

Evaluation of European Commission budget support
operations in Tunisia between 1996 and 2008

Final Report

Volume 1 – Main Report

March 2011

Evaluation for the European Commission



The authors accept sole responsibility for this report, drawn up on behalf of the Commission of the European Communities. The report does not necessarily reflect the views of the Commission.



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This evaluation was carried out by DRN

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LIST OF ACRONYMS AND ABBREVIATIONS

AA	Association Agreement
BS	Budget Support
SBS	Sector Budget Support
GBS	General Budget Support
ACAA	Agreement on Conformity Assessment and Acceptance of industrial products
ACP	African, Caribbean and Pacific States
AFD	Agence Française de Développement (French Development Agency)
ANETI	Agence Nationale de l'Emploi et du Travail Indépendant (Tunisian Agency for Employment and Self-Employment)
TA	Technical Assistance
ATFP	Agence Tunisienne de Formation Professionnelle (Tunisian Agency for Vocational Training)
AfDB	African Development Bank
BCT	Banque Centrale Tunisienne (Central Bank of Tunisia)
DB	Database
BDET	Banque de Développement Economique de Tunisie (Economic Development Bank of Tunisia)
EIB	European Investment Bank
BEPP	Bureau des Etudes, de la Planification et de la Programmation (Tunisian Study, Planning and Programming Office)
BFPME	Banque de Financement des Petites et Moyennes Entreprises (Tunisian Bank for Financing Small and Medium-Sized Enterprises)
BH	Banque de l'Habitat (Tunisian Housing Bank)
WB	World Bank
BNA	Banque Nationale Agricole (Tunisian Bank for Agriculture)
FA	Financing Agreement
DAC	Development Assistance Committee (OECD)
CGA	Comité Général des Assurances (Tunisian General Committee on Insurance)
CGB	Comité Général du Budget (Tunisian General Committee on the Budget)
MTEF	Medium Term Expenditure Framework
CMF	Conseil du Marché Financier (Tunisian Financial Markets Regulator)
EC	European Commission
CEPEX	Centre de Promotion des Exportations (Tunisian Centre for Export Promotion)
CEF	Comprehensive Evaluation Framework
CES	Conservation des Eaux et des Sols (Water and Soil Conservation)
CFAA	Country Financial Accountability Assessment, World Bank Study
CRIS	Common Relx Information System Database
JC	Judgement Criteria
CSC	Code des Sociétés Commerciales (Tunisian Companies Code)
ECD	European Commission Delegation
DHR	Defence of Human Rights
DGCEE	Direction Générale de la Concurrence et des Enquêtes Economiques (Directorate-General for Competition and Economic Surveys)
DGP	Direction Générale de la Prévision (Directorate-General for Forecasting)
DGCP	Direction Générale de la Comptabilité Publique (Directorate-General for Public Accounting)

DGRPA	Direction Générale des Réformes et de la Prospective Administrative (Primature) (Directorate-General for Reforms and Administrative Forward Studies)
DGT	Direction Générale du Trésor (Directorate-General for the Treasury)
DREF	Directions Régionales de l'Éducation et de la Formation (Regional Directorates for Education and Training)
HRD	Human Resource Development
HRDSP	Human Resource Development and Social Protection
CSP	Country Strategy Paper
TD	Tunisian Dinar
TAP	Technical and Administrative Provisions
BSE	Budget Support Evaluation
BEPSP	Business Environment and Private Sector Development
ECAL	Economic Competitiveness Adjustment Loan
EFRSL	Economic & Financial Reforms Support Loan
CE	Country Evaluation
SAF	Structural Adjustment Facility
FIPA	Foreign Investment Promotion Agency
IMF	International Monetary Fund
VT	Vocational Training
FTUSA	Fédération Tunisienne des Sociétés d'Assurances (Tunisian Federation of Insurance Companies)
GOBM	Goal-Oriented Budget Management
GES	General Electronic Systems
GFS	Government Finance Statistics
RG	Reference Group
MMER	Macroeconomic management and economic reforms
GPMI	Unité de Gestion du Programme de Modernisation de l'Industrie (Industrial Modernisation Programme Management Unit)
GCS	Governance and civil society
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GSM	Global System for Mobile Communications
JORT	Journal Officiel de la République Tunisienne (Official gazette of the Republic of Tunisia)
IAEC	Institut Arabe des Chefs d'Entreprises (Arab Institute of Business Leaders)
DCI	Financing Instrument for Development Cooperation
FDI	Foreign Direct Investment
HDI	Human Development Index
EIDHR	European Instrument for Democracy and Human Rights
ENPI	European Neighbourhood and Partnership Instrument
INNORPI	Institut National de la Normalisation et de la Protection Industrielle (Tunisian Institute for Standardisation and Industrial Protection)
INS	Institut National de la Statistique (Tunisian Institute for Statistics)
ITCEQ	Institut Tunisien de la Compétitivité et des Etudes Quantitatives (Tunisian Institute for Competitiveness and Quantitative Studies)
MANFORM	Support for the vocational training sector
MDCI	Ministère du Développement et de la Coopération Internationale (Ministry of Development and International Cooperation)
TND billion	Billion (thousand million) Tunisian Dinar
MEAT	Ministère de l'Environnement et de l'Aménagement du Territoire (Ministry of the Environment and Land Use Planning)
MEDA	Euro-Mediterranean Partnership

MEDSTAT	Regional statistical cooperation programme between the European Union and 10 Mediterranean partner countries
MEF	Ministère de l'Enseignement et de la Formation (Ministry of Education and Training)
MERST	Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Technologie (Ministry of Higher Education, Scientific Research and Technology)
MINEIE	Ministère de l'Economie, de l'Industrie et de l'Emploi (Ministry of Economic Affairs, Industry and Employment)
TND million	Million Tunisian Dinar
LN	Launch Note
UN	United Nations
OECD	Organisation for Economic Co-operation and Development
MDG	Millennium Development Goals
WTO	World Trade Organization
ONAS	Office National de l'Assainissement (National Office for Sanitation)
NGO	Non-Governmental Organisation
OTED	Observatoire Tunisien de l'Environnement et du Développement Durable (Tunisian Observatory for the Environment and Sustainable Development)
PAC	Programme d'appui à la compétitivité (Competitiveness support programme)
PAGBO	Programme d'appui à la gestion budgétaire par objectifs (Goal-oriented budget management support programme)
PAI	Programme d'appui à l'intégration (Integration support programme)
PAMES	Programme d'appui à la modernisation de l'enseignement supérieur en Tunisie (Support programme for the modernisation of higher education in Tunisia)
PARES	Programme d'appui à la réforme de l'éducation supérieure (Support programme for the reform of higher education)
SAP	Structural Adjustment Programmes
PATP	Programme d'assistance technique à la privatisation (Privatisation technical assistance programme)
NAP	Neighbourhood Action Plan
PDN	Plan de Développement National (National Development Plan)
PEFA	Public Expenditure and Financial Accountability
PEFESE	Programme d'appui au système de l'Éducation/Formation–Enseignement Supérieur et Employabilité des diplômés (Support programme for education/training–higher education and graduate employability)
ENP	European Neighbourhood Policy
TFP	Total Factor Productivity
GDP	Gross Domestic Product
NIP	National Indicative Programme
RIP	Regional Indicative Programme
SME	Small and Medium-Sized Enterprises
NPL	Non-Performing Loans
UNDP	United Nations Development Programme
MPC	Mediterranean Partner Countries
PROMAN	Luxembourg-based international consulting company
PRONAFOC	Programme national de formation continue (National programme for continuing training)
PRSP	Poverty Reduction Strategy Paper

P3A	Programme d'appui à la mise en œuvre de l'Accord d'Association (Support programme for the implementation of the Association Agreement)
EQ	Evaluation questions
NRE	Natural resources and environment
ROM	Result-Oriented Monitoring
SAL	Structured Adjustment Loan
SICAR	Sociétés d'Investissement à Capital Risques (Venture Capital Investment Companies)
SICAD	Système d'Information et de Communication Administrative (Administrative Information and Communication System)
CIS	Customs Information System
IFC	International Finance Corporation
SOTUGAR	Société Tunisienne de Garantie (Tunisian Guarantee Company)
SPA	Strategic Partnership with Africa
PSER	Public sector and economic reforms
SPSP	Programme de soutien aux politiques sectorielles (Support programme for sectoral policies)
STB	Société Tunisienne de Banque (Tunisian bank)
STEG	Société Tunisienne de l'Electricité et du Gaz (Tunisian electricity and gas company)
TAIEX	Technical Assistance and Information Exchange
TEMPUS	EU support programme for higher education in the partner countries
ICT	Information and Communication Technologies
ToR	Terms of Reference
TTN	Tunisie TradeNet
VAT	Value added tax
EU	European Union
UIB	Union International de Banques (Tunisian bank)
UGPO	Unités de Gestion par Objectifs (Goal-Oriented Management Units)
UNCITRAL	United Nations Commission on International Trade Law
UTICA	Union Tunisienne pour l'Industrie, le Commerce et l'Artisanat (Tunisian Union for Industry, Trade and Crafts)
WDI	World Development Indicators (World Bank)
FTA	Free Trade Area

DISCLAIMER

This budget support evaluation forms part of a methodological test undertaken under the supervision of the Budget Support Steering Group of the DAC.

The evaluation period covers the years 1996 to 2009. The evaluation report was made available in November 2010, and was finalised between December 2010 and February 2011. The current national situation does not affect the evaluation results.

EXECUTIVE SUMMARY

I. INTRODUCTION

This report presents the results of the evaluation of European Commission budget support operations in Tunisia between 1996 and 2009. The main objectives of the evaluation were to:

- further develop the evaluation of the EC country programme in Tunisia, through a specific evaluation of budget support, and
- test the 3-Step approach developed within the OECD/DAC, in order to evaluate BS operations.

The scope of the evaluation covers seven budget support operations, out of a total of fourteen, funded by the EC in Tunisia over the 1996-2008 period: general budget support SAF I, II, III and IV, and sector budget support in the areas of secondary and higher education and vocational training. These operations cover just over 60% of the EC budget support in the period, including the general budget support managed together with the World Bank and the African Development Bank.

II. GENERAL CONTEXT OF EC-TUNISIA COOPERATION

At the beginning of the 1970s, Tunisia started to open up its economy through exports of manufactured goods, combined with domestic market protection and a favourable oil situation, given that at the time the country was a net oil exporter. However, the end of this favourable oil situation and inefficiencies in the state-controlled economic system led to a wide-ranging and long-lasting financial, economic and social crisis, from the end of the 1970s to the mid-1980s. In response to this crisis, the country changed course both politically and economically, in particular through a series of macroeconomic reforms

within the framework of a Structural Adjustment Programme (SAP) developed in agreement with the World Bank and the IMF. In the 10 years from 1986 to 1995, major changes occurred in terms of macroeconomic stabilisation and social pacification. However, the country's economy essentially remained closed and dominated by a dualistic system: competitive offshore / protected and state-controlled domestically. The need to make the leap towards liberalisation of the domestic market and competitive integration in the international economy therefore became increasingly urgent.

Within the framework of the Barcelona Process, the Association Agreement (AA) with the EU represented an excellent opportunity to make this leap forward. It allowed the country to embark on competitive integration, accompanied by a strong international partnership involving political agreements, financial support and access to appropriate standards and technologies. In 1995 Tunisia became the first country in the region to sign the AA and, in the same year, it joined the WTO. In 2008 the Free Trade Area stipulated by the AA came into force, following 12 years of extensive competitive transformations. Over this period (1996-2008), the country made very significant progress in terms of economic growth and stability, social well-being and training of human capital. Thanks to its increased competitiveness, the country has become more attractive to foreign capital. However, there are still weaknesses and work yet to be done, particularly in terms of competition within the domestic market and employment. Progress still needs to be made, which partly depends on extending and deepening ties with the EU.

III. METHODOLOGY

The reference methodological framework for the evaluation corresponds to the methodology developed within the DAC/OECD. It is based on establishing an intervention logic that encompasses two main assumptions: (i) the programmes evaluated support the government's strategies and contribute (together with other factors internal and external to these strategies) to their achievement in terms of economic, social and institutional policies; and (ii) the development results are determined by multiple factors involved in the context, including the government's economic, social and institutional policies.

It is impossible to identify – and would in fact be contradictory to attempt to identify, given the government's appropriation practice and principles – direct links between such complex support programmes and the intended development results. The methodology involves dividing the evaluation into two parts, plus a third synthesis part (3 Steps). In the first part, the impact of programmes on changes in the economic, social and institutional policies applied by the government is evaluated. In the second part, the relationship between the intended development results and these changes in economic, social and institutional policies is evaluated. Finally, by cross-referencing these two evaluations, the relationship between the support programmes and the development results can be assessed.

The intervention logic consists of five levels that underlie any budget support operation: Level 1: BS inputs; Level 2: BS direct outputs; Level 3: induced outputs, i.e. government outputs directly or indirectly supported by the BS; Level 4: outcomes for beneficiaries; Level 5: impacts on a more general level.

IV. OVERALL EVALUATION

As a result of the methodology adopted, the evaluation enabled to highlight the important contribution of the EC's budget support to achieving the development results recorded by the country over the period analysed.

The budget support provided a framework for dialogue, technical support and financial support, which reinforced the implementation

of the government's strategies. By making use of the framework of opportunities offered by the AA, these strategies enabled major economic and social reforms to be achieved, which have formed the foundations of the success in terms of the economic growth and social well-being recorded by the country.

The evaluation revealed a very strong link between the reforms implemented by the government and the development results achieved by the country (STEP 2). Furthermore, it highlighted the important link between budget support and the quality of the reforms in question (STEP 1), thereby enabling to show a significant link between budget support and development results (STEP 3).

Obviously, together with the successes, the evaluation (both STEP 1 and STEP 2) highlighted the weaknesses of the processes evaluated. In particular, inefficiencies remain in the economic context, which are preventing the country's growth from developing to the level needed to fully respond to the high demand for employment, especially among young people. Therefore, the reform processes were launched in technically complex and delicate areas, with regard to the interests at stake, need to continue. These challenges will be at the centre of the future cooperation between Tunisia and the EU, because the European partner can help, as it did in 1995, to open up new integration prospects, through which Tunisia can find the necessary support and motivation.

V. INITIAL LESSONS TO BE LEARNT FROM USING THIS METHODOLOGY

Using this methodology proved to be particularly productive, as it allowed to identify the links between budget support and other contextual factors (global partnership, country's expertise, etc.), given that the assessment of these links was limited or absent in previous evaluations. It also allowed an improved assessment of the BS action mechanisms, highlighting for example the link between the granting of funds and the reinforcement of policy dialogue and of the close partnership for developing and implementing the reforms.

However, the attempt to standardise the Evaluation Questions, particularly in STEP 1, caused lengthy delays and repetitions. It is the view of the evaluators that it would have been better to keep to the initial recommendations of the methodology, i.e.: bear in mind all the themes, but structure these within a maximum number of 10 EQs, adapted to the country in question.

Finally, the parallel conduct of STEPS 1 and 2 proved highly appropriate.

VI. CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations are articulated into three groups (strategic framework, institutional set-up of the programmes and sectoral strategies). Recommendations are linked to the conclusions.

Conclusions

The conclusions on the strategic framework underline the positive contribution of the EC-Tunisia cooperation to the country's economic and social development. The main factors behind this success are identified in the AA, which has created a new and effective framework of opportunities for Tunisia (C1.1), and reflected in the determination and competence of the Tunisian institutions, which have steered and implemented the agreed reforms (C1.2).

GBS has proved to be the most appropriate method for supporting the main economic reforms, having been the only instrument to allow the partners to establish a forum for close dialogue on the main aspects of the formulation and implementation of these reforms (C1.3). SBS has been useful in supporting reforms in the education sector, but the sector approach has been limited (C1.4). In general, budget support has occurred within the context of the AA, helping to establish a framework for complex and integrated dialogue between Tunisia and the EU (C1.5).

The conclusions on the institutional set-up of the BS programmes confirm that the

instrument was appropriate to the context, particularly as regards the assessment of eligibility conditions and the targeting of conditionalities (C2.1). In terms of programming, there was good complementarity between GBS and specific projects funded by the EC, despite a sector approach that is still limited (C2.2).

During the period in question, the use made of technical assistance in the BS programmes funded by the EC remained limited, although improvements and innovative approaches were seen towards the end of the period (C2.3). As for the other BS inputs, the funds granted played a facilitating role. The policy dialogue and harmonisation with other partners was very good for GBS, but less so for SBS (C2.4).

The conclusions on the thematic and sectoral strategies stress that GBS has helped Tunisia to combine macroeconomic stability with growth (C3.1). GBS helped to significantly boost the private sector over the 1996-2008 period, although elements of weakness still persist in relation to the reform of the business environment and the liberalisation of the domestic market (C3.2). GBS contributed to the implementation of tax reform and tariff dismantling, and therefore to the positive results in terms of foreign trade (C3.3).

SBS contributed to the significant achievements in terms of reforming secondary and higher education and vocational training, where the results are encouraging but still limited, particularly in terms of employment (C3.4). GBS specifically helped to improve economic governance and legality in the business world, where progress was made, although the standards achieved are not yet sufficient (C3.5).

Recommendations

The recommendations on the strategic framework highlight the importance of using the EU-Tunisia partnership to make a new strategic leap in cooperation (R1.1 – C1.1 and C1.2) and of using BS to complete the main reforms (e.g. domestic market and employment) and extend them to new sectors

(e.g. services and agriculture) (R1.2 and R3.1 – C1.3 to 5, C3.1 to 4).

The recommendations on the institutional set-up point to the possibility and importance of using BS to support not only reforms for which the plans have already been finalised, but also reforms requiring further development during their implementation (R2.1 – C2.1). Continuing to combine various instruments in priority sectors (BS, technical assistance and equipment projects) and reinforce the sector approach is also recommended (R2.2 – C2.2). This reinforcement requires firm strategic guidance by the government, involving the harmonised participation of the various international partners in the sectors concerned, whatever cooperation instruments are put in place (R2.3 – C1.4 and C2.2).

As regards the BS inputs, flexible technical assistance should be integrated in the budget support, by increasingly using interinstitutional TA, particularly to support reforms and institutional strengthening (R2.4 – C2.3). It is also recommended that the BS amounts are not reduced (particularly the grants provided by the EC) and that a certain degree of quantitative stability is ensured in future years. The policy dialogue and harmonisation between the international partners should find the SAF experience to be a very useful reference (R2.5 – C2.4).

The recommendations on the thematic and sectoral strategies confirm the importance of renewing support for growth and employment. Support for competitiveness oriented reforms, particularly in relation to services and agriculture, in order to increase investment and job creation, could usefully involve various forms of budget support: a BS programme covering a complex and multi-sectoral range of economic policies, using the positive experience of the multilateral SAFs, and a more targeted BS programme in the rural development sector. The recommendations also underline the need to continue combining various cooperation instruments to complement BS, in order to improve the quality of the education and vocational training system, and support decentralised development, consolidation of

infrastructures and expansion in new economic sectors, as underlined in the evaluation of the EC country programme.

1. INTRODUCTION

This report presents the results of the evaluation of European Commission (EC) budget support operations in Tunisia, as requested by the Evaluation Unit of the Directorates-General for Development, External Relations and EuropeAid. This evaluation is intended to supplement the country level evaluation of the EC cooperation with Tunisia, using a methodology specific to the evaluation of budget support operations.

1.1. OBJECTIVES AND SCOPE OF THE EVALUATIONS

The evaluation has two objectives (see Annex 1 – Terms of Reference – ToR):

- Use the methodological approach to evaluate budget support operations, which has been recently developed within the OECD, in order to assess its applicability and learn lessons from it.
- Supplement the results of the country level evaluation with the results of the evaluation of seven budget support operations, and in particular: i) provide the respective Commission services and the general public with a general and independent assessment of these budget support operations; ii) identify the main lessons of this cooperation in order to help government and Commission officials to make better use of budget support in current and future cooperation between the Commission and Tunisia.

In this context, the scope of the evaluation covers seven (out of a total of fourteen) budget support operations funded by the EC in Tunisia over the 1996-2008 period:

Table 1: EC budget support operations in Tunisia

	PROGRAMME TITLE	YEAR OF DECISION	AMOUNT COMMITTED (EUR)
General Budget Support - GBS	SAF I (Structural Adjustment Facility I)	1996	100,000,000
	SAF II (Structural Adjustment Facility II)	1999	80,000,000
	SAF III (Structural Adjustment Facility III)	2001	80,000,000
	SAF IV (Structural Adjustment Facility IV)	2005	78,000,000
	PAC (Competitiveness support programme)	2006	41,000,000
	PAGBO (Goal-oriented budget management support programme)	2007	30,000,000
	PAI (Integration support programme)	2008	50,000,000
Sector Budget Support - SBS	Support programme for the reform of primary education	2000	40,000,000
	Health insurance	2000	40,000,000
	Support for the modernisation of the port sector	2002	20,000,000
	Support for the modernisation of higher education	2003	48,000,000
	Support for the reform of secondary education	2005	30,000,000
	MANFORM II (Support for the vocational training sector)	2006	30,000,000
	Support programme for matching education to employment in Tunisia	2008	65,000,000
	TOTAL		732,000,000

*The budget support operations shaded grey were not covered by this evaluation.

1.2. REPORT STRUCTURE

This report is structured as follows:

- The second chapter sets out the general context of cooperation between the EC and Tunisia.
- The third chapter presents the methodology, including a summary of the intervention logic, the three-step approach, and the evaluation process.
- The fourth chapter provides a summary of the answers to the evaluation questions formulated in the desk phase. This chapter is arranged into six sections, which set out the main findings resulting from the evaluation questions, organised according to the three steps of the methodology.
- The fifth and sixth chapters present the main conclusions and recommendations of the evaluation.
- The final section provides a summary of the conclusions and recommendations.

2. GENERAL CONTEXT OF EC-TUNISIA COOPERATION

The following sections set out: i) the national context, including an historical overview identifying a series of factors likely to have influenced Tunisia's economic and social performance during the period in question; ii) the cooperation between the EC and Tunisia; iii) the budget support operations funded by the EC in Tunisia, particularly the BS operations covered by this evaluation; and iv) the budget support of the development banks (WB and AfDB) having funded the programmes coordinated and harmonised with the European budget support.

2.1. BRIEF HISTORICAL OVERVIEW OF THE NATIONAL CONTEXT SINCE INDEPENDENCE: MAIN POLITICAL, ECONOMIC AND SOCIAL STAGES

On gaining its independence in 1956, Tunisia, which has a semi-arid climate, had few natural resources and its economy was essentially based on subsistence agriculture and mineral exploration. However, the government embarked on a proactive policy of accelerated development, with the main aim being to pull the country and its population up to a level comparable with certain European countries on the northern shores of the Mediterranean. The last half-century has been marked by four main stages of development:

1956 – 1969. This was the period of national construction. Three initiatives stand out due to their political, economic and sociocultural impact:

- In August 1956, just after independence, promulgation of the Law on Personal Status, which granted Tunisian women rights and a freedom that were virtually unique in the Arab world.
- In 1958, creation of the Banque Centrale de Tunisie (Central Bank of Tunisia) and a national currency: the dinar.
- From 1961 until 1969, an economic development policy based on the cooperative system in agriculture and trade, creation of industrial centres in various regions of the country (iron and steel, chemical, textile, paper and mechanical industries), nationalisation of colonial land in 1964, and the initial development of tourism. In all sectors, the State was the promoter, owner and manager.

1970 – 1986. This period saw the economy begin to open up to a certain extent. However, government control of the market and state ownership of the majority of production prevented a genuine economic take-off. Some significant measures were adopted, including:

- Creation of the Agence de Promotion des Investissements (API) (Investment Promotion Agency), which subsequently became the Agence de Promotion de l'Industrie (Industrial Promotion Agency).

- Promulgation of the Law of April 1972, which granted important competitive advantages to wholly exporting companies.
- Promulgation of a social pact and introduction of collective agreements to govern relations between employers and employees.
- The start of exporting, combined with domestic market protection and a favourable oil situation (at the time the country was a net oil exporter), helped to create numerous jobs and clearly improved the population's standard of living.

However, the end of this favourable oil situation and inefficiencies in the state-controlled economic system led to a financial, economic and social crisis, resulting in the bloody events which destabilised the country's political structures: the dispute with the trade unions in January 1978, the Gafsa revolt in January 1980, and the 'bread riots' in January 1984. The country's situation deteriorated very quickly on all levels, and extremist religious movements developed. The years 1982 to 1986 were the toughest that Tunisia had known since its independence.

1987 – 1994. Following political changes in 1986-87, a new direction was taken, in particular through a series of macroeconomic reforms in the context of a Structural Adjustment Programme (SAP) developed in agreement with the World Bank and the IMF. Remarkable changes subsequently occurred, including:

- control of inflation, which was brought down from 7.1% in 1986 to 2.2% in 1995;
- gradual liberalisation of prices and investments;
- devaluation and convertibility of the dinar, by creating an interbank exchange market;
- growth in exports of manufactured goods (particularly textiles and mechanical goods) under the offshore arrangements¹;
- reform of the tax system and introduction of VAT;
- promulgation of an Investment Code;
- reform of public enterprises;
- privatisation of the stock market;
- reform of the financial sector: reinforcement of the regulatory and supervisory powers of the Central Bank, adoption of prudential rules, creation of the Banques d'Affaires (business banks).

At the end of this period, although major changes had been made to the economic context compared to the previous period (see the table below), the Tunisian economy was not integrated in the global economy and the stability and competitiveness gains did not last. Several preparatory studies for the 1997-2001 Plan and the opinions of influential partners such as the World Bank indicated the need to make the leap towards integration and competitiveness in relation to the global market.

¹ Export support measures are still combined with domestic market protection measures (e.g. agreements with car manufacturers, quotas assured by the EU for Tunisian goods, etc.).

Table 2: Key ratios of the macroeconomic situation in Tunisia between 1984 and 1994, and key aggregate growth rates over the 1984-1994 period

Key ratios of the macroeconomic situation between 1984 and 1994	Key aggregate growth rates over the 1984-1994 period			
	1984	1994		
GFCF/GDP	35.9%	24.5%	GDP	3.8%
National savings/GDP	25.6%	20.2%	GDP per inhabitant	1.6%
Exports/GDP	33.0%	44.9%	Exports	7.5%
Current account balance/GDP	-10.3%	-4.2%	Imports	4.9%
Total debt/GDP	49.6%	61.5%	Government consumption	3.1%
Debt servicing/exports	22.5%	18.9%	Private consumption	2.9%
Debt interest/GDP	3.2%	3.4%	GFCF	3.4%
Imports/GDP	44.3%	47.9%		

Source: World Bank, Tunisia at a glance

From 1995. Based on this understanding and in view of the opportunities offered by the Barcelona Process launched by the EU, Tunisia decided to continue on its course towards an open economy, supported by the positive prospect of Euro-Mediterranean integration:

- In 1995 it was the first country to sign a Euro-Mediterranean Association Agreement with the EU, involving a political, economic and sociocultural global partnership and providing for a free trade area, which came into force on 1 January 2008.
- In 1995 it also joined the WTO.
- It signed a free trade agreement with certain countries in the Mediterranean region (MENA).

These trade agreements (with the EU, WTO and MENA region) offer a wider prospect of Euro-Mediterranean global partnership, but require extensive work to improve various sectors of the economy, so that their competitive integration in the new context can be assured, as also the institutional framework and management of human resources. Over the last decade, several reforms have been launched and largely implemented.

In the economic area, the following should be noted:

- improvement of macroeconomic management and budgetary equilibrium;
- upgrading of manufacturing;
- total tariff dismantling for all manufactured goods originating from the EU;
- improvement of the business environment and promotion of private investment;
- rationalisation and reinforcement of competitiveness in the banking sector;
- improvement of basic infrastructures and telecommunications;
- withdrawal of the State from the economy (privatisations).

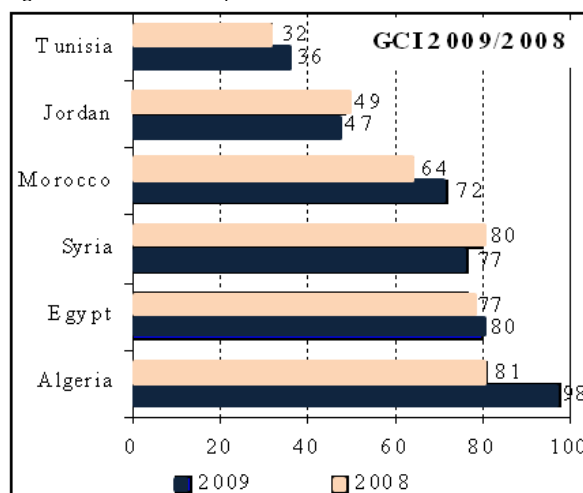
In the social area, the following should be mentioned:

- improvement of the performance of the education system to increase the employability of young people and move towards a knowledge-based economy;
- improvement of employees' purchasing power and welfare cover for all workers.

Other reform and modernisation issues have been tackled and will be taken into account during the evaluation, particularly with regard to the results targeted jointly by the EU and the Tunisian government, through the implementation of general and sector budget support operations.

We only need to note here that, over this period, Tunisia has made a leap forward in terms of the economy's general competitiveness. It is ranked 36th out of the 134 countries included in the Global Competitiveness Index 2008-2009² (countries are ranked on a scale from 1: high level of competitiveness to 139: minimum level of competitiveness). In nearly all the breakdowns of the index, Tunisia is well ahead of the other countries in the region, as shown by the tables on sophistication and innovation in the economy and on competitiveness growth factors (see Annex 10: Competitive framework of certain MEDA countries). Particularly with regard to the growth factors of global competitiveness, Tunisia is at a high general level. It is also at very high levels with regard to higher education and vocational training, and goods market efficiency, whereas its performance (while still well above the regional average) is not so good in terms of labour market efficiency (103rd) and financial market sophistication (77th) (see Annex 10).

Figure 1: Global competitiveness index



Source: The Global Competitiveness Report 2008-2009, World Economic Forum

2.2. OVERVIEW OF EU-TUNISIA COOPERATION BETWEEN 1996 AND 2008

From 1996 to date, there have been several successive programming cycles in EU-Tunisia cooperation. The signature of the Association Agreement (AA) and the Barcelona Declaration (in 1995) formed the start of a long process, which has developed in line with the strategic framework set out in the MEDA and MEDA II Regulations and also in the reform of Community external aid, which has led to the formulation of the new European Neighbourhood Policy.

The priority objectives of the respective strategy papers and indicative programmes for the period, the budget support operations of which are covered by the evaluation, are set out below, whilst a general view of EU-Tunisia cooperation between 1996 and 2008 is presented in Annex 5.

The NIPs for 1996-1999 and 2000-2002 (MEDA) were based on the objectives set by the 9th Tunisian Development Plan (1997-2001), and focused on the following priorities:

- Support economic reforms in the macroeconomic and fiscal areas, privatisation, deregulation of maritime transport and ports, foreign trade, financial sector and social policy area.
- Improve the economic environment for the private sector through the privatisation of public enterprises, attraction of foreign investment, development of business services and improvement of vocational training.
- Establish a socioeconomic and environmental balance in rural and urban areas through support for the fair development of natural resources, job creation, access to health services and increased involvement of economic partners and civil society organisations.

² The Global Competitiveness Report 2008-2009, World Economic Forum. The global competitiveness index is an indicator consisting of 12 pillars, which reflect the various dimensions of competitiveness. The global index results from the following pillars, which are grouped into three main categories, according to the economy's level of development: a) Basic requirements: institutions, infrastructure, macroeconomic stability, and health and primary education; b) Efficiency enhancers: higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, and market size; c) Innovation and sophistication factors: business sophistication and innovation.

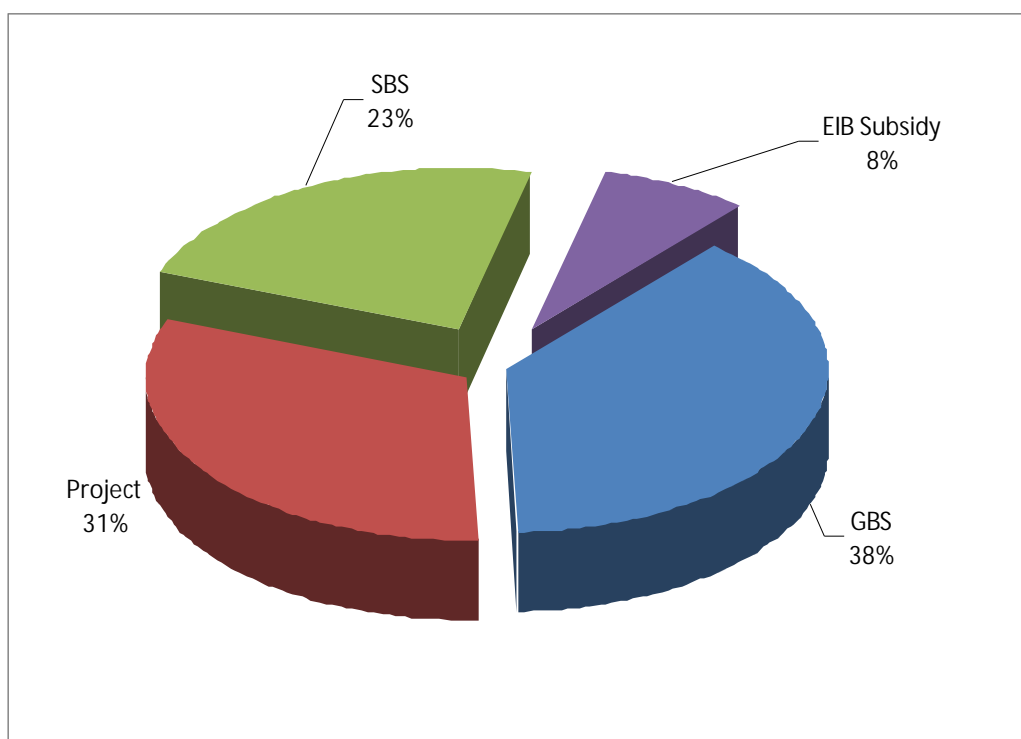
The MEDA II Regulation and the Strategy Paper 2002-2006 were more in line with the AA objectives, as recommended by the Marseilles Conference in November 2000. This strategy was based on the 10th National Development Plan 2002-2006, on the sustainable development strategy prepared by Tunisia in the context of the United Nations Commission on Sustainable Development (post-Rio process), and on the Mediterranean Action Plan in order to reinforce synergies with regional cooperation. In this context, the 2002-2006 cooperation objectives became:

- a) consolidation of rule of law and good governance;
- b) liberalisation of foreign trade and south-south integration;
- c) economic reforms and consolidation of market economy institutions;
- d) modernisation of services and development of infrastructure; and
- e) enhancement of human resources and social protection.

