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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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ECONOMIC DEVELOPMENT PLAN

TUNISIA

April 11, 1963

Department of Operations  
Africa

CURRENCY EQUIVALENTS

Tunisian Dinar 1 = \$2.38

U.S. \$1.00 = Tunisian Dinar 0.42

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## BASIC STATISTICS

Area: 125,000 km<sup>2</sup> (48,000 square miles)

<u>Population</u> :	Tunisians	4.1 million
	Foreign Moslems	0.1 "
	Europeans	<u>0.1 "</u>
	Total	4.3 "

Population growth: 2.1% per annum

Per Capita Income (1960/61): 62 dinars (\$150)

Gross Domestic Product (1961) Total: 279 million dinars

<u>Origin of GDP</u>	<u>(Percent of Total GDP)</u>
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Agriculture	23
Mining	3
Manufacturing	13
Construction	7
Public Utilities, Transport	9
Commerce, Banking	21
Other Services	24

Use of Resources:

Consumption (private and public)	87
Gross Investment	24
Net Foreign Investment	11

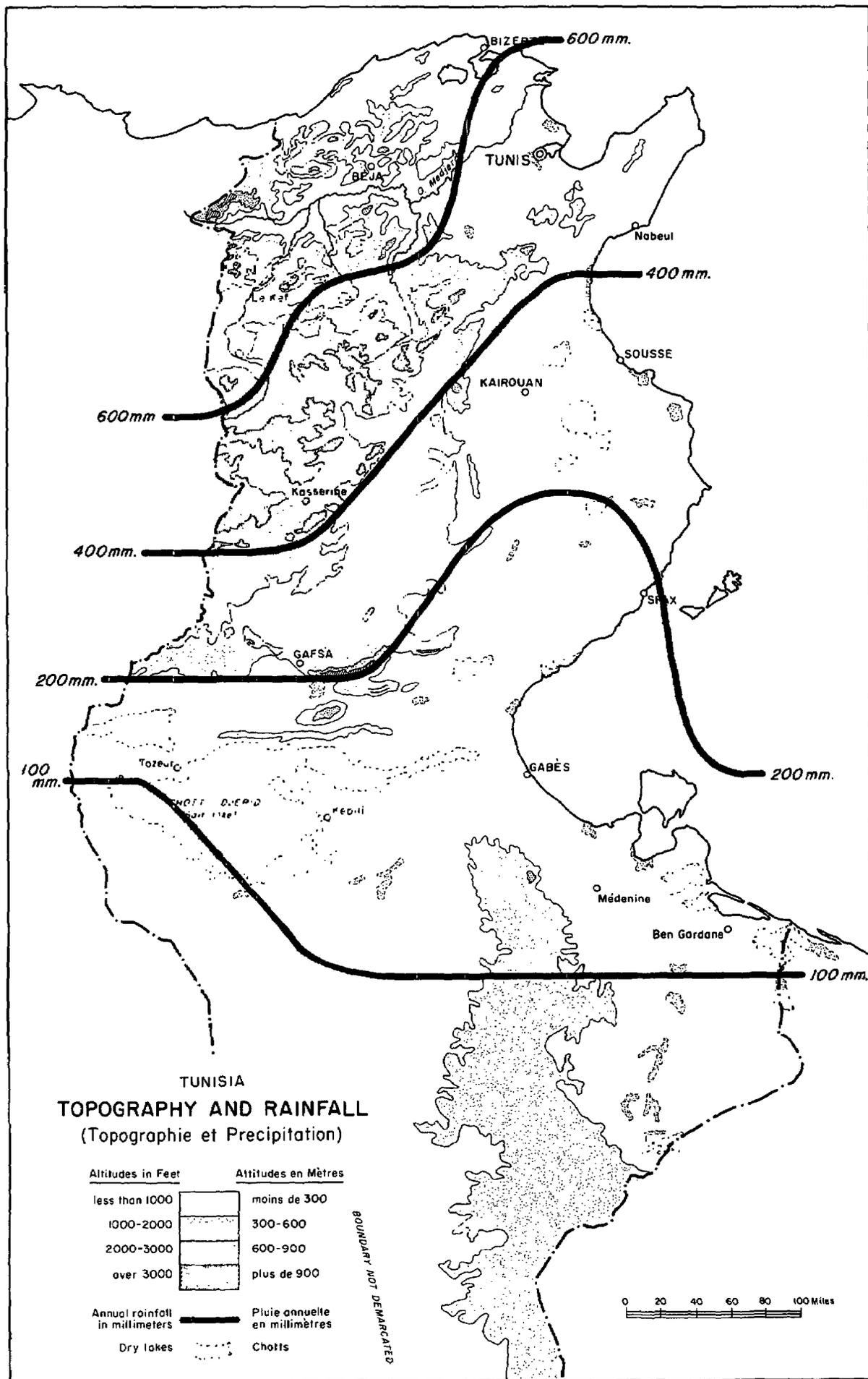
Government Finances: (1961)

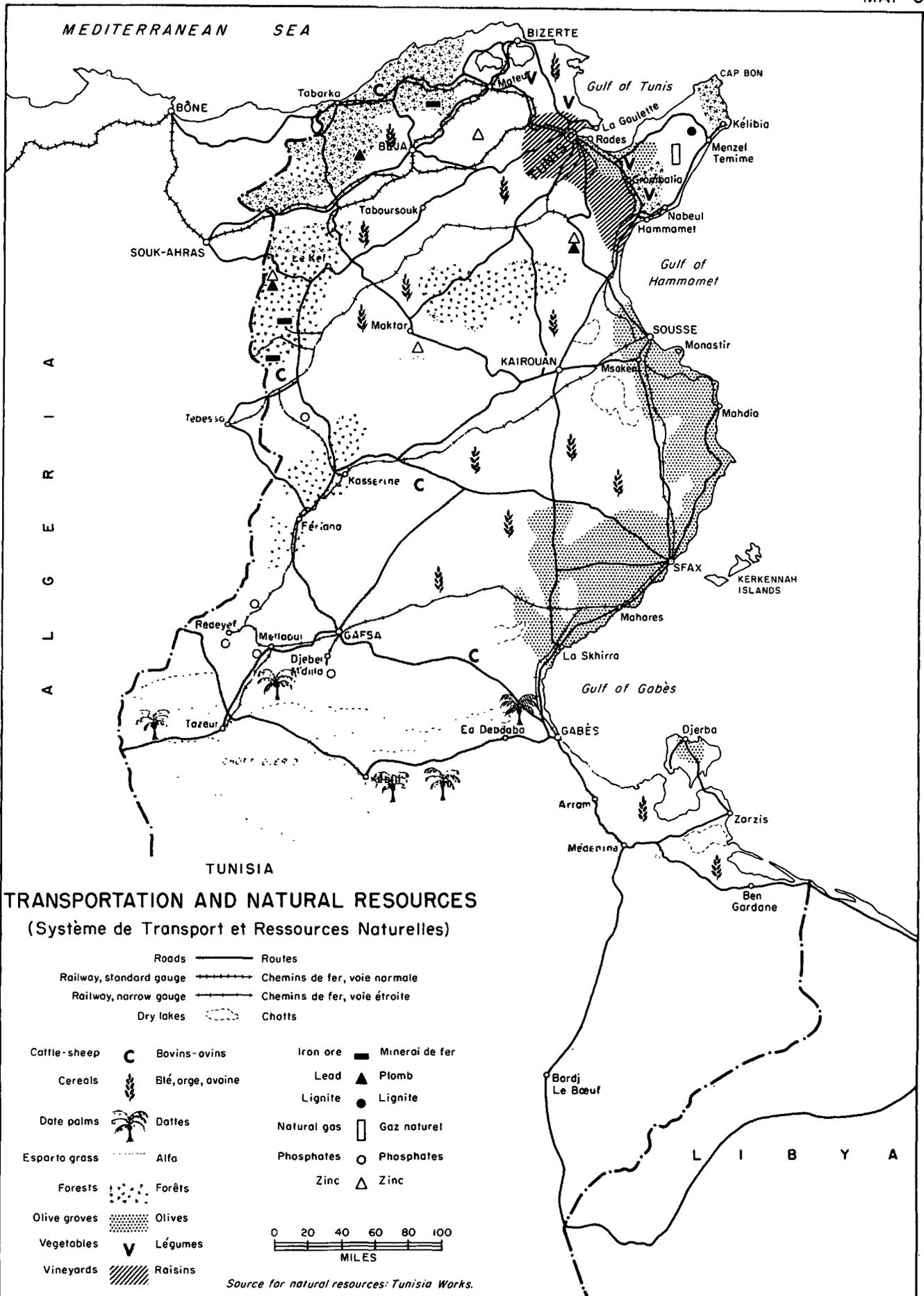
(In million dinars)

Current Revenue	+64
Current Expenditure	<u>-53</u>
Current Surplus	+11
Surplus Other Public Accounts (excl. PTT)	+ 6
Use of Treasury Resources and Borrowing	+ 9
Foreign Aid	+ 9
"Fight Against Underdevelopment"	-12
Other Capital Outlays	<u>-23</u>
Total	-35
	+35

(Basic Statistics Cont'd)

<u>Balance of Payments:</u> (1961)		<u>(In million dinars)</u>
Exports		48
Imports		<u>-90</u>
Trade		-42
Invisibles (excl. French forces)		- 4
French Forces Expenditures		<u>+13</u>
Current Account Balance		-33
Private Capital	+ 5	
Public Capital: Grants	+19	
Loans	<u>+ 2</u>	
Capital Account Balance		<u>+26</u>
Use of Reserves		+ 7
<u>External Reserves:</u> (December 31, 1962):-		27.1 million dinars.





## SUMMARY AND CONCLUSIONS

1. The transition from a French Protectorate to an independent Tunisia has been remarkably smooth. Since independence in 1956, Tunisia has become politically stable with a dominant party led by the President, Habib Bourguiba.
2. Economic growth from World War II to Tunisian independence in 1956 has been only a little faster than the expansion in population; substantial public investment went into strengthening the country's infrastructure while private investment remained small. Since 1956, the economy has continued to expand sluggishly. Per capita income may, by now, be estimated at around \$150 equivalent. To utilize under-employed and unemployed labor the government launched, in 1958, a large-scale relief program utilizing the workers to change the face of the country in afforestation and erosion-control works. By 1960, other public investment also was substantially stepped-up and confidence of private investors was reestablished. However, the gathering momentum of the economy came to an abrupt halt with the Bizerta incident in summer 1961; the exceptionally poor crop of the same year accentuated the country's economic problems. Against this background - and rising pressure from the labor side - the government decided to start with a determined effort to accelerate economic growth through a comprehensive public investment program and policies to utilize fully the country's social and economic resources.
3. Wheat, wine, olives and commerce have remained the mainstays of the Tunisian economy since Hannibal's Carthage. Agriculture still supports some three-fourths of the population of four million. A modern efficient agriculture implanted under the Protectorate and occupying the best-watered lands of the country is clearly distinct from the large traditional agriculture using archaic techniques of cultivation. Mineral resources, particularly low-grade phosphate rock and iron ore, are of some importance for exports. Manufacturing, which is still little-developed, is related essentially to the transformation of domestically extracted minerals and agricultural products. Exports consist mainly of some primary products, most of them sold in the French market where they obtain preferential treatment.
4. Despite poor natural resources, there are good potentials for Tunisia's economic growth. Tunisia has a good top layer of people in her public administration. The infrastructure can well handle additional agricultural and industrial production. She has seasonal advantages over other Mediterranean producers in fruits and vegetables. A few large-scale industrial units may be feasible based on local raw materials and the oil and gas of the nearby Sahara fields. With European industries increasingly dependent on inexpensive labor from Mediterranean countries, Tunisia may have increasing attraction as a site for light industries producing for the European market. Tourism also offers good prospects for Tunisia. The cosmopolitan outlook of Tunisia's leaders and her stability and security are not inappreciable advantages. But a broad effort by the Tunisian population and its leaders is necessary for translating these potentials into a comprehensive program of action.
5. Economic planning in independent Tunisia started in the late 1950's with some long-term programs prepared by the Ministries of Agriculture and Education. In early 1961 a new Ministry of the Plan and Finance was created

and a vigorous effort was subsequently made to integrate the previous work done by various ministries into a comprehensive development program. The work has resulted in "The Ten-Year Perspectives of Development, 1962-1971" and "The Three-Year Plan 1962-1964". Before both the "Perspectives" and "Plan" were adopted they were discussed within the government, the party, trade unions, professional groups, etc., involving much of the Tunisian population throughout the country.

6. The "Perspectives" is the prior document in time and logic: it lays down four main objectives for the country's social, political and economic development during the decade 1962-1971: (a) decolonization, (b) promotion of man, (c) reform of structures, and (d) independence of (net) foreign resources. These broad objectives are intended to be achieved by substantially increased investment and savings efforts. Although projected investments are discussed in some detail, the "Perspectives" are not a development plan. They are an instrument reflecting the intent of the government to try to change the whole outlook of the people to facilitate economic development. Tunisians have seen immense changes since independence; in order to sustain and to accelerate the momentum of social and economic change, the public is offered a series of generally accepted long-term objectives.

7. The Three-Year Plan, 1962-1964 - or "Pre-Plan" - was prepared as an initial exercise in execution of planning. It is a working document for the decision-makers in economic policies, particularly in investment outlays. Its broad objectives correspond in essence to those of the "Perspectives", but the rate of progress expected is considerably accelerated. The Plan presents in considerable detail production, investments and savings expected during the period 1962-1964.

8. According to the Plan, output over the years 1962-1964 is to expand by 38% (from the low level of 1961 due to drought). Investments are to rise from some 67 million dinars in 1961 (or 24% of GDP) to 125 million dinars in 1964 (or 32% of GDP) and savings are to increase from perhaps 28 million dinars in 1961 (10% of GDP) to 78 million dinars (20% of GDP). These are very ambitious targets by any past Tunisian and international standards.

9. The most crucial uncertainties for the attainment of the Plan targets are found in agriculture: the planned rapid take-over of the modern French farms by the Tunisian authorities creates extremely difficult administrative and technical problems and increases in agricultural output will be difficult to achieve. The targets set for industries appear, with a few exceptions, obtainable in view of the progress and preparations made so far. Shortfalls may be expected in construction; also in the port and power programs. The execution of the ambitious but, in general, well-conceived and well-prepared education program is almost in line with the Plan. The extensive program in tourism also is being executed in time. The mission estimates that in 1964 overall production - given a normal year as far as weather is concerned - may fall short by at least 10% from the ambitious target but will represent a most creditable achievement in real terms.

10. Investment had a slow start in agriculture and housing. As a result, capital outlays in 1962 were behind the Plan targets by around one-quarter. The mission estimates that gross investment during the three years, 1962-1964,

may be nearer to 220-260 million dinars (or about in line with the "Perspectives") than to the Plan's 330 million dinars. Looked at another way, it will probably take four years, rather than three, to reach the Plan targets. Public savings compared to many other comparable countries are high but total savings are below the requirements of the Plan. The shortfall in savings is of particular concern because of the danger of inflationary pressure resulting from credit creation for the public sector. For the three-year period as a whole, savings may be nearer to 110-120 million dinars than to the projected 175 million dinars. The amount of foreign aid that can be absorbed may - in absolute terms - be somewhat smaller than projected, i.e., around 110-140 million dinars. The revised balance of payments projection of the Tunisian Planning Secretariat for the Plan period appears sound.

11. The Tunisian government has already been successful in getting foreign aid commitments for the greater part of the total of 155 million dinars projected in the Plan for the period 1962-1964. Up to the end of 1962, some 150 million dinars of commitments were secured and there is a good probability that Tunisia will be able to arrive at a level of commitments consistent with her probable dependence on foreign resources. The absorption of this large amount of foreign aid will prove difficult, however. First, the bulk of foreign aid is tied to projects and to imports of equipment: even if all equipment to be imported could be tied to projects, there would still be need for some 45 million dinars on non-capital goods imports. Second, there are still great delays in the preparation of projects, particularly in agriculture. Third, the large size of the proposed U.S. aid contribution to Tunisia can be utilized only if Tunisia shifts her imports rapidly from traditional French suppliers to U.S. producers; a trade agreement negotiated with France in November 1962 giving Tunisia the right to set import controls also on imports from France is likely to help but cannot completely overcome this problem.

12. The great dependence on foreign aid will result in a rapid increase in Tunisia's external public debt service, unless aid is made available on "soft terms". Service on present debt is small and mainly owing to the French government, to the U.S. government, and to private banks abroad. The countries providing aid to Tunisia have understood the debt service problem of foreign aid and the bulk of aid is being made available on "soft terms". Even so, by 1967 debt service may absorb some 10-13% of export proceeds. While this is not intolerably high, aid on non-conventional terms will have to continue after 1964 if the debt service burden is not to get out of hand in the second half of the 1960's.

13. The Three-Year Plan is not a "paper plan": a systematic and basically pragmatic effort is being made throughout the country to implement it. Much of the Plan is on schedule; most delays are in the sectors where a main problem is fundamental transformation of the economy. By the end of the Plan, in 1964, major changes will have been introduced in the Tunisian economy. Agriculture will be in a period of experimentation; industries will have been implanted. But most important, the training of people will be greatly advanced. On balance, Tunisia has started well in her developmental efforts. While the Three-Year Plan is over-ambitious for a period of three years and has some weaknesses - e.g. organization of agriculture, domestic trade policy, inflationary dangers - the goals of the "Ten Year Perspectives" may even prove to be too modest.

## I. GENERAL BACKGROUND

### A. Geography

1. Tunisia is the smallest of the North African countries with an area of some 125,000 km<sup>2</sup> - comparable in size to Greece or Guatemala. In the north the climate is Mediterranean, rainfall is generally adequate with 400 mm or more a year, and consequently this is the best agricultural area of the country. The Atlas mountain range running from the Algerian border northeast to Cap Bon checks the hot winds from the south. Immediately south of these mountains and in the coastal area from Sousse to the Gulf of Gabes and Djerba some agriculture is still suitable particularly in areas with pump irrigation. In the remainder of the country, rainfall barely exceeds 100 mm a year and may all fall in a single day. South of Gafsa and Gabes the Sub-Sahara plains are broken only by occasional oases and soon change into the sands of the Sahara.

