of public investment, both in infrastructure and in production, toward the interior of the country, and the strengthening of the regional administrative structures. In addition, a rural development fund, with a budget of D 40 million for the Plan period, has been set up to implement this policy and will be concerned particularly with vocational training and job creation in agriculture and handicrafts. The Plan's proposals in the social area are reviewed in Chapter 3 (Population and Employment), Chapter 4 (Income, and Income Distribution) and Chapter 20 (Education).

9.17 Taken together, the objectives of the Plan in the economic and social areas are well adapted to the country's present needs. The extent to which they will be attained will depend on the putting into effect of

precise action programs in the various fields and the strengthening of the institutional structures. In the field of regional development, it would be essential also to establish regional planning structures whose work would be integrated into overall planning.

D. The Conceptual Framework

9.18 There has been a considerable effort to shape Tunisia's latest Plan with the aid of quantitative models. Three different models have been employed during different stages of the work, in an attempt to provide both an overall frame for sector projections, and as a consistency check on the sectoral projections themselves. The three models can be summarized as follows:

(a) The "global prospects" model which was a simulation model designed to show some of the basic alternatives available and to provide some macro-economic aggregates to serve as guidelines for planning.

(b) The table of inter-industrial flows, which consisted basically of an extremely detailed 136-sector current flow matrix. By using the final demand aggregates of the global model, this exercise was basically a consistency check on the projections of the sectoral sub-committees.

(c) The "sectoral prospects" model, which became available largely after the Plan was completed and is designed to furnish updated projections of macro-economic aggregates and sectoral value added on a more condensed 14-sector basis. The sectoral model will replace the global model and will be used during the Plan period to gauge the effects of changes in investment plans and growth targets, both for the economy as a whole and on a sectoral basis.

(i) The "Global Prospects" Model

9.19 The global model was a simple simulation model designed to give some feel for the basic macro-economic magnitudes and constraints on growth through 1981. It adopted three constraints as binding during the period: (1) the debt service ratio should not go above 20 percent, (2) the ratio of gross national saving to investment should not go below 80 percent, (3) private consumption per capita should grow at 6 percent. Furthermore, it aimed at the maximum increase in employment within these three constraints. Using this model, the conclusion was reached that a 6.2 percent overall growth rate would allow a 5.9 percent growth rate of private consumption per capita, and also satisfy the other constraints of the model. Consequently, most of the consistency work done later in the Plan was done against the background of a 6 percent target growth rate.

9.20 One other major conclusion emerged during this stage of preparation. The objective of creating the 500,000 new jobs required to meet the increase in the labor force between 1972 and 1981 was found to be prohibitive for the Tunisian economy, since it was to require an annual rate of growth of 10 percent a year and an annual rate of investment of D 428 million, compared with an average of D 125 million in the previous decade. It was also to have involved investment at the rate of some D 260 million a year in the non-agricultural productive sector. In order to restrict dependence on external finance to 20 percent of investment, domestic savings would have had to increase at the rate of 13 percent a year and exports at the rate of 12 percent a year. External finance would have had to average D 86 million a year. Indebtedness would have risen to 65 percent of GDP and the debt service ratio to 19 percent by 1981. The Government concluded that it was impossible to accept a target of 500,000 new jobs during the decade, and that further substantial emigration, averaging some 15,000 persons a year, would be indispensable.

(ii) The Table of Inter-Industrial Flows

9.21 The second major piece of quantitative work involved the construction of a 136-sector input-output matrix. This table for current flows was based on 1968 data updated to 1972. In addition, provision was made for the introduction through 1976 of new industries for which there are no present estimates of input-output coefficients. This model used the aggregate final demand estimates from the global model to produce consistent estimates of sector outputs. These estimates were then used as a check against the projections made by Sectoral Sub-Committees and by the individual industries themselves.

(iii) The "Sectoral Prospects" Model

9.22 The purpose of the sectoral model is to provide a better long-term view of the economy than the global model, while incorporating some sectoral information from the input-output model. Its chief object is to analyze the effects of different investment mixes on production, imports and growth. Basically, the model starts with a 14-sector version of the current flow matrix to determine sector demands. Outputs for agriculture, government services and housing are exogenous, as are exports by sector. The outputs of other sectors are based on a distributed lag incremental capital-output function related to the investment of the previous three year period. Total investment is controlled by the capacity of the construction industry, and this capacity is then allocated among sectors using fixed coefficients which in fact represent policy tools. The gap between sector outputs and sector demands is met by imports.

9.23 Unlike the global model, the sectoral model makes no attempt to project employment, capital requirements and the resulting debt service. Government revenues are related to production and income and so, combined with exogenous government resources and consumption, produce an estimate of Government saving. The model does not include monetary or price factors, and is completely in real terms. For private consumption, it appears that a

fixed marginal coefficient of 0.95 has been used. However, this model is particularly useful for analyzing the implications of sectoral investment possibilities. Its development, unfortunately, came somewhat late for it to have much impact on the Plan. It is intended that the sectoral model will be an ongoing exercise during the Plan period and beyond. On this basis the model offers advantages, in that it can help in the planning process as new alternatives and possibilities emerge during the decade.

E. Fourth Plan Objectives 1/

9.24 The "Ten-Year Perspectives" is drawn up with 1971 as the base year and covers the period 1972-1981; the Fourth Plan uses 1972 as the base year and covers the period 1973-1976. The Fifth Plan will cover 1977-1981. The development strategy is directed towards attaining a rate of growth of GDP of 6.6 percent in order to provide a 6 percent growth in private consumption, while satisfying constraints imposed by the balance of payments and limitations on the external financing of investment. According to the projections, more than D 3 billion will be invested in the period 1972-1981, including D 1.2 billion in 1973-1976.

(i) Growth

9.25 The rate of investment would yield a growth rate of 7.5 percent per year at constant prices for the period 1972-1981, with a rate of 6.6 percent 2/ in the Fourth Plan period and 8.5 percent for the period 1977-1981. In framing its strategy, the Government has placed overriding emphasis on the non-agricultural, productive sector as the primary source of growth and the principal instrument for employment creation. Growth in the non-agricultural productive sector is primarily a function of investment, with a projected average capital-output ratio of 3.5. This is appreciably lower than the ratio of 5.7 experienced during the last decade, on the grounds that much of the earlier investment should now begin to yield results, and a greater part of current and future investment is directed towards directly and more rapidly productive projects.

