



Sustainable Municipal Solid Waste Management Project

The development objective of the Project is to assist the Tunisian Government in strengthening the key elements of sustainability of municipal solid waste management. This objective will be achieved through the operationalization of a planning and implementation system of solid waste management at the national and local levels and through the rehabilitation of a number of environmentally harmful dumpsites. There are 2 components to the Project. The first component, institutional support and capacity building, has as its primary objective to finance technical assistance and capacity building activities benefiting the national institutions involved in the development, planning, implementation, and evaluation of municipal solid waste management policies, programs, and projects. This component will also support the establishment of a decentralized municipal solid waste management system at the regional and inter-municipal level with the purpose of introducing gradual measures to achieve cost optimization and cost recovery. The second component, infrastructure construction, landfill gas collection and treatment, and dumpsites rehabilitation will finance: (i) the construction of a 5th cell in Djebel Chekir landfill in greater Tunis; and (ii) the design, construction, and operation of a biogas management system for five years in the Djebel Chekir landfill, as well as the first cell of each of the nine new landfills in Bizerte, Nabeul, Sousse, Monastir, Kairouan, Sfax, Gabes, Jerba and Medinine.

C O U N T R Y B R I E F



Middle East & North Africa - Tunisia

Since gaining independence in 1956, Tunisia has pursued a strategy of equitable development—even in times of crises—and has registered steady long-term development progress. From 1970-2007, real per capita incomes grew from \$700 to about \$3,000, while the incidence of poverty has declined dramatically to about 7 percent in 2005. Life expectancy jumped from 50 to 73 years, and children dying before age one declined from 70 to 21 (per 1,000 live births). Education made great strides, with 98 percent of children enrolled in primary school by 2007. In addition, the status of women has improved considerably, and today women comprise one-third of the labor force.

Following a balance of payment crisis in the mid-1980s, Tunisia embarked on a series of stabilization and economic adjustment programs. The reforms were aimed at maintaining a prudent macroeconomic framework, gradually liberalized domestic prices and controls, and decreasing the importance of the public sector in the production of goods, although less so in services. Since the stabilization program, domestic production growth as measured by real GDP growth increased from 2.8 percent during 1982-86 to 4.8 percent during 1991-2007. Meanwhile, both inflation and the current account deficit decreased significantly.

The hallmark of Tunisia's external liberalization strategy was signing the Association Agreement (AA) with the European Union in 1995. The first such agreement between the EU and a Mediterranean country has created a free trade area between Tunisia and the EU for industrial goods since January 2008. The agreement provided an opportunity to "upgrade" Tunisian firms and prepare them for a more liberal and competitive environment through an ambitious *Mise a Niveau* program. Furthermore, Tunisia has signed a free trade agreement with the Greater Arab Free Trade Area or GAFTA (18 Arab countries), two pluri-lateral agreements (the AGADIR agreement with Jordan, Morocco and Egypt, and the agreement with the EFTA composed of Switzerland, Norway, Iceland and Liechtenstein) and a large number of bilateral agreements, including with Morocco, Egypt, Jordan, Syria, Libya, Turkey. Trade negotiations in agriculture and services are ongoing as part of the AA with the EU.

Current Challenges

Tunisia is a middle-income country taking pride in its stability in a rather volatile region, in its economic performance and strong level of human development. Gradual but steady reforms have enabled Tunisia to resist pressure from external shocks, including the elimination of the Multi-Fiber Agreement quotas in January 2005 and increasing oil prices. Macroeconomic management has helped Tunisia preserve external and internal balances at manageable levels and the GDP growth has averaged 5.1 percent over the last decade. The five-year 11th plan approved in July 2007 projects that a growth rate of at least 6.1 percent annually is necessary to face the country's challenges.

Employment generation is Tunisia's biggest challenge. In spite of good growth and sound macroeconomic policies, unemployment in Tunisia remains high (14.1 percent). The two main challenges facing the labor market are stepping up the pace of job creation and creating higher-skilled jobs for an increasingly qualified work force, especially for the large

number of university graduates entering the labor market each year (55,000). Additional challenges include reducing the costs of employment adjustments for enterprises and improving the targeting of labor market programs, such as unemployment benefits, and employment services and training.

