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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN THE AMOUNT EQUIVALENT TO US$38.7 MILLION

TO THE

SOCIETE TUNISIENNE DE L'ELECTRICITE ET DU GAZ

(STEG)

WITH THE GUARANTEE OF THE REPUBLIC OF TUNISIA

FOR A

FOURTH POWER PROJECT

June 4, 1984

CURRENCY EQUIVALENTS

Currency Unit = Tunisian Dinar (TD)

The exchange rate of the Tunisian Dinar is floating. The rate which is used in the Staff Appraisal Report approximates the current rate. It is:

1 US $ = TD0.67
1 TD = US $1.49

STEG's Fiscal Year

January 1 - December 31

ACRONYMS AND ABBREVIATIONS

ERR	-	Economic Rate of Return
ETAP	-	Tunisian Petroleum Company
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
LRMC	-	Long-run marginal cost
ODA	-	Official development assistance
SNDP	-	National Petroleum Distribution Company
STEG	-	Tunisian Electricity and Gas Company
STIR	-	Tunisian Refinery Company
toe	-	tons of oil equivalent
USAID	-	United States Agency for International Development
UTB	-	Union Tunisienne de Banques

REPUBLIC OF TUNISIA

FOURTH POWER PROJECT

LOAN AND PROJECT SUMMARY

Borrower:	Société Tunisienne de l'Electricité et du Gaz (STEG)
Guarantor:	Republic of Tunisia
Amount:	US$38.7 million equivalent, including capitalized front-end fee.
Terms:	Seventeen years including four years of grace at the standard variable interest rate.
Project Description:	The project, a continuation of the Third Power project (Loan 2003-TUN), would support STEG's three-year investment program (1985 through 1987) for: (i) rural electrification; (ii) rehabilitation of the urban network; and (iii) provision of equipment, vehicles, tools, and training. The rural electrification component would extend electricity service to about 35,000 new domestic customers, 1,500 pumping stations and 50 commercial and small industrial consumers. The urban rehabilitation component would improve the quality of service to more than 130,000 existing customers by rehabilitating the distribution systems of about 60 cities and towns. The third component would provide the construction, erection and testing equipment, vehicles, tools and training (about 70 persons for a total of about 120 staff-months) which would assist STEG in implementing the project and improving its technical capabilities. The project involves the supply, construction and erection of about 2500 km of medium-voltage lines, 2600 km of low-voltage lines; and 65 MVA of distribution transformer capacity.
Project Benefits and Risks:	The project would extend electricity service to the beneficiaries at least-cost by implementing the long-term program for rural electrification, reducing system losses, improving sales of electricity and operating efficiency of the system, and continuing the Bank's efforts in assisting STEG to expand its training program. In addition, the proposed project would follow up on the efforts started by previous Bank loans (1864-TUN and 2003-TUN) in rationalizing fuel and electricity pricing. The project presents no special risks.

Estimated Project Cost:	Local	Foreign	Total
	$ million		
Rural Electrification			
Equipment and Materials	3.9	8.4	12.3
Installation and Erection	5.7	-	5.7
Engineering and Construction Supervision	3.2	-	3.2
Subtotal	12.8	8.4	21.2
Urban Rehabilitation			
Equipment and Materials	4.5	9.5	14.0
Installation and Erection	6.4	-	6.4
Engineering and Construction Supervision	3.5	-	3.5
Subtotal	14.4	9.5	23.9
Equipment, Tools, Training			
Equipment and Tools	3.1	10.7	13.8
Training	-	0.4	0.4
Subtotal	3.1	11.1	14.2
Base Cost	30.3	29.0	59.3
Physical Contingencies	5.4	3.6	9.0
Price Contingencies	8.6	6.0	14.6
Total Project Cost	44.3 /1	38.6	82.9
Front-end Fee	-	0.1	0.1
Total Financing Required	44.3	38.7	83.0

/1 Includes about $6.5 million in customs duties and taxes

Financing Plan:	Local	Foreign	Total
		$ million	
IBRD	-	38.7	38.7
STEG Internal Cash Generation	24.0	-	24.0
Customers' Contributions	1.7	-	1.7
Government	18.6	-	18.6
Total	44.3	38.7	83.0

Estimated Disbursements: Bank FY	1985	1986	1987	1988	1989
			$ million		
Annual	0.6	7.0	11.0	13.0	7.1
Cumulative	0.6	7.6	18.6	31.6	38.7

Rate of Return: about 12 percent (on STEG's overall investment program)

Staff Appraisal Report: No. 4817-TUN of June 4, 1984

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO SOCIETE TUNISIENNE DE L'ELECTRICITE ET DU GAZ (STEG) WITH THE GUARANTEE OF THE REPUBLIC OF TUNISIA FOR A FOURTH POWER PROJECT

1. I submit the following report and recommendation on a proposed loan for the equivalent of US$38.7 million to Société Tunisienne de l'Electricité et du Gaz (STEG) with the guarantee of the Republic of Tunisia to help finance a Fourth Power project. The loan, which includes a capitalized front-end fee of 0.25 percent on the Bank loan, would have a term of 17 years, including 4 years of grace, at the standard variable interest rate.

PART I - THE ECONOMY 1/

2. A special economic report entitled "Tunisia - Review of the Sixth Development Plan (1982-86)" (No. 4137-TUN), in two volumes, was distributed to the Executive Directors on March 16, 1983 and June 29, 1983. This part and the country data sheets, attached in Annex I, reflect the report's findings. They also reflect preliminary results for 1983. An economic mission to review the performance of the first two years of Plan implementation visited Tunisia in April 1984; revised projections for Annex I are being prepared.

3. Much of Tunisia is arid or semi-arid. Only three percent of arable land is irrigated, and areas where rainfed agriculture is possible are subject to severe year-to-year fluctuation in rainfall. Tunisia's most important raw materials are phosphates, petroleum, and natural gas. While the known exploitable reserves of oil and gas are approaching depletion, and the phosphate deposits are of relatively low quality, there have recently been promising indications of new hydrocarbon reserves, although it is too early to assess their exact potential. The country also has considerable tourism potential, and efforts have been made during the last decade to develop it rapidly.

4. Since independence in 1956, Tunisia has undertaken a massive effort towards development of its human resources, paying special attention to family welfare, education, and technical and vocational training. As a result, the infant mortality rate declined from 150 in the early 1960s to 90 at the end of the 1970s, the adult literacy rate increased from under 15 percent to about 62 percent, and average caloric supply per capita increased from about 80 to 115 percent of minimum standard requirements. An active family planning policy pursued by the Government led to a decrease in fertility and birth rates. However, since at the same time mortality rates also decreased, the annual natural demographic growth rate decreased only slightly from 2.6 percent in the 1960s to 2.4 percent in the 1970s. Moreover, after 1976, the net emigration of Tunisians abroad was sharply reduced by restrictive measures taken in the EEC countries and Libya.

1/ Part I is substantially the same as Part I of the President's Report No. P-3809-TUN of May 7, 1984, for a Second Transport Project.

5. Agriculture still occupies nearly one out of every three Tunisians in the labor force. To accelerate job creation, more than half of the total investments of the Fifth Plan (1976-81) was allocated to directly productive sectors, but the direct employment effects of the leading sectors (petroleum, phosphate mining and processing, and tourism) are small. These sectors, however, make a vital contribution to GDP, public savings, and exports. They provided 52 percent of the country's foreign exchange earnings in 1983, while manufacturing activities, except phosphate-based chemicals, provided 19 percent.

6. Recent Economic Developments. During the Fifth Plan the growth performance differed from the impressive growth achieved from 1971 to 1976: output in agriculture and in food industries has grown on average below the demographic rate since 1976, partially as a result of bad weather conditions; textile production and tourism development grew at a slower pace mainly because of difficulties in European markets. By contrast, manufacturing industry other than textiles, as well as energy, phosphate processing, construction, and construction materials expanded at a fast pace.

7. In spite of the considerable increase in domestic demand, particularly in investments, the balance of payments situation remained favorable from 1976 to 1981. Imports in current prices grew at a slower pace than exports, and the terms of trade improved significantly due to sharply higher post-1974 export prices for crude oil. As a result, the resource gap remained relatively small, and domestic savings financed on average over 76 percent of investment, which increased from an average of 23 percent of GDP for 1972-76 to 30 percent for 1977-81. The current account deficit was easily financed; grant aid and private investments (mainly for oil exploration) provided about 30 percent, while the remainder was mainly covered by long-term foreign borrowing. Thus, during the 1970s total foreign debt increased little relative to GDP, and the debt service ratio dropped from 15 percent in 1971 to 10 percent in 1979.

8. The public sector has played a major role in mobilizing and redistributing domestic resources. Central Government revenues were equivalent to about one-third of GDP on average for the Fifth Plan period, one of the highest shares among middle-income countries. Over 30 percent of these revenues was saved, and public savings financed close to two-thirds of total Government capital expenditures. This comfortable public finance situation permitted a rapid increase in payments to private consumers and public enterprises. Such transfers, including those for social security, accounted for 19 percent of total current budget outlays and over 7 percent of GDP in 1981.

9. The main objectives of the Fifth Development Plan were achieved, except for the employment target, and open and hidden unemployment remains a serious problem for the Tunisian economy at present. The actual GDP growth fell short by 1.2 percentage points of the planned rate of 7.3 percent p.a., mainly because of poor performance in agriculture, while the investment objective of 30 percent of GDP was fully met. Completion of some large projects in the public sector (steel, expansion of the oil refinery) was, however, delayed, but private sector investments, both foreign and national, exceeded Plan targets. Although job creation objectives were achieved in all non-agricultural sectors except construction, these sectors could only absorb 90 percent of new job seekers at a time when migration to Libya and Europe slowed down. The overall unemployment rate, estimated at about 12 percent of the labor force in 1980, has therefore not declined.