2.3. BUDGET SUPPORT OPERATIONS IN THE CONTEXT OF COOPERATION BETWEEN THE EC AND TUNISIA

From 1996, under the MEDA Regulation, budget support gradually increased to become the most important financing modality during the 1996-2008 period. As indicated in Figure 2, over the 1996-2008 period, 61% – i.e. EUR 732 million out of a total of EUR 1 197 million – of the EC's financial cooperation was funded through budget support (of which 38% was GBS and 23% SBS)³.

Figure 2: Overall allocation by financing modality, 1996-2008



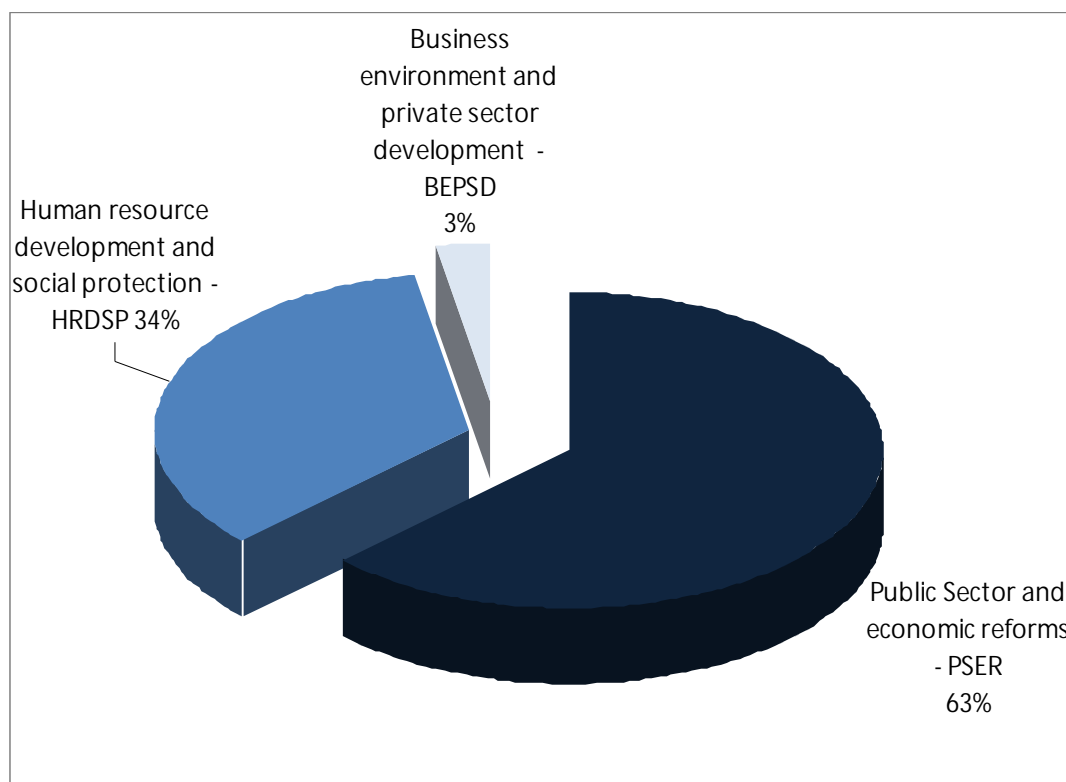
Source: CRIS, adapted by DRN

³ The proportion of budget support therefore went from 48% of commitments for the MEDA I programming period (1996-1999) to 75.4% of commitments for the MEDA II period (2000-2006), to 57.3% under the NIP 2007-2010 in the context of the European Neighbourhood and Partnership Instrument (ENPI).

This reflects the maturity of the Community cooperation, the trust placed in the quality of management by the government (particularly as regards public finances and expenditure control), the good level of appropriation and tailoring of reform programmes and, more generally, the trend towards greater responsibility being given to the partner country.

In particular, since signing the Association Agreement, the EC has used both general (GBS) and sector (SBS) budget support to finance 14 operations accounting for a total commitment of EUR 732 million over the 1996-2008 period⁴.

Figure 3: Sectoral distribution of budget support operations, 1996-2008



Source: CRIS, adapted by DRN

As shown by Figure 3, 63% of the budget support was used to finance operations in the 'public sector and economic reforms' macro-sector (PSER-EUR 459 million), 34% in the 'Human resource development and social protection' macro-sector (HRDSP-EUR 253 million), and 3% in the 'Business environment and private sector development' macro-sector (BEPSP-EUR 20 million)⁵.

More specifically, the general budget support was wholly used to fund operations in the PSER area, whereas over 90% of the sector budget support was used to fund human resource development and social protection (HRDSP)⁶, and another 7% to fund the support programme for the modernisation of the port sector.

⁴

GBS	Project	SBS	EIB Subsidy	Grand Total
459,000,000.00	374,782,529.33	272,794,475.10	91,150,000.00	1,197,727,004.43

⁵ The inventory of budget support operations is in Annex 7.

⁶ As regards social protection, this involved the support programme for the reform of the health insurance system.

Furthermore, it can be seen that, with regard to human resource development and social protection (HRDSP) in general, although several financing modalities were used – project aid, sector budget support, thematic lines, network programmes and exchanges of experience (Tempus) – there was a clear prevalence for the use of budget support. In total, 83% of the funds allocated over the period evaluated were allocated through budget support. From MEDA II, all programmes (except for Tempus and the thematic lines) to support the sector have involved budget support.

2.4. ANALYSIS OF THE BUDGET SUPPORT OPERATIONS COVERED BY THE EVALUATION

The seven budget support operations specifically covered by this evaluation account for 61% of the amounts allocated in the form of budget support under the EC-Tunisia cooperation over the 1996-2008 period (i.e. EUR 446 million out of EUR 732 million). It is particularly worth noting that all the general budget support operations covered by this evaluation involve the area of public sector and economic reforms (PSER), whereas all the sector budget support operations target human resource development and social protection (HRDSP).

The following tables provide an overview of the budget support operations covered by the evaluation.

Table 3: General budget support (GBS) operations covered by the evaluation: intervention objectives and sectors

General objectives	Specific objectives / Intervention sectors	Conditionalities ⁷	Amount and Methods of disbursement
Structural Adjustment Facility I – SAF I, 1996. Operation conducted jointly with the World Bank – ECAL I (loan of USD 75 million)			
Help the Tunisian government to implement a programme of reforms responding to the new challenges associated with setting up a free trade area (FTA).	<ul style="list-style-type: none"> - Long-term consolidation of macroeconomic stability within a liberalised economy. - Regulatory reform in order to open up the economy. - Broadening of the private sector's role in the economy. - Increased flexibility in the labour market. 	<p>Conditionalities common to the donors linked to:</p> <ul style="list-style-type: none"> - consolidation of macroeconomic stability; - deregulation and facilitation of exchanges/foreign trade; - labour market: i) improved flexibility of the labour market; ii) reduction in labour costs while improving social protection. <p>Conditionalities specific to the EC linked to:</p> <ul style="list-style-type: none"> - trade liberalisation; - withdrawal of the State from the economy (acceleration of privatisations); - reform of the financial system; - improvement (rationalisation, improved targeting) of social public expenditure. 	<p>EUR 100 million</p> <p>Two fixed tranches:</p> <ul style="list-style-type: none"> - First tranche of EUR 40 million disbursed after signature of the Financing Agreement and meeting of the conditionalities imposed. - Second tranche of EUR 60 million disbursed after meeting of the conditionalities imposed.
Structural Adjustment Facility II – SAF II, 1999. Operation conducted jointly with the World Bank – ECAL II (loan of USD 159 million) and the African Development Bank – PAC I (loan of USD 140 million)			
Support the economic reforms adopted by the Tunisian government in order to consolidate the liberalisation of the Tunisian economy and, in particular, help ensure the success of the free trade area with the European Union, as stipulated in the AA.	<ul style="list-style-type: none"> - Financial sector. - Withdrawal of the State from the economy. - Primary education. - Higher education. - Macroeconomic framework. 	<p>Conditionalities common to the donors linked to:</p> <ul style="list-style-type: none"> - reform of the financial sector (rationalisation of the banks; modernisation of the banking system; development of the financial market; improvement of the insurance sector); - introduction of a prudent macroeconomic policy while encouraging accelerated growth. <p>Conditionalities specific to the EC linked to:</p> <ul style="list-style-type: none"> - withdrawal of the State from the economy/privatisation programme; - reforms in the primary education sector; - reforms in the higher education sector. 	<p>EUR 80 million</p> <p>Two fixed tranches:</p> <ul style="list-style-type: none"> - First tranche of EUR 40 million during the first half of 1999, after meeting of the conditionalities. - Second tranche of EUR 40 million in principle at the beginning of 2000, after meeting of the conditionalities.

⁷ SAF I and II were marked by the presence of two matrices of conditions: one shared between the donors, and the other specific to the EC, involving additional conditions. As from SAF III, the donors have mainly used the same matrix of conditions.

General objectives	Specific objectives / Intervention sectors	Conditionalities ⁷	Amount and Methods of disbursement
Structural Adjustment Facility – SAF III, 2002. Operation conducted jointly with the World Bank – ECAL III (loan of USD 252.5 million) and the African Development Bank – PAC II (loan of EUR 216 million)			
Improve the level of general competitiveness in the Tunisian economy, in the context of its gradual integration in global markets.	Help to: Consolidate the stability of the macroeconomic framework.	Conditionalities linked to: consolidation of macroeconomic stability.	EUR 80 million (EUR 79.5 million in budget support and EUR 0.5 million in monitoring and evaluation) Four tranches, including three variable tranches ⁸ : - Initial fixed tranche of EUR 41.7 million disbursed after signature of the Financing Agreement and meeting of the conditionalities. - Three variable tranches (each of EUR 12.6 million) to be disbursed after specific conditionalities laid down in the matrix for each sector are met: i) environment and private investment; ii) financial sector; iii) ICT.
	Improve the environment for private enterprise.	Environment for private enterprise: improvement of legislative, regulatory and incentive frameworks, improvement of government services, and continued withdrawal of the State from the economy. Modernisation of the legislative framework and restructuring of the institutional organisation of the telecoms sector.	
	Provide businesses and the economy as a whole with more effective financial intermediation services.	Improved performance of financial intermediation services (rationalisation and modernisation of the insurance sector, distribution of roles between banks and financial markets).	
Structural Adjustment Facility IV – SAF IV, 2005. Operation conducted jointly with the World Bank – ECAL IV (loan of USD 150 million) and the African Development Bank – PAC III (loan of EUR 117 million)			
Help to improve the level of general competitiveness in the Tunisian economy, in order to encourage its integration in the FTA with the EU and in global markets.	Consolidation of the private sector and business environment.	Environment for private investment: i) development of new opportunities for private investment; ii) creation of contestable markets ⁹ ; iii) improvement of the tax environment for investment.	EUR 78 million (EUR 77.75 million in budget support and EUR 0.25 million in monitoring and evaluation) Two fixed tranches (EUR 39 + 38.75 million) to be disbursed after either the

⁸ Under the variable tranche method, disbursement does not occur on a specific date; funds become available when certain conditions are met/structural reforms are agreed. This method allows disbursement linked to the completion of one part of the programme to be dissociated from another part of the programme, which affords the country a certain degree of flexibility in its timetable of reforms. Otherwise, if disbursement occurs on a specific date, this is termed a dated tranche.

⁹ The contestable market is a market in which potential competition (the 'threat' of a competing business entering the market) guarantees competitive prices, even where the market is actually dominated by one or more businesses. This theoretical model was developed by the economists William Baumol, Panzar and Willig in 1982 (Contestable markets and the theory of industry structure).

General objectives	Specific objectives / Intervention sectors	Conditionalities ⁷	Amount and Methods of disbursement
	Acceleration of financial sector reform.	i) Improved performance of the banks; ii) rationalisation and consolidation of control in the insurance sector; iii) improvement of financial information on businesses and consolidation of governance and transparency rules.	<p>general conditions for disbursement (satisfactory medium-term macroeconomic framework) or the specific conditionalities for individual tranches are met.</p> <p>The general conditions for disbursement of all the tranches involve maintaining a satisfactory medium-term macroeconomic framework, as agreed with the Tunisian authorities. The specific conditionalities for disbursement of individual tranches involve completion by the Tunisian authorities of the various reform activities to stimulate the environment for private investment, consolidation of the financial sector and maintenance of a stable macroeconomic framework.</p>
	Maintenance of a stable macroeconomic framework.	Consolidation of macroeconomic stability: control pressure on the external current account and budget deficit.	

Table 4: Sector budget support (SBS) operations covered by the evaluation: intervention objectives and sectors

General objectives	Specific objectives / Intervention sectors	Conditionalities ¹⁰	Amount and Methods of disbursement
Support programme for the modernisation of higher education in Tunisia (PAMES), 2004			
Help to achieve the general objectives set out in the 10 th Plan of the Tunisian government (2002-2006), namely growth in employment, competitiveness and income and also development of a knowledge society.	Help to improve the relevance of the higher education offer, which will result in: i) improvement in the short-term employability of young people and reduction in unemployment among first-time job-seekers; ii) improvement of competitiveness in the Tunisian economy through a more appropriate response to the increasing demand for advanced technicians (short courses) and engineers; and iii) assistance with establishing a 'knowledge society', including the promotion of equal opportunities, democracy and openness.	Conditionalities linked to: - implementation of the government's strategy in the higher education sector; - presentation and update of the MTEF for the higher education sector; - effective implementation of the donor coordination mechanism; - employability, quality of education and programmes, process of decentralisation and empowerment of universities, evolution and development of the partnership with the private sector.	EUR 48 million (EUR 47 million in budget support, EUR 0.75 million in TA and EUR 0.5 million in monitoring and evaluation) Three annual tranches (EUR 11, 14 and 22 million): - First fixed tranche ¹¹ of EUR 11 million, which can be released on signature of the agreement. - Second and third mixed tranches. The fixed parts (EUR 5 million for the second tranche and EUR 7 million for the third tranche) to be disbursed after examination of the conditionalities with regard to the WG's sectoral strategy. The variable parts (EUR 9 million for the second tranche and EUR 15 million for the third tranche) to be released depending on the achievement of the targets set jointly with the WG on higher education.
Support programme for the reform of secondary education in Tunisia, 2006			

¹⁰ SAF I and II were marked by the presence of two matrices of conditions: one shared between the donors, and the other specific to the EC, involving additional conditions specific to the Community support. As from SAF III, the donors have mainly used the same matrix of conditions.

¹¹ Under the fixed tranche method, the amount to be disbursed is fixed, whether it is disbursed in full or not disbursed at all. Otherwise, under the variable tranche method, the amount disbursed for each tranche is linked to the results of the policies/reforms and varies according to the level of achievement of the targets and/or specific performance indicators laid down in the matrix of measures. The mixed tranche includes a fixed part and a variable part.

General objectives	Specific objectives / Intervention sectors	Conditionalities ¹⁰	Amount and Methods of disbursement
<p>Help to improve the performance of secondary education with regard to international standards and to increase the contribution of secondary education to the employability of young people, by allowing access to courses preparing them for higher education and/or the labour market.</p>	<ul style="list-style-type: none"> - Improve initial and continuing training of teachers. - Introduce the new courses proposed from the second year of secondary education. - Improve the quality of school life. - Help consolidate the measures aimed at empowering stakeholders in the system on a decentralised level. - Ensure a general introduction to information and communication technologies (ICT). 	<p>Conditionalities linked, for the fixed part, to:</p> <ul style="list-style-type: none"> - implementation of the government's strategy in the secondary education sector; - presentation and update of the MTEF for the secondary education sector; - holding of the annual donor coordination meeting. <p>Conditionalities linked to the variable part: achievement of targets set for specific indicators such as: i) territorial equity in the introduction of courses; ii) percentage of establishments with economy and service, trade and business, IT and multimedia, and industrial IT sections; iii) rate of successful completion of the second stage by a cohort of students; iv) first and second year student ratios; v) first year orientation percentage; vi) percentage of headmasters and headmistresses recruited based on their qualification profiles; vii) ratio of new teachers/trainers; viii) compulsory ICT lessons in the third and fourth years.</p>	<p>EUR 30 million (EUR 29.4 million in budget support, EUR 0.3 million in TA and EUR 0.3 million in monitoring and evaluation)</p> <p>Three tranches (EUR 10 million, EUR 9 million and EUR 10.4 million).</p> <ul style="list-style-type: none"> - First fixed tranche linked to the signature of the Financing Agreement. - Second and third mixed tranches. The fixed parts (EUR 3 million for each tranche) to be disbursed after examination of the conditionalities. The variable parts (EUR 6 million for the second tranche and EUR 7.4 million for the third tranche) to be released depending on the achievement of the targets set jointly with the WG on secondary education.
<p>Support programme for the vocational training sector in Tunisia (MANFORM II), 2007</p>			
<p>Help to implement the reform undertaken by the MEF under the 11th National Development Plan (2007-2011), in particular: ensure the high quality of the public and private vocational training system in order to meet the needs of business and adapt to technological changes, with a constant determination to respond to and complement the higher education systems.</p>	<p>Help to:</p> <ul style="list-style-type: none"> - promote vocational training in order to make this a path to success; - continue improving the vocational training system; - develop the efficiency of the vocational training system. 	<p>Conditionalities linked to: i) continued implementation of the strategy of the WG in the vocational training sector; ii) consolidation of the structures responsible for implementing the sectoral strategy and sectoral MTEF; iii) annual donor coordination meeting; iv) establishment of a national observatory of skills and trades, and introduction of works councils in centres managed by the Agence Tunisienne de Formation Professionnelle; v) training rates with enterprise (targets); vi) promotion of continuing training actions (targets); viii) systematic training and retraining of trainers (targets); viii) establishment and training of a unit of educational inspectors specialising in VT (targets); ix) development, validation and establishment of a framework for the recognition of qualifications in the apprenticeship system.</p>	<p>EUR 30 million (EUR 29.3 million in budget support, EUR 0.4 million in TA and EUR 0.3 million in monitoring and evaluation)</p> <p>Three annual tranches, of which:</p> <ul style="list-style-type: none"> - First fixed tranche of EUR 10 million linked to the signature of the agreement. - Second and third mixed tranches to be disbursed during the next two budget years. The fixed parts (EUR 4.1 million for the second tranche and EUR 3.6 million for the third tranche) to be disbursed after examination of the conditionalities with regard to the WG's sectoral strategy. The variable parts (EUR 5.6 million for the second tranche and EUR 3.6 million for the third tranche) to be released depending on

General objectives	Specific objectives / Intervention sectors	Conditionalities ¹⁰	Amount and Methods of disbursement
			the achievement of the targets set jointly with the WG on vocational training.

3. METHODOLOGY

3.1. EVALUATION METHODOLOGY AND PROCESS

The reference methodological framework for the evaluation corresponds to the methodology developed within the DAC/OECD^{12,13}.

3.1.1. The intervention logic model

The intervention logic model used by this method is based on the following key assumptions:

- the programmes evaluated support the government's strategies and contribute (together with other factors internal and external to these strategies) to their achievement in terms of regulatory and institutional changes; and
- the development results are determined by multiple factors involved in the context, including the regulatory and institutional changes made by the government.

The logic diagram has five analysis levels for budget support operations, as follows: Level 1: BS inputs; Level 2: BS direct outputs; Level 3: government induced outputs, directly or indirectly supported by the BS; Level 4: outcomes for beneficiaries; Level 5: impacts on a more general level. The intervention logic diagram and the details on the various levels are contained in Annex 6.

3.1.2. The Three-Step Approach and the Evaluation Questions

According to this methodology, it is impossible to identify – and would in fact be contradictory to attempt to identify, given the government's appropriation practice and principles – direct links between such complex support programmes and the intended development results. The method therefore involves dividing the evaluation into two parts, plus a summary third part (3 Steps). In the first part, the impact of programmes on the regulatory and institutional changes made by the government is evaluated. In the second part, the relationship between the intended development results and these regulatory and institutional changes is evaluated. Finally, by cross-referencing these two evaluations, the relationship between the support programmes and the development results can be assessed.

- | | |
|---------|--|
| Step 1: | Evaluation of the specific intervention logic of budget support, i.e. the bottom-up process covering the first three levels of the evaluation framework, from GBS/SBS inputs (Level 1), through outputs (Level 2), to induced outputs (Level 3). |
| Step 2: | Evaluation of the outcomes and impacts of the government strategy supported by GBS/SBS, i.e. the top-down process of the impact (Level 5) and outcomes (Level 4), from the strategy to its determining factors, including the achievement of government strategies in general, and particularly those affected by GBS/SBS. |
| Step 3: | Exploration of the links between the processes and results of GBS/SBS and the impact of the government strategy. |

In line with this methodology, the evaluation was structured around a series of evaluation questions. The final formulation of these questions basically consisted of all the 'compulsory' questions defined by the joint working group established at DAC level, which must be applied in tests of the new

¹² See Methodology for Evaluations of Budget Support – Test.

http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2008/budget_support_en.htm

¹³ Annex 6 sets out the evaluation methodology with more detailed information on the process and lessons learnt.

evaluation methodology¹⁴, and further specific questions added by the team and linked to the intervention logic supporting the seven budget support operations covered by the evaluation¹⁵.

In Step 1, the team examined the intervention logic of GBS/SBS, especially the context in which GBS/SBS operations occurred, and the nature of the inputs provided (Level 1 of the intervention logic, EQ 1.1-1.4), their direct outputs (Level 2, EQ 2.1-2.3), the induced outputs of the government strategy to which these operations contributed, and the associated government actions (Level 3, EQ 3.1-3.6). For these three levels, the evaluators examined the type of influence that GBS/SBS had through the flow of financial effects and political and institutional effects, and also other possible systemic effects.

In Step 2, the team analysed the changes targeted by GBS/SBS at the impact and outcome levels (EQ 4.1-4.4) and attempted to identify the links between the impacts, outcomes and induced outputs of the government strategy, by emphasising the institutional and reform processes (induced outputs) more directly linked to the intended outcomes and impacts (EQ 5.1-5.4). Other external or internal factors that may have contributed to these impacts and outcomes were also taken into account.

It was essential to complete these two steps in order to allow a final evaluation of the contribution of GBS/SBS to the intended development results. This evaluation represents the third step of the methodology. In practice: Step 1 evaluates the causal links between the budget support and the government induced outputs directly supported by the budget support; Step 2 evaluates the causal links between these induced outputs and the development results (outcomes and impacts) targeted by the budget support; Step 3 is an exercise that supplements and integrates Step 1 and Step 2 in order to evaluate the contribution of GBS/SBS to the development results.

The nature of the analyses in Step 3 is different from the other two steps. This step involves a comparative exercise between the results of the first two steps. It aims to identify the consistency, complementarity and possibility of integration between them. In practice, during this final step, the most significant effects of GBS/SBS (positive/negative/unexpected) revealed during Step 1 are compared with the most significant results (positive/negative/unexpected) and associated determining factors identified during Step 2. The potentially strong or weak links are examined and the mechanisms through which these develop (or not) are analysed.

As regards taking into account a counterfactual scenario through which the effects of GBS/SBS may be evaluated, complex evaluations such as this do not allow for the construction of a general counterfactual model or the identification of general counterfactual situations that exist in reality¹⁶ (see the Issue Paper cited). Counterfactual alternatives were therefore identified on a case-by-case basis in the answers to the various questions.

The most common alternative scenario – particularly appropriate for Step 1 of the proposed methodology – is represented by the use of the project instrument, as opposed to GBS/SBS. As regards Step 2, the counterfactuals particularly involve alternative economic policies (or simply 'alternative' countries) taken into account both in the statistical analyses and in the historical analysis of the country's development.

For each evaluation question, the evaluation team produced a number of judgement criteria and indicators. Judgement criteria are the elements allowing a full answer to be given to the evaluation question. They are fed by a series of indicators, which are themselves fed by information collected during the desk and field phases.

¹⁴ These tests were conducted simultaneously in Tunisia, Mali and Zambia.

¹⁵ These questions are summarised in Volume 3, in Annexes 11, 15 and 17.

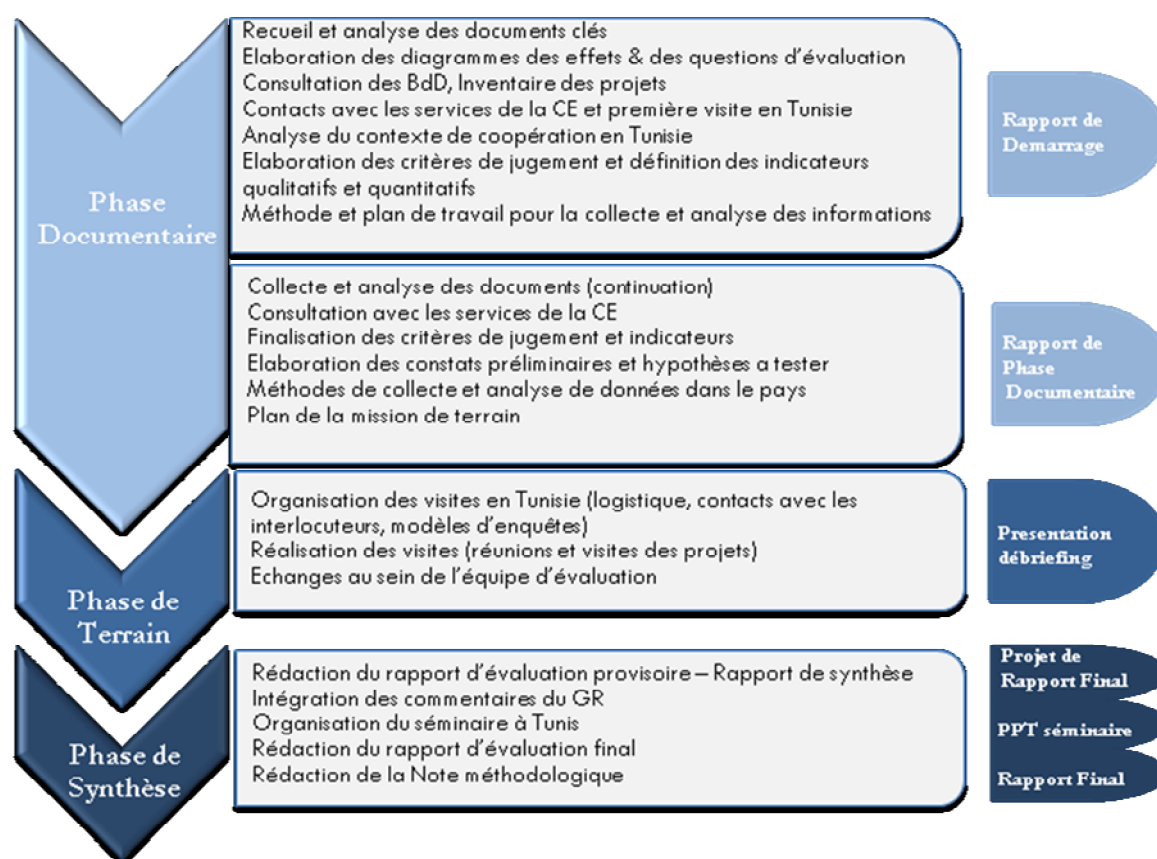
¹⁶ Counterfactual situations can be identified in the evaluation of projects limited in terms of the number of measures and their application in space and time, such as conditional transfers of liquid assets or other similar projects.

The information collected during these two phases (Volume 3 sets out all the information collected for each indicator) was analysed in order to validate/invalidate the judgement criteria to which this information refers. On this basis, the evaluators produced answers to the evaluation questions. The conclusions were formulated from the answers to the evaluation questions and led to a series of recommendations aimed at helping to improve the current and future strategies and programmes of the EC (cf. Chapter 6) focused on budget support.

3.1.3. The evaluation process

The following diagram summarises the various steps of the evaluation and the outputs of each step. Annex 6 details the methodological approach followed.

Figure 4: Evaluation process – Steps and activities



3.1.4. Data collection and analysis methods

The answers to the evaluation questions were based on:

- Document analysis, including strategic and contractual documents (NIP, Financing agreements, Progress reports, Evaluation reports), etc. (see Annex 2).
- Analysis of CRIS data and documentation on the programme/project cycle, which allowed the analysis to be broadened to activities and induced outputs (or direct outputs) programmed and effectively achieved (effectiveness); qualitative and quantitative correspondence between allocations and financial commitments in the inception and performance phases of operations (see Annexes 7-8).
- Approximately 108 interviews with: i) officials from the European Commission services in Brussels and Tunisia (interviews with 18 people); ii) representatives of national authorities (35 people, and 25 people from the Chamber of Deputies): MDCI staff responsible for

programming and coordinating cooperation with the EU and for managing and monitoring the various sectoral programmes; officials responsible for programmes/projects and/or associated sectors, including staff from programme management units (PMU) for selected projects; representatives of public institutions (ministries, agencies) responsible for the intervention sectors of cooperation initiatives and having been involved in and/or beneficiaries of programmes/projects funded by the EU; iii) representatives of EU Member States (7 people) and other donors (4 people) (World Bank, African Development Bank, etc.); iv) non-state actors: civil society organisations, private sector, academic world (9 people as detailed in the list in Annex 3, plus another 10 people who did not want their details revealed, see section 2.4 for more information). - The initial plan for the data collection methodology envisaged two focus groups: one with representatives of civil society on themes of governance and human rights, and the other with representatives of the private sector to discuss changes in the business environment. No focus groups were formed: in this context, the team considered that the best alternative was to conduct individual interviews, during which representatives of interested institutions and organisations could express their views in a less formal manner. With regard to civil society, the decision was made in consultation with the DUE, given the restrictions in force (compulsory prior authorisations), whereas, for the private sector, the decision was taken due to the reticence of the individuals contacted to participate in this type of meeting. This was linked to the recent adoption of the Law on Economic Security, which had a negative effect on the free expression of people likely to participate.

- Statistical analysis (see Annex 16).
- Briefing and debriefing discussions and meetings during which the hypotheses and preliminary conclusions were discussed with the main participants.

The documentation collected was systematically analysed using the matrix of detailed answers to the evaluation questions (cf. Annexes 11-16). All the sources used are detailed in the evaluation matrix.

All the information and data collected from the various sources (documents, database, oral qualitative information) was cross-checked, i.e. analysed and compared to verify the hypotheses and preliminary answers, in order to provide the key elements for producing the findings on the evaluation questions, conclusions and recommendations of this evaluation.

The judgement approach applied is a summary taking into account:

- the information collected on the content and value of the indicators associated with each of the judgement criteria, as defined during the inception phase of the evaluation, and reviewed or clarified (for a minority of them) either during the desk phase or during the field phase;
- the search for consistency between the judgements associated with the same evaluation question and between all the judgements given;
- the search for simplicity and clarity in the formulation of judgements;
- the desire to present judgements which can be used to precisely and exhaustively answer the evaluation questions;
- the quantitative representation of judgements, on a scale from 'poor' to 'very good';
- the observations of the reference group.

3.2. EVALUATION LIMITS

Despite trying to find a balance between the successive phases and optimise the time available, the evaluation exercise was essentially limited by:

- the need to take on board, during the process, new ToR produced within the DAC, which resulted in fairly radical changes, particularly the switch from 10 to 24 EQs, with 21 basic evaluation questions¹⁷;

¹⁷ In agreement with the Reference Group, the team selected a total of 24 EQs due to the need to break down the questions by sector.

- weaknesses in the matrix used, which led to the definition of multiple indicators, which sometimes resulted in similar answers and therefore repetitions and redundancies in the answers to the questions in Levels 1, 2 and 3 of Step 1;
- lengthy delays in obtaining documentation, despite the assistance of EC representatives, both in Brussels and Tunis;
- institutional memory limits, i.e. the unavailability of certain information or key contacts due to staff rotation at the Headquarters, at the DUE and in the ministerial departments and other organisations involved;
- duration of the evaluation: certain information collected at the start of the mission was obsolete and out of date one year later;
- limits of the judgement approach, which particularly depends on the limits of the data collected plus:
 - sometimes divergent or, at the very least, qualified opinions of experts from the Headquarters, the DUE, the Tunisian government and projects;
 - sometimes biased opinions of certain contacts who did not want to be too critical about a financial and technical partner as important as the European Union.

Despite these difficulties, by systematically cross-checking the information collected on one theme, the evaluators managed to produce judgements which they believe reflect the truth fairly accurately, if this absolute concept can be applied to evaluation (exercise necessarily involving an element of subjectivity, which evaluation techniques try to minimise).

4. ANSWERS TO EVALUATION QUESTIONS

The aim of this chapter is to present the most important findings emerging from the answers to the evaluation questions. The team used a dual approach during the synthesis phase, namely:

- preliminary analysis and structured synthesis work using the 24 evaluation questions selected for the evaluation, with this work being presented in Volume 3, Annexes 11-17; and
- synthesis work grouping together the themes emerging from several evaluation questions, in order to better highlight the most important findings, and therefore improve the readability of the synthesis report.

The answers provided by the team to the evaluation questions are based on the validation/invalidation of the judgement criteria associated with each question, carried out based on the information collected for the indicators relating to these criteria. The details of this analysis (data collected, all the findings associated with the judgement criteria) appear in the evaluation matrix (Volume 3) and in the presentation fiches for the budget support operations evaluated (Volume 2, Annex 8).

4.1. STEP 1 – LEVEL 1. QUESTIONS RELATING TO LEVEL 1 OF THE INTERVENTION LOGIC: QUALITY OF PROGRAMMES

According to the evaluation ToR, the questions relating to Level 1 of the intervention logic aim to evaluate the content of the programmes in relation to the context. These questions particularly concern the following four points:

- the components (inputs) of the programmes, judged in relation to the strategic criteria of the budget support (EQ 1.1);
- the relevance of the programmes in relation to the country's economic and social context and its development strategies (EQ 1.2);
- the account taken in the programmes of the country's eligibility criteria and specific capacities (EQ 1.3); and
- the presence in the programmes of non-financial inputs (TA and dialogue) in line with the government's priorities and systems (EQ 1.4).

4.1.1. Programme components and their effective availability (EQ 1.1)

The GBS programme inputs consisted of funds, conditionalities and a well-structured dialogue framework, whereas the SBS programmes also included significant technical assistance components, including capacity development support. These inputs were further supplemented by amounts allocated for operation monitoring and evaluation activities.