2. As Tunisia is where east and west Mediterranean basins meet, she has always been thoroughly involved in Mediterranean history. African influence has been largely incidental although the Maghreb has a considerable emotional and political appeal.

### B. Population

3. Mediterranean Europe and the Middle East have left their imprint on the originally Berber population and there has also been some infusion of Black Africa. Berber dialects have largely disappeared and the people are now Arabic speaking with a fairly general knowledge of French.

4. The population in mid-1962 is estimated at 4.2 million, almost all Moslem except for a small Jewish community. Around two-thirds of the total are concentrated in the coastal areas of the north and east, Metropolitan Tunis alone accounting for almost one-fifth. The Tunisian Jewish community dates back to the Roman era. During the last decade some 50,000 Jews emigrated to France and Israel, and there remain perhaps 40,000 in Tunisia, mostly in the professions and trade. During the Algerian war, about 170,000 Algerians lived in Tunisia. All except about 10,000 returned home after Algerian independence. Since the mid-1950's, growth of the population, excluding Europeans, is believed to have slowed down slightly to around 2.1% per annum from 2.2% in the early 1950's. A more substantial reduction in population growth is forecast for the coming decade (1.9% per annum between 1961-1966, and 1.7% per annum between 1966-1971). This is based on the assumption that with rising incomes a reduction in fertility rates will be brought about more than offsetting lower mortality rates. The government has raised the minimum age of marriage for girls to 15 years, limited the former French system of family allowances to four children, and now allows income tax deductions for children to apply only to the first four. But additional measures may be required. President Bourguiba in January 1963,

named population growth the most urgent problem for Tunisia: "What does a development effort mean, even as vigorous a one as ours, if population pressure is continually allowed to ruin the results?"

5. Europeans, mostly French and Italian, numbered around 250,000 at the eve of Tunisia's independence in 1956. Since then emigration has been substantial, and there may be perhaps 75,000 left by the end of 1962.

6. The replacement of non-Tunisians in administrative and public services is practically complete with the exception of an important contingent of European, mostly French, teachers present on a contract basis. Emigration of European professionals, managers, technicians, skilled industrial and office workers has been continuous as their pre-independence status has deteriorated while opportunities in France and Italy greatly improved. The economic loss to the country resulting from this emigration has been increasingly recognized in Tunisia. Recently attempts have been made to try to slow down the departures. Many of the European farmers also have left by now and over the next few years the remaining farm land owned by Europeans is to be transferred into Tunisian ownership. Accompanying the emigration of Europeans has been a repatriation or flight of private capital, which has totaled the equivalent of several hundred million dollars over the last eight years.

### C. Government and Party

7. The French Protectorate, established in 1881, was theoretically a system of indirect rule through the Beylical government; but in fact, it created a new structure of administration far more effective than that known before. Independent Tunisia has preserved and built on this foundation, and has consequently an administration which is among the most effective and efficient of the Mediterranean countries. Certainly as important and perhaps even more important in the immense task of transformation of the society and economy faced by Tunisia is the Neo-Destour Party and its accompanying organizations. The Neo-Destour Party was organized in 1934 with Habib Bourguiba and other largely European-educated leaders. The tactics Bourguiba developed were pragmatic and flexible: taking advantage of every opportunity, using a mixture of negotiation and pressure as appropriate and at the least possible cost, step by step to obtain independence and evacuation of Tunisia by French forces. The policy, which was successful in securing internal autonomy in 1955 and independence in 1956, required a high degree of sophistication among the Tunisian leaders and an extremely well organized and politically educated population.

8. Tunisia has now essentially a one-party regime built around the personality and the great prestige of the President, Habib Bourguiba. While there has been no ban on any party until the recent attempt on the life of the President, the appeal of the Neo-Destour Party has been well maintained and it has kept in so close touch with the people that other parties have found it hard to gather popular support. This explains in large part why the opponents of the government turned to conspiracy instead.

9. National policy is transmitted to the country not only through the government and the party proper, but also through a number of national organizations closely linked to the party: the trade union, the students union, the farmers union, groupings of industry and commerce, of artisans, a league of women, etc. Frequent meetings of the party - from the party executive down to the hundreds of cells throughout the countryside and in towns - and of these organizations help the party leaders who also occupy Cabinet positions to keep in close contact with and educate grass-roots opinion. Thanks to the transistor radio the President himself is a potent direct educative force and through frequent speeches on the development problems of the country has a great impact in helping to try to transform habits and outlook encrusted with centuries of tradition. Success in getting human beings to transform themselves fundamentally is far from easy no matter what institutional arrangements are set up. The lack of success the President has had so far in stopping fasting during Ramadan is merely one indication of this. The tensions that such changes create within individuals or within families must be enormous and explain in part the recent conspiracy against the President.

10. One more word is necessary on the government in relation to the economy. While the top government leaders are mature experienced men, essentially the administration is made up of young men - young men who in many cases had to come straight out of the university to take over leading and responsible positions from departing French administrators. The transition has been remarkably successful. One weakness, however, is in the lack of the middle ranks to give the necessary support and follow-up to the policies laid down by the top. The impact on government is as could be foreseen: an openness to new ideas and initiatives which sometimes can go too far; a willingness to undertake, and often to accomplish tasks which others would hesitate to tackle; in short, an administration which may make mistakes but which is quick to learn from them.

#### D. The Economy

11. Tunisia's lands have been tilled for over two and one-half thousand years. The invasion of Bedouin tribes in the eleventh century and their attempt over the centuries since to destroy settled agriculture probably caused a destruction of soil and forests from which Tunisia has not yet recovered. Mineral resources are limited to some large deposits of low-grade phosphate rock, small deposits of iron ore and some lead and zinc mines. Oil prospecting has so far been without success. There is very little domestic fuel supply: a little natural gas and little hydroelectric potential.

12. Except for the abolition of slavery, much of Tunisia in modern times has been very little advanced in terms of economic organization over the Tunisia that Hannibal or St. Augustine knew. Even today, Tunisia is best described as a dual economy. There is, on the one hand, the traditional economy with millions of people who still are in what President Bourguiba has called the "prehistoric, pre-Sahara stage". And there is also a modern enclave implanted since the French Protectorate in 1881 next to this traditional economy and surrounded by it. The modern enclave consisted mostly of a modern efficient agriculture occupying the best-watered lands of the

country (around one-third of the total arable land of the north), a small mining sector, a tiny manufacturing sector, and modern urban communities built next door to the unchanging Medinas. The modern economy was largely run by and for the benefit of the Europeans and perhaps an equal number of Tunisians and was largely oriented towards and dependent on the French market.<sup>1/</sup> While in 1957, the average per capita GNP was 50 dinars (\$120 equivalent), three-quarters of the population were well below this figure. Since most statistics are available only on a national geographical basis, the aggregates do not reveal much of what is most significant in the structure of the economy. What is perhaps worse is that the aggregates make difficult an appreciation of what is happening in the economy at a time when the traditional economy is in the throes of transformation and the bulk of the former participants in the modern economy are leaving. A stationary GNP in such a case, for example, could conceal a substantial improvement in the standard of living of the mass of the people.

13. Wheat, wine, olives and commerce supported Hannibal's Carthaginians and they support most Tunisians today. Some three-fourths of the men are farmers; yet output of this sector accounts for only around 30% of total production. The few thousand modern farms produce one-third of the total and the 500,000 Tunisian peasants the rest. Year to year fluctuations in production are very high as rainfall may vary greatly from one year to another and some differences in the amount and in the seasonal distribution of rainfall may determine success or failure of a crop.

14. The Tunisian trading community - descending from Phoenician and Jewish traders - has maintained its important position. Commercial activities, difficult to measure and divided between modern trading companies with close links to France and a multitude of small traders in soukhs, have been estimated in recent years at some 15% of the nation's production. A large share of domestic savings has been concentrated in its hands.

15. Mining and manufacturing account now for some 15% of GNP. The extraction of lead dates back to Roman history and the more important minerals (phosphates and iron ore) presently extracted have been exploited since the early twentieth century. The phosphate mines are now either wholly or half government owned. There has been no disruption in the technical or managerial staff, however. Industries have been based on some transformation of domestically extracted minerals, particularly of low grade phosphate rock, and of agriculture products. Some industries are related to the olive crop: oil pressing and soap manufacturing. Import substitution was not undertaken systematically once the scarcities of World War II were overcome, in part because of the customs union with France. Artisans have continued to produce a broad range of articles, particularly of textiles, and have been closely related to traditional agriculture.

16. Tunisia possesses a well-developed transport infrastructure: the modern and extensive road system largely built by the French includes a

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<sup>1/</sup> Andre Raymond, La Tunisie, Que Sais-Je, No. 318, Presses Universitaires de France, Paris, 1961.

Roman causeway linking the Island of Djerba with the mainland and a number of bridges built by the Turks. Hard surface highways permit high speed transportation between the major cities. The railroad system is also fairly well developed. A standard gauge system links the cities northwest of Tunisia and offers a direct line to Algeria. A narrow gauge system covers the rest of the country. Ports mostly have sufficient capacities. Production of power has been ample to cover expanding needs.

17. A Central Bank was established in 1958 and is run, by now, without foreign advisers. The rest of the banking system has also been increasingly Tunisified as a few government controlled banks have competed successfully for business formerly undertaken by a group of subsidiaries of French banks.

18. Economic expansion taking the decade of the 1950's as a whole barely kept up with population growth. A major French government financed program up to independence helped put in the excellent infrastructure referred to above. But private investment in Tunisia declined and was adversely affected by flight of capital and the emigration of the Europeans as independence became imminent, and after. GNP grew very slowly during the Republic's early life from 1956 to 1960 and unemployment became an increasing problem. Relationships with France were intermittently disrupted by incidents arising out of the Algerian war. By 1960, private investment rose again, public investment became more important and a large-scale government program to utilize unemployed labor got underway. However, expansion came to an abrupt halt with the Bizerta incident in summer 1961. While government expenditures on current and capital account continued to rise, private investors turned to a wait and see attitude. This had not yet changed when the Three Year Plan came into effect in 1962.

19. In the census year 1956, Tunisia's unemployed were estimated at 125,000 - some 10% of the labor force. Underemployment in agriculture was also great. Employment in agriculture is limited to only a few months a year for many crops: cereals, olives and esparto grass. To help meet these problems the government launched, in 1958, a large-scale work relief program called the "Fight Against Underdevelopment" Program. Starting out with some 25,000 laborers in 1958, the program employed some 170,000--200,000 men in 1961 and 1962. With this program a massive effort has been made toward utilizing the vast reservoir of Tunisia's most abundant economic resources: idle labor, for land development, land clearance, hillside terracing, reforestation, road maintenance, water retention, low-cost housing, etc. Most of these works can be done with simple tools and little skill. The program is administered by the provincial governors who have shown great energy and ingenuity in organizing and putting to work a large number of laborers. The workers are paid partly in cash by the Tunisian Government (0.2 dinars per day) and partly in kind, semolina (1.5 kilograms per day, worth about 0.08 dinars) supplied by the U.S. Government through PL 480, Title II.

20. The changes which the program so far has introduced into Tunisia are evident almost throughout the country. A great number of hills in the north and in the center of the country have been terraced and reforested, along the main roads trees have been planted even under the very poor soil conditions of the Sub-Sahara plains, fountains have been dug, etc. The economic returns on these outlays may often be very low - and slow - and the cost of some projects may not have been below the price which would have been charged

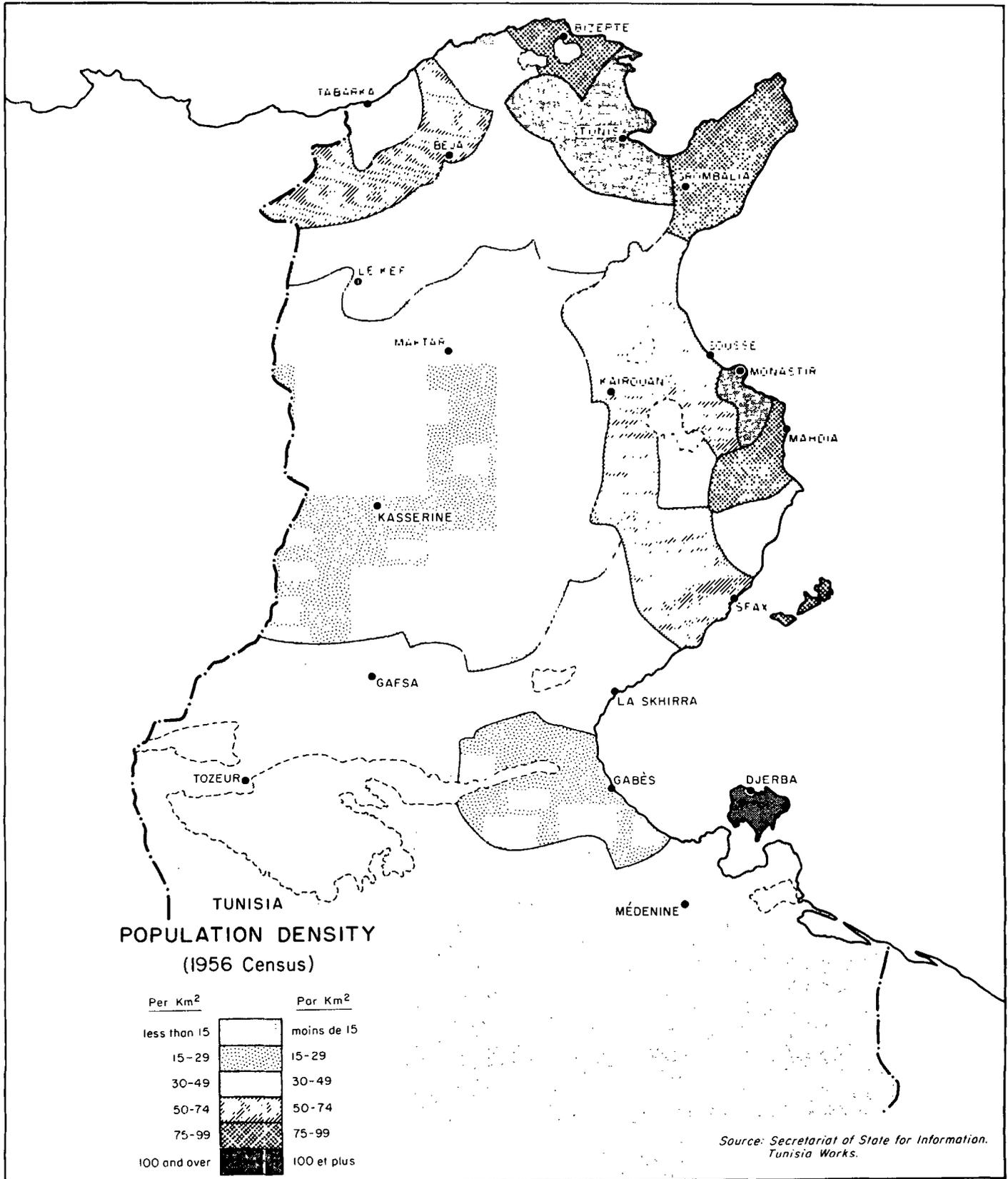
by contractors paying market wages. However, the program has replaced unemployment relief; a sense of purpose has been instilled, and the migration from the southwest to the coastal cities has been greatly reduced.

21. Despite poor national resources, there are potentials for Tunisia's economic growth which, if properly utilized, could lead to the gradual absorption of both presently underemployed and unemployed and keep up with a reduced rate of population growth. Tunisia has a good top layer of civil servants. The infrastructure can handle additional agricultural and industrial production. She has seasonal advantages over other Mediterranean producers in citrus fruit and vegetables. A few large-scale industrial production units may be feasible on the basis of local raw materials and the oil and gas of the nearby Sahara fields. With European industries being increasingly dependent on inexpensive labor from Mediterranean countries, Tunisia may have increasing attraction as a site for light industries producing for the European market. She has many tourist attractions which are not yet exploited. Her favorable geographical position, the cosmopolitan outlook of her leaders and the relative stability and security of the country are not inappreciable advantages.

#### E. Plans and Planning Mechanism

22. There was much thinking in the Neo-Destour Party about economic planning even before independence. After independence, considerable work was done on long-term plans in several of the ministries, particularly in education and agriculture, and by a planning secretariat which worked on several models and made detailed studies of the economy. In 1959, a National Planning Council was instituted to lay down general policies and objectives in the economic and social fields. The Council consists of the President, the Ministers responsible for the economic and social sectors, the Governor of the Central Bank, two members of the National Assembly and four representatives of national economic and social organizations. The Secretariat of the National Planning Council was originally placed in the Presidency. In February 1961, the Planning Secretariat was combined with the Ministry of Finance into a new Ministry of the Plan and Finance under a new Minister, Mr. Ben Salah, who had been a vigorous proponent of planning for many years. (The Ministry also has divisions on agriculture and fisheries; industry, artisans and energy; commerce, and social affairs and labor.) An intensive effort was then made to prepare a development program. This work has had two main results: "The Ten Year Perspectives of Development, 1962-1971" and the "Three Year Plan, 1962-1964". Both are important and both must be considered.

23. The "Perspectives" is the prior document in time and in logic: it lays down the major objectives for the country for the next 10 years. The Three-Year Plan sets the concrete tasks for the first three years of the ten-year period, 1962-1971. The Tunisian Government in fact calls it a "Pre-Plan". In these first three years, Tunisia is to build a foundation and acquire the experience to make it possible in the following seven years to carry out a "rapid and harmonious development". Both the Perspectives and the Pre-Plan are not paper exercises but guides to action; they are intimately related to the work of the whole people. Both documents have



been widely disseminated and discussed in the country; the whole government and party apparatus is involved in trying to carry them out. Even if they achieved nothing else, the Perspectives and the Pre-Plan have had substantial impact in achieving a consciousness of the economic problems facing the country.

24. In preparing the plans, the technicians of the Planning Secretariat started with a rough economic model of the country. At the same time each of the ministries concerned, often with the aid of technical assistance or consultants, elaborated detailed programs for its own field. A continuous exchange of views took place between the central planning body and the respective ministries in order to reconcile the sector programs with the overall model. Adjustments had to be made to the model at various stages. After approval by the National Planning Council a first draft of the Perspectives and later of the Plan was circulated for a broadly based discussion within the government, the party, the trade unions, professional groups, etc. The subsequent meetings held throughout the country involved much of the Tunisian population. In order to maintain the interest by the population, such discussions are held regularly also during the period of execution of the Plan. However, little is published in the Tunisian press on the criticisms expressed by various interested groups.