Another important challenge is to strengthen spillover effects from rising foreign direct investment to local private investment. Thanks to its macroeconomic stability, good human capital stock and infrastructures and improving business climate, Tunisia performs well in attracting FDI (4.2 percent of GDP in 2007). The challenge is however to better exploit the externalities from FDI and bolster local private investment (about only 10 percent of GDP against 18-20 percent in competing countries in Eastern Europe competitors and the region). Tunisia must place at the core of the reform agenda changes to further open up to competition services still mostly under the Government's umbrella. Furthermore, the large gap between tariffs faced by EU goods and products from the rest of world is fueling a growing parallel market and biased competition between formal and non-formal firms. Beyond trade reforms, other measures that will support private investment include strengthening the soundness of the banking system and fostering the development of securities markets, to improve the diversification of sources of finance and ensure good access to finance for private investment.

While Tunisia still capitalizes on its historic reforms for human development, including the promotion of women's rights and education for all, demographic pressures reflect trends and transformation in the labor market, due to increased competition, which challenge health, social protection and pension systems. The biggest challenge in education is in quality improvement, ensuring that students entering each cycle complete each grade satisfactorily. Tunisia's public health system provides free or highly subsidized health care to 40 to 50 percent of the population. The organization of the health sector and health insurance mechanisms are however fragmented and financially non-viable. The challenge is to devise new strategies to improve the efficiency of resource allocation and utilization, enhance the service quality, and ensure health system sustainability.

Finally, Tunisia has a fragile natural environment with limited natural resources. Eighty three percent of water is already mobilized, and groundwater is over extracted in most agricultural areas. Poor land management is also increasing land degradation through water logging and salinity level. Coastal area fragility is also increasing.

Tunisia's medium-term outlook is overall positive under the current domestic and external conditions. Real GDP growth in the range of 5 to 5.8 percent is foreseeable under current conditions. This outlook is predicated on continued prudent macroeconomic policies, low inflation, further progress in structural reforms, which are expected to improve productivity and normal harvest. The dynamism of the telecom and transport sectors and the continued expansion of the mechanical and electrical engineering sector, should offset the expected stagnation in the clothing and textiles and tourism industries. External financing conditions will continue to be favorable. The positive medium-term outlook hinges however on demand in the EU market not faltering sharply, oil prices remaining around US\$100/ bbl on average, the absence of repetitive droughts, and good security conditions in the region to incite tourists to continue coming and FDI flowing in. To sustain a 6 percent growth in the medium term, an acceleration of reforms and a recovery of private domestic investment will be necessary.

World Bank Assistance

The World Bank's Group's Country Assistance Strategy which was adopted in 2004 is articulated around three main objectives: 1) improving economic competitiveness and strengthening the business environment; 2) improving the quality, relevance and financial sustainability of the education sector; and 3) strengthening delivery of public services while maintaining budget balance. The specific CAS outcomes are described below:

Strengthening the business environment to support the development of a more competitive, internationally integrated private sector and improving competitiveness of the Tunisian economy: Bank support will be directed to achieve specific outcomes which are essential to raise the rate of private sector investments: (a) improved incentives

framework and increased transparency and predictability of the regulatory framework; (b) reduced transaction costs for firms, leading to increased production and exports; (c) improved delivery/efficiency of infrastructure services by public and private firms; (d) improved competitiveness of agriculture while ensuring that social and environmental concerns are properly addressed; (e) banking sector more responsive to the needs of the private sector; (f) more dynamic local public and private financial markets.

Enhancing skills and employability of graduates and labor force in a knowledge economy: Bank support will be devoted to help to: (a) improve quality and relevance of all levels of the education system; (b) improve financial sustainability of the education system; and (c) improve linkages between research, higher education and the market place leading to greater innovation and competitiveness of firms.

Improving the quality of social services through enhanced efficiency of public expenditures: three CAS outcomes have been identified: (a) increased budget flexibility and better fiscal mobilization to reduce public debt; (b) performance budgeting and monitoring and evaluation (M&E) operational in key line ministries; and (c) improved coverage, quality, and financial sustainability of health, social protection and pension systems.

The CAS progress report was approved by the Board on September 21, 2007. It notes that, while the CAS is overall on track and remains fully relevant for Tunisia's key development challenges, the low level of private investment constitutes a major concern, threatening growth and job creation.