Table 5: Outline of inputs envisaged and effectively provided

	Structural Adjustment Facility I, SAF I (1996-1998)	Structural Adjustment Facility II, SAF II (1999-2001)	Structural Adjustment Facility III, SAF III (2002-2004)	Structural Adjustment Facility IV, SAF IV (2005-2009)
Column1				
TOTAL AMOUNT ALLOCATED TO PROGRAMME, of which	100,000,000	80,000,000	80,000,000	78,000,000
POLICY DIALOGUE	ü	ü	ü	ü
BUDGET SUPPORT	ü	ü	ü	ü
Amount of Budget Support allocated	100,000,000	80,000,000	79,500,000	77,750,000
Amount of Budget Support disbursed	100,000,000	80,000,000	66,906,000	77,750,000
% Budget Support allocated/disbursed	100.00%	100.00%	84.16%	100.00%
MONITORING & EVALUATION	x	x	ü	ü
Amount of Monitoring & Eval. allocated	-	-	500,000	250,000
Amount of Monitoring & Eval. disbursed	-	-	198,470	121,107
% M&E allocated/disbursed	-	-	39.69%	48.44%

	Programme for the modernisation of higher education in Tunisia - PAMES (2004-2007)	Support for the reform of secondary education (2006-2008)	Support programme for improving vocational training - MANFORM II (2008-2009)
Column1			
TOTAL AMOUNT ALLOCATED TO PROGRAMME, of which	48,000,000	30,000,000	30,000,000
POLICY DIALOGUE	ü	ü	ü
BUDGET SUPPORT	ü	ü	ü
Amount of Budget Support allocated	47,000,000	29,400,000	29,300,000
Amount of Budget Support disbursed	45,800,000	26,280,000	28,667,733
% Budget Support allocated/disbursed	97.45%	89.39%	97.84%
TECHNICAL ASSISTANCE	ü	ü	ü
Amount of TA allocated	750,000	300,000	400,000
Amount of TA disbursed	834,900	303,374	91,360
% TA allocated/disbursed	111.32%	101.12%	22.84%
MONITORING & EVALUATION	ü	ü	ü
Amount of Monitoring & Eval. allocated	250,000	300,000	300,000
Amount of Monitoring & Eval. disbursed	50,290	0	50,397
% M&E allocated/disbursed	20.12%	0.00%	16.80%

Source: Adapted by the team from the CRIS database. The amounts are taken from the contracts recorded in CRIS. The dates refer to the period of implementation.

The analysis of the various categories of inputs envisaged and provided reveals that:

- the funds committed by the EC to budget support were almost totally disbursed and transferred to the Central Bank as envisaged (JC111);
- the correspondence between the non-financial technical assistance and capacity-building inputs envisaged by the SBS operations and the inputs effectively provided is not clear in the case of MANFORM II (see below), but seems good for the other programmes (JC112);

- the extent and structure of the political and policy dialogue framework, in which the BS programmes are included and to which they contribute, represent one of the specific characteristics of BS in Tunisia and more generally in the region (JC113).

Funds

The funds for the seven budget support operations covered by the evaluation amounted to a total of EUR 442 950 000, of which EUR 425 403 733 were disbursed and transferred to the Central Bank as envisaged, i.e. 96% of the total.

Technical assistance

As shown by the table, none of the four SAFs covered by the evaluation provided for TA components and/or capacity-building activities. The only TA envisaged was included in the monitoring/evaluation envelope. The reason for this particular situation – confirmed during the field mission – was that the SAFs relied on the TA provided by the WB (through analytical work and diagnostic studies¹⁸) and on other specific programmes funded by the EC. In the EC's most recent GBS programmes – not included in the evaluation – TA was reintroduced (e.g. PAGBO).

On the other hand, all the SBS operations included TA components amounting to between EUR 300 000 and EUR 750 000 (i.e. between 1% and 1.5% of the overall programme envelope), which were intended to support the implementation of certain activities envisaged by the Tunisian government's sectoral policies. As for the two programmes closed by the date of analysis of the CRIS data, i.e. Higher Education and Secondary Education, all the amounts envisaged were disbursed, although the provision of technical expertise was significantly delayed. As for the MANFORM II programme, only 22.8% of the amount envisaged for TA was disbursed, because the government did not deem it appropriate to use all the available amounts during the project. The parties' explanation is that the TA had been programmed with a certain surplus so that any needs not identified could be met. This is possible, but it also indicates a limit in the dialogue, as it could have been agreed to use the available inputs for analytical support or various training, in the context of implementing the reform (JC112).

Dialogue framework

The GBS programmes funded by the EC (in collaboration with the WB and AfDB) aim to provide technical and financial support to the Tunisian government in order to implement reforms agreed within the partnership framework of the Association Agreement (AA) and Neighbourhood Action Plan (NAP). These reforms are monitored jointly by Tunisia and the EU, through the permanent system for technical and sectoral dialogue set up by this framework. These programmes are therefore the result of the complex and systematic dialogue that exists between the EU and Tunisia at political and policy level. At the same time, they represent one of the forums for this dialogue, as they are designed to allow a constant exchange of opinions and information on the specific reform measures in the economic and sectoral areas in question. The partnership framework of the AA includes the EU-Tunisia Council of Ministers and the Association Committee, the sectoral sub-committees of the ENP, and joint sessions for formulating and monitoring the BS programmes. It firstly ensures an effective link between each programme and the development, poverty reduction and Euro-Mediterranean integration results of the EU-Tunisia partnership. Secondly, it should allow close monitoring of the intended reform processes. The institutionalisation of the dialogue on individual programmes could be improved, as structured meetings are currently planned only for formulation/negotiation and for monitoring missions. Thirdly, a practice of constant contact between partners seems to be well-established between one monitoring mission and the next, during the implementation of the programmes (JC113).

¹⁸ See below (Level 2).

4.1.2. Consistency of programmes with the EC's approaches and strategies and their relevance in relation to the economic and social context and the government's policies (EQ 1.2)

The AA and National Development Plans

Since the signature of the AA, all the cooperation between the EU and Tunisia has been restructured around the three main Barcelona dimensions (political, economic and social). The budget support programmes particularly involve the objectives of the economic and social dimensions. In particular: the GBS programmes specifically respond to the objective of increasing the competitiveness of the Tunisian economy in a Euro-Mediterranean integration framework; and the SBS programmes in the area of education and vocational training specifically respond to the objective of modernising the labour market, containing emigration and moving towards a knowledge society (JC121).

Furthermore, the five-year development plans drawn up by the government have incorporated the AA's dimensions and objectives, by developing them into political and economic action plans. In this way, the objectives, outcomes and targets envisaged by the BS operations have fully reflected the government's development plans and the specific reforms included within these plans. This is clearly apparent from the analysis of the Financing Agreements for the programmes, both for GBS and for SBS. As regards GBS, as from SAF III, the link between the programmes and the reforms established by the government's development plans is indicated in great detail (JC124).

Within this general framework, the specific programmes have been structured in such a way as to help the government tackle the main challenges involved in the reforms to be implemented. A high level of correspondence is evident between the objectives and matrices of conditionalities of the BS programmes and the objectives and actions indicated in the government's development plans, whether this involves the 9th Plan (SAF I and II) or the 10th Plan (SAF III, SAF IV, PAMES, PARES, MANFORM) .

Regional programmes, project aid and various sectoral operations (JC122)

The GBS and SBS programmes have been formulated in line with the guidelines defined in the MEDA and ENPI regulations, which explicitly provide for budget support as one of the most effective ways of supporting the transition to the FTA and the relevant economic and social reforms. Although cross-references between the national BS programmes and the EC's regional programmes are very limited, the latter have supported regional integration processes in the area of infrastructure, with a view to establishing a regional regulatory framework, which is consistent with those supported by the national GBS.

As regards links between the BS programmes, the government's sectoral policies and other programmes of the EC and other donors, references are limited in the GBS documents or virtually absent in SAF I and II, depending on the style of the former structural adjustment programmes. As from SAF III, the documents seem to be more interdependent. In the case of SBS, references to other programmes and links between the SBS programmes and the government's sectoral policies/reforms are consistently presented.

EC's approach to budget support (JC123)

Bearing in mind the Guidelines on the Programming, Design & Management of General Budget Support, published by EuropeAid in 2007, and other previous guideline documents, GBS in Tunisia, while meeting most of the criteria required, has several particular characteristics, especially with regard to the verification of eligibility conditions and the object and method of management of conditionalities.

The eligibility conditions, particularly the public finance management framework, have not been systematically evaluated. Variable tranches have been used only in SBS. As for the conditionalities, less attention has been paid to public finance management problems than to support for reform processes, and the triggers for disbursement, in the SAFs, are not outcome indicators in the proper sense.

According to the information collected and analyses conducted, these choices are based on the particular characteristics of the context:

- **Public finance management framework.** In 1995 the country already had nearly 10 years' experience of structural adjustment, in partnership with the World Bank and IMF. Over those years, the public finances were analysed in depth and systematically monitored. SAF I continued this exercise, although the new objective of the AA radically broadened its horizon. In the TAP for SAF I, the eligibility conditions explicitly mention the structural adjustment agreements with the WB and IMF (TAP, page 15). Over the period covered by the evaluation, other exercises to evaluate the Tunisian public finances were carried out and confirmed a high level of reliability and capacity on the part of the government: in particular, periodic supervision by the WB and IMF' the Country Financial Accountability Assessment (CFAA) of the WB in 2004; reports published by the government (such as budget implementation reports); and finally the PEFA Report¹⁹, which was recently published.
- **Matrices of conditionalities.** The existence of a global partnership framework between the EU and Tunisia, based on a series of shared strategic results, together with dialogue and monitoring instruments, ensured the targeting of all cooperation actions between the two partners, preventing the achievement of their results from being regarded as conditions specific to a single programme. The FAs explicitly referred to this strategic framework, but the matrices of conditionalities for the programmes referred more to specific actions linked to the implementation of reforms, acting as a reminder or road maps for monitoring the envisaged reform processes (JC123).
- **Fixed tranches and indicators in GBS.** The non-use of variable tranches in GBS is due to a requirement for uniformity with the other donors and better correspondence between the fixed tranches and the conditionalities not based on outcomes (which could be achieved at different levels), but on practical reform actions (whether or not realised). In SBS, the situation is different (see below).
- **Duration limited to two years.** The SBS in question has a duration of two years, which is normally considered to be too short to ensure the continuity and predictability that should exist in this support instrument²⁰. In the Tunisian case, it was noted that this limited duration allowed the framework of the dialogue and conditionalities to be updated in line with the priorities of the reform process specific to each period, without harming continuity. The programmes actually covered 10 years without any significant interruptions. The reason for this particular characteristic is the partnership framework of the AA, which provided the long-term context in which GBS is incorporated (not just the EC's programmes). The SBS case is different: a more flexible and long-term sectoral strategic approach, particularly in terms of TA, would have allowed the support to benefit from a longer duration.

These particular characteristics have sometimes been interpreted as weaknesses (MEDA evaluation, Court of Auditors). However, many of these could be regarded as a justified adaptation of the budget support instrument based on the partnership framework existing between Tunisia and the development banks, on the one hand, and between the EU and Tunisia on the other hand. The evaluation method based on the '3 STEPS' has allowed the function of the partnership framework and its role in the formulation of the programme to be highlighted (JC123).

4.1.3. Choice and institutional set-up of BS programmes (EQ 1.3)

Justification for choosing BS (JC132)

The justification for choosing the BS method is not explained in detail in the GBS programmes. This is mainly due to the fact that this aid method was a tried and tested practice in the country. The FA

¹⁹ Public Expenditure Financial Accountability (PEFA) Report, EC, WB and AfDB, 2010.

²⁰ EuropeAid, Guidelines cited. These indicate that 'at least three years' is an adequate duration for SBS.

for SAF I contains repeated references to the WB's 10 years of structural adjustment and to the good results achieved through this type of aid. The SBS case is different, with the FAs containing more explicit justification, which refers to 'the good quality of public finance management, mechanisms for measuring the results of implementing the policies ..., and reliable mechanisms for scrutinising public expenditure' (FA, PAMES – TAP, 3.5, page 38). Moreover, the general formulation of the programmes is based on diagnostic studies and a joint analysis of the context and priority economic and social challenges facing the country in relation to the specific themes and sectors involved, which ensures in principle the capacity of the programmes to respond to the government's priorities and to the country's needs and capacities.

Institutional set-up of GBS (JC131)

The GBS in question demonstrates a high degree of continuity, marked by the following particular characteristics:

- Implementation period that is relatively short, approximately two years.
- Limited variation in financial allocations, between EUR 100 000 000 (SAF I) and EUR 78 000 000 (SAF IV)²¹.
- Strategic framework explicitly linked to the AA objectives.
- Matrices of conditionalities covering a large number of indicators, marked by huge differences between the envisaged measures, including macroeconomic indicators and process indicators linked to the achievement of activities (launch of reforms, revision of regulatory frameworks, improvement of procedures, and operational decisions on major issues, such as privatisations or sensitive institutional measures). The dispersion of the measures was partly reduced in SAF IV by the switch to the system of disbursement or 'star' conditionalities (JC131).
- Virtually identical methods of disbursement. SAF I, II and IV provided for two disbursements with fully fixed tranches (four with variable tranches in SAF III).
- Technical assistance. Lack of specific and complementary technical assistance components in the SAFs, offset by the availability of TA from the development banks involved in co-financing and other Commission programmes (JC131 and JC112).

Institutional set-up of SBS (JC131)

The SBS in question, funded solely by the EC, has some different characteristics:

- Extended operational phase (the duration of MANFORM II is 36 months).
- Significant reduction in amounts: from EUR 48 million for the first programme (secondary education) to EUR 30 million for subsequent programmes. This reduction is even more significant if the very first SBS is taken into account, which is not covered by the evaluation (primary education).
- Change in conditionalities and typology, and use of indicators: change from a series of mainly process indicators linked to the achievement of activities (Primary Education SBS) to a series of indicators expressing the expected outcomes of the programmes, in terms of both process and direct output, and genuine development results (enrolment rate etc.). In addition, annual targets are identified and linked to a weighting percentage, which allows the amount to be disbursed through the variable tranche to be defined.
- Increase in number of tranches: change from two fixed tranches for the primary education SBS to three annual tranches for the three programmes, with the first being a fixed tranche on the signature of the FA, and the other two being mixed, i.e. divided into fixed and variable sub-tranches, with the disbursement of the variable parts being linked to the analysis of specific performance/achievement of the targets indicated for each indicator selected.
- Technical assistance: as from the Support programme for the modernisation of higher education in Tunisia – PAMES (2004), a technical assistance component was introduced

²¹ By contrast, the GBS allocations overall (taking into account the loans provided in this respect by the WB and AfDB) vary significantly, as the demand for BS loans from the government varies according to the period (see Table 3 above).

which, in the case of the Support programme for the reform of secondary education – PARES, also included the purchase of equipment.

4.2. STEP 1 – LEVEL 2. QUESTIONS RELATING TO LEVEL 2 OF THE INTERVENTION LOGIC: QUALITY OF DIRECT OUTPUTS

According to the evaluation ToR, the questions relating to Level 2 of the intervention logic aim to evaluate the direct outputs of programmes, in particular:

- direct effects caused by the transfer of funds (EQ 2.1);
- direct effects caused by the establishment of a framework for dialogue on the government's development policies (EQ 2.2); and
- direct effects caused by the programmes in terms of capacity-building and aid harmonisation and alignment, including coordination between the various international partners (EQ 2.3).

4.2.1. Increased government control over international cooperation funds (EQ 2.1).

Quantity and percentage (JC211)

The international cooperation funds granted to Tunisia over the 1996-2008 period amounted to a total of approximately EUR 10 billion, of which nearly 50% was in the form of soft loans. As the latter were loans to the State from international financial institutions (WB, AfDB and EIB) or regional financial institutions (AFESD and IDB), they all went through the national budget. Aside from the EC, the donors using the BS method were the World Bank and the African Development Bank.

Soft loans granted through the BS instrument have existed since the second half of the 1980s (structural adjustment funds from the World Bank). Since 1996 these funds have increased significantly and been redirected to support the objectives of the EU-Tunisia AA of opening up to international markets and Euro-Mediterranean integration. In 1996 the EC and the WB launched SAF I and ECAL I, doubling the budget support funds (structural adjustment) that the country had previously received. In 1999 the AfDB joined the group, and recently France and other donors have also considered participating.

Even though the BS quantities and their percentage in relation to total soft loans have increased over the years, the relative weight of BS in public expenditure has remained modest: in 2006 the total amount of BS was equivalent to 1.55% of expenditure, and in 2007 and 2008 it was 1.90% and 0.61% respectively. This explains why officials at the Ministry of Finance and the BCT, as also members of the Finance Committee in the Chamber of Deputies, considered during this evaluation that BS was less a source of funding than a useful 'accompaniment' having supported the Tunisian economic reform movement.

Predictability (JC212)

In this respect, the modest differences, where they exist, between forecasts and disbursements and the disbursement delays have not had any negative consequences on the planning of public expenditure in terms of the annual budget, nor in the medium term on the capacity to implement public policies.

The amounts agreed have sometimes been disbursed late, but the level of disbursement was always very high during the period in question. The delays were often due to having to wait to meet one or other of the conditionalities.

The PEFA Report (Indicator D-1: 'Predictability of budget support') gives a score of D+, which is the result of a B for component i): 'Over the last three financial years (2006, 2007 and 2008), effective direct budget support has in one year only been more than 10% below the forecasts', and a D for

component ii): 'Effective delays in weighted disbursements exceeded 50% in 2006 and 2007. There was no delay in 2008' (JC212).

4.2.2. Forms and content of policy dialogue and TA, and relations between the two (EQ 2.2)

Forum for dialogue at programme level (JC221)

The nature of the BS programmes as results of the complex dialogue established by the AA and – at the same time – as forums in which this dialogue can develop and be specified (see 4.1.1 above) has been underlined.

Each BS programme creates a forum for dialogue on the formulation and practical implementation of structural and sectoral reforms, which manifests itself in structured opportunities for negotiation/formulation/monitoring of programmes, but also in an exchange of information and viewpoints throughout the whole reform process. The latter is more informal and constant in the SAFs, whilst it is particularly linked to the TA operations in SBS.

The relationship between TA and dialogue is rather different in GBS as opposed to SBS. In GBS, TA (for example, the WB's forward-looking studies²²) feeds the dialogue, particularly in the programme formulation phase. During implementation, it is guided and mobilised by the dialogue in order to respond to specific problems²³ and collaborate in (or comment on) government studies etc. In SBS, TA does not provide significant analytical bases for the dialogue between the partners during the formulation phase. It is particularly intended for evaluation of the eligibility conditions (public finance management, sectoral strategies, outcome indicators). Its contribution to the development of reforms and/or production of an analytical framework, which can help to develop ongoing reforms, is limited²⁴. In the implementation phase, it is not flexibly managed according to the dialogue priorities, but is mainly deployed according to a predetermined programme. Its outputs help with implementation of the reforms (MTEF) and feed the dialogue, as they highlight the progress made or not made in relation to the agreed objectives.

Dialogue at programme level feeds dialogue in the sub-committees, particularly helping with assessment of the reforms, and is reflected in the annual reports on the ENP and in annual discussions between the parties.

The government and EC representatives, with reference to the SAFs, have confirmed that the political and policy dialogue framework, in which the BS programmes are included and to which they contribute, represents a genuine added value of the EC's BS programmes. This type of dialogue should subsequently have been consolidated in the more recent SBS programmes, particularly prior to formulation, with greater involvement of the EC's internal technical services in terms of conducting the dialogue and not just acting as consultants.

The conditionalities help to monitor reforms (JC222)

As regards the conditionalities, it should be noted that, in GBS, but also partly in SBS, the process indicators are more important than the outcome indicators (see above). In other contexts, these aspects could indicate a low level of trust between the parties and the need for the donor to scrutinise the beneficiary's management. However, in the Tunisian context, the existence of a broader political partnership framework has allowed various levels of dialogue to be used (committee/sub-committees/programmes). Furthermore, the establishment of an operational road map at BS

²² WB forward-looking studies, Project Performance Assessment Report (ECAL I, II and III), 2004.

²³ For example, support for the preparation of the Action Plan for the active management of public debt, provided for by SAF III (and by the budget support of the development banks). See also EC, ENP Progress Report, 2006.

²⁴ This characteristic is apparent on examining the programmes, and is underlined as a limit, particularly of those programmes under preparation, by Tunisian cooperation officials.

programme level has allowed: i) the government and donors to closely monitor certain crucial moments of the reforms, by being able to intervene through targeted studies and/or opinions on the ongoing process; and ii) a sort of external discipline to be created, which facilitates certain internal political and institutional movements (this is what often happens in political processes within the EU Member States or enlargement countries).

TA helps to formulate and monitor reforms and encourages dialogue (JC142-JC221)

TA is not a direct part of the general budget support programmes under evaluation. However, several TA activities and/or economic and sectoral studies conducted in parallel with or prior to the GBS programmes have extended the economic analysis, contributed to the correct targeting of reforms, and provided a reference basis for defining specific measures under the matrices of conditionalities. The contribution and usefulness of these studies are confirmed by the programme evaluation reports (SAF III – EC, ECAL – WB, PAC – AfDB) and also by interviews conducted at the level of the EU Delegation in Tunisia.

Among the studies conducted by the GBS partners in order to help the government guide the reform processes covered by the budget support, the following can be cited as the most important:

- The WB was the lead partner in the applied research that accompanied the budget support. The following can be mentioned, among others: Country Economic Memorandum: 1995; Tunisia's Global Integration and Sustainable Development: Strategic Choices for the 21st Century²⁵; Tunisia - Private Sector Assessment Update - Meeting the challenge of globalization - 2000²⁶; Promotion of private investment and the role of incentive policy: analysis and recommendations, FIAS/WB - 2002; Active management of public debt - 2003; Review of development policies: Taking advantage of trade integration to stimulate growth and employment, WB and Tunisian Government - 2004.
- The AfDB has brought to the partnership its experience in the area of development banks, having funded major programmes in Tunisia and having a high level of expertise. It also conducted an important study on Japanese support in the insurance sector, the outputs of which were used in the reforms supported by GBS under the relevant conditionalities.
- The EC used the expertise gained in the competitiveness support projects for the banks and insurance in order to finalise the specific conditionalities of SAF III. Likewise, a study funded by the EC on privatisation in the context of the PATP was used to finalise the strategies and conditionalities of the SAFs.

In addition to the studies, the internal expertise of the partners, particularly of the World Bank, and the expertise available from other TA projects was used to review and/or comment on the numerous studies produced by the government further to the GBS conditionalities.

In the context of general budget support, the positive experience with TA (excluding SAF, but linked to GBS), as a capacity development instrument and flexible tool combined with policy dialogue, has led the EC to include TA components in new programmes, which are not covered by the evaluation. This is the case, for example, with PAGBO in which TA is also implemented using instruments such as TAIEX or twinnings (P3A), which guarantee a high level of appropriation on the part of beneficiaries and flexible implementation.

In SBS, TA is generally divided into two aspects: one part is intended to support the MTEF, the implementation of which is one of the conditions for disbursement; the other part is more flexible and is linked to the implementation of sub-sectoral reform. The part supporting the MTEF has been

²⁵ These two works were fundamental in the formulation and monitoring of SAF I and II (and ECAL I and II, and PAC I).

²⁶ This study details the constraints limiting the private sector's competitiveness in terms of legal and administrative obstacles, access to financing, etc., and makes precise recommendations, some of which are included in the GBS matrices, as from SAF III.

well used and has helped to initiate and extend the MTEF adoption process, which is still ongoing and which represents one of the most important improvements in the country's budget policies. The other part has been used to complement the first part, or has not been used, as in the case of MANFORM II.

Finally, a few points need to be made on TA management. The TA envelope is actually managed by the government, but in many cases this uses the DUE and – through this – the Framework Contracts²⁷ to access TA or other flexible instruments such as P3A and TAIEX. Theoretically, the government could launch invitations to tender or follow its own procedures for TA management, but it prefers to use the DUE and its expertise. This involves extra work for the DUE, but ensures a truly daily dialogue.

4.2.3. Alignment and harmonisation (EQ 2.3)

Alignment with the government's objectives (JC222)

The high level of correspondence between the BS programmes and the objectives and guidelines of the National Development Plans has facilitated the establishment of a performance evaluation framework aligned with the government systems, which in turn has facilitated the joint assessment of the general and specific outcomes targeted by the BS programmes.

In particular, the document analysis and interviews with participants during the field mission highlighted the following achievements:

- sharing of macroeconomic indicators (BCT-Institut National de la Statistique);
- joint government/partner monitoring of the conditionalities of the GBS programmes;
- joint government/EC (sole partner) monitoring of the SBS programmes;
- for the SAFs, good coordination and constant exchange of information between co-financers and the government have helped to ensure a certain flexibility in assessing the achievement of complex measures;
- experience gained during the implementation of the SBS programmes has led to the adoption of simplified methods for verifying the achievement of indicators and to recognition of the contribution to dialogue and alignment made by the TA component, which has been extended to the new SBS and GBS programmes (JC222).

Coordination and harmonisation between international partners and sector approach (JC231)

The GBS programmes taken into account (the only ones to be co-financed) are marked by a high level of harmonisation and coordination between the donors, both in the programming phases and in the monitoring and negotiation phases²⁸. In fact, the matrices of conditionalities, the preparation and monitoring missions, and the decisions on disbursements have increasingly become a joint and shared affair over the years. This high level of collaboration and consultation is confirmed both by the progress/completion/evaluation reports and by opinions expressed by donors and the government during field missions. As regards the evaluation of conditionalities, the three donors have adopted an

²⁷ With timeframes allowing quality inputs to be accessed.

²⁸ Each programme includes a programming phase, which mainly involves studying the reforms being prepared, using analyses conducted by the government and partners. In this phase, the priorities and objectives of the programmes are discussed, agreed and translated into matrices of conditions. The finalisation of these matrices requires an understanding of the reform process envisaged and a position to be taken by the partners in terms of targeting the measurable changes that are the most sensitive and representative of the achievement of the content to be supported. This phase is accompanied by a negotiation, which is generally quite long (several months), in order to reach agreement on the matrices. The negotiation resumes in the output monitoring phases, as it must be assessed whether and to what extent the conditions have been met. The negotiations on the outputs have sometimes been very complex and have often led to delays in disbursements. This shows that meeting the conditions is not a formal act, but a genuine challenge for the government, which – having accepted this challenge and included it in its own programme – uses it as an element of self-discipline, in order to better target its internal energies and better overcome any resistance from outside.

identical stance, particularly with regard to the ICT tranche – the only conditionality not achieved – which was not disbursed by any of the three donors. With SAF IV, the progress reports, which were linked to disbursement of the star tranches, stem from the joint monitoring missions involving the European Commission, the World Bank and the African Development Bank. The coordinated intervention of these three major donors has provided political, technical and financial support, which has reaffirmed the authorities' desire for reform and helped them to accelerate the rate of these reforms.

Outside GBS, harmonisation with other donors seems very limited, if not absent. In a sector such as education, several major donors act simultaneously, using different instruments, each having its own forums for dialogue, targets or conditionalities, and its own TA and monitoring instruments. In general, although all the partners agree on the government's plans, we cannot talk about sector approaches in the proper sense of the term (OECD-DAC). Such approaches imply that the government is in the driving seat (criterion effectively met), but also that the international partners manage their contributions in a harmonised and complementary manner under the government's coordination (criterion not yet met). A genuine sector approach would facilitate dialogue between the external partners and the exchange of experience through their specific contributions, and would reinforce the efficiency of the support. Moreover, such an approach would allow duplication and its associated costs to be reduced (see below). This lack of exchange is particularly apparent in the sector-by-sector strategic discussions and analyses. Capitalisation on experience has become difficult due to a certain degree of separation between programmes and a lack of institutionalised bodies open to the partners. Certain improvements have been made, although these affect more recent projects not covered by the evaluation (set-up of the PEFESE, which is ongoing).

The issue of limited coordination and harmonisation between the sector operations of the main donors (with the exception of the broad guidelines, which they largely share, and specific areas such as GBS, in which there is strict integration) has different causes, and in particular:

- in key sectors such as education, a limited sector approach prevents government contacts responsible for coordination and guidance from being identified, as is the case with the MDCI in the area of economic reforms;
- the dual responsibility, in relation to donors, of the sectoral ministries and the MDCI, and the separate management – within the MDCI – of the various main donors. The system is complicated, but could be simplified through a functional sector approach. In the meantime, it would be useful to set up bodies for coordination and harmonisation between the participants, promoted by one of the partners.

Internal consistency and complementarity of BS and other EC programmes JC232)

A cluster approach²⁹ between the BS programmes and other EC programmes is evident. The EC programming documents set out a clear framework of sectoral strategies rooted in the main dimensions of the AA. These strategies cover sets (or clusters) of programmes, without, however, any functional coordination mechanisms between these programmes being envisaged. Coordination is ensured by several factors, in particular: in terms of EC operations, through constant exchanges between the various project/programme managers and the DUE's thematic organisation; in terms of strategic consistency, through the high degree of complementarity envisaged in the formulation of the various actions; and in terms of convergence and institutional coordination, through the high degree of appropriation by the government.

²⁹ The term 'cluster approach' is used here generically to mean the combination of different and relatively independent aid instruments having a synergetic effect. In comparison to the sector approach, this term refers more to the complementarity of different actions managed by one or more donors, even in different sectors. In the literature on development, the term 'cluster approach' is used with different meanings. For example, it can be used to mean a mechanism for coordinating humanitarian aid (United Nations) or to identify all interconnected enterprises within a value sector (chain), or in other contexts.

In the 'macroeconomic management and economic reforms' macro-sector, the EC has funded 11 operations totalling approximately EUR 513 million, i.e. 43% of the total amount allocated in the evaluation period. In the 'business environment and private sector development' macro-sector, the EC has funded seven operations totalling approximately EUR 140.5 million (or eight operations totalling EUR 170.5 million, including the EIB), i.e. 14.5% of the total amount allocated. Finally, as regards the 'human resource development and social protection – HRDSP' macro-sector, the EC has funded 12 operations totalling approximately EUR 305 million, i.e. 26% of the total amount allocated.

Reduction of transaction costs (JC233)

The field missions confirmed that the high level of coordination and harmonisation achieved allowed the donors to optimise the use of resources, and the government to save time and energy in terms of monitoring, meetings and document production. This resulted in a significant reduction in transaction costs in the management of GBS, compared to the management of hypothetical programmes of the same financial scope with three separate and different counterparts and, potentially, different action plans and/or conditionalities. However, as noted in the SAF III evaluation report, closer sharing of technical assistance for monitoring and pooling accompanying analytical resources could have resulted in subsequent savings.

This situation is not repeated in the case of SBS. The fact that the EC is the only donor using the BS method in these sectors and the more limited levels of coordination between donors creates problems with overlapping negotiations, dialogue bodies and technical work, with these problems being multiplied by the number of donors.

The government recognises that this situation of separation between the various donors in certain sectors results in additional costs and significant dispersion of effort. There are more negotiation and monitoring meetings, and there is more pressure on the resources needed to manage such a heterogeneous multiplicity of contributions. The government representatives, while underlining the good level of consistency and coordination that they ensure between the various external contributions, have indicated their readiness to improve the existing situation of dispersion and inefficiency.

The main reason for the failure to reduce transaction costs in non-GBS areas is the weakness of the sector approach, as illustrated above.

4.3. STEP 1 – LEVEL 3. QUESTIONS RELATING TO LEVEL 3 OF THE INTERVENTION LOGIC: GOVERNMENT REFORM PROCESS AND ROLE OF BS

4.3.1. Methodological clarifications

Before beginning the evaluation at the next 'levels' of the intervention logic, methodological clarifications are needed. From Level 3, the indirect effects of the BS programmes are evaluated. Assessments are made of situations forming part of the current economic and social reality of the country, such as the content and results of certain reforms supported by the programmes evaluated. Causal links between the programmes evaluated and these results need to be identified, as these links are often not directly observable and must be assumed by default. The following notes will help readers to understand the approach followed:

- a. Reference period. The evaluation covers the period from 1995-96 to 2007-08. During this period the government, with the support of its international partners, completed complex and ambitious reform processes, which have made Tunisia into one of the most reformist countries in the region. Naturally, as we will see, many reforms require subsequent progress, and others must be tackled with more determination. In recent years, and particularly since 2007-08 with the first signs of the international economic crisis, the weaknesses in the process (especially in investment and employment policies) have been at the centre of the government's concerns (11th Plan) and the dialogue between Tunisia and its partners. The limits of the progress made and the new challenges are briefly considered in the evaluation, but these limits should not, however, negatively influence the overall judgement of the achievements in the first 10 years following signature of the AA with the EU (see also section 4.4).
- b. Global partnership and GBS. The specific condition for BS in Tunisia (and particularly GBS) has been that it should form part of an international partnership structure, with the AA with the EU at its centre, which is also firmly supported – due to their stabilising and integrating effects – by the Bretton Woods institutions and the AfDB (see Figure 24). In addition to assessing this condition (deemed by the evaluation to be one of the main factors in the success of BS), which will occur later on, it is important to highlight at this point a mechanism which influences the whole BS action (particularly GBS) and which should be borne in mind when reading this report. GBS is an instrument which makes the global partnership and political/policy dialogue on the main economic and sectoral reforms practical and credible. The practical dimension is provided by the fact that BS creates a joint forum for discussing content and monitoring reforms, through a specific dialogue, a framework of verifiable changes, technical support and financial resources. Credibility is provided by the fact that BS is evidence of the direct commitment of the international partners to support the reforms whose principles and objectives are set out in the global partnership. Given this condition, it is possible for the 'external' contribution to certain government decisions – for example, the fundamental decision to use revenue from privatisations to service debt – to be identifiable in a (non-divisible) mix of factors, including high-level dialogue on policies, but also the specific contributions of GBS. GBS may have acted directly through its specific conditionalities, close dialogue, targeted TA and financial participation. However, it has certainly acted indirectly by consolidating policy dialogue. Where there are major challenges and opportunities in the global partnership, as in the case of Tunisia, this second way in which GBS works is much more important than the first.
- c. Evidence of direct contribution. Certain measures have therefore been implemented due to the direct contribution of BS, and overall the government's achievements would not have been the same without BS. It is clear from interviews with representatives of both parties that

numerous strategic joint discussions and certain joint studies have had a direct effect on the content of reforms (tax reform, privatisations, restructuring of public debt, etc.). Equally, sometimes difficult negotiations have been held on certain points, both during the formulation of programmes and during the monitoring and assessment of conditionalities. The information collected highlights specific episodes, particularly in the most recent SAFs, as in the case of the ICT tranche in SAF III, which is the only tranche not having been paid because the partners have deemed that the award procedures for the second mobile telephone concession were not transparent. Other episodes having involved disagreements between the partners, which, however, have been positively resolved following tough negotiations, have been reported for SAF IV: the delay in adopting legislation allowing foreign nationals to acquire a majority holding in insurance companies has led to major delays in disbursements; as the measures adopted by the BCT to monitor the capacity of banks to manage credit risks were not considered appropriate, the partners required formal rectification of the BCT's position, which occurred; on health insurance, the interruption in disbursement for a period of time allowed the government to rethink and redirect the reform along the agreed lines, particularly with regard to the consultation of specialist doctors. However, aside from these specific episodes, in a partnership context as strong and complex as this one, evidence of the direct contribution must be sought more in the convergence of results in relation to the joint commitments, in the coordination and in the sequence of actions by the partners (government and donors).