25. After extensive discussions within the above organizations the Three Year Plan was presented to the National Assembly in early 1962 and became law on May 31, 1962. The three-year public expenditures foreseen in the Plan are now the three-year capital budget to be executed by the government. However, the expenditures by the various ministers and agencies of the government have still to be approved for each project by the Ministry of the Plan and Finances, giving the Ministry a say in the timing of the Plan's execution. In addition, the Ministry has a continuous influence on investment in the private sector by its close ties with the publicly owned credit institutions.

26. According to the law, the Ministry has to review annually the implementation of the Plan. This report on the Plan to be submitted to the National Assembly each year is expected to include proposals for any action deemed necessary as result of experience. But the Ministry may also suggest changes during the year if such revisions are in line with the general policies laid down in the Plan.

## II. TEN YEAR PERSPECTIVES, 1962-1971

### A. General Objectives

27. Based on an analysis of the social and economic structure, four basic objectives are presented by the Perspectives for the country's social, political and economic development during the decade 1962-1971: (a) decolonization, (b) promotion of man, (c) reform of structures, and (d) independence of (net) foreign assistance.

28. "Decolonization" is considered the logical continuation of a process which began with political independence in 1956. According to the Perspectives, the importance of French and to a lesser extent, Italian, interests in agriculture, finance and trade built up during the period of the Protectorate should be reduced, mainly through strengthening Tunisian but also : foreign non-French interests. Second, the overwhelming share of France in both Tunisia's imports (1961/62: 54%) and exports (1961/62: 56%) is to be reduced. This decolonization process is expected to help in integrating the modern still largely French sector with the traditional Tunisian sector.

29. "Promotion of the man" refers both to moral and material progress. According to the Perspectives conditions should be created to provide equal opportunity (and the minimum standard of living necessary for decent living) for everybody. A minimum per capita income of 45 dinars (1957 prices) or \$110 is set as the target for 1971. This goal is to be achieved essentially through an increase of the nation's economic product; but some income redistribution is also foreseen.

30. These first two political, social and economic objectives are intimately linked to a third basic goal: changes in Tunisia's economic and social structure. Some institutional changes in the government and in the organization of agriculture are considered essential. Second, a change in attitudes of the people is required to overcome certain traditions - "obscurantism", to use the language of the Perspectives - and to result in an acceptance of modern ways of life. Third, changes in the social structure are postulated to break the vicious circle of poverty in the large low-income groups. These reforms are to be designed to overcome the backwardness of some economic sectors and regions (particularly the Center and South) and to eliminate under-employment.

31. According to the Perspectives the investment effort required to implement these objectives cannot be financed from the start by a domestic savings effort without an undue lowering of consumption. In view of the low per capita income of the Tunisian population, a reduction of the per capita consumption is considered feasible only for a very small group; as a result, major reliance on foreign aid is considered necessary. However, the Perspectives have the objective to use an increasing part of the growth in incomes to finance investment, so that from 1973 onward no net inflow of foreign capital will be required.

32. It is realized by the government that some of the goals set in the Perspectives are not completely consistent with some others. In particular, a rapid program of decolonization may well reduce the rate of advance in economic development, at least for some time. However, no absolute priority is given to any one of the goals; the Tunisian government plans to determine the respective priorities in the light of a continuous review of developments.

33. The Ten Year Perspectives are not a development plan; they are a set of national political, social and economic objectives. No non-Tunisian can justifiably criticize or quarrel with these objectives as such - they are matters which only Tunisians can legitimately decide. The main consideration that outsiders can give to national goals like the Perspectives is essentially to try to understand the logic and implications of the objectives and especially the economic significance and impact of them.

34. Perhaps the most important aspect of the Perspectives is the fact that they manifest the realization by the government that the biggest problem in economic development is the need for change in human beings. The Tunisians have already seen immense changes in a short period: the advent of political independence, a rapid emancipation of the women, the emigration of large numbers of the previously dominant economic groups, an opening up of the minds of thousands of children from shepherds' and peasants' families to wider horizons. But all this not only has not been fully digested and assimilated but the process quite clearly is far from finished. The economy has moreover not grown appreciably since independence. To sustain or even accelerate the momentum of social and economic change, the Tunisian government has found it wise to hold out to the public the series of long-term objectives that have just been described.

#### B. The Overall Model

35. The overall economic target of the Perspectives is an annual growth of production and income of 6%, i.e. almost twice the rate achieved since self-government. This goal was based on the desire to maintain at least the rate of growth of private consumption observed during the past decade, a rate of investment assumed necessary to achieve the production targets, and the desire of the government to limit reliance on foreign aid to 50% of the net capital formation during the decade. On this basis, total production would rise from some 280 million dinars in 1961 to 486 million dinars in 1972.

36. As a first step the planning office made use of a simple growth model to test growth targets with certain other macro-economic magnitudes. To start with, it was assumed that for an increase in gross domestic product of 1 unit, additional (net) investment of 4 units would be required. This coefficient, the capital-output ratio, was estimated on the basis of actual

data for investment and output growth in Tunisia during the 1950's. The factors affecting the capital-output ratio during the past decade, however, are likely to be very different from those determining the ratio during the 1960's. During the past decade considerable investment went into infrastructure and into post-independence public capital outlays such as administrative buildings (e.g. for Gouverneurats, for courts and for the Presidency); on the other hand, output growth was unfavorably affected by developments of the post-independence period: emigration of qualified European personnel and of capital in the commodity producing sectors, but also by two consecutive years of extraordinary drought. In the future a larger share of resources is projected to be channeled into directly productive investments. But, the impact of administrative changes, of reforms in the economic structure and of other than capital outlays, e.g. in education or in agricultural extension services, is likely to be as important for the prospective capital-output ratio as the level and composition of investment expenditures themselves. Some of the investments indicated in the Perspectives, such as those for reforestation, for school buildings, are definitely slow-yielding. Other investments may be rather low-yielding, e.g. some irrigation schemes. A tentative conclusion would indicate that during the early part of the decade the annual capital-output ratio of 4 to 1 is likely to be over-optimistic while during the second half of the 1960's a lower ratio may result.

37. Given the assumption as to size of investments required for a 6% annual rate of GDP growth and the desire of the Tunisian Government to limit reliance on foreign aid to less than 50% of net investment the authors of the Perspectives found that savings would have to rise substantially above past rates. It was consequently assumed that the rate of savings could be increased from some 11% of GDP in 1962 to 20% in 1965 and 26% in 1971. This means that out of the increase of income of each dinar between 1962 and 1965, 0.67 dinars would be saved; for the whole decade the marginal rate of savings would be of the order of 47%. In the early 1950's savings rates of 15% were achieved in Tunisia under very favorable economic conditions. But many of the savers responsible for this rate have now left. Even in countries with conditions greatly conducive to savings, it is exceptional to find a marginal rate as high as double the average rate over any considerable period of time. Marginal savings rates of some 4 to 6 times the present average savings rate appear unrealistically high.

38. With the assumptions on rate of GDP growth, the capital-output ratio, the net foreign balance and the increase in the savings rates respectively, figures on consumption were first obtained as a derivative. But consumption was also independently investigated. In order to allow for the large income and expenditure differences in the population, consumers were differentiated into three groups according to per capita income and residence in urban or rural areas. For each group, consumption by the end-year of the Perspectives was estimated by applying income elasticities observed in Tunisia and in similar countries for 19 expenditure items. The income elasticities used in this context appear high for a number of basic foodstuffs; but other expenditures, e.g. consumer goods such as textiles and radios may grow faster than projected.

### C. Sectors

39. As a next step, the planning office estimated sector outputs in relation to the previously computed consumer demand for final products. Exports were independently determined by conservative estimates of the export potential of a variety of products mostly already established in foreign markets. By using inter-industry coefficients, based on an input-output table with 22 sectors established for 1957, intermediate consumption and imports were estimated. For a number of products which at present are not yet produced in Tunisia, coefficients were taken from experiences in other countries, particularly in Algeria. In agriculture, intermediate consumption was estimated directly because the fundamental structural modifications to be brought about during the decade of the Perspectives would make the use of present coefficients meaningless.

40. Output growth during the 1960's is forecast as concentrated in manufacturing, construction and in the services sector. Within the manufacturing sector, output by 1971 is projected at more than three times the level achieved in 1957: in oil refining, in textiles and garments, in paper (cellulose), chemicals and metals, and in cement and bricks. These production targets are related to investments presently under way (oil refinery in Bizerta, cellulose plant in Kasserine, a spinning mill in Sousse as a beginning of a textile complex in the Sahel, chemical complex in the area of Sfax-La Skhirra, steel mill and metal works in the Bizerta-Menzel Bourguiba area). Agricultural production and mining output are projected to expand at lower rates. Nevertheless, major crops are expected to reach around twice the level obtained in recent average years. The agricultural targets are much more speculative than other production goals. By 1971, agriculture is projected to contribute around one-fourth of the economy's total production (compared with some 30% in recent years). Industry (including manufacturing, mining and construction) would become the most important income producing sector (26% of GDP compared with some 20% in recent years). The traditionally disinherited regions of the Sahel and the south would have benefited appreciably.

41. The Planning Secretariat found as a first approximation that when the investment outlays considered desirable in each sector were added, the over-all level of investment was considerably higher than allowed for by the allocation of total resources to consumption and investment respectively in the model. Cuts were made, consequently, mostly in the category of "social investments" with little direct impact on production. In the final presentation, almost 40% of net investment was attributed to agriculture, 18% to industry and tourism, 33% to infrastructure and 10% to education. Almost one-third of investment in agriculture is projected to be used for irrigation projects. Other major investment efforts in agriculture are planned for fruit trees and forage crops and livestock, while traditional cereal production would receive - proportionately - less resources than in the past.

42. Investment in industry is projected mostly in chemicals, including an oil refinery, metal industry and textiles; mining is also to receive considerable investment funds, mostly required for an improvement in the competitive position of Tunisia's phosphates. Further expenditures on

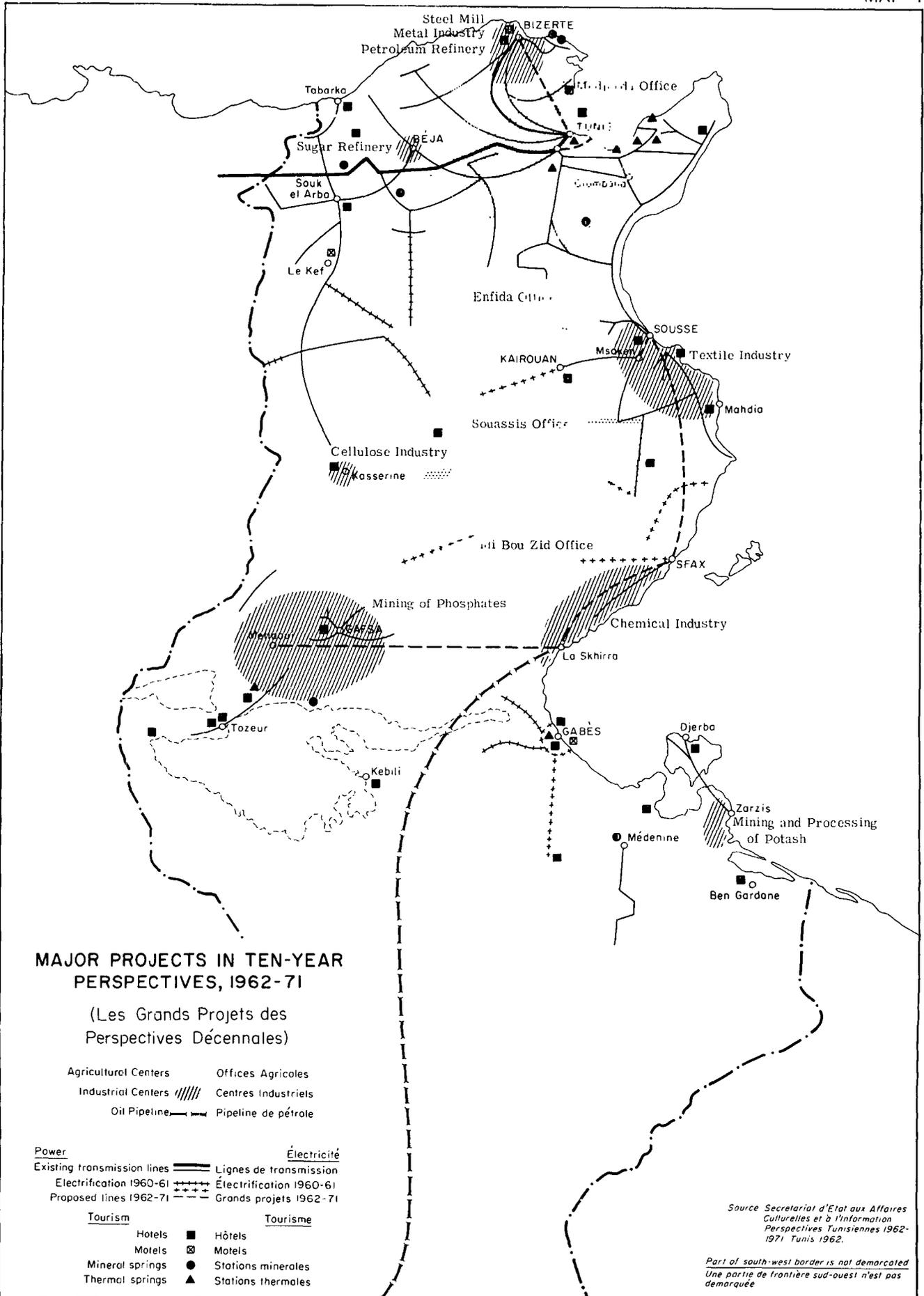
petroleum prospecting are expected to improve eventually the country's fuel balance. In infrastructure, more than one-half of investment (or almost 20% of the country's projected net capital outlays) is planned for housing. Other infrastructure investments are all relatively small items except for electric power which will require expansion of production and extension of transmission lines to keep up with the economy's demand. Finally, investment in education facilities will require considerable resources; but current expenditure for utilizing these facilities will become an even greater burden on the current budget of the government rising from some 12 million dinars in 1961 (or 4% of GDP) to an estimated 40 million dinars by 1972 (or more than 8% of GDP).

#### D. Conclusions

43. The composition of investment projected in the Perspectives corresponds broadly to the priorities set by the government: a more intensive and labor utilizing agriculture, manufacturing located in a few strategic centers transforming domestically produced raw materials and producing import substitutes - when economical in the small Tunisian market, a greatly increased exploitation of the country's tourist potential, a vast improvement of housing conditions and a major step forward toward education and training of Tunisia's most abundant resource: people.

44. Judged as an exercise in laying down the broad lines of development for Tunisia, the conclusion on the economic aspects of the Perspectives must in the main be favorable, with the reservations indicated above. On the whole, the lines of economic development laid down appear to be reasonably realistic and well-based. There is probably too much emphasis still left on the social investments (e.g. housing) for an economist's taste but this is in large part dependent on political judgments - a matter we are not competent to appraise.

45. There is one other reservation that needs to be mentioned. To some extent, the Tunisian planners have shown themselves subject to a common failing of planners. That is, the desire to have a tidy, well-wrapped model, leads to making inadequate allowance for the unforeseeable results of individual initiatives. The industry sector consequently makes little or no allowance and little provision for the small businesses which could spring up during the decade but concentrates instead on rather large and foreseeable projects. Hence, the industry sector probably tends to overplay the rather capital intensive large projects. Technical conditions may require capital intensive projects for a given production process. But it is clear that over a considerable period of time the advantages of Tunisia are in her expanding and increasingly better trained labor force which will have to be utilized as well as possible in order to strengthen the country's economy. The rising supply of trained people with the intelligence typical of Tunisia's leading groups requires a rapid opening up of opportunities for them if the government desires to make the best use of their abilities and training. The great promise of the Perspectives - equal opportunities for everybody to be assured by a greatly expanded and costly education system - cannot be realized without the employment potential of labor intensive industries; food processing, textiles, clothing, leather and light metal industries. Growth in these fields will depend mostly on individual initiative in creating and expanding new small firms which the government can encourage in various ways but can hardly plan the creation and growth of.



Source Secretariat d'Etat aux Affaires Culturelles et à l'Information Perspectives Tunisiennes 1962-1971 Tunis 1962.

Part of south-west border is not demarcated  
 Une partie de frontière sud-ouest n'est pas demarcuée

### III. THE THREE YEAR PLAN, 1962-1964

#### A. Purposes

46. After the preparation of the Perspectives, the government decided to prepare a detailed three-year working document for the government and for the agencies involved in making decisions on economic policies in general, and investments in particular. As mentioned above, this was also to be a kind of trial run in preparation for the plan to cover the rest of the Perspectives period. The Three Year Plan or "Pre-Plan" is based on the objectives of the Perspectives; the fourth objective, independence of foreign aid, is, however, modified to limiting reliance on foreign aid up to a maximum of one-half of gross investment (as against one-half of net investment in the Perspectives). The government has also taken advantage of further work and made some modification in some of the sector presentations.

47. The Three Year Plan was enacted as a law on May 31, 1962. It replaces the traditional year-to-year capital budget of the government by a Three Year capital budget becoming effective on January 1, 1962.<sup>1/</sup> For the period 1962-1964 the government is thus given broad authority to engage in the investment activities defined by the Plan document.

#### B. The Plan Targets

48. For the last year of the Plan, 1964, production, income and expenditure targets are presented in considerable detail. Instead of using a growth model as in the Perspectives, the Planning Secretariat started out with the projection of the country's production potential by 1964 based on an analysis of the existing economy, growth trends, etc. In agriculture, the Plan took into account intended reforms, essentially the take-over of land owned by French settlers, and investments undertaken in recent years, e.g., in fruit trees. In industry output by 1964 was estimated on the basis of the annual censuses of industrial investment undertaken in recent years, and on the basis of investments to be started on the early Plan period. Less detailed projections were also made for the expected output of the artisan sector, of construction, of public utilities and of commerce and other service sectors.