9.26 The sector growth rates assumed are shown in Table 9.1. The Four-Year Plan started off with a high base year (1972), a less favorable view of 1973, and an average rate of growth which appears to understate the economy's growth potential in the years of the Fourth Plan. The growth rate for agriculture seems to be on the high side; while it implies a fall in production from 1972's exceptionally high level, it also implies an annual growth of 10 percent by reference to the normal production anticipated for 1973. It is, incidentally, very difficult to make forecasts for agriculture because of its great dependence on the weather. On the other hand, the assumptions for industry, transport and services appear to be conservative. Initiatives

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1/ The Fourth Plan was prepared before the recent rises occurred in the world prices of raw materials. The resulting increase in Tunisian financial resources could lead to important changes in the goals of the Plan. This aspect is examined in Part F.

2/ The rate of 6.6 percent is that given by the method of calculation used in the Tunisian Plan. The compound annual rates method gives 7.1 percent.

already taken mean that expansion can be more accurately forecast in some sectors (petroleum, phosphates, fertilizers, textiles and export industries generally). Construction must at least reflect part of the expansion in investment; likewise, transport and services could well increase their growth rates. A more detailed analysis of the Fourth Plan's sectoral growth projections is made in the sector chapters of the report (Annexes I, II and III).

Table 9.1: STRUCTURE AND RATE OF GROWTH OF GDP 1969-1976, BY SECTOR AT CONSTANT PRICES (1966)

	1962-1971	1969-1972		1973-1976	
	Rate of Growth	Structure	Rate of Growth	Structure	Rate of Growth
Agriculture	1.5	17.8	5.8	16.1	-2.1
Industry	8.1	25.6	8.5	28.2	10.2
of which Manufacturing	7.9	9.9	11.2	11.4	9.6
Services	4.0	41.5	7.9	41.1	6.8
of which Transport and Telecommunications	7.2	8.5	7.0	8.0	6.2
Tourism	28.3	3.6	19.0	5.0	14.9
Housing	1.6	7.7	1.9	6.0	2.3
Government Services	5.8	15.1	6.2	14.6	7.5
	4.7	100.0	7.8	100.0	6.6

(ii) Consumption

9.27 The pattern of output, growth, investment and foreign trade implied in the Four Year Plan are projected to give a real growth in total consumption at 1966 constant prices of 7.5 percent annually. Public-sector consumption and private consumption would grow at the same rate and this would mean a growth of per capita private consumption at 5.4 percent annually. This contrasts with per capita private consumption growth rates of about 1.7 percent between 1962 and 1971, and 6.7 percent for the period 1968-1972. This goal is to be achieved by reducing the marginal rate of national savings from 29 percent in 1969-1972 to 20 percent in 1973-1976 and inflating the volume of total resources by a large increase in imports (13.5 percent a year at constant prices). If savings have been projected too low and imports too high, then the resource gap and external capital flow projections are also too high.

9.28 A growth rate for public consumption of 7.5 percent a year at constant prices, while higher than the rate of 5.4 percent for the years 1969-1972, seems realistic in the light of needs. In the last decade, the rapid growth of investment and expenditure on education was achieved only at the

Table 9.2: USES AND RESOURCES 1971-1976 AT 1966 CONSTANT PRICES

	1971	1972	1973	1974	1975	1976	Average Rate of Growth 1973-1976	Average Rate of Growth 1969-1972
			Million Dinars				Percentage	
GDP at market prices	729.0	857.4	882.1	973.2	1047.1	1127.7	6.6	7.8
Imports of goods and services	234.4	286.4	335.2	381.0	417.0	453.9	13.5	16.0
Total Resources	963.4	1143.8	1217.3	1354.2	1464.1	1581.6	8.4	9.6
Private consumption	483.9	561.9	601.2	645.3	700.8	756.3	7.5	9.0
Public consumption	120.5	129.7	141.2	150.1	161.0	172.5	7.5	5.4
Gross fixed capital formation	172.1	204.9	253.0	295.8	300.7	323.2	14.9	11.5
Change in stocks	7.4	24.7	-5.0	9.2	15.5	18.0	-	-
Exports of goods and services	179.5	222.6	226.9	253.8	286.1	311.6	7.8	12.6
GNP at market prices	717.1	847.0	869.6	960.7	1036.3	1117.3	6.6	8.6
National Income	588.3	701.6	708.5	779.8	835.4	895.8	5.6	8.2
Income per head (in dinars)	112.4	131.4	130.0	140.3	147.5	154.9	3.5	6.0
Consumption per head (in dinars)	93.1	105.2	110.3	116.1	123.7	130.8	5.4	6.7

Source: Fourth Plan, 1973-1976, Statistical Annexes; Series Statistiques Retrospectives, 1961-1971; Ministry of Plan.

expense of strict control of wages and regular cuts in expenditure on goods and services. The growth rate of public consumption in the next decade must take account of the need to re-establish wage and salary levels that will direct manpower toward activities in which they are most required, including some areas of administration. At the same time, there should be a substantial increase in government expenditure on extension services and assistance to the private sector in agriculture and industry. In addition, although expenditure on formal education ought perhaps to be restricted, substantial additional outlays on vocational training will be required to complement the formal education system at all levels.

9.29 With regard to the narrow difference between the consumption growth rate at constant prices (7.5 percent) and the rate at current prices (7.7 percent) for the period 1973-1976, the Fourth Plan underestimates the effect of price changes on expenditure, having regard to the inflation of world prices and the wage adjustments that would be needed to improve incentives and reduce income disparities. The probability of a substantial rise in the general level of prices over the next two or three years is now greater, as a result of the rise in the world prices of raw materials and of inflation in the industrialized countries.

(iii) Investment

9.30 The investment program is a challenging one. The figure of D 1.2 billion for the Fourth Plan represents almost a doubling of the total investment in the Third Plan period and is very close to the investment total for the whole of the decade 1962-1971. The annual average (D 300 million) is to be attained by an increase in the annual rate from D 207 million in 1972 to D 330 million in 1976; this implies a rate of increase of about 15 percent a year, compared with 10.7 percent for the Third Plan. Total investment will represent 24.5 percent of GDP, compared with 22.4 percent for the last decade and 20 percent for the Third Plan.

