The African Development Bank Group in North Africa

2013

Resilient Growth and Integration
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For ORNB, this report was led by Catherine Baumont-Keita (Lead Economist during the preparation of the report) and Anne Sophie Ouedraogo (Consultant), under the overall guidance of Nono Matondo-Fundani (Director).

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The African Development Bank Group

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Table of contents

<table>
<thead>
<tr>
<th>Page</th>
<th>Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Foreword</td>
</tr>
<tr>
<td>7</td>
<td>Preface</td>
</tr>
<tr>
<td>11</td>
<td>Acronyms and Facts</td>
</tr>
<tr>
<td>17</td>
<td>CHAPTER 1 Promoting Resilient Growth in North Africa</td>
</tr>
<tr>
<td>18</td>
<td>Introduction</td>
</tr>
<tr>
<td>20</td>
<td>Framework for assessing crisis resilience and growth</td>
</tr>
<tr>
<td>23</td>
<td>Patterns of growth and crisis resilience in North Africa</td>
</tr>
<tr>
<td>43</td>
<td>Lesson-learned for successful crisis resilience measures in other regions</td>
</tr>
<tr>
<td>45</td>
<td>Recommendations: roadmap for promoting crisis-resilience growth in the short to medium term</td>
</tr>
<tr>
<td>51</td>
<td>CHAPTER 2 The Political Economy of Food Security in North Africa</td>
</tr>
<tr>
<td>52</td>
<td>Introduction</td>
</tr>
<tr>
<td>54</td>
<td>The Food Security Status of North Africa</td>
</tr>
<tr>
<td>55</td>
<td>The Impact of the 2007/08 Global Food Price Shock</td>
</tr>
<tr>
<td>59</td>
<td>Short-term Policy Responses to the Global Food price Shock</td>
</tr>
<tr>
<td>61</td>
<td>A Longer Term Food Security Strategy for North Africa</td>
</tr>
<tr>
<td>70</td>
<td>Conclusion</td>
</tr>
<tr>
<td>73</td>
<td>CHAPTER 3 Maghreb Economic Integration – A time for Action</td>
</tr>
<tr>
<td>74</td>
<td>Introduction</td>
</tr>
<tr>
<td>75</td>
<td>Potential Gains and Challenges of Economic Integration</td>
</tr>
<tr>
<td>77</td>
<td>Impact Assessment and Lessons Learned from Regional Integration Efforts</td>
</tr>
<tr>
<td>81</td>
<td>Performance of Trade in Goods and Services</td>
</tr>
<tr>
<td>86</td>
<td>Infrastructure and Cross-Border Trade Facilitation</td>
</tr>
<tr>
<td>89</td>
<td>Constraints to Integration</td>
</tr>
<tr>
<td>93</td>
<td>Conclusion and Recommendations</td>
</tr>
<tr>
<td>97</td>
<td>CHAPTER 4 The African Development Bank in Brief</td>
</tr>
<tr>
<td>99</td>
<td>The African Development Bank Group at a Glance</td>
</tr>
<tr>
<td>105</td>
<td>CHAPTER 5 Bank Group Activities in North Africa</td>
</tr>
<tr>
<td>107</td>
<td>Regional Overview</td>
</tr>
<tr>
<td>113</td>
<td>Algeria</td>
</tr>
<tr>
<td>133</td>
<td>Egypt</td>
</tr>
<tr>
<td>161</td>
<td>Libya</td>
</tr>
<tr>
<td>169</td>
<td>Mauritania</td>
</tr>
<tr>
<td>193</td>
<td>Morocco</td>
</tr>
<tr>
<td>237</td>
<td>Tunisia</td>
</tr>
<tr>
<td>281</td>
<td>CHAPTER 6 Staff &amp; Contact Details</td>
</tr>
</tbody>
</table>
Foreword

Geographically situated at the northern rim of the continent and at the cross-road of the Arab, European and African worlds, North Africa is a region of unique importance. In 2011, North Africa became the epicenter of social and political movements as the Arab Spring began in Tunisia and spread across and beyond the region.

Producing about one-third of Africa’s total GDP and home to more than 170 million people (17% of Africa population), North Africa regroups mainly Middle Income Countries (MICs) and occupies a geopolitical position that goes significantly beyond its economic weight. North Africa is also central to the history and the daily operations of the African Development Bank (AfDB). Since the beginning of its operations in 1966, the Bank Group has committed nearly US$ 17 billion in loans and grants to North Africa, consistently supporting the people of the region in their endeavors to develop and modernize their economies and improve their living conditions.

In recognition of the strong partnership between the Bank and the Region, I am pleased to present the African Development Bank’s 4th Annual Report on North Africa. In addition to providing an overview of the Bank’s portfolio of lending and non-lending activities in the six countries of the region, the report’s first three chapters provide a thematic discussion of resilience—as highlighted in domestic development strategies as well as in the obvious domain of food security and in forging stronger integration among the economies of the region.

Building resilience is an inherent dimension of developing more inclusive societies with better safeguards for the poor and most vulnerable. This is at the core of our ten-year strategy which is to place the Bank at the center of Africa’s transformation and to improve the quality of Africa’s growth. It aims to broaden and deepen the process of transformation, mainly by ensuring that growth is shared and enjoyed by all Africans, not only by some. It also aims to bring about growth that is not just environmentally sustainable, but also economically empowering. This is also our overriding focus in supporting North African countries in forging better futures for more of their people.

We are proud to stay firmly engaged in North Africa during this period of transition.

It is in this spirit that we present this year’s Annual Report for North Africa.

Zondo SAKALA
Vice President
Country and Regional Programs and Policy
African Development Bank Group
More than two years after the beginning of the Arab Spring, North Africa continues to experience the inherent challenges of turning political transition into decisive gains on the social and economic fronts. In addition to the difficulties faced by these countries, the development in the neighboring region has not been conducive. The south has experienced spillovers from armed insurgence and conflicts in Sahel countries. In the north, Europe is still in the midst of the worst economic recession and unemployment crisis in decades. While developments in the region differ widely, the past years have demonstrated just how intertwined countries in North Africa are with the world around them, both within their region and with neighbors in the north and the south.

The political transition towards better governed and more participatory societies will take its course in North Africa. In the meantime, the African Development Bank continues to respond to the demands for more inclusive social and economic developments as its core objective in support to the efforts of the countries in the region. In a setting where external and internal turbulence are commonplace, resilience becomes a core virtue in building a stronger platform for inclusive growth and better safeguards for the vulnerable. The overriding focus of this year’s North Africa Annual Report is therefore on resilience—both as highlighted in domestic development strategies but also in the obvious domain of food security as well as in forging stronger integration among the economies of the region.

In chapter 1 of this Annual Report, on “Promoting Resilient Growth in North Africa”, we focus on an in-depth policy analysis of the crisis resilience patterns in North Africa—from the world food crisis and the global financial crisis to the Arab Spring crisis. We propose a comprehensive understanding of the countries’ vulnerabilities, both structural and nurtured, as well as adaptability factors. Combining macroeconomic developments and microeconomic concerns, the chapter shows, among other results, the importance of pro-poor and inclusive social and economic policies in a medium to long-term development strategy.

In chapter 2, on “The Political Economy of Food Security in North Africa”, we look into the appropriateness of macroeconomic patterns and policy responses of North Africa countries in attempting to cushion the adverse impacts of the global food crisis and more recently the Arab Spring. The chapter moves on to discuss the un-sustainability of ongoing fiscal pressure and subsidy regimes, and suggests a more holistic approach to food stability including food trade governance, agricultural productivity and alternative social responses.

In chapter 3, on “Economic Integration: A Time for Action”, we discuss how the shifting currents following the revolutions could provide a unique historical opportunity for North African countries to readjust their trade and financial relationships and strengthen their regional and global economic integration. The chapter explores the potential gains, challenges and constraints of regional integration. Creating the adequate conditions for the emergence of regional supply chains and, production networks will unlock the region’s economic potential, achieving a more diversified export sector and generating employment.
The remainder of the Annual Report provides a brief introduction to the Bank Group and an overview over the Bank’s activities in North Africa (in Chapter 4); a summary of the Bank’s regional activities in the North Africa (in Chapter 5) and our contact details (in Chapter 6).

We hope you may find this report useful and welcome any feedback you may have.