49. The gross value of agricultural production, estimated to have varied between a low of 66 million dinars in 1961 and a high of some 110 million dinars in 1958, is projected at 134 million dinars in 1964. This prospective increase is over 50% over the average agricultural output achieved in recent years. Industrial output is projected to double between 1957 and 1964, or to grow by an annual average of some 10%. Data on the gross value of industrial production collected each year for most industries indicate that the output of food industries, of building materials and of some small-scale chemical industries has, up to 1960, been in line with the trend projected for the period 1957-1964. Targets for the other sectors were projected broadly in line with output in the primary and secondary sectors.

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<sup>1/</sup> The law containing the preliminary capital budget for 1962, passed on December 30, 1961, was repealed by the law enacting the Three Year Plan.

50. The Planning Secretariat then tested potential production by 1964 against consumption, investment, exports and imports, domestic savings, and an assumed level of foreign aid, by using methods similar to those applied in the model of the Perspectives. Final consumption was projected by applying the same income elasticities as those used in the Perspectives. (The assumed income elasticity for some basic foodstuffs appears to be high in the light of the experience in comparable countries; income elasticities appear to be underestimated as far as consumer expenditure on services and durables are concerned). On balance, the projection for consumer expenditure should therefore be below actual growth - assuming that the income targets of the Plan will be realized. On the other hand, the departure of some 175,000 Europeans, 50,000 Tunisian Jews, and 160,000 Algerians and the government's policy of reducing consumption by imposing new taxes and restrictions on consumer credit may result in an outcome not too far off from the projections. Investments were projected by analyzing projects under way, projects planned and projects deemed essential by the government. Exports were conservatively projected on the basis of both production and market potentials. The projected level of imports in 1964 was obtained at the same time as the other macro-economic magnitudes were tested as to their internal consistency by using the input-output matrix established for the Tunisian economy in 1957; the Planning Secretariat made allowances for expected changes in the country's production structure primarily with regard to some import substitution and some additional transformation of domestically produced raw materials for exports.

51. As a result of this analysis, the Plan arrived at a GDP target of 387 million dinars by 1964 compared with 279 million dinars in 1961. This goal, i.e., a GDP of 387 million at market prices by 1964, requires a 39% increase of output in the three years 1962-1964. This increase is substantial by any international comparison; but it has to be viewed in the light of the specific Tunisian conditions: variations in agricultural output tend to be not only erratic but also very large. The difference between the bumper crop of olives in 1960 and the poor crop in 1961 was of the order of 6% to 7% of GDP. Other crops carry less weight in the national product. The fluctuations between a good and bad year in agriculture - keeping all other conditions unchanged - may result in a one-third difference in the value of agricultural output, and with the indirect income effects, make for perhaps a difference of some 15% in GDP. Since 1961 was a bad year, if 1964 is a good year, the 1964 GDP target would be still high but not inconceivably so.

### C. Investments

52. The Plan projects gross investment during the Three-Year period at 330 million dinars, rising from 95 million dinars in 1962 to some 125 million dinars by 1964. These levels compare with estimated gross investment of 53 million dinars in 1960 and 67 million dinars in 1961. Investments reached a previous high of 44 million dinars in 1951 and a low of 23 million dinars in 1957. The rate of investment of some 20% of GDP in the early 1950's which was largely-French financed was achieved without undue pressure on

prices and the trade balance, while the low level of investment in 1957 was accompanied by a substantial unemployment and by an under-utilization of the building industries. The capacity to prepare and perhaps to a somewhat lesser extent, to execute greatly increased investments has, broadly speaking, been recovering recently. For large constructions such as for major dams, foreign contractors bring in managerial and technical skills; but the large number of small projects are undertaken by local contractors who showed great flexibility in raising their production. This flexibility may be illustrated best by building costs which have barely changed since 1957 despite a rise in investment by perhaps 200%, but there has been a heavy demand for imports of building materials.

53. The Three-Year Plan gives sectoral capital outlays on the basis of net investment; net investment in 1962-64 is projected to grow from 80 to 100 million dinars, or 270 million dinars for the three-year period as a whole. The figure for replacement investment amounting to 60 million dinars during the three-year period is a conventional figure based on estimates used by other countries rather than based on Tunisian experience. The 10 million dinars of this projected for the public sector are repairs, maintenance, and improvements in roads and public buildings. The remaining 50 million dinars are in the non-governmental sector and little information is available on what actually happens there.

54. The investment level planned for the three-year period 1962-1964 amounts to 30% of the investment projected for the decade 1962-1971 as a whole. The investment projection in the Perspectives was based on the assumption that the level of investment would gradually increase over the period. For the period 1962-1964 the investment target in the Plan was set at a rate one-third higher than in the Perspectives.

55. The Plan gives more emphasis to industries, tourism, and education and less to housing than the Ten-Year Perspectives. In agriculture, the Plan emphasizes planting fruit trees and mechanization of cereal production more, and soil conservation and the build-up of livestock less. Textiles and chemicals industries received less emphasis in the Plan, but this has already been revised in textiles where a greatly expanded program in early 1963 is to replace the original Plan. In infrastructure the concentration of resources on housing (almost 20% of total investment) foreseen in the Perspectives gave way to a more modest and, in terms of prospective resources, more realistic plans.

<u>Investment (Net) by Sectors</u>			
	<u>Three-Year Plan, 1962-1964</u>		<u>Ten-Year Perspectives</u>
	Million Dinars	% of Total	% of Total
Agriculture:	107.6	40	39
Irrigation	(35.0)	(12)	(12)
Industries, Handicrafts:	52.1	19	16
Mining	(12.9)	( 5)	( 3)
Chemicals	(10.5)	( 4)	( 5)
Refinery	( 7.4)	( 3)	( 1)
Metals	( 7.6)	( 3)	( 3)
Tourism	8.0	3	2
Infrastructure:	72.0	27	33
Housing	(26.0)	(10)	(19)
Power	( 8.0)	( 3)	( 4)
Education, Training	<u>28.3</u>	<u>11</u>	<u>10</u>
TOTAL	<u>268.0</u>	<u>100</u>	<u>100</u>

Source: Appendix Table 10.

In education, the investment effort during the Plan period will be concentrated in specialized education while investment in secondary schools - though the most important single item already during 1962-1964 - will be increasingly emphasized during the second half of the decade. Prima facie these shifts in investment priorities appear basically realistic in view of the country's immediate needs, although a thorough technical, financial and economic analysis of the projects involved would be needed to thoroughly justify the investment priorities given in the Plan.

56. Only a few projects involve investment outlays of more than 10 million dollars (around 4 million dinars):

<u>Project</u>	<u>Million Dinars</u>
Dam and Irrigation "Nebhana"	9.0
Petroleum Refinery	7.4
Petroleum Prospecting	6.0
Steel mill (plan expenditure 1962-1964 only)	5.6
Super-phosphates "forenade"	5.0
Power Plant La Goulette	4.9
Fertilizer Plant	4.0
Airport of Tunis: Jet Runway	4.0

There are also a few integrated programs (e.g., mechanization of agriculture, tree planting, housing, textile industries) which involve amounts exceeding 4 million dinars. The great majority of the investments proposed are much smaller. While small projects are probably more economically justifiable, they nevertheless involve substantial work of preparation and execution which in relation to the investment may exceed the respective work on larger projects. Unfortunately, it is also generally more difficult to mobilize foreign technical and financial assistance for small projects than for large undertakings.

57. In education, administrative buildings, etc., the government will clearly undertake most of the capital outlays. In agriculture and industry, even in infrastructure, the line between the private and the public sector is less clearly drawn. The government has an influence on investment through its own public enterprises, e.g., the railways or the power system and through the enterprises in which the government has a major stockholder's interest. In addition, the government owns the majority of the shares in several of the principal financial institutions and makes funds available to them for investment in the economy. The Plan, consequently, arbitrarily draws the line between "public" and "private" between the government budget and the rest of the economy.

58. Public or Budget capital outlays, as so defined, during the Plan period 1962-1964 are planned to amount to 140 million dinars (plus 10 million dinars for repairs and maintenance under the current budget) while private investments are projected at 130 million dinars (plus 50 million dinars for replacement from depreciation). When the Plan was passed in May 1962 allowing the government to invest 140 million dinars during the Plan period, it was also empowered to open authorizations up to 160 million dinars; the government will therefore be in a position to start on projects which will require payments only after the end of 1964.

#### D. Financing of Investment

59. It is clear that the sharply increased investments planned for the Plan period will require great efforts in many respects: the strain will be particularly felt in mobilizing financial resources.

60. Savings estimates up to 1959 are rather uncertain as many capital transactions with the French franc area were not recorded. Consequently, little is known about domestic savings also. Estimates for 1960 and 1961 put gross domestic savings at some 28 million dinars, or at around 10% of GDP. For 1964 the Plan projects gross domestic savings at 78 million dinars or 20% of projected GDP. Between 1961 and 1964 out of an increase in gross income of 108 million dinars, 44 million dinars, or 41%, would have to be channeled into savings. This marginal savings rate is considerably smaller (but still unrealistic) than the one projected in the Perspectives for the early period of the decade. This apparent reduction in the marginal savings rate is due to the fact that the Plan expects a faster rise in output and income yielding more overall resources than projected in the Perspectives. As to foreign aid, the Plan and the Perspectives assume the same (proportionate) reliance for the period 1962-1964.

	<u>Three-Year Plan 1962-1964</u>		<u>Ten-Year Perspectives 1962-1964</u>	
	Million Dinars	In %	Million Dinars	In %
Gross Investment	<u>-330</u>	<u>100</u>	<u>-258</u>	<u>100</u>
Domestic Savings	+175	53	+139	54
Foreign Aid	+155	47	+119	46

61. The amount of foreign aid projected arises from the Plan's objective of limiting reliance on foreign aid to less than 50% of the gross investment efforts. Domestic savings was obtained as a residual.

62. Foreign aid projected at 155 million dinars is simultaneously to cover the import content of the investment program as well as the shortfall in savings. The Planning Secretariat found that the import content of the investment plan in terms of capital equipment may amount to some 110 million dinars for the planned gross investment or 90 million dinars of the net investments. The Planning Secretariat assumed that the remainder of foreign aid would be available for financing semi-finished and raw material imports. Further, it assumed that out of 155 million dinars of foreign aid 93 million dinars would be channeled into the capital budget of the government, while the remaining 62 million dinars would be available to the private sector. The general outline is given below.

	<u>Three-Year Plan, 1962-1964</u>		
	<u>(In million dinars)</u>		
	<u>Budget Sector</u>	<u>Other Sectors</u>	<u>Total</u>
<u>Investments</u>			
New Investments	140	130	270
Replacement	10	50	60
Gross	<u>150</u>	<u>180</u>	<u>330</u>
<u>Financing</u>			
Amortization	10	50	60
New Savings	47	68	115
Foreign Aid	93	62	155
	<u>150</u>	<u>180</u>	<u>330</u>

63. The figures for new savings in the Tunisian economy evoke a number of questions. New real savings by the Tunisian economy have to amount to 115 million dinars during the Plan period given the investment targets and the foreign aid objective.

64. Savings in the Budget sector of 47 million dinars are projected to consist of an annual 5 million dinars nominally due on the public Tunisian debts to the French Treasury but not paid, and of an annual surplus of 9 million dinars on current account. According to the Plan it is hoped public savings during the three-year period would exceed the total of these resources (42 million dinars) by another 5 million dinars from unspecified and unpredictable sources during the three-year period.

65. Central Government revenues are projected to rise from 64 million dinars in 1961 to 75 million dinars by 1964, i.e., to 19-20% of the GNP at the end of the Plan period; including 10 million dinars in local taxes (levied by townships), the fiscal charge on the economy would be of the order of 22% of GDP. While comparatively high this would represent a slight easing of the tax burden of 1959-60 and 1961. The forecast of government revenue in 1964 is conservative in comparison with projected national production: while GDP is projected to increase by almost 40% between 1961 and 1964, tax receipts would expand by less than 20%. The divergence is probably due to the independent source of the revenue forecast - this having been made by the Revenue Service with the usual conservative bias in forecasts of such organisations. A tax reform is to be effected during the Plan period which is intended to raise tax revenues eventually. It is to streamline the complicated tax system in agriculture and to raise assessments on some direct taxes. On the expenditure side major increases are planned in education and agriculture, while other current outlays are expected to rise only slowly. As a result current expenditure (excluding debt service on the former French debt) would rise only from 55 million dinars in 1961 to 61 million dinars by 1964. Government savings would therefore be substantially increased, it is optimistically assumed.

66. Little reliance can be placed in mobilizing private savings through the capital market for use in public investment without endangering the precariously small financial resources required for Plan investments in the private sector. A major short-fall of savings available for the public sector would have repercussions on Tunisia's capacity to absorb foreign aid unless foreign donors would be prepared to finance public projects and programs with little participation by Tunisian authorities.

67. For the first year under the Plan only preliminary data are available for estimating actual performance in the field of public finance. Current revenues appear to have increased by 4 million dinars above budgetary estimates, not including a special new extra-budgetary tax on payrolls to finance the campaign against under-development, which brought in about 3 million dinars. Current expenditures were about 1 million below estimates. Public investment outlays (including cash payments under the government program against unemployment) rose from 38 million dinars in 1961 to some 40 million dinars in 1962. Public savings may have provided around 14 million dinars, equipment bonds (subscribed by banks) one million dinars, and a medium-term loan directly from the Central Bank 5.5 million dinars. The postal checking system provided new credits of 10 million dinars: these credits were pure inflationary finance since they were made possible by deposits made by the Central Bank with the postal checking system. Eight million dinars were financed by foreign loans channeled through the Central Bank.

68. Of the total new savings of 115 million dinars required for the Plan period the "private sector is shown as providing 35.6 million dinars and the "banking system" 32.4 million dinars. Information on private savings is scant. It appears that reinvestment has played an important role. The remainder of private savings, insofar as it has not been transferred abroad, has found its way into the banking system, into postal checking accounts

and in some insurance companies. The capital market is still very rudimentary; no organized exchange market exists though some quotations of securities are given by a private agency. Projections on private savings are necessarily speculative. The Planning Secretariat assumed that the Plan target of 35.6 million dinars would be achieved by some 12 million dinars annually from new capital invested in companies from new shares and ploughed-in profits (in 1960 and 1961 these amounted to 8.1 and 7.3 million dinars respectively) and private construction of 0.6 million dinars a year would be financed out of private savings.

69. The banking system is to supply 32.4 million dinars of savings. The banking system, though essential in the savings process, obviously cannot provide its own savings (with the exception of profits made on the banks' operations). The estimate of 32.4 million dinars is based on maintaining a fixed ratio of money supply to GDP, thus allowing for an increase in money supply with the increase in GDP. In other words, it is assumed that the bank balances that people will voluntarily wish to hold will go up at the same rate as total incomes go up. This is, of course, subject to considerable doubt and this method of finance should be used with a great deal of caution.

70. The developments in public finance dominated the banking picture during 1962. Bank credits extended to the private sector declined throughout the first three quarters of 1962 for which detailed data are available. At the same time, deposits in the banking and in the postal checking systems increased. The government's savings campaigns have also resulted probably in some people shifting their savings from being held in currency hoards to being held in bank deposits. The monetary reform of May 1962 - exchange of old five dinar bills against new notes - taken as a measure against owners of bills previously smuggled out of the country, also resulted in a decline of currency in circulation and in an increase of sight deposits. Part of the funds accumulated by the private sector presumably would have left the country without the stringent exchange controls presently enforced.

71. The general wait-and-see attitude of the private sector toward investment in 1962 and the back-up of funds awaiting transfer has essentially offset the inflationary finance by the central bank of the public sector. A more active private investment, as stipulated by the Plan, would have resulted in considerable inflationary pressure in 1962.

72. From the foregoing analysis it is quite clear that there is considerable doubt as to the possibility of mobilizing sufficient local savings to carry out a program of as large a magnitude as proposed. The next step is to examine the sector programs to get an idea of the feasibility of actually carrying out the magnitude of investment proposed. After this, we will return to a reconsideration of the impact of a possible short-fall in savings on the program.

#### IV. SECTOR PROGRAMS

73. The sector programs are presented in more detail in the Plan than in the Perspectives. The agricultural and educational sectors in the Plan are given in more detail than some of the other sectors. Project preparation was not evenly advanced in all sectors and, in fact, is becoming the bottleneck in some cases. The theoretical ideal of comparing the costs and benefits of individual projects before making allocations of funds to sectors remains an ideal and not a practicable possibility. Consequently, the need for careful analysis of each project coming up for financing remains - especially since not every project within high priority sectors has equally high priority.

##### A. Agriculture

74. Agriculture being the main economic activity in Tunisia, it has an important part both in the Perspectives and in the Plan (see Annex for a more detailed analysis of agriculture and of the plans in agriculture). A very large amount, 340 million dinars, has been projected for investments in the Perspectives and the production target is a growth of about 4% per year in value (from 76 million dinars in 1959-61<sup>1/</sup> to 119 million dinars in 1971). Except for grapes, this increase in production is to affect all commodities with, however, an accent on diversification from the traditional cereal cultivation towards stone fruits, livestock products and vegetables. The Plan targets roughly follow the trend indicated for 1971, but the grain output targets for 1971 were moved up seven years to 1964. While identical in output figures the grain targets are different in content. The 1971 outputs are to be achieved by achieving greater productivity on a smaller area compared to 1964.

75. The guide lines laid down for agriculture are: take over French-owned farms, modernization of traditional subsistence agriculture, and diversification of production both geographically (more emphasis on the Center and South) and in commodities (more emphasis on livestock, tree crops and vegetables). This is a combination of political goals (take over and special attention to Center and South) and economic goals (higher and more diversified production). According to the last census in 1956 there were 863,000 people employed in agriculture (including some that combined farming with handicrafts or housework, etc.). The Plan calculates that in 1971 the agricultural output projected could provide full employment for 455,000 workers on the basis of 220 days of work a year. Such a calculation, of course, assumes high quality and mobility of the agricultural labor force. Since employment outside of agriculture is not likely to be able to absorb several hundred thousand workers from the farms, by the end of the Plan such a drastic decline in underemployment is not really expected to occur.

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<sup>1/</sup> The most recent available figure for agriculture, covering an average (1959), good (1960) and poor (1961) crop year. The Perspectives gives an increase of 5.5% per year based on 1957 which, however, as a single and rather poor crop year is not very useful as a basis.