Table 9.3: INVESTMENT, BY SECTOR, 1969-1976

	1969-1972 Plan Execution		1973-1976 Plan Projections	
	Million Dinars	Percent	Million Dinars	Percent
Agriculture	109.6	16.4	177.7	14.9
Industry	205.7	30.9	382.7	31.9
Mining	18.8	2.8	34.0	2.8
Petroleum	54.3	8.2	110.3	9.2
Energy	56.9	8.5	78.2	6.5
Manufacturing	75.7	11.4	160.2	13.4
Services	267.4	40.1	472.1	39.6
Transportation and Telecommunications	87.1	13.1	195.7	16.5
Tourism	74.2	11.1	113.6	9.5
Housing	92.9	13.9	144.5	12.1
Trade and other services	13.2	2.0	18.3	1.5
Economic and social infrastructure	83.9	12.6	161.7	13.6
Total	666.6	100.0	1,194.2	100.0

Source: Ministere du Plan (Statistical Annex, tables 10.5 and 10.7).

9.31 The country's financial resources justify this investment goal, particularly considering the increase in resources deriving from the improvement in terms of trade in 1974; the problem will be mainly one of absorptive capacity at the institutional and technical levels. The execution of this investment program will call for strengthening of the agencies and institutions responsible for project preparation and execution, development of the capacity of certain key sectors such as construction, and also substantial efforts of training of the necessary technicians and skilled manpower, particularly in industry. The share of the public sector in total investment will remain high (59 percent, compared with 68 percent during the decade 1962-1971) but that of the private sector will increase substantially (41 percent, against 32 percent). The public enterprises will be responsible for 60 percent of public-sector investment and 35 percent of total investment, i.e. the same proportion as for the decade 1962-1971 (34 percent).

9.32 A greater proportion of investment will be concentrated on those sectors and projects that can make a direct contribution to production. Thus, 60 percent of investment will be made in the directly productive sectors (agricultural production, industry, tourism, transportation and trade), 14 percent in agricultural infrastructure, transportation and services, and 20 percent in housing and economic and social infrastructure (Table 9.4). In agriculture, 57 percent of investment will go into directly productive projects, compared with 25 percent in the decade 1962-1971. The sectoral distribution of investments is indicated in Table 9.3 and detailed in Tables 10.5 and 10.7 of the Statistical Annex. The sectors that will receive an increased share of total investment during the Fourth Plan, by comparison with the Third Plan, 1969-1972, are petroleum (9.2 percent, against 8.2 percent), manufacturing (13.4 percent, against 11.4 percent), transportation (16.5 percent, against 13.1 percent) and economic and social infrastructure (13.6 percent, against 12.6 percent). The share of agriculture will fall from 16.4 percent during the Third Plan to 14.9 percent, that of energy from 8.5 percent to 6.4 percent, and that of services (including tourism) from 27 percent to 23 percent. An analysis by sector of the investment programs is made in the sectoral chapters of the report (Annexes I, II and III).

Table 9.4: NATURE OF INVESTMENT, 1973-76

	Million Dinars	Percent
Directly productive	716.2	60.0
Agriculture sector	(101.4)	8.5
Non-agricultural productive sector	(614.8)	51.5
Infrastructure	478.0	40.0
Agriculture sector	(76.3)	6.4
Non-agricultural infrastructure	(95.5)	8.0
Social infrastructure	(306.2)	25.6
Total	1,194.2	100.0

9.33 Of the projects in the investment program, 32 percent (Category A) are already in progress. A further 36 percent (Category B) represent firm commitments. Category C, accounting for 32 percent of the total, comprises new projects which are likely to be undertaken under the Fourth Plan but are subject to further examination before they can be included in one of the annual economic budgets. Many of these Category C projects are at present only identified within the framework of a sector program, and the greater part of them relate to the productive sector.

Table 9.5: INVESTMENT BY STAGE OF PREPARATION, 1973-1976
(In Million Dinars)

Category	1973	1974	1975	1976	Total Amount 1973-1976	%
A. In progress	149.5	98.0	71.7	60.4	379.6	32
B. Committed	97.6	117.0	111.8	103.7	430.2	36
C. Under preparation	10.1	86.2	213.0	165.2	384.5	32
Total	257.2	301.2	306.5	329.3	1,194.2	100

(iv) The Financing of Investment

9.34 The sharp increase in investment planned for the Plan Period will require a great effort to mobilize financial resources. Total gross capital formation is projected to increase from D 718 million during the Third Plan to D 1,235 million, during the Fourth Plan, an increase of D 517 million. Of this, national savings growth is to account for D 368 million, and increased net external capital flows for the balance of D 149 million (Table 9.6). This represents an increase in national savings of almost 65 percent and an increase in net external capital flows of almost 55 percent (taking into account a projected increase of D 90 million in net reserves). Whilst the rate of national savings will increase from 17.7 percent (Third Plan) to 19.6 percent (Fourth Plan), the real marginal savings rate will decline (see paragraph 9.27). The rate of external financing of investment will rise from 20 percent during the Third Plan to 23.5 percent during the Fourth Plan.

9.35 Government savings are substantially those of the Central Government, with a smaller contribution from local government and social security resources. Government revenues are expected to increase by 9.2 percent a year; over 80 percent of the total increase will be accounted for by increases in the yield of direct and indirect taxes (Statistical Annex, Table 10.6). The fiscal burden is expected to remain more or less unchanged at about 21 percent of GDP. Current central government expenditure is projected to grow at 7.6 percent a year, reflecting an increase of 10.5 percent on health and 8.5 percent on education, which together account for almost 45 percent of current expenditure. The effect of these factors will be for Government savings to increase, doubling the Third Plan level, at a rate of 19 percent per year. The estimate of savings of enterprises is based on the assumption that self-financing will be equivalent to roughly 54 percent of gross fixed investment. The savings of households, which would rise by 7.5 percent a year, are expected to provide for the fixed capital formation of households, primarily in the form of housing, and also to make a major contribution to the finance of other sectors. This is largely a residual item resulting from the separate calculations for the savings of administration and enterprises.

