I. Key development issues and rationale for Bank involvement

In January 2011, Tunisia experienced a wave of protests that led to the toppling of the previous regime. These protests were fueled by a lack of social, economic and political opportunities, and exacerbated by anger the misgovernance that favored insiders. An interim government is now tasked with organizing free and fair elections to a Constitutional Assembly; the latter are planned for late July 2010.

In spite of significant economic growth (an average of 5 percent during 1997-2007), unemployment in Tunisia remained persistently high in recent years. As a consequence, a large share of Tunisia’s population has been increasingly excluded from social and economic life. Lack of transparency, cronyism and related anti-competitive practices discouraged entrepreneurship and private sector investment, particularly in the ‘on-shore’ domestic economy (as different from the more open, export-oriented ‘offshore’ sector). As a result, domestic private investment remained low and increasingly focused on real estate, considered safer. A broader lack of transparency, social accountability and citizen participation in government’s affairs further exacerbated a sense of denied opportunities.

In the immediate, the country faces two interrelated challenges: (i) improving transparency and accountability in a quick and visible way to respond to the aspirations of the population and to signal that Tunisia is creating a level playing field for private sector-led employment growth; while (ii) taking immediate measures to relieve the plight the unemployed and the poorest and vulnerable families.

During this interim period, the main focus of the Bank is to help the country meet these twin challenges, and thereby set itself on course towards faster growth rate and expanding job opportunities.
II. Proposed Objective(s)

To secure the transition, the operation would support a program of immediate measures that are emblematic of improved governance and opportunity and are within the mandate of the interim government to undertake.

III. Preliminary Description

The proposed Governance and Opportunity DPL is a single-tranche policy-based loan. The latter is focusing on four key areas:

- **Governance**: The immediate agenda involves: (i) strengthening the legal framework for association to boost civil society participation; (ii) removing the constraints that prevent public access to information, hence create scope for independent analysis; (iii) improving public procurement procedures to accelerate decision-making while reducing discretion; and (iv) purging the administrative and regulatory environment faced by citizens and firms from cronyism and arbitrariness.

- **Employment and regional development**: The immediate agenda is to prioritize a few complementary measures that can be introduced in the short-term to stimulate private labor demand while supporting the unemployed. Possible measures could include: (i) introducing a pilot of employment subsidies to promote employment creation in high value-added service sectors; (ii) establishing a new regulatory framework for the National Employment Fund; (iii) introducing a comprehensive program to enhance the employability of the high-skilled youth; (iv) introducing a new program to assist low-skilled long-term unemployed through a cash-for-training program and/or enhanced public works.

- **Financial Sector**: In order to allow the financial system to play its expected role in the job creation process the immediate agenda is (i) to mend bank corporate governance; (ii) preserve bank stability, in the light of a legacy of poorer practices; and (iii) create a framework for microfinance and other institutions to develop and support the creation of small and/or innovative firms.

- **Social policies**: To address the concerns of the citizenry, there is a consensus on the importance of promoting access to quality of public services particularly in underserved regions of promoting accountability. The immediate objectives are: (i) to develop citizen voice mechanisms in the evaluation and planning of key public service delivery; and (ii) to create a national outreach services policy to expand effective access to health care in underserved governorates.

The proposed Governance and Opportunity DPL would support key measures within that agenda. It is part of a package of support being prepared jointly by the World Bank, the African Development Bank (AfDB), and the European Union (EU) and with the participation as observers of the French Development Agency (AFD) and the Japanese Development Agency (JICA). Preparatory missions have been held jointly.

IV. Poverty and Social Impacts and Environment Aspects
Poverty and Social Impacts

The poverty and social impacts of the policies supported by this DPL operation are expected to be positive. The poverty reduction impact of the policies supported by the DPL, namely enhancing governance (including in the financial sector and public services) and assistance to the unemployed, and expanding frontline service delivery, are expected to have positive social and poverty impacts. In addition, improvement in the public procurement process is expected to help Tunisia recover in the aftermath of the global economic crisis. The regulatory simplification is expected to improve the business environment and increasing growth and employment in the medium term. Faster growth would lead to increased job creation, thereby supporting household incomes, with a positive impact on reducing poverty. The specific policies supported by this DPL are not expected to have negative distributional and social impacts, except possibly positive ones arising from the increased voice in the management of public life and the delivery of public services, and improved access to employment and social services.

Environment Aspects

The reforms supported in this DPL operation are not expected to have significant positive or negative effects on the environment, forest and other natural resources. The DPL supports policy actions that create the enabling environment to support job creation, employment and poverty reduction, and which by themselves do not have an environmental impact. It is expected, however, that regular private and public investment activities which may result from such policy actions, could have impacts on the environment. Nevertheless it is not expected that there will be need to introduce special measures since all activities to be carried out are subject to the Tunisian legal framework for the protection of the environment. Thus, neither specific environmental studies nor environmental impact management measures are anticipated.

V. Tentative financing

Source: ($m.)
Borrower 0
International Bank for Reconstruction and Development 500
Borrower/Recipient
IBRD
Others (specify)

Total 500

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