Investments in Agriculture, 1962-1964

<u>Categories</u>	<u>Amount</u> (Million dinars)
Agricultural Infrastructure	47.1
Of which:	
Irrigation	35.0
Forests	6.4
Soil Conservation	4.9
Grandes Cultures (Cereals)	22.2
Fruit Trees	19.2
Livestock, etc.	13.2
Vegetables	<u>4.4</u>
Total	107.6

76. The Plan primarily concentrates on improvement of the agricultural structure. As water is the main problem, the largest amounts are budgeted for irrigation and other water-control projects. Salinity is a difficulty in Tunisia and major research is under way. Investments in anti-erosion and reforestation, rural housing and education, are also to improve the agricultural structure. Special attention is given to the development of agricultural credit.

77. As far as the direct investments in agriculture are concerned, forage and livestock take the first place, followed by the Grandes Cultures (mainly cereals production). In the latter a reduction in area (about 23%) is planned but nevertheless a large increase in production is expected through higher yields. The Plan also includes the investment necessary after the take-over of the previous French farms for reorganization and mechanization; extensive planting of fruit trees (almond, apricot, peach, citrus, etc.); and a strong increase in vegetable production.

78. The implementation of all these plans is mainly based on an increase in government activities and strong emphasis on production cooperatives.

79. The economic goals of higher and diversified agricultural production are quite justified. However, too high estimates of some domestic consumption (see remarks above on elasticities of food consumption) and possibly optimistic views on exports might lead to some uneconomic surpluses. These problems, however, are not likely to arise before the end of the Perspectives period. If these problems do begin to arise it is most probable that corrective action will be taken in time.

80. The real problem for the immediate period is not one of surpluses but of trying to attain the targets set. Apart from the sheer technical limits of doing so large a program of investments and in increasing agricultural production rapidly, the major problem in Tunisian agriculture and in implementation of the Plan is the human factor. The lack of trained people is felt everywhere in agriculture. It is technical as well as administrative; there is a shortage of extension workers but not less of maintenance men to keep the machine park going. There are at present one agricultural engineer for 55,000 ha.

and one extension worker per 20,000 ha. Fifteen new agricultural schools (in addition to the existing school) are being set up to train extension workers and the first classes of graduates from them are to be available in August 1965.

81. However, it is not likely to be before the end of the decade that the number of well-trained and experienced people necessary to carry out the sweeping transformation necessary in agriculture begin to be available. Special training is being given to alleviate the shortage of mechanics. In the meantime, one is inclined to ask, whether the strong emphasis in the Plan on overall mechanization is the right move at this moment in agriculture. The cheap and dependent donkey, mule and camel can still perform many valuable and low-cost services.

82. This situation makes the rapid take-over of the French farms an extremely difficult problem. One can understand fully the dilemma of the Tunisian authorities. As things stand now any delay in taking over a property may mean serious decline in value and in production. Also for a newly independent country it must be difficult to leave her best agricultural lands in the hands of non-nationals, while many of her own people get a very poor living from their small and exhausted lots. On the other hand, these other farmers were really the backbone of agricultural production and foodstuff supplies in the country. The country cannot do without this production.

83. An FAO technical assistance report on the "Office des Terres Domaniales" which administers the French farms taken over, reports that for the 379 former French farms now under the administration of the O.T.D., there were in the past no less than 100 agronomists and 600 technical agricultural people (agricultural engineers, etc.). Compared to this, the whole O.T.D. has seven regional directors, seven temporary agronomists, 30 technical people and around 100-150 managers. While the field of action of the O.T.D. is supposed to triple in the Plan period this skeleton staff will probably receive only limited expansion, largely of people with little or no experience, which will make the deficiency compared to the previous competent farm staffs even larger. Trying to get some more equipment here as provided in the Plan might at least be helpful in increasing the productivity of the limited technical manpower available. Maintaining production, under such handicaps, on the pre-transfer level, would already be quite an achievement.

84. The other major problem is the traditional subsistence agriculture. Given the scarce resources in agricultural know-how, very limited extension facilities, and the individualist, conservative character of the Tunisian farmer, attached to traditional ways of living and working, and distrustful of outside guidance, the problem appeared almost insuperable in the short run.

85. The decision as to a method of meeting the problems fell on combining them: that is to say, the decision was to use a modern farm as a nucleus, organize the surrounding traditional farms around it on a cooperative basis and combine them with the modern farm into a "unite d'exploitation". In this way, the technical team running the modern farm would be stretched with its

know-how and modern equipment out to help bring the surrounding areas to a higher level of productivity. No increase in yields is expected during the Plan period from the modern farms themselves. The solution is frankly an experimental one and it is far from certain that it will succeed. It is notable in any case that the Tunisians have not taken the politically attractive but economically disastrous road of splitting up the modern farms among the traditional farmers and letting the whole level of agriculture sink back to a lower level of productivity.

86. With the generally pragmatic non-ideological approach of the Tunisians if the unites d'exploitation do not succeed within the next two or three years policy will be changed and some new approach tried. It is quite clear from the foregoing discussion that it appears highly unlikely that the 1964 goals will be reached. To reach on such short term an increase in cereal crops of over 40% on the good 1955-1959 average, appears to be unrealistic. Even in an agricultural economy with favorable natural conditions, such a rate of increase would appear most difficult. Mainly because of droughts, 1961 and 1962 were poor to average crop years and consequently, there has been no sign of any progress which would give hope that in the next two years the targets could be fulfilled. Even extremely favorable weather conditions will probably not bring these targets entirely within reach. As shown in the table below, the 1964 grain targets are above the results reached in the sequence of excellent crop years 1952-54 when rainfall was very much above normal<sup>1/</sup> and also the number of highly qualified people in agriculture was much greater.

Grain Harvests

(Thousand tons)

	<u>Average 1952-54</u>	<u>1960</u>	<u>1962</u>	<u>Plan 1964</u>
Hard Wheat	427	360	330	498
Soft Wheat	203	79	75	190
Barley	<u>230</u>	<u>136</u>	<u>106</u>	<u>255</u>
	860	575	511	943

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<sup>1/</sup> Annual rainfall in mm in the north:

	<u>Average 1901-1950</u>	<u>Average 1952-1954</u>	<u>Average 1961</u>
Tunis	415	673	420
Beja	626	869	408

87. A large part of the agricultural infrastructure program might be achieved around 1965. The prospects for higher yields and production of cereals in the Plan period appear to be out of reach and would be a notable accomplishment even if attained towards the end of the second half of the sixties. The longer term program for reform of the agrarian structure might have to be revised within the next couple of years. Many of the basic policies in both the Plan and the Perspectives will, undoubtedly, be maintained, but serious revisions will probably have to be made in timing and in the ways and means to reach the set goals. In the Plan period no substantial increases in exports of agricultural commodities are expected, as increases in output will largely go to increased home consumption and availabilities will probably not exceed the present level of exports.

#### B. Industry and Handicrafts

88. In view of the limited potential of agriculture and as emigration of labor even if it could be developed is unlikely to be more than a temporary phenomenon, as rapid an industrialization as economically justifiable is of first priority.

89. Tunisia does not have a large domestic market nor - broadly speaking - rich raw material resources lending themselves to a major industrial transformation. Tunisians have a long-standing tradition of trade and prefer investment in commerce. Finally, the technical and managerial skills essential for the successful running of industrial undertakings are still very limited. However, Tunisia has some compensating advantages. There is a substantial reservoir of unemployed labor which, given the projected improvement in average skills, should keep labor costs low. As small as the market is, the potential for import substitution has barely been tapped. Finally, and for the long-run industrial prospects probably more important, Tunisia is favorably located near Western Europe, in the center of the growing Mediterranean market and, if the Maghreb becomes an economic unity, Tunisia is in a good position to profit from its larger markets. The possibilities of attracting European management and capital and the opportunities to produce and sell labor-intensive manufactures abroad should be quite favorable in the long-term, especially if Tunisia has free access to Western European markets.

90. The Tunisian Government sees its role essentially as a stimulator of investment by appropriate policies and as an investor of last resort. Credit operations by government-owned investment institutes (Societe Nationale d'Investissements and Societe Tunisienne de Banque), and the credit control by the Banque Centrale de Tunisie are the most important instruments of the government in stimulating and in directing private investment. Tax holidays and protection from imports are the other main elements of the industrialization policy. Only after all these incentives prove to be insufficient to stimulate private industrial ventures does the government plan to step in itself as entrepreneur. In such enterprises, private ownership, however, is said to be the ultimate objective. This approach by the government is basically sound, if the management of enterprises is given sufficient independence.

91. The process of industrialization has been inhibited in Tunisia since independence in large part by the repercussions of the war in Algeria which stopped trade between the two countries, affected relations with France and periodically shook investor confidence. A wait-and-see attitude of the private investors has also been induced in part by the decolonization measures in Tunisia, and the policy of reform of commerce (discussed later on).

92. Another factor which may inhibit industrialization is the relative level of costs internationally. The Tunisian currency was detached from the French franc prior to the latter's last devaluation in 1959. French, Algerian and Moroccan costs, all other things being equal, have tended to be lower on an international plane than Tunisian. Any disparity is, however, being narrowed by the relative rise in prices in these other countries.

93. For whatever reason, the major industrial enterprises under way in the first year of the Plan were all mostly publicly-owned with the exception of the super-phosphate plant, "Forenade". Finally, the aid given by the government to small private industrial enterprises may well be inadequate in terms of capital. A special fund provided by AID of \$8 million equivalent and administered by the Societe Tunisienne de Banque for industrial loans on favorable terms to small enterprise has been extremely useful in helping new firms get started. However, it is fully committed now and there are no plans by the government to provide or secure additional funds for this purpose.

#### Mining

94. The Plan projects new investments of around 13 million dinars in mining. Almost one-half of this investment (6 million dinars) is projected for prospecting petroleum and natural gas. Prospecting activities of foreign oil companies in Tunisia's southern territory (the western borderline of which is only in part demarcated) will continue. The amount of these outlays may differ considerably from the Plan's targets; but in view of foreign financing and largely extra-territorial expenditure the direct impact of these outlays on the Tunisian economy will be small until petroleum is found. The remainder of investment in mining is planned mainly for improvements in the exploitation of the phosphate mines (3.35 million dinars). These improvements are needed to strengthen the Tunisian position on the world market. Part is for the upgrading to 75% phosphate rock at present being shipped at about 65%. As the latter is planned for the export market only, the Tunisian Government, the largest shareholder in the phosphate mining industry, has to assure itself first whether the export prospects of 75% phosphate justify planned investment. The capacity to produce 65% phosphate is planned to be expanded by some 170,000 tons (around 8% of present capacity) to supply the super-phosphate plant of "Forenade" to be in operation by 1965. Finally, investments

of around 1.6 million dinars are forecast in the iron ore mines (largely foreign-owned) to maintain the present level of iron ore exports and to prospect new iron ore reserves in view of the future operation of a steel mill near Menzel-Bourguiba.

95. Investment in mining though almost 5% of total planned investment or one-fourth of investment in industries, is required essentially to maintain the level of exports of this sector and to lay the foundation for expanding mineral output in the post-Plan period. Mineral products are some 25-30% of commodity exports and mining directly employs some 14,000 people in the mountain and sub-Sahara desert area in the southwest of the country.

#### Food Processing

96. The existing food industries in Tunisia depend on the fluctuating domestic agricultural crops, supplemented in recent years by imported wheat grains under the PL 480 program. There are over-capacities in a number of food industries, e.g., in canning tomatoes. New investments in this sector, planned at 2.8 million dinars during 1962-1964, are foreseen only for a few lines of production, the most important project being a sugar factory and refinery in Beja (1.5 million dinars invested in 1962). The factory and refinery was completed in fall 1962; it has a capacity of 20,000 tons of beet sugar production and of 60,000 tons of refined sugar (consumption estimated at some 88,000 tons).

97. While the government has started the sugar complex in Beja through direct subscription and through the government controlled banks, the proportion taken by private investors, which turned out to be quite small, depended on the extent of their purchase of 5 dinar shares which were freely available all over Tunisia. The second largest capital outlay in food industries is planned for fruit and vegetable canning (0.65 million dinars). Fruit trees planting, primarily in the central regions of the country, has been greatly expanded in recent years; by the mid-1960's the resulting increase in output will require additional processing facilities. A careful analysis will be required as to the potential market in fresh versus canned fruits and vegetables. The specific advantage of Tunisia in this field is seasonal: it is desirable, therefore, that as great quantities of fruits and vegetables as possible be sold fresh and that only the non-marketable produce be canned. An 0.2 million dinar investment for the date industry appears desirable - given the detailed financial justification - in view of stepping-up the export of this fruit which has no direct competitor produced in the European market.

#### Textiles

98. The Tunisian textile industry at the eve of the Plan consisted of a few small cotton weaving mills; the only major enterprise was a textile plant in Ksar-Hellal with 270 looms. As imports of textiles have amounted to some 13 million dinars in recent years (15-20% of the country's import bill) and some 7 million dinars were spent on the import of cloth alone there appears to be room for considerable import substitution. The original investment program of 3 million dinars was supplanted by a three-year development program prepared by the Office du Textile covering the period 1963-1965. It

calls for a massive expansion of Tunisian textile output through investing 8.3 million dinars in new production facilities. The revised program, however, was worked out in rather broad terms; additional preparation of the various projects will be required to allow a full appraisal of the new program. But in view of the employment potential and of the potentially favorable balance of payments effects high priority should be given to the detailed preparation of projects within the textile program. A start toward building up a Tunisian textile industry based largely on imported cotton has already been made with a spinning mill of 12,000 spindles (to expand by another 19,000 spindles in 1963) completed at the end of 1962 in Sousse and by an expansion of the textile complex in Ksar-Hellal. While both of these enterprises are essentially government owned with shares freely available to private investors, there are also small beginnings of a private cotton weaving industry. Given the labor intensive production in the textile industry the mobilization of private initiative is particularly important in order to overcome the scarcity in managerial skills.

#### Paper

99. In the paper industry the investment effort planned is to be concentrated almost entirely on a pulp plant in Kasserine (total cost: 6 million dinars, of which 2.15 million dinars during Plan period). This plant, scheduled for production in spring 1963, will transform into a high quality pulp the previously exported esparto grass with a traditional market in the United Kingdom. It is hoped that the pulp will encounter no market obstacles in the U.K. The capacity of the plant is to be an annual output of 25,000 tons of bleached esparto pulp; the input of 65,000 tons of dried esparto grass corresponds to some 80-90% of the average annual Tunisian crop. The collection of esparto grass provides a small though vital cash income for some 300,000 people in the disinherited southwest of the country. In order to take full advantage of the almost completed plant, it will be necessary to assure at least the continuation of the present crop level; the agriculture plan provides for improvements in the methods of conserving and harvesting the grass.

#### Oil and Chemicals

100. The construction of an oil refinery with an annual output of one million tons was started near Bizerta in 1962 as a joint venture by the Tunisian government and the Italian ENI. The 7.2 million dinars refinery is planned to start operating in autumn 1963 and will initially be run with substantial Italian technical aid.

101. The chemical industries are given the greatest weight of any industry (except mining) as measured by the investment projected during the three-year period (10.2 million dinars). Around one-half of this outlay is to be for the high concentrate triple super-phosphate plant in Sfax to be started in early 1963 by "Forenade", a subsidiary of a Swedish company with IFC participation. The 5.2 million dinars plant is to begin operation by 1965, producing 150,000 tons yearly for exports. The other major chemical project foreseen in the Plan is an ammonium phosphate fertilizer plant to be located at La Skhirra, the terminal of the petroleum pipeline from the Algerian Sahara. Serious negotiations are under way now with French oil companies on this

proposal. The plant (excluding power station) is estimated to cost some 10 million dinars of which 4 million would be spent during the Plan period, is planned for an annual capacity of 90,000 tons of ammonium nitrate, and 200,000 tons of ammonium phosphate. This output, initially greater than the Tunisian market, means that part of the output would have to be disposed in foreign markets. By the end of the decade, it might be fully absorbed in Tunisia. Finally, an expansion of the existing triple super-phosphate plant of the SIAPE in Sfax is planned (additional annual capacity - 50,000 tons) at a cost of 0.9 million dinars. These substantial capital outlays on new chemical industries are particularly important in their favorable impact on exports and the substitution of imports, estimated at some 9-10 million dinars, but also for the long-term prospects for the phosphate mining industries.

### Metal Industries

102. The Plan foresees an industrial center in the region of Bizerta-Menzel Bourguiba, consisting of a new steel mill and of new industries utilizing the large plant and dry-dock installations of the arsenal left by the French in summer 1962. The steel mill to be started in 1963 is estimated to cost some 13 million dinars of which 5.6 million dinars are planned to be spent during the Plan period. Taking the planned annual capacity of 70,000 tons, the cost per installed ton would be 185 dinars or some U.S.\$445, a relatively high figure for the type of operation. The ultimate cost per ton should be somewhat lower as the 70,000 tons is only the first tranche of the final capacity of 140,000 tons. All coke will have to be imported for the mill, while domestic scrap and iron ore are expected to be sufficient to cover the needs of the mill. While the mill has been carefully studied over a period of years, there is some danger that it may prove too small to be economically efficient. The Tunisian government is still working on plans to use the arsenal of Menzel-Bourguiba. The large buildings and a considerable stock of metal-working machines offer a unique opportunity to start new industries geared first to the domestic market, e.g., for the production of bicycles and of small machines, and for the assembly of more complex equipment. The dry-docks attached to the arsenal may be used for repairs of sea-going ships and for the building of fishing boats. Finally, a small tools plant (0.8 million dinars) is presently under construction in Sousse; it is being built with Polish financial and technical aid.

103. By the end of 1962 the industrial projects included in the Three-Year Plan were moving essentially according to schedule. Some lags may be found in the chemical industry; also the start toward a textile industry has been slow. On the other hand, some industrial investments have taken place in 1962 which were not foreseen in the Plan. The Plan's negligible target in the furniture industry is already over-fulfilled. There are indications of a selective private drive toward industrialization to be found particularly in the traditional commercial centers of Sfax and Sousse.

104. The major problem in industries, public and private, has been the availability of qualified manpower, particularly of managers, technicians, and accountants. This is realized by the Tunisian government and reflected in the educational program. However, in state enterprises the best use of available managers can only be assured if there continues to be sufficient independence of management from political interference by the government and the party.