Table 9.6: PLANNED AND ACTUAL INVESTMENT AND ITS FINANCING 1969-1976

	1969-1972 Plan Execution		1973-1976 Plan Projections	
	Million Dinars	Percent	Million Dinars	Percent
Gross Investment	718.0	100.0	1.235.2	100.0
Gross fixed investment	666.6	92.8	1.194.2	96.7
Government	184.0	25.6	285.3	23.1
Enterprises	391.2	54.5	766.4	62.0
Public	209.6	29.2	421.4	34.1
Private	181.6	25.3	345.0	27.9
Households	91.4	12.7	142.5	11.6
Changes in stocks	51.4	7.2	41.0	3.3
Financing	718.0	100.0	1.235.2	100.0
Foreign Capital (net)	245.1	34.1	379.5	30.7
Public	242.1	33.7	365.1	29.6
Private	122.4	17.0	150.4	12.1
Repayments	119.4	16.6	136.0	11.0
National Savings	577.7	80.5	945.2	76.5
Administration	123.8	17.2	242.4	19.6
Enterprises			437.8	35.4
Households			265.0	21.5
Foreign Assets (Increase=-)	-104.8	-14.6	-89.5	-7.2
Rate of External Financing (%)	20.0	-	23.5	-

Source: Ministry of Planning (Statistical Annex, Table 10.6)

9.36 The savings of the financial institutions themselves represent only a small percentage of the total but the Plan assigns an important role to them in the mobilization of financial resources. Thus, while the money supply is expected to grow by 12 percent a year, rising from 27.4 percent of GDP in 1972 to 32.2 percent in 1976, the Plan estimates that quasi-money (term deposits and savings accounts in banks and with the Savings Funds, bonds, and other quasi-monetary items) will increase from D 90 million in 1972 to D 210 million in 1976, i.e. by an annual 23.5 percent (Statistical Annex, Table 10.14). The total long and medium term resources of the banking system (own funds, special funds of the State, and quasi-money) would increase from D 169 million in 1972 to D 322 million in 1976. This growth of resources would be reflected in a considerable rise in long and medium term utilizations of the banking system, which would reach a slightly higher level than long and medium term resources in 1976 (D 344 million). The banking system is expected to increase the volume of government equipment bonds it takes up from D 32 million in 1972 to D 111 million in 1976 and its medium and long term credit to enterprises from D 123 million to D 233 million over the same period (Statistical Annex, Table 10.15). This projected contribution by the banking system to both public and private investment will call for the development of efficient instruments for the mobilization of savings and also for the strengthening of bank structures for the promotion and evaluation of projects. These aspects are reviewed in Chapter 6.

(iv) The Balance of Payments 1/

9.37 Following the exceptional export performance in 1971 and 1972, the Plan projected a rise in the trade deficit from D 58 million in 1972 to D 143 million in 1976. (Statistical Annex, Table 10.8). This deficit would represent 10.5 percent of GDP in 1976, a ratio comparable to those for the period 1961-1967. Exports were expected to grow by 7.5 percent a year (1972 basis). Excluding olive oil exports, which were expected to fall from the exceptionally high level of D 47 million in 1972 to D 17.5 million in 1974, and then rise again to D 28 million in 1976, other exports were projected to grow at 13.6 percent per year to realize this target. Since the volume of petroleum exports was expected to increase by only 5.7 percent, and phosphate product exports (including the newly important phosphoric acid) by 8.8 percent, this implied that all other exports had to more than double in four years, with a rapid growth of manufactured exports, particularly textiles, metal and mechanical products, wood and paper.

9.38 As a result of the liberalization measures and the rapidly increasing demand, particularly for equipment, intermediate goods and foodstuffs, total imports were projected to grow by 13 percent a year. Because of the high volume of planned investment, equipment imports were expected to increase at a rate of 18 percent per year and, in line with the development of export-oriented industries, imports of raw materials and semi-finished

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1/ The Plan projections that could be affected by the 1974 changes in terms of trade include, in particular, those for savings and for balance of payments (See Part F).

Table 9.7: BALANCE OF PAYMENTS, 1969-1976
(Annual averages, in millions of dinars)

	1969-1972	1973-1976
Imports of goods and services	223.4	391.4
Exports of goods 1/ and services 2/	199.9	327.5
Balance of goods and services	-23.5	-63.9
Net factor income and net transfer 3/	-11.7	-8.6
Current account deficit	-35.2	-72.5
Public capital, net	49.9	74.7
Private capital, net	11.5	20.2
Changes in reserves (increase = -)	-26.2	-22.4
1/ Of which: Olive oil	22.8	21.4
Petroleum	30.4	52.4
Phosphate products and phosphoric acid	20.7	25.9
2/ Of which: Tourism receipts	47.7	97.3
3/ Of which: Worker's remittances	19.7	32.0

Source: Ministry of Planning (Statistical Annex, Table 10.8)

products were expected to grow by almost 17 percent a year. While these rates could be justified if there were a widening of the range of liberalized goods, they appeared less plausible after the rapid growth during 1970-1972, which may be explained in part by replenishment of stocks. Similarly the projected imports of foodstuffs appeared to be over-estimated in relation to the high growth rate assumed for agriculture.

9.39 It was expected that, continuing the trend of the preceding years, a surplus on invisibles would offset an increasing part of the trade deficit; the current deficit would rise from D 23 million in 1972 to D 77 million in 1974 and to level off thereafter. It would represent 6.3 percent of GDP in 1973-1974 and 5.6 percent in 1975-1976, ratios comparable with the 1969-1970 level. Tourism receipts were expected to grow at the present rate of 14 percent, and workers' remittances at 9.4 percent a year. Total receipts from services were likely to grow at 11 percent, but payments for services at only 8 percent. The net surplus on transfers was expected to remain stable.