Jacob Kolster
Director – Regional Department North for Egypt, Libya and Tunisia

Nono Matondo-Fundani
Director – Regional Department North for Algeria, Mauritania and Morocco
## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ADB</td>
<td>The African Development Bank</td>
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<td>AEO</td>
<td>African Economic Outlook</td>
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<tr>
<td>AfDB</td>
<td>The African Development Bank Group</td>
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<tr>
<td>AFESD</td>
<td>Arab Fund for Economic and Social Development</td>
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<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
</tr>
<tr>
<td>AMINA</td>
<td>African Development Bank Initiative for Micro-Finance in Africa</td>
</tr>
<tr>
<td>AMU</td>
<td>Arab Maghreb Union</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>AVERROES-Paris</td>
<td>Fund of Funds sponsored by CDC Enterprise and Proparco</td>
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<tr>
<td>AWF</td>
<td>African Water Facility</td>
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<tr>
<td>BCI</td>
<td>Banque pour le Commerce et l’Industrie</td>
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<tr>
<td>BIO</td>
<td>Belgian Investment Company for Developing Countries (BIO)</td>
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<tr>
<td>BMC</td>
<td>Basic Medical Coverage</td>
</tr>
<tr>
<td>BMICE</td>
<td>The Maghreb Bank for Investment and Foreign Trade</td>
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<tr>
<td>CDC Enterprises-Paris</td>
<td>Caisse des Dépôts et des Consignations</td>
</tr>
<tr>
<td>CEN-SAD</td>
<td>The Community of Sahel-Saharan States</td>
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<tr>
<td>CIMR</td>
<td>Caisse Interprofessionnelle Marocaine de Retraite</td>
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<tr>
<td>CNED</td>
<td>Caisse Nationale d’Equipement pour le Développement</td>
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<td>DPEF</td>
<td>Directorate of Education and Training Projects</td>
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<tr>
<td>DWS</td>
<td>Drinking Water Supply</td>
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<td>DZFO</td>
<td>Algeria Country Office</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EGFO</td>
<td>Egypt Country Office</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<td>EMAF</td>
<td>Export Market Access Funding</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAO</td>
<td>Organisation des nations unies pour l’Alimentation et l’Agriculture</td>
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<td>FAPA</td>
<td>Fund for African Private Sector Assistance</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FIV</td>
<td>Neighbourhood Investment Facility</td>
</tr>
<tr>
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<td>Fonds Monétaire International</td>
</tr>
<tr>
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<td>The Netherlands Development Finance Corporation</td>
</tr>
<tr>
<td>FPMEI</td>
<td>Fonds pour les PME et l’innovation</td>
</tr>
<tr>
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<td>Financial Sector Assessment Program</td>
</tr>
<tr>
<td>FTA</td>
<td>Gross Domestic Product</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<tr>
<td>GDP</td>
<td>Global Environment Facility</td>
</tr>
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<td>GEF</td>
<td>Government of Egypt</td>
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<tr>
<td>GoE</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
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</tr>
<tr>
<td>GSM</td>
<td>Global system for mobile communication</td>
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<tr>
<td>HDI</td>
<td>Human Immunodeficiency Index</td>
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<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
</tr>
<tr>
<td>IDB</td>
<td>Islamic Development Bank</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IRMS</td>
<td>Integrated Resources Management Strategy</td>
</tr>
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<td>ISET</td>
<td>Institut Supérieur d’Enseignement Technologique</td>
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<td>JBIC</td>
<td>Japanese Bank for Investment and Cooperation</td>
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<td>KFAED</td>
<td>Kuwait Fund for Arab Economic Development</td>
</tr>
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<td>LEPC</td>
<td>Libyan Export Promotion Centre</td>
</tr>
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<td>MAFO</td>
<td>Morocco Country Office</td>
</tr>
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<td>MAPM</td>
<td>Ministry of Agriculture and Maritime Fisheries</td>
</tr>
<tr>
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<td>Multilateral Development Banks</td>
</tr>
<tr>
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<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MENA</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MFI</td>
<td>Mercado Común Sur (Argentina, Brazil, and Uruguay)</td>
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<tr>
<td>MFN</td>
<td>Middle Income Countries</td>
</tr>
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<td>Most Favored Nation</td>
</tr>
<tr>
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<td>Maghreb Leasing Algeria</td>
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<tr>
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<td>Memorandum of Understanding</td>
</tr>
<tr>
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<td>Micro and Small Enterprises</td>
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<tr>
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<td>Medium Term Strategy</td>
</tr>
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<td>Megawatt</td>
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<td>Multi-Donor Water Partnership Program</td>
</tr>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>National Bank of Egypt</td>
</tr>
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<td>NGO</td>
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</tr>
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<td>NPLs</td>
<td>Nonperforming loans</td>
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<td>The Nigeria Trust Fund</td>
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<td>NTM</td>
<td>Nontariff measures</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OPEC</td>
<td>The Organization of the Petroleum Exporting Countries</td>
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<td>Overall Trade Restrictiveness Index</td>
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<td>The Financial Sector Development Support Program</td>
</tr>
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<td>Description</td>
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<td>PAFTA</td>
<td>Pan-Arab Free Trade Area</td>
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<td>PAI</td>
<td>Integration Support Program</td>
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<td>Water Sector Investment Project Phase 2</td>
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<td>PMI</td>
<td>Industrial Modernization Program</td>
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<td>PMN</td>
<td>Industrial Upgrading Program</td>
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<td>PNDSE</td>
<td>Education System Development Support Project</td>
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<td>Purchasing Power Parity</td>
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<td>PRECAMF</td>
<td>Project to build the capacities of Microfinance Stakeholders</td>
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<td>PRP</td>
<td>Poverty Reduction Program</td>
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<td>RAMED</td>
<td>Régime d’Assistance Médicale aux Economiquement Démunis</td>
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<td>Regional Member Countries</td>
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<td>RWSSI</td>
<td>Rural Water Supply and Sanitation Initiative</td>
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<td>SESP II</td>
<td>Secondary Education Support Project Phase II</td>
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<td>Egypt Social Fund for Development</td>
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<td>Saudi Fund for Development</td>
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<td>SIFEM</td>
<td>Swiss Investment Fund for Emerging Markets</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>SNIM</td>
<td>National Industrial and Mining Company</td>
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<td>STRI</td>
<td>Services Trade Restrictiveness Index</td>
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<td>TRAINS</td>
<td>Trade Analysis and Information System</td>
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<tr>
<td>UA</td>
<td>Unit of Accounts</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>UPS</td>
<td>Unified Power System</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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The African Development Bank Group – Facts

- **Mission**: To promote sustainable and inclusive economic growth and reduce poverty in Africa.
- **Founded**: 1963
- **Constituent Institutions**:
  - The African Development Bank (ADB)
  - The African Development Fund (ADF)
  - The Nigeria Trust Fund (NTF)
- **Headquarters**: Abidjan, Côte d’Ivoire
- **Temporary Relocation Agency**: Tunis, Tunisia
- **Shareholders**:
  - 53 African countries (regional member countries)
  - 25 non-African countries (non-regional member countries)
- **President**: Donald Kaberuka
- **Total Employees**: 2005
- **Field Offices**: 34, including 2 Regional Resource Centers (Nairobi and Pretoria). Three of these offices are called Customized Offices (Guinea Bissau, Mauritius and Sao Tome Principe). The Bank has also established (in 2012) an External Representation Office in Tokyo, Japan.
- **Authorized Capital as of December 31, 2012**: Unit of Accounts (UA) 66.98 billion (US$102.48 billion).
- **12th ADF replenishment (2011-2013)**: UA 5.805 billion (US$ 8.84 billion).
- **Total Cumulative Approvals 1967-2012**: 3,796 loans and grants totalling UA 63.66 billion (including multinational operations) (US$85.98 billion).

As of March 2013
UA 1.00 is equivalent to:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Equivalent</th>
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<tr>
<td>United States Dollar</td>
<td>1.56</td>
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<tr>
<td>Euro (European)</td>
<td>1.15</td>
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<tr>
<td>Algerian Dinar</td>
<td>118.70</td>
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<tr>
<td>Egyptian Pound</td>
<td>10.22</td>
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<td>Libyan Dinar</td>
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<td>Moroccan Dinar</td>
<td>12.85</td>
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<td>Mauritania Ouguiya</td>
<td>451.28</td>
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<td>Tunisian Dinar</td>
<td>2.39</td>
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Chapter 1
Promoting Resilient Growth in North Africa
Mohammed Bouazizi was born in 1984, the year that the ‘bread riots’ took place in Tunisia. While Bouazizi’s self-immolation has been credited with igniting the 2011 uprisings in North Africa, toppling several regimes in the region, the real cause was an unfavourable economic environment exacerbated by global crisis spillovers on a scale not experienced since the early 1980s. In 2008 world food and fuel prices for the first time surpassed their peak levels of the 1980s, and in mid-2008 the world entered the most severe global economic recession since the 1980s. Indirect effects of the current financial crisis have led to an increase in already high unemployment rates, particularly among youth, pushing some families below the poverty line. The rise in the cost of staple goods preceding and following the onset of the financial crisis has aggravated frustrations in the context of widening social inequalities and wasted human capital. Thus the underlying causes of the 2011 uprisings are the same as those of the 1984 bread riots.