10. In 1982 and 1983, the current economic situation suffered a series of setbacks. GDP in constant prices stagnated in 1982. Three factors accounted for this poor performance: adverse weather conditions which depressed agricultural output and consequently, agro-industrial output; recession in Europe which reduced exports, particularly chemicals and tourism; and exceptional technical problems in key intermediate industries. GDP is estimated to have increased by 4.5 percent in 1983 reflecting a stronger performance in the industrial sector. The slowdown in output, coupled with a large increase in minimum wages and some price liberalization led to an unusually high inflation (13.7 percent) in 1982. In 1983, inflationary pressures were slowed down by an administered reduction in producer prices and sales prices of industrial products and also by an intensification of price controls. The consumer price index in December 1983 was about 6 percent above the December 1982 level. During 1982-83, the current account deficit of the balance of payments experienced a sharp deterioration reflecting: the fall in petroleum export receipts and the reduction in exports of agricultural products; the increase in imports of food products and consumer goods; and the slowdown in tourism due to the unfavorable international economic environment. The deterioration in the trade balance led to a steady drain in the level of foreign reserves in the first half of 1983 and recourse to commercial credit. This trend was reversed in the second half of the year as petroleum exports picked up. Gross reserves at the end of 1983 were equivalent to 1.3 months of imports.

11. Medium-term Prospects. The main objectives of the Sixth Development Plan (1982-86) are employment generation, export promotion, and more rapid growth in the three least developed regions of the country (North-West, Center-West, and South). Sectoral priority is to be given to agriculture, engineering industries, and tourism.

12. The outlook for investment and growth will partly depend upon future developments in the oil and natural gas sector. Oil and gas exploration programs under way have been encouraging. Based on known reserves, and with the possible exploitation of smaller fields that recently became profitable, it is generally expected that domestic oil and gas production could be stabilized at about its present annual level of 5-6 million tons of oil equivalent until the end of the decade. Barring large new oil or gas discoveries, and given the rise in domestic demand for energy, Tunisia will have to face the consequences of a decline in energy revenues. To meet this challenge, the Government has introduced policy changes in the Sixth Plan to reduce the associated economic and social strains, and avoid major balance-of-payments problems.

13. The GDP growth objective of the Sixth Plan of 6.0 percent per annum will be difficult to achieve in view of the poor performance in 1982 and 1983. Growth of traditional exports (tourism, textiles, and phosphate-based chemicals) will be insufficient to compensate for the projected decline in oil export revenues. Production diversification and export promotion, in particular for engineering products, will also take time to bear fruit. The Government's strategy, therefore, rightly aims at containing domestic demand in order to control import growth. Terms of trade are unlikely to improve. This would not only affect the external account but also result in slower growth of domestic savings, particularly public savings.

14. Consequently, the Sixth Plan projected a decline in the fixed investment rate from 30 percent of GDP in 1977-81. A major objective was also to correct recent capital intensive biases in projects by appropriate sectoral allocation of investments. These two objectives will be difficult to achieve; investment

remained at 30 percent of GDP in 1983 and job creation fell short of the projected level. Therefore, more resources will have to be allocated to small and medium manufacturing enterprises in the underdeveloped regions, in order to ease the unemployment problem and reduce income disparities between rural and urban areas. Since June 1981, a new set of policy measures has targeted the incentive system toward this objective. The Investment Code was modified to establish industrial zones and offer direct subsidies for job creation in new projects in underdeveloped regions, and a Promotion Fund for Handicrafts and Household Workshops was created. In order to promote a more efficient technical and financial management of the public and private modern sectors, the Plan assigns a major role in project promotion and supervision to an expanded network of new development banks (two opened in 1981 and four in 1982); they are joint ventures with foreign investors and should prevent the pressure on the budget to finance too large a share of public investments.

15. Increasing budgetary constraints require a reassessment of the present policies of subsidies for energy, basic foodstuffs, transportation, and public sector enterprises. In addition, interest rate policy and a better-adjusted fiscal system should be used to restrain final consumption and stimulate savings. As first encouraging steps in 1981 and 1982, sizeable price increases in energy and agricultural products were implemented, and the whole interest rate structure was revised upward, rates on saving accounts and term deposits and industrial lending rates being increased by 1.5 to 2 points. Earlier this year when the 1984 budget was presented, the Government announced its decision to increase bread prices sharply and remove the subsidy on bread, cereals and cereal products, a subsidy which represents about 2 percent of GNP. The price increases triggered social unrest and the Government had to abrogate its decision and revise the initially presented budget. There were sizeable increases of the legal minimum wage in 1982 and 1983, mainly to improve the low-wage earners' living conditions, but the Government recognizes that overall wage and salary policies should keep labor cost increases (including social costs chargeable to enterprises) in line with productivity increases, particularly since Tunisia wants to stimulate tourism, and improve its international competitiveness for exports of manufactured goods.

16. Social Issues. Since independence, the country has come a long way towards meeting the basic needs of its population and reducing absolute poverty. About 16 percent of GDP is now devoted to social programs. However, unemployment among the young and regional pockets of poverty still present serious social problems.

17. Recently published data show that the continued attention of the Government to poverty oriented social programs resulted in a reduction of the ratio of people under a minimum standard income from 17 percent of the total population in 1975 to 13 percent in 1980. During this period, the overall number of this group declined in urban areas but remained the same in some rural zones in the center of the country, as a consequence of poor agricultural performance. Income differentials between the coast (East) and the interior (West) widened, in part because the system of price controls and subsidies as well as budgetary expenditures had a weak redistributive impact. The Government is focusing on the zones of poverty, with a view to eradicating them before the end of this century. Reducing the demographic growth rate is considered an important factor in this endeavor.

18. Education expenditures rank first among budgetary outlays. The comprehensive education system provides free access to all students, and the gross enrollment rate has reached 100 percent for primary education, and 30 percent for

secondary education. The performance of the system could, however, be improved by expanding vocational training programs, improving their relevance and responsiveness to labor demand, and to the special needs of the poor and rural groups.

19. Public health services are second among social expenditures, and their overall beneficial effect is reflected in the improvement of the vital statistics (para. 4). There remain, however, regional disparities in the availability of hospital beds, doctors and nursing personnel; health services have concentrated largely on curative medicine, and the medical referral system is not functioning properly. As a result, the rural poor are often excluded. Closely linked to nutritional deficiencies, infant mortality remains high relative to other middle-income countries.

20. In the Sixth Plan, investment in education, health, housing and water supply focuses more on deprived areas, provided at lower costs (health, shelter), and made more relevant to the needs of the economy (training). In education, two reforms are under discussion: the first one would provide a nine-year schooling period for all children, and the second would create polytechnical high schools combining basic and technical education. In health, the Sixth Plan allocates more resources to preventive medicine and nutrition education. Finally, as regards housing, public subsidized programs are directed to the neediest population groups. The housing demand from households above the minimum standard income can be satisfied by the private sector.

21. External Assistance and Foreign Debt. During the second half of the 1970s, the growth of foreign borrowing was modest and a growing share of foreign funds was provided by public sources at relatively soft terms. Foreign loan commitments averaged about $700 million per annum, 62 percent of which in the form of official assistance (ODA). About 65 percent of ODA commitments came from bilateral sources, chiefly France, the Federal Republic of Germany, Canada, and some oil-surplus countries. About 24 percent of total ODA was committed by the Bank Group, and some 11 percent by other multilateral sources. Borrowing terms were favorable, averaging 5.8 percent interest and 18.5 years maturity, including a grace period of 5 years. At the end of 1983, debt outstanding and disbursed was estimated at about $3.7 billion, or 45 percent of GNP; debt service was 17 percent of export revenues in 1983.

22. The current account deficit reached $740 million in 1983, and is projected to grow to about $1.0 billion in 1986. New loan commitments from abroad are projected at $1.2 billion per year on average (at 1983 dollar exchange rates) with ODA providing half of the total. The external debt-service ratio is not expected to increase significantly in the medium term.

23. Prospects depend on a timely implementation of policy changes to curb domestic demand, promote exports, and improve public sector savings. It should be noted, however, that the Sixth Plan recommended a low growth scenario in order to preserve the country's relatively high financial stability and creditworthiness. This objective remains even more crucial if the country is to succeed in mobilizing the large inflows of direct foreign capital assumed in the Plan. Foreign investments were small during most of the 1970s but have gained momentum during the last three years in line with increased activities in the oil sector, and new incentives offered to foreign investors in manufacturing. The newly created development banks (para. 14) are expected to play a significant role in this context.

24. In conclusion, the balance-of-payments outlook in the medium term will depend on developments in the hydrocarbon sector and on the policy changes to be initiated during the next few years. Considering its long record of prudent balance-of-payments and external debt management, there are good grounds to assume that the Government will apply the necessary policy changes and Tunisia will continue to be creditworthy for future Bank lending. The Bank's close dialogue with the Government on several policy aspects at the macro and micro levels will be pursued in connection with the implementation of these policy changes.

PART II - BANK GROUP OPERATIONS IN TUNISIA

25. Since 1962, the Bank has committed to Tunisia sixty-two loans and ten IDA credits amounting respectively to $1,293.2 million and $75.2 million (net of cancellations) of which forty loans and credits have been fully disbursed. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of March 31, 1984. Project implementation is generally satisfactory. As of December 31, 1983, overall disbursements amounted to 54 percent of appraisal estimates, which is in line with experience in other countries in the region. Disbursement performance for irrigation, industrial finance and port projects has generally been above the country average, while longer than average disbursement delays have been experienced for agricultural credit, education, highway, urban and fisheries projects, due to project specific problems that are being addressed through supervision missions and sector discussions. In a number of sectors, important institutional improvements have been achieved, and autonomous agencies have been created or strengthened to ensure the efficient management of the related sectors or subsectors.