4.3.2. Management of tax policies and macroeconomic framework (EQ 3.1)

Increased national revenue and tax policy (JC311)

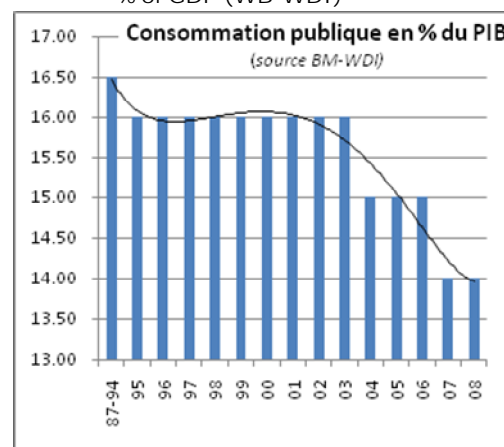
The State's own resources, including privatisation revenue and grants, increased at a significant rate over the whole period, recording an average growth rate of 7%. Fiscal pressure increased moderately, from 20.5% to 22.8% between 1995 and 2008.

The restructuring and modernisation of tax policy over the period in question were fairly radical. The trade liberalisation and tariff dismantling resulting from the Association Agreement generally did not have a negative fiscal impact thanks to the reforms implemented and offsetting by various fiscal deposits. The fall in customs revenue (from 22% of tax revenue in 1995 to only 5.7% in 2008) was more than offset initially by a significant rise in VAT revenue (from 25% of tax revenue in 1995 to 32% in 2008), and latterly by a pronounced increase in direct taxation, fed by growth in the export sector.

The SAFs, supported by the EC, WB and AfDB, closely accompanied this reform process. In particular, the issue of tax reforms appeared in the successive SAFs, including:

- Support in SAF I for 'Tax reforms to offset the loss of customs revenue resulting from the entry into force of the FTA'. The measures particularly included the extension and review of VAT.
- SAF III focused on 'reinforcing the stability of the macroeconomic framework ... by preparing a tax base expansion plan, intended to give public finances a greater degree of flexibility and long-term viability'.
- SAF IV aimed to 'adopt an action plan for tax reform'.

Figure 5: Government consumption % of GDP (WB-WDI)



Source: World Bank - WDI

The conditionalities included in the SAFs involved concrete measures allowing the government to be monitored and supported in the important stages of the reform process, such as: approval of codes on tax rights and tax obligations; improvement of company taxation and harmonisation of onshore/offshore tax regimes; extension of VAT and acceleration of repayment times for relevant VAT credits; preparation of reform plans, etc. The SAFs also contained measures supporting an increase in non-tax revenue, such as privatisations.

All the taxation conditionalities contained in the SAFs were met in full (albeit partly in some cases), such that disbursement of the respective payment tranches was possible in all cases. The PEFA Report of June 2010 confirms the good quality of Tunisian tax policy and its functionality in terms of promoting private investment. The report also identifies the new challenges for Tunisian taxation with a view to its rationalisation, reduction of the many costly and often inefficient reliefs, and extension of administrative taxation.

Aside from the conditionalities and the monitoring and dialogue activities carried out in relation to the achievement of these conditionalities, account should also be taken of the role played by studies conducted by the GBS partners and/or by the government with the support of the partners (see Level 2 above).

Control of budget deficit (JC311)

Overall the prudent macroeconomic policy adopted by the government is reflected in the stabilisation of the budget deficit, at around 3% of GDP over the last five years, and in the reduction of public debt. The budget deficit, excluding grants and privatisation revenue, was kept at around 3.5% of GDP in 2002 and 2003, as opposed to 3.8% in 2001 and more than 4% before 1995, thanks to a significant reduction in operating and equipment expenditure and a substantial increase in revenue. Debt financing was basically ensured through issues of Treasury bonds.

The good performance of Tunisian public finances is also underlined by the PEFA Report, according to which the following factors should be taken into account:

- good performance of tax and non-tax revenue, excluding oil taxation: customs revenue, corporation tax, VAT, profits of public enterprises;
- marked increase in oil taxation revenue and oil and gas revenues (particularly in 2008), due to an increase in national crude oil production in 2007 and the increase in oil prices on the international market, particularly in 2008;
- continued control of public expenditure, excluding public debt;
- dynamic management of public debt (see PEFA Report, introductory part, 2.2 on the 'description of budget goals').

However, the PEFA Report, as also the conclusions of the IMF Article IV consultations, stresses the need to rationalise subsidies and target them at the most needy sections of the population.

The role of the SAFs in helping the government to maintain budgetary equilibrium involved the measures already mentioned on tax policy, as well as debt management measures (see below). The financial contribution should also be taken into account, bearing in mind the limits mentioned in section 4.2.1 above, with the average value of BS being just above 10% of the budget deficit.

Public debt management (JC311)

The performance in terms of reducing public debt was better than expected. The government adopted an active debt management policy, restructured foreign debt during the 2005-2007 period and devoted at least two-thirds of privatisation revenues (in 2006 the partial privatisation of Tunisie Telecom brought in USD 2.35 billion to the State's coffers) to reducing public debt. The level of official external borrowings improved significantly between 1995 (38.5% of GDP) and 2008 (28.9%), with this trend having accelerated since 2003. This also led to a reduction in the total borrowings of

the Tunisian State. The total public sector debt fell from 58.3% of GDP in 2005 to 50.7% in 2007, and then to 47.5% in 2008.

The total external borrowings of the Tunisian economy also fell, although they have remained relatively high: 68.3% of GDP in 2004, 58% in 2006 and 52.8% in 2008. Risks are limited by the fact that 80% of this stock is long term, largely negotiated with multilateral or bilateral official bodies (including the development banks), and that 75% has been contracted at fixed interest rates (I.3.1.1.5).

This prudent management of public debt has enabled Tunisia to maintain a stable credit rating of BBB/BAA2 among the credit rating agencies. This analysis is confirmed by the one conducted for the PEFA Report (see Indicator PI-17).

Analysis of the overall external financing required shows that the relative weight of international aid (in the form of grants) on average covered – between 1998 and 2008 – 3% of the total financing required and 0.4% of GDP. According to the IMF (Article IV consultations, December 2009), there was 'limited need for external borrowing' thanks to privatisation revenues and the resources of the banking system. The report admits that the national banking system could on its own have financed the additional budget deficit for 2009 (+1.5% to tackle the economic crisis) without harming the economy's financing requirements. Furthermore, the report underlines the capacity of the Tunisian economy to withstand external shocks, having consolidated its position, particularly due to:

- increased reserves which, between 2001 and 2008, rose from 2.5 to 5 months of imports and from 55% to 150% of short-term debt, and
- relative reduction in foreign debt which, between 2001 and 2008, fell from 148% to 83% of exports.

Once again, as with the tax reform, Tunisia's good performance in terms of debt management was possible due to the priority given by the government to this area with the support of the EC, WB and AfDB through the SAFs, particularly SAF III and IV, which envisaged:

- implementing a unified and computerised database on public and private foreign debt (SAF III – Measure 2.1);
- adopting an Action Plan for active public debt management (SAF III – Measure 2.2);
- introducing a middle office within the Ministry of Finance, responsible for formulating the public debt management strategy (SAF IV);
- creating a structure within the Ministry of Finance, responsible for the integrated management of public debt (SAF IV); and
- publishing a report on public debt management (SAF IV).

In particular, the active and integrated management of public debt was at the centre of the dialogue supported by the SAFs. All the measures mentioned were discussed and agreed during the programme preparation, and were duly validated during monitoring missions for the disbursement of the respective tranches. The integrated approach, supported by the SAFs, facilitated the implementation of a debt absorption strategy, which – thanks to privatisation revenues – has already allowed the outstanding public debt to be reduced. It has also enabled: more active management to cover and monitor the interest rate risks on the international financial markets (e.g. conversions from variable rates to fixed rates); active management of exchange reserves; and refinancing of risks through new issues of long-term Treasury bonds on the local market.

Consolidation of macroeconomic stability (JC312)

Overall the government has maintained the stability of the macroeconomic framework by adopting a prudent policy. In particular:

- Inflation has remained under control, at 3% on average per year over the whole period: this target has been achieved thanks, in part, to the rationalisation of monetary policy intervention

instruments, strict coordination with budget policy, and an active policy to absorb excess liquidity generated by the privatisations or external flows. In terms of analyses (with the assistance of the EC), the BCT has set up a specialised financial and economic analysis centre, which has become an essential instrument, particularly for the forecasts needed for sound macroeconomic management.

- The BCT carefully manages the key interest rate according to the economic situation, favouring alignment between the level of growth of credits to the economy and economic activity. As an example, the acceleration in inflation in 2006 (4.5%) led the BCT to increase the key interest rate. More generally, the strategy adopted in the gradual liberalisation of the sector has clearly allowed this to be protected from the twists and turns of the international economic situation. Over the last 15 years, the money market rate has been one of the decisive elements in supporting the investment and development efforts.
- The Central Bank's intervention in the foreign exchange market has reduced since the start of the 2000s and is now limited to liquidity injection operations, given the structural deficit in the foreign exchange market. Having said that, focusing on aligning the nominal and real effective exchange rates has helped to maintain a satisfactory level of competitiveness.

Finally, we should highlight that several measures have been adopted to improve access to credit in the private sector. These include the creation of the Banque de Financement des Petites et Moyennes Entreprises (BFPME) and the Société Tunisienne de Garantie (SOTUGAR), which have led to a significant improvement in the number of projects sponsored by new developers and SMEs. In fact, the Tunisian economy is still largely financed by the banking system, in which the public banks (STB, BNA, BH, BFPME and BTS) assume a preponderant role. Outstanding debt owed to the banks nearly tripled between 1995 and 2008, increasing from TND 11 billion to TND 32.8 billion, with the share of debt owed by the public sector falling from 12% to 7% of the total and the share of debt owed by services and private individuals increasing from 42% to 67%. On the other hand, financing of private investment by the financial market is still limited and accounted for 8.2% of investments in 2008, with a very small increase compared to 1995 (6%).

None of the GBS programmes analysed involves specific conditionalities linked to monetary policies and exchange rates, but all the SAFs have, as the centre of their strategic framework, maintaining a solid and reactive macroeconomic framework, including monitoring inflation. Evidently, the partners felt that it was sufficient to include the pillars of stability in terms of principle, and that it was not necessary to identify specific measures.

Contribution of the SAFs to the improvement of tax policies and macroeconomic management (JC313)

The direct contribution of the SAFs particularly involved the reform of taxation and its alignment with tariff dismantling, the integrated approach to public debt management, and support for improving macroeconomic forecasting capacities. The evidence of this contribution can be found in the specific studies conducted under the GBS programmes (see Level 2 above), whose recommendations were adopted by the government, and in the tough negotiation of conditionalities, both prior to and after the implementation of programmes. A specific contribution also came from the financial contribution, within the limits mentioned (sections 4.2.1 and 4.3.2): for example, the first tranche of the SAF III programme disbursed in June 2002 helped, with the disbursements from two other donors, to stabilise the State's budget at a time of crisis.

The indirect contribution of the SAFs (see the methodological clarifications above) was probably more important than the direct contribution, by helping to consolidate the AA partnership framework within which Tunisia could take the risk of launching and successfully pursuing such important tax reform and courageous restructuring of public debt management. We can say that:

- the AA partnership has supported the government's reformist determination and has created political and economic opportunities, which have enabled courageous, but also prudent and effective, macroeconomic management³⁰;
- the political dialogue and policy dialogue linked to the AA (and/or parallel to the AA in the case of the development banks) has allowed a shared framework of objectives, strategic references and models to be established, and also the necessary support to be provided, such as GBS;
- the latter has in turn reinforced the credibility of the partnership framework overall and has provided the specific support mentioned.

4.3.3. Public finance management (EQ 3.2)

Improvement of public finance management, including at sectoral level (JC321)

The PEFA mission conducted in 2010 largely confirmed the results of the CFAA study carried out by the World Bank in 2003-2004. The diagnosis in relation to public finance management is generally positive. It is even very positive in comparison to regional standards.

Credibility

Both the CFAA and the PEFA Report underline the good credibility of the Tunisian budget. Revenues are on average higher than the forecasts in the finance law. Expenditure is always within 10% of forecasts, even in years affected by external shocks. Overall the PEFA Report confirms the positive diagnosis of the CFAA, particularly with regard to the exhaustiveness of the information contained in budget documentation, public access to this information, the exhaustiveness of the budget and the transparency of intergovernmental budget relations (in particular with local authorities), and also monitoring of the overall budget risk. Among the weaknesses, the PEFA Report highlights the budget nomenclature.

Transparency and coverage

The analysis conducted for the PEFA Report confirmed that no extra-budgetary funds had escaped scrutiny by internal or external financial supervision bodies. As regards monitoring of the overall budget risk attributable to other public sector bodies (particularly the public banks), the PEFA Report shows that very significant efforts to rationalise these risks have been made in recent years.

Predictability and implementation control

The Ministry of Finance ensures excellent monitoring and forecasting of cash flows. Debt and guarantee monitoring is very good, and the loan reduction and guarantee granting mechanisms are very well structured, controlled and recorded. As regards internal control of non-wage expenditure, the PEFA Report confirms the existence of several types of control (ex-ante by the public expenditure supervisory body, and then ex-post before payment by the accounting officer/paymaster). In addition, two other supervisory bodies (Contrôle Général des Finances within the Ministry of Finance and Contrôle Général des Services Publics) ensure correct use of public funds.

The Haut Comité du Contrôle Administratif et Financier is responsible for coordinating the various supervisory bodies and following up their recommendations. Furthermore, the PEFA Report found in this respect that 'this multi-institutional system of internal control and monitoring, which is specific to Tunisia, seems very effective but also cumbersome in terms of implementation and coordination, both for the supervisory bodies and for the authorities scrutinised during the 120 control missions carried out annually (ignoring the audits by the Court of Auditors)'.

³⁰ The previous partnership experience between Tunisia, the World Bank and the IMF should also be noted, as this allowed the foundations for sound macroeconomic management to be constructed. This experience contributed to the wider partnership centred on the AA.

Accounting and financial reports: the PEFA Report also underlines the quality of budget implementation data, which is qualified as 'generally fair and high quality'. A summary monthly report is duly produced and published on the Ministry of Finance's website, whilst a substantial annual report provides an analysis of all the categories of income and expenditure.

As for the annual financial statements, the report confirms the very high quality content of the Law regulating the annual budget, but notes two main weaknesses: firstly, the absence of a full statement of the State's financial assets and liabilities, and, secondly, the delay in producing the final results of the budget implementation by the Ministry of Finance.

Political priorities and budget definition

It is clear from the PEFA study that the MDCI is increasingly involved in preparing the national budget, particularly in identifying the priority projects in terms of infrastructure and improving the management of public services. Joint committees involving the MDCI and the Ministry of Finance, as well as the technical ministries, also regularly meet to review the state of progress in programmes and projects.

There is no doubt that budget preparation is increasingly integrated in the guidelines of the five-year plans, which have now become sliding plans, and that the implementation of MTEFs (sector or general) has helped to make the budget process more participative between the Ministry of Finance and the sectoral ministries, and even with members of the Chamber of Deputies or Chamber of Councillors. However, the Ministry of Finance seems to regret not being involved in preparing the sector MTEFs until the final phase. Currently, the MTEF covers 50% of budget expenditure.

Contribution of BS programmes to the improvement of public finance management (JC322)

The contribution of BS programmes to the improvement and high level of public finance management, as recorded by the CFAA and the PEFA Report, mainly occurs on two levels:

- contribution to the reduction in budget risk, which was examined in the previous chapter, for example in terms of the integrated management of public debt or rationalisation of the State's economic activities (banks and public enterprises operating at a loss); and
- a specific contribution, particularly to the introduction, extension and consolidation of goal-oriented budget management and the MTEF method.

As regards the contribution to goal-oriented budget management, this was initially included in SBS in order to support the reform of higher education conceived in 2002 and launched in 2004, and then in SAF IV, which applied from 2004, and in successive SBS in the education sector. A recent GBS programme implemented by the EC, which specifically focuses on goal-oriented budget management and which started in 2008, is not covered by this evaluation.

The initial sector MTEFs were launched in 1999 in the primary education sub-sector. In 2004 the MERST launched the MTEF in the higher education sub-sector, and in 2007 the Ministry of Finance launched the MTEF in the vocational training sub-sector. In both these cases, the SBS programmes funded by the EC helped to launch the system, particularly through specific technical assistance activities and conditionalities for monitoring the implementation of reforms. At the same time, from 2007 the government began developing a general MTEF, which establishes sector envelopes based on the macroeconomic parameters and priorities of the Plan. This instrument, which facilitates dialogue between the sectoral ministries and the Ministry of Finance, and also between the latter and the MDCI, has been promoted with the support of SAF IV, which provides for a specific measure. This partnership between the EC and the government in the area of GOBM is supplemented by the PAGBO GBS, in which the TA component is important.

4.3.4. Sectoral reform processes

4.3.4.1. REFORM PROCESS IN THE AREA OF INTEGRATION IN INTERNATIONAL MARKETS AND COMPETITION IN THE DOMESTIC MARKET (EQ 3.3.a)

Quality of the reform process (JC33a1/2)

The process of trade liberalisation accomplished by Tunisia has demonstrated a good capacity to coordinate different sectoral policies involving domestic and international trade, industry, state taxation, etc. In particular, Tunisia's capacity to dismantle customs tariffs without this having involved any net loss in tax revenues denotes excellent coordination of the various sectors of government.

In particular, the evaluation highlights:

- the high priority given by the government to the integration process;
- the existence of constant exchanges between the cabinet and relevant ministries on the implementation of reforms, with an important coordination role for the MDCI;
- increased participation of the various ministries involved in implementing the AA and the ENP Action Plan in the work of the sectoral sub-committees;
- existence of exchanges and debate between the government and Parliament in order to discuss the reforms, and priority actions in the various sectors;
- high level of government institutions – particularly the Institut Tunisien de la Compétitivité et des Etudes Quantitatives (ITCEQ) – having helped to define international trade policies;
- constructive collaboration with the main donors, which has become particularly apparent in the joint formulation and implementation of the SAFs. The most recent budget support programmes funded by the EC expressly provide for the establishment of steering committees within the government, with the participation of various ministries and departments.

The evaluation has also highlighted how the standardisation and upgrading programmes in the domestic market were designed and implemented through complex and effective collaboration between several ministries and departments covering a multitude of areas (industry, trade, environment, research and technology, training, etc.). The upgrading programme (Programme de Mise à Niveau – PMN) was launched by the government in 1995, in line with the signature of the AA. The government's activity has also been supported by a well-structured set of external support measures, consisting of GBS programmes (SAFs) since 1995, and major projects funded by the EC under the AA, such as the industrial modernisation programme (Programme de Modernisation Industrielle) since 2002.

Consultation of interested economic actors (JC33a3)

Tunisia is noted for a high level of dissemination of information on the national economy and its regulatory framework. Much progress has also been made in terms of improving access to this information. As an example, various data, information and sectoral studies are available on the websites of the Institut National de la Statistique, Ministry of Finance, Central Bank of Tunisia, Ministry of Industry and ITCEQ, and also on the websites of the upgrading programme and the industrial modernisation programme.

The evaluation also noted a certain amount of progress in the consultation process between the government and representatives of the private sector, particularly through the mixed Chambers of Commerce (annual meeting between the MDCI and the CCs with the participation of other ministries) and the Management Unit of the industrial modernisation programme within the Ministry of Industry. Moreover, leaders of business associations who were interviewed confirmed that they feel that their needs are duly taken into account in the process of defining policy, particularly through the results of national surveys organised by the mixed Chambers of Commerce on the 'status' of

businesses, in order to target the relevant areas to improve the business environment and solve the problems of business. To improve communication with the private sector, the government is currently setting up listening units (one-stop shops) in all the ministries.

Despite everything, opinions differ on the quality of the consultation processes with interested economic actors. On the one hand, the government's National Development Plans highlight the importance of all active components of civil society participating in the definition and monitoring of development programmes and policies, and the PAC evaluation report³¹ confirms the commitment to greater participation by the private sector and civil society in the definition and implementation of reforms. On the other hand, a File Note³² drawn up by the EC Delegation in Tunisia highlights that 'the level of involvement of other stakeholders (particularly the private sector) is [still] insufficient'.

The evaluation team tried to expand on this aspect of private sector participation by organising a focus group of Tunisian businesspeople, but it was not possible to get people to participate without going through official bodies such as the Chambers of Commerce.

Legislative, regulatory and institutional framework (JC33a4)

The Euro-Mediterranean association agreements between the EC and the Southern Mediterranean countries provide for a significant (WTO-compatible) but gradual (12 years) and asymmetric liberalisation of trade. From the start, Tunisia has been the most advanced Euro-Mediterranean partner in terms of introducing the FTA. The dismantling of customs duties began in 1996, i.e. before the EU-Tunisia Association Agreement entered into force in 1998, and – except for agri-food products – the agreed timetable has been rigorously respected. Duties on imports from the EU fell from around 100% in 1996 to 4% in 2007, i.e. three years before the deadline set for completing this liberalisation.

In parallel with tariff dismantling, the government has set up a whole series of actions aimed at reinforcing the legislative, regulatory and technical/institutional framework for trade liberalisation, on the one hand, and aimed at reviewing competition policy in the domestic market, on the other hand. These actions have resulted in several procedures being modified in order to increase the simplification and transparency of transactions, including:

- Customs. The Customs Code has been harmonised with the Community Code [SAF I – Expected results]. The reorganisation of the Directorate-General for Customs, which is answerable to the Ministry of Finance, started in the mid-1990s. A new Customs Code, intended to boost the country's economic competitiveness and ensure compliance with its international commitments in the customs area, was adopted in June 2008. The implementing regulations are currently being drawn up.
- Administrative simplification. Administrative customs clearance procedures have now largely been rationalised and modernised. This has allowed import-export transactions to become more fluid and reduced their costs [SAF III – Objective B.3]. Tunisia was ranked 32nd out of 121 countries for the 'Efficiency in customs administration' indicator in the 2009 Annual Report from the Davos World Economic Forum, i.e. in first place in Africa and in 3rd place in the Arab world, behind Bahrain and the United Arab Emirates.
- Tax simplification. Repayment times for VAT credits have been reduced, to the benefit of exporters, since 2000. They now stand at one week [SAF III: max. 30 days]. Other tax simplifications have been introduced.

³¹ AfDB, Tunisia: Programmes d'Appui à la Compétitivité I et II (Competitiveness Support Programmes I and II), Rapport d'évaluation de performance de programmes (Programme performance evaluation report), 2006 (paragraphs 3.3.3 & 4.3.5).

³² Macroeconomic support in Tunisia: lessons learnt and thoughts on future possible interventions, March 2009.

- Standardisation. Important progress has been made in aligning horizontal and sectoral legislation, and also in the institutional organisation and upgrading of the associated infrastructure (standardisation, accreditation, metrology, statistics, etc.), including laws on consumer protection and food safety, which have been harmonised with EU legislation.
- Competition. Competition policy and its application in Tunisia have been improved, particularly with regard to the formal private sector. The reinforced independence and increased powers of the Conseil de la Concurrence (Competition Council) [supported by SAF III, and then by SAF IV] have been a central element in this change. The number of referrals and requests for opinions from the Conseil de la Concurrence is gradually increasing, although the Conseil's independence remains limited by the resources that it has available to deal with the increasing number of cases. Efforts are being made to reinforce the capacities of the main competition bodies, although business leaders still regard anti-competitive or informal practices (25% to 30% of trade is apparently informal) as a major constraint on business development [SAF III – B.5 and SAF IV – Axis II].
- Inshore/Offshore. The harmonisation of investment incentive regimes for wholly exporting businesses and for businesses operating on the domestic market [SAF IV – Objectives] has been continued through the following measures: i) wholly exporting businesses can sell part of their production on the domestic market and their sales are subject to all the taxes and duties applicable to other businesses; ii) the taxation of export income and profits has been harmonised between wholly and partly exporting businesses.

The ENP Progress Report for 2007³³ confirms that 'implementation of the trade dimension of the Association Agreement has been positive... Most of the problems, such as those involving pharmaceutical products and processed agricultural products have been solved... A new specialised structure on rules of origin has been created within the customs administration... As regards the movement of goods and technical regulations, extensive work has begun to ensure regulatory and institutional convergence with the Community acquis. Tunisia continues to work to improve sanitary and phytosanitary regulation, institutions and practices... In terms of services, Tunisia indicated in 2008 its willingness to engage in bilateral negotiations with the EC on the liberalisation of trade in services and the right of establishment'. As in most countries, progress in terms of competition is also significant, albeit slower due to internal resistance and pressure.

Reliability of monitoring systems (JC33a5)

The systems for monitoring the reforms and their results correspond to the various levels of the AA architecture. Joint monitoring at a high political level is ensured by the Association Committee and sectoral sub-committees. Furthermore, general monitoring is ensured by each of the parties with regard to their respective responsibilities and competences. In this way, the government, through its specialised bodies (BCT, MDCI, INS, other ministries and institutions) monitors the macroeconomic framework, sectoral reforms and the real economic and social situation. For its part, the Commission annually monitors the implementation of the ENP, using data collected and prepared by the government, specialised international bodies and programmes that it funds. Finally, there is frequent and joint internal monitoring within the BS programmes by the government and its partners. More generally, it should be underlined that Tunisia's capacity for the collection and analysis of data in economic areas is good, but this is not yet the case in social areas, where statistical systems are still limited. The monitoring of economic reforms is, however, better than monitoring in sectors such as education or employment, which needs to be reinforced.

Contribution of BS programmes to the above reform processes (JC33a6)

The issues of foreign trade, trade facilitation and domestic market reform have been supported by several programmes run by the EC and other donors, particularly the GBS programmes, but also

³³ ENP Progress Report – Tunisia, 2007, pages 8 and 9.

through other wide-ranging programmes, such as those supporting the implementation of the Association Agreement and the Neighbourhood Action Plan (P3A and P3A-II).

The methods used by the SAFs to influence the processes examined above have already been described, but are worth quickly recalling:

- The indirect method, involving reinforcement of the AA, which has created a favourable political framework and a significant economic opportunity so that the government can continue the general process of competitive integration in international markets. The AA, with its sectoral agreements and specific support programmes, has also helped the government to define the road map for international trade and domestic market reform.
- The direct method, involving the creation of a forum for dialogue, negotiation and support (technical and financial) for implementing specific reforms, to which partners not having participated in GBS have not had access. In SAF I, trade liberalisation played an important role, including harmonisation of customs law. This was also included in the matrices of the other SAFs through measures 'not to be forgotten', such as measures to increase the fluidity of customs transactions, repayment of VAT credits, action plan for competition and the Conseil de la Concurrence, and harmonisation between the inshore and offshore markets. For all these measures, technical analyses, discussions and negotiations have occurred between the GBS partners to help achieve them.

4.3.4.2. Reform process to boost the competitiveness of the business environment, financial services and infrastructures (EQ 3.3.b)

Quality and coordination of the process and participation of the private sector (JC33b1/2)

Further to the findings already made in response to EQ 3.3.a above, it is worth noting that, in the area of competitiveness policies, Tunisia's capacity for intellectual production and analysis is high quality: the ITCEQ has carried out some very important studies in terms of monitoring the impact of reforms, competitiveness of factors, etc. It has set up the Observatoire National de la Compétitivité (National Observatory of Competitiveness). Studies and action plans have also been developed by the Tunisian authorities in the context of GBS, such as: i) the report on the 'Promotion de l'investissement privé et le rôle de la politique d'incitations : analyse et recommandations' (Promotion of private investment and the role of incentive policy: analysis and recommendations), FIAS, 2002; and ii) 'Etude sur la Participation Privée dans les Infrastructures en Tunisie' (Study on Private Participation in Infrastructures in Tunisia), MDCI and World Bank, 2003.

As for the consultation and participation of the private sector, in addition to the findings already made, the participation of representatives of the private sector in the Conseil National de la Fiscalité (National Taxation Council) [whose establishment was provided for by conditionality 3.1 of SAF III] should be noted.

Competitiveness policies implemented (JC33b3)

Reduction of administrative and tax barriers

The activities aimed at reducing administrative authorisations [supported by SAF III and IV] firstly led to the abolition or replacement with an a posteriori control procedure of 54% of the 500 or so administrative authorisations identified. As regards the remaining authorisations, 63 were abolished and 46 were replaced with specifications (switch from an a priori control to an a posteriori control). At the end of August 2007, the progress report for SAF IV noted that 'the number of administrative authorisations still in place is 115' compared to a target of 120. Despite this progress, several comments were made in the progress reports or completion reports of donors (EC, AfDB, WB), in particular with regard to the quality of the simplification process, irrespective of its significant quantitative advances. These comments particularly concern the following issues: highly regulated sectors remain without any apparent justification; specifications often do not reduce the administrative burden, but simply move this a posteriori; the onshore sector is still characterised by the

State's extensive and dominant intervention in the economy, which discourages domestic investment and job creation.

Several other measures have been introduced to facilitate the creation and management of businesses. In addition to the general taxation measures mentioned in EQ 3.1 above, the following can be noted:

- one-stop shop, which facilitates the creation of start-ups in industry and services;
- conduct of a study on import monopolies [supported by SAF III – 1.3];
- review of company law and modernisation of legislation on accounts scrutiny (audit, audit office, in particular), etc. [supported by SAF III – section B.4 and SAF IV – 2.17-2.19];
- measures to encourage the establishment and governance of companies (e.g. possibility of foreign investors having a majority holding in the capital of insurance companies, or improvement of the management and transparency of businesses) [supported by SAF IV – 2.16].

Withdrawal of the State from the economy

The rate of privatisation of public enterprises has been slow since the beginning of the reforms, compared to the targets set. This is due to fears associated with social costs, lack of sectoral regulatory frameworks from the outset, and limited experience. Despite everything, the management of privatisations has improved over time, to the point of now being an exercise that is very much an integral part of the business culture, accepted by management and labour and well-controlled by the authorities. This positive dynamic has had to be recognised by the SAF partners as well, which have disbursed all the tranches (except for the ICT tranche), despite the conditionalities sometimes having been only partly met³⁴.

Aside from the exceptional operation to sell, for TND 3 billion, 35% of the capital in Tunisie Télécom in 2006, the bulk of the privatisation and restructuring operations in the public sector took place during the 1997-2003 period (85.5% of revenue and 54.8% of operations). As time has passed, these operations have involved ever larger enterprises, covering both SMEs/SMIs and large enterprises (Société Nationale de Distribution des Pétroles), the banking sector (UIB, Banque du sud) and the ICT sector (GSM, Tunisie Télécom).

By the end of January 2006, 207 privatisation or restructuring operations had been carried out totalling TND 5.525 billion. However, it should be noted that over 70% of this revenue was received during the 10th Plan thanks to the sale of 35% of the capital in Tunisie Télécom, as mentioned above, for a sum of TND 3.032 billion.

Financial services

The reform of the financial sector has been one of the government's main priorities in the various National Development Plans (9th, 10th and 11th). It has therefore been at the centre of the measures supported by GBS. This issue has been included since SAF I. The matrix for SAF II included the key measures of a plan to rationalise the banking sector. Consolidation measures were included in SAF III and again in SAF IV. Likewise, for insurance, detailed conditionalities have been included since SAF II, in particular in SAF III and IV. It can be said that the financial sector is the subject of the largest number of conditionalities in all the SAFs.

In general, the results in terms of macroeconomic stability and growth also reflect successive improvements in the consolidation of the banking sector and in the operation of the financial sector as a whole. However, the level of profitability in the banking sector remains low, due to the limited

³⁴ See also the measures in SAF I, Macroeconomic framework – section on Withdrawal of the State from the economy; SAF II – section on Withdrawal of the State from the economy (specific to the European Union); SAF III – section B.6 Continuation of the policy for State withdrawal from the real and financial sectors.

financial capacity of the banks. More specifically, the reforms have helped to make the allocation of capital more efficient, by reinforcing the capital bases of institutions in the banking sector and by modernising the regulatory framework of the financial sector, through:

- restructuring/modernisation of the banking system: a new banking law, which reduces the obstacles to entry, new prudential regulation, rationalisation of the portfolio of banks, mergers and privatisations;
- rationalisation of the insurance sector;
- improvement of the quality and availability of financial information.

The sector has become much more competitive, with an impact on the whole economy, even though the State's presence in the banking sector remains significant (nearly 50%).

Reform of the information and communication technologies (ICT) sector

The government has implemented a major reform process in the telecommunications sector [supported by the EC, see SAF III, ICT component, section D], including: (i) a medium- and long-term ICT sectoral strategy has been formulated for each of the sub-components; (ii) a new regulatory framework complying with international standards, including the creation of regulatory agencies, has been introduced; (iii) the telecoms sector has been opened up to the private sector. As a result, the 2nd operator (Tunisiana) quickly began providing services to the public in December 2002.

The GSM segment [directly covered by SAF III] has been opened up to competition, which has had a very marked impact on the Tunisian population. Currently, two GSM operators are active in Tunisia (Tunisie Télécom and Tunisiana) and two VSAT licences have been granted, one to Tunisie Télécom (historical operator controlled by the Tunisian State), and the other to Divonna, which is 60% controlled by Tunisian capital (Planet) and 40% by Monaco Télécom. This is despite a 'measure not completed' finding, as assessed by the three donors, which has led to the non-disbursement of the variable tranche of conditionality 36.4 of SAF III, which covered 'the granting of a 2nd GSM licence through a competitive and transparent invitation to tender process, and publication by Tunisie Télécom of a standard interconnection offer whose form and content are acceptable to the World Bank'.

General findings on the achievements in the sector

The ENP Progress Report 2007 notes that the Tunisian government:

- has included within its priorities 'the promotion of foreign investment ... the introduction of an attractive framework for the establishment of businesses and company law ...';
- has 'continued to implement a very prudent policy of gradual liberalisation of payments and capital movements ...';
- has 'proceeded to rationalise its tax system and ensure convergence between its onshore and offshore regimes ...';
- has 'continued to afford particular importance to introducing the Euro-Mediterranean Charter and, more specifically, to the issues of business competitiveness, innovation and promotion of investments';
- 'has undertaken, in a determined manner, a gradual process of improving the environment ... for business, improving conditions of access to financing for businesses, and creating and improving business and innovation'.

Reliability of monitoring systems (JC33b4)

See EQ 3.3.a.

Contribution of BS programmes to the above improvements (JC33b5)

The references to the SAF matrices in the above paragraphs show how, in each sub-sector, these matrices have contained very strict and relevant links to the content of the reforms, not only in terms of general guidelines and broad objectives, but particularly with reference to 'actions not to be

neglected/forgotten', indicators and/or guarantors of process quality, whose appropriation by the government has been very high.

The progress and evaluation reports highlight the marked correlation between improvements seen in the various areas of business competitiveness and inputs provided by the SAFs, particularly SAF III. The Completion Report (February 2006) for the Competitiveness Support Programme III (PAC III), funded by the AfDB, confirms that, 'rather than the financing, the essential support is probably the solidity of the analytical foundation and the consistency of the solidly rooted measures. The level of appropriation of these reforms by the government is reflected in the completion of nearly all the measures ... Furthermore, the correct coordination of actions by the co-financers on the one hand and the Tunisian administration on the other hand has allowed for high-quality dialogue and has therefore been a decisive factor in the programme's success'.