9.40 The current account deficit was to be financed by grants and loans totalling D 429 million gross, and direct investment amounting to D 87 million which, with debt amortization of D 136 million, would leave a net contribution to total investment of D 379 million. Approximately D 90 million of this was expected to accumulate in foreign exchange reserves (Table 9.7 and Statistical Annex, Table 10.9). Of the gross inflows, grants would fall slightly, largely as a result of the reduction of food and commodity aid from the United States. This would be more than offset by an expected increase in direct investment. Private borrowing is projected to fall; it mainly takes the form of suppliers' credits and financial credits with rates of interest up to 7 percent and with a repayment period of about 10 years. A large increase - 75 percent over the 1969-72 total - is projected in official borrowing. The average terms assumed are 3.7 percent interest with a repayment period of 30 years and a grace period of 7 years. At the time when the Plan was drawn up, commitments for a substantial part of the total (D 123 million) had already been received, leaving a balance of D 164 million to be obtained over the course of the four years of the Plan period. The Government considered this sum consistent with indications given by the principal members of the consultative group for Tunisia (Statistical Annex, Table 10.12). Of gross external aid, 50 percent is destined for enterprises, 42 percent for administrations, and 8 percent for financial institutions (Statistical Annex, Table 10.13).

9.41 According to the Fourth Plan, this borrowing would raise total external debt from D 386 million in 1972 to D 600 million by 1976, giving a rate of indebtedness at the end of the Fourth Plan of 42 percent, compared with 41.5 percent for the Third Plan. Debt service charges were expected to fall from 17.3 percent for the Third Plan to 13.2 percent of current export earnings for the Fourth Plan. The increase of D 90 million originally projected in external reserves by the end of the Fourth Plan would bring net external reserves to a total of D 181 million at the end of 1976; this would have represented the equivalent of four months imports of goods and services.

(vi) Employment

9.42 The labor force is projected to increase over the period 1973-1976 by 198,000 (163,000 men and 35,000 women). This projection takes account of an increase of 46,000 in working-age school enrollment and assumes that only 20 percent of working-age women will enter the labor market. The investment program under the Plan is expected to create 119,000 new jobs (89,500 for men and 29,500 for women); emigration is projected at about 60,000 male workers over the four-year period. The sectoral distribution of new jobs would be: industry 33 percent, construction and public works 16 percent, and services 51 percent. In agriculture, the Plan expects that the job supply will be reflected less in an increase in the labor force than in an improvement in labor utilization. In sum, the Plan does not expect that a balance can be achieved during the period between job supply and incremental labor supply. The employment projections of the Fourth Plan are reviewed in greater detail in Chapter 3.

F. The New Prospects

(i) Introduction

9.43 Under the conditions prevailing at the time when the Fourth Plan was prepared, the mission's analysis showed that the goals adopted, particularly for growth and national savings, were more conservative than Tunisia's resources and potential seemed to warrant. Normally, for a developing country the two major constraints on economic growth are savings and foreign exchange holdings. But Tunisia is in the unusual position that neither of these factors appears to present a major obstacle to its growth. The problem is apparently rather one of increasing the average productivity of new productive investments and of using existing productive capacity to the full.

9.44 To test these hypotheses, the Bank constructed a long-term development model, the technical features of which are described in Annex IV. This is a consistency model which requires as inputs (i) a series of projected levels of output for certain key sectors, predetermined on the basis of the sectoral analysis of this report; (ii) a series of sector incremental capital-output ratios, estimated from the data for the preceding period; (iii) a series of investment assumptions for certain sectors where investment and output cannot be tied directly or where output is functionally linked to investment, and (iv) assumptions concerning the prices of the country's main exports and also import prices. The model then determines the output levels for the remaining sectors, total GDP, total fixed investment, sector exports (other than those predetermined), imports by end-use, consumption, savings, resource gap, and changes in stocks. The model also projects employment by sector, using fixed incremental labor-output ratios. It further incorporates detailed balance of payments projections. With the introduction of assumptions concerning factor payments, transfers and other balance of payments flows, as well as the terms and amounts of foreign aid, the model projects debt-service payments and calculates the level of exchange reserves necessary to ensure equilibrium between the balance of payments and national accounts projections. A number of different combinations of assumptions are examined in this way, relating mainly to agricultural production, major exports (olive oil, petroleum, phosphates), and manufacturing investment and growth.

9.45 Prior to the recent changes in world prices of raw materials, a number of variants, or "cases", involving different combinations of assumptions, had been analyzed. One of these variants combined all the low assumptions, and another all the high assumptions. It was found that the rate of growth of the economy used in the Fourth Plan (7.1 percent a year, calculated by the compound rates method) came very close to the Case 1 ("low assumptions") combined growth rate of 6.9 percent, which suggested that the growth rate adopted in the Plan were quite feasible. The results obtained with this same variant further showed that import needs could have been less than projected in the Plan and that, consequently, the national savings effort could have been more intensive. The most optimistic variant (Case 2), a combination of the high assumptions together with, in particular, a more rapid exports growth, yielded an annual growth rate of 8.9 percent for the period 1973-1976, with a slightly higher volume of investment and a sectoral distribution of investment more favorable to industry, particularly energy and manufacturing, than in the Plan. The higher growth rate could be achieved without excessive strain on the balance of payments and with the same volume of external aid but with a higher incremental savings rate.

(ii) The revised projections

9.46 Since the initial projections, the world economy has undergone a period of rapid change. The rapidly rising world prices generally, and of petroleum and other commodities in particular, and the adverse effect of these price changes on the outlook for growth in Europe, was not anticipated. Consequently, the projection model has been updated to reflect latest available estimates (November 1974) of the major exogenous factors with particular respect to production volumes and prices. The most important changes reflect higher prices for petroleum, phosphates and olive oil. At the same time, the earnings estimates from tourism and workers remittances have been modified downward to reflect the deterioration in the prospects of European growth. The import price indices have also been revised upwards to take into account the high increases experienced in 1973 and 1974 and to allow for the anticipated higher level of world inflation. The model also assumes a little less investment in real terms and less capital inflows than projected in the Fourth Plan for the period 1973-1976, taking into account the levels actually experienced in 1973-1974, and the latest forecasts. The net effect, however, is a temporary improvement in Tunisia's balance of payments. Some key assumptions affected by the new situation and underlying the projections are detailed in Tables 9.8, 9.9 and 9.10 below. Table 9.8 shows main assumptions common to both cases. Table 9.9 gives the more conservative set of assumptions - the "low growth case". Table 9.10 shows the assumptions for the high growth case.

9.47 It should be noted that this projection model aims, in the light of past experience and present knowledge, to give a picture of possible macroeconomic developments under certain assumptions; thus its results have an indicative value only, showing what can be reasonably expected if the assumptions hold true. Any major change in external factors, such as world commodity prices or economic situation in developed countries, which may occur in this period of rapid evolution of the world economy, would of course affect the results presented below.