26. The Bank's lending strategy in Tunisia aims at supporting Government efforts to: (a) increase employment; (b) encourage more balanced growth and distribution of income among regions and income groups with particular emphasis on rural areas, and on operations targeted to low-income population groups; (c) promote export-oriented policies, technological changes and improvements in labor productivity; and (d) provide selective support for the development of basic infrastructure and for institution building in key public services. An important feature of this strategy is to support the Tunisian authorities in the timely and well-coordinated preparation of projects through missions and advice by Bank staff, the assistance of the IBRD/FAO Cooperative Program, the use of the Bank's Project Preparation Facility, and technical assistance projects. The Bank is also supporting the Government in its efforts to increase the mobilization of domestic resources, and to secure cofinancing for the projects it assists. The latter is particularly important for projects in the industrial sector where foreign financing agencies rely often on the Bank's project appraisal and supervision capabilities, and in view of the extent of Tunisia's external resource needs.

27. Within this broad framework, past lending emphasized support for long-term investments in infrastructure and social development. Lending for urban and social development including water supply, sewerage, education, health, urban development and the Tunis planning and public transport project has accounted for 34 percent of Bank/IDA commitments in Tunisia since 1971. Lending for transport, power and tourism infrastructure has accounted for 27 percent. Agriculture and fisheries have received 22 percent, and industrial and hotel financing, mostly through the Economic Development Bank of Tunisia (BDET), 17 percent of total commitments. In addition, the Bank has made two loans for technical assistance, the first aimed at improving the Government's capability for project identification and preparation in the agriculture, industry and energy sectors, and the second designed to rationalize and develop the mining industry.

28. In line with its lending strategy, the Bank will pursue its efforts in key sectors of the economy that offer prospects for economic and social development. It will also assist projects which address the needs of the least developed regions of the country, develop research capabilities, increase productivity, and help reduce the gap between income groups and between urban and rural areas. Particular attention will be paid to employment creation, institution building and agricultural development. In addition to the proposed Fourth Power project, proposed future lending would include projects for agricultural development in northwestern Tunisia, rural health, urban and regional development, irrigation, industry and energy.

29. The Bank's economic and sector work will continue to focus on strengthening the macroeconomic and sector base for our lending program. It will be centered on the analysis of economic issues and policies related to the necessary adaptation process from a petroleum exporting to a petroleum importing country. This analysis, which was included in the special economic report entitled "Tunisia - Review of the Sixth Development Plan (1982-86)" (No. 4137-TUN), dated March 16, 1983 and June 29, 1983, is being pursued through a special study on industrial employment creation. A review of the mid-term performance under the Sixth Plan took place in April 1984. Further economic and sector work will include a financial sector study, an industrial policy review, studies of educational finance and administration and housing finance, and a review of the transport sector.

30. The Bank and IDA accounted for about 30 percent of total public commitments to Tunisia during 1979-1982. Their share in total debt outstanding and disbursed at the end of 1982 (including loans from private sources) was about 12 percent, and their share in debt service during 1982 was 11 percent. The share of the Bank and IDA in Tunisia's disbursed external debt is expected to be about 11 percent and their share in the debt service to increase to about 13 percent through 1986.

31. IFC has invested in NPK Engrais (a fertilizer plant), in BDET, in Compagnie Financière et Touristique (COFIT, a company to promote and invest in tourism projects), in Société Touristique et Hotelière RYM (a large hotel development), in Industries Chimiques du Fluor (ICF), which produces aluminum fluoride from local fluorspar for export, and in the Sousse-Nord integrated tourism development project. IFC's net commitments in Tunisia totalled $8.5 million, as of March 31, 1984. Currently, IFC is considering a project to rehabilitate and modernize the fluorspar mine supplying ICF, the creation of a leasing company which would be Tunisia's first, and a fertilizer project which would produce phosphoric acid for export.

PART III - THE ENERGY SECTOR

32. Energy Resources. Oil and gas are Tunisia's main energy resources. In addition, the country has a modest hydropower potential, some lignite deposits and geothermal resources as well as the possibility for using renewable energy, notably solar and wind energy.

33. Oil and Gas. Proven reserves of oil are estimated at 70 million tons and those of gas at 66 million tons of oil equivalent (toe). El Borma, in the south-western desert area bordering Algeria, and Ashtart, offshore in the Gulf of Gabes, are the major oil fields contributing about 85 percent to total oil production. Both fields are depleting rapidly and will cease

production in the 1990s. Gas is produced at El Borma as associated gas, and from a small reservoir at Cap Bon. In addition, starting in 1984, Tunisia is receiving natural gas as royalty (in kind or cash) for the transit through its territory of the Algeria-Italy intercontinental pipeline, and purchases, under a three-year contract, additional gas from Algeria. Major untapped gas reserves exist offshore in the gulf of Gabes (Miskar and Jugurtha) and onshore at El Franig near the Chott El Djerid. The US oil company AMOCO is finalizing the appraisal of El Franig, and a decision on whether or not to develop this field is expected in the near future. Given the depletion of its oil resources, natural gas is expected to play an increasingly important role in meeting Tunisia's medium-term energy requirements.

34. Other Resources. Tunisia's small hydropower potential amounting to 65 MW has already been exploited. It includes the recently commissioned Sidi Salem plant, part of a multi-purpose project in which the Bank is participating. Poor-quality lignite deposits exist in two locations and are presently under study. Underground hot water resources exist at several locations. The extent of this geothermal potential is being investigated in the context of the Bank-assisted Technical Assistance project (Ln. 2197-TUN). Several experimental schemes are planned or are underway to determine the viability of exploiting Tunisia's renewable energy resources. Two demonstration projects are testing the potential of utilizing solar energy for lighting, water pumping for irrigation and water heating in rural areas. Although these systems operate satisfactorily, the cost per KWh generated for most applications exceeds by far that of energy produced by conventional generating plants. The economics of solar water heaters, however, have already been established. By 1986, about 10,000 locally manufactured units could be installed, provided a public information and education campaign is undertaken, possibly accompanied by a credit scheme to encourage purchasers. The Tunisian Electricity and Gas Company (STEG) is working on this project. A number of projects to demonstrate the viability of utilizing wind energy are under implementation including a scheme to collect data on wind and solar regimes in different parts of the country which is financed under the Bank-assisted Technical Assistance project. Experimental projects to test the use of wind energy for generating electricity are planned at Cap Serrat and on the island of Kerkennah, partly with bilateral assistance (USAID).

35. Energy Demand and Supply. Since 1976, commercial energy consumption has increased by about 8 percent per year and reached about 3 million toe in 1982. In 1982, oil and gas contributed 96 percent of commercial energy consumption, the remainder being supplied by hydropower and imported coal. The growth in energy demand exceeded that of the economy as a whole (GDP grew at about 5 percent per year during the same period) and was to a large extent due to the rapid growth of energy-intensive industries, such as building materials and phosphate processing. During the same period, oil and gas production increased by about 2 percent per year, from about 4.8 million toe to 5.5 million toe. While energy consumption is expected to continue to grow at about the same rate as during the past six years, oil and gas production combined is likely to remain at the present level until the early 1990s by which time Tunisia is expected to become a net importer of energy.

36. Energy Pricing and Conservation. Until 1980, the Government followed a deliberate policy of minimizing the cost of energy products to the major users as a means of controlling inflation, and promoting industrial development and the use of local energy resources. While this policy of low

energy prices probably had some effect in meeting these objectives, it also encouraged the creation of energy-intensive industries and discouraged energy conservation. To ensure an economic allocation of resources and in line with agreements reached with the Bank in the context of two loans to the energy sector (Second Natural Gas Pipeline project - Ln 1864-TUN, and Third Power project - Ln 2003-TUN) the Government adopted, in 1980, international prices as benchmarks for setting internal prices. The objective of reaching parity with international prices for all petroleum products by December 31, 1986 was slightly modified under the proposed project to reflect the fact that domestic prices for some petroleum products already exceed international levels (Guarantee Agreement, Sections 3.03 and 4.01). As a result of substantial successive price increases since the adoption of this policy, retail prices of gasoline now exceed international prices by a wide margin, those of liquid petroleum gas and diesel oil have nearly reached parity, while heavy fuel oil and kerosene prices are now about two-thirds of international levels. In addition to the introduction of appropriate pricing, the Government is taking measures to encourage energy conservation among major users. With assistance from USAID, it has recently completed an energy modeling, conservation and data collection study. Independent studies on six major energy consuming areas (industry, agriculture, transportation, households, trade and institutional users) are underway. In addition, energy audits of major industries have been initiated (partly financed under the Bank-assisted Technical Assistance project) with a view toward introducing energy saving measures in these industries.

Sector Organization

37. Tunisia's energy sector is managed by the Ministry of National Economy through five directorates under the leadership of a Director General, and a number of state-owned enterprises. In the oil subsector, the Tunisian Company for Petroleum Activities (ETAP) coordinates petroleum exploration and production which is undertaken by foreign companies and in partnership with such companies. The Tunisian Refinery Company (STIR) operates the oil refinery, and the National Petroleum Distribution Company (SNDP) shares the local market of refined petroleum products with several foreign private firms. The Tunisian Electricity and Gas Company (STEG) is responsible for the generation and distribution of power as well as for the distribution of manufactured and natural gas.

The Electricity Subsector

38. Demand and Supply. Demand for electricity in Tunisia during the past twenty years increased on the average by about 12 percent per year with growth rates of about 17 percent per year in the late 1970s. STEG is supplying about 90 percent of this demand, the remainder being met through autogeneration by several industries that sell any surplus to STEG. Following the general slowdown of economic activity, the increase in the demand for electricity declined sharply in 1982, but recovered to about 12 percent in 1983, and is expected to decline gradually to about 9 percent per year by the end of the decade. STEG's power generating facilities are largely interconnected and comprise four steam plants (548 MW installed capacity), five hydro plants (65 MW) and nine combustion turbine plants (489 MW). Some small diesel plants (4 MW) serve isolated areas. A major investment in STEG's generating capacity is underway through the construction of a 4x160 MW steam power station at Rades, which is being implemented in two phases for commissioning in 1985 and 1989.