The reform of the financial sector is the area where the direct contribution of the SAFs has been most significant, in terms of design (see the cited studies of the WB and AfDB) and in terms of support for implementation, as shown by the very detailed conditionalities in SAF II, III and IV, compliance with which has been meticulously verified. The high level of public ownership of the banks and the political sensitivity of the issue of credit risks has made intervention very difficult, requiring significant analysis capacity, flexibility and determination. The information collected highlights various tough discussions and negotiations on the conditionalities with regard to the banks, insurance and privatisations.

At the indirect level, the partnership supported by GBS has also helped to implement the reform process in the sectors concerned. The prospect of Euro-Mediterranean competitive integration has certainly been one of the driving forces behind the reform of the financial sector, in addition to the direct contributions of GBS. In the other sub-sectors, where the direct effect of GBS has been more limited, the general partnership has played an even more decisive role, together with other support instruments, such as technical assistance projects. However, it should be noted that the latter are limited to technical support and do not involve the strategic management of the reforms, as BS does.

4.3.4.3. Reform of higher education and vocational training (EQ 3.3.c)

Reform of the institutional framework (JC33c1)

Since 2002 major institutional changes have been made in the education sector, such as:

- 2002: unification of vocational training with primary and secondary education under the Ministry of Education and Vocational Training (MEF) (Decree No 2002-2057).
- 2002: creation of the Conseil Supérieur pour le Développement des Ressources Humaines (Supreme Council for Human Resource Development) (Decree No 2002-1047), whose role is to issue opinions on national policy guidelines for education, vocational training and employment. Its members include the ministers for higher education, education, vocational training and employment.
- 2008: new framework laws on education (Law No 2008-9), vocational training (Law No 2008-10), which underline the complementarity between these sub-sectors, and higher education, with the new law (Law No 2008-19) placing employability and business creation at the heart of the mission of universities.
- 2009: creation of GOBM steering units in the MEF and MERST.

The responsibilities of the Study, Planning and Programming Offices of the MEF and MERST in terms of analysing the sector's statistical data and supporting the planned implementation of strategies have also been reinforced. Moreover, the law on vocational training provides for the creation of an Observatoire National des compétences et des métiers (National Observatory of Skills and Trades), whose aim is to anticipate the needs of the economic sector and monitor vocational training graduates.

Dialogue and coordination with the Ministry of Finance have also developed: firstly in the context of preparing the MTEF, which must be submitted for approval by the Interministerial steering committee in which the Ministry of Finance is involved; and secondly with regard to GOBM, which is guided by the Ministry of Finance in close collaboration between the latter and the steering units at sectoral level.

These changes have encouraged intra-sectoral links and therefore ensured better quality participation by the ministries in the preparation of sub-sectoral policies, which is increasing the complementarity and consistency of these policies in terms of the end objective, which is employability. The new vocational Baccalaureate introduced by the 2008 laws is evidence of this progress, as it allows access to university and to the professional world by creating bridges between general education and vocational training and by ensuring alternation between school and training establishments.

In terms of public finance management at sectoral level, the introduction of the MTEF practice has increased the capacity for reform monitoring and guidance at sub-sectoral level. According to the progress reports for the EC programmes, the MTEF now represents a genuine decision-making support tool with regard to the programming and definition of the expected results³⁵.

Improvement of the quality of policies (JC33c2/4/6)

For each of the three sub-sectors, there is an MTEF updated every three years, which determines the cost of the strategy for the period. In the case of the MEF, a general MTEF for the sector, covering education and vocational training, is currently being finalised. For the MERST, the MTEF also covers all universities. All the MTEFs allow the financing needs and any deviations over the three-year period to be identified.

In the case of VT at least, the MTEF structure includes a breakdown of the objectives by results and figures for these results based on unit costs, with the definition of financing needs taking account of the macroeconomic framework assumptions. Based on the documentation consulted and despite a positive assessment of MTEF quality and use by the experts who monitored the EC's SBS programmes, the MTEFs seem to be more financial documents, which still lack an analysis of sectoral policy and in which it is difficult to see the link with the strategy and targeted results.

In general, the link between sectoral strategies still seems limited. The framework laws determine the objectives, missions and institutional framework of a sub-sector. The presidential programmes (such as 'Ecole de demain' and 'Tunisie de demain') provide additional guidelines, defining long-term objectives and priorities. The National Development Plans set out the main qualitative and quantitative objectives to be pursued over the period. The strategy documents of the ministries express all this in terms of objectives, funding lines and results to be achieved. However, this logic is not always explained in these documents, and it is difficult to see how and to what extent the various objectives are pursued, and how the various types of sectoral policy/guidance document are linked. Moreover, the documents are quite complex, with several levels of objectives and several intervention dimensions, but with a very limited number of outcome indicators, which are sometimes difficult to attribute to the dimensions and objectives. Sometimes, for one sub-sector, there are several reference documents and their interaction is not clear.

Despite that, the following can be said:

- In the three sub-sectors, internal efficiency (success rate) and external efficiency (openings) are one objective of the strategies pursued (quality of inputs and relevance of courses). Efficiency is a specific concern in secondary education, which is apparent from the measures introduced to reduce the number of students having to repeat years.

³⁵ This is clear for the MTEF for vocational training and secondary education. For higher education, the team does not have any documentation.

- Although none of the documents consulted clearly presents the situation for the various beneficiary groups, all the programmes and strategies have the objectives of improving the quantity of the education offer and ensuring fair access to education for all the regions of the country. For secondary education, there is also the objective of improving teaching and living conditions in and access to boarding schools.
- Gender disparity is not analysed in the documents and, as a result, there are no objectives or outcome indicators for this aspect.

In general, outcome indicators are little used in the forecasts in development plans and sectoral strategy documents. Those indicators mentioned in the forecasts are never broken down by geographical area, specific group of beneficiaries or gender. The statistical data processed by the ministries reveals some fairly significant and general weaknesses, a lack of systematic application and continuity in the preparation of indicators, and also very few links between the objectives of the Plans and the outcome indicators.

However, the system does currently have quality standards for the administrative and educational management of establishments in each Governorate. These achievements need to be further consolidated by effectively introducing new courses and accompanying these with capacity-building actions. As for higher education, the government is implementing innovative educational approaches based on the development of skills, in order to improve the relevance and quality of the offer.

Bearing in mind these findings and the complex strategic work needed in this sector, the analysis, management and monitoring capacities of the implementing agencies should be subsequently reinforced.

Improvement of transparency and participation in the process (JC33c3)

There are several possible bodies through which civil society actors can be consulted: the Conseil Economique et Social (Economic and Social Council) provided for by the Constitution, the Conseil Supérieur pour le Développement des Ressources humaines (Supreme Council for Human Resource Development) (2002), the Commission permanente pour la promotion de l'emploi (Standing committee for employment promotion) (2004) and, in terms of strategy implementation, the consultative councils of schools (2006) and the regional educational project (2007). However, the use of these instruments to define and monitor strategies and programmes still seems limited and unsystematic.

As for the contribution of civil society, the participation of businesses in vocational training programmes, through several collaboration agreements, seems positive. However, the employment promotion programmes are not common knowledge among the general population and sometimes even among potential beneficiaries, where the business is the direct beneficiary. According to the opinions of civil society representatives, young people do not know about the employment promotion programmes and cannot see their usefulness. It therefore seems essential to better target these young people and/or to better publicise these employment promotion programmes among their target groups and the population as a whole.

In terms of the availability and dissemination of information, the sector does not seem to have any real information strategy for its policies and results: the ministries' websites do not include statistics or any publications on strategy or the situation of the sector, although these data and publications are available at the BEPPs.

Improvement of the offer in terms of quality and quantity (JC33c5)

Secondary education. The progress reports (of the EC and national bodies) show that the results with regard to the quantitative improvement of the offer in terms of territorial equity, through both the introduction of new courses and those establishments with sections regarded as key, have been

remarkable and better than the targets set. On the other hand, progress has slowed, which is affecting the quality of inputs, guidance and relevance of the offer, such as: the quality of the DREF's school projects and the rate of their development; the level of supervision of new teachers, which has been lower than expected; the delay in recruiting headmasters and headmistresses according to the new qualification profile; and the introduction of compulsory teaching of ICT. Despite everything, the percentage of young people successfully graduating has been higher than the target set. In general, these deviations do not seem to be endangering the result of the reform, and the SBS progress report concludes that all the conditionalities can be regarded as met.

Vocational training. The June 2009 progress report for the SBS programme highlights that two indicators relating to the guidance of the sector (start of work by the observatory) and the quality of the offer (inspection system) have not been fully met. It should be underlined that the failure to meet these indicators is due to an implementation delay rather than failure to carry out the work. The progress report therefore determines that the conditionalities for disbursement have, however, been met.

Higher education. According to the available data, between 2004 and 2007 the sector achieved the following performance: enrolment rate among young people aged 19-24 years increased from 29% to 35%; number of new students enrolled in up-and-coming courses increased from 24% to 32%; number of up-and-coming courses created/renewed increased from 28 to 50; student/teacher ratio fell from 22.5 to 19; number of training hours per trained teacher increased from 1.5 to 6; number of establishments evaluated increased from 0 to 16; number of international agreements concluded by universities increased from 107 to 260. The SBS programme progress report indicates that major shortcomings still exist, particularly with regard to the quality of education and the link with the labour market.

Contribution of BS programmes to the improvements expected at sectoral level (JC33c7)

Financial contribution. As regards the specific weight of the financial contribution, the calculation is without doubt a guideline only and to be viewed with a great deal of caution, as a purely hypothetical reference, because the fungibility of BS funds requires their weight to always be considered in relation to all public expenditure. Having said that, the EC's financial contribution, solely in relation to the needs of the sub-sectors, has been significant. This is particularly true for higher education and vocational training, where this contribution respectively accounts for 75% and 60% of the residual financing need for the reference period. If this sum had not been available, the government would have had to partly abandon some of the main goals (such as the introduction of new courses, or territorial equity in higher education, or the quantitative and qualitative increase in the secondary education and vocational training offer) or it would have had to reduce the amount for certain equivalent operations in other sectors.

Technical assistance. The main non-financial contribution is TA with the initiation and consolidation of the MTEF method in the planning and management of public expenditure, in the three sub-sectors. The MTEF was initiated thanks to the TA provided under SBS and has contributed to the progress mentioned above in the strategic management of the sector, even if – as we have seen – a series of weaknesses remain in its application. Furthermore, the experience with the MTEF at sectoral level has acted as a test for extending GOBM to the national level. It is significant that the MTEF was not included in the National Development Plan but has proved to be a successful experiment.

Conditionalities and performance indicators. These are the indicators included in the SBS performance matrices, as key indicators of the success of the reform process, on which the dialogue and TA have been focused:

- For secondary education, they involve the quality of the offer, in particular the introduction of ICT and new courses, measures to improve school performance (student career guidance, supervision of teachers, initial training of teachers, equipment of establishments) and

measures to improve the relevance of the offer and efficiency of the guidance by supporting the decentralisation process and reinforcement of the DREF. All these outcomes are included in the 10th Plan and in the national report on the development of education 2004-2008. TA was provided solely for the MTEF, on the one hand, and for the identification and monitoring of indicators, on the other hand. It is therefore highly likely that SBS did not contribute directly to the new and important framework law for the sector (2008). Furthermore, it should be noted that, during the EC support, secondary education was also supported by other donors, particularly the AfDB and WB, whose PAQSET II programme targeted secondary education with similar objectives to the EC: improvement of quality, decentralisation and guidance of the sector.

- For higher education, there is the same correspondence between the indicators of the EC's SBS programme and the results targeted by the government, particularly territorial equity, introduction of new courses (economics, ICT), increase in the rates of completion of the various education stages, quality of staff, student/teacher ratios, etc. However, other donors are also widely present in this sector, such as the WB which, with the PARES programme, has set similar objectives, particularly decentralisation and quality of the offer. The separation between the various donors and their limited coordination does not allow the different contributions to be determined. By contrast, distinctions are possible for budget management and the introduction of the MTEF, which have been specifically supported by the EC's SBS.
- For vocational training, the disbursement indicators cover key aspects of the reform, such as partnership with business and certain aspects of the quality of the offer (educational inspection, conformity of centres, skills-based approach) for which the government has achieved positive results according to the analysis in the 10th Plan. The size of the EC's financial contribution and the lack of other significant donors should allow the statement that a very significant contribution has been made to both the qualitative and quantitative results achieved by the government. Added to these results are the MTEF and capacity-building in terms of the ministry's forecasting through the Observatoire National des compétences et des métiers, which are two aspects firmly supported by the EC via TA and which have two indicators (the first and last) for disbursement.

In general, the EC's SBS has encouraged the government to commit to reforming the education sector as a fundamental sector in the competitive integration process in the Euro-Mediterranean context and in the global market. The main encouragement has come from the financial contribution dependent on sector reform, but the presence of a significant TA component has allowed frequent dialogue to occur on the formulation and implementation of the reform at very important stages in the process, particularly the MTEF, which was initiated due to the partnership established in the first SBS (primary education). Other important contributions in the dialogue and TA have involved other aspects, as mentioned above, including significant capacity development work. The latter seems to be particularly appreciated by the beneficiary Tunisian managers, in the areas of data processing, planning and budgeting. Aside from the MTEF, the SBS contribution to capacity-building in competent institutions in the sector specifically involves the capacity to identify indicators in the formulation phase of programmes and also monitoring capacity. However, this monitoring capacity is still significantly limited, as mentioned above, which is being discussed and negotiated with the donors involved.

Using the level of disbursement as an index of achievement of the institutional performance targeted by SBS in the sector, we can say that this index is high, as disbursements have reached between 87% and 98% of the amounts envisaged.

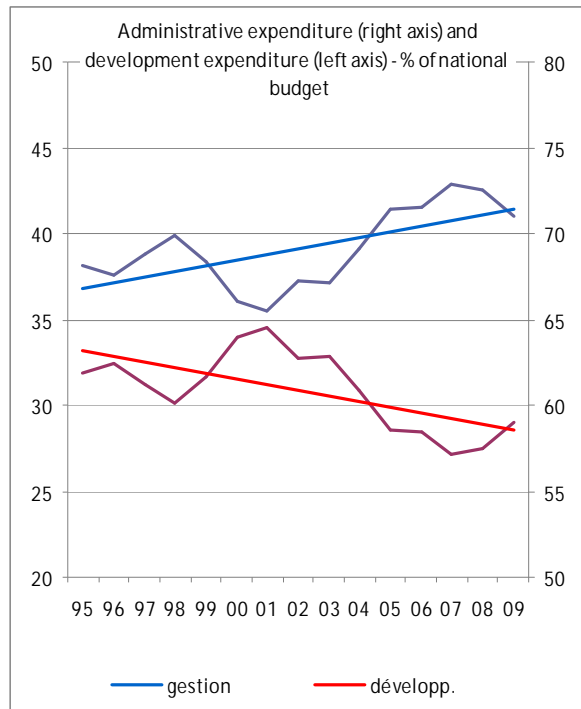
4.3.5. Reorganisation of public expenditure (EQ 3.4)

Improved distribution of sectoral, inter-sectoral and intra-sectoral budget expenditure and allocations, according to strategic objectives, in particular for the target sectors (JC341)

The policy of prudent management of public expenditure was examined in the above sections. Over the period in question, at current prices, the State's budget expenditure increased by an annual average rate of 7%, compared to a GDP growth rate of approximately 8.5%. Given the State's expenditure, excluding Treasury loans and advances and debt servicing, this expenditure has grown by 8.06%.

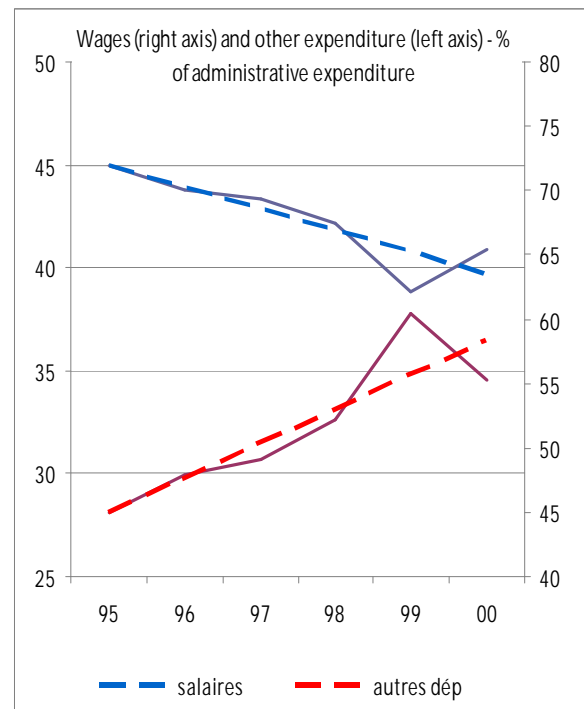
The 'Development' (Title I) and 'Administrative Expenditure' (Title II) components developed differently over the period, with the latter having increased more rapidly than the former, i.e. 8.40% compared to 7.46%. The relative fall in 'development expenditure' is the result, firstly, of an improvement in budget management policies and, secondly, of the reinforcement of the State's service functions to the detriment of its production functions.

Figure 6: Administrative and development expenditure



Source: Ministry of Finance

Figure 7: Wages and other expenditure



Source: Ministry of Finance

The breakdown of administrative expenditure into Wages and Other expenditure for the 2004-2009 period shows that the 'Wages' component has remained the most important in terms of allocations throughout the period in question, although the 'Other expenditure' component has seen a higher annual growth rate (respectively 7.99% and 15.57%). In terms of the main aggregates, there has been a relative fall in investments and wages compared to a slight increase in current expenditure and a significant increase, within the latter, in non-wage expenditure.

As regards the functional distribution of public expenditure, social expenditure has increased by 11.59% per year, compared to general expenditure (+4.91%) and economic expenditure (+6.1%). These results were achieved through the functional and sectoral requalification and restructuring of expenditure which accompanied the reform process and which was consolidated through the efforts that are still ongoing on the part of the government, with a view to reorganisation of the budget according to the objectives and strategic programmes. GOBM focuses on strict coordination between the MDCI and the Ministry of Finance, on the one hand, and between the latter and the sectoral

ministries, on the other hand. The coordination between the Ministry of Finance and the MDCI, through joint sectoral committees which examine the concordance between budget implementation and planned investments, seems to be well-consolidated. The coordination between the Ministry of Finance and the sectoral ministries is still being developed, particularly by using medium term expenditure frameworks (MTEF).

The use of MTEFs is relatively recent in Tunisia³⁶ and has not yet become widespread or uniform. The MTEF instrument involves approximately 50% of public expenditure. The Ministry of Finance (Budget Directorate) considers that the MTEF process requires further development and regrets not being involved in preparing the sectoral MTEFs until the final phase. This instrument has already helped to make the budgeting process more participative, but to date it seems to be used more to improve and rationalise the management of technical ministries than to guide public expenditure at sectoral level.

The PEFA Report confirms the progress made in the GOBM process: 'It is planned to develop a proper general MTEF with sectoral envelopes for the 2011-2013 period, firstly for the pilot ministries and then for all ministries. The general MTEF should also improve the inclusion in the budget of the country's sectoral strategies and priorities, both in terms of investment expenditure and the corresponding recurring charges' (PEFA Report, part 4, Institutional factors contributing to the planning and implementation of reforms - 2010).

Contribution of BS programmes to the above improvements (JC342)

The changes identified reveal a public expenditure management policy that has pursued two main priorities: (i) reorganisation of the budget with a view to greater budgetary discipline and reinforcement of the State's service functions, to the detriment of the functions of direct intervention in the economy (production, subsidies, etc.); and (ii) more strategic management of public expenditure through the adoption of a GOBM approach.

The budget support programmes have directly targeted these two priorities:

- As a whole, the SAFs have always paid particular attention to tax compliance and the reduction of state intervention in the economy. SAF I also expressly aimed to increase social expenditure, identifying the threshold below which this should not fall as 39% of total expenditure. In turn, SAF IV supported the adoption of GOBM and the introduction of the MTEF.
- On the one hand, the SBS programmes have tried to help cover the additional financing needs linked to the implementation of the reform strategies in the higher education and vocational training sectors. On the other hand, they have firmly supported the introduction of the MTEF in sectoral programming and subsequently in the State's budget process.

As regards the BS contribution to covering social expenditure, quantitative comparisons can be made, which must, however, be viewed with caution, as indicated above in EQ 3.3.c. As a guide, the weight of the EC's financial contribution can be calculated in terms of expenditure in the social sectors. In 2005, for example, the EC's average allocation was EUR 47 million (SAF and SBS). In the same year, the government increased social expenditure by approximately TND 633 million, which was equivalent – at the exchange rate at the time – to approximately EUR 393 million. Therefore, in 2005 the financial contribution of the EC's BS programmes corresponded to 12% of the government's annual increase in social expenditure, or 1.5% of the total annual social expenditure, which was equivalent to TND 5.083 billion, or approximately EUR 3.156 billion. If we take account of the other

³⁶ In the education sector, it was introduced as an experiment in Primary Education, with the support of the EC's SBS programme, which laid down the prior condition of introducing three-year budget programming as from 2002. A proper MTEF was subsequently introduced in higher education, still within the EC's SBS programme, and was then extended to secondary education and vocational training.

two co-financers of budget support, these percentages amount to over 30% of the additional social expenditure.

Having said that, it should be repeated that the main effect of granting these funds, for the purposes of the SBS programme contribution to sound budget management, is not financial, as indicated by the relative weights mentioned. These funds have allowed the co-financers to create a forum for dialogue and negotiation – among other aspects – on the issues of improving public finance management, including reform of budget management. The dialogue and negotiation thus established have helped and supported the government by: i) identifying targeted measures (conditionalities) that have been jointly monitored; ii) providing TA (for GOBM and MTEF); and iii) providing technical support as needed, including the formulation of a specific budget support programme (PAGBO), which was launched in 2008.

Furthermore, the indirect contribution of GBS to this sector is significant. The reorientation of public expenditure is a way to achieve high and competitive service standards, particularly in education and the knowledge society, which form part of the priorities of the Euro-Mediterranean partnership. These priorities act as an important driving force (fuelled by GBS) in terms of the government's determination.

4.3.6. Governance and accountability in public finance management (EQ 3.5)

Improvements in governance and accountability (JC351)

In Tunisia, public access to the main budget information is possible due to various data being available from the Institut National de la Statistique, the Ministry of Finance, the Central Bank of Tunisia and other institutions. Various reports and publications are available, both in paper format and on the Internet, such as: i) texts of finance laws and presentation notes; ii) annual reports on public finances and public debt; iii) annual reports from the Central Bank; iv) data on the development in allocations and budget expenditure; v) a summary of the annual reports of the Court of Auditors.

With specific regard to the budget implementation results, the full report of the Court of Auditors is distributed only to members of Parliament and to a restricted list authorised by the President of the Republic. Its public dissemination (including access by partners and the EC) is limited to extracts in the official gazette. Furthermore, the year-end accounts allowing the Law regulating the annual budget to be prepared are produced more than a year later, which is not in accordance with best practices (PEFA Report, 2010).

Improvement of Parliament's role (JC352)

As anticipated in EQ 3.2, the level of exhaustiveness of the information contained in budget documentation is high. Overall both the CFAA (2004) and the PEFA Report (2010) underline that 'the documents relating to the draft finance law and its various annexes are well-constructed, clear and rich in useful information. The general report attached to the draft law and the budget data report provide satisfactory information, with the budget presentation exhaustively covering all income and expenditure. No extra-budgetary funds have been listed'.

With regard to the system of external supervision and verification, the CFAA and the PEFA Report confirm the existence of a well-developed public expenditure scrutiny and audit system, both a priori and a posteriori, which ensures a high degree of reliability of public expenditure and a high-quality external audit. Improvements were made over the 2006-2008 period. The main shortcoming continues to be the unwieldy nature of the procedures for scrutinising the commitment of expenditure and the management of public contracts, which can lead to delays in the implementation of investment expenditure.

As for the examination of the annual finance law by the legislature, the CFAA and the PEFA Report describe the procedure for the adoption of the budget by the Chamber of Deputies and indicate that the draft finance law results in a comprehensive examination in committee. This examination particularly involves written questions submitted to the government, hearings of ministers followed by the drafting of specific reports by ministry and specialised committee, and discussion in plenary with the government.

As from 2005, the creation of a second Chamber has helped to further open up discussions, as the draft finance law is now submitted to both Chambers (Chamber of Deputies and Chamber of Councillors). Moreover, the introduction of GOBM should result in more effective scrutiny by members of Parliament.

Finally, with regard to the examination of the external verification reports by the legislature, both the CFAA and the PEFA Report confirm that Parliament duly exercises effective and consistent scrutiny, which could, however, be improved in the future through the earlier submission of the law regulating the annual budget. Members of Parliament also scrutinise the budget implementation through the informal but genuine method of topical questions every 15 days, sectoral debates and other measures which generally encourage transparency of public management.

In 2004 the CFAA concluded that 'the Tunisian Chamber of Deputies is well-equipped and has the human and practical skills to develop its public finance scrutiny function'. This conclusion is supported by the evaluation made in the PEFA Report on the scrutiny functions exercised by Parliament over budget management.

Contribution of BS programmes to the above improvements (JC353)

Issues of budget management transparency do not directly appear in the SAFs. This is instead regarded as a prior condition, which must be periodically verified and renewed, but for which 'control' measures do not need to be identified, as occurs in other areas. As a result, during the period in question, there were three occasions on which the BS partners looked at this issue and agreed that the essential transparency conditionalities were largely being met, although improvements were recommended. The first occasion was during the preparation of SAF I, for which the 1996 FA cited, as an eligibility criterion, the evaluations of the WB and IMF, among others, of public finance management. The second occasion was in 2004, during the drafting of the CFAA. The third was during the PEFA mission, which finally occurred in 2010, after having been scheduled much earlier.

However, the issue of strategic consistency of budget management (GOBM) is at the centre of SBS with regard to reinforcing sectoral policies and is present in SAF IV with regard to national programming. This issue will be further developed following the introduction in 2008 of the new GBS – PAGBO – funded by the EC, which is aimed at improving the performance of the public finance management system and upgrading this in line with international standards and practices, particularly those of the OECD and IMF.

As a result, in its various forms, the dialogue on budget management between the government and the BS partners, in terms of both accountability and strategic consistency, has been extended, despite the concerns expressed in previous evaluations about the absence of structured and continuous institutional dialogue on public finances. It should also be noted that the dialogue on these issues has been reserved solely for the BS partners. During the PEFA mission for example, the latter set up a 'contact group', for which the focal point was the representative of the EU Delegation in Tunis, in order to collaborate with this mission. This confirms the role of BS as a way of creating advanced forums for dialogue.

4.3.7. Legality and gender equality in the economic context (EQ 3.6)

Legality in the business world (JC361)

Company law

Company law is fairly extensive and important steps have been taken to improve regulation of the business environment, in order to boost the competitiveness of the Tunisian economy and encourage investment. These steps include:

- reinforcement of business freedom: laws abolishing certain authorisations and revising administrative conditions required for certain commercial activities; increased protection for investors;
- in the area of company law: promulgation and successive amendments of the Companies Code aimed at reinforcing the obligations of company managers and ensuring control and transparency of companies; improvement of the law on financial markets aimed at reinforcing the transparency of financial information;
- corporate governance: series of measures reinforcing this in terms of company administration and the due diligence and loyalty obligations to which directors are subject; creation of committees to reinforce democracy within companies (2005);
- intellectual and industrial property: although the creation of a Conseil National Anti-Contrefaçon (National Anti-Counterfeiting Council) and the introduction of an action plan and interministerial information system are planned in this respect, the effective implementation of legislation in this area remains a challenge; reinforcement of the fight against counterfeit or pirated goods, including at the borders, is essential³⁷.
- methods of dispute resolution: Tunisian law has for a long time allowed the creation of trade boards with special competence in business matters, to help parties reconcile their differences, and the appointment of justices of the peace, together with the possibility of dispute arbitration.

Administrative justice

Administrative justice has benefited from a series of reforms since 1996. Three laws of 3 June 1996 covered its organisation, powers and rules of procedure, reinforcing the alignment of administrative justice with the international standards required, at least in terms of legislation. This progress in the efficiency of judicial administration has been recognised by external observers, including the European Union. However, some bottlenecks responsible for slowing down the justice system have not been removed and the executive's influence over judicial bodies remains a sensitive issue and a challenge for the future³⁸. The next series of administrative justice reforms should therefore be directed at ensuring the specialisation of members of the administrative court and reinforcement of the independence of administrative judges.

Corruption

In regulatory terms, Tunisia ratified the United Nations Convention against Corruption in March 2008 and has a specialised unit called the 'economic unit' which aims to combat economic crimes, as well as other bodies which can be called in to investigate economic crimes (customs officers for customs offences, officials from the Conseil du Marché Financier for stock market offences, public contract committees, etc.). However, despite the fact that the ENP progress reports refer to Tunisia's efforts to combat economic crimes (for example, the creation of units to combat money laundering), the Corruption Perception Index published by Transparency International highlights a lack of progress in terms of reducing perceived corruption over the 2001-2009 period. Yet Tunisia remains the most virtuous of the Southern Mediterranean countries, ranked in 65th place, compared to Morocco (89th), Algeria, Egypt (111th) and Libya (130th).

³⁷ Tunisia progress report on Implementation of the European Neighbourhood Policy in 2008. Commission staff working document.

³⁸ Ibid.

Gender equality (JC362)

The situation of women and the protection of their rights in Tunisia remain among the best in the Arab world. Although most of the achievements in this area date back to the early years of independence, since 1995 several legislative and institutional reforms have reinforced the role of women in the economy, facilitating their access to economic resources and reinforcing their position in the world of work. These reforms include: revision of the Labour Code in order to grant women legal protection against any form of professional discrimination; repeal of certain provisions of the Code on Obligations and Contracts, which diminished the position of women; and reinforcement of the Conseil National de la Femme (National Women's Council). Particular attention has been paid to integrating women in the school system at all levels. Gender equality in education – largely achieved over the last 15 years – has been pursued through sectoral reforms implemented and supported by SBS funded by the EC.

Contribution of BS programmes to the above improvements (JC363)

The changes indicated above relate to the whole EU-Tunisia partnership and form part of the framework of shared standards and principles included within the AA and respective accompanying programmes, including BS. This is proven by the attention paid to these elements in the aforementioned ENP progress reports. Aside from their contribution to the partnership system as such, the BS programmes have made a limited direct contribution to these issues, in relation to some of the concrete measures in this modernisation process. In some areas, however, such as gender equality, Tunisia had adopted relatively advanced positions well before the signature of the AA, and what has been achieved since 1995 forms a continuation of this previous work. This is not the case with legality in the business world and administrative justice. These are two areas in which the AA has identified new standards to be achieved.

In particular, in the negotiation of SAF I and II, many references were made to improving economic governance, which is also included in the measures considered in this report. SAF III and IV specifically focused on improving company law and, more generally, market transparency and the respective supervision mechanisms. In the area of education and vocational training, SBS has focused on reinforcing equal access to education and, in particular, to the labour market for women. These measures were the subject of dialogue and negotiations during the formulation phase, and their achievement has been largely verified, as is clear from the progress reports.

4.4. STEP 2 – LEVEL 4. QUESTIONS RELATING TO LEVELS 4 AND 5 OF THE INTERVENTION LOGIC: DEVELOPMENT RESULTS

4.4.1. Performance of the Tunisian economy (EQ 4.1)

Economic growth

Between 1995 and 2008, Tunisia recorded average growth of 5% per year. This stable and relatively high trend is evidence of the economy's strong resilience to exogenous shocks, due to appropriate policies and recourse to external financing, while retaining a controllable level of debt. Growth in Tunisia has been based on strong growth in manufacturing (particularly exporting), which in turn has led to a clear rise in the contribution of the service sector to added value.

Structure of GDP and factor productivity:

Although supply is driven by industry and services, demand is driven by household consumption and exports. Despite the strong growth in exports, the country has a quasi-structural trade deficit. Public investment has been stationary, whereas there has been a clear increase in private investment to the detriment of household consumption in recent years.

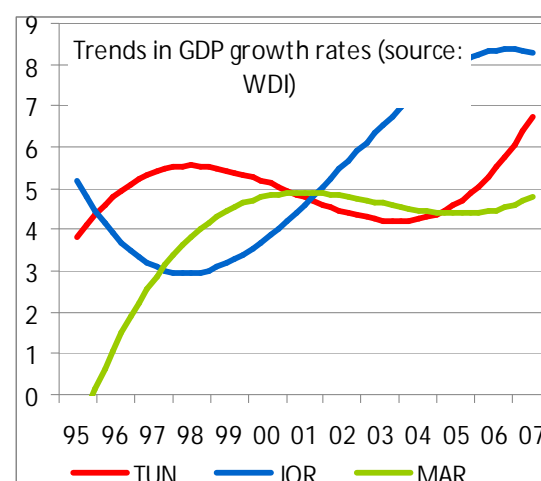
Furthermore, it should be noted that, although the export sectors indicated, which are subject to tariff dismantling under the Association Agreement with the EU, contribute to total factor productivity (TFP), the latter is still below the average for the EU's partner and competing countries. These productivity shortfalls are in all likelihood the cause of the limited number of jobs created by the growth levels achieved, in a context of a rapidly increasing working population. However, despite the vagaries of the international economic situation, Tunisia has managed to maintain a relatively stable level of job creation over the period (67 825 on average per year) and is in first place in the Maghreb region for productivity (see below).

Business structure

- The number of Tunisian industrial enterprises increased from 2 046 in 1995 to 5 541 in 2008. Small enterprises with fewer than 50 employees play a key role in the economy (around 60% of Tunisian businesses). The upgrading programme has helped to place businesses at the centre of the economy, which is evidenced not only by the above results but also by the constant increase in the number of approvals by the Bureau de Mise à Niveau (Upgrading Office)³⁹.

³⁹ Approved applications increased from 57 in 1996 to 3 045 in 2009, with an average annual growth rate of approximately 43%. Likewise, there has been constant growth in the total amount of approved investments, which increased from TND 433 million in 1997 to TND 5 048 million in 2009, with an annual growth rate of approximately 24%.

Figure 8: GDP growth rate



Source: World Bank - WDI

Table 6: Production indices (2000=100)

Type of Industry	Year 2008/00
Manufacturing	132.8
1. Agri-Food Industries	125.1
2. Construction Materials, Ceramics and Glass	126.0
3. Mechanical and Electrical Industries	237.5
Electronics	310.5
Electrical	303.3
4. Chemical Industries	106.5
5. Textiles, Clothing and Leather	104.1
6. Other Manufacturing Industries	133.4
Mining	88.5
Energy	121.4
Total index	129.1

Source: INS - Tunisia

- Over the whole period, the weight of the textile and clothing sector remained significant in terms of the number of enterprises, which increased from 567 in 1995 (28% of the total) to 1 978 in 2008 (36% of the total). This sector is followed by agri-food industries, which also increased over the period in question. The importance of these sectors is just as significant in terms of employment (nearly 60% of industrial employment) and manufacturing production (nearly 50%), despite the fall in contribution with regard to the production of the textile and leather sectors.
- Together with these traditional sectors, it is worth noting the growth in the electrical, electronic and household appliance sectors, which increased from 95 in 1995 to 333 in 2008, with a marked contribution to exports (see Figure 9), which increased from 9% in 1995 to 19% in 2006.