Table 9.8: MAIN ASSUMPTIONS, BOTH CASES 1/

	1973	1974	1975	1976	1978	1980	1985
Export Prices							
Olive Oil (dinar per ton)	506	730	650	600	660	730	930
Petroleum (dinar per ton)	14.2	37.5	33.5	35.0	39.3	44.2	62.0
Phosphate (dinar per ton)	4.7	17.7	19.0	17.3	13.0	14.9	19.0
Annual Growth rate (%)							
Tourism (at 1966 constant prices)	-11.0	-6.0	10.0	10.0	10.0	10.0	8.0
Worker Remittances (at current prices)	39.0	6.8	6.8	6.4	10.2	10.2	9.2
Import Price Index							
Goods (1972=100)	117.5	152.8	165.0	176.5	195.6	215.5	262.2
Services (1972=100)	100.0	116.0	122.9	130.3	144.3	159.2	193.6
Goods and Services (1972=100)	113.6	144.3	155.1	165.5	183.2	202.2	246.5

Table 9.9: MAIN ASSUMPTIONS, LOW GROWTH CASE 1/

Volumes	1973	1974	1975	1976	1978	1980	1985
Phosphate production (Th. tons)	3,476	3,800	4,000	4,500	5,200	5,900	6,500
Petroleum exports (Th. tons)	3,750	3,300	3,700	3,700	4,200	4,200	4,200
Olive Oil exports (Th. tons)	51.8	78.0	68.0	78.0	85.2	93.0	115.9
Annual Growth rate (in volume) %							
Agriculture (excluding olive oil)	1.0	4.0	4.0	4.0	3.5	3.5	3.0
Agricultural exports (excluding olive oil)	46.0	-36.0	5.7	16.1	2.5	2.5	2.0
Manufacturing fixed investments (mil. Constant 1966 Dinar)	35.8	41.5	36.8	41.8	55.5	67.0	89.0

Table 9.10: MAIN ASSUMPTIONS, HIGH GROWTH CASE 1/

Volumes	1973	1974	1975	1976	1978	1980	1985
Phosphate production (Th. tons)	3,476	4,100	4,500	5,100	5,800	6,500	7,200
Petroleum exports (Th. tons)	3,750	3,500	4,100	5,200	6,000	6,000	6,000
Olive Oil exports (Th. tons)	51.8	83.0	75.0	85.0	95.5	107.0	144.0
Annual Growth rate (in volume) %							
Agriculture (excluding olive oil)	1.0	4.0	5.0	5.0	5.0	5.0	5.0
Agricultural exports (excluding olive oil)	+46.0	-36.0	5.7	16.1	4.0	4.0	4.0
Manufacturing fixed investments (mil. Constant 1966 Dinar)	35.8	41.5	40.0	48.5	67.5	83.5	117.0

1/ Detailed assumptions are shown in the Annex volume which describes the model.

9.48 The impact of recent changes as outlined above can most easily be summarized by examining the effect on the terms of trade projections. Before the changes, as shown in Table 9.11, a slight increase in the terms of trade index was projected for Tunisia, as a result mainly of improvement foreseen in the prices of petroleum and olive oil. The index (base 100 in 1972) was projected to rise to 105 by 1974 and then slightly decrease. Under the new assumptions, the higher prices of exports cause the index to rise to 120 in 1974, despite an estimated 27 percent increase in import prices over 1973. From 1975 and in the following years, there is likely to be a reversal in the terms of trade, resulting from the expected levelling off of prices for Tunisia's main commodity exports and further increases in import prices. Tunisia's terms of trade advantage is thus assumed to disappear by 1978, but the net effect is still a better terms of trade picture up to 1977 than assumed previously.

Table 9.11: TERMS OF TRADE
(1972=100)

(Low Growth Case)	1973	1974	1975	1976	1978	1980	1985
Old assumptions							
Export Price Index (goods and services)	118.6	124.2	126.3	128.6	135.7	145.2	173.9
Import Price Index (goods and services)	113.6	118.2	121.7	125.6	134.5	144.2	171.2
Terms of Trade	104.4	105.0	103.8	102.4	100.9	100.7	101.6
Revised assumptions							
Export Price Index (goods and services)	118.6	173.4	170.6	172.0	182.7	195.0	231.5
Import Price Index (goods and services)	113.6	144.4	155.2	165.6	183.3	202.2	246.5
Terms of Trade	104.4	120.1	109.9	103.9	99.7	96.4	93.9

9.49 The present improvement in the terms of trade has one major effect on the economy. The increased export earnings means a higher gross national income (GNP adjusted for the terms of trade gains), and thus higher levels of consumption and imports. The higher consumption expenditures in turn generate higher levels of output in those areas of the economy which are assumed to be demand driven; i.e. services and food industries. The rate of GDP growth, as a consequence, will be higher than previously projected. In addition, the influx of larger foreign exchange resources would allow that a somewhat more rapid investment program could be undertaken after 1975 than previously anticipated, and thus would also raises the overall growth rate in subsequent years; however, this projected increase in investment is likely to be limited due to the delays already experienced in the investment program in 1973-1974, and the likely reappearance of balance of payments constraints in the long term.

9.50 Looking at the sector value added growth rates (constant prices), Tunisia can be expected to have a real growth rate of about 7.5 percent during 1972-1980 even under the "low growth" assumptions. With the high growth assumptions, a rate of about 9 percent would be possible (see Table 9.12). These growth rates imply a growth of about 2 to 3 percent per annum for agriculture and about 11 to 12.5 percent per annum for manufacturing (the agricultural growth rate is somewhat understated because of the exceptionally high level of 1972; from 1973 to 1980 the rate would be between 4 to 5.5 percent per annum). By way of comparison, the 1965-72 period had an overall growth rate close to 7 percent, with about 6 percent for agriculture and 11.5 percent for manufacturing. The projected growth rate for the mining sector (7.2-8.5 percent) is somewhat higher than that in the past, which actually showed a negative growth rate, this is due to the increased outputs resulting from the CAFSA investments. Growth of tourism is projected at about 5 percent per year compared with 27 percent per annum in recent years, due to the actual decline in tourism in 1973-74 and to the lower growth of the OECD area.