Arguably, the current situation is more severe than in 1984 in several key aspects. First, the ‘Arab Spring’ revolutions have turned a twin crisis (world food and global financial) into a triple crisis, with political uncertainty adding to economic problems in the region. Second, North African countries’ main trading partners in the eurozone are facing a debt crisis on a scale comparable to that of Latin America in 1982, with anticipated direct impact. Additionally, since 1984, most North African countries have implemented IMF and World Bank economic reform packages and, as a result, now face a difficult dilemma. Progressive privatisation and trade liberalisation have rendered their economies more susceptible to the spillover effects of international crises; yet the countries need to increase their engagement in global markets to promote growth and development.

Global economic crises are becoming increasingly common as the world becomes more financially integrated. So North African (and other developing) countries need to find ways of minimising the impacts of and building resilience to crises that could hinder their growth and reverse the progress they have made towards achieving their development goals. They also need to focus on pro-poor development if they are to once and for all tackle the social problems that have destabilised the region, both recently and as far back as 1984.

1 This chapter draws substantially from a working paper for the AfDB’s North Africa Policy Series by Gita Subrahmanyam
This chapter proposes strategies for promoting crisis-resilient growth in North Africa. For the purposes of this analysis ‘North Africa’ is defined as Algeria, Egypt, Libya, Morocco and Tunisia. It gauges the impact of recent crises on North African countries, critically assesses government interventions for minimising their effects and proposes options for policy makers.

The chapter is structured as follows: Section 2 sets out the analytical framework, which is based on recent studies of economic resilience, intertwined with the concept of inclusive growth. Section 3 applies this framework in evaluating the impact of the world food crisis, global financial crisis, Arab Spring crisis and eurozone debt crisis in North Africa and in critically analysing government responses to the crises. It shows that the groups and sectors most severely affected by successive crises were afforded little protection in government policy responses, leading to a deepening of social and sectoral inequalities and an increase in countries’ (especially weaker groups’) vulnerabilities to future shocks. Section 4 considers the relevance of successful crisis resilience measures for crisis mitigation and prevention. The final section offers specific recommendations. The chapter demonstrates that, although North African countries are facing their greatest challenge since the early 1980s, the current situation offers unique opportunities for more rapid, sustained and inclusive growth.
Framework for Assessing Crisis Resilience and Growth

Studies of economic resilience provide a framework for critically examining North African countries’ performance during the recent crises that have affected the region. Crisis resilience is achieved through reducing systemic vulnerabilities and strengthening adaptive capacity, so that external shocks have a lower impact on countries’ growth and development patterns. Simultaneously expanding the drivers and distribution of growth can promote crisis resilience, which is maximised in an environment of inclusive growth.

Vulnerability is ‘the risk that a developing country’s growth and development will be hampered by external (or natural) shocks or stresses’ (Guillaumont, 2009: 195). Crisis vulnerability may be a product of ‘structural’ or ‘nurtured’ factors. On the one hand, a country’s ‘structural’ characteristics may render it vulnerable to external or natural shocks. For developing countries, integration into the global economy is a key cause of structural vulnerability, since trade openness exposes countries to the spillovers of crises triggered elsewhere – for example, trade shocks or world commodity price instabilities. Structural vulnerability is measured by three variables: economic openness, the extent to which a country is dependent on foreign markets or suppliers for trade or

Source: Adapted from Briguglio and al (2009: 232)
financial flows, including foreign direct investment (FDI), official development assistance (ODA) and migrant remittances; export concentration, a country’s economic reliance on a narrow range of exports; and strategic import dependence, the degree to which a country relies on imports for key resources, such as energy, food or industrial supplies (Briguglio and Galea, 2003; UNESCAP, 2009: 2). On the other hand, a country’s vulnerability may be ‘nurtured’ by the failure of government policy to counteract or absorb the impacts of external shocks on susceptible groups or sectors, leading to their increased sensitivity to future shocks and lower resilience during crises².

A country’s ability to cope during crises is largely determined by its ‘adaptive capacity’ – that is, its access to and control of resources to deal with shocks or stresses. Adaptive capacity is a key aspect of crisis-resilience: resilient institutions and individuals accumulate and maintain excess reserves during good times for use during bad times. Adaptive capacity may vary within a country depending on the level of aggregation, be it national, market or household level. At national level, resilience is largely determined by ‘fiscal capacity’: the ability of governments “to finance large deficits without jeopardising macroeconomic stability and debt sustainability³. Prudent governments build up fiscal capacity during boom periods, providing liquidity or the capacity to take on external debt during crises. Other sources of stability at macroeconomic level include a strong legitimate government, high-quality institutions and valuable natural resources. At microeconomic level, resilience hinges on the strength of markets and households. Firms thrive in an enabling legal and regulatory environment with easy access to capital and markets and a multi-skilled workforce that can contribute to productivity and innovation. For households, resilience consists of a stable infrastructure, abundant employment opportunities, access to loans or social safety nets, and opportunities to build and apply human capital. During crises, adaptive capacity at all levels may be enhanced by economic or other support from external sources, such as foreign governments, NGOs or community groups; however, external aid is more easily mobilised during rapid onset shocks than during slow onset shocks.

Level of aggregation also plays a role in crisis resilience. Since the costs of protection against certain external threats may be too high for individuals and households to bear, given the complexity of problems in a globalised world, people depend on governments to provide collective goods that address these threats, often in return for tax payments – climate change, pollution, food and water supply etc. Governments’ role is especially vital in the case of marginalised groups, such as the poor, who lack key livelihood resources at the best of times, so often do not have excess reserves that they can store in the event of a crisis. In such situations, governments are providers of indivisible public goods as well as guardians performing an equalising role in society. However, governments need to adopt policies that support vulnerable groups, yet do not render them dependent on state assistance; otherwise the

² Note that vulnerabilities can also be nurtured by government policies during non-critical periods.
³ The main measures of fiscal capacity are fiscal balance, external debt, current account balance, gross savings and international reserves (UNDP, 2011: 226-228). However, inflation levels and GDP growth rates are also important to consider, since they affect countries’ access to or costs of obtaining credit.
adaptive capacities of both the groups and government will become eroded. Crisis resilience is maximised where governments implement measures that shield vulnerable groups from the impacts of crises but also empower them, building their adaptive capacity and contributing to the overall strength of the political unit.

Expanding the drivers and distribution of growth promotes crisis resilience, which is maximised in an environment of ‘inclusive growth’ – that is, economic growth plus income equality. Inclusive growth has three main components: rapid growth, necessary for substantial poverty reduction; broad-based growth, across diverse economic sectors; and inclusiveness, extending to a large part of the country’s labour force. Inclusiveness encompasses equity, equality of opportunity and protection during market and employment transitions. Thus defined, inclusive growth directly links the macro and micro determinants of growth and conforms to the absolute definition of pro-poor growth.
Patterns of Growth and Crisis Resilience in North Africa

Over the past decade North Africa has been hit by three crises and is threatened by a fourth. Three of the four crises (the world food crisis, global financial crisis and impending eurozone debt crisis) were externally triggered and have affected North African countries mainly through their structural vulnerabilities. The fourth crisis, the ‘Arab Spring’, was internally generated, the result of nurtured vulnerabilities stemming from North African governments’ failure to adequately protect affected groups from the impacts of the earlier shocks. Since government policies have not radically changed as a result of the Arab Spring, North African countries are now more sensitive to external shocks, so the eurozone debt crisis – coming on top of the world food crisis and global financial crisis – poses a threat to the region’s recovery and future growth.

Figure 2: Vulnerability Trends to Crises in North Africa

[Diagram showing the relationships between world food crisis, global financial crisis, Arab Spring crisis, and eurozone debt crisis, with descriptions of structural and nurtured vulnerabilities for each crisis.]

- **World food crisis**
  - Structural vulnerabilities:
    - Economic openness
    - Export concentration
    - Strategic import dependence

- **Global financial crisis**
  - Nurtured vulnerabilities:
    - Increased sensitivity to trade and commodity price shocks
    - Increased sensitivity to declines in FDI and other capital flows
    - Increased sensitivity to declines in remittances
    - Higher propensity for social unrest

- **Arab Spring crisis**

- **Eurozone debt crisis**
Global Economic Boom and World Food Crisis

Impact of the global economic boom and world food crisis

The global economic boom that took place between 2003 and 2008 enabled stable, high growth across North Africa. Governments in the region supported economic expansion by undertaking unilateral tariff reform and signing bilateral and regional free trade agreements. As a result, North Africa’s share of world trade increased from 0.8% in 2003 to 1.3% in 2008, and merchandise trade accounted for a large and growing percentage of countries’ GDP. Tourism receipts also grew everywhere but in Libya. Hence the countries experienced strong growth: real GDP expanded at an average annual rate of between 4.1% and 5.5% in every country except Libya, which grew more rapidly. On a per capita basis, GDP growth was also good, ranging from 2.5% in Algeria to 5% in Libya. The progress that the countries had made in opening up their markets and privatising sectors of their economies, which even Libya began to do after 2003, enabled them to attract higher levels of foreign direct investment (FDI) and other private capital flows. Egypt, Morocco and Tunisia also enjoyed an increase in market capitalisation and stocks traded in their exchanges. The countries further benefited from growing quantities of official development assistance and other official flows.