### Handicrafts

105. Tunisian handicrafts have a deep-rooted tradition and are still tied largely into subsistence agriculture. In view of the importance of this sector giving some employment and income to an estimated minimum of 100,000 people, the government intends to strengthen handicrafts by a number of structural reforms. First, the raw materials used are to be prepared through industrial processes; e.g., the washing, spinning and drying of wool is to be done by industries providing a better material for the handicraft weavers. There is also some conversion of artisans into industrial workers in the same line of work - hand to machine pottery, etc. Second, some artistic guidance is being given to recreate valuable motifs used in earlier Tunisian handicrafts and to prevent competition in products that can be produced better and cheaper by industrial process. Third, some reorganization in the sales is planned to prevent exploitation of handicraft producers because of seasonal or other shortages of funds. These are the policy lines followed by the Office de l'Artisanat - the government's arm in this sector.

106. Out of an investment in handicrafts of 3 million dinars foreseen in the Plan, 1.3 million dinars are planned to be spent on handicraft centers organized and owned by the Office de l'Artisanat itself. These investments are being realized essentially in line with the Plan. The remaining capital expenditures of 1.7 million to be undertaken by the private and cooperative sector have barely been started because of a lag in setting up cooperatives of handicraft producers.

107. There is already some competition between industrially produced inexpensive shoes and handicraft shoes and between plastic houseware and handicraft pottery. In textiles similar competition is to be expected. The prospects of handicrafts in this competition are not favorable in simple and inexpensive products. There is some tendency for the Office to be over-protective and to over-centralize sales of products produced in its workshop for example. It has, also, as indicated above, gone in for the creation of some industrial enterprises employing former artisans. Unfortunately, the kind of talent needed to create and inspire good artisan products is only by chance qualified to run successfully an industrial enterprise on an economic basis. On balance, with the potential in tourism and a select though small domestic market a first-class handicraft sector should be able to survive successfully, but probably a considerably smaller one than that now foreseen.

### C. Building

108. The Plan foresees a major improvement in housing which is particularly unsatisfactory in rural areas. Many people are still living in overcrowded huts which the government plans to have replaced by small and simple buildings of concrete. There is less of a shortage in higher income housing as a result of the net emigration of Europeans in the last few years.

109. Roughly 10% of total investment in the Plan is projected to be channeled into housing (26 million dinars). So far the housing program has started very

slowly. Public expenditures on housing have been of the order of only one million dinars during the 10 first months of 1962 compared to a credit of 13.4 million dinars for the three-year period. Private housing, however, experienced a considerable expansion in 1962. Building permits during the first seven months in 1962 were some 80% higher than in the same period of the preceding year.

110. Expenditures by public authorities on administrative buildings have been well ahead of the Plan throughout 1962. In fact, payments on administrative buildings in the first ten months of 1962 have been larger than expenditures in this sector projected for the entire capital budget 1962-1964.

#### D. Tourism

111. Tunisia still has a considerable deficit in her external tourist accounts. This is related to the habit of visiting Europe by Tunisians and even more by the resident French and Italians. However, there are good prospects of greatly increased foreign exchange receipts from tourists to Tunisia, given good economic conditions in Europe and adequate efforts made by Tunisians. In fact, tourism is probably Tunisia's most promising single prospect for foreign exchange earnings requiring relatively small investments, giving employment to a number of both qualified and unqualified manpower and offering the best prospects for revitalized handicrafts.

112. Tunisia's potential for tourism has so far been realized only to a minor extent. The country has great advantages with her beaches, oases, historical sites, cheap labor and the fact that a European language is understood and spoken by the majority of the population. Also the geographic location of Tunisia in the north of Africa, the nearest country to the European industrial centers, enhances the possibility of attracting European tourists. This basic set of favorable factors should offset by far the lack of tradition in catering for foreign tourists and the competition by other Mediterranean countries.

113. Hotels in Tunisia under the Protectorate were owned and managed by European interests. These hotels were located in Tunis and in some of the major coastal cities. After independence, private interests, both foreign and domestic, showed little inclination to invest in hotels. The government decided to step in and to build a basic network of hotels. An Office of Tourism was created to implement the government's goals and the Société Hotelière Tunisienne owned by the Tunisian government in cooperation with some private capital runs a number of hotels built by the Office of Tourism. Some private Tunisian capital has also found its way directly in hotels (e.g., on the island of Djerba). The government expects that in the future foreign private capital will again be attracted by the tourist potential.

114. The government's initial plan, started in the late 1950's, was the construction of a minimum net of strategically located hotels which would allow tourists to travel through the country at a leisurely pace. Hotels were built and are being built in the major cities and along the most

attractive beaches. At present only four major hotels (out of some 12 hotels) foreseen in the Three-Year Plan have not yet been started. By mid-1963 some two-thirds of the planned projects will be open to provide services for tourists.

115. The Tunisian government has started a program of training local labor to staff the newly built hotels at all levels. Young Tunisians have been sent for training to various Western European countries under bilateral programs. The hotels so far completed have been staffed almost entirely by Tunisians. Some foreign management is contracted for a limited period of time.

116. The two large luxury hotels projected in Tunis will not be completed until after the Plan period. Later, the government intends to stimulate the construction of small hotel units of motels and bungalow type hotels at various Tunisian beaches. This approach may prove to be overly conservative if the bottleneck in staffing can be overcome, given a successful start in Tunisia's catering for European and American tourists. The subsequent efforts for expansion should only be limited by the interest of foreign tourist themselves and by the Tunisian potential for adequate staffing of hotels, allowing for the availability of foreign management under contract.

117. A large-scale expansion of tourism will increasingly require a better link of transportation between the European mainland and Tunisia. More frequent air service will be an initial step. An economically much more important link would be established by a ferry between Sicily and the Cap Bon. Discussions are underway between Tunisian and Italian authorities to explore the possibility of a ferry boat link. For the growing number of European automobile tourists being able to reach Tunisia easily by car would be a unique attraction. High priority should be given to a full investigation of the ferry boat link with Sicily.

## E. Transport and Communications

### Ports

118. There are four main ports, Tunis-La Goulette, Bizerta, Sousse and Sfax. Tunis-La Goulette has handled around half the total traffic and is the only port that is expected to require major investment over the ten-year period (1962-1971). The other ports have more than sufficient capacity to handle the expected growth in traffic with some minor improvements. The Bank has made a preliminary review of the proposed project at Tunis-La Goulette but not yet made a final project appraisal. However, it is clear that the growth of traffic requires expansion of the port facilities for Tunis and that this can only take place economically by a major shift from the port of Tunis proper to La Goulette on the sea.

119. The present estimate of investment needed for Tunis-La Goulette is around 3.5 million dinars compared to 2.9 million foreseen in the Plan, but further study of the costs is still underway. Due to the need for carrying out further engineering studies, work on the port, which would take about

three years, is not expected to start before the autumn of 1963, about a year and a half later than foreseen in the Plan. While the Perspectives foresaw a need only for this investment, there is a real possibility that further investment in expansion of La Goulette or elsewhere may become necessary during the ten-year period.

#### Highways

120. The extensive Tunisian highway system requires little new investment during the Plan period except for some opening up of local bottlenecks. Capital outlays on highways are planned in the amount of 3.7 million dinars. This capital expenditure program includes 11 highway links, two bridges as well as engineering studies for future projects. The well prepared program is being implemented according to schedule.

121. Transportation equipment on highways is generally up to date. The Plan does not foresee an expansion of the stock of highway transport equipment. However, a reorganization is planned to make improved use of the existing stock of trucks and buses. The government intends to group small transport enterprises into regional and national organizations. While such a reorganization may well be helpful there is always the danger if the government interference goes too far of smothering incipient entrepreneurs. The details of this reorganization are still to be worked out.

#### Airports

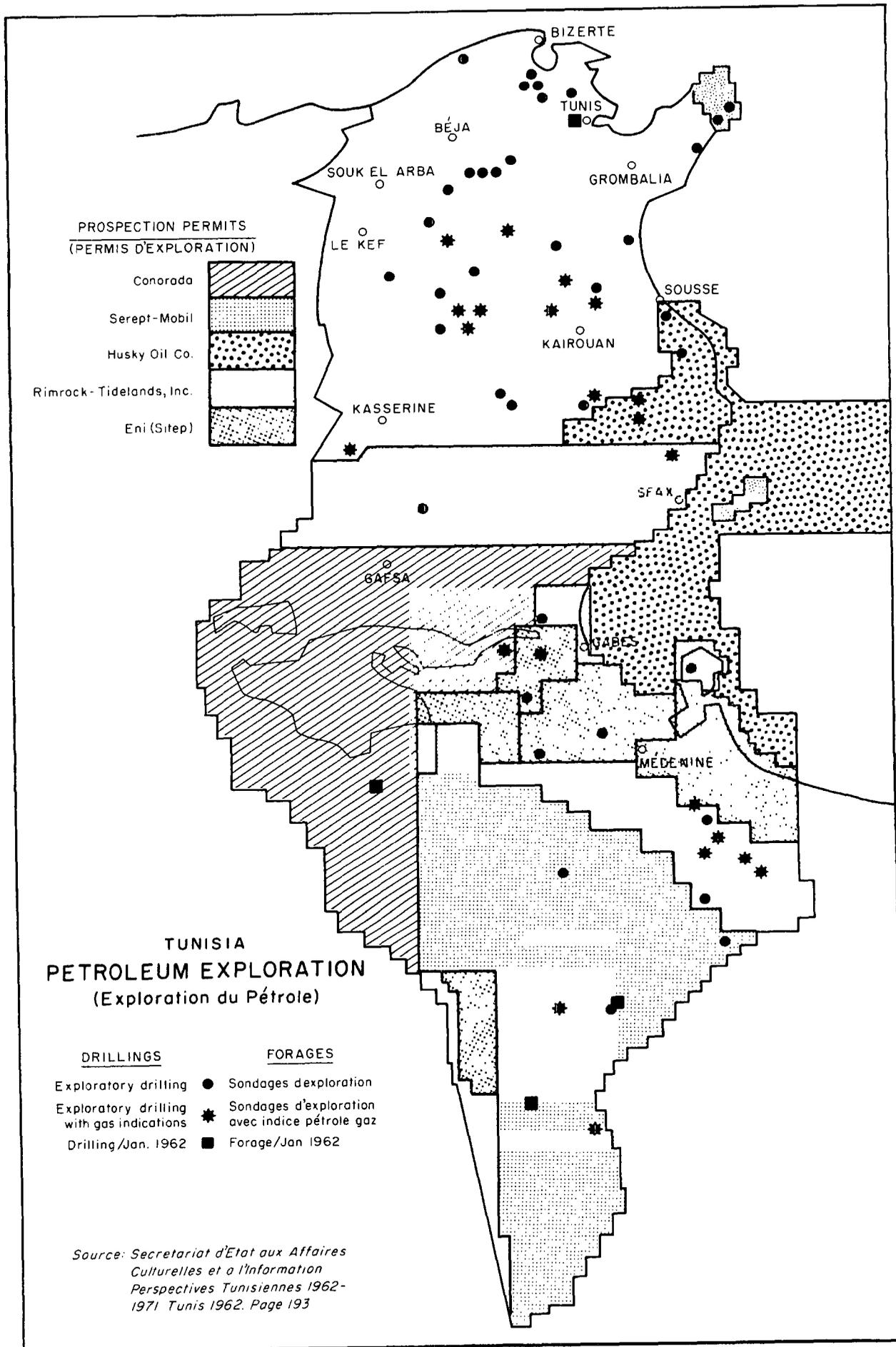
122. A program of airport construction is now underway. A runway of sufficient length for intercontinental jets is being added to the airport of Tunis; the runway costing 4 million dinars is practically completed and will open in 1963. In addition the airport of Djerba is to be improved (0.3 million dinars) in order to help develop the tourist potential of this island. "Tunis-Air", the national airline, owns a number of DC-3's and DC-4's as well as one Caravelle jet. New, not specified equipment, may be purchased out of depreciation reserves.

#### Communications

123. The program of the PTT foresees a major expansion and automation of the telephone network. The automation of the telephone network in Tunis was completed in December 1962, greatly improving the telephone connections in the nation's capital. The radio network will require additional investments of 0.6 million dinars during a Three Year Plan period mostly for increased power of the national transmitter network. No introduction of television transmission is foreseen before the mid-1960's.

#### F. Energy

124. Imports of oil are 90% of the total sources of energy. The local sources are grignon (the residue of olive pressing), a small supply of natural gas (sufficient for only town gas use in Tunis) and meager resources in hydro-power. None of the present local sources holds out much promise of



**TUNISIA**  
**PETROLEUM EXPLORATION**  
 (Exploration du Pétrole)

- |   |  |
|---|--|
| <u>DRILLINGS</u>                            | <u>FORAGES</u>                                   |
| Exploratory drilling ●                      | Sondages d'exploration ●                         |
| Exploratory drilling with gas indications * | Sondages d'exploration avec indice pétrole gaz * |
| Drilling/Jan. 1962 ■                        | Forage/Jan 1962 ■                                |

Source: *Secrétariat d'Etat aux Affaires Culturelles et à l'Information Perspectives Tunisiennes 1962-1971 Tunis 1962. Page 193*

appreciable expansion for the future. The main hope is in the large-scale oil search going on over most of the country.

125. Average per capita consumption of energy in Tunisia is about 130 kg of oil equivalent per year or about the same as in Portugal or Turkey. Total consumption has grown at about 4% per year over the last 25 years.

126. Of the half million tons of oil and oil products imported annually, the main consumers are transport and industry directly. About 100,000 tons are consumed by the thermal electric plants. The following table gives the main elements of the structure of the electric power industry:

	<u>La Goulette Thermal Sta.</u>	<u>Other Thermal Stations</u>	<u>Hydro</u>	<u>Total</u>
<u>Capacity in megawatts</u>				
1946	37.8	3.3	-	41.1
1950	52.8	13.5	-	66.3
1960	70.3	17.8	26.8	114.9
1962	70.3	17.8	28	116
1964 (Plan)	108	20	28	156
1971 (Perspectives)				
<u>Output in GWH</u>				
1946	79.9	12.9	-	92.8
1950	121.1	20.1	-	141.2
1960	206.2	20.7	44.6	271.5
1962 (Est.)	(230)	(21)	(40)	(290)
1964 (Plan)	-----	(322)-----	40	360
1971 (Perspectives)	-----	(800)-----	100	900

127. A power grid covers most of northern Tunisia and the area along the coast to Sousse. It is inter-connected with Algeria but the connection has been broken since 1958. All of the remaining cities and large towns have their own diesel plants and about a quarter of the industrial and mining enterprises. There are around 200,000 electricity consumers connected with the public power supply, and probably 40% of the Tunisian households are in the areas served. A unified public power company, Societe Tunisienne de l'Electricite et du Gaz (STEG) has been created from the various enterprises that existed before independence. The problem of compensation to the previous owners is a major problem, however.

128. Over the last 16 years electricity demand has grown at an average of almost 8% compound per year. In the six years since independence the rate of growth has been considerably less. The Perspectives and the Plan assume it will grow by 11% per year. The Plan provides for an expansion of La Goulette by 50 MW, the beginning of the construction of a 25 MW plant in the south, the beginning of the construction of a 225 KV line to Sousse, Sfax and La Skhirra, and the putting in of small diesel plants in 21 communities, mostly in the center and south. The total investment planned was 12.7 million dinars, of which 4.9 million was for La Goulette and 2.2 million for the high tension line, Tunis - South.

129. There have been discussions with Bank staff on the major items. Bank staff found that the plans were technically well-prepared but that substantial savings in cost were possible by more austere design and these suggestions were accepted. Also, the timing of the program mentioned above could be retarded so that in essence the major investments proposed in relation to La Goulette and Tunis could stretch over until 1967. This was due in part by finding that the rate of power consumption would be significantly less than was assumed and in part by technical adjustments in the plans.

#### G. Education

130. In 1958 the government introduced a Ten Year Educational Program which with only minor changes became a part of the Ten Year Development Perspectives and the Three Year Plan. According to this Program, by 1966-67, all children at primary school age would enter schools. At present, the rate of scholarization at the primary school age is 70% as compared to some 30% at the eve of independence. The ambitious program at the primary school level is supplemented by an even more pronounced expansion of secondary schooling. Secondary education is considered the key to economic development. Traditional six-year secondary schools are to be supplemented by three-year middle schools. These middle schools are set up for the practical training of primary school-leaving children who may not follow six-year courses.

131. On the whole the instrument of the middle school seems to be a good one in view of the country's manpower requirements. Shortages of skilled and educated manpower are at present the most important bottleneck frustrating the country's economic development efforts. While exact manpower requirements are difficult to establish in view of recent emigration and of existing shortages, there is no doubt that for well-qualified graduates, job opportunities will not be lacking for a long period to come.

132. The Educational Program, now in its fifth year, has an impressive record. Enrollment targets have very nearly been attained though the number of graduates in primary and secondary schools has been lower than projected on account of repeaters. Also the progress in enrollment of girls has so far remained behind the assumption that boys and girls would be sent to primary schools in equal numbers.

133. The output of Tunisian teachers during the Plan period will be insufficient to replace foreign, mostly French teachers (at present some 1,400) and to provide the additional staff required for new classes. Though first priority is given to the teacher training program the teacher shortage will remain very serious: despite an increase in the teacher/student ratio, some 500 additional teachers will be required for Tunisian secondary schools by 1964. Both training of Tunisian teachers and the recruitment of foreign teachers will require a great and continuous effort.

134. The financial burden of the education program is growing at a much faster pace than the economy may expand. Around one-fifth of the public capital budget for the Plan period 1962-1964 is to be spent on schools; by 1964 almost one-quarter of current government expenditure is forecast for education. In view of these heavy charges particular attention needs

to be given to keep costs as low as possible. The average cost of the schools to be built during the Plan period appears not only high, but also varies greatly as to investment per student. Improvement and where practicable, standardization in the specifications and design of school buildings would result in substantial savings. The government has asked the Bank to help in this and consultants recruited by the Bank for this purpose are expected to begin their work in February 1963.

135. Actual investment outlays (2.2 million dinars) of the government in 1962 were considerably behind the Plan schedule (1962-1964: 30 million dinars). However, construction has been greatly stepped up in the second half of 1962; the new construction authorized by the government by October 31, 1962 was 5.1 million dinars. I.D.A. made available an initial \$5 million credit for secondary schools in September 1962.

