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, Karouan, Stax, Gabes, Jerba and Mednine.

Tunisia has successfully opened-up to the global economy, maintaining consistent levels of growth and achieving concrete development results in recent years. It has successfully emerged from a challenging decade: a severe drought hit the country in 2001; the impact of September 11 on the tourism sector has been tangible; the increase in oil prices has been well addressed but it has taken a toll; the expiration of the Multi-fiber Agreement in 2005 has affected the manufacturing sector, and the food and financial crisis are hitting the population.

Structural reforms and prudent macroeconomic management have helped contain the effects of these shocks and maintain high levels of growth. Concrete policy and reform efforts, with support from the Bank, have helped mitigate the crises: reforms aimed at improving the business environment and at the same time reducing trade barriers and creating a dynamic export sector; integration with the European Union is driving the trade liberalization agenda, and it is inducing a demand for regulatory and more comprehensive reforms in important sectors. Tunisia has grown as a modern Middle Income Country as a result, with a promising role in providing high level services to the region and to Europe, in particular in health services, and has successfully invested in infrastructure and liberalization to foster the development of a tourism sector.

Despite its success, Tunisia faces challenges, some common to the rest of the region: in particular, bringing the benefits of growth to the people by tackling unemployment, and improving the business environment to continue to boost domestic investments and attract foreign direct investments. To address these challenges, Tunisia must redouble efforts to open up its economy and strengthen the trade liberalization agenda, while at the same time translate the successful macroeconomic stabilization of recent years into employment generation, particularly for the youth.

The World Bank is in discussion with the Government on a reform agenda for the coming years to be supported by a new Country Partnership Strategy (CPS), and at the same time it is implementing a lending, analytical and Technical Assistance program in Water, Energy, Private Sector Development and Trade, Education, Social Protection, Telecommunications, Rural Development and Cultural Heritage. The IFC is present in Tunisia in infrastructure, financial sector, including microfinance, and manufacturing.

Macroeconomy and Global Financial Crisis

Tunisia came strong into the global crisis and macroeconomic stability was relatively unaffected in the initial stages of the global financial crisis. The Tunisian economy was not significantly affected by the initial spread of financial turmoil emanating from the US and Europe in September 2008. This was due to several factors including: (i) Tunisia does not have a “sub-prime” problem; real estate loans represent only 10 percent of GDP (compared with close to 90 percent in the US); (ii) local banks have little foreign exposure; (iii) the money market is still highly liquid, and at the beginning of October the central bank had US$1.2bn available to inject into the market if needed; (iv) foreign participation in the stock market is “relatively low”, at some 28 percent; (v) public debt is low and has been managed prudently; and (vi) the dinar is non-convertible for most capital-account transactions.
Given the country’s dependence on EU for its exports, the real economy could not, however, escape the effects of recession in Europe and US. As a result of recession in Europe, Tunisia’s real GDP slowed down towards the end of 2008 (4.5 percent) and it is expected to slow further as consequence of the financial turmoil affecting Europe and the US (forecast for 2009 is around 4 percent). Growth in the volume of exports declined sharply in the second semester to 1.5 percent (against 14 percent in 2007) as exports of textiles and clothing as well as automobile components (especially electrical wiring) fell sharply in the last quarter of 2008. Fortunately, FDI increased by 40 percent in 2008, easing somewhat the financing needs emanating from the sharp increase in the current account deficit (-4.6 percent).

The Government has taken quick action to support the real economy in response to the slowdown. The Government response includes measures to: (1) increase public investment by 20 percent in the 2009 Budget Law); (2) assist exporting firms through measures such as: (i) a subsidy of 50 percent of the employer’s cost of social security for firms witnessing a dramatic fall in exports to Europe; (ii) a subsidy of 100 percent of the employer’s cost of social security for firms that have to stop production and run down stocks; (iii) a subsidy of 50 percent of the cost of export insurance (iv) an acceleration of procurement procedures for public contracts granted to the local private sector; and (v) selected reforms to enhance integration and improve the business climate and strengthen the financial sector within the framework of the Bank-financed Integration and Competitiveness Development Policy Loan. These include reducing the number of tariff bands from 9 to 6, converging product quality and safety norms to international standards, preparing a strategy for regulatory reforms in the services sector, improving the business registry to make it accessible and up-to-date, reducing the delays in access to industrial land (amendment of the urban code) and reforming venture capital and mutual funds to make them more effective.

Inflationary pressures eased at the end of 2008. Consumer price inflation trended upwards until mid-2008 (5.5 in July 2008, see Figure 1), as annual rises in public-sector pay and minimum wages, along with robust economic growth, pushed up prices, compounding the impact of reductions, albeit modest, in fuel subsidies (driven by high international oil prices, see Figure 2), as well as of high food prices (which make up 32 percent of the CPI basket) and a modest harvest. However, with global commodity prices falling and then stabilizing and with domestic demand likely to weaken, we expect price pressures to ease. In 2009 a better harvest should also help to contain imported inflation. This will combine with subdued domestic demand to pull down prices further than previously forecast and we now expect average annual inflation to decline from 5% in 2008 to 4% in 2009 and 3% in 2010.

Selected Structural Developments and Policies

Employment generation is Tunisia’s biggest challenge. In spite of good growth and sound macroeconomic policies, unemployment in Tunisia remains high (14.2 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.