39. The main 225-kV transmission system is about 2,400 km long, with medium and low voltage distribution lines of about 13,800 km and about 16,600 km length, respectively. In 1982, medium and high voltage consumers accounted for about 72 percent (2,014 GWh) of STEG's total sales and about 820,000 low voltage consumers (mostly domestic consumers in urban areas) for the balance. STEG's 1983/88 investment program in the distribution system, estimated at $290 million equivalent, comprises: a) rural electrification aimed at increasing the level of access to electricity in rural conglomerations from 37 percent in 1982 to 67 percent in 1988, b) rehabilitation and extension of urban systems aimed at improving the reliability of service and reducing system losses from 14.2 percent to 13.2, and c) extension of medium and high voltage systems to new industries and urban consumers. STEG's total 1983-88 investment program which is estimated at about $930 million exceeds that of the previous six years (1977-82) by about 35 percent in real terms, mostly due to the "lumpy" character of the investment in generation facilities. The Bank has reviewed this program, considers its size and contents reasonable, and expects resources to be available to finance it.

40. Electricity Tariffs. The Government authorizes tariffs, acting on proposals by STEG. While STEG's tariff proposals are based on the principle of covering long-run marginal cost (LRMC), in addition to seeking to meet the company's financial requirements, the Government also takes socio-economic considerations into account in deciding on average tariffs as well as tariffs to certain groups of consumers. STEG benefits from relatively low fuel prices (it receives associated gas from El Borma at a nominal price and still pays prices below the international level for purchases of fuel oil) and receives contributions from the Government for rural electrification (para. 46). In addition, in line with the Government's policy of promoting the industrialization of the country, large industrial consumers are cross-subsidized through particularly favorable tariff levels. As a result, while STEG's average tariff is close to LRMC (92 percent), tariffs to high-voltage consumers are only about 74 percent of LRMC. The level of electricity tariffs has been the subject of a continuing dialogue between the Government, STEG and the Bank in the context of previous Bank operations in the energy sector. In the process, the price of fuel oil to STEG increased from about 25 percent of international levels in 1976 to about 67 percent at present, in spite of greatly increased international prices and a weakening of the dinar vis-a-vis the dollar by about 60 percent over the past 2 years (para. 36). In addition, to avoid delays in Government approval of tariff increases requested by STEG following increases in fuel oil prices, the Government and STEG agreed with the Bank in the context of the Third Power project (Ln. 2003-TUN) that such increases be passed on to electricity consumers within two months of their effectiveness. This agreement was confirmed for the proposed project (Loan Agreement, Section 5.08 and Guarantee Agreement, Section 3.06). Furthermore, during negotiations an understanding was reached with STEG and the Government that the structure of electricity tariffs, as amended by future rate increases, would increasingly reflect the economic cost of supply at different voltage levels. By November 30, 1984, STEG and the Bank would agree on a methodology for calculating LRMC, and determine the terms of reference for a study which would (i) compare electricity tariffs for different consumers with their LRMC; and (ii) analyze the impact of bringing tariffs in line with LRMC. The study, including conclusions and recommendations, would be furnished to the Bank by April 30, 1985 for review and comment. STEG, the Government and the Bank would agree, by September 30, 1985 on an action plan to implement the recommendations of the study, which the Government and STEG would subsequently follow.

Bank Role in the Sector

41. Since 1971, the Bank has supported the development of Tunisia's energy resources through six operations with STEG. The first project helped finance a gas pipeline from El Borma to Gabes through a loan of $7.5 million (Ln 724-TUN of February 25, 1971). A second loan of $12 million (Ln 815-TUN of April 20, 1972) assisted in the installation of 2x20 MW combustion turbines and the expansion of the transmission and distribution system. A $14.5 million loan (Ln 1355-TUN of January 12, 1977) financed the installation of additional 7x21 MW combustion turbines. STEG completed these first three projects successfully. The Project Performance Audit Reports on the first two projects (PPAR nos. 1078 and 2521) noted the catalytic effects of these projects in many areas, including STEG's improved financial performance and technical capability, and their contribution to making STEG a well-organized and efficient utility. The third project, in addition to achieving its physical and institution-building objectives, also contributed significantly to introducing a more rational energy pricing policy, a subject that was pursued further through the Second Gas Pipeline project ($37 million loan, Ln 1864-TUN of October 22, 1980 as amended on July 15, 1981) and the Third Power project ($41.5 million loan, Ln 2003-TUN of July 15, 1981). Loan 1864-TUN assists in financing the construction of a gas pipeline distribution system to convey royalty gas from the Algeria-Italy intercontinental pipeline to the major consumption centers in Tunisia. The implementation of the project is progressing satisfactorily, and the construction of the major trunk lines is substantially completed. Tunisia started to receive natural gas through this system in late 1983. Loan 2003-TUN helps finance the first three years of STEG's five-year (1982-86) distribution program. The physical implementation of the project is ahead of schedule, but disbursements are lagging behind due to the need to revise the procurement documents for the supply of equipment and materials in accordance with Bank guidelines. Finally, the Bank has made available to Tunisia $1.8 million for energy-related studies as part of the Technical Assistance project ($4.5 million loan, Ln 2197-TUN of October 29, 1982). The energy component of that project provides funds for studies on petroleum products distribution, renewable and geothermal energy, energy conservation, and information systems improvement with a view to preparing investible project in some of these areas. Because of institutional issues, which are now being overcome, start-up on some of these energy-related studies has been slow.

PART IV - THE PROJECT

42. During 1979-1980, while preparing for the country's Sixth Development Plan (1982-86), STEG compiled information relating to the electrification of about 2000 villages in all parts of the country. Applying a methodology which had been developed by Tecsult International Limited (Canadian consultants) in the context of an earlier rural electrification study for Tunisia, STEG used this information to prepare a least-cost program for the development of the rural distribution system. The program which is being updated annually was reviewed by the Bank and found satisfactory. To ensure the overall economic viability of the proposed project, an average cost limit per connection of TD700 ($1045) at end-1983 prices for each Governorate was established. To develop the urban rehabilitation component of the project, STEG performed measurements on a representative sample of lines per district, and estimated the quantities of material and the associated costs for rehabilitating the system. The proposed project was appraised by the Bank in June/July 1983.

The Staff Appraisal Report entitled "Tunisia - Fourth Power Project" (No. 4817 of June 4, 1984) is being distributed separately. Negotiations were held in Washington, D. C. from March 19 to 23, 1984. The Tunisian Delegation was led by Mr. Berrejeb of the Ministry of Planning and included Messrs. Hamza and Masmoudi of the Tunisian Electricity and Gas Company. The main features of the loan and project are listed in the Loan and Project Summary and in Annex III. A map showing the project locations is attached.

43. The Borrower. The Tunisian Electricity and Gas Company (STEG) was created in 1962, to take over the operations of seven private utility companies upon their nationalization. Since then, it has developed into an efficient, mature, and well-operated public utility. It not only serves a rapidly-growing number of customers in Tunisia, but also increasingly extends technical assistance to electricity companies in Arab and francophone African countries. Most of the tasks which initially required outside assistance, such as the preparation of studies for rural electrification and the power generation program, evaluation of bids, updating of tariff studies, standardization of distribution equipment, are now performed by STEG's own staff. STEG is also involved in several experimental schemes in the field of solar and wind energy.

44. As of end-1982, STEG had a total staff of about 6,700 of which 17 percent were professional, 60 percent skilled technical and administrative and the remainder unskilled staff. STEG recruits most of its professional technical staff among graduates of the National Polytechnical School. A company-owned training center offers basic training and updating courses to middle-and lower-level personnel. The Bank assisted STEG in meeting its training requirements. Loans 815-TUN and 1431-TUN financed training in accounting, inventory control, billing and data processing. Loan 2003-TUN is providing finance for equipment and tools used in the training center as well as for staff training abroad. The proposed project would continue this assistance. Assurances were obtained during negotiations that STEG would furnish to the Bank, for approval by November 30 of each year during project implementation, an outline of its training program for the following calendar year (Loan Agreement, Section 3.05 (b)).

45. STEG's operations are managed from the head office in Tunis which provides technical support, supervision and coordination to the staff in 27 operational districts. Each district operates and maintains the system in its jurisdiction, performs surveys and prepares the detailed engineering of new distribution projects, supervises contractors, conducts meter readings and distributes electricity bills. While STEG's present organization is adequate for meeting its tasks, a further strengthening of its decentralized structure is required. The company is taking satisfactory steps in this direction.

46. STEG's Financial Performance. STEG relies heavily on internally-generated funds and external borrowing to finance its investment program. During 1977 through 1982, self-financing (including customers' contributions) and borrowing (from both concessionary and commercial foreign sources) contributed each about 40 percent of the company's capital expenditures which totalled about $600 million during this period. The Government financed about 12 percent of the investment program, either through support of the rural electrification program or capital increases. This is a very satisfactory position by comparison with other countries in the region. Existing covenants under Loan 2003-TUN established a debt service coverage by net revenues of at

least 1.5 times and accounts receivable equivalent to no more than 90 days of sales. STEG has, since 1981, met its debt service covenant, and is expected to meet it over the next few years. At the same time, accounts receivable decreased substantially over the past few years and are now close to a level acceptable under the existing agreement with the Bank.