The world food crisis, which was caused by a rapid acceleration in food and fuel prices between 2003 and 2008, affected growth outcomes in the region. The impact of the crisis on countries depended on their specific structural vulnerabilities – that is, their strategic import dependence or export concentration. The region’s net oil importers (Egypt, Morocco and Tunisia) are dependent on imports for food and fuel, hence are sensitive to price shocks in both commodities. The net oil exporters (Algeria and Libya) are also reliant on food imports, but their main structural vulnerability is their export concentration in oil and gas, which constitutes over 95% of their total exports and the bulk of their GDP\(^4\). They are therefore more susceptible to fuel price shocks than to food price shocks. Because crude petroleum prices increased at a faster pace than food prices between 2003 and 2008, Algeria and Libya enjoyed high merchandise trade, current account and fiscal surpluses and were able to bolster their international reserve levels. The net oil importers’ exports and trade-related tax revenues also grew, but because they had to absorb the rising costs of food and fuel prices on the import side, the countries suffered declining merchandise trade and current account balances.

The combined effect of the global economic boom intersecting with the world food crisis is that, while all North African governments used the momentum of the boom to build fiscal capacity – for example, by reducing their debt burdens, increasing national savings and taking steps to manage inflation – the net oil importing countries’ balances were being damaged by the rising costs of food and fuel imports, which prevented them from substantially increasing their fiscal capacities. The countries thus suffered from weak fiscal and current account balances, high external debt and

\(^4\) Fuels accounted for 67% of GDP in Libya and 44% in Algeria in 2007.
relatively low levels of savings and reserves, despite being in the midst of an economic boom. Egypt’s high food import dependence meant that it struggled with double-digit inflation and a very high budget deficit. Egypt’s deteriorating public finances prompted Moody’s to downgrade its sovereign debt rating in May 2005, raising its costs of borrowing. By contrast, the net oil exporting countries enjoyed growing fiscal and current account surpluses, low debt, high savings and international reserves equivalent to over three years’ imports. They were thus able to use their excess liquidity to start up or top up sovereign wealth funds.

At market level, in both the net oil importing and exporting countries, the growth dividends of the period were not widely shared, resulting in inequalities between large and small firms and between formal and informal sector workers. Large firms benefitted more than small-to-medium-sized enterprises (SMEs) from the high flows of capital to the region. The floods of funds to regional stock exchanges accrued to only a few, well-capitalised companies: in 2008 the top five listed companies accounted for around 46% of total market capitalisation in Tunisia, 36% in Egypt and 31% in Morocco. Weak creditors’ rights, low auditing and reporting standards, and weak contract enforcement laws meant that banks and investors preferred lending to North African governments or larger firms, rather than to SMEs. Banks therefore set high collateral requirements for loans, totalling 131% of the loan amount in Egypt, 171% in Morocco, 185% in Algeria and nearly 200% in Tunisia in 2007, which precluded most SMEs from accessing them. This would explain why the proportion of firms using bank finance declined in Algeria, Egypt and Morocco between 2002 and 2007, and domestic credit to the private sector decreased in Egypt, Libya and Tunisia between 2003 and 2007. Low access to business capital coupled with high costs of doing business in an unpredictable business environment forced many SMEs into the informal sector of the economy.

At household level, inequalities between formal and informal sector workers and between poor and non-poor individuals increased, even as countries seemed on track to achieving most of their Millennium Development Goals (MDGs). Every country expanded its provision of education; however, the quality remained low, and graduates were not equipped with the skills demanded by the labour market, leading to blocked education-to-employment transitions. On the supply side, red tape and the high costs of doing business – reflected in countries’ Ease of Doing Business rankings – deterred private sector growth and job creation. As a result, notwithstanding the boom, none of the countries was able to sustain the GDP growth at the level required to substantially tackle unemployment. The net oil importers were unable to generate sufficient jobs to absorb their ‘youth bulge’, while the net oil exporting countries reduced unemployment by creating short-term public sector roles or quick-fix self-employment schemes. Hence unemployment continued to be high across the region, ranging from 9% in Morocco to 14% in Tunisia in 2008, and youth unemployment even higher.

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5 The three countries had lower current account balances and higher inflation levels in 2008 than in 2003, and Morocco and Egypt’s foreign exchange reserves in 2008 were only two-thirds of what they had been in 2003. However, the countries reduced their external debt and increased national savings, which led to a net improvement in fiscal capacity.

6 Moreover, North Africa’s largest exchange, the Cairo and Alexandria Stock Exchange, progressively delisted – mainly smaller – firms that did not meet its requirements, meaning that fewer companies benefitted from the high levels of market capital flowing into Egypt.

7 MDGs calculate progress on a national basis, so do not reflect inequalities between groups or regions within a country.

8 According to Ianchovichina and Mottaghi (2011), GDP growth at 6% per annum is required to sustainably reduce unemployment in the region. This growth level would generate 6.7 million new jobs per year from 2010 to 2020 – that is, twice the annual number of new jobs created in the MENA region between 1999 and 2009.

9 North African countries are in the midst of a ‘youth bulge’, meaning that the number of young people entering the labour market has been growing at an increasing pace. Cutting unemployment therefore requires a job creation rate in excess of labour market expansion.

10 Unemployment in oil-dependent countries tends to be inversely related to fuel prices, since oil and gas sectors are not labour-intensive and jobs created during oil booms are generally cut during bust periods.
ranging from 18% in Morocco and Egypt to 31% in Tunisia. Lack of job opportunities, high corporate tax rates for firms employing labour and rigid labour market regulations led to a growth in unregulated informal sector employment. Combined with weak social protection across the region, this has led to the development of a dual labour market, where some formal sector workers enjoy good pay and high levels of protection, while informal sector workers are employed on low (or no) pay and precarious conditions. As a consequence, working poverty has increased across North Africa and was estimated at 31% in 2008. Growing income inequality, poverty and declining living standards explain the eruption of bread riots in Algeria, Egypt, Morocco and Tunisia in late 2007 and early 2008.

Government Response to the Problem of Soaring Food Prices

Unrest in the region forced governments to introduce or expand social programmes to mitigate the effects of rising food prices on households, but the poorest groups did not receive the greatest support11. Every country except Libya offered universal food and fuel subsidies at considerable cost: in 2008 food and fuel subsidies constituted 31% of current government spending in Egypt, 20% in Morocco, 18% in Tunisia and 7% in Algeria. Subsidies put a strain on balances, especially in the net oil importing countries. However, untargeted subsidies benefit non-poor consumers more than poor families, since ‘richer people can also buy subsidized products (Albers and Peeters, 2011: 26). Hence, in Morocco 90% of subsidised goods were purchased by non-poor consumers. In Egypt, between one-quarter and one-third of the poor did not benefit from any subsidy, while non-poor consumers received four-fifths of the value of food subsidies. Energy subsidies are the least pro-poor and encourage overconsumption, leading to high fiscal costs and crowding out other, more essential investment. In Egypt, subsidised gasoline accounted for three-quarters of the cost of all subsidies, and 93% of the benefits went to the richest quintile of consumers (Iqbal, 2006: 65).

Tighter targeting can make social programmes more pro-poor; however, while most North African countries implemented some form of targeted transfers during the period12, the programmes have not been very effective for several reasons. First, accurate targeting has been impeded by poor data access and quality, as well as administrative cost and capacity issues, leading to the leaking of benefits to non-poor groups. In Egypt, over one-third of the poorest two quintiles of the population did not have ration cards, while two-thirds of the richest quintile did. Second, funding for targeted programmes has been negligible. Egypt devoted less than 0.1% of GDP to targeted cash transfers in 2005 and Morocco only around 0.6%. Third, progress in poverty reduction has sometimes been obstructed by non-poor groups: as one author put it, ‘the adoption of pro-poor targeting as a policy objective may provoke discontent and resistance among better-off, more vocal, and politically stronger groups who might stand to lose from such a move’ (Iqbal, 2006: xxiii).

