Statement by Luc Hubloue
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Tunisia: Country Assistance Strategy

Tunisia’s macroeconomic performance and especially the results of its social policies have been excellent. Prospects for the future are bright and we have an unusual case of a CAS where even in the low case scenario real GDP growth is expected to be around 4 percent. We congratulate the authorities for pursuing prudent and remarkably successful policies. We will first highlight some elements that contributed to these favorable outcomes and then comment on the proposed CAS.

1. Tunisia’s GDP growth continues to be enviously high reaching 5 percent; inflation fell to 3 percent while the budget deficit, domestic public debt and foreign debt are also falling. The current account deficit of around 4 percent of GDP, while potentially a weak spot, appears to be sustainable at current levels. Only the high unemployment rate of 16 percent is a serious source of concern and we will return to this issue later on. Perhaps even more than these current data, it is the length of the period - about two decades--during which the authorities have been determined and skillful enough to ensure stable macroeconomic conditions, as an important precondition for success of the overall development policies, which deserves our special attention and praise.

2. The case of Tunisia convincingly demonstrates that high GDP growth and macroeconomic stability are necessary but not sufficient conditions for inclusive development. Tunisia has mastered the process of sharing the benefits of its achievements widely throughout the society. With a GDP per capita that has increased to a level of not more than US $2,200, Tunisia has achieved results on poverty reduction and other social indicators much more impressive than many other countries with considerably higher GDP per capita levels. Staff is right when they say that sharing the benefits of growth equally enough in the society and the formation of a broad middle class have been crucial elements of Tunisia’s success story. This leads us to the following two lessons.
First, Tunisia’s experience shows that the Bank would be well-advised to pay systematic attention to income distribution issues in its policy dialogue with member countries: these issues should be integrated up-stream in country poverty reduction strategies rather than postponed until high income inequality becomes a serious obstacle to effective poverty reduction. Second, the case of Tunisia also illustrates that such inclusive growth and development policies may sometimes be best supported by gradual reforms, sustained over a long period of time. In any event, it suggests that any calls for rapid and any radical structural reform should be applied selectively, depending on the merits of each case.

3. High environmental protection and a relatively low level of corruption have further contributed to the successful overall developments in Tunisia. We would encourage the authorities and the staff to share these valuable positive experiences with other countries in the region.

4. The staff has prepared a very good CAS and we especially commend them for the high quality of the Social and Structural Review paper, which was recently circulated. Both documents came up with convincing arguments supporting staff’s affirmative reply to the question whether Tunisia needs to rethink its economic governance model in the future. We agree that in light of a further opening of the economy and implementation of the Association Agreement with the EU, Tunisia needs to increase competitiveness and foster private sector development. It also must reduce its vulnerability to external shocks and address the problem of high unemployment. There are similarities between Tunisia and some more advanced transition countries in that respect.

5. We fully support the focus of the CAS which aims at assisting the country in preparing itself for these future challenges, but would appreciate some further comments on the following issues of concern.

First, the high rate of growth of urban population and high urban unemployment rate create serious problems and appear to be the consequence of a retarded rural development and under-developed agriculture sector. The authorities and the CAS should perhaps focus more on these issues. The less developed regions have not benefited much from the system of incentives for enterprises established by the authorities and between 1990 and 1995 poverty incidence increased among the rural population. In addition, agriculture is one of the most sensitive issues for any country that is strengthening its ties with the EU. While it is encouraging that an Agricultural Competitiveness Study has been started and that an Agricultural Support Services lending operation, in the amount of US $35 million, is envisaged for the next financial year (and some possible operation in outer years is mentioned), we found the support for rural development and agriculture relatively low as a part of a US $623 million base-case lending scenario. We would appreciate staff’s comment.

Second, unemployment, in general, is a pressing problem especially for a society which is investing so much into its human capital. Unemployment has reached a level at which even the most vibrant new job creation process may fall short so that more active labor market programs have to be envisaged. We encourage the authorities to explore actively the design
of such programs and would like to know from the staff why such programs are mentioned only briefly as a possibility under the high case scenario.

Third, given the obvious need for productive job creation supported by high private investment levels, we found that IFC’s future activities are described in a rather evasive way using qualifications like “intends to”, “could also support”, “is interested in”. IFC’s existing portfolio reaches only US $7.68 million and there seems, in our view, clearly to be scope for a more active developmental role by the Corporation in Tunisia. The fact that the share of private investment in total investment remains rather low and that the length of customs procedures is a problem, indicate that administrative procedures may be an obstacle for the business community. In this connection we wonder if the possibility for an Administrative Barriers to Investment Study by FIAS has been discussed with the authorities. Countries in our Constituency which have used FIAS services for such purpose have greatly benefited from it.

With these comments we wish the authorities all the best in implementing the CAS.