47. Loan 2003-TUN also established that STEG achieve a rate of return on revalued net assets of at least 8 percent, except in years when petroleum product prices increase by at least 20 percent, in which a minimum rate of return of 6 percent would be acceptable. However, the reduction in the growth of electricity sales in 1982 (para. 38), as well as the absence of any increases in electricity tariffs in 1983, decreased the rate of return on net assets in 1983 to about 6 percent, which, since petroleum product prices did not increase in that year, is below the minimum level agreed with the Bank. In 1984, a tariff increase of about 10 percent effective June 1, 1984, will allow a rate of return of about 5 percent. Given the economic and social considerations affecting the timing of electricity rate increases, it is recommended that the Bank accept the lower rates of return for 1983 and 1984. To ensure STEG's financial viability, assurances were obtained during negotiations on the implementation of a financial action plan (Loan Agreement, Sector 5.07 (a) and Guarantee Agreement, Section 3.05 (a)). In this context, the Government and STEG confirmed the following measures to deal with STEG's cash-flow problems in 1984: (i) increasing STEG's equity capital by a Government contribution of TD3 million to finance investments in electricity operations; (ii) rescheduling TD4.1 million of STEG's debt service payments due to the Government; (iii) postponing TD3 million of planned investments to later years; (iv) limiting increases in STEG's salary bill to TD2 million (or 8 percent above the 1983 salary bill); and (v) additional long-term borrowing from local development banks of about TD8 million.

48. Assurances were also obtained on a realistic schedule for complying with the previous rate of return covenant, by setting a minimum rate of return of 5 percent each in 1985 and 1986, 7 percent in 1987 and 8 percent thereafter (Loan Agreement, Section 5.04 (a) . The provisions under the existing (Third Power Project) Loan Agreement were modified accordingly (Loan Agreement, Section 8.01). The Government confirmed to the Bank that it would consider introducing, by July 1985, measures to comply with the agreed return on assets for that year. By June 30, 1986, STEG would review with the Government and the Bank its financial projections for 1987-91 to determine whether or not the financial objectives, including the minimum rate of return, remain appropriate (Loan Agreement, Section 5.07 (b) and Guarantee Agreement, Section 3.05 (b)). Furthermore, assurances were obtained from STEG during negotiations that it would submit by October 31 of each year to the Government and the Bank a forecast showing the expected rate of return for the current and the following years and the assumptions on which the computations are based, together with a statement of any action which STEG intends to take to achieve its financial objectives (Loan Agreement, Section 5.04 (c)). Assurances were received from the Government that it would, based on STEG's forecasts, furnish to the Bank by December 31 of each year, starting in 1985, a program of actions, including tariff adjustments, which it will take to help STEG achieve its financial objectives, and subsequently implement such actions (Guarantee Agreement, Section 3.02). As regards STEG's receivables management, the Tunisian delegation informed the Bank during negotiations that STEG intended to finalize agreements with all municipalities on a rescheduling of their electricity arrears debts by the end of 1984. To facilitate the payment by

municipalities of their future electricity bills, a proposal is presently being considered by Government to extend the coverage of a municipal surtax levied on electricity sales and collected by STEG on behalf of the municipalities together with electricity bills, in order to apply it also to medium and high-voltage consumers. To encourage a tighter receivables management, assurances were obtained from STEG during negotiations that the ceiling for receivables would be maintained at 90 days of the average sales of electricity over the previous twelve months. The definition of accounts receivable was clarified by explicitly defining "receivables" as all billed receivables (whether or not payment is overdue) and by including arrears which were rescheduled by agreement (Loan Agreement, Section 5.06).

49. Project Objectives. The proposed project aims at extending electricity service in rural areas and improving the quality of service to urban customers. It will connect to the national grid about 35,000 new domestic customers, 1,500 pumping stations and 50 commercial and small industrial consumers in about 700 villages and improve the quality of electricity service to about 130,000 existing customers in about 60 cities. In addition, the project will help improve STEG's operational efficiency by reducing system losses, strengthen its technical competence by providing tools, equipment and training and assist in rationalizing energy pricing.

50. Project Description. The proposed project, a continuation of the Third Power project (Ln 2003-TUN), would support STEG's 1985-87 investment program for the development of rural and urban distribution systems. It comprises the following components:

(i) Rural Electrification. About 1,400 km of medium-voltage lines and 1,600 km of low-voltage lines would be erected and transformers of about 25-MVA capacity would be installed.

(ii) Urban Rehabilitation. About 1,100 km of medium-voltage lines and 1,000 km of low voltage lines would be erected and 400 transformers of about 40-MVA capacity would be installed.

(iii) Equipment, Tools and Training. Construction, erection and testing equipment, vehicles, and tools as well as training (about 70 persons for a total of about 120 staff-months) would be provided to facilitate the implementation of the project and improve STEG's technical capabilities.

51. Project Cost and Financing Plan. The total cost of the project is estimated at $82.9 million of which $38.6 million in foreign exchange. These costs include about $6.5 million of taxes and customs duties. The base-cost estimates are expressed in end-1983 prices. Due to the dispersion of the project works, the project costs contain 20 percent of physical contingencies on the base cost of the rural and urban components of the project. No physical contingencies have been included for purchases of project equipment, tools and training. Price contingencies have been calculated at 9 percent for 1984 and 8 percent per year for 1985 through 1988 for local costs, and 7.5 percent for 1984, 7 percent for 1985 and 6 percent each for 1986 through 1988 for foreign costs. Training abroad is estimated at about $3500 per staff-month. The proposed Bank loan to STEG of $38.7 million would finance the foreign exchange cost of the project and the front-end fee of $96,509. STEG would cover the interest rate and the foreign exchange risks on the

loan. The local costs would be covered through STEG's internal cash generation ($24.0 million), customers'contributions ($1.7 million) and the Government's contribution of 60 percent to the investment cost of the rural electrification component ($18.6 million).

52. Project Implementation. The project will be implemented over four and one-half years (1984 through mid-1988). STEG would be responsible for project implementation. Basic designs for the distribution facilities, technical specifications for equipment and materials, and basic bidding documents are already available from previous works financed under the Third Power project. STEG's district offices have started detailed engineering design work including topographic surveys. Preparation of detailed engineering design and tender documents for the procurement of goods and works that would be implemented in 1985 would take place through 1984 and continue thereafter for the subsequent implementation years. Assurances were obtained from STEG at negotiations that it would submit to the Bank for approval by November 30 of each year, a list of villages for which electricity service would be provided during the following year, together with the related financing plans (Loan Agreement, Section 3.05 (a)).

53. Procurement and Disbursement. Contracts for the supply of goods would be awarded on the basis of international competitive bidding in accordance with Bank guidelines at an estimated total value of $49.5 million and shall be grouped to the extent possible. Since local manufacturers are expected to bid for about 40 percent of the distribution equipment and materials, they would benefit from a preference margin in bid comparisons of up to 15 percent of the c.i.f. price of imported goods or the customs duty, whichever is less. Limited international tendering according to Bank guidelines would be allowed for small quantities of goods, not exceeding $200,000 per contract and $700,000 in the aggregate. Bidding documents for all contracts exceeding $500,000 would be subject to Bank approval before tendering. Meters and poles estimated to cost $4.3 million and not financed by the Bank would be purchased locally through directly-negotiated contracts. Contracts for installation, erection and civil works estimated to total $18.0 million and not financed by the Bank would be awarded on the basis of STEG's local competitive bidding procedures, through direct negotiations with contractors, or whenever work on live lines for urban rehabilitation is involved (estimated to cost $4.5 million) by STEG's own staff. Due to the geographical dispersion of project works, individual installation, erection and civil works contracts would be small (up to $100,000) and are unlikely to attract foreign companies. The proposed Bank loan would be disbursed against (i) 100 percent of foreign expenditures of directly imported goods and 80 percent of local expenditures of locally manufactured or purchased goods; (ii) 100 percent of foreign expenditures for overseas training; and (iii) the front-end fee on the Bank loan. The Closing Date of the loan would be December 31, 1988, six months after the estimated completion date of the project.

Summary of Proposed Procurement Plans /1
(US$ million)

Project Component	Procurement Method ICB	LIT	LCB	Other	Total Cost
Electrical plant materials	33.2 (25.2)	0.4 (0.3)	- -	4.3 -	37.9 (25.5)
Installation and erection	-	-	12.6	5.4 /2	18.0
Engineering, construction supervision	-	-	-	10.0 /3	10.0
Equipment, tools and training	16.3 (12.5)	0.3 (0.2)	- -	0.4 (0.4)	16.9 (13.1)
	49.5 (37.7)	0.7 (0.5)	12.6 -	20.1 (0.4)	82.9 (38.6)

/1 Figures in parentheses are the respective amounts financed by the Bank, frond-end fee excluded.
/2 Force account, and negotiated contracts.
/3 Force account.

54. Auditing and Monitoring. Under Loan 2003-TUN, STEG's financial statements are to be audited by independent auditors acceptable to the Bank and submitted within five months after the end of each fiscal year. While STEG has used acceptable procedures to select auditors, the preparation of financial accounts and submission of audit reports has frequently been delayed, mainly due to delays in obtaining data from decentralized reporting units and bottlenecks with STEG's computer system. Although these difficulties are now being resolved, a slightly longer period for submission of audited accounts, of six months after the end of each fiscal year, was agreed upon during negotiations and the existing (Third Power Project) Loan Agreement was modified accordingly (Loan Agreement, Sections 5.02 (b) and 8.02).

55. STEG improved its management information system recently through the acquisition of new computer equipment. This replaced and expanded the previous system which had been in use since 1974 and had become largely inadequate and outdated. In addition, STEG recently started a program to improve its operating efficiency and its data collection and evaluation methods, and to reduce system losses. This program was discussed during negotiations and an understanding was reached on further progress. Progress would be monitored by a system of indicators relating to productivity and efficiency of the company's operations, and against an agreed timetable for the introduction of improved data collection and evaluation methods. These would help the company refine its electricity demand forecasts and investment planning capability.

56. Environmental Aspects. The project would have no adverse environmental impact. Possible adverse aesthetic effects would be kept to a minimum by suitable routing of overhead lines.