Table 9.12: SECTOR GROWTH RATES, 1972-1980, 1980-1985
(Value added at 1966 constant prices)

	Actual	Projected 1972-1980		Projected 1980-1985	
	1965-1972	Low Growth	High Growth	Low Growth	High Growth
Agriculture	5.7	1.9	3.2	3.2	5.1
Mining	-1.3	7.2	8.5	1.9	2.0
Energy	11.9	14.3	15.7	11.0	12.8
Petroleum	39.6	4.1	8.1	-	-
Manufacturing	11.4	11.1	12.4	10.5	12.2
Construction	2.3	7.9	9.9	5.3	6.3
Tourism	27.3	5.0	5.0	8.0	8.0
Transport and Communications	7.4	8.1	9.6	7.1	8.3
Other Services and Government	5.4	7.3	8.6	6.8	8.0
Total GDP (Factor Cost)	6.8	6.9	8.3	6.7	8.0
Total GDP (Market Prices)	6.8	7.5	9.0	7.1	8.4

9.51 Table 9.13 gives the projected expenditures on domestic product for the two variants, with growth rates for the Plan period (1973-76) and beyond. Both growth variants show slightly slower growth rates during the 1977/80 period, than the 1973-76 period. This is largely due to the stimulus of improved terms of trade during the first period. Export growth in constant prices (i.e. volume) is relatively low during the first period, about 5.0 to 6.5 percent per annum due to the exceptional level of the base year 1972, but the export earnings are high due to the price increases. After 1976 export volume shows a more rapid growth due to both a resumption of tourism growth

and greater exports of manufactured goods, resulting from the increased investments in industry. Imports tend to keep pace with exports and growth, although there is some lag so that the resource gap remains limited until the end of the 1970's. After 1980, there would be again some acceleration of import, particularly of intermediary goods imports to sustain growth in manufacturing.

Table 9.13: PROJECTED NATIONAL ACCOUNTS
(millions of dinars at 1966 constant prices)

					Growth Rates		
	1972	1976	1980	1985	1972-1976	1976-1980	1980-1985
			Low Growth Case				
Gross Domestic Product	848.8	1151	1517	2141	7.9	7.2	7.1
Gross National Savings/a	202.4	264	370	530	6.8	8.8	7.5
Consumption	693.4	959	1229	1720	8.4	6.4	7.0
Investment	220.6	297	394	564	7.7	7.3	7.4
Imports	291.6	380	511	755	6.8	7.7	8.1
Exports	226.4	275	405	612	5.0	10.2	8.6
Exports, adjusted/a	282.8	356	492	723	5.9	8.4	8.0

Fixed Investments	1973-1976	1977-1980	1981-1985
- Total	1043	1201	1933
- Annual average	261	300	387

			High Growth Case				
	1972	1976	1980	1985	1972-1976	1976-1980	1980-1985
Gross Domestic Product	848.8	1221	1687	2520	9.5	8.4	8.3
Gross National Savings/a	202.4	304	431	648	10.7	9.1	8.5
Consumption	693.4	1011	1363	2008	9.9	7.8	8.1
Investment	220.6	328	461	723	10.4	8.9	9.4
Imports	291.6	409	578	904	8.8	9.0	9.4
Exports	226.4	291	441	693	6.5	11.0	9.5
Exports, adjusted/a	282.8	398	558	842	8.9	8.8	8.6

Fixed Investments	1973-1976	1977-1980	1981-1985
- Total	1113	1407	2364
- Annual average	278	352	473

/a Includes terms of trade adjustment.

9.52 A fairly high savings effort would be required particularly after 1976. As shown in Table 9.14 growth under the low assumptions could be easily achieved with a relatively moderate marginal savings rate of about 20 percent during the plan period, allowing for rapid increase in consumption; thereafter the marginal savings rate would have to rise to 28 percent during the 1977-1980 period and 25 percent during the 1980-85 period in order to sustain the 7 percent growth of GDP. This compares with an actual savings rate of 29 percent during the 1968-72 period. While the latter period is probably not representative due to exceptional performances in 1972, marginal savings rates of the order of 25 or 28 percent do not seem out of the feasible range in the coming years. In the high growth case, the marginal savings rate would have to be higher during the plan period, remaining at about 25 percent during the following period. As a result of the higher growth of output (which is associated with relatively more rapid growth in agriculture, petroleum and phosphate) the incremental capital-output (ICOR) would be lower (2.8 in 1973-1976, 3.1 in 1977-1980) than in the low growth case (3.4 and 3.5).

Table 9.14: MACRO-ECONOMIC INDICATORS

	1968-1972	1972-1976	1976-1980	1980-1985
Low Growth Case				
Marginal Savings Rate	0.29	0.19	0.28	0.25
ICOR	2.3	3.4	3.5	3.7
Import Elasticity	1.88	0.86	1.07	1.14
High Growth Case				
Marginal Savings Rate	0.29	0.25	0.26	0.25
ICOR	2.3	2.8	3.1	3.4
Import Elasticity	1.88	0.93	1.07	1.13

9.53 The balance of payments aspects of these projections are shown in Tables 9.15 and 9.16. Under the low growth variant, relatively moderate resource gap and current account deficit are maintained during the whole period. After 1974 reserves could rise slowly, but their share of imports would decline until they reach 3 months imports by 1980. External public borrowing would remain limited until 1980, but would have to increase thereafter to sustain growth, and the volume of borrowing on hard terms would probably have to increase, though in manageable proportions. The debt service ratio, which would decline from a level of 17.7 percent in 1972 to 7.2 in 1980, would rise to 8.4 only in 1985.