Algeria, Egypt and Morocco increased public sector wages as part of their crisis mitigation measures – an expensive policy that served to widen the wealth gap between government employees and private sector workers or the unemployed. In Egypt, the costs of raising public sector wages and pensions by 30% and 20%, respectively, accounted for 89% of the increase in its 2008/9 budget, while disbursements of food through the ration card scheme comprised only 11%. In Algeria and Morocco, public sector salaries grew by 15% and 5%, respectively. Wage policies are difficult to reverse once implemented, so generally constitute a permanent spending item, placing a strain on countries’ fiscal balances in the long term.

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11 North African governments introduced other programmes in response to the food crisis – for example, price-oriented measures aimed at reducing domestic food prices and supply-oriented interventions intended to increase domestic food production. However, due to space constraints and because these other programmes were not so central to government policy, they will not be discussed here.

12 including cash transfers (Egypt, Libya and Tunisia), food ration cards (Egypt) and school feeding programmes (Morocco).
Table 1: Policy Measures Taken by North Africa Governments in Response to the World Food Crisis, 2006-2008

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<tr>
<th>Price - Oriented Policies</th>
<th>Country</th>
<th>Reduces import tariffs or other taxes on food</th>
<th>Expert restrictions (price/quantity)</th>
<th>Price controls on food</th>
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<th>Supply-oriented Policies</th>
<th>Country</th>
<th>Public procurement of food reserves</th>
<th>Minimum support prices for farmers</th>
<th>Production or input subsidies to farmers</th>
<th>Other production support</th>
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Patterns of Growth and Crisis Resilience

Assessing North African countries’ performance from an inclusive growth perspective – rapid growth, broad-based growth, inclusiveness -, we can see that, although countries experienced stable high growth during the period, their expansion rates were neither rapid nor sustained enough to substantially reduce unemployment or poverty. While trade liberalisation and privatisation allowed countries to attract higher quantities of trade, FDI and other capital flows, an unconducive legal and regulatory framework – combining weak investor protection, an onerous business environment and rigid labour market regulations – deterred private sector investment and encouraged the expansion of the informal sector, with costs to both GDP and government tax revenues, affecting especially the net oil importing countries. Moreover, the rewards of the boom were not widely shared across groups, even in the cash-rich net oil exporting countries; the fact that bread riots broke out in Algeria in 2008 bears testimony to this fact. An ill-suited education system, lack of ample job opportunities and restrictive social protection legislation resulted in high unemployment and rising poverty across North Africa, affecting young men and women in particular. The main beneficiaries of growing wealth in the region were large firms and formal sector workers.
Examining countries’ performance from a crisis-resilience perspective highlights the shortcomings of government responses to the world food crisis. To be termed resilient, policy measures should be implemented before the crisis has produced detrimental long-term effects, should cushion the groups most affected by the crisis from its impacts and should be dismantled at the end of the crisis, so that the costs of intervention do not become a permanent drain on government resources. These features closely correspond to the International Labour Organisation’s recent advice, based on past evidence, that fiscal stimulus measures during major financial and economic crises should be ‘timely, targeted, and temporary’ (ILO, 2011a: 5-6).

In contrast, North Africa governments’ responses to the food crisis were slow, not well targeted to the groups most affected by soaring food prices, and included measures that could not be easily terminated when food prices began to ease. Most of the measures for dealing with the crisis were put in place in mid-to-late 2008, after the food riots had already taken place. Crisis policies also did not effectively counteract the impact of rising food (and fuel) prices on the growing number of poor households, which therefore experienced a sharp decline in living standards and a long-term loss in adaptive capacity. In Egypt, for example, while sufficient quantities of food reached vulnerable families, its poor quality meant that nearly half of all households suffered from malnutrition and ‘hidden hunger’ – that is, when food consumption is unmatched by vitamin and mineral intake – resulting in stunted child growth, productivity and cognitive capacity. MENA is the only region in the world to have recorded an increase in the proportion of undernourished people between 1990 and 2008. Moreover, countries’ subsidy systems and wage policies could not be easily dismantled without causing further instability. So although governments’ prudent macroeconomic policies allowed them to build fiscal capacity during the boom period, their policy measures for addressing the food crisis placed a strain on countries’ fiscal balances that outlasted the immediate crisis.

Furthermore, government responses to the crisis reinforced income inequalities rather than bridging them. The main beneficiaries of crisis measures were public sector workers, wealthier individuals and politically stronger groups, who received the greatest protection from the shocks of rising food and fuel prices. These were of course groups with relatively robust adaptive capacities entering the crisis. Most other groups emerged from the crisis worse off – with the exception of large firms and formal sector workers, which had benefitted from government non-crisis policies.

The nurtured vulnerabilities introduced by government crisis and non-crisis policies during the period include:

Greater sensitivity to international trade and commodity price shocks: Weak investor protection legislation and an unwelcoming business environment have depressed domestic private sector growth, leading to a higher reliance on international trade. In addition, the high costs of subsidies, cash transfers and wage increases have placed a heavy burden on the public purse, especially in the net oil importing countries. Since countries must now earn higher revenues to maintain their fiscal balances, they are more vulnerable than before to international trade and commodity price shocks.

Higher sensitivity to a decline in FDI and other capital flows: A restrictive credit environment has meant that private sector firms increasingly rely on FDI and other international flows for their capital requirements. Employment outcomes in the region are also affected by a decline in these flows.

Greater sensitivity to a fall in remittances: Weak social protection and insufficient government funding of pro-poor programmes have rendered North African households more dependent on remittances to dampen the impact of rising food prices and other living costs.

Acute sensitivity to food price shocks: Rigid labour laws, high corporate taxes and an ill-suited education system have led to higher informal employment and working poverty, which in turn have increased North African households’ sensitivity to food price shocks. Food accounts for over 50% of total spending for the poorest two quintiles of the population in Egypt and Morocco. Social stability in the region is also tightly linked to the price of food.

Increased propensity for social instability: While the failure of public policies to reduce the impact of high food prices on vulnerable groups may have led to the 2008 riots,
government responses to the riots confirmed disorder as an effective tactic for altering state policy. In the aftermath of the riots, different groups successfully forced government to meet their demands: the Egyptian government abandoned plans to reduce its energy subsidy, while the Tunisia government tabled reform of its subsidy system. In an effort to ‘target’ food policy more tightly, the Egyptian government went so far as to order the army to bake and distribute bread to the poor. Governments across North Africa likely suffered some loss of legitimacy as a result of their policy reversals – and therefore also some measure of their own adaptive capacity.

On the other hand, some governments instituted measures to reduce their country’s structural vulnerabilities – in particular, their dependence on strategic imports – thereby increasing their country’s longer-term resilience. In 2008 the Algerian government approved a rural renewal programme for agricultural and rural development, while the Moroccan government launched its Green Morocco Plan, which it called a ‘triple bottom line answer to food insecurity, adaptation of agriculture to climate change and sustainable growth of small farmers’. Morocco also took steps to reduce its dependence on fuel imports by investing in a Solar Plan and a Wind Energy and Hydropower Development Project in 2009.

The mid-2000s were thus a period of stable, high growth across North Africa, but also a time of rising deprivation, food insecurity and marginalisation for many North Africans. Poverty and inequality increased further during the global financial crisis, fuelling social tensions and frustrations that led to the Arab Spring riots at the end of 2010.
Global Financial Crisis

Impact of the Financial Crisis

North African countries were initially sheltered from the impact of the global financial crisis, because their financial and banking systems are weakly linked with global markets. However, their heavy dependence on the EU and the US for trade and capital flows, as well as tourism, meant that there were delayed spillover effects for the region. The impact of the crisis reached North Africa in 2009, when real GDP growth slowed across the region. However, the countries were fairly resilient at macroeconomic level and by 2010 showed signs of economic recovery.

Countries were exposed to the crisis because of their structural vulnerabilities – that is, their economic openness\(^\text{13}\), net oil exporters’ export concentration in fuels, and Tunisia and Morocco’s export concentration in manufactured goods\(^\text{14}\). However, their nurtured vulnerabilities from the world food crisis – namely, their increased sensitivities to declines in international trade, capital flows and remittances, as well as to food and fuel price shocks – also played a part. The decrease in demand for the region’s exports affected the oil and gas sector in Algeria and Libya and the manufacturing and agricultural sectors in Tunisia and Morocco. Export volumes fell everywhere except Egypt, where they grew 3% between 2008 and 2009, providing Egypt with a partial buffer against the crisis. Egypt’s resilience is attributable to its relatively low reliance on the EU and US as trade partners, limiting its exposure to two of the most crisis-affected regions. Nevertheless, every North African country, including Egypt, experienced a drop in export values, trade-related tax revenues and merchandise trade in 2009.