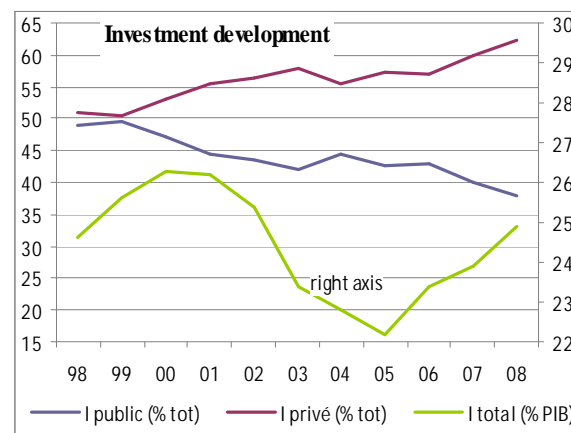
Figure 9: Industrial exports indices



Private investment

Total investment has doubled in Tunisia, with an average annual increase of around 7.5% (in constant dinars) over the 1996-2008 period (Total investment in Figure 10). However, by percentage of GDP, the average level remained relatively stable, with some marked oscillations (Figure 10). The significant increase in private investment is a positive sign (Private investment in Figure 10). However, the performance of private investment barely compensated for the reduction in public investment (see EQ 3.4). Moreover, this performance was virtually solely due to the increase in FDI linked to privatisations. Furthermore, the vast majority of this growth occurred over 2006-2007, with specific investment in telecoms.

Figure 10: Investment development



Source: INS

The average investment rate has remained around 25% of GDP, below the level needed to guarantee growth rates able to significantly impact on unemployment. In Morocco, on the other hand, since 1997 the investment rate has constantly improved from 21% to 33% of GDP. In Tunisia, the participation of the private sector in overall investment is still significantly below expectations.

Financial sector

The performance in terms of stability in the macroeconomic framework also reflects improvements in the consolidation of the banking sector and in the operation of the financial sector over the last 15 years. However, the level of profitability in the banking sector remains low, due to the limited financial capacity of the banks. The Tunisian economy is mainly financed by the banking system, in which the public banks (STB, BNA, BH, BFPME and BTS) assume a preponderant role (50% of the market). The banks' outstanding debt nearly tripled between 1995 and 2008, increasing from TND 11.3 billion to TND 32.8 billion, with the share of debt in the public sector falling from 12% to 7% of the total and the share of debt for services and private individuals increasing from 42% to 67%. Medium- and long-term debt increased from 42% to 50%.

Despite improvements in the performance indicators for the banking sector (net receipts from banking increased from TND 592.4 million in 1995 to TND 1 684 million in 2008; reduction in percentage of bad debt; increase in provisioning rate which remains weak but is increasing), efforts to rationalise the banking sector must be continued⁴⁰. The level of non-performing loans is still high, which increases the cost of bank intermediation and reduces the rate of return on projects. Moreover, the property guarantees required by the banks pose financial risks, as they tend not to be liquid, they are difficult to recover (slow justice) and they are probably overvalued, which has restricted the capacity of the banks to finance private investment.

The financing of private investment by the financial market is still limited and accounted for 8.2% of investments in 2008, with a very limited increase from 1995 (6%)⁴¹. Capitalisation of the Tunis stock market stands at 13% of GDP, whereas in Morocco it is 68%⁴².

In the insurance sector, the results of the sectoral reforms are also limited, although the following can be noted: i) huge increase in the total amount of premiums (+161.4% between 1998 and 2008) and in the amount of premiums per inhabitant, which has nearly tripled; ii) slight increase in the penetration rate (turnover/GDP), which reached 1.9% in 2005-08 compared to 1.64% in 2001; iii) still difficult financial situation for insurance companies, with a net result in deficit by TND 29.9 million in 2004 compared to TND 36.36 million in 2001, essentially due to poor performance in the automobile branch⁴³. The insurance sector remains underdeveloped, even compared to the MENA (Middle East & North Africa) countries. According to studies conducted by Swiss Ré in 2004 and 2008, Tunisia is ranked in 62nd place for penetration rate, and in 70th place for density, compared to Libya (39th and 54th), Morocco (49th and 69th) and Jordan (56th and 71st). [Source: SIGMA study, Swiss Ré].

Business environment

The available data confirm that the impact of the reforms implemented by the government is generally encouraging. According to a survey on the business environment in Tunisia, conducted by the Institut Tunisien de la Compétitivité et des Etudes Quantitatives (ITCEQ) with the assistance of the World Bank in 2005, businesses have a positive view of the development in the business environment: 85% of those businesses questioned considered that administrative constraints on the business environment in Tunisia were limited or moderate in 2005, compared to 65% in 2002.

This assessment is confirmed by Tunisia's high ranking in international surveys on competitiveness and the ease of doing business:

- The 2009-2010 Global Competitiveness Report of the World Economic Forum ranked the Tunisian economy in first place in the Maghreb region and in Africa, 6th in the Arab world and 40th globally, out of a total of 133 economies (see Figure 11 below). This is a good score, but it should be noted that this is not the best score in recent years. Aside from the annual ranking, the report's analysis of competitiveness indicates that certain aspects are very advanced, whereas others are lagging behind (see Figure 11). The [in]efficiency of the labour market, the weakness of the banking sector, and the restricted nature of the domestic market are regarded as disadvantages, whereas the main competitive advantages are the quality of institutions and the level of basic social services and education.
- The Doing Business 2010 report on the ease of doing business, jointly prepared by the World Bank and the International Finance Corporation (IFC), highlights some different aspects. According to its ranking, Tunisia is 69th out of 183 countries on a global scale (see Figure 12

⁴⁰ Annual reports of the BCT 1996-2008 and IMF Article IV reports.

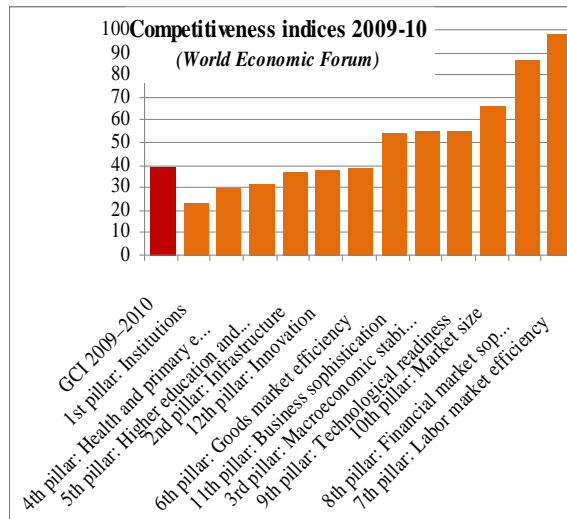
⁴¹ Data from the Conseil du Marché Financier, 2009.

⁴² Peterson Institute for International Economics, Prospects for Greater Global and Regional Integration in the Maghreb, Washington DC, 2008.

⁴³ FTUSA annual reports, Progress reports of the Competitiveness Support Programme II, 2006.

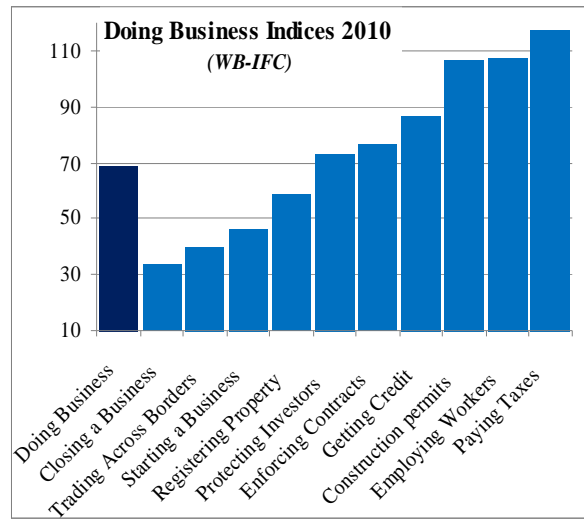
below). In comparison to its 2009 and 2008 rankings, it has respectively moved up 4 and 19 places. In the Arab world, it is in 7th place behind Saudi Arabia and other countries such as Qatar and Oman, but ahead of Egypt, Morocco and Algeria. According to these data (Figure 12), the inefficiency of the labour market and of the banking system are major disadvantages, which are only exceeded in this case by the burden of taxation. Given the relatively modest tax burden, the perception of those interviewed on this last point could have been aggravated by the previously mentioned competition problem in the informal sector.

Figure 11: Competitiveness indices 2009-2010



Source: World Economic Forum, 2010

Figure 12: Doing Business Indices 2010



Source: Doing Business 2010, World Bank and International Finance Corporation

ICT services

The communication technology sector is one of the most dynamic, with one of the highest growth rates (15% in 2009). This sector has seen significant expansion. It currently contributes 10% of GDP, compared to just 2.5% in 2002, and 9% of job creation throughout the country. This technological level is confirmed by Tunisia's latest ranking in the Global Information Technology Report 2008-2009. For the third year running, the country has been ranked first in the Maghreb and African regions and 38th globally out of a total of 134 countries. It has therefore overtaken several European countries such as Hungary (41st), Italy (45th), Greece (55th), Romania (58th) and Poland (69th).

The creation of Tunisia (in 2002) stimulated the market and ensured rapid expansion in telephony access: i) the number of mobile phone users reached 8.6 million in 2008; ii) the density of telephone lines increased from 17.6% in 2002 to 94% in 2008. The entry price (purchase of SIM card) fell from TND 150 (end of 2002) to TND 10 (Tunisie Télécom) and TND 5 (Tunisia) in 2005.

The Africa Competitiveness Report 2009 (World Economic Forum) ranked Tunisia in 84th place out of 134 countries in terms of ICT infrastructure, well ahead of other countries in the sub-region. Among the African countries, only South Africa ranks higher.

Transport (ports and national road network)

At the end of 2008, the maritime infrastructure consisted of seven commercial ports and one oil terminal, equipped to allow the stopover and processing of car ferries, cruise liners, container ships, bulk carriers and oil tankers, and the movement of any type of goods. Since 1995 traffic at Tunisia's commercial ports has recorded growth rates of 35.8% for vessels, 30.4% for goods, 306.8% for containers, 145.3% for passengers, 130.2% for cars and 693.7% for cruise passengers. Tunisia is

currently ranked 38th for the quality of port infrastructures, i.e. in first place among the four countries in the sub-region (Algeria, Egypt, Morocco and Tunisia) and well ahead of Italy and Turkey.

Energy costs

In Tunisia, the contribution of the energy sector to GDP has fallen to 3.6%, with half for fuels and half for electricity. Total consumption is 7.37 thousand tonnes of oil equivalent (ktoe), with a deficit of 0.5 ktoe. In 1962 the State gave its monopoly over production, transport and distribution of electricity to STEG. In 1996 the sector was opened up to competition, with the entry of two new producers⁴⁴. 'The tariffs for almost all energy products are set by the State at all levels: selling prices to operators, operators' margins and end prices. This method of price setting causes economic distortions ... in comparison to international prices and ... inter-product distortions'⁴⁵. In 2005 the public subsidy for energy products was TND 1 030 million, i.e. 2.7% of GDP. In 2009 this increased to TND 1 600 million, i.e. 3.6% of GDP⁴⁶. These figures show the weight of the energy sector in the Tunisian economy and its direct impact on the national budget, hence the need to speed up sectoral reforms.

Foreign trade

Contrary to initial fears, tariff dismantling has not had a negative effect on the country's economy, but has in fact helped to increase its exports. Following an increase in the negative trade balance between Tunisia and the EU between 1995 and 2001, there has been a gradual rebalancing of trade with the EU and a significant contraction in the trade surplus in favour of the latter, as indicated by the trade balance graph. EU-Tunisia trade has more than quadrupled in nominal value (and more than doubled in real terms⁴⁷) since the signature of the AA, increasing from TND 9 416.5 million in 1995 to TND 25 122.2 million in 2006, and then to TND 34 360 million in 2008. The rate of coverage of Tunisian imports by exports has significantly improved, from 76.5% in 1995, to 91.6% in 2006, and to 98.2% in 2008.

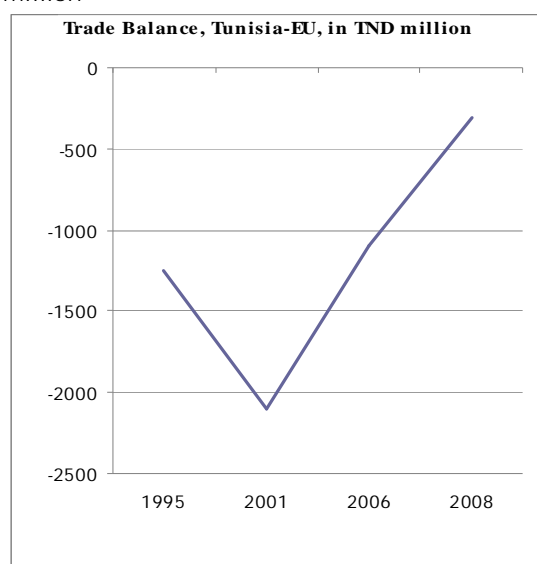
⁴⁴ UNCTAD, Meeting of the Intergovernmental Group of Experts – Competition in the Energy Sector in Tunisia, 07/2007.

⁴⁵ Ministry of Industry, Agence Nationale des énergies renouvelables (National Agency for Renewable Energies), Republic of Tunisia: 'Etude d'impact des prix de l'énergie sur la demande' (Study of the impact of energy prices on demand), 2000.

⁴⁶ The 2005 figure is given by UNCTAD, op. cit., and the 2005 and 2007 figures are indicated by Tafik Missaoui, 'Energie et changement climatique, le coût de l'action en Tunisie' (Energy and climate change, the cost of action in Tunisia), 2009.

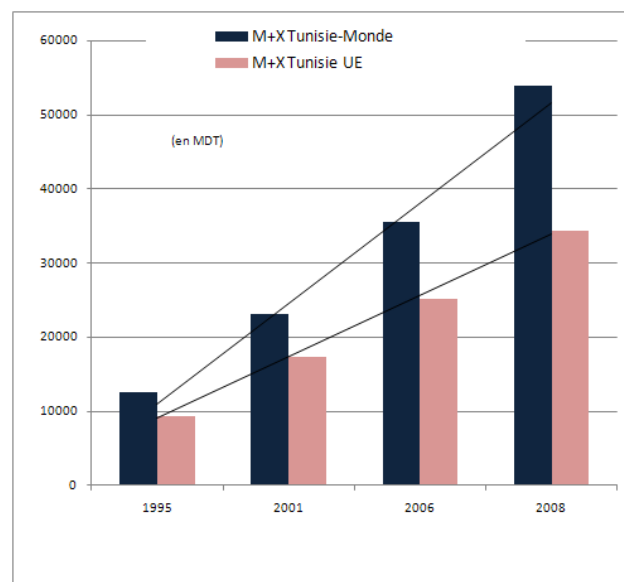
⁴⁷ The GDP deflator in TND in 2008 was 150/100 compared to 1995 (WB, World Development Indicators - WDI).

Figure 13: Trade Balance, Tunisia-EU, TND million



Source: INS

Figure 14: Tunisian imports and exports



Source: INS

Tariff dismantling has speeded up the country's integration in the global market, driven by its integration in the European market: in 2001, 80% of Tunisia's exports went to the EU and the EU provided 71% of Tunisia's imports. These percentages fell slightly but remained high in 2006 and 2008: respectively 77.2% and 72% of Tunisian exports went to the EU and the EU provided 66.5% and 57.3% of Tunisia's imports. Global international trade (imports + exports) has increased more rapidly (see M+X graph above). The significant geographical concentration of Tunisia's exports has provided an opportunity and encouraged their rapid growth, but could now pose a risk, as was seen during the economic crisis in Europe, which was felt severely from the last quarter of 2008.

Furthermore, the fact that extra-EU trade is increasing more rapidly than trade with the EU is sometimes regarded as a sign of weakness under Euro-Mediterranean integration assumptions⁴⁸. In the case of Tunisia, it seems, however, that the competitive capacities acquired under the AA and FTA with the EU have increased the overall competitiveness of the economy, with subsequent effects on trade with the rest of the world.

	2004	2005	2006	2007	2008
TUN	46%	50%	47%	46%	48%
JOR	55%	55%	57%	58%	67%
EGY	20%	20%	20%	23%	29%
MOR	31%	31%	31%	30%	32%
AGADIR GROUP	27%	28%	29%	31%	35%
EU	36%	36%	35%	34%	35%

Source: World Bank

Finally, it should be noted that the foreign trade openness $((M+X)/2)/GDP$ ⁴⁹ of the four Member States of the Agadir Agreement (Jordan, Egypt, Tunisia and Morocco) increased between 2000 and 2004, from 27% to 35%. Among these four countries, Tunisia recorded significantly higher foreign trade openness, both with regard to the average of the Mediterranean partner countries (over

⁴⁸ CASE, CSER, CEPS, Economic Integration in the Euro-Mediterranean Region, 2009.

⁴⁹ Value of Exports + Value of Imports, divided by two, divided by the value of GDP.

10% difference) and with regard to the average of the Member States of the European Union (again over 10% difference⁵⁰).

The structure of exports has remained more or less stable, with a clear preponderance of exports in the non-food manufacturing sector (just under 70%, although this has fallen since 2002), and a percentage always below 10% for the three sectors of agriculture and fisheries, agri-food and mining. Finally, the energy sector has seen gradual growth since 2001, increasing from 9.4% of total exports in 2002, to 12.9% in 2005 and 17.3% in 2008. The same trend can be seen, with a few minor differences, in imports.

Sub-regional integration

In this area, the figures are quite disappointing. Over the last decade, the Agadir Agreement countries and the other Southern Mediterranean countries have seen economic growth rates higher than the European averages (but lower and/or less stable than Tunisia's). In terms of trade, their exports and imports have increased by more than 10% per year, and trade with the EU accounts for nearly 50% of exports and 45% of imports. However, intra-regional trade between the Agadir Agreement countries remains limited, at around 15% of total trade⁵¹. The barriers to intra-regional trade are the different regulations and standards, the difficulty of implementing complex agreements such as those on certification of origin and quality, and limited interconnection of infrastructures.

It would be useful to look at the conditions for accelerating intra-regional processes, possibly in the context of the new policies of the EU and, in particular, of the Union for the Mediterranean.

Strengths and weaknesses

In general the Tunisian economy has made some very important changes in the period in question. Its exporting industry has become more competitive, providing the majority of industrial employment and supporting overall growth. This performance is recognised by the main international partners⁵². The industrial performance has brought about modernisation in the whole country, putting pressure on services and non-exporting productive sectors, which have reacted differently, sometimes falling into line with the competitive growth process (e.g. tourism) and sometimes not being able to do so.

As a result, together with the achievements, certain weaknesses have appeared: investment remains below the targets set and is relatively stagnant in terms of percentage of GDP; the non-exporting sectors are still constrained, which is creating inefficiencies in the domestic market; and the service sectors, particularly financial services, are not wholly meeting the requirements of a modern economy. This is resulting in limited growth in certain sectors, which is leading to a supply of jobs clearly below demand, particularly for young people. The unemployment rate fell from 16% in 1997-99 to 14% in 2007 (according to ILO-KILM), and youth unemployment is around 30%, despite major advances in levels of education.

The AA with the EU has provided a secure framework for trade openness and economic integration over these 15 years, but the European context is marked by limited growth rates and is not creating the driving effect from which some small and dynamic countries in the Asian region are benefiting. In order to achieve higher growth rates, Tunisia should firstly adopt even more radical transformation policies at the economic and institutional levels⁵³. Secondly, it should negotiate a more complex and advanced partnership framework with Europe, including services and other areas currently excluded from the AA⁵⁴.

⁵⁰ WB - WDI.

⁵¹ UNECE, Annual report 2009.

⁵² WB, Tunisia's Global Integration: second generation of reforms to boost growth and employment, 2008, and EC, Tunisia progress report on Implementation of the European Neighbourhood Policy in 2007.

⁵³ WD, Global Integration ..., op. cit.

⁵⁴ These negotiations on the 'advanced status' of association are already ongoing.

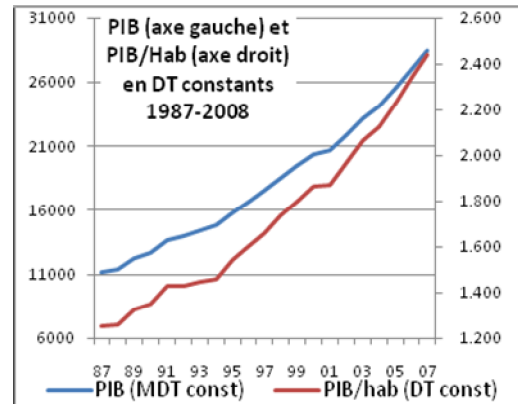
4.4.2. Growth in personal income and poverty reduction (EQ 4.3)

Personal income has increased⁵⁵ (JC431)

Thanks to the good performance of the Tunisian economy:

- GDP increased in real terms at an average rate of 4.95% per year between 1996 and 2008, compared to an average rate of 3.9% over the 1986-1997 period;
- GDP per capita increased at an average rate of 3.85% per year between 1996 and 2008, compared to an average increase per year of 1.8% between 1987 and 1996;
- GDP per capita in 2008 was 1.6 times that in 1996⁵⁶.

Figure 15: GDP and GDP per capita, 1987-2008



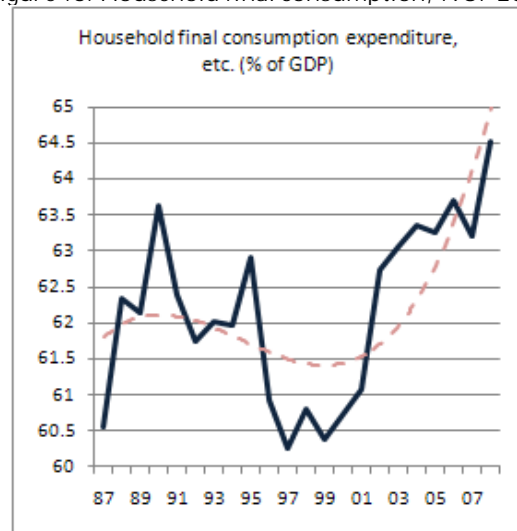
Source: World Bank - WDI

This progress is all the more remarkable when it is borne in mind that, during this period of growth, there were four years of drought (1998-2001) and the attacks on 11 September 2001, which caused economic growth to shrink and tourism revenues to fall.

Total consumption nearly doubled between 1996 and 2008 (+182%), remaining in the range of 75.9-78.5% of GDP. Household consumption increased by the GDP percentage (see Figure 16).

INS surveys on 'household budgets, consumption and standards of living' (the last survey was conducted in 2005 and published in 2007) highlight that the average annual expenditure per household increased considerably from 1975: the value in 2005 was approximately eight times the 1975 value, whereas the average annual rate of growth in household expenditure over the 1995-2005 period was 5.34%, higher than the GDP per inhabitant growth rate.

Figure 16: Household final consumption, 1987-2008



Source: World Bank - WDI

⁵⁵ The figures used come from the following three sources: World Bank - WDI, Institut National de la Statistique, and Ministry of Development and International Cooperation.

⁵⁶ Due to a data comparability issue, the GDP per capita and not the GNP has been used.

Figure 17: Development of poverty rate

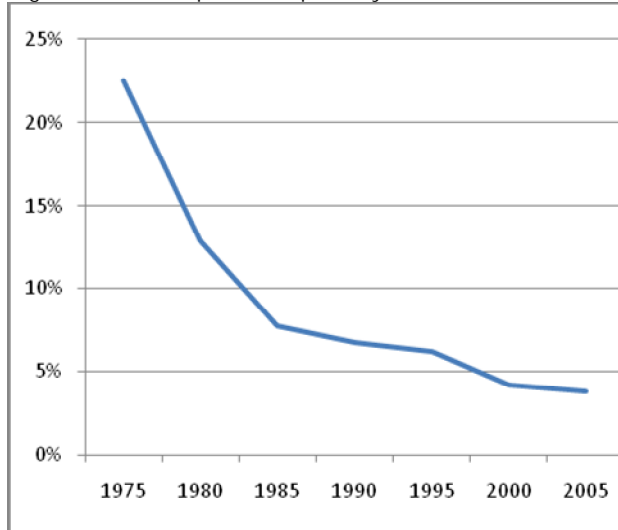
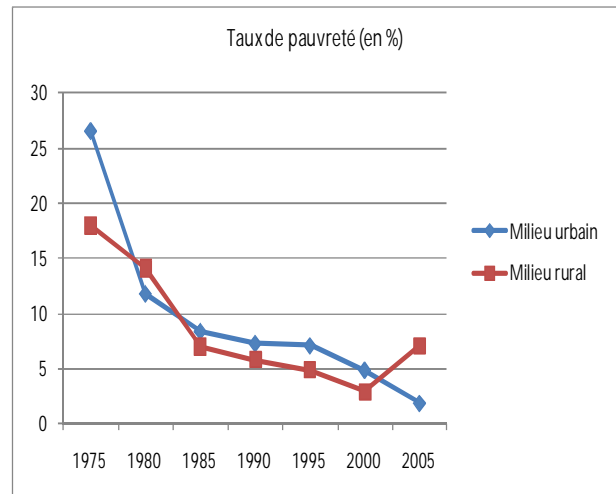
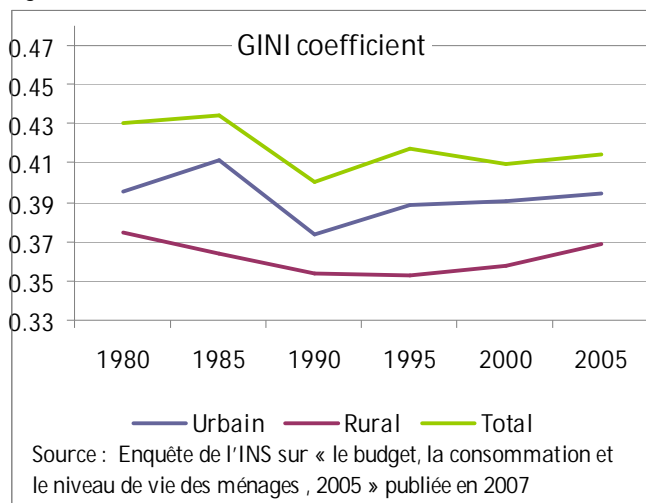


Figure 18: Development of poverty rate by environment



Source: INS survey on 'household budgets, consumption and standards of living 2005', published in 2007, and other INS data

Figure 19: GINI coefficient



The income of the poor has increased⁵⁷ (JC432)

The national poverty rate has fallen continually over the last 30 years, from 22% in 1975 to 6.2% in 1995, and to 3.8% in 2005 (see Figure 17)⁵⁸.

At regional level, the available data (INS survey, 2005) indicate that the Centre-West is the region most affected by poverty, with a rate of nearly 13%, which is three times higher than the national average. By contrast, regions such as the Centre-East and Greater Tunis have more moderate poverty levels, below 1.5%.

Income disparities have reduced (JC433)

As shown by Figure 19, the level of inequality in Tunisia can be regarded as average for those countries experiencing a comparable development phase. The GINI coefficient – a number varying from 0 to 1, where 0 means absolute equality (everyone has the same income) and 1 means total inequality (one person has all the income) – following a significant fall during the 1980-1990 period, went up slightly during the following period. It was slightly lower than in Morocco in 2007 (0.41), but higher than that of Jordan and Egypt. According to the UNDP Human Development Report 2007/2008⁵⁹, it has apparently risen to 0.398.

⁵⁷ INS survey on 'household budgets, consumption and standards of living 2005', and the report based on this survey, published in 2007.

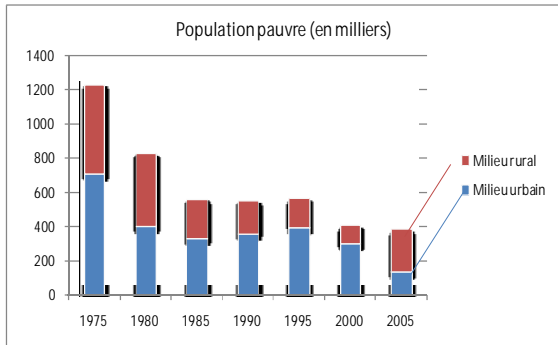
⁵⁸ The poverty data are based on the aforementioned survey by the Institut National de la Statistique. This survey was conducted with the assistance of the United Nations and other international bodies. The method adopted by the INS identifies a national poverty line, measured using an essential basket of foodstuffs and non-foodstuffs. In 2005 this line was around TND 489 (current TND) for the large towns and TND 378 (current TND) for the countryside (see also UNDP, Poverty Reduction Strategy Paper, Tunisia, 2004). The reliability of the INS survey data, although used by all international bodies, is currently in question.

⁵⁸ The source of the GDP data is the World Bank (WDI). Due to a data comparability issue, the GDP per capita and not the GNP has been used.

⁵⁹ http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf, page 297.

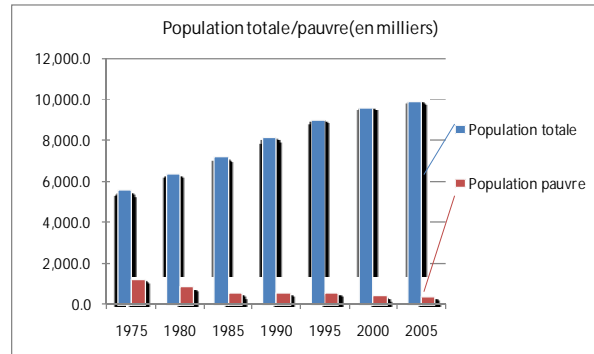
In terms of the poverty rate, it can be seen that, between 1975 and 2000, the urban environment was most affected by this phenomenon (see Figure 18). However, the data for 2005 show a reversal in the situation: for the first time in 20 years, the rural environment had a poverty rate (7.1%) higher than that of the urban environment (1.9%), with the rural poverty rate doubling between 2000 and 2005 (see Figures 20 and 21).

Figure 20: Poor population



Source: INS

Figure 21: Total/poor population



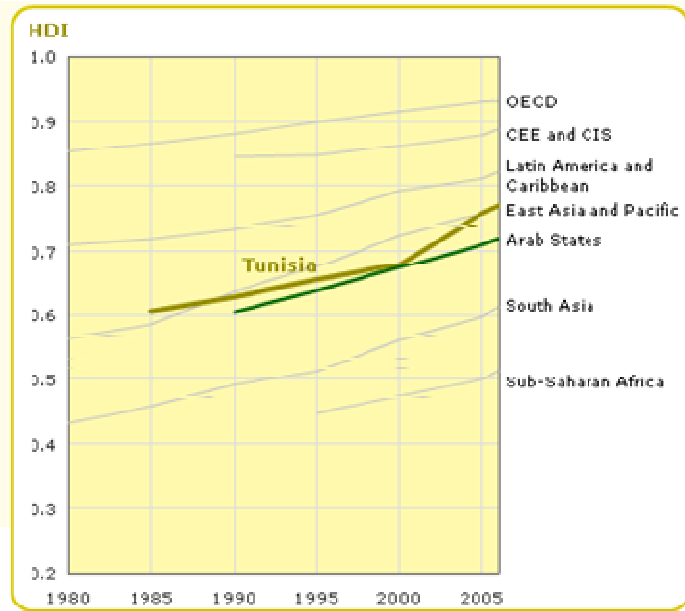
Source: INS

The various dimensions of poverty have been tackled and the HDI has improved

The reduction in poverty in terms of income has been accompanied by an overall improvement in the population's living conditions, as shown by the human development indicators, which form the human development index produced by the United Nations. These include health, education and purchasing power indicators for the population.

The result published by the last UN report shows that, after limited growth in the 1990s, the HDI has climbed rapidly over the last decade and is now much closer to the most virtuous groups of countries (see Figure 22).

Figure 22: HDI, Tunisia, 1980-2005



Source: Indicator table G of the Human Development Report 2009

4.4.3. Changes in the level of access to education and employment (EQ 4.2)

Improvement of vocational training access and openings (JC421)

Access to vocational training has improved considerably over the reference period (1996-2008). 'The number of apprentices enrolled at vocational training centres answerable to the MEF has increased from under 40 000 to nearly 103 500. This change has been accompanied by a restructuring of training, which is aimed more at training leading to qualifications'⁶⁰. As for continuing training in support of businesses, despite an increase in their number, beneficiary businesses have participated in a rather irregular manner over the years, with small businesses having benefited less from this opportunity and job-seekers having been inadequately informed.

Improvement of secondary and tertiary education access and openings (JC422)

Higher education

Between 2000 and 2008 the numbers in higher education increased by around 70%, corresponding to an annual rate of 8.5%. The growth rate was much higher in the first half of the period, and then slowed in the second half. Only the increase in the number of female students (11% in total) and grant holders (13%) remained higher in the second half of the period. The good growth result was particularly due to public higher education, as the participation of the private sector remained modest and below the Plan's targets (4 000 in 2006 and 11 000 in 2007, compared to a target of 20 000 in 2006).

⁶⁰ Progress report on the SBS programme for VT, June 2009.

The increase in numbers was matched by an increase in graduates, with a 180% rise between 2000 and 2008, thereby achieving the desire to improve the internal efficiency of the system. This was particularly linked to the introduction of short courses (2 or 3 years of higher education), the number of which has constantly grown and which are increasingly favoured by students. There has also been growth, albeit more modest, in engineering and other courses.

In terms of the choice of courses, based on graduate data for 2006-2007, graduates specialising in IT and engineering accounted for over 22% of all graduates. However, these courses are still mainly taken by male students, whereas female students focus on traditional courses with low employability or which are oversubscribed (Arts and Human Sciences, Languages, Management, Law).

Although internal efficiency⁶¹ seems to have been achieved, with, however, a strong gender bias with regard to the choice of courses, in terms of external efficiency, young graduates are finding it very difficult to get a job. The net number of jobs created for young higher education graduates reached 179 200 during the 2001-2007 period, i.e. an average of 26 000 jobs per year (according to the Ministry of Employment, 2008), compared to an annual average of approximately 42 000 graduates

for all specialties combined. According to the results of a survey on population and employment carried out in 2007, there has been an increase in absolute and relative terms in the number of unemployed young university graduates and in the time taken to find their first job. Higher education graduates aged between 23 and 29 years accounted for 10.9% of all the unemployed in 2007, compared to 9.6% in 2006 and 8.4% in 2005. The rise in unemployment of higher education graduates is a social concern for the country, although the coverage of additional demand for employment remains fairly stable (see Table 9), and both youth unemployment⁶² and total unemployment do not seem to be increasing.