#### H. Commerce

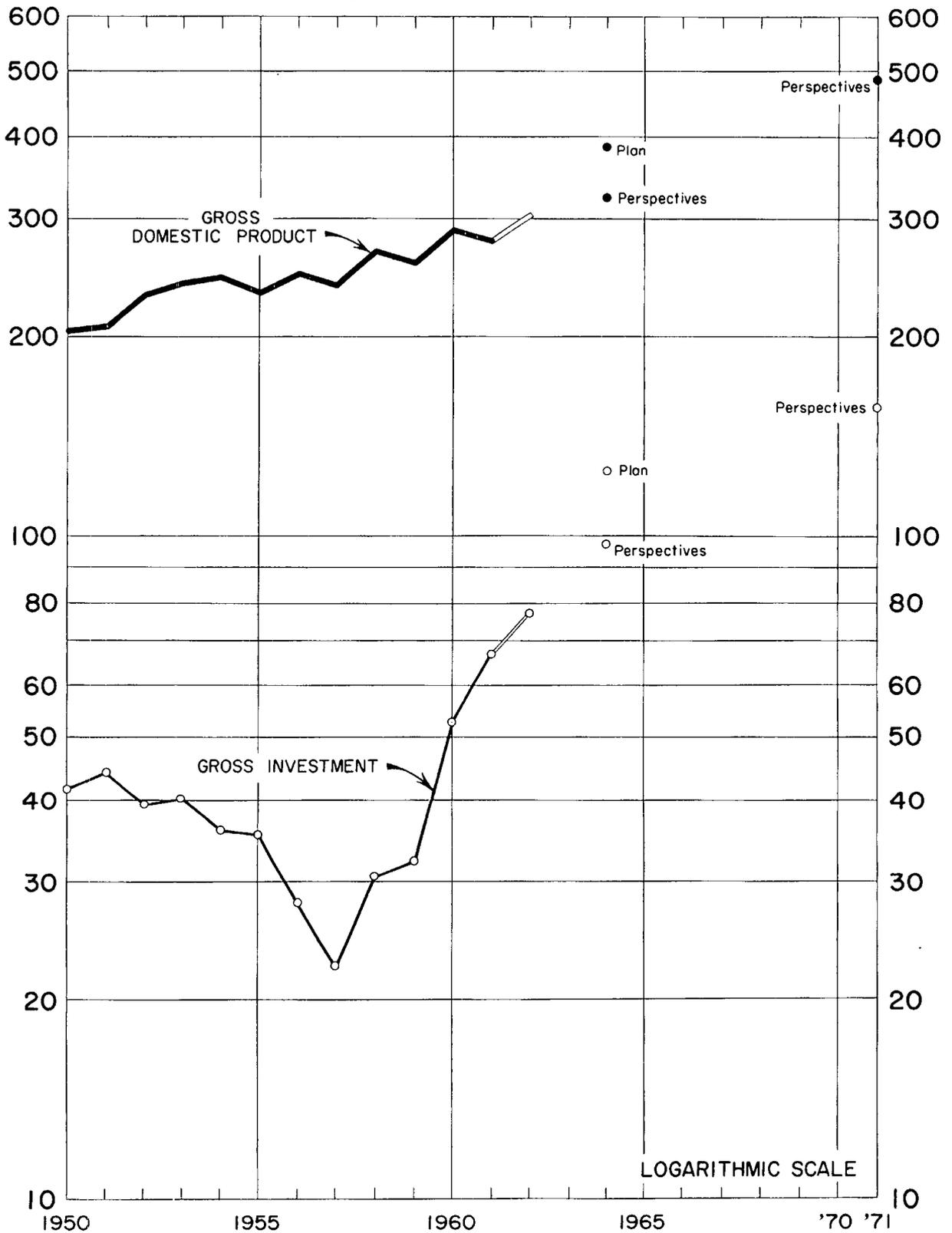
136. An important part of the Plan in the eyes of the government is a reorganization of commerce. According to the Plan, at present, there are too low prices for the producer, particularly the agricultural and handicraft producer, and too high prices for the consumer. Quality of goods also leaves something to be desired. It is the stated objective of the government to improve the distribution circuit and to pass on the gains from such improvements to the consumer: "Prices must be moralized".

137. The Plan is to reorganize retail and wholesale trades by direct government action. To start with, the government has through an Office du Commerce, reorganized distribution for a number of imported commodities, such as coffee, tea and sugar. Under this scheme, wholesale traders are allocated certain quantities which they have to sell to retailers at a prescribed margin; the retail price is set leaving the retailer a guaranteed margin. For his products a wholesale trader is not allowed to sell to the consumer. This system is to be introduced for all the main consumer goods. In addition, the government intends to sell certain commodities in direct competition to private traders where a monopoly or price-ring exists; this already is the case for fish sold by the Office de la Pêche, which has its own fishing vessels and distribution system, and a mixed government-private company has been set up for meat in the Tunis area. A system of authorization for foreign trading firms good for limited periods of time has also been instituted.

138. There have undoubtedly been abuses in the commercial system - monopolistic action, rings, taking advantage of lack of knowledge of customers, etc. Certainly, action by the government in making the market mechanism more effective is desirable. But some of the actions are more questionable: the increase in paper work and in policing of regulations, the elimination of competition by assuring markets and margins to traders, the diversion of some of the short supply of government administrative talent into this Sisyphean task.

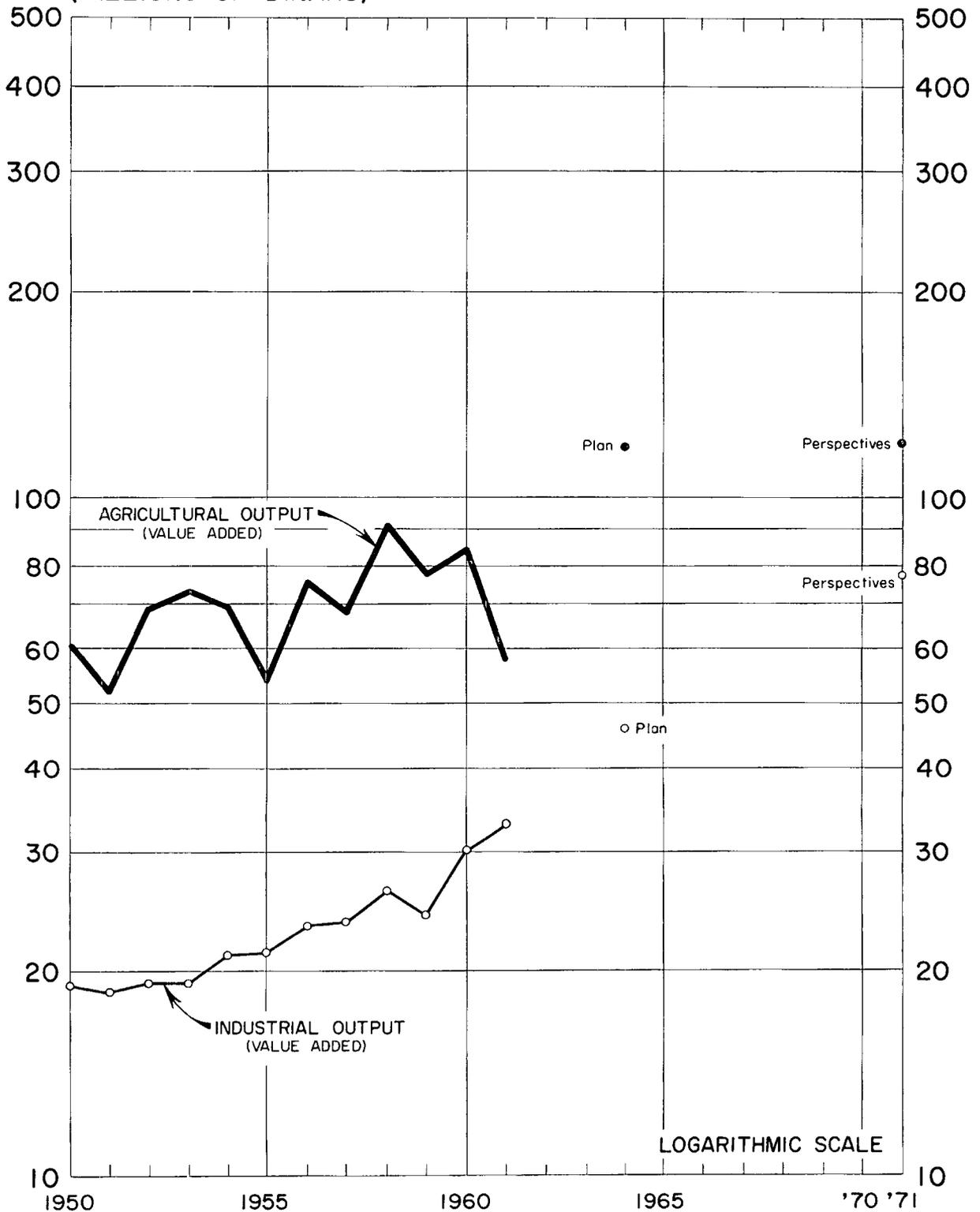
# TUNISIA: GROSS DOMESTIC PRODUCT AND GROSS INVESTMENT

(MILLIONS OF DINARS)



# TUNISIA: AGRICULTURAL OUTPUT (VALUE ADDED) AND INDUSTRIAL OUTPUT (VALUE ADDED)

(MILLIONS OF DINARS)



NOTE: The perspectives contain no projections for 1964.

139. The important role of price fluctuations in drawing attention to shortages and inefficiencies is endangered. Self-correcting forces of the market are impeded. The lack of recognition of the useful role played by wholesalers in holding stocks and in distribution contributed to breakdowns in the supply of edible oil when soybean oil was added to the olive oil, and of sugar in Tunisia when there were fears of interruptions in supply at various times during 1962.

140. The government's policy regarding domestic trade has not been fully accepted by some groups of traders. The fears and insecurity experienced by traders are not easy to overcome and may create additional problems in mobilizing domestic resources for the Plan. The trading community has traditionally been a major source of savings and of entrepreneurship in the Tunisian economy and unless this source can be tapped for the Plan the implementation of the Plan's targets becomes a considerably more difficult task.

141. The government's efforts in regulating domestic trade appears to be of a lesser priority than attributed in the Plan; a better cooperation of the trading community with more emphasis on the incentives to shift traders' activities into industrial ventures together with an increased fiscal effort to tap profits made by traders would seem to yield faster and more dynamic results than the efforts toward direct control of domestic trade.

## V. PROSPECTS AND CONCLUSIONS

142. A good development plan is more a process than a rigid blueprint. It should be a guide to action in the allocation of scarce resources to secure economic growth, more than a set of detailed marching orders. The Tunisian Plan is a good development plan and it is not at all surprising that it is being worked on, improved and elaborated in the course of implementation. In the preceding chapters we have already commented on some of the experience to date under the Plan. Before discussing the main outlines of this experience several general observations might be made:

- (1) The Plan has not remained on paper: a systematic and serious effort is being made to carry out the investments laid down in the Plan.
- (2) A good Plan is also an essay in persuasion and the government and the President are devoting a great deal of time and effort to educate the public to make its contribution to the success of the Plan.
- (3) A part of the Plan is on schedule or even ahead of schedule. These are in the main the sectors where the task is a clear-cut one of investment and there is not the problem of a fundamental transformation of the structure of the economy or of society. In the latter cases, there is a substantial delay and even some question whether the right approach has yet been found.

### Output

143. The GDP target for 1964 is 387 million dinars compared to 279 million dinars in 1961. In 1962, GDP is estimated to have gone up about 7 percent to around 300 million dinars. In the next two years, GDP will have to increase by 29 percent more over 1962 levels.

144. The preceding sector analysis indicated that the biggest uncertainties for the attainment of the Plan targets are found in agriculture. For 1963, the prospects in agriculture are rather favorable: a good harvest of olives in 1963/64 seems to be assured by well-timed rains at the end of 1962. Unless the weather in spring 1963 is exceptionally dry, the cereal crop in 1963 will also be above average. An increase in agricultural output in 1963 by some 20% above the level of 1962 is therefore quite probable. For 1964 a forecast of agricultural production is not more meaningful than a prediction of Tunisia's erratic rainfall by that period. It seems unlikely that the level of output in major crops will be increased as a result of the planned structural reforms and on account of the projected investment; on the contrary, some temporary drops in production of cereals may result from the progressive transition of large estates held by French settlers to Tunisian ownership. On the other hand, the value of production in agriculture is likely to be favorably affected toward the end of the Plan period and even more after 1964 by the large-scale planting of fruit trees in recent years.

145. Industrial output targets set by the Plan for 1963 and 1964 in part depend on the prospects for agriculture: from its influence on the supply of the food processing industries and on demand for consumer goods by the large agricultural population. The additional output projected from recently built plants and from some plants presently under construction appears to be assured by 1963 or 1964. This is true for the sugar industry in Beja, for the cellulose plant in Kasserine and for the oil refinery in the Bizerta area. The modest goals for textile output set in the Plan also appear to be obtainable. As to chemicals, the Plan target is probably over-optimistic as the start in this sector has been somewhat slow. On balance, industrial output by 1964 may only fall short by little, perhaps 5-10%, of the gross value projected in the Plan.

146. The high output figure projected for construction in 1964 is unlikely to be obtained given the lags noticed in this sector. The ports and power programs will be delayed. Government services, on the other hand, are likely to expand essentially in line with the projection given in the Three-Year Plan. For other services, actual prospects are more difficult to ascertain. However, the respective targets given in the Plan appear well founded and in tourism, there may be even an underestimate of the services actually provided by 1964.

147. From these sectoral considerations it appears that GDP by 1963 may increase to some 330 million dinars. The overall output target for 1964 (387 million dinars) might be nominally achieved under exceptionally good weather conditions in late 1963 and early 1964. A "normal" year - as far as weather is concerned - might result in a GDP of some 350-360 million dinars by 1964; a drought could reduce GDP to 320 million dinars.

#### Manpower

148. Little is known about employment so far created under the Plan. Given the prospective increase in the labor force (males: around 30,000 per annum), the increased use of women labor, and the experience that employment tends to increase at considerably smaller rates than production, the Plan's target of full employment of the male labor force by 1964 appears overly optimistic. The goal of full employment might more carefully be set for the end of the decade when the impact of the Three-Year Plan and of subsequent development efforts should be felt.

149. In 1963, some 90,000 of the men employed in the "Fight Against Underdevelopment" Program of work-relief are to be brought into the direct employment of the central government, particularly of the Department of Agriculture, and these expenditures are to be integrated in the government budget. This is expected to help cut costs and better integrate the projects with the Three-Year Plan. The unemployed or under-employed who cannot be absorbed in this way will continue as far as possible to be given work in a work-relief program as in the past. The governors have shown considerable ability in starting work relief projects, in mobilizing the laborers and in executing projects which were evidently of interest for the local population. As a result of this generally successful organization, the execution of the Three-Year Plan in agriculture has advanced rather well with respect to projects that could be undertaken under the work-relief program.

Investment

150. The preceding chapter on the sectors has indicated that progress in implementing the investment targets of the Plan has, in 1962, differed greatly between sectors and that the performance in the future may also be rather uneven. Agriculture, planned to account for 40% of all net investment outlays under the Plan, has had a slow start: budgetary capital expenditures on agriculture which were to account for 70% of investment outlays in this sector during 1962-1964 have lagged behind schedule. Up to December 31, 1962 payments under the capital budget for agriculture amounted to 6.3 million dinars<sup>1/</sup> and new authorization to 7.4 million dinars, as compared to the Three-Year Capital Budget for agriculture amounting to 75 million dinars. Medium and long-term credits to agriculture declined during the first three quarters of 1962. Overall investment in agriculture in 1962, therefore, was considerably behind schedule. In 1963 the slow start of the agricultural program is still likely to be felt and in 1964, when an increase in agricultural investment of some 30% above the planned level for 1963 is foreseen, extraordinary efforts will be required to bring about the implementation of the Plan targets. In industry, investments appear to be only a little behind targets, with chemical industries tending to lag. The level of investment in industry may soon level off - as foreseen in the Plan - or even decline unless capital outlays on the steel mill, on the textile industries and on the chemical complex in the La Skhirra proceed according to schedule. The Three-Year capital outlays on administrative buildings of the government were already fulfilled in 1962, and will decline in the near future. Investment in housing, starting slowly in 1962, may gather momentum in 1963-1964. Investments in tourism have largely performed according to schedule; also the capital outlays on airports have been realized on schedule.

151. The overall investment targets of the Plan were not achieved in 1962. Despite this shortfall the gains made in raising the level of investment are impressive, as shown by the following table:

Investments, 1960-1964

(In million dinars)

	<u>Actual</u>			<u>Plan</u>		
	1960	1961	1962	1962	1963	1964
Net	n.a.	n.a.	n.a.	80	90	100
Gross	53	67	(75-80) (prelim.est.)	95	110	125

<sup>1/</sup> During 1962 cash outlays of the Tunisian Treasury under the "Program Against Underdevelopment" amounted to around 12 million dinars; a substantial but not yet ascertained part of this was spent on agricultural projects.

152. Overall investment in 1962 has fallen short of the target by around one-fifth. In 1963 and 1964, again, shortfalls may also be expected. In 1963 investment might rise as high as 85 million dinars; for 1964 a projection is necessarily still more speculative, as by then a change in attitude by private domestic investors or new foreign investors could result in a considerably stepped-up investment activity.

### Money and Prices

153. During 1962 (to November 30) bank credit to the government jumped from 27 to 53 million dinars. Of this 26 million dinar rise, 8.4 million is represented by foreign loans (\$20 million) secured by the central bank for, and passed on to, the government. Foreign exchange reserves dropped by 5 million dinars, credit to the private sector dropped by 2 million dinars, and savings and term deposits absorbed another 2 million dinars. The net result was that money supply went up by 8 million dinars or about  $8\frac{1}{2}\%$  compared to an estimated rise in GNP of around 7%. Since foreign exchange control held down import purchases and prevented some capital transfers, it is quite likely that a substantial portion of the build-up of bank deposits is involuntary and does not represent voluntary savings in the form of desired increased holdings of cash balances. A large part of the explanation of the foregoing developments in 1962 is in the fact that public investment under the Plan (even though behind schedule) has gone faster than domestic savings have grown and foreign aid could be absorbed. The latter in turn is largely due to the transition in American aid from untied to tied aid and to the slow start of most other aid. A large part of the Plan in the first year has been therefore in a sense "pre-financed" by bank credit. Clearly, this is a process that, if it were continued, could become quite dangerous.