Commodity prices fell in late 2008 before resuming their upward trend in 2009, affecting balances and growth patterns across North Africa. Since fuel prices fell more sharply than food prices in late 2008, the net oil exporters were left with weaker trade, current account and fiscal balances; however, they recovered some lost ground when prices moved upward again in 2009. The initial decrease in food and fuel prices provided some relief from high import costs for the region’s net oil importers and enabled Egypt to bring down inflation from its peak in 2008. However, because food and fuel prices remained above their 2005 levels and began to rise again in 2009, the corrective effect was minimal, and the three countries, especially Egypt, continued to pay more for their imports than they earned on their exports, producing merchandise trade and current account deficits. But while Egypt and Tunisia had wider merchandise trade deficits in 2010 than in 2008, Morocco’s deficit contracted to below its 2008 level. Morocco was the only North Africa country to reduce its import volumes in 2009 and 2010, possibly as a result of steps taken towards import substitution following the world food crisis\(^\text{15}\).

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\(^{13}\) In terms of ‘economic openness’, North African countries display very high merchandise trade dependence, but only medium to low economic reliance (in percentage of GDP terms) on tourism, FDI, ODA or remittances, depending on the country and according to the standards applied by Massa et al (2011) – that is, low: <3%, medium: >3% but <10%, high: >10%.

\(^{14}\) Fuel accounted for 62% of GDP in Libya and 35% in Algeria in 2010, while manufactured goods made up 27% of GDP in Tunisia and 12% in Morocco – but only 5% in Egypt.

\(^{15}\) Morocco had a good harvest in 2009, which accounts for its lower import volumes that year.
Nevertheless, all the countries weathered the crisis well by maintaining macroeconomic stability and, apart from Libya in 2009, none of the countries went into recession. The net oil importing countries, especially Egypt, remained resilient, because their broad economic base meant that export losses could be offset by growth in domestic sectors. Moreover, because inflation had eased, the countries had ample fiscal space to implement countercyclical measures to combat the effects of the crisis. The net oil importers were forced to take on more debt to pay for their fiscal stimulus packages. However, because their sovereign credit ratings remained stable throughout the crisis, their costs of borrowing were manageable. The net oil exporting countries were able to finance their crisis policies without incurring additional debt, given their high liquidity and well-endowed stabilisation funds.

But while countries showed good resilience at macroeconomic level, the effects of the crisis were detrimental at microeconomic level, particularly for SMEs, informal sector workers and poorer households, which had entered the crisis with already weakened adaptive capacities. Sharp declines in FDI and other private capital flows caused major problems for businesses, especially in Egypt, where FDI shrank from 9% of GDP in 2007 and to 3% in 2010. Most Egyptian firms encountered severe difficulties accessing credit, and SMEs still could not raise capital, even via the Nile Stock Exchange. In an effort to encourage private sector growth and investment, the Egyptian and Tunisian governments funded business sector reforms, thereby improving their rankings in the World Bank’s Ease of Doing Business surveys. Egypt was able to attract higher inflows of portfolio investment (mainly for Treasury bill purchases) and Tunisia growing amounts of market capital. However, FDI continued to decline in both countries – perhaps because practices deterring private sector investment, such as high corporate taxes and red tape, continued – and only a limited number of firms benefited from the inflows.

The impacts of the crisis were harshest for poor households in the net oil importing countries, where declining demand for exports caused heavy job losses in the manufacturing, agriculture and tourism sectors, disproportionately affecting women and young people. Layoffs and hiring freezes led to an enlargement of the informal economy, and across North Africa, working poverty increased from 31% in 2008 to 37% in 2009. One spillover effect of rising unemployment in Europe and the US was a decline in workers’ remittances, which drastically reduced the purchasing power of poorer families in North Africa. Moreover, while households did not greatly benefit from the easing of food and fuel prices in 2008, since domestic prices did not fall in line with world prices, they certainly felt the impact of the resurgence in commodity prices in 2009. The combined effect was a growth in household poverty alongside an increase in living costs. Under such circumstances, households tend to economise, with potential long-term consequences for family health, nutrition and schooling.

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16 For example, Egypt’s domestic construction and communications sectors were buoyant in 2009 (Shahine, 2009).
17 Morocco and Tunisia increased external debt, while Egypt took on more domestic debt. Public domestic debt in Egypt grew to dangerously high levels during this period (Garcia-Kilroy and Silva, 2011: 8-10; El-Mahdy and Torayeh, 2009).
18 The Nile Stock Exchange was set up in 2008 to help Egyptian SMEs raise non-bank capital; but because of restrictive minimum capital requirements, only nine firms were listed when trading finally began in mid-2010 (MENA Financial News, 2010; Abdellatif, 2011).
19 Poor people in the net oil exporting countries also felt the effects of fluctuations in food and fuel prices, but their governments were more able to afford the costs of subsidies and other short-term relief measures.
20 Commodity prices in North Africa tend to be sticky upwards, meaning that they increase in proportion to a rise in world prices, but do not decline to the same degree when world prices decrease. Reasons for this include: countries’ inflexible, outdated and costly procurement legislation; poor logistics; lack of supply-side monitoring; poor forecasting; inadequate stockpiling; and insufficient use of financial instruments to hedge risks by creating virtual stockpiles (World Bank, 2011a: 40-43). Exchange rate depreciation also plays a role in food inflation in Tunisia and Algeria, but not in the other North African countries.
**Government response to the financial crisis:** Thanks to fiscal space created prior to the crisis, every North African country was able to implement countercyclical fiscal policies, and in 2009 the net oil importing countries devoted between 1.4% (Tunisia) and 1.5% (Egypt and Morocco) of GDP to their fiscal stimulus packages. The specific policies that countries adopted may be summarised under the following headings:

**Infrastructure development:** North African governments continued to fund their pre-crisis investment plans concerned with improving countries’ transport, utilities, communications and industrial infrastructures. In 2009, the Algerian government announced that it would build two million apartments by 2014 to address the housing crisis and to provide jobs to stem growing unemployment; however, job losses occurred at a much faster rate.

**Policies to attract FDI:** To attract FDI, the net oil importing countries accelerated implementation of their public investment plans, while the net oil exporting countries opened their markets to foreign firms. The Libyan government offered foreign companies a five-year exemption on income taxes and customs duties and relaxed the requirement that 90% of employees must be Libyan to 75%. Algeria passed measures allowing foreign firms to invest in the country, but continued to place limits on their entry. 

**Support for the export sector:** Every country modernised and simplified its customs and tax procedures to reduce trade times and costs. To help firms cope with the decrease in external demand, the net oil importers provided dedicated support to their major export industries, including preferential access to credit and loan guarantees, manufacturing subsidies and tax ‘holidays’ or reimbursements, lower customs duties and sales taxes (Egypt and Tunisia), logistical support (Tunisia and Morocco), reduced-cost marketing services (Morocco) and funded skills programmes to raise competitiveness (Egypt). The Libyan government offered companies a freeze on taxes and customs duties, while Algeria offered tax exemptions to tourism firms. Between 2008 and 2010, private sector lending grew everywhere except Egypt.

**Support for SMEs:** Egypt and Tunisia set up new microcredit lines and increased the amount of capital available to SMEs, while the Algerian government provided guarantees and interest rate subsidies for microcredit loans to young entrepreneurs. However, credits to SMEs continued to be low across North Africa, given continuing problems of high collateral requirements for bank loans and the paucity of non-bank funding sources.

**North African countries also implemented several new social measures to mitigate the impacts of the crisis on particular groups:**

**Public sector wages/benefits:** Civil service wages in Morocco rose an additional 5% in 2009, meaning that wages for government employees increased 10% over two years. In Libya, public sector workers were granted exemption from income tax, effectively raising their salaries, while in Algeria civil servants were offered subsidised 1% interest rate mortgages.

**Private sector wages/benefits:** Algeria, Morocco and Tunisia increased their minimum wage. The Moroccan government also cut the marginal income tax by 4% points. Algeria granted special tax exemptions to agricultural producers and landlords renting their homes to low-income families.

**Unemployment assistance:** Algeria, Egypt, Morocco and Tunisia reformed their active labour market programmes and added new youth-specific interventions. The Algerian government expanded the number of public sector jobs to address unemployment, while the Tunisian government encouraged private sector firms to retain workers part-time to avoid job cuts.

**Social subsidies and transfers:** Countries continued to rely on social subsidies and transfers. Plans to cut subsidies on key items in Egypt and Tunisia were scrapped as a result of the 2008 riots, leading to higher-than-expected outlays. Around one-seventh of Libya’s total budget was used to fund subsidies for basic foods, fuel, electricity and housing.

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21 Firms had to have domestic partners and could hold no more than a 49% stake in any Algerian company.
The cost of subsidies grew across the region, and in 2009 subsidies amounted to 13.5% of GDP in Algeria, 8.3% in Egypt, 2.6% in Tunisia and 2.8% in Morocco.