Secondary education

In terms of secondary education, the numbers increased until 2005 (see Table EQ 4.2-3 in the evaluation matrix), but are currently falling, in line with the demographic curve. In 2008 there were 475 483 graduates (compared to 492 733 in 2003), of which 58% were female. Despite the reduction in the dropout rate, internal efficiency in secondary education is still a challenge:

- the number of students having to repeat years has increased over time despite the reform which aimed to improve internal efficiency;
- at Baccalaureate level, there has been a fall in the percentage of admissions, which stood at 61% in the fourth year in 2008, compared to 67% in 2003-2004;

Table 8: Enrolment rate in higher education

1966	1984	1997	2002	2004
2.1%	5.7%	15.5%	26.4%	33.3%

Source: UNICEF

Table 9: Coverage of additional demand for employment

1982-1986	1997-2001	2002-2006
61.7%	92%	92.1%

Source: MDCI

Table 10: Enrolment rate in the second stage of primary education and in secondary education

1975	1980	1994	2001	2002
21%	32.2%	53.3%	73.7%	75.7%

Source: UNICEF

Table 11: Unemployment rate (%)

1997	15.9
1999	16.0
2000	15.7
2001	15.1
2002	15.3
2003	14.5
2004	14.2
2005	14.2

Source: ILO KILM

⁶¹ 'Internal efficiency' is defined as the achievement of internal targets (e.g. level of knowledge acquired/success rate) and 'external efficiency' as the achievement of external targets (e.g. rate of integration in the labour market).

⁶² According to the ILO KILM data, youth unemployment (15-24 years) was 31.9% in 1997 and 30.7% in 2007, despite the significant increase in enrolment in education of this age group. See also the aforementioned data from the Ministry of Employment.

- the success percentage is on average low: 67% in 2008, which is, however, higher than in 2001 when it was only 57%, but for Mathematics and Experimental Science courses there is a high rate of success (80%) and there has been considerable improvement since 2001.

As for the distribution of admissions and graduates by course, it is clear that Arts courses are still preponderant, although Economy/Management and Technical courses have seen a remarkable increase in the number of graduates [Table EQ 4.2-8 in the evaluation matrix].

In terms of external efficiency, the labour market statistics show a moderately positive situation, which is clearly better than for university graduates: an increase in the number of secondary education graduates in employment of around 4 percentage points, from 32% in 2000 to 36.1% in 2007 (source: Ministry of Employment, 2008), corresponding to an annual growth of around 4.6%. This is accompanied by an annual increase in the unemployed working population with a secondary education which is low (1.8%) and considerably lower than for the population with a higher education. However, it is worth noting that the working population with a secondary education is the second largest group by weight in the total working population, and that in 2007 the number of unemployed in this group accounted for 40% of the total.

Growth in employment and slowdown in emigration (JC423)

The coverage of additional demand for employment has continued to increase from one Plan to the next, although this fell significantly between the 9th Plan (1997-2001) and the 10th Plan (2002-2006) (see Table EQ 4.2-14 in the evaluation matrix). However, the creation of new jobs has been unable to fully meet the additional demand, which was between 55 000 and 85 000 per year over the 1996-2008 period.

When we compare this to the structure of the working population, we can see which categories are most affected. Since 2000 there has been a change in the composition of the working population: the weight of the population who are illiterate and/or educated to primary level is reducing in favour of the population educated to secondary and higher level. Putting aside the unemployment of young graduates, in absolute terms the unemployment problem is more of a concern for those groups with a secondary and primary education, who accounted for 75% of the unemployed in 2007. In terms of age, it is clear that unemployment is mainly a problem for the young population, who have an unemployment rate significantly higher than the national average (Table EQ 4.2-19 in the evaluation matrix), up to 32.4% in 2008 for young people between 15 and 19 years of age, 30.9% for those between 20 and 24, and 25.2% for those between 25 and 29 (according to the Ministry of Employment)⁶³.

As regards emigration, the figures indicate a constant increase in emigrants, the numbers of whom have nearly tripled over the last 20 years, although the rate of growth has fallen significantly in the last decade. Emigration plays an important role – although less so than in other countries in the region – by absorbing the unemployed labour force, as seems to be indicated by the fact that 46% of emigrants are young people and women, another category with a growing unemployment rate, as opposed to the slightly decreasing overall rate. However, it should be noted that, in 2008, 10% of Tunisians having emigrated were executives, businessmen and traders according to the website of the Office des Tunisiens à l'Étranger – OTE (Office for Tunisians Abroad), but also doctors, nurses and other graduates. The net migration rate⁶⁴ for Tunisia (0.39 emigrants per thousand inhabitants in 2010) is lower than that for Morocco (2.62), Egypt (0.8) and even Algeria (0.79). It is also important to note that, over the 1995-2010 period, Tunisia saw its net migration rate fall by 65%, whereas this drop was only 15% for Morocco and 35% for Egypt, and the rate was virtually unchanged for Algeria.

⁶³ According to ILO statistics, 30.7% of those aged 15-24 years were unemployed in 2005.

⁶⁴ Source: United Nations Population Division, World Population Prospect 2008. The net migration rate is equivalent to the annual net migratory balance, per thousand inhabitants.

In conclusion, it can be said that the country has achieved significant results in terms of increasing the level of enrolment in education and the coverage of demand for employment, and has controlled emigration to a certain extent⁶⁵. However, the levels of quality and employability achieved by the education system are still below the standards and classifications required by the market. Furthermore, the creation of new jobs for young graduates does not depend solely (or even principally) on the quality of the education offer, but is strictly linked to economic dynamics, particularly subsequent advances in the level of competitiveness, the openness of the domestic market and the stimulation of services, and also more clear-sighted and cooperative management of migration in the Euro-Mediterranean context.

4.4.4. Changes in the main cross-cutting issues affected by BS, in democratic accountability in the business world, in equal opportunities, and in environmental protection (EQ 4.4)

Government accountability (JC441)

Since independence, government accountability towards the bodies responsible for constitutional scrutiny and public opinion has been regarded by the Tunisian State as an important achievement on the road to the country's democratic construction and modernisation. In practical terms, however, several areas in which improvements should have been made are evident, such as red tape in the business world, as reported in the surveys of the World Economic Forum (WEF) 2009-2010⁶⁶. The businesspeople interviewed for the WEF and Doing Business surveys are also concerned about administrative justice, which, despite reforms undertaken since 1996, still causes bottlenecks responsible for slowing down proceedings. Likewise, the executive's influence over judicial bodies remains a sensitive issue and a challenge for the future⁶⁷. Finally, as mentioned above, the Corruption Perception Index produced by Transparency International, while keeping the country in first place in the region, has deteriorated over the 2001-2009 period: the country's position has moved from 31/91 to 65/180 and its score from 5.3 to 4.2.

Equal opportunities (JC442)

Over the last decade, economic opportunities for women have increased, particularly due to an improvement in their level of education and the country's economic openness. The activity rate for women increased from 23% in 2001 to 25% in 2006, and is over 33% for the age ranges up to 29 years. The proportion of women in the wage-earning population increased from 25% in 2001 to 26.2% in 2006. In 2008 there were over 18 000 female business leaders, compared to 10 000 in 2004 (according to the CNFCE – *Chambre Nationale des Femmes Chefs d'Entreprise* (National Chamber of Women Business Leaders)).

The same is true with regard to women's integration in civil and public life. Their presence in positions of responsibility and decision-making has increased and their participation has been reinforced in all areas. The percentage of women present in the Chamber of Deputies increased from 7% in 1997 to 22.7% in 2007. In 2007 women accounted for 27.4% of the members of municipal councils, compared to 16.6% in 1995, with 32% on regional councils and 25% in the Constitutional Council. Likewise, women accounted for 15% of all the members of government in 2006, compared to 13.6% in 2001⁶⁸.

⁶⁵ See note above.

⁶⁶ Global Competitiveness Report 2009-2010, Tunisia Country Profile, page 1.

⁶⁷ ENP report, op. cit.

⁶⁸ Ibid.

Women are also very well represented in education. In secondary education, the proportion in relation to the total school population increased to 53.3% in 2006-2007. In higher education, the number of female students reached a proportion of 59% in 2004-2005⁶⁹.

Women are also well integrated in the professional world. They now account for 43% of workers in manufacturing, 32% in agriculture and fisheries, 34% of journalists (compared to 22% in 1994), 29% of judges, 31% of lawyers, 60% of doctors, 72% of pharmacists, 52% of primary education teachers, 48% of secondary school teachers and 40% of university professors⁷⁰. It should be noted that the progress made in terms of the position of Tunisian women in society does not represent a real change compared to previous trends, but is more a continuation of the trend.

Progress in environmental protection (JC443)

This is an area in which the BS programmes have not identified any specific development objectives, beyond general support for good governance and strategic management of public expenditure. In this respect, it is important to note that, in addition to the economic and social results (and problems) mentioned so far, during the decade in question there have also been important changes in the area of environmental management.

The public sanitation network has increased from less than a few thousand kilometres at the beginning of the 1980s to tens of thousands of kilometres. Its capacity has more than doubled in the last 15 years. As regards solid waste, enormous progress has been made, with a very high level of coverage (around 95%) having been achieved. The solid waste management projects funded by the EIB have specifically helped with these objectives.

Pressure on water is increasing, particularly for drinking water and industrial water, but this should remain under control in a long-term perspective. At the same time, since the creation of the Office National de l'Assainissement in 1974, the rate of sewage treatment has constantly increased. This rate increased from 32% in 1974 to 97% in 2002.

In addition to this progress in managing the consequences of urbanisation processes in particular, Tunisia must tackle the problems of industrial pollution and greenhouse gas (GG) emissions in general, which are currently rapidly increasing and represent the major challenge for current and future years.

Table 12: Greenhouse gas emissions (GG, Tunisia, 1994-2010)

Emissions de GES			
1994	1997	2001	2010
2,66	2,7	2,9	4
Unité: Tonnes équivalent CO2/habitant			

Source: MEAT

The reinforcement of monitoring systems, with the creation of the Observatoire Tunisien de l'Environnement et du Développement Durable (OTED), and the publication of the Report on sustainable development indicators initiated in 2003 have an important role to play in the achievement and sustainability of the progress made.

⁶⁹ Conseil économique et social (Economic and Social Council): www.ces.org.tn.

⁷⁰ Source: Human Rights Council, Universal Periodic Review, Resolution A/RES/60/251, Republic of Tunisia, Tunisia Report.

4.5. STEP 2 – LEVEL 5. QUESTIONS RELATING TO LEVELS 4 AND 5 OF THE INTERVENTION LOGIC: DETERMINING FACTORS OF CHANGE

4.5.1. Approach to the EQs for STEP 2 – Level 5

This part of the evaluation must show which factors are at the root of the country's performance (positive and/or negative) with regard to the objectives set by the budget support. This performance has been illustrated in the previous chapters, particularly with regard to economic growth and competitive integration in international markets, and improvement of the living conditions of the population, particularly the poorest.

These questions were tackled using two different and complementary methods:

- A historical and political analysis, involving a selected group of independent Tunisian resource people, including academics and businesspeople. This analysis was begun at the start of the evaluation work and its results have been reviewed throughout the evaluation (approximately eighteen months). This approach aims to identify the main political and economic choices of Tunisian governments and the various phases of the country's economic and social development over the previous decades⁷¹.
- A statistical analysis consisting of several methods, aimed at identifying the socioeconomic, political and institutional variables that most closely correlate to the development results.

These two integrated approaches have produced overall results for economic growth, on the one hand, and human development, on the other hand. The answers to each of the EQs asked are linked to these overall results.

4.5.2. Main political, economic and social stages in Tunisia since independence

This overview serves to identify a series of factors that may have influenced Tunisia's economic and social performance over the period in question. These factors, most of which predate the programmes covered by this evaluation, have helped to define their context.

On gaining its independence in 1956, Tunisia, which has a semi-arid climate, had few natural resources and its economy was essentially based on subsistence agriculture and mineral exploration. However, the government embarked on a proactive policy of accelerated development, with the main aim being to pull the country and its population up to a level comparable with certain European countries on the northern shores of the Mediterranean. The last half-century has been marked by four main stages of development:

1956 – 1969

Period of national construction: three emblematic initiatives:

- In 1956, the Law which granted Tunisian women rights and a freedom that were unique in the Arab world.
- In 1958, creation of the Banque Centrale de Tunisie (Central Bank of Tunisia) and a national currency: the dinar.
- Economy: cooperative system in agriculture and trade, and regional state-controlled industrial centres, integrating both heavy industry and light industry.

⁷¹ The 'drivers of change' method was used, but in a more simplified manner. For a brief illustration of this method, see DFID, Drivers of Change Public Information Note, September 2004. See also ODI, Drivers of Change and Development in Malawi, 2006.

1970 – 1986

Initial opening up of the economy to a degree, without state control being relaxed. Emblematic measures:

- API: Agence de Promotion des Investissements (Investment Promotion Agency), which subsequently became the Agence de Promotion de l'Industrie (Industrial Promotion Agency).
- April 1972: Law granting important competitive advantages to wholly exporting companies.
- Collective agreements to govern relations between employers and employees.

The profits from exports, domestic market protection and a favourable oil situation (at the time the country was a net oil exporter) clearly improved the standard of living. However, the end of this favourable oil situation and inefficiencies in the system led to a financial, economic and social crisis, resulting in the bloody events that profoundly destabilised the country (1978, 1980 and 1984) and the appearance of extremist movements.

1987 – 1994

Macroeconomic stabilisation (SAP). Emblematic changes:

- Control of inflation, which was brought down from 7.1% in 1986 to 2.2% in 1995.
- Gradual liberalisation of prices and investments.
- Devaluation and convertibility of the dinar.
- Growth in exports of textiles and mechanical goods under the offshore arrangements.
- Introduction of VAT and the Investment Code.
- Reform of public enterprises and privatisation of the stock market.
- Reinforced supervision of the Central Bank and creation of the Banques d'Affaires (business banks).

Although stabilised, the country was not achieving high growth rates, the human development indicators were not improving and the reforms were not managing to sustainably boost the economy. The country and its partners identified the need for a new leap forward in terms of economic and social reforms.

From 1995

Based on this understanding and given the opportunities offered by the Barcelona Process launched by the EU, Tunisia decided to continue on its course towards an open economy, supported by the positive prospect of Euro-Mediterranean integration. In 1995 Tunisia was the first country to sign the Association Agreement with the EU and began the courageous and consistent process of social and economic reform assessed in this evaluation.

Recurring factors in Tunisian development since independence

Among the many factors that may have influenced the country's socioeconomic development from its independence until today, the evaluation has highlighted certain recurring factors, which make the country stand out in relation to other countries and which are to a certain extent linked to the specific situation of a country that is not particularly rich in raw materials and whose population is relatively small, such as:

- the innovating role of the government, which prefers to seek out innovative prospects rather than maintain the status quo;
- the importance afforded to exports, which have enjoyed preferential status since the 1972 law, and also the importance afforded to manufacturing, since the beginning of industrialisation, which has encouraged the creation of capacity, from which the export industry has benefited;
- the government's attention to opening up the country to international dialogue and partnership, which initially manifested itself in the search for sociocultural reference models not limited to the national tradition or regional dimension, and which then took concrete

form in the long partnership with the Bretton Woods institutions (25 years) and the EU, having led to the adoption by Tunisia of the principles and standards of public finance and market management recognised by these partners;

- finally, the negative side of these development factors, which is the continuation of certain inefficiencies due to the widespread and deep-rooted presence of the State in the economy.

4.5.3. Statistical analysis

Analyses carried out

This exercise involved three integrated analyses⁷²:

- A cluster study (group analysis) covering six countries in the region (Tunisia, Morocco, Algeria, Egypt, Jordan and Syria) analysed, for each country, the correlation between 54 macroeconomic, agricultural, energy and demographic variables, and two dependent variables (the growth rate of GDP per capita and the United Nations Human Development Index).
- The analysis of the determining factors of the growth dynamic in Tunisia regressed the two aforementioned dependent variables using six variables (two accumulation, two economic policy, one instrumental and one economic reform).
- The analysis of the impact of reforms and structural changes at regional level: a dynamic panel data analysis for five countries (the same as the cluster sample, except for Syria, which was excluded due to a data problem).

Cluster analysis

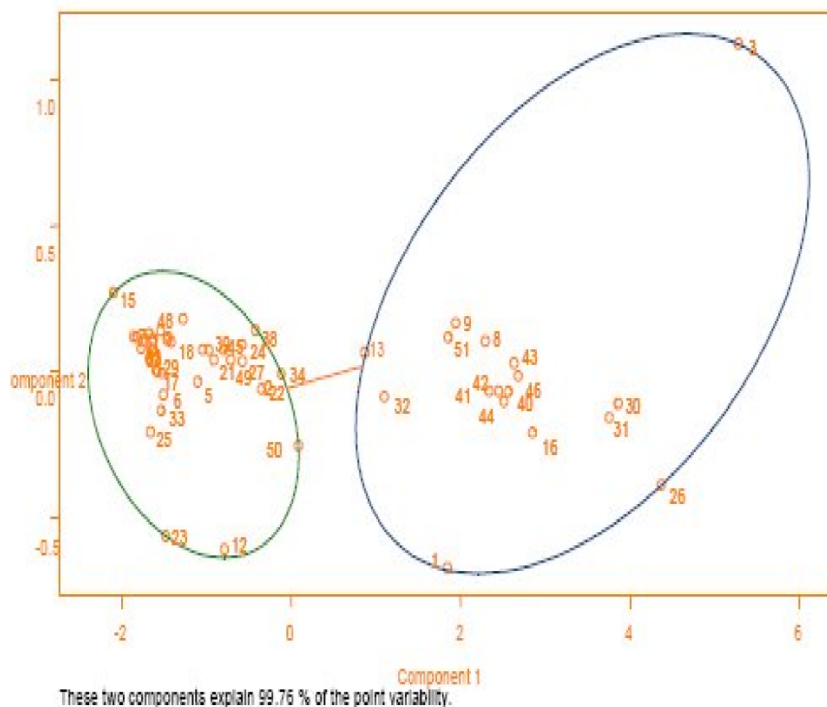
For each country, this analysis, covering the 1990-2005 period, produced two groups of variables, each based around one of the two dependent variables chosen (growth rate of GDP per capita and HDI). Each group contained the variables having mainly contributed to determining the dependent variable in question. Within each group, the distance between the dependent variable and the other variables was an indicator of the closeness of the correlation.

On the one hand, the cluster analysis highlighted how the growth dynamics (GDP per capita and human development) had followed common trajectories in the countries selected. The determining factors of change seemed to be limited to the macroeconomic adjustment and stabilisation policies and to the trade integration dynamics, particularly with regard to the European Union countries, and specifically the liberalisation mechanisms implemented at foreign trade level following the association agreements with the EU.

On the other hand, within this general cartography, there were differentiations and characteristics specific to each country or group of countries. Tunisia and Morocco (and to a lesser extent Jordan and Syria) followed comparable specialisation paths: they acquired comparative advantages, particularly in manufacturing sectors, which led to the FDI flows that subsequently developed. As a result, these countries saw their export trade structures diversify and they moved away from more traditional activities such as 'textiles and clothing'. Egypt developed growth schemes based on net imports fed by domestic demand. In Algeria, state revenues fluctuated with international oil prices, affecting the stability of the financial system controlled by the State, with negative effects on growth in the private sector.

⁷² These analyses are presented in an annex, with a description of the procedures and formulas used, including the various data reliability tests, particularly the LMA and LM2 tests on the absence of autocorrelations. In the panel data analysis, the Generalised Method of Moments (GMM) was used, together with the application of the Sargan test, among others, to eliminate the country-specific effects highlighted by the cluster analysis.

Figure 23: Tunisian clusters



With regard to the countries in the first group, the analysis also revealed significant differences, particularly between Tunisia and Morocco. The factors more specifically correlated with economic growth in Tunisia were exports, particularly manufacturing exports, in addition to macroeconomic stability variables. In Morocco, the role of agriculture as a determining factor of growth was very important, together with exports, stability and demographic factors. As for HDI, in Tunisia the added value of the agricultural sector was as important as that of the manufacturing sector. Public expenditure and capital formation also had a significant impact. In Morocco, the variables most closely correlated with HDI were imports and exports, and demographic and macroeconomic variables.

Regression in order to identify the determining factors in Tunisia

The explanatory variables taken into account were: GFCF (gross fixed capital formation)/GDP, FDI (foreign direct investment)/GDP, QM (quasi-money)/GDP, X (exports)/GDP, S (savings)/GDP, and Chinn Index⁷³. The regression used two models: one to explain growth (growth of GDP per capita), and the other to explain HDI.

In the first model, the net foreign direct investment (FDI/GDP), exports (E/GDP) and financial development (QM/GDP) seemed to have contributed the most to Tunisia's economic growth. However, the proportion of gross fixed capital formation in GDP (GFCF/GDP) contributed only slightly to growth. The same was true for domestic savings (S/GDP). This could be due to how savings are invested and made profitable. A negative and statistically insignificant sign would indicate

⁷³ Measurement of the financial openness of a country. This variable measures the degree of liberalisation of the capital account or the degree of relaxation of exchange constraints and the freedom of capital movements. It is therefore generally regarded as a good representation of the degree of reform and macroeconomic performance of a country, insofar as the removal of all obstacles and barriers to trade and financial integration is interpreted by international operators as an improvement in the regulatory, business and investment environments. The database provided by Chinn and Ito covers the 1970-2007 period.

a non-optimal level of savings (difference between effective and potential savings) and in all likelihood a lack of investment opportunities for a risk-averse operator.

In the second model (HDI), the significant factors were the same, but with different weights. The importance of capital flows from abroad and export income remained decisive.

In both models, the macroeconomic reform variable clearly appeared to be important and statistically significant.

Panel data analysis of economic reforms at regional level

The vector of annual growth rates of GDP per capita for the five countries selected was regressed (as a dependent variable) in relation to the economic and institutional reforms formalised by two vectors of quantitative and, in particular, qualitative determining factors. All the variables came from composite indices and/or databases recognised internationally (see Annex 16).

The vector of quantitative determining factors included, for each country, the following independent variables:

- degree of trade openness (OUVC);
- inflation (INF);
- nominal exchange rate volatility (NEXVOL);
- current account balance (CAB).

The vector of qualitative determining factors (institutional) included, for each country, the following independent variables:

- country risk (CR), composed of three risk scores (political, economic and financial);
- quality of institutions (QINST);
- government stability (STABGOV);
- degree of liberalisation of the capital account (KOP), i.e. the aforementioned Chinn and Ito variable.

With regard to the importance of the quantitative determining factors, the analysis particularly underlined the positive impact of trade openness, and of macroeconomic performance in terms of controlling inflationary pressures, current deficits and exchange rate stability in the growth dynamics of the MEDA countries analysed.

The analysis of qualitative variables highlighted the cumulative effect, on the quality of growth, of the reforms undertaken since the conclusion of association agreements with the EU. In this respect, in addition to the reduction in country risks, the analyses clearly showed that consequent improvements in the quality of institutions, government stability and positive perception of business environments (approximated by KOP) significantly helped to improve the growth profiles in these countries. In the main, the Euro-Mediterranean partnership linked with the association agreements with the EU and the economic and financial cooperation that followed with the MEDA countries selected clearly accelerated the economic and institutional changes and therefore improved economic growth.

Conclusions of the statistical analyses

Without these statistical analyses being regarded as absolutely conclusive, it should be noted that they do indicate certain definite and convergent points on the determining factors of economic growth and human development:

- In the last 15 years, all the policies on trade openness, upgrading of domestic markets and macroeconomic reform, together with the association agreements with the EU, have formed the factor most closely linked with growth and human development in the countries in the region having signed these agreements. Where they have been consistently pursued, these

policies have helped to reduce country risks, improve the institutional framework and generally increase attractiveness to foreign investment.

- In the case of Tunisia, the development of manufacturing exports, which started due to the government's highly proactive policies at the beginning of the 1970s, clearly indicates the growth and development models pursued. Furthermore, the policies on public expenditure and attention to agricultural incomes are very important for improving the HDI.
- In all the analyses, the macroeconomic stabilisation policies, such as those pursued by the Tunisian government continuously for nearly 25 years, seem to be closely linked with growth and human development. The mobilisation of domestic savings and investment, on the other hand, still seem to be a weakness in the Tunisian context, compared to a country like Morocco.

4.6. STEP 3 – LINKS BETWEEN BUDGET SUPPORT AND DEVELOPMENT RESULTS

4.6.1. Role of political and institutional reforms in relation to growth factors

Reminder of the conclusions of STEP 2 – Level 5

According to the analyses briefly presented in Level 5 above, the largely positive development results examined in Level 4 were heavily influenced by a relatively small number of factors, summarised in the following Table 13.

Table 13: Determining factors of economic and social growth, according to the type of analysis made and the correspondence between the two analyses

Historical analysis	Statistical analysis
1. Innovating role of governments	5. Policies of openness and partnership
2. Proactive decision in favour of exports from 1972	6. Strategies focused on exports
3. International dialogue and partnerships having focused on decisive strategic choices (stabilisation and integration)	7. Economic stabilisation (with Bretton Woods)
4. Inefficiencies due to the widespread presence of the State in the economy	8. Association Agreement with EU and linked reforms
	9. Inefficiencies in terms of domestic savings and investment

These analyses indicate as follows:

- The country has historically tended to seize opportunities (factor 1 in the table) offered by the international environment, in which, since independence, it has been seeking to integrate and reinforce its position as a small dynamic country through solid relations (factors 3 and 5).
- In this context, the country made a structural choice in 1972 (factor 2) in favour of developing manufacturing exports, which it has pursued in a proactive manner from the start, subsequently integrating this within a consistent series of economic policies. The good performance of the export sector is one of the elements that most characterises the country's positive development results.
- In order to ensure the sustainability of this trade openness strategy, the country has been committed, since 1985, to a long-term macroeconomic stabilisation operation (factor 7), by establishing a firm partnership with the World Bank and the IMF (factors 3 and 5). The macroeconomic stabilisation and resulting competitiveness are firmly linked with the country's good performance.
- At the beginning of the 1990s, the country felt the need to move beyond (factor 1) the good performance of the export sector within a still mainly closed economic framework, and to restructure the whole national economy, therefore moving on from the dualism between local market and external market, and instead ensuring genuine sustainability of the process carried out. The global partnership (factor 3) – economic, institutional and cultural – with the EU (factor 8), which was launched by the Barcelona Process, offered the country a new framework of opportunities, in which these changes were possible due to the availability of political reference points and the necessary support. The reforms linked with the Association Agreement with the EU are the factor most closely associated with the economic growth and human development recorded in the last 15 years.
- In this process, there are still changes and progress to be made, particularly with regard to factors 4 and 9, which partly represent intrinsic weaknesses in the strategies adopted but which could be resolved through greater integration, which would subsequently overcome the differences between the national market and the external market. Such integration is not dependent solely on Tunisia, as it also requires determination on the part of the European partner, even if the Tunisian determination is a key element.

Government policies between 1995 and 2008 that have supported these factors

Some of these factors coincide with the economic and institutional reform policies adopted by the government during the 1995-2008 period covered by the evaluation. Others, which are more long-standing, have become apparent within these policies in a relationship of reciprocal reinforcement. All these factors have a strict relationship with the policies implemented by the government during the period in question. In reality, all these factors are affected by the new Euro-Mediterranean integration opportunity and by the policies implemented by the government to seize this opportunity at the highest level:

- In many cases, the government's policies are stimulating and revitalising growth factors that are already deeply rooted in Tunisia's recent history, by redefining a framework in which they can function on more effective and sustainable bases.
- In other cases, they are defining new challenges, based on the opportunities created, as is the case with upgrading the industrial system, the financial system, the education system, etc.

The following table sets out this relationship between the determining factors and the policies implemented by the government. The determining factors resulting from the two analyses are presented in the first column of the table. The second column sets out the linked policies during the period in question. The third column briefly indicates the type and intensity of this relationship.

Table 14: Relationships between the political and institutional reforms implemented in the 1995-2008 period and the determining factors identified

Determining factor	Policies 1995-2008	Type of relationship
1. Innovating role of governments and propensity for international dialogue/partnership	Decision to commit to the Euro-Mediterranean partnership, 1st signatory of an AA with the EU	Correspondence between a national historical tendency and an opportunity offered by the EU
2. Strategies focused on exports	Tariff dismantling and tax reform policy in the context of the AA	Extension of a consolidated national strategy to a new sustainable context
3. Macroeconomic stability	Continuation and reinforcement, throughout the period, of the stabilisation policies conducted between 1986 and 1995	Transformation of financial and budgetary restraint policies into international competitiveness policies creating resources (FDI, export growth, etc.)
4. Association Agreement with the EU and linked reforms	New policies on integration and upgrading in various sectors – economic, social, financial and cultural – in accordance with the AA	General restructuring of the economy and modernisation of society, with a view to sustainable integration in the Euro-Mediterranean context

4.6.2. Role of budget support in relation to the political and institutional reforms in question

Reminder of the conclusions of STEP 1 – Level 3

The following table summarises the conclusions of STEP 1 – Level 3, which explains the influence of BS on the government's policies. The Level 1 and 2 analyses serve to explain the effects of Level 3, and are not therefore mentioned in this presentation.

Table 15 : Summary table of STEP 1 / Level 3 - Contribution of BS from the EC and other donors to the effective implementation of economic and social reforms over the 1995-2008 period	
Government's achievements	Contribution of BS programmes
<p>Macroeconomic stabilisation:</p> <ul style="list-style-type: none"> • Requalification of tax policies • Improvement of public finance management 	<p>a) By supporting the main economic reforms needed to achieve the AA, GBS reinforced credibility and assisted the government's risk-taking in the reform process.</p> <p>b) Creating a forum for dialogue and targeting conditionalities helped to develop and monitor the reforms envisaged, particularly tax reform and VAT.</p> <p>c) In line with the dialogue, targeted technical support helped to reinforce the macroeconomic forecasting and integrated debt management capacities and to introduce the MTEF.</p> <p>d) The financial contribution of all BS – approximately 0.5% of GDP and 1.5% of social expenditure – helped the government to more flexibly manage the budgetary constraints, but particularly allowed the creation of the forum for close and continuous dialogue on the main economic reforms. Donors not having participated in GBS were de facto excluded from this dialogue.</p> <p>DIRECT CONTRIBUTION: average-high in cooperation with other co-financers.</p>
Tariff dismantling and stimulation of foreign trade	<p>a) GBS is a sign of the close relationship between the EC and the government in the design and implementation of the main economic reforms envisaged by the AA. This relationship is particularly important with regard to tariff dismantling, as it serves to reassure the government on the risks and counterparts to liberalisation.</p> <p>b) The dialogue, conditionalities and targeted studies in particular helped with the reform and restructuring of customs, and with the planning and monitoring of trade and domestic market liberalisation (launch and implementation of the competition action plan and the Conseil de la Concurrence (Competition Council)).</p> <p>DIRECT CONTRIBUTION: high in cooperation with other co-financers.</p>
Reinforcement and stimulation of the private sector and rationalisation of the financial sector	<p>a) GBS provides tangible evidence that the government has not been left alone to design and implement the economic modernisation, privatisation and upgrading processes necessitated by the AA and Euro-Mediterranean integration.</p> <p>b) The dialogue, conditionalities and targeted studies made significant contributions: to the dismantling of import monopolies, to the relaxation of administrative authorisations for companies, and to the improvement of company law. They also made decisive contributions: to the restructuring and rationalisation of the financial sector, to privatisations, and to the liberalisation and privatisation of ICT (including GSM).</p> <p>DIRECT CONTRIBUTION: very high in cooperation with other co-financers, particularly in the financial sector, and average for the business environment.</p>
Upgrading of the education system and improvement of the employability of young people	<p>a) SBS has supported one of the key sectoral reforms stipulated by the AA, thus contributing to its credibility. This support does not cover the whole reform process, as in the case of GBS for the main economic reforms. This is due to the fragmentation and separation of the support provided by the various partners.</p> <p>b) The dialogue and conditionalities helped to improve the quality and equity of the offer in secondary and higher education (increased offer, better correspondence between the educational offer and demand for employment, better territorial distribution of the offer).</p> <p>c) The dialogue and conditionalities also helped with achieving the important development results, in terms of gender equality in the system, educational success rate, and improvement of employability.</p> <p>d) The TA linked with SBS specifically and very significantly helped with the introduction of the MTEF in the management of the sectoral budget. This achievement represented important progress in terms of overall management of public expenditure according to the priorities established by the development policies.</p> <p>e) The funds granted by SBS specifically encouraged the government to commit to the sectoral</p>

	<p>reforms. As an example (but to be viewed with the necessary caution due to the fungibility of the BS financial component), in higher education and VT, the EC's funds corresponded to 75% and 60% of the additional needs.</p> <p>DIRECT CONTRIBUTION: high for sectoral budget management and average in general.</p>
Improvement of strategic public finance management	<p>a) In relation to budget management, GBS and SBS aim not only to ensure stability, but also the strategic requalification of public expenditure.</p> <p>b) From SAF I, the dialogue and conditionalities helped to increase social expenditure. From SAF IV, they helped to introduce goal-oriented budget management, which has continued with PAGBO.</p> <p>c) The education SBS helped with introducing the MTEF at sectoral level and with covering the financial needs of the sectoral reform.</p> <p>DIRECT CONTRIBUTION: high in cooperation with other co-financers and – in terms of the EC – specific contribution to the MTEF/education and in general to GOBM.</p>
Improvement of transparency and accountability in public finance management	<p>a) By supporting the main economic and social reforms needed to implement the AA, BS confirmed that the Tunisian government's budget management met high standards of transparency and aimed to maintain these levels over time.</p> <p>b) The dialogue allowed the initial conditionalities to be confirmed as correct and ensured that periodic general assessments were made, such as the CFAA (by the WB) and the PEFA Report (joint).</p> <p>c) The dialogue and conditionalities, through support for GOBM, helped to improve transparency and accountability.</p> <p>DIRECT CONTRIBUTION: average, because the initial conditions were regarded as positive.</p>
Progress in cross-cutting issues such as gender equality, justice and environment	<p>a) By supporting the main economic and social reforms, BS helped to ensure a range of progress in cross-cutting areas, both in terms of the government's achievements and the development results.</p> <p>b) GBS helped (particularly under SAF I and II) to improve economic governance and (under SAF III and IV) to improve company law, market transparency and supervision mechanisms.</p> <p>c) SBS helped to reinforce equal access to education and the labour market for women.</p> <p>DIRECT CONTRIBUTION: average, because the BS contributions relate to specific sub-sectors, whereas the AA uses other instruments for more targeted operations.</p>

The table shows the strict relationship and important direct contributions of the BS programmes to the effective implementation of the government's policies, which in turn enabled the country's economic and social performance over the period in question.