Table 9.15: BALANCE OF PAYMENTS, LOW GROWTH CASE
(millions $ current prices) /a

	1972	1973	1974	1975	1976	1978	1980	1985
Exports	563	675	1049	1134	1293	1682	2162	3870
Imports	588	743	1066	1237	1388	1748	2283	4115
Resource Balance	-25	-68	-17	-103	-95	-66	-121	-245
Net Factor Payments	-23	-31	-48	-48	-49	-44	-33	-19
Net Transfers	6	3	9	4	2	2	2	2
Current Account Balance	-42	-96	-56	-147	-142	-108	-152	-262
Medium & Long Term Loans	139	145	155	162	183	159	182	497
Amortization	-74	-78	-78	-76	-75	-87	-98	-202
Other Capital /b	55	102	98	97	88	78	81	76
Reserve Change (- = increase)	-78	-73	-119	-36	-54	-42	-13	-109
Net Reserves	193	284	403	439	493	560	599	1038
Reserves/Imports of Goods	-.43	0.38	0.38	0.36	0.36	0.32	0.26	0.25
Debt Service Ratio /c	17.7	15.2	10.3	9.6	8.7	7.9	7.2	8.4

/a 1972 converted at 2.08 dinars, all other years at $2.27.
/b Grants, direct investment and short term capital.
/c Amortization plus interest as percentage of exports of goods and non-factor services.

9.54 The high growth case (Table 9.16) puts slightly more strain on the balance of payments after 1980. Under this scenario, increases in foreign borrowing would be necessary due to a falling reserve level. The culminative effect of substantial borrowing on hard terms (7 years maturity, 1 year grace, 9 percent interest) would lead to an escalating level of loan repayments by 1985 and an escalating debt service ratio. Nevertheless, the numbers projected are not out of range; the debt service ratio would rise to 10 percent by 1985 or less than its 1972 level. The level of gross disbursements would reach $847 million in current prices. In 1972 terms, however, this is a gross flow of about $340 million, or a net flow of about $226 million, which is consistent with the present levels of capital inflows.

Table 9.16: BALANCE OF PAYMENTS, HIGH GROWTH CASE
(millions $ current prices) /a

	1972	1973	1974	1975	1976	1978	1980	1985
Exports	563	675	1086	1196	1448	1900	2456	4522
Imports	588	743	1082	1293	1499	1933	2587	4928
Resource Balance	-25	-68	4	-97	-51	-33	-131	-406
Net Factor Payments	-23	-31	-49	-51	-60	-58	-50	-82
Net Transfers	6	3	9	4	2	2	2	2
Current Account Balance	-42	-96	-36	-144	-109	-89	-179	-486
Medium Long Term Loans	139	145	155	162	183	159	182	847
Amortization	-74	-78	-78	-76	-75	-87	-98	-290
Other Capital /b	55	102	98	97	88	98	81	74
Reserve Change (- = increase)	-78	-73	-139	-39	-87	-61	-14	-145
Net Reserves	193	284	423	462	549	658	668	1242
Reserves/Imports of Goods	0.43	0.38	0.39	0.36	0.37	0.34	0.26	0.25
Debt Service Ratio /c	17.7	15.2	9.9	9.1	7.8	7.0	6.3	10.0

/a 1972 converted at 2.08/dinar; all other years at $2.27.
/b Largely direct investment, grants and short term capital.
/c Amortization plus interest as percentage of exports of goods and non-factor services.

9.55 The balance of payments projections illustrate that high growth can be attained without strain on the balance of payments through 1980. After 1980, there would be a need for increased capital from external sources on terms somewhat softer than used by the model. Such projections are, of course, somewhat uncertain, particularly after 1980. The model assumes, for instance, workers' remittances of $168 million in 1980 and $260 in 1985. This is based on an assumption of zero net worker migration from Tunisia in 1975 and 1976. This assumption could very well be wrong in either direction and could therefore modify slightly our conclusions. Similarly, major unforeseen changes in commodity prices, tourism receipts or the cost of imports could upset these calculations. Nevertheless, these projections are considered to be reasonable on the basis of present knowledge.

9.56 Employment projections presented by the model indicate that unemployed and underemployed labor will continue to be a major problem in Tunisia through the 1970s. More substantial reductions in unemployment can occur under the higher growth assumption. As shown in Table 9.17, the rate of unemployment and underemployment under the low growth assumption is 22 percent in 1980 and 14 percent in 1985. While this is lower than the 28 percent estimated for 1972 (this figure results from a theoretical calculation), it by no

means offers an expeditious solution to the problem. Under the higher growth case the projected unemployment rate is only 16 percent in 1980, or about half the level of 1972. A continuation of these projections to 1985 indicates very small unemployment, which could allow some net returns of Tunisians working in Europe and other foreign countries.

Table 9.17: EMPLOYMENT PROJECTIONS
(in thousand)

	1972	1976	1980	1985	Growth Rate 1972-1976	Growth Rate 1976-1985
			Low Growth Case			
Employment	1115	1269	1486	1841	3.3	3.3
- agricultural sector	530	539	599	675	0.4	2.5
- non-agricultural sector	585	730	887	1166	5.7	5.4
Labor force	1541	1727	1895	2136	2.9	2.4
Unemployment and underemployment /1	426	458	409	295	-	-
Unemployment and underemployment rate	0.28	0.27	0.22	0.14	-	-
			High Growth Case			
Employment	1115	1301	1585	2086	3.9	5.4
- agricultural sector	530	550	639	778	0.9	3.9
- non-agricultural sector	585	751	946	1308	6.5	6.4
Labor force	1541	1727	1895	2136	2.9	2.4
Unemployment and undermployment /1	426	426	310	50	-	
Unemployment and underemployment rate	0.28	0.25	0.16	0.02	-	

/1 That figure results from a theoretical calculation.

(iii) Conclusions

9.57 Having overcome the chronic balance of payments deficits of the past, and with an adequate savings level, the Tunisian economy has the financial resources that should enable it to attain growth rates ranging from 8 to 9.5 percent per annum until 1977 and thereafter from 7 to 8.5. However, aiming at the higher rates of growth would require, after 1980, substantially higher external aid than in the past, which could probably have to be obtained at harder terms. Tunisia should therefore continue to seek part of its external needs on concessionary terms to prevent the debt service ratio from rising rapidly in the long term. The level of future growth would also depend to an important extent on the ability of Tunisia to stimulate private investment, and to plan and implement public investments at the necessary levels and in the appropriate sectors. There is no constraint due to the size of the labor force. The upper range of the growth alternatives could bring

with it employment opportunities sufficient to solve one of Tunisia's most important problems. The high growth alternative would be expected, however, to strain the administrative and technical capacity of the country and would therefore require that the necessary supporting policies be pursued and that institutional development and adequate training programs be accelerated.