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. Public health services, however, are under-financed, and the organization of the health sector and health insurance mechanisms are 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
Tunisia is facing heightened business uncertainty, reflecting the surrounding risks in the changing economic environment (stiffer competition with the EU, heightened competition in tourism in the Euro-med area, growing informal and parallel markets, etc.). Tariff reduction as part of the EU Association Agreement has intensified the competition faced by domestic producers. Furthermore, the large gap between tariffs faced by EU goods and products from the rest of world is fueling a growing parallel market as traders find ways to avoid the heavy duties levied on non-preferential partners. The process of creating a free trade area in industrial goods with the EU is now completed since January 2008.

Many reforms were recently implemented to promote private sector development. Tunisia ranked 73th (out of 181 countries) in the Ease of doing business Indicator for 2009, up from 81st in 2008, positioning the country among the region’s two best regional performers with Egypt. This resulted from reforms of the investment climate, including on starting a business, getting credit and on the protection of investors. Starting a business, closing a business, enforcing contracts, registering property, and dealing with certain aspects of licenses are all generally easier in Tunisia than elsewhere in the Middle East and North Africa Region. The government is also rehabilitating and expanding industrial zones in different regions and is trying to integrate them with research institutes and laboratories in order to create poles de compétitivité and further boost FDI. In the financial sector, some steps were taken to reduce the likelihood of nonperforming loans (NPLs) by improving bank methods of appraising credit risk and strengthening the legal framework for lending institutions. NPLs are declining but at 17.4% in 2008, remain high.

World Bank Group Program

The World Bank’s Group is currently implementing the 2004 Country Assistance Strategy 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 2007 CAS progress report noted that, while the CAS is overall on track and remains fully relevant for Tunisia’s key development challenges, the low level of domestic private investment constitutes a major concern, threatening growth and job creation. The new Country Partnership Strategy (CPS) is under preparation expected to be finalized before the end of 2009. It is being elaborated in parallel with the update to Tunisia’s 11th National Development Plan.

Preparation of the new FY10-13 CPS was officially launched with the Government on November 19, 2008 in Tunis. The Authorities expressed interest in working with the Bank in specific areas: updating the National Development Plan, trade integration, macroeconomic management and competitiveness, employment (issues related to improvement of human capital, labor market and job creation by the private sector), agriculture, infrastructure and statistical capacity. The Government asked the Bank to continue to ground its partnership program on flexibility, to allow tailoring its support to the evolving needs in the context of the financial crisis, to allow tailoring its support to the evolving needs in the context of the financial crisis. Government confirmed its appreciation for the Bank’s analytical work and expressed some concern about the quality and implementation delays of the portfolio; and the too demanding pace and scope of implementation usually suggested by the Bank.

The Bank’s current program has a strong focus on supporting economic reforms in private sector, financial sector and investment climate. A new Integration and Competitiveness DPL (ICL), was approved by the World Bank’s Board in March 2009 and follows on a series of four previous development policy operations. The ICL aims at supporting reforms broadly outlined in the 11th National Development Plan in the area of macroeconomic management, trade integration 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. 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 World Bank is also supporting work on an Agricultural Sector Review update, health services, urban transport, and low-carbon transport strategy.

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. Analysis on employment is a central part of the Bank’s program given the critical importance of job creation in Tunisia. The Tunisian Government is very committed to the implementation of this work (financing about 60 percent of the program cost) and substantial progress has been achieved.

Several reports informing and supporting policy choices and reforms were produced over the last two years including a study on global integration; Employment; Skills Development and Social Protection, Small and Medium Enterprise Study, water degradation; wastewater strategy, use of country systems; health management. Ongoing work includes a Development Policy Review (DPR); a Small and Medium Enterprise Finance Policy Note, a Review of Energy Management Policy, a regional study on the constraints to cross border investment and trade in the Maghreb, competitiveness poles, social safety nets, and energy markets in the Maghreb.

Challenges pertaining to climate change are being addressed by a variety of World Bank activities in natural resource management, water, energy, urban development and transport. The climate change agenda is likely to feature centrally in the Bank’s Country Partnership Strategy. On-going operations in this area include (i) decreasing the use of Ozone Depleting Substance and waste management issues through two activities that are aimed at installing a Gas Recovery and Flaring Project at the Djebel Chekir landfill and nine new landfills; (ii) the Africa stockpile project is aiming at preventing the accumulation of pesticides; (iii) the protected areas management project is just closing and was 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; (iv) 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 which is under preparation; and (v) the Bank also funds a project to foster better preservation and management of biodiversity in the Gulf of Gabès.

The Bank portfolio in Tunisia includes 15 active projects (of which 3 GEFs and one Montreal Protocol Activity). Total net commitments are $567.4 million of which $301.8 million are undisbursed. Current disbursement ratio is at 9.1 percent compared with the Bank’s average of 13.7 percent. The disbursement ratio for FY08 was 18.4 percent, slightly lower than FY07 at 19.7 percent.

The performance of investment projects continues to be satisfactory, however procurement delays cause recurrent extensions of closing dates. The Lending volume for FY08 was low at $6.6 million compared to $88.8 million in FY07 and $114.0 million in FY06. The Integration and Competitiveness Development Policy Loan was approved in FY09 for $250 million and two other investment projects in energy and water are planned for approval before the end of FY09 for $50 million and $28 million respectively.

The Bank’s offices are hosted in the premises of the African Development Bank. The World Bank’s presence in Tunis, also supported by a Public Information Center, is clearly perceived as a welcome and important signal of the Bank’s desire for greater proximity with authorities and actors in the field, and has given rise to increasing requests to further develop our cooperation and joint initiatives at the national and regional level.

All dollar figures are in US dollar equivalents. April 2009

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