Position of budget support in the context of the Association Agreement

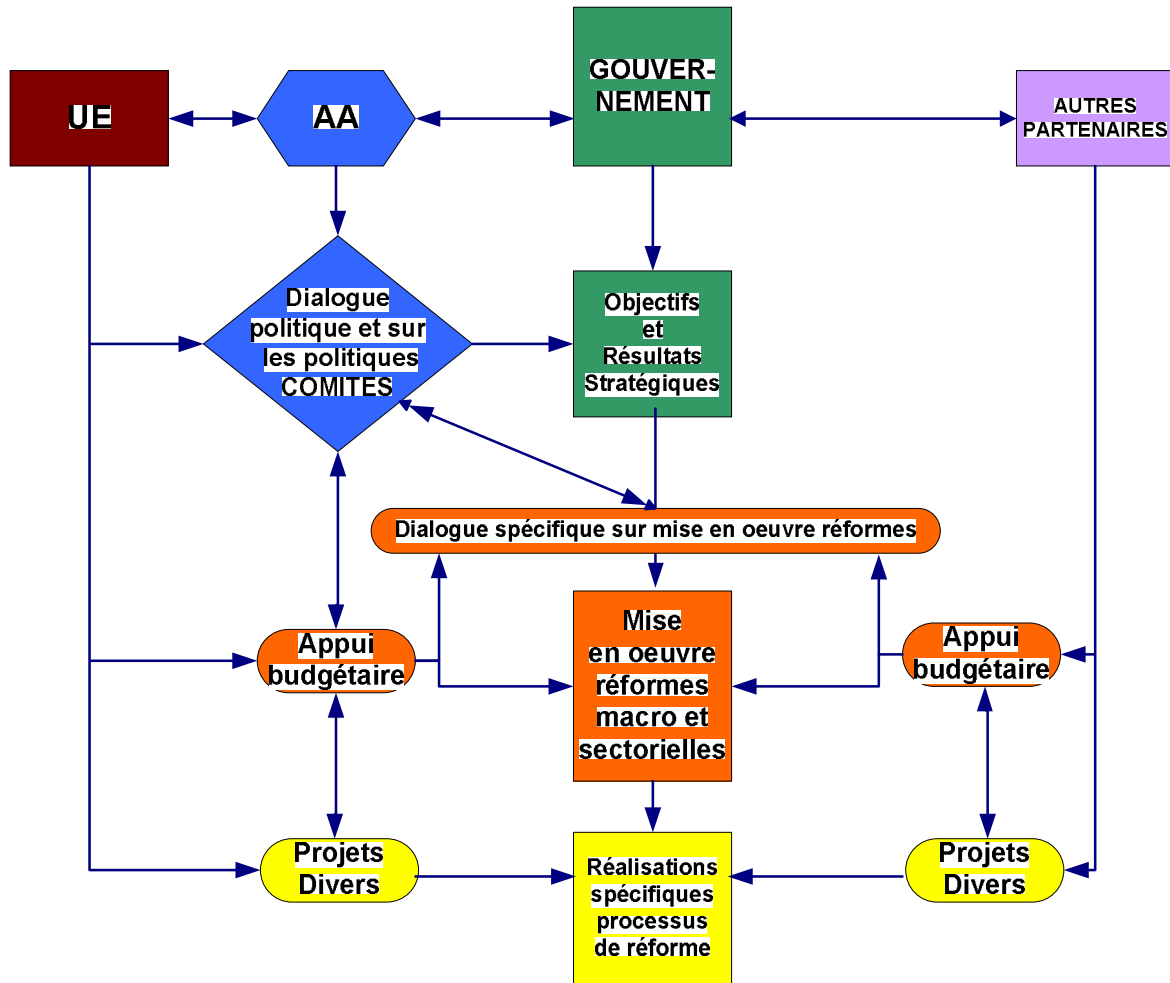
It is clear from the analysis that BS has done an excellent job in supporting the government's policies and that the latter have contributed decisively to achieving the development results that the MEDA and ENP programmes aimed to support through budget support.

However, the analysis also shows us that this virtuous circle has been assured in a specific context that has enabled the Tunisian government to successfully commit to a relatively radical process of economic and social transformation in the country. This context is the Association Agreement with the EU, which creates a new opportunity for development, i.e.: (a) access to a very rich and diversified market; (b) possibility of acquiring productive, institutional and cultural standards for competitive integration in this market; and (c) technical, financial and partnership support, to assist the necessary transition processes.

The three-step analysis can therefore be regarded as complete. Figure 24 shows the position of budget support in this context.

Figure 24: BS in the context of the AA

POSITION DE L'APPUI BUDGETAIRE DANS LE CONTEXTE DE L'ACCORD D'ASSOCIATION



5. OVERALL EVALUATION

Due to the methodology adopted, the evaluation generally highlighted the important contribution of the EC's budget support to achieving the development results recorded by the country over the period in question.

The operations evaluated were deemed:

- relevant in relation to the country's needs and the partnership framework established between the country and the European Union;
- effective in terms of supporting the implementation of a complex and in-depth reform process in the economic and social areas, which contributed to good development results, although significant weaknesses were apparent and need resolving;
- efficient because they involved limited implementation costs and a timetable more in line with the commitments compared to other analogous operations;
- able to make a significant contribution to the medium-term development impacts;
- sustainable over the long term, provided that the partnership framework between Tunisia and the EU is further reinforced and that lessons learnt from the experience are taken into account;
- able to express the added value of the EU, which has been able to offer Tunisia a comprehensive and attractive global partnership prospect, supported by cooperation programmes which are significant due to their dimension and ambition;
- fairly effective in terms of coordination with the main development banks (GBS), but less so in terms of coordination and complementarity with the Member States (lack of joint programmes over the period in question, for example in education).

Budget support provided a framework for dialogue, technical support and financial support, which reinforced the implementation of the government's strategies. By making use of the framework of opportunities offered by the EU-Tunisia Association Agreement, these strategies enabled major economic and social reforms to be achieved, which have formed the foundations of the success in terms of the economic growth and social well-being recorded by the country.

The evaluation revealed a very strong link between the reforms implemented by the government, to which BS contributed, and the development results achieved by the country (STEP 2). Furthermore, it highlighted the important link between budget support and the quality of the reforms in question (STEP 1). It was therefore possible to show a significant link between the budget support and development results (STEP 3).

Obviously, together with the successes, the evaluation (both STEP 1 and STEP 2) highlighted the weaknesses of the results achieved. In particular, inefficiencies remain in the economic area, which are keeping the country's growth below the levels needed to fully respond to the high demand for employment, especially among young people. In the area of education and vocational training, the poor quality of education and the limited connections with private enterprises are further limiting the impact of the reforms on the employability of young people. The centralised management of the economy and the limited progress made in terms of governance are having a negative impact on the distribution of incomes and on fair access to resources.

The reform processes were launched in technically complex and delicate areas, with regard to the interests at stake, therefore need to continue. These challenges will be at the centre of the future cooperation between Tunisia and the EU, because the European partner can help, as it did in 1995, to open up new integration prospects, through which Tunisia can find the necessary support and motivation.

6. CONCLUSIONS

The conclusions of this evaluation report are split into three parts:

- The first part sets out the conclusions on the strategic dimension of budget support.
- The second part presents the conclusions on the technical and institutional set-up of budget support programmes.
- The third part gives the conclusions on the country's performance and the specific impact of budget support.

The conclusions refer to the analysis contained and developed in the previous chapter (Chapter 4). The evaluation questions on which each conclusion is based are indicated by their numbers.

6.1. CONCLUSIONS ON THE STRATEGIC DIMENSION OF BUDGET SUPPORT

6.1.1. The EU-Tunisia global partnership has been the driving force in the cooperation's success.

C1.1: The EU-Tunisia partnership framework, established with the Association Agreement signed in 1995, has created new development opportunities for the country, mainly due to new international openings and access to capital, technologies and know-how offered by the Euro-Mediterranean integration. These opportunities have enabled the government to pursue and reinforce its determination in the economic and social reform process. They have also provided international technical and financial cooperation, particularly the EC, with a very specific framework of strategic consistency and appropriation on the part of the Tunisian institutions, which has been the main factor in its success. (EQ 1.2, 4.1 and 4.2)

6.1.2. The determination and experience of the Tunisian institutions are at the root of the success of the reform process supported by BS.

C1.2: Tunisia's achievements in terms of growth, poverty eradication and international integration are indisputable. Their roots lie in a history of good economic and social governance. In particular, the propensity for basing the country's future on solid international ties and reference models, which are not limited to the region, is a characteristic of the country, at least since independence. The decision to proactively target exports is long-standing (1972). In addition, the decision to ensure a stable macroeconomic framework dates from 10 years before the AA, which in turn has created a framework of opportunities in which these endogenous tendencies have been able to expand in a constructive and successful manner. (EQ 1.2, 4.1 and 4.2)

6.1.3. GBS has been the most appropriate instrument to support the main economic reforms.

C1.3: As the objectives of the main economic reforms (economic stability and governance, foreign trade, competition and upgrading of the domestic market) were identified and agreed in the Association Agreement, GBS has proved to be a flexible and solid support instrument in the formulation and implementation of these reforms. Experience has shown that no other aid instrument would have allowed such proximity between the government and its international partners. Through this role, GBS has reinforced the practical dimension and credibility of the AA. In particular, it has enabled:

- a. Close alignment between the donors involved (EC, WB and AfDB) and harmonisation of their dialogue and monitoring procedures.

- b. Creation of a forum for dialogue for joint monitoring of the implementation of reforms and for managing the conditionalities.
- c. Joint management with the government of qualified TA inputs, which have helped – through several studies and technical analyses – to identify crucial elements to be included in the reforms, to solve problems encountered during the process and to jointly assess the achievements.
- d. An injection of funds into the national budget amounting to approximately 1.4% of public expenditure over the 1996-2008 period, all amounts of budget support combined⁷⁴. In addition to ensuring a minimum level of budget flexibility, this financial contribution provided the government with a sign of trust and encouragement prior to the creation of the aforementioned forum for dialogue. (EQ 1.1, 2.1 and 2.3)

6.1.4. SBS has been useful in supporting reform in the education sector, but the sector approach has been limited.

C1.4: The upgrading of the education system and its link with the labour market form part of the AA dimensions. The EC's SBS has helped with the implementation of reforms at various levels of the education system, by combining several forms of support:

- a. A financial contribution, limited in terms of percentage of overall public expenditure, but significant in terms of covering the additional costs of the concerned reforms. This contribution has in particular reinforced the intra-governmental negotiation capacities of the sectoral ministries.
- b. The creation of a forum for dialogue based on the monitoring of the main results targeted by the reforms.
- c. Joint management with the government of qualified TA inputs, particularly in the area of goal-oriented budget management and introduction of an MTEF.

Certain factors have, however, somewhat limited the strategic scope and effectiveness of the support provided. In particular, policy dialogue and TA – focused on the monitoring of the conditionality matrices and on budget management problems – were not used to support the main strategic choices of the reforms and the overall quality of their implementation. The dialogue with the various donors has been fragmented, unlike the dialogue within GBS. At institutional level, the dialogue was managed by the MDCl, whereas the sectoral ministries were in charge of the reforms. (EQ 1.1, 2.1 and 2.3)

6.1.5. BS has contributed to the effectiveness of the dialogue framework between Tunisia and the EU.

C1.5: The partnership framework established by the AA includes the EU-Tunisia Council of Ministers, the Association Committee and the sectoral sub-committees of the ENP. In the case of budget support – and only in this case – the technical and financial cooperation between the government and its partners involves joint sessions of dialogue and monitoring of the implementation of the main reforms agreed within the AA.

Different levels of the partnership framework involve different levels of dialogue: high-level political dialogue, dialogue on economic and sectoral policies (in the sub-committees), and dialogue on the practical processes⁷⁵ for implementing the reforms.

⁷⁴ Including GBS from the EC, WB and AfDB, and SBS from the EC.

⁷⁵ On the choices with regard to the formulation of technical and financial cooperation programmes and negotiations on conditions.

The different levels of dialogue feed into each other. On the one hand, the general and sector dialogue ensures a close link between each programme and the development, poverty reduction and Euro-Mediterranean integration results targeted by the AA. On the other hand, the close monitoring of the reform processes associated with BS programmes feeds the dialogue in the sub-committees, contributing in particular to the assessment of reforms.

The institutionalisation of the dialogue processes at the level of individual programmes still has its weaknesses, as structured meetings are currently envisaged only in relation to the formulation/negotiation phase and to the monitoring missions, although a practice of constant contacts between partners offsets this weakness.

Without BS, and particularly GBS (or a comparable instrument replacing this), the EC would not have sat at the negotiating and monitoring tables with regard to the main reforms, and could not have ensured feedback and consistency between the political dialogue and the policy dialogue linked to the implementation of the economic and social reforms. (EQ 1.1 and 2.2)

6.2. CONCLUSIONS ON THE TECHNICAL AND INSTITUTIONAL SET-UP OF BUDGET SUPPORT

6.2.1. The budget support instrument has been well adapted to the context.

C2.1: Despite some criticisms, which did not take sufficient account of the specific context in which BS programmes operated⁷⁶, the evaluation found that these programmes had met the conditionalities laid down, particularly in the following areas:

- a. Financial management risk. Although an in-depth prior assessment of the public finance dynamics was not carried out, the EC's officials were able to rely on the assessments carried out by the WB and IMF, which, at the time, confirmed a high level of reliability and capacity on the part of the government after eight years of structural adjustment, and in particular constant commitment to improving the effectiveness and accountability of financial management. These assessments were confirmed in 2004 and again in 2010 by systematic reviews of public finances, carried out on the occasion of the CFAA and PEFA Report.
- b. Public finance conditionalities. The limited focus of the BS conditionalities on public finance issues (aside from GOBM in SAF IV and in the SBS programmes) in comparison to the emphasis placed on structural reform issues (competitiveness of the markets) is justified by the relatively advanced level of public finance management in Tunisia, as confirmed by the two reviews mentioned in the previous point.
- c. Process indicators versus performance indicators. The nature of the indicators used in the BS matrices, particularly those of the GBS programmes, reflect the concern of the partners with regard to establishing a road map for monitoring the reforms and 'pinpointing' certain crucial actions aimed at introducing changes. This, however, has not deflected the partners' attention from the development results, as these are at the centre of the partnership system of which BS forms part and are systematically monitored using relevant instruments. (EQ 1.2, 1.3, 2.1, 3.1 and 3.2)

6.2.2. There has been good complementarity between GBS and the sectoral projects funded by the EC, despite a still limited sector approach.

C2.2: A cluster approach to programming between GBS, in particular, and the EC's other programmes can be seen through the CSP and project documents. The EC's programming documents reveal a fairly clear framework of sectoral strategies rooted in the main dimensions of the

⁷⁶ See, for example, the assessment of budget support operations within the evaluation of the MEDA programme.

AA. In the three macro-sectors of 'macroeconomic management and economic reforms', 'business environment and private sector development' and 'human resource development and social protection', the EC has funded 31 operations totalling approximately EUR 824 million, i.e. 83.5% of the total amount allocated in the evaluation period.

Mechanisms for operational coordination between these programmes are not envisaged, although a certain degree of coordination is ensured at three levels, namely: strategic consistency of the various actions; the EC's operational management; and the government's appropriation and political and institutional coordination. However, this does not result in an approach allowing the main donors to engage in genuine sectoral discussions and monitoring⁷⁷.

The strategic cluster approach is appreciated by the BS partners, as it allows BS to be integrated with other forms of specific support. In particular, BS has proven appropriate for supporting complex reform processes, by establishing a dialogue on policies and on the necessary measures and by setting up flexible TA to help the other party pursue its own orientations. TA and/or equipment projects are also appropriate for providing very specialised technical support and/or instruments (tangible or intangible), for which the requirements, and the operational and institutional framework are clear. (EQ 2.3)

- 6.2.3. Limited use was made of TA in the BS programmes funded by the EC, although improvements and innovative approaches were recorded towards the end of the period.

C2.3: In GBS (SAFs), technical assistance was delegated to the development banks, particularly the World Bank, which conducted important studies that contributed to the targeting of reform strategies⁷⁸. Other contributions came from studies and programmes funded by the EC, but outside the SAFs. Given the joint nature of the GBS analysed, this characteristic has not limited the contribution of the EC, which has participated fully in the formulation and implementation phases of the various programmes. In the most recent GBS, which are not covered by the evaluation, such as the PAGBO, the EC has included important TA components in the programmes.

In SBS, technical assistance has been well-integrated within the programmes and has helped to identify certain reform paths, particularly in the area of budget management. The TA in SBS has not, however, been flexibly used to improve the process and targeting of reforms. This has stemmed from a weak sector approach on the part of the government.

Innovative TA. TA is increasingly the subject of joint discussions and research on the part of the government and the EC. Practice has shown that TA can be provided through two different forms:

- a. Highly specialised TA supports the private sector and government when dealing with advanced technical issues (legislation, standardisation, analytical and management systems, etc.), normally through projects or mechanisms for access to specialised TA.
- b. High-level but more interinstitutional TA (peer-to-peer) is increasingly demanded by governments in order to acquire best practices and institutional know-how supporting them in their reform processes. This type of TA combines well with BS and/or is accessible via specific facilities and twinning projects. (EQ 1.1 and 1.4)

⁷⁷ The sector approach is not limited to designing and implementing programme clusters ensuring a certain synergy. It includes coordinated and harmonised participation by the various international partners and joint strategic management of the various programmes in complex intervention sectors.

⁷⁸ World Bank and AfDB studies mentioned in Level 2 (EQ 2.2) above.

- 6.2.4. The use of other inputs (funds, dialogue and conditionalities, harmonisation and alignment) and the duration of programmes have been adequate, with weaknesses in terms of dialogue and harmonisation within SBS.

The funds have played the role required of them, ensuring a minimum level of budget flexibility and allowing the creation of a forum for close dialogue, in the case of GBS, on the main economic reforms (see C1.3). The alignment with government systems has been very good in all BS programmes. Dialogue has reached high levels in GBS (see C1.3 and C1.5), whereas in SBS programmes it has been limited to the formulation and monitoring phases, mainly due to the government's limited sector approach (see C1.4). Harmonisation with other international partners has been very good in GBS, but very poor in SBS (C1.3, C1.4 and C1.5).

The duration of programmes, which is limited to two years, should be regarded as a factor of flexibility rather than uncertainty, due to the existing partnership framework, which ensures the continuity of strategic cooperation actions.

6.3. CONCLUSIONS ON THE SPECIFIC IMPACT OF BUDGET SUPPORT IN RELATION TO THE COUNTRY'S PERFORMANCE

- 6.3.1. Management of macroeconomic stability and public finances: GBS has helped Tunisia to combine stability with growth.

C3.1: The EU-Tunisia global partnership framework, established with the signature of the AA in 1995, has created favourable conditions for the success of the Tunisian strategy of competitive integration in international markets, thus allowing the government to combine stability with growth. In turn, the Structural Adjustment Facilities, with similar support from the WB and AfDB, have contributed to Tunisia's good performance by creating a forum for dialogue, ensuring joint monitoring of selected indicators, high-quality technical support, and granting a limited amount of funds, which has enabled additional flexibility in budget management. Throughout the period in question, Tunisia has controlled its inflation rate, contained its budget deficit and reduced external debt by improving its strategic management. The GDP growth rate has been clearly higher than in the previous decade. (EQ 3.1 and 3.2)

- 6.3.2. Reform of the business environment: GBS has helped to significantly boost the private sector over the 1996-2008 period. Strengths and weaknesses of the results.

C3.2: The AA has enabled Tunisian businesses to explore the prospect of competitive access to European and world markets. GBS has helped to rationalise the national financial sector and to open up the domestic market, and has contributed to the disengagement of the State from the economy. Several projects supplementing GBS have helped to upgrade businesses and infrastructures and standardise the market. The years 1995-2008 were marked by a positive domestic dynamic and extensive opening up of the Tunisian economy. The achievements in this area are very important because they have significantly transformed the Tunisian economy, by having a major impact on the private sector dynamic and the modernisation of the country. However, they are not sufficient, particularly with regard to competition in the domestic market, the capacity and openness of financial services, the competitiveness of infrastructures, economic services and agriculture, and so on. At the moment, due to persistent weaknesses, the level of investment is not sufficient to generate the growth rates that would allow the supply of jobs to match demand, with total unemployment being around 14% and youth unemployment being around 30%. (EQ 3.3.b and 4.1)

- 6.3.3. Liberalisation of foreign trade: GBS has helped to implement tax reform, achieve tariff dismantling, and has therefore contributed to the positive results in foreign trade.

C3.3: The AA has created a realistic and negotiated prospect of Euro-Mediterranean integration and has helped the government to define the road map for the reform of international trade, including the competitive improvement of the domestic market. The government has completed tariff dismantling three years before the deadlines set. GBS, together with other specific programmes, has contributed to the government's efforts, particularly in the area of tax reform, in order to offset the losses of customs revenue, introduction of VAT, simplification of procedures and increased fluidity of customs. (EQ 3.3.a and 3.1)

- 6.3.4. Reforms of secondary and higher education and vocational training. SBS has contributed to the significant achievements made within these reforms. The results are encouraging but still limited, particularly in employment.

C3.4: The government has firmly committed to the reform of education and vocational training, and the EC, by funding various SBS programmes, has chosen this as a priority sector given its impact on employment, competitiveness and integration. The results of these efforts are modest. The political process in the sector has clearly improved, with institutional reorganisation, introduction of the MTEF, better intra-sectoral coordination and adoption of results monitoring systems. In terms of the quantitative increase and territorial equity of the offer, important progress has been made in secondary education and higher education, but less so in vocational training. In terms of access and gender equality, important progress has been made at all levels. However, the quality of education remains poor. The link between vocational training and industry has not been consolidated. Job openings remain limited: unemployed graduates are increasing in absolute terms, even though their proportion within the total number of unemployed is falling. SBS funded by the EC has specifically contributed to the results mentioned, particularly with regard to the strategic management of the sector, including improving the budget process by introducing the MTEF, and identifying and monitoring performance indicators. The limited impact of the education and VET reforms on youth employment is causing major concern. Although job creation particularly depends on the other factors indicated above (investment and competitiveness of the markets), education and VET play an important role in increasing youth employability. (EQ 3.3.c and 4.2)

- 6.3.5. GBS has specifically helped to improve economic governance and legality in the business world; however, despite progress in both areas, more needs to be achieved.

C3.5: Progress has been made and recognised by the PEFA mission (2010) in terms of reinforcing transparency and accountability in public finance management. As for gender equality in the business and working world, Tunisia has a tradition of excellence in the Arab world, which is confirmed by the data for the period in question. As regards legality in the business world, legislative and institutional progress has been recognised by external observers, including the EU. GBS has specifically contributed to improving economic governance (SAF I and II) and company law (SAF III and IV). Administrative justice is still, however, slow and the executive's influence over judicial bodies remains a sensitive issue and a challenge for the future (ENP Progress Report, 2008). Furthermore, the perception of corruption did not change between 2001 and 2009, although Tunisia has the best Transparency International index in the region. The EC's attention is firmly focused on these areas, as shown by the ENP progress reports. (EQ 3.5, 3.6 and 4.4)

7. RECOMMENDATIONS

The evaluation conclusions prompt a number of recommendations, which are set out in this chapter. In line with the structure used in the previous chapter:

- The first part sets out the recommendations on the strategic dimension of budget support.
- The second part covers the technical and institutional set-up of budget support.
- The third part presents the recommendations on the main sectoral challenges as well as the opportunities offered by budget support.

7.1. RECOMMENDATIONS ON THE STRATEGIC DIMENSION OF BUDGET SUPPORT

7.1.1. Extend the EU-Tunisia partnership to make a new strategic leap forward in terms of cooperation. (C1.1, C1.2)

R1.1: Extending the partnership framework would provide an opportunity to stimulate the technical and financial cooperation between the EU and Tunisia. This 'advanced status' could involve new integration targets, for example in the area of services and agriculture, and reinforce political and institutional cooperation. This reinforced framework could help the government to embark on subsequent transformations in order to increase the country's openness and competitiveness. In this context, new areas for cooperation could be established.

7.1.2. Use BS to stimulate and/or complete the main reforms in a new EU-Tunisia partnership framework. (C1.3, C1.4, C1.5)

R1.2: In this new context, the use of budget support could help to establish technical and financial partnerships – between Tunisia, the EU and other main partners – in certain key areas of the Tunisian economy and society, in order to stimulate and/or complete the implementation of reforms.

Experience has shown that BS is the only instrument capable of sustaining such a partnership – particularly where it is harmonised with the other main partners – because it is based on a shared strategic process, on a structure of dialogue and on mutual responsibility for the results. This is all the more important because the reforms to be launched and/or completed are more complex than in the past: the paths to be taken are not always obvious and some would touch upon consolidated positions.

7.2. RECOMMENDATIONS ON THE TECHNICAL AND INSTITUTIONAL SET-UP OF BUDGET SUPPORT

7.2.1. Ensure the targeting of BS programmes in relation to the context and a strategic and flexible partnership in relation to the reforms in question. (C2.1)

R2.1: It is important that BS programmes are prepared through studies and consultations conducted with government officials on the specific needs of the sectors involved. It is also important that their inputs can be used to fine-tune and not just to monitor the implementation of reforms. This could also involve the need to update the matrices of conditionalities during programme implementation. This approach requires the flexible definition of TA inputs and – whenever possible – the use of interinstitutional TA, through a peer institution, in order to convey the content of experience in the transfer of knowledge.

Experience has shown that in Tunisia assessments of the risks linked with public finance management are important, but relatively easy, and that the matrices of conditionalities must include indicators

viewed as particularly significant for the implementation of reforms, in addition to well-targeted and realistic performance indicators.

- 7.2.2. Continue to combine different instruments in priority macro-sectors (BS, technical assistance and equipment projects) by reinforcing coordination and the sector approach. (C2.2)

R2.2: The best practice of developing clusters of programmes in the various macro-sectors must be continued, ensuring a high level of complementarity between budget support and other projects. In particular, the use of BS to carry out programmes mainly based on the supply of specialised technical inputs – such as the support project for industrial modernisation – would be ineffective. BS should be reserved for supporting reforms, where dialogue and trust between the partners and flexibility in implementation are a condition of success.

To ensure complementarity between the various actions, the government must reinforce its sector approach (see the specific recommendation). To avoid ineffective and external (top-down) forms of technical assistance, interinstitutional forms of TA (peer-to-peer) should be increasingly used, as explained in the specific recommendation. The duration of BS programmes depends on the partnership framework. If this framework is strong, as it has been in the SAFs, a relatively short duration represents an element of flexibility.

- 7.2.3. Reinforce the government's sector approach by ensuring explicit coordination and strategic dialogue open to the main international partners in the relevant sectors. (C1.4, C2.2)

R2.3: The concerned government institutions, assisted by the MDCI, should reinforce their explicit capacity for coordinating the various support programmes and create sectoral dialogue forums on the reforms supported. This would avoid any overlap or separation and would also help to better manage and target the technical inputs provided by the various partners.

Currently, the sectoral guidance of reforms is ensured by the government. However, this does not amount to a sector approach, where the content and implementation of reforms are discussed between the government and its closest partners to ensure better coordination and exchange of experiences on the content of reforms. This approach partly exists in the management of GBS, probably due to the action of the MDCI. The latter could share this approach with and apply it to the other ministerial departments. Negotiating SBS programmes could facilitate the implementation of such an approach; or, equally, the negotiation of SBS programmes should take place once the approach has been applied.

- 7.2.4. Integrate appropriate technical assistance in budget support. Increasingly use interinstitutional TA, particularly to support reforms and institutional consolidation. (C2.3)

R2.4: General and sector BS programmes must include flexible TA components capable of assisting with the development and implementation of reforms and thus feeding the dialogue between partners. TA is normally mobilised in BS in the preparation phase of programmes and in the identification phase of matrices of conditionalities, and also in the monitoring phase. However, experience (with the GBS and SBS evaluated) has shown that the availability of analytical capacity and/or capacity development during the implementation of programmes is essential. For this latter function, the aim of TA should not be strictly defined before the start of programmes, as its specifications should emerge as a result of the dialogue process, as has happened with GBS. It is also possible and sometimes necessary to extend this flexibility to the TA used for formulating and defining matrices (see recommendation on the flexible partnership). BS programmes could be

conceived, which provide for joint studies and consultations between the partners, that deal with, for example, the mid-term update of matrices.

Experience has shown that interinstitutional technical support (TAIEX, Twinning) is very much appreciated by governments, which see this as a chance to establish medium-term partnership relations with peer institutions and/or to secure best practices resulting from the direct experience of their partners.

7.2.5. Aim for a balanced combination of different inputs in budget support: funds, dialogue and conditionalities, TA, harmonisation and alignment.

R2.5: The combined effect of different budget support inputs has proved important for the success of operations (C2.4). Significant financial inputs – the amounts involved in the evaluated BS programmes represent a good quantitative reference – are an essential condition for setting up a valid BS operation (C1.3 and C2.4). Dialogue and TA must be closely linked, because the first establishes the framework of priorities and strategic orientations, and the second ensures the development of capacities and competences. Harmonisation between the main donors, in the context of a sector approach, is a precondition: the optimum situation is represented by joint operations, such as the GBS evaluated. If, on the other hand, the sector approach is weak and donors' interventions remain separate, the opportunity of using budget support as opposed to more traditional but more targeted forms of intervention should be weighed.

7.3. RECOMMENDATIONS ON THE MAIN SECTORAL CHALLENGES AND BUDGET SUPPORT

7.3.1. Support the competitiveness of the domestic market, particularly in services and agriculture, and the development of new economic sectors to reinforce growth and increase employment⁷⁹ (C3.1, C3.2, C3.3, C3.4, C3.5).

The main challenges for future years lie in several areas and the instruments to be used vary:

- GBS – which would follow the multi-sectoral and multilateral tradition of the SAFs – could support the competitiveness of the domestic market, with specific components targeting services, investment and employment. GBS would allow taking into account the scope of the reforms as well as the number of institutions involved, ensuring the necessary flexibility and joint action by the main donors.
- The competitiveness of the agricultural sector could be supported through an SBS, to be conceived taking into account instruments and models already tested within the EU's enlargement process⁸⁰.
- Employment could be supported through SBS (which would also be quite complex, given the sub-sectors involved) or simply through GBS, which could involve policies to bring the education/training system in line with the labour market, as well as social protection policies and issues related to the governance of the labour market⁸¹. Budget support could then be

⁷⁹ The recommendations must identify priorities and opportunities and cannot attempt to provide detailed solutions in a context characterised by ongoing negotiations.

⁸⁰ Agriculture and rural development are not priority sectors in the context of the ENP, particularly in Tunisia. Opening up the FTA to agricultural products and extending integration to other areas will, however, put pressure on agriculture and the rural world that cannot be underestimated. The difficulties to be tackled in this area solely in terms of managing trade were evident in the case of the PAI.

⁸¹ The choice between multi-sectoral SBS and GBS would be more a question of name, as the problem lies in identifying the area of intervention and the institutional counterparts involved. If the area is complex and involves diverse sectors and institutions (for example the labour market, education, training, social protection), GBS could be coordinated by the MDCI and could involve other ministerial partners. It would be easier to involve the WB, AfDB and/or other co-financers in this.

combined with specific projects, at national or local level, focusing on social protection (e.g. Conditional Cash Transfers) and/or interventions in the education system at different levels.

- Non-traditional sectors such as non-renewable energies and environmental management, as well as the information society and consolidation of the rule of law, could be taken into account in both BS and other forms of technical support. They could involve – unlike in the past – greater participation by the private sector and non-state actors in general. BS should be favoured in the case of medium-term strategic cooperation and support for sectoral policies and major reforms. Projects are more appropriate if they involve making investments or providing specific technical training services or if they provide support to sector upgrading.

8. SUMMARY OF THE CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

C1.1 The EU-Tunisia global partnership has been the driving force in the cooperation's success. (EQ 1.2, 4.1 and 4.2)

C1.2 The determination and experience of the Tunisian institutions are at the root of the success of the reform process supported by BS. (EQ 1.2, 4.1 and 4.2)

C1.3 GBS has been the most appropriate instrument to support the main economic reforms. (EQ 1.1, 2.1 and 2.3)

C1.4 SBS has been useful in supporting reform in the education sector, but the sector approach has been limited. (EQ 1.1, 2.1 and 2.3)

C1.5 BS has contributed to the effectiveness of the dialogue framework between Tunisia and the EU. (EQ 1.1 and 2.2)

C2.1 The budget support instrument has been well adapted to the context. (EQ 1.2, 1.3, 2.1, 3.1 and 3.2)

C2.2 There has been good complementarity between GBS and the sectoral projects funded by the EC, despite a still limited sector approach. (EQ 2.3)

C2.3 Limited use was made of TA in the BS programmes funded by the EC, although improvements and innovative approaches were recorded towards the end of the period. (EQ 1.1, 1.3 and 2.2)

C2.4 The use of other inputs (funds, dialogue and conditionalities, harmonisation and alignment) and the duration of programmes have been adequate, with weaknesses in terms of dialogue and harmonisation within SBS. (EQ 1.1, 2.1, 2.2 and 2.3)

C3.1 Management of macroeconomic stability and public finances: GBS has helped Tunisia to combine stability with growth. (EQ 3.1 and 3.2)

C3.2 Reform of the business environment: GBS has helped to significantly boost the private sector over the 1996-2008 period. Strengths and weaknesses of the results. (EQ 3.3.b and 4.1)

C3.3 Liberalisation of foreign trade: GBS has helped to implement tax reform, achieve tariff dismantling, and has therefore contributed to the positive results in foreign trade. (EQ 3.3.a and 3.1)

C3.4 Reforms of secondary and higher education and vocational training. SBS has contributed to the significant achievements made within these reforms. The results are encouraging but still limited, particularly in employment. (EQ 3.3.c and 4.2)

C3.5 GBS has specifically helped to improve economic governance and legality in the business world; however, despite progress in both areas, more needs to be achieved. (EQ 3.5, 3.6 and 4.4)

RECOMMENDATIONS

- 3.1.5. R1.1 Extend the EU-Tunisia partnership to make a new strategic leap forward in terms of cooperation. (C1.1, C1.2)
- 3.1.6. R1.2 Use BS to stimulate and/or complete the main reforms in a new EU-Tunisia partnership framework. (C1.3, C1.4, C1.5, C3.1-4)
- 3.1.7. R2.1 Ensure the targeting of BS programmes in relation to the context and a strategic and flexible partnership in relation to the reforms in question. (C2.1)
- 3.1.8. R2.2 Continue to combine different instruments in priority macro-sectors (BS, technical assistance and equipment projects) by reinforcing coordination and the sector approach. (C2.2)
- 3.1.9. R2.3 Reinforce the government's sector approach by ensuring explicit coordination and strategic dialogue open to the main international partners in the relevant sectors. (C1.4, C2.2)
- 3.1.10. R2.4 Integrate appropriate technical assistance in budget support. More and more use of interinstitutional TA, particularly to support reforms and institutional consolidation. (C2.3)
- 3.1.11. R2.5 Aim for a balanced combination of different inputs in budget support: funds, dialogue and conditionalities, TA, harmonisation and alignment. (C1.3, C2.4)
- 3.1.12. R3.1 Support the competitiveness of the domestic market, particularly in services and agriculture, and the development of new economic sectors to reinforce growth and increase employment (C3.1, C3.2, C3.3, C3.4, C3.5).