**Consumer credit:** To stimulate private household consumption, Egypt's two largest state-owned banks committed $10 billion in funds for consumer personal loans, car loans and purchases of durable goods. In August 2009, the Algerian government banned bank lending to consumers, apart from mortgages – rendering those with limited means more dependent on state provision. This explains part of the decline in domestic credit to the private sector in Algeria in 2010.

22 In the interests of space and relevance, countries’ monetary policies will not be covered in detail. Suffice to say that monetary policy in the net oil importing countries was expansionary and generally supportive of fiscal policy, while policy in the net oil exporting countries focused mainly on financial market reforms.

### Table 2: Measures Taken by the Governments in North Africa in Response to the Global Financial Crisis 2008-2010

#### Monetary Policy

<table>
<thead>
<tr>
<th>Country</th>
<th>Changes to key interest rates</th>
<th>Change in minimum reserve requirements</th>
<th>Recapitalisation of banks and liquidity injections</th>
<th>State guarantee of commercial bank deposits</th>
<th>Strengthening of financial market regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Libya</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Morocco</td>
<td>x</td>
<td>x</td>
<td>No reduction of social transfer &amp; subsides</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tunisia</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

#### Fiscal Policy

<table>
<thead>
<tr>
<th>Country</th>
<th>Infrastructure development</th>
<th>Measures to improve access to credit for firms</th>
<th>Lowering customs duties, export fees and taxes</th>
<th>Simplification of customs and tax processes</th>
<th>Subsidies tax breaks and other support for major export firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Libya</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Morocco</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tunisia</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

#### Social Policy

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase in public sector wages/benefits</th>
<th>Increase in public sector wages/benefits</th>
<th>Youth-centred and general active labour market programmes</th>
<th>Increase in or non-reduction of social transfer &amp; subsides</th>
<th>Changes to consumer credit arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Libya</td>
<td>x</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Morocco</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tunisia</td>
<td>x</td>
<td>x</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Patterns of Growth and to the Financial Crisis Resilience

Assessing North African countries’ performance from an inclusive growth perspective, countries showed good resilience during the global financial crisis: while they all experienced slowdowns in growth, only Libya posted a decline in GDP and, even then, for only one year. The countries that performed best – the net oil importing countries – had a broader base of growth, which enabled their domestic sectors to offset declines in export volumes. Egypt was the most resilient, combining a lower reliance on external trade, a greater diversification of trade partners and a broader sectoral contribution to GDP than the other countries. By contrast, the net oil exporting countries continued to depend heavily on their oil and gas sector, which accounted for the bulk of GDP and rendered their growth patterns subject to volatility in international oil prices. The countries’ recovery in 2010 had a lot to do with oil prices having begun to rise again. Across North Africa, the impact of the crisis fell disproportionately on smaller firms, informal sector workers, unemployed youth and women, and poorer families – that is, the groups that had entered the crisis with the lowest adaptive capacities.

Examining performance from a crisis-resilience perspective, North African countries’ responses to the global financial crisis were slow, poorly targeted and included measures that could not be easily dismantled at the end of the crisis. IMF’s Executive Board deemed Tunisia’s implementation of its fiscal package slow and inefficient, while Algeria’s emergency package was termed ‘striking not only because it is late, but also because its design and content are of questionable value for effectively dealing with Algeria’s structural imbalances’ (Achy, 2009b). In terms of targeting, aside from infrastructure programmes providing public sector jobs to the unemployed and active labour market programmes assisting people to find private sector work, countries’ crisis measures – and the bulk of their spending – were not dedicated to the groups most in need of crisis intervention. Export firms were inundated with funds and guaranteed loans, while SMEs were offered only credit and still continued to experience difficulties obtaining loans. Yet in some countries, like Egypt, SMEs were worse affected than larger firms by loss of sales during the crisis. Public sector and formal sector workers were supported by salary increases, a higher minimum wage and income tax exemptions. Meanwhile, informal sector workers and the unemployed were left to fend for themselves23. Non-poor groups continued to benefit more than the poor from social transfer and subsidy schemes, which remained largely untargeted across North Africa24. In Algeria and Egypt, consumer credit policies provided loans to wealthier groups but not to the poor, further diminishing their capacity for coping during the crisis. Furthermore, although North African governments had stored up sufficient fiscal capacity to implement countercyclical policies, the cost of crisis measures, coming on top of higher import costs, weighed heavily on the balances of the net oil importing countries. Egypt’s position was the weakest: its fiscal capacity in 2010 was worse than it had been in 2000. The World Bank said in its assessment of Egypt during the crisis that, ‘as long as the stimulus program is temporary, Egypt’s fiscal situation will continue to be sustainable’. However, increased wages and social subsidies are difficult to reduce once awarded, so are rarely temporary measures.

The crisis policies employed by North African governments deepened the nurtured vulnerabilities of the world food crisis period, rather than reducing them. After all, the social policies implemented in relation to the global financial crisis were an expansion of the measures introduced for dealing with the world food crisis. Moreover, a sizeable portion of countries’ fiscal stimulus packages was directed towards supporting international trade and export firms, rather than domestic companies or domestic development, which meant that North African

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23 While some governments invested in active labour market programmes to reduce unemployment, a combination of constraints to long-term job creation and weaknesses in the skills sets of the labour pool meant that they had limited success (Subrahmanyam, 2011).

24 Algeria’s tax concessions to landlords and landowners further increased the gap between the ‘haves’ and ‘have-nots’.
economies became in effect more trade dependent than before – rendering them more sensitive to shocks in international trade\textsuperscript{25}.

However, the crisis served as an impetus for North African countries to readjust their trade and financial relationships – a move that could contribute to countries’ increased resilience to trade shocks in the future. The US became a less important trading partner for Algeria, Egypt and Libya, while Tunisia and Morocco diversified away from Europe. All the countries expanded their links with regional partners and other emerging market economies. Diversification of trade partners reduces a country’s structural vulnerabilities and increases its resilience, regardless of the country’s level of economic openness, while regionalisation may provide some protection from the spillovers of crises originating in the developed world, as well as offering numerous growth and trade opportunities with reduced shipping (and potentially other) costs.

\textbf{Figure 4: Global Financial Crisis: Results}

\begin{center}
\begin{tikzpicture}
\node[rectangle, draw] (world) at (0,0) {World food crisis};
\node[rectangle, draw] (global) at (3,0) {Global financial crisis};
\node[rectangle, draw] (arab) at (6,0) {Arab Spring crisis};
\node[rectangle, draw] (north) at (0,-3) {North African countries};
\node[rectangle, draw] (euro) at (6,-3) {Eurozone debt crisis};
\node[rectangle, draw] (struct) at (0,-6) {Structural vulnerabilities:}
\node[rectangle, draw] (nurture) at (6,-6) {Nurtured vulnerabilities:}
\node[rectangle, draw] (econ) at (0,-7) {• Economic openness}
\node[rectangle, draw] (export) at (0,-8) {• Export concentration}
\node[rectangle, draw] (import) at (0,-9) {• Strategic import dependence}
\node[rectangle, draw] (trade) at (6,-7) {• Increased sensitivity to trade and commodity price shocks}
\node[rectangle, draw] (fdi) at (6,-8) {• Increased sensitivity to declines in FDI and other capital flows}
\node[rectangle, draw] (remittance) at (6,-9) {• Increased sensitivity to declines in remittances}
\node[rectangle, draw] (social) at (6,-10) {• Higher propensity for social unrest};
\draw[->] (world) -- (north);
\draw[->] (global) -- (north);
\draw[->] (arab) -- (north);
\draw[->] (north) -- (struct);
\draw[->] (north) -- (nurture);
\draw[->] (struct) -- (econ);
\draw[->] (struct) -- (export);
\draw[->] (struct) -- (import);
\draw[->] (nurture) -- (trade);
\draw[->] (nurture) -- (fdi);
\draw[->] (nurture) -- (remittance);
\draw[->] (nurture) -- (social);
\end{tikzpicture}
\end{center}

It is also worth noting that tourism was a fairly resilient sector during the crisis. In 2008 the sector posted growth despite the global recession, and in 2009 tourism receipts constituted a larger share of total exports than in 2008 – meaning that tourism grew relative to all other exports of goods and services\textsuperscript{26}. Tourism arrivals increased in Algeria.

\textsuperscript{25} For example, one-third of the value of Egypt’s fiscal stimulus packages was devoted to stimulating export trade, while only one-fifteenth accrued to domestic development projects (Egypt Ministry of Finance, 2009).