57. Benefits and Risks. The project would help STEG meet the Government's objectives of extending electricity service in rural areas and improving the quality of service in urban areas. As principal alternatives in achieving this objective in rural areas, STEG has considered providing service through isolated generating stations or through connecting consumers to the main grid. The latter proved to be the least-cost solution. Benefits associated with the rural component include those reflected by incremental revenues from the sale of electricity and connection and meter charges, and the net fuel savings to consumers. For the urban rehabilitation component, in addition to quantifiable benefits, such as incremental sales attributable to the expansion of the system, unquantifiable benefits are the increased reliability of supply, and a reduction in system losses. In view of the importance of unquantifiable benefits for the urban component, and the major share of the urban component in the project, no economic rate of return (ERR) was estimated for the project. However, the ERR on STEG's overall investment program of which this project is an essential part, is estimated at 12 percent and thus above the opportunity cost of capital in Tunisia, estimated at 10 percent. The project presents no special risks.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

58. The draft Loan Agreement between Société Tunisienne de l'Electricité et du Gaz (STEG) and the Bank, the draft Guarantee Agreement between the Republic of Tunisia and the Bank and the Report of the Committee provided in Article III, Section 4 (iii) of the Articles of Agreement are being distributed separately to the Executive Directors. Special conditions of the project are listed in Section III of Annex III. Through Sections 8.01, 8.02 and 8.03 of the Loan Agreement, the requirements of Sections 5.04, 5.02(b) and 5.08 of the Loan Agreement supersede the provisions of Sections 5.05, 5.02(ii) and 5.04, respectively, of the Loan Agreement between the Bank and STEG of July 15, 1981 (Loan 2003-TUN, Third Power project). Through Sections 4.01 and 4.02 of the Guarantee Agreement, the requirements of Sections 3.03 and 3.06 of the Guarantee Agreement supersede the provisions of Sections 3.04 and 3.02(b), respectively, of the Guarantee Agreement between the Bank and the Government of Tunisia of July 15, 1981 (Loan 2003-TUN, Third Power project).

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

PART VI - RECOMMENDATION

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

A. W. Clausen
President

Attachments

June 4, 1984
Washington, D. C.

TABLE 3A

TUNISIA - SOCIAL INDICATORS DATA SHEET

	TUNISIA 1960/b	TUNISIA 1970/b	TUNISIA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME N. AFRICA & MID EAST	MIDDLE INCOME LAT. AMERICA & CARIB
AREA (THOUSAND SQ. KM)					
TOTAL	163.6	163.6	163.6	.	.
AGRICULTURAL	69.6	70.3	72.5	.	.
GNP PER CAPITA (US$)	210.0	370.0	1420.0	1340.0	2068.2
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	173.0	361.0	652.0	810.4	1407.6
POPULATION AND VITAL STATISTICS					
POPULATION,MID-YEAR (THOUSANDS)	4221.0	5127.0	6528.0	.	.
URBAN POPULATION (% OF TOTAL)	36.0	43.5	52.9	47.4	65.9
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			10.1	.	.
STATIONARY POPULATION (MILL)			19.5	.	.
YEAR STATIONARY POP. REACHED			2110	.	.
POPULATION DENSITY					
PER SQ. KM.	25.8	31.3	38.9	36.0	35.6
PER SQ. KM. AGRI. LAND	60.7	72.9	87.8	449.0	93.2
POPULATION AGE STRUCTURE (%)					
0-14 YRS	43.4	46.2	40.7	43.9	40.1
15-64 YRS	52.5	50.0	55.6	52.8	55.8
65 AND ABOVE	4.2	3.8	3.7	3.3	4.1
POPULATION GROWTH RATE (%)					
TOTAL	1.8/c	1.9/c	2.2/c	2.9	2.3
URBAN	3.2	3.8	4.0	4.6	3.7
CRUDE BIRTH RATE (PER THOUS)	48.9	40.6	34.2	42.5	31.5
CRUDE DEATH RATE (PER THOUS)	21.0	14.6	9.1	12.0	8.1
GROSS REPRODUCTION RATE	3.5	3.2	2.5	3.0	2.0
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	29.2	180.9	.	.
USERS (% OF MARRIED WOMEN)	..	10.0	21.3	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	97.0	96.0	127.0	97.5	113.0
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	83.0	86.0	116.0	102.3	111.3
PROTEINS (GRAMS PER DAY)	52.0	57.0	74.0	72.0	67.9
OF WHICH ANIMAL AND PULSE	13.0	14.0	23.0/d	17.8	34.1
CHILD (AGES 1-4) DEATH RATE	36.1	24.5	9.1	15.2	5.3
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	48.1	54.2	60.6	57.2	64.6
INFANT MORT. RATE (PER THOUS)	158.9	131.3	87.6	104.2	62.6
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	49.0	63.0/e,f *	59.3	64.8
URBAN	..	..	97.0/e,f *	84.9	77.8
RURAL	..	..	25.0/e,f *	37.5	44.3
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	62.0	..	..	54.6
URBAN	..	100.0	42.0/e	..	69.8
RURAL	..	34.0	..	..	29.8
POPULATION PER PHYSICIAN	10030.0	5930.0	3690.0	3536.0	1776.0
POP. PER NURSING PERSON	..	730.0	890.0	1820.7	1012.2
POP. PER HOSPITAL BED					
TOTAL	410.0	410.0	460.0	643.3	477.0
URBAN	230.0/g	310.0	350.0/h	545.0	667.5
RURAL	1040.0/g	1270.0	1230.0/h	2462.0	1921.6
ADMISSIONS PER HOSPITAL BED	..	24.1	25.0/h	26.4	27.2
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	5.1/i	5.5/j	..	..
URBAN	..	5.1/i	5.5/j	..	..
RURAL	..	5.1/i	5.6/j	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	3.2/i	3.1/j	..	..
URBAN	..	2.7/i	2.6/j	..	..
RURAL	..	3.6/i	3.8/j	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	..	24.0/i	34.2/j	46.2	..
URBAN	..	..	68.2/j	77.6	..
RURAL	..	..	6.0/j	16.1	..

TABLE 3A

TUNISIA - SOCIAL INDICATORS DATA SHEET

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EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	66.0	101.0	103.0	89.6	105.0
MALE	88.0	121.0	118.0	104.8	106.3
FEMALE	43.0	80.0	88.0	72.4	103.6
SECONDARY: TOTAL	12.0	23.0	27.0	41.7	40.0
MALE	19.0	33.0	34.0	52.8	38.6
FEMALE	5.0	13.0	20.0	31.2	41.2
VOCATIONAL (% OF SECONDARY)	23.5	11.1	27.3	10.3	34.0
PUPIL-TEACHER RATIO					
PRIMARY	61.0	47.0	39.0	31.9	30.7
SECONDARY	16.0	28.0	20.0	23.3	16.7
ADULT LITERACY RATE (%)	15.5	24.0/i	62.0	43.3	79.5
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	10.5	13.0	18.3/j	18.0	45.6
RADIO RECEIVERS/THOUSAND POP	40.3	75.7	157.0	138.1	228.2
TV RECEIVERS/THOUSAND POP	0.1	14.0	47.1	45.6	108.3
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	18.6	15.9	43.6	31.0	64.1
CINEMA ANNUAL ATTENDANCE/CAPITA	1.6	..	1.5/d	1.7	2.9
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	1138.0	1215.0	1693.0	.	.
FEMALE (PERCENT)	6.0	7.7	8.4	10.7	24.8
AGRICULTURE (PERCENT)	56.0	50.0	35.0	42.5	31.3
INDUSTRY (PERCENT)	18.0	21.0	32.0	27.8	23.9
PARTICIPATION RATE (PERCENT)					
TOTAL	27.0	23.7	25.9	25.6	31.3
MALE	50.2	44.2	46.9	45.4	49.8
FEMALE	3.3	3.6	4.4	5.6	14.8
ECONOMIC DEPENDENCY RATIO	1.8	2.1	1.7	1.8	1.4
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	..	17.0/j	..	..
HIGHEST 20% OF HOUSEHOLDS	..	..	42.0/j	..	..
LOWEST 20% OF HOUSEHOLDS	..	..	6.0/j	..	..
LOWEST 40% OF HOUSEHOLDS	..	..	15.0/j	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	204.0/d	276.1	289.8
RURAL	..	..	97.0/d	177.1	184.5
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	193.0/d	400.0	519.8
RURAL	..	..	193.0/d	283.3	372.1
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	20.0/d	22.0	..
RURAL	..	..	15.0/d	30.8	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1979 and 1981.

/c Due to emigration, population growth rate is lower than rate of natural increase; /d 1977; /e 1982; /f Access to piped water only; /g 1982; /h 1976; /i 1966; /j 1975.

* Based on recent official sources, updated percentages of population having access to safe water are: total (70.0), urban (91.0), rural (46.0). These figures will be included in the next version of the social indicators data sheet.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income" Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

AREA (thousand sq.km.)
Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1980 data.
Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1980 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1979-81 basis); 1960, 1970, and 1981 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commerical primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1980 data.

POPULATION AND VITAL STATISTICS
Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1981 data.
Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1981 data.
Population Projections
Population in year 2000 - Current population projections are based on 1981 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.
Stationary population - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.
Year stationary population is reached - The year when stationary population size will be reached.
Population Density
Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1980 data.
Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1980 data.
Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1981 data.
Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-81.
Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-81.
Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1981 data.
Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1981 data.
Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1981.
Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.
Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION
Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1981-83, 1970, and 1981 data.
Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1981-83, 1970 and 1980 data.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey; 1981-83, 1970 and 1980 data.
Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1981-83, 1970 and 1977 data.
Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH
Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1981 data.
Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.
Access of Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.
Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.
Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.
Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities. For statistical purposes urban hospitals include whole principal/general hospitals, and rural hospitals, local or rural hospitals and medical and maternity centers. Specialized hospitals are included only under total.
Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING
Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.
Average number of persons per room - total, urban, and rural average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.
Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION
Adjusted Enrollment Ratios
Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.
Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.
Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.
Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION
Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.
Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.
Newspaper Circulation per Thousand Population - Shows the average circulation of daily issues, "Newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.
Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE
Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1981 data.
Female (percent) - Female labor force as percentage of total labor force.
Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.
Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.
Participation Rate (percent) - total, male, and female - Participation by activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.
Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the total labor force.