154. Prices of certain essential food products are regulated by the government; the same is true for prices of utilities. The old cost of living index which is no longer representative showed a decline in 1962. A new, much better index shows a rise instead of  $3\frac{1}{2}\%$  in 1962. Little pressure on wages appears to have taken place in view of the existing unemployment although there were a couple of important outlaw strikes not supported by the unions. Certain high quality meats are difficult to obtain; some repair services are available only at rather high cost. Olive oil, an important ingredient of the Tunisian diet, was under speculative demand in late fall 1962 when the government decided that to maintain exports, domestic consumption of olive oil should be supplemented by imported soya bean oil. While these instances might be taken as signs of a disequilibrium economy, i.e. as indications of a pent-up demand manifesting itself in this way, there are better explanations in each case. The meat and olive oil are both commodities that have been taken over by state organizations which have experienced difficulties in substituting themselves for regular market arrangements and the repair services problem is due to the departure of the Italian skilled workers.

155. So far, therefore, the Plan has not run into real inflationary problems. But there is a danger ahead. When private investment picks up - as it must if Tunisia is to develop - and if the government is still dependent on bank credit to finance a substantial part of its investment, inflationary pressure will then become a difficult obstacle in carrying out the Plan.

Savings

156. It is clear that major efforts are required by the government to raise the low level of savings. The following table compares the Plan figures for gross investments and how they were to be financed with the actual figures so far.

(In million dinars)

	Actual			Plan		
	1960	1961	1962 (prelim. est.)	1962	1963	1964
Gross Investment	<u>-53</u>	<u>-67</u>	<u>(-75--80)</u>	<u>-95</u>	<u>-110</u>	<u>-125</u>
Foreign Aid	+25	+32	(+35)	+45	+45	+57
Domestic Savings	+30	+29	(+35--40)	+48	+56	+62
Use of Foreign Exchange Reserves	- 2	+ 6	(+5)	+ 2	+ 1	+ 6

The major shortfall from the Plan targets on the financing side therefore appears to have been in the domestic savings effort. Budgetary savings (including blocked debt service payments on the French debt) were probably of the order of 14 million dinars, while private savings were of the order of 20-25 million dinars.

157. As indicated above, a level of investment of some 85 million dinars in 1963 is likely to be closer to realism than the planned level of 110 million dinars. Should foreign aid be forthcoming at 45 million dinars as projected in the Plan, domestic savings need not rise significantly above recent levels and no further drawings on foreign exchange reserves should be required. However, by 1964 a higher level of investment, say of 100-110 million dinars, will not be feasible without a greatly stepped-up domestic savings effort, assuming the projected level of foreign aid (57 million dinars) to be realized.

158. The government has already established institutions for the mobilization of private and public savings to be channeled into industrial and agricultural ventures (Societe Nationale d'Investissements, Societe Tunisienne de Banque, and Banque National Agricole). A number of industrial enterprises have been organized in recent years by the government which intends to dispose of its holdings to private investors. While at present the number of potential buyers of such shares appears to be still small, it would seem useful for the government to prepare the organization of a security exchange for stocks as well as for bonds. By the end of the Plan period the sale of shares in financially sound public enterprises could become an increasing source of funds for future ventures started by the government.

### Foreign Aid

159. The Tunisian Government has already been successful in getting foreign aid promises for a sum nominally equivalent to the total of 155 million dinars (\$372 million equivalent) projected for the Plan period as is shown in the table on the following page. Due to the difficulties (discussed later on) of actually realizing these promises during the Plan period, the figures of the amounts (totaling around \$140 million equivalent) that have been agreed for specific projects or purposes may be much more meaningful in this connection.

160. In addition, since December 31, 1962, Sweden has agreed to give a loan equivalent to around \$1 million for the development of the fishing port and area of Kelibia as well as technical assistance for fisheries training and a planned parenthood medical center. Negotiations were well advanced with Kuwait by the end of March 1963 for a loan of 7 million Kuwait dinars (\$19.6 million equivalent) for development of the Medjerdah valley, the power central of La Goulette and part of the costs of the proposed steel mill. A loan agreement had also been signed with Bulgaria for the building of the Olympic Stadium which has a total cost of 2½ million dinars (\$6 million equivalent). The IBRD has indicated an interest in helping finance the port expansion of Tunis-La Goulette which may have a foreign exchange component somewhat under \$5 million equivalent. No direct foreign aid has been received from France since 1957 as a result of difficulties arising out of the Algerian war except for an important contribution in technical assistance. Since the independence of Algeria in July 1962 rapid progress has been made in settling all matters in dispute between France and Tunisia in a spirit of cordial accommodation. There are also other possible sources which may consider seriously the possibility of making aid available to Tunisia if approached properly.

161. Actually absorbing the amount of foreign aid promised during the Plan period is a difficult problem. First, the bulk of the foreign aid available from governments is triply tied - to projects, to imports of equipment, and to purchases from the donor country. Each of these conditions represents a problem. The total amount of imported equipment forecast as needed for the Plan period is only 110 million dinars; if every bit of equipment imported could be tied to a project and financed by foreign aid, there would still be a need of some 45 million dinars of other imports that would have to be financed (or 45 million dinars of local expenditures paid for by foreign aid). Second, there is the need to prepare projects. This is an indispensable procedure whether foreign aid is to be a source of financing or not but requirements of foreign donors are often considerably more rigid and more specific than required for domestic finance. As our sector review has shown, the preparation of projects has become the retarding factor in many of the sectors.

External Aid for Plan. 1962-1964

As of December 31, 1962<sup>1/</sup>

(In millions of dollars)

	Agreed or Promised	Committed for Specified Purposes	Disbursed During 1962
<u>Public</u>			
U.S.			
Loans undisbursed Jan.1,1962	36.1	36.1	5.9
New	12.4	12.4	-
Special Assistance	10.8	4.1	0.1
Plan Support	180.0	8.1 <sup>2/</sup>	-
Total U.S.	239.3	60.7	6.0
U.S.S.R. loan	27.5	2.6	0.3
Italy loan	10.0	10.0	10.0
Poland loan	10.0	(7.0)	(6.0)
Czechoslovakia loan	10.0	-	-
Germany loan	7.5	3.0	-
I.D.A. credit	5.0	5.0	-
Yugoslavia loan	5.0	-	-
I.F.C. loan & participation	3.5	3.5	-
U.N. Special Fund grant	2.5	2.5	0.5
Total Public	320.3	94.3	22.8
<u>Exporter Credits and Other</u>			
First National City Bank loan	10.0	10.0	10.0
N.P.K. fertilizer	7.3	7.3	3.0
E.N.I. refinery	2.4	2.4	(2.0)
Oil exploration	14.4	14.4	(6.0)
Exporter credits:			
Export-Import Bank	2.4	2.4	1.4
Italian - Eternit	0.2	0.2	0.2
- Refinery	(8.0)	(8.0)	(6.0)
Austrian	0.5	0.5	0.5
N.P.K. fertilizer	1.9	1.9	-
Total: Other	47.1	47.1	29.1
<u>GRAND TOTAL</u>	367.4	141.4	51.9

<sup>1/</sup> While this table is based on the best information available, it may not be complete; the Tunisian Government is still in process of setting up a comprehensive reporting system on external aid. The table excludes expenditures on technical assistance and the bulk of aid given in the form of agricultural surplus commodities. The latter from the U.S. was worth around \$32 million in export value in 1962.

<sup>2/</sup> This consists of \$6.1 million allocated as Development Grant and \$2 million of PL 480 commodities.

162. A particular problem has arisen from the very size of the U.S. aid contribution to Tunisia. While the U.S. has made available a substantial part of its aid on an untied basis, most of it must be related to imports from the U.S. The United States has raised her share in Tunisian imports from some 3% in 1958 to 15% in 1961 and early 1962. The predominant role of France as supplier of Tunisian imports, particularly of manufactured goods, was safeguarded by the preferential treatment of French imports in Tunisia. In November 1962, Tunisia negotiated a new trade agreement with France giving her the right to set import controls also on goods exported from France. But in order to overcome the traditional inclination for French products and the customary supply lines, exporters of other countries and in particular U.S. exporters, will have to step up their sales and servicing activities in Tunisia. The difficulties in absorbing American aid are so great that the strong probability is that the amount that can be used during the three years, 1962-1964, will be considerably below the amount available. A total of \$47.5 million of loans has been promised from the Eastern bloc. These also for somewhat different reasons are not easy to realize. Consequently, even though the total of foreign aid is nominally already practically equal to the Plan objective, the need for substantial amounts of assistance from other sources still exists.

163. Another important consideration is the fact that domestic savings are likely to fall considerably below the Plan projections. If the foreign aid available is absorbed, the degree of dependence on foreign aid in carrying out the Plan will be considerably increased; but over the Plan as a whole, the reliance on foreign assistance may not exceed 50% of gross investment.

164. Summing up the foregoing discussion on investment, savings and foreign aid, the following table compares the Plan figures with what now appears to be the likely outcome. In brief, what this table shows is that it will probably take four years instead of three to achieve the original Plan targets.

Investment, Savings, Foreign Aid, 1962-1964

(Million dinars)

	<u>Three-Year Plan</u>	<u>Mission Forecast</u>
Domestic Savings	175	110-120
Foreign Aid & Investment Utilized	<u>155</u>	<u>110-140</u>
Gross Investment	330	220-260

Balance of Payments

165. The revised balance of payments projection of the Planning Secretariat (Appendix Table 30) appears, at least in terms of net balances, realistic. Exports in 1962 (at 49 million dinars) fell short of the target of 50 million dinars; but imports were also one million less than projected. In fact, the deficit in the balance of trade projected at 42 million dinars turned out exact. The other items apparently were off somewhat and foreign exchange reserves fell by 5 million rather than 2.4 million dinars. The prospects for exports in 1963 and 1964 are tied essentially to Tunisia's agricultural production, to a lesser extent to mining output, and to the availability of market outlets for these products. The small increases in exports projected for 1963 and 1964 (52 and 56 million dinars respectively) appear to be conservative, perhaps overly prudent. The important market arrangements with France for wheat and wine are assured for the period considered.

166. Import projections for 1963 and 1964 allow for a 7% increase in 1963 and another 11% rise in 1964. The major factors affecting merchandise imports during the remainder of the Plan period are the level of agricultural production, the import component of investment outlays and the progress toward import substitution. For 1963 a further decline of cereal imports may be expected unless a drought in spring 1963 upsets the good prospects of this year. Given the probable shortfall in investment the imports resulting from these activities are likely to be in line with the import projection revised downward by the Planning Secretariat. Import substitution, on the other hand, will be rather selective during the Plan period, affecting first the import bill for sugar, but also reducing the import value of petroleum and petroleum products and, later, of textiles. Overall import projections for 1963 and 1964 appear reasonably prudent.

167. The balance of payments projection for services also reflect conservative judgments: as to tourism it appears that from 1963 onwards the greatly increased hotel space should result in a considerable rise of net receipts from tourism, unless these improvements are offset by a similar increase of vacation outlays by Tunisians abroad. There should be a sharp drop in current foreign government outlays, i.e. essentially by the French military expenditures, in line with the reduced French military interest in the Bizerta-Menzel Bourguiba area.

168. The overall deficit in Tunisia's balance of payments on current account (including private transfers) may therefore be estimated as follows:

(In million dinars)

1962	40
1963	45-50
1964	<u>45-60</u>
	130-150

169. These figures obviously must be highly tentative. They could be thrown off by a change in foreign exchange control policy, for example, allowing the speeding up or slowing down of the repatriation of former French private investment in Tunisia. The impact of any shortfall of foreign aid or investment as compared to the overall balance of payments deficit must be taken by the foreign exchange reserves. These have remained fairly constant but at a level of around 30 million dinars, equivalent to around four months imports currently. As at least a nominal member of the franc area, the central bank of Tunisia may have access to short-term assistance from the Banque de France. Tunisia's quota in the IMF is \$18.3 million but she has not yet agreed a par value and consequently any drawings would be quite difficult.

#### External Debt

170. The presently outstanding external public debt of Tunisia consists essentially of loans provided by the French Government after independence to 1957, of a series of U.S. Government loans (mostly repayable, at the option of the borrower, in foreign exchange or in dinars) and of some recent private bank credits. A complicated financial dispute between France and Tunisia started in 1957 and Tunisian service payments due to the French Treasury on pre- and post-independence debt were discontinued. A settlement of the dispute was reached between the two governments in January 1963 wiping out the pre-independence debt and offsetting the arrears on the rest of the debt. Service payments on the remaining French debt will be resumed this year. The settlement also brought to an end a dispute on pension payments to former Protectorate employees, on war damage payments, on the savings accounts in the French Caisse d'Epargne, and on the reserves of the former Banque d'Algerie et de Tunisie. Negotiations have just been completed on the compensation of French settlers for land being secured from them. Compensation for French investors in the nationalized power has not yet been agreed.

171. The annual service on debt remaining after the French settlement amounts to about \$6 million equivalent a year (5% of 1962 export earnings) up to 1967, falling thereafter to some \$3 million (except in 1974 when a \$10 million Italian credit is due to be repaid in full).

172. Debt service arising out of new debt incurred during the Three-Year Plan and even more during the remainder of the decade covered by the Perspectives may be projected only in a rather conjectural fashion. If foreign aid amounted to as much as \$265 million equivalent in the remaining two years of the Plan (1963 and 1964), and were available only on "hard" terms (.e.g. 20 years, 5%, 2 years grace), then, in 1967 the annual debt service would be around \$30 million, instead of the \$6 million which will be due on present debt in that year, or some 20% of export earnings, assumed to have risen to around \$150 million by that time.

173. Actually, the donor countries have appreciated the difficulty Tunisia would face in assuming hard debt terms and the bulk of the aid is being made available on "soft terms". While all the conditions are not yet known, the best estimate is that the annual debt service will be around \$15-20 million in 1967 or 10 to 13% of forecast export earnings. This should not be an intolerably high burden of debt service but it will not be easy either. Following the Three-Year Plan, foreign assistance in large amounts will still be necessary for some years. Quite clearly, a substantial proportion of this will have to continue to be on non-conventional terms if the debt service burden is not to get out of hand soon after 1966.

#### Outlook

174. By the end of the first Three-Year Plan period, major changes will have been introduced into the Tunisian economy. Most of the land held by French settlers will have been taken over by the Tunisian Government, and agriculture will be in a period of reorientation and experimentation. A number of new industries will have been introduced from which future industrialization may radiate. In tourism, perhaps the most promising immediate prospect of the Tunisian economy, a strong beginning will have been made. But the most important of all changes will be taking place in the training of people. By the mid-1960's the rate of scholarization will be greatly increased, the average training of the school-leaving population entering the labor market will be improved, and a substantial flow of technicians, engineers and other high level manpower into the economy will have begun.

175. During the First Plan valuable experience will be collected by the Tunisian Government and the agencies involved in economic planning. This should prove to be of great help in preparing a Second Plan. Preparations are already under way in order to assure that the development effort may be continued in a coordinated fashion by the end of the Three-Year Plan period. In fact, changes in the economic and social conditions of the country during the First Plan are likely to be such that the Ten-Year Perspectives may require a thorough revision.

176. Education, training and the improved use of Tunisia's human resources is likely to remain, for a number of years, the most urgent problem on the domestic front. The still small group of excellent civil servants requires expansion by a broad support of middle range administrators. Continued great efforts will be required by the government to relieve shortages of teachers, managers and technicians. It will also become increasingly important that rare managerial and technical skills in the government and in semi-government agencies not be wasted.

177. The transition to modern agriculture will take many more years than the short Plan period. The Plan period itself should help to give the government experience in organizing agriculture in the direction of greater success. A thorough stock-taking of the agricultural potential has been begun as a part of the preparations for the Second Plan. The government is making great efforts to stimulate industrialization, essentially by direct investment in new industries. A great deal has been done already to make available incentives to private enterprise. This needs to be

continued since only if a substantial effort is made by private investors will the full opportunities open to Tunisia be grasped. In this particular instance, the "Plan" mentality may be a handicap if it leads the government to attempt to try to secure "orderly development" in what is inherently an organic rather than mechanical process.

178. In foreign economic relations, there is now some hope that most of the present uncertainties are likely to be overcome within a short period. The important economic relationship with France has already been favorably settled with respect to trade relations and to various financial claims. The remaining matters should not prove too troublesome. There are still uncertainties vis-a-vis Algeria but it is hard to imagine a worse result than the situation during the Algerian war. The economic relationship with the other countries of the Maghreb and their future relationship with the European Economic Community will have to be worked out, probably within the remainder of the First Plan period. An association with the E.E.C. would be of great importance in broadening markets for Tunisian products and facilitating potential investments by E.E.C. countries in Tunisia. Close economic relationships with the Maghreb countries would also be of great benefit for the development of Tunisia and, indeed, for all of the countries concerned.

179. From the analysis that has been presented of the Tunisian economy and its plans, the conclusion appears quite clearly: while there are many problems and while the Plans will not work out perfectly, in the main an excellent start has been made. Foreign aid foreseen in the Plan, and already promised to Tunisia, amount to substantial amounts. There is no other country with the population of Tunisia, or greater than Tunisia, which may expect to receive annually as much foreign aid as Tunisia: almost U.S.\$30 per head. This high capital inflow into a country with poor natural resources, puts a great responsibility both on the giving countries and on the aid receiving country to assure proper use of the resources made available. The conclusion that this report comes to is that on the whole the Tunisians are making good use of the resources that are made available to them. This does not obviate, of course, a careful economic, technical and financial analysis of each project financed even if the project is in a high priority sector.

180. With all the normal reservations about forecasts, bearing in mind the need for a periodic, close review of the developments in the Plan and in the Tunisian economy, and with the continuance of Tunisian political stability, our final remarks are: (a) if the promise of the approach and experience so far in Tunisian economic development is fulfilled; and (b) if foreign donors continue the interest in helping Tunisia that they have so far, then, it is highly likely that although the Three-Year Plan will prove to be over-ambitious, the goals of the Perspectives may prove to be too modest. In short, "la Tunisie est bien partie".