Support for Economic Reforms

Reforms aiming at strengthening the private sector, the financial sector and the investment climate are supported by the Fourth Economic Competitiveness DPL (ECAL IV) closed in June 2007. A new support program, focused on trade integration and competitiveness, is being prepared. The reform aims at supporting reforms broadly outlined in the 11th plan in the area of trade integration, financial sector development and firm competitiveness. This program is supported jointly with the European Union and the African Development Bank.

The Bank is also supporting the Government with technical assistance on performance-based budgeting and public debt management as part of a programmatic ESW (PESW) program. Emphasis is put on the Medium Term Expenditure Framework, budget classification, performance management, and on supporting and learning from the results-based pilots which are being conducted with the Ministries of Health, Agriculture and Higher Education.

The Employment PESW is a central part of the Bank's program given the critical importance of job creation in Tunisia. The Bank has been responsive to the Government's request for assistance in implementing an efficient employment strategy and has defined a multi-year, multi-sectoral technical assistance program. The Tunisian Government is very committed to the implementation of this work (financing about 60% of the program cost) and substantial progress has been achieved.

Engagement in Sustainable Development

Challenges pertaining to climate change, especially in terms of impact on cities and social aspects, are currently being examined by two Bank studies. Support is also provided in the area of energy in order to help Tunisia revisit its energy management policy and overcome barriers to the development of a sustainable market for energy efficiency products. A Maghreb Energy Market Study is analyzing requirements to create a regional energy market for Maghreb focusing, but not limited to, on natural gas and electricity.

The Bank is assisting Tunisia in decreasing the use of Ozone Depleting Substance and waste management issues are tackled through two activities that are aimed at installing a Gas Recovery and Flaring Project at the Djebel Chekir landfill and nine new landfills. In addition, the Africa stockpile project is aiming at preventing the accumulation of pesticides.

The protected areas management project is designed to improve management and protection of selected national parks for the purposes of conserving biodiversity of global importance and contributing to the overall improvement in welfare of local populations. Enhancing the socio-economic conditions of rural populations while ensuring sustainable management of the natural resources is also the main objective of the Northwest mountainous and forestry areas development project. The Bank also funds a project to foster better preservation and management of biodiversity in the Gulf of Gabès.

AAA and TA Status

Several ESW and TA outputs to inform and support policy choices and reforms were produced over the last two years. The recent ESW delivered includes a study on Tunisia's Global Integration, identifying reforms to boost growth in services and manufacturing through greater global integration, a report on Employment, Skills Development and Social Protection, a Small and Medium Enterprise Study on technical centers and industrial land management and a study on cost assessment of water degradation..

Ongoing work includes a Development Policy Review (DPR) that assesses Tunisia's key challenges and policy priorities to address them. This DPR aims at providing an analytical basis for the next Country Assistance Strategy (2009) and at providing input to the 11th Plan (2007–2011) mid-term review. The Bank is also currently working on a Small and Medium Enterprise Finance Policy Note, a Review of Energy Management Policy, a Water and Wastewater Strategy, and a regional study on the constraints to cross border investment and trade in the Maghreb.

Bank's TA activities in Tunisia include: a TA on Tariff Reform and Trade Policy Modeling, on Skills Development/Social Insurance, Budget Management and Performance Based Budgeting (a multi-year programmatic ESW), Development of Logistics Services and Infrastructure, Assessment of Hospital Performance, Agricultural Sector Review update and Use of Country Systems – Safeguards.

Portfolio Status

As of September 1, 2008, the Bank portfolio in Tunisia is comprised of 17 active projects (of which 3 GEFs, 1 Montreal Protocol, and 1 Avian Influenza Preparedness). Total net commitment is \$599.7 million of which \$351.1 million are undisbursed. Current disbursement ratio is at 3.6% compared with the Bank's average of 3.8%. The disbursement ratio for FY08 was 18.4%, slightly lower than FY07 at 19.7% and also below Bank average of 21.3% and 22.8% respectively. The performance on investment projects continues to be strong in spite of procurement delays in some operations which led to a few closing date extensions.

Lending volume for FY08 was exceptionally low, at \$6.6 million compared to \$88.8 million in FY07 and \$114.0 million in FY06. A total of at least 3 new projects are expected to be approved in FY09 with a lending volume of \$134.0 million.

All dollar figures are in US dollar equivalents. **September 2008**

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