INCOME DISTRIBUTION
Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS
The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.
Estimated Absolute Poverty Income Level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.
Estimated Relative Poverty Income Level (US$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.
Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor".

Economic and Social Data Division
Economic Analysis and Projections Department
May 1983

TUNISIA - ECONOMIC INDICATORS

Population: 6.5 million (mid-1981)
GNP per Capita: $1,420 (1981)

Indicator	Amount (million US$ at current prices) 1982	Annual Growth Rates (at 1980 prices) Actual 1977	1978	1979	1980	1981	1982	Estimate 1983	Projected 1984	1985	1986
NATIONAL ACCOUNTS											
Gross domestic product 1/	7,905.9	5.3	7.1	7.1	6.0	5.0	1.5	4.5	6.0	5.8	5.6
Agriculture	1,005.6	-10.2	4.5	-4.8	6.1	6.6	-8.7	0.5	4.0	3.9	3.7
Industry	2,485.0	9.8	9.0	11.9	9.9	1.6	0.0	6.9	7.3	7.0	6.7
Services	3,370.7	5.6	7.4	8.7	3.9	8.3	4.9	3.9	6.1	5.9	5.7
Consumption	6,297.6	10.4	5.8	4.6	9.9	7.2	4.7	4.9	7.3	6.2	3.9
Gross investment	2,370.1	6.9	12.9	3.9	5.8	14.5	-3.7	-4.3	1.2	1.0	1.8
Exports of goods and NFS	2,903.3	5.5	8.2	23.3	0.7	3.0	-6.5	4.2	7.2	8.3	13.7
Imports of goods and NFS	3,665.1	16.7	9.6	14.3	7.2	13.0	-3.2	-1.2	6.3	5.9	7.4
Gross national product	7,948.2	5.8	7.9	7.5	6.5	5.2	1.6	4.2	5.9	5.6	5.3
Gross national savings	1,650.6	-7.2	14.8	21.8	-7.2	-1.1	-10.8	-5.4	0.5	3.1	11.5
PRICES											
GDP deflator		76.0	80.1	88.3	100.0	110.9	124.9	140.5			
Exchange rate		2.33	2.40	2.46	2.47	2.03	1.69	1.47			

	Share of GDP at market prices (%) (at current prices) 1971	1976	1981	1982	1986	1991	Average Annual Increase (%) (at constant prices) 1971-76	1976-81	1981-86	1986-91
Gross domestic product 1/	100.0	100.0	100.0	100.0	100.0	100.0	8.8	6.0	5.3	4.9
Agriculture	18.8	18.1	13.6	12.7	12.5	11.7	8.2	0.4	2.7	3.5
Industry	20.6	25.9	32.1	31.4	30.9	32.2	10.2	7.8	5.7	5.8
Services	47.7	42.9	41.3	42.6	43.6	43.9	8.3	7.2	5.8	5.1
Consumption	82.0	77.5	76.8	79.7	81.5	78.4	9.6	7.5	5.6	3.8
Gross investment	20.0	30.4	32.2	30.0	25.9	25.5	14.1	8.6	0.6	4.2
Exports of goods and NFS	23.8	29.1	42.1	36.7	41.4	41.3	5.6	7.9	8.2	6.3
Imports of goods and NFS	25.8	37.1	51.1	46.4	48.9	45.1	13.1	12.1	5.6	4.0
Gross national product	99.6	98.7	100.9	100.5	99.6	99.2	8.5	6.5	5.4	4.9
Net factor income	-0.4	-1.3	0.9	0.5	-0.4	-0.8	-	-	-	-
Gross national savings	17.6	21.1	24.1	20.9	18.0	20.8	2.9	3.4	2.9	8.8

	As % of GDP (at current prices) 1971	1976	1981	1982
PUBLIC FINANCE				
Current revenue	21.4	24.2	30.0	32.6
Current expenditure	18.9	18.5	22.4	24.9
Surplus (+) or deficit (-)	2.5	5.7	7.5	7.6
Capital expenditure	6.9	11.4	9.2	9.8
Foreign financing	3.2	1.7	1.4	1.9

	1971-76	1976-81	1981-86	1986-91
OTHER INDICATORS				
GNP growth rate (%)	8.4	6.5	5.0	4.9
GNP per capita growth rate (%)	5.4	3.1	2.7	2.3
ICOR	2.7	5.4	6.0	5.4
Marginal savings rate	24.0	26.0	12.2	24.4
Import elasticity	1.51	2.02	1.06	0.82

/1 GDP at market prices and components at factor cost.

TUNISIA - EXTERNAL TRADE

Population: 6.5 million (mid-1981)
GNP per Capita: $1,420 (1981)

Indicator	Amount (million US$ at current prices) 1982	Annual Growth Rates (at 1980 Prices) Actual 1977	1978	1979	1980	1981	1982	Estimate 1983	Projected 1984	1985	1986
EXTERNAL TRADE											
Merchandise exports	1,989.2	9.7	9.6	20.7	0.8	3.3	-4.6	8.0	7.1	8.6	16.0
Crude oil	866.8	12.4	12.8	12.4	0.2	-8.8	-22.4	8.4	-1.8	1.8	-0.1
Other primary	97.3	4.9	-15.7	25.1	-11.9	-0.4	-17.9	-2.7	8.3	8.2	8.2
Manufactures	1,025.1	6.8	10.4	33.3	3.6	20.3	15.2	8.6	14.1	13.2	26.3 2/
Merchandise imports	3,263.9	14.1	10.7	15.7	7.7	9.5	-5.5	-1.1	6.1	5.6	7.7
Food	367.4	9.6	7.7	39.6	-6.8	14.3	-5.0	9.1	2.7	5.3	5.0
Petroleum	383.1	13.8	15.1	9.7	13.5	4.9	-34.7	4.4	11.3	8.2	21.7 2/
Machinery and equipment	846.5	5.5	15.4	-2.6	-4.4	4.1	-2.4	-11.1	-0.7	0.0	0.0
Others	1,666.9	21.6	6.5	24.9	15.3	0.0	5.6	18.2	7.8	7.0	5.6
		Price Index									
PRICES											
Export price index		54.8	58.7	75.5	100.0	117.4	122.9	122.7	131.9	141.9	151.9
Import price index		72.6	76.6	85.3	100.0	114.4	121.2	131.8	143.3	155.5	167.4
Terms of trade index		75.5	76.6	88.5	100.0	102.6	101.4	93.1	92.0	91.3	90.7

	Composition of Merchandise Trade (%) (at current prices) 1971	1976	1981	1982	1986	1991	Average Annual Increase (%) (at constant prices) 1971-76	1976-81	1981-86	1986-91
Exports	100.0	100.0	100.0	100.0	100.0	100.0	4.1	8.6	10.2	5.7
Crude oil	24.5	40.9	51.5	43.6	34.1	28.7	4.6	5.8	1.2	-0.1
Other primary	19.2	13.4	5.0	4.9	4.4	4.3	-5.4	-1.9	12.7	5.1
Manufactures	56.3	45.7	43.5	51.5	61.5	67.0	6.4	14.1	17.6	8.1
Imports	100.0	100.0	100.0	100.0	100.0	100.0	13.1	11.5	5.5	3.9
Food	21.2	12.3	11.2	11.3	10.1	6.3	0.6	11.9	2.6	-5.3
Petroleum	3.9	11.1	19.0	11.7	22.7	30.6	29.2	10.9	9.7	8.6
Machinery and Equipment	30.1	31.9	25.2	25.9	17.4	12.8	13.5	8.7	-1.2	-1.0
Others	44.3	44.7	44.6	51.1	49.8	50.3	10.6	13.5	7.6	4.8

	Share of Trade with Industrial Countries (%) 1970	1975	1980	Share of Trade with Developing Countries (%) 1970	1975	1980	Share of Trade with Oil Exporters (%) 1970	1975	1980	Share of Trade with Centrally Planned Countries (%) 1970	1975	1980
DIRECTION OF TRADE												
Exports	70.8	60.1	68.7	4.9	21.7	25.4	13.9	11.1	4.8	9.4	6.1	0.4
Imports	85.9	79.5	81.8	7.1	10.9	7.7	0.7	6.3	7.5	6.3	3.1	3.0

1/ Constant price data at 1980 prices.

2/ Increase in refining capacity.

BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(million US$ at current prices)

Population: 6.5 million (mid-1981)
GNP per Capita: $1,420 (1981)

	Actual						Estimate	Projected		
	1971	1976	1979	1980	1981	1982	1983	1986	1988	1991
BALANCE OF PAYMENTS										
Net exports of goods & services	-57.4	-417.0	-356.0	-472.6	-684.6	-718.4	-710.5	-938.9	-1,028.5	-1,350.0
Exports of goods & services	469.4	1,479.5	3,137.5	3,912.3	3,948.4	3,338.9	3,256.0	4,352.6	6,023.9	11,107.4
Imports of goods & services	526.8	1,896.5	3,493.5	4,384.9	4,633.0	4,057.3	3,966.5	5,291.5	7,052.4	12,262.4
Net transfers 1/	52.0	52.7	61.0	100.0	38.5	25.4	29.4	32.4	24.3	24.0
Current account balance	-5.4	-364.3	-295.0	-372.6	-646.1	-693.0	-681.0	-906.5	-1,004.2	-1,111.0
Direct private investment	27.6	102.6	50.9	236.0	367.2	338.6	262.5	350.0	400.0	500.0
MLT loans (net)	55.3	167.8	479.3	322.8	282.7	356.4	400.7	669.3	773.4	871.0
Official	59.2	130.6	190.6	272.7	269.8	351.8	370.2	422.6	465.1	659.6
Private	-3.9	37.4	288.7	50.1	32.9	2.6	30.5	246.7	308.3	211.4
Other capital	13.7	55.2	-111.3	121.3	101.9	-	-	-	-	-
Change in reserves	-91.2	38.7	-123.9	-64.9	-105.7	-	37.8	-112.8	-169.2	-260.0
International reserves	114.8	304.5	415.5	455.7	458.2	478.5	440.7			
Reserves as months of imports	2.6	2.2	1.6	1.4	1.4	1.4	1.3			

	Actual 2/					
	1971	1976	1979	1980	1981	1982
GROSS DISBURSEMENTS						
Official grants	35.5	50.2	50.7	41.5	20.3	25.4
Gross disbursements of MLT loans	105.2	229.5	628.8	533.9	585.1	699.7
Concessional	61.0	104.0	139.5	216.3	236.3	329.2
Bilateral	52.8	95.1	138.7	196.2	230.3	230.0
IDA	4.8	8.9	0.2	1.0	1.1	0.5
Other multilateral	3.4	0.0	0.6	19.1	4.9	98.7
Non-concessional	44.2	125.5	489.3	317.6	348.8	370.5
Private	28.8	60.1	370.7	188.4	199.8	226.9
Official export credits	3.2	9.9	49.5	55.5	47.0	37.4
IBRD	12.2	25.3	55.4	51.1	69.4	83.4
Other multilateral	-	30.2	13.7	22.6	32.6	22.8
EXTERNAL DEBT						
Debt Outstanding and Disbursed	619.5	1,166.5	2,981.8	3,172.5	3,171.0	3,525.3
Official	440.0	971.9	1,823.0	2,017.6	2,133.9	2,485.6
IBRD	39.3	127.9	232.0	269.0	319.5	379.8
IDA	21.1	64.1	67.3	67.9	67.5	67.4
Other	379.6	779.9	1,523.7	1,680.7	1,746.9	2,038.4
Private	179.5	194.6	1,158.8	1,154.9	1,037.1	1,039.7
Undisbursed debt	352.5	1,110.8	1,738.2	1,903.5	1,673.5	1,698.0
DEBT SERVICE						
Total debt service payments	69.8	98.6	311.8	4[illegible].6	506.8	553.4
Interest	19.9	36.9	162.2	215.5	204.4	208.0
Payments as % exports	14.9	6.7	9.9	10.9	12.8	16.6
Payments as % GNP	4.1	2.2	4.3	4.9	6.1	7.0
Average interest rate of new loans (%)	4.9	5.4	7.1	6.9	8.3	6.8
Official	4.6	4.3	5.6	5.9	6.9	-
Private	9.1	7.9	9.8	10.5	12.7	-
Average maturity of new loans (years)	23.3	16.6	15.8	17.2	15.4	16.9
Official	26.2	20.4	19.4	19.4	18.2	-
Private	13.8	8.6	9.2	9.2	5.8	-

	As % of Debt Outstanding at End of Most Recent Year (1981)
DEBT STRUCTURE	
Maturity structure of debt outstanding (%)	
Amortization due within 5 years	37.7
Amortization due within 10 years	65.6
Interest structure of debt outstanding (%)	
Interest due within first year	4.3

1/ Including grants.
2/ Preliminary estimates for 1982.

ANNEX II
Page 1 of 2

THE STATUS OF BANK GROUP OPERATIONS IN TUNISIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (As of March 31, 1984)

Loan or Credit Number	Year	Borrower	Purpose	US $ Million Amount (Less Cancellation) Bank	IDA	Undisbursed
Forty Loans and Credits Fully Disbursed				366.89	75.2	
1188	1975	Republic of Tunisia	Second Highways	28.00		7.95
1431	1977	Republic of Tunisia	Irrigation Development	42.00		5.34
1445	1977	SONEDE	Fourth Water Supply	21.00		2.60
1601	1978	Republic of Tunisia	Rural Roads (Third Highways)	32.00		19.55
1675	1979	Republic of Tunisia	Second Urban Sewerage	26.50		15.65
1705	1979	Republic of Tunisia	Second Urban Development	19.00		13.08
1746	1979	Republic of Tunisia	Second Fisheries	28.50		19.80
1796	1980	Republic of Tunisia	Southern Irrigation	25.00		19.64
1797	1980	Office des Ports Nationaux	Third Port	42.50		12.60
1841	1980	Republic of Tunisia	Fourth Highways	36.50		31.24
1864	1980	Société Tunisienne de l'Electricité et du Gaz	Second Natural Gas Pipeline	37.00		18.91
1885	1980	Banque Nationale de Tunisie	Third Agricultural Credit	30.00		20.73
1961	1981	Republic of Tunisia	Fourth Education	26.00		23.88
1969	1981	Republic of Tunisia	Small-Scale Industry Development	30.00		28.33
1997	1981	Republic of Tunisia	Northwest Rural Development	24.00		19.22
2003	1981	Société Tunisienne de l'Electricité et du Gaz	Third Power	41.50		33.55
2005	1981	Republic of Tunisia	Health and Population	12.50		11.53
2012	1981	Republic of Tunisia	Textile Rehabilitation	18.60		4.49
2052	1981	Republic of Tunisia	Grain Distribution and Storage	42.00		41.23
2108	1982	Republic of Tunisia	Fifth Highway (Rural Roads)	35.50		34.98
2113	1982	EDET	Electrical and Mechanical Industries	30.50		20.56
2134	1982	SONEDE	Sixth Water Supply	30.50		20.90
2157	1982	Republic of Tunisia	Irrigation Development	22.00		21.26
2197	1982	Republic of Tunisia	Technical Assistance	4.50		4.20
2223	1983	Republic of Tunisia	Urban Development III	25.00		24.63
2230	1983	Republic of Tunisia	Education V	27.00		26.60
2234	1983	Republic of Tunisia	Central Tunisia Irrigation	16.50		16.17
2255 a/	1983	Republic of Tunisia	Urban Sewerage III	34.00		34.00
2289 a/	1983	Republic of Tunisia	Sfax Flood Protection	25.00		25.00
2301	1983	Republic of Tunisia	Industry (IV) Foundry	16.80		16.80
2346 a/	1984	Republic of Tunisia	Mining Technical Assistance	13.40		13.40
2386 a/	1984	Republic of Tunisia	Seventh Water Supply	50.00		50.00
		TOTAL		1,260.19 c/	75.2	
		Of which has been repaid		158.86	8.1	
		Total now outstanding		1,101.33	67.1	
		Amount Sold	14.33			
		of which has been repaid	14.33	1,101.33	67.1	
		Total now held by Bank and IDA b/				
		Total Undisbursed				657.82

a/ Not yet effective

b/ Prior to exchange rate adjustment

c/ Does not include the Second Urban Transport project ($33 million loan No. 2429-TUN) approved by the Board on May 29, 1984.

The status of the projects listed in Part A is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

B. STATEMENT OF IFC INVESTMENTS IN TUNISIA (as March 31, 1984)

Year	Obligator	Type of Business	Amount in US$ Million Loan	Equity	Total
1962	NPK Engrais	Fertilizers	2.0	1.5	3.5
1966	Société Nat. d'Invest. (now BDET)	Dev. Finance Co.		0.6	0.6
1969	COFIT (Tourism)	Dev. Finance Co.	8.0	2.2	10.2
1970	Société Nat. d'Invest. (now BDET)	Dev. Finance Co.		0.6	0.6
1973	Société Touristique et Hotelière RYM SA	Tourism	1.6	0.3	1.9
1975	Société d'Etudes et de Développement de Sousse-Nord	Tourism	2.5	0.6	3.1
1974	Industries Chimiques du Fluor	Chemicals		0.6	0.6
1978	BDET	Dev. Finance Co.		1.2	1.2
	Total Gross Commitments		14.1	7.6	21.7
	Less Cancellations, Terminations, Repayments, and Sales		11.4	1.8	13.2
	Total Commitments now held by IFC		2.7	5.8	8.5
	Total Undisbursed		0.0	0.0	0.0

ANNEX III

REPUBLIC OF TUNISIA

FOURTH POWER PROJECT

Supplemental Project Data Sheet

Section I: Timetable of Key Events

(a) Time taken by the country to prepare the project:	6 months (January - June 1983)
(b) Agency that prepared the project:	Société Tunisienne de l'Electricité et du Gaz (STEG)
(c) Project first identified by Bank:	January 1983
(d) Bank appraisal mission:	June/July 1983
(e) Negotiations completed:	May 30, 1984
(f) Planned date of effectiveness:	November 1984

Section II: Special Bank implementation actions

None

Section III: Special Conditions

STEG to:

a) implement a financial action plan satisfactory to the Bank (para. 47);

b) take all measures necessary to achieve a rate of return of at least (i) 5 percent in 1985 and 1986, (ii) 7 percent in 1987, and (iii) 8 percent thereafter. This supersedes the rate-of-return covenant under the Loan Agreement with STEG on the Third Power project (para. 48);

c) review with the Government and the Bank, by June 30, 1986, its financial objectives and projections for the 1987-91 period, including, inter alia, the adequacy of the rate of return (para. 48);

d) submit to the Government and the Bank, by October 31 of each year, a forecast of its financial flows and rates of return for the current and the following fiscal years, and a statement of the proposed actions, including tariff actions (para. 48).

Government to:

furnish to the Bank by December 31 of each year a program of actions based on STEG's forecasts to help STEG achieve its financial objectives, and subsequently implement such actions (para. 48).

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