\textsuperscript{26} However, tourism receipts in absolute terms declined everywhere except Libya, affecting fiscal balances across the region.
The global financial crisis may have had a mild impact on countries’ overall growth patterns, but it had far-reaching consequences for poor households, which were not well supported by government crisis measures and therefore suffered a further reduction in their adaptive capacities. Lower living standards, higher unemployment, growing inequality and political grievances boiled over into the riots and revolutions that destabilised North Africa in 2011.

**Arab Spring Crisis**

**Impact of the Arab Spring**

The ‘Arab Spring’ riots and revolutions that erupted across North Africa at the end of 2010 and early 2011 were triggered by countries’ nurtured characteristics – that is, poorer households’ acute sensitivity to an increase in food prices and to a fall in remittances, as well as various groups’ propensities for social instability as a means of gaining policy attention from government.

The ‘known correlation’ between food prices and political unrest in North Africa had as much to do with a growth in relative deprivation caused by government policies as it did with food prices having reached the ‘tipping point’ of 21027. The crisis resulted in a severe loss of legitimacy for several North African regimes. The Arab Spring has highlighted the fact that, once one aspect of adaptive capacity (such as legitimacy) is lost or damaged, it is easy for other aspects (such as fiscal capacity) to become exhausted as well. The demonstrators raged against a lack of jobs, poor living standards and a shortage of housing, and demanded political reform. The riots disrupted production, trade and other economic activities in every country. However, the extent to which social unrest depleted countries’ fiscal capacities depended on three factors: (1) whether the country is a net oil exporter or importer; (2) whether the country underwent or avoided political transition; and (3) the level of violence involved in governmental responses.

The rapid onset of the crisis demanded an immediate response: however, since the net oil importing countries had emerged cash-strapped from the two previous crises, they had fewer options than the net oil exporting countries for dealing with the riots and demonstrations. This may explain why the Presidents of Egypt and Tunisia ceded power within one month of the start of demonstrations and why Morocco quickly proposed constitutional reforms. The net oil exporters had wider scope for action. The Algerian government responded with generous wage hikes, job creation schemes and higher food subsidies, while the Libyan government cracked down on demonstrators and carried out a lengthy, violent campaign against opposition groups. The costs of intervention in both cases were high, but the countries had the funds to meet them, given that oil prices had risen nearly continuously over the past decade.

Where social unrest was brought to an end fairly swiftly and decisively, production and trade resumed to (close to) normal volumes more quickly, and the impact of the Arab Spring on countries’ macroeconomic fundamentals was relatively mild. This explains a good deal of why real GDP growth rates in Algeria and Morocco in 2011 were 2.5% and 4.3%, respectively, close to World Bank projections before the protests had taken place. These countries were also able to reap the benefits of commodity price increases for their key exports: oil and gas for Algeria and phosphates for Morocco28. Morocco enjoyed an additional ‘peace bonus’, as tourists quickly flooded back and investors once again regarded the country as a safe haven. Hence Morocco’s tourism receipts in 2011 were only slightly lower than in 2010, despite the protests and a terrorist

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28 Phosphate prices have grown faster than food or fuel prices since 2006, and Morocco holds 85% of the world’s phosphate reserves.

27 Lagi et al (2012: 26) identify this as the FAO price index threshold above which there is ‘persistent and increasing global unrest’.
attack in Marrakech. The country also enjoyed higher inflows of FDI\textsuperscript{29}.

Meanwhile, political transition lengthened disruptions to countries’ economic activities beyond the date that leaders were overthrown. GDP growth rates in transition countries in 2011 were far below pre-revolution projections: Egypt grew only 1.8\% and Tunisia contracted 0.8\%. Direct damage to companies, sit-ins and strikes caused delays in returning to full production. Tourists and foreign investors fled countries experiencing social turbulence and violence, and did not return until they were convinced that the situation had stabilised – generally after elections had passed in a peaceful manner. The economic and social costs to the countries undergoing transition were huge.

The toll on countries’ finances was heaviest where government’s response to the protests was highly violent. In Libya, oil production ground to a near-halt during the eight-month battle affecting the country’s fiscal and current account balances. Because the National Transitional Council took international loans to fund its campaign, Libya emerged from the Arab Spring with higher external debt. Libya’s GDP contracted by 61\% in 2011. Had the country not descended into civil war, Libya would have instead posted high growth in a rising oil price year.

The riots and revolutions forced North African governments to increase social spending to ease unemployment and lower the impact of rising food and fuel prices on households. But while Algeria’s oil revenues more than covered the costs of higher social transfers, for the net oil importing countries the added expenditure resulted in wider fiscal deficits. The costs were especially burdensome for the transition countries, which had lower revenues as a result of riot-related business disruptions and higher expenditures relating to post-conflict reconstruction. Increases in overall and youth unemployment in Egypt and Tunisia further raised their costs. Moreover, civil war in Libya added to problems in Egypt and Tunisia: the return of migrant workers from Libya resulted in decreased remittance flows and higher unemployment in the two countries, especially Egypt, while the influx of Libyan refugees raised unemployment and social expenditure costs.

\textsuperscript{29} Increased FDI was also a product of business sector enhancements, reflected in Morocco’s improved ranking in Doing Business 2011. But relative peace enabled Morocco to make these improvements.
**New Social Measures Implemented in Response to the Arab Spring**

The Arab Spring forced North African governments to become more responsive to the needs of the poor and unemployed, but public policies continued to benefit mainly non-poor groups. It demonstrates many of the ‘new policies’ were in fact increases in the provision of existing measures, so presented the same drawbacks as before. Every country increased its food (and fuel) subsidies; but the programmes continued to be badly targeted, and non-poor groups benefited more than the poor. Algeria, Egypt and Morocco raised public sector salaries as a means of addressing the rise in the cost of living, which widened the wealth gap between public sector workers and everyone else. In Tunisia, major export firms continued to enjoy benefits not available to smaller or informal sector firms.

However, there were some departures from previous policies. Tunisia and Egypt provided targeted cash transfers to the families of migrants returning from Libya. Tunisia’s new government passed a series of measures providing cash and other benefits to constituents known to have played a role in the revolution – notably the educated young unemployed and poorer households. Tunisia and Algeria created new government posts to reduce youth unemployment in the short term, but also invested in longer-term solutions for sustainable job creation in telecommunications (Tunisia) and agriculture (Algeria). Nevertheless, only the final measure is targeted at increasing crisis resilience by reducing dependence on strategic imports, in the case of Algeria, and by broadening the sectors that contribute to growth, in the case of Tunisia. The other measures instituted across North Africa are expensive, short-term fixes that may reinforce group propensities for social instability, especially if commodity prices continue to increase\(^\text{30}\).

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\(^{30}\) According to Bullion, 2011, the reason why Algeria and Morocco were better able to maintain control during the Arab Spring was that their leaders were in a position to release vital food supplies before the riots turned into revolutions.
Table 3: New Social Measures Implemented by North African Governments in 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Algeria</th>
<th>Egypt</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages</strong></td>
<td>Pay increases for public sector workers.</td>
<td>15% increase in public sector wages and pensions (EGP 2 billion or 0.17% of GDP)</td>
<td>US$75 net monthly salary increase for all civil and military public employees at central and local government level, as of May 2011</td>
<td>Payment of 50% of employer contribution to the mandatory regime of social security for wages paid (for major export firms). Reduction in hours of work from 48 to 40 hours per week.</td>
</tr>
<tr>
<td><strong>Subsidies</strong></td>
<td>Higher state subsidies on flour, milk, cooking oil and sugar.</td>
<td>Increased subsidy due to rise in global food prices (EGP 2.8 billion or about 0.2% of GDP)</td>
<td>Increase of approximately US$ 1.3 billion in subsidies to curb price increases of staple items.</td>
<td>Food and fuel subsidies increased in February/March 2011.</td>
</tr>
<tr>
<td><strong>Tax cuts</strong></td>
<td>Waived value-added tax (VAT) and customs tariffs waived on imports of cooking oil and raw &amp; white sugar.</td>
<td></td>
<td></td>
<td>Postponement of tax declaration and payment for 2010 to September 2011 (with possibility for a further extension to March 2012) for major export firms.</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td>150,000 families of migrants returning from Libya to social solidarity programme (EGP 100 million).</td>
<td>Increase on minimum pension for retired public employees and their families, from MAD 600 to MAD 1000 per month. This measure benefited 90,000 people at an annual cost of US$54 million.</td>
<td>Expansion of direct cash transfers programme to poor families, from 135,000 to 185,000 households (that is, one-off lump sum transfer of TDN 400 per person and TDN 600 per family to Tunisian migrants returning from Libya), Microcredit or gifts to support home improvements for 20,000 households. Additional 150,000 young people to receive TDN 80 monthly allowance in 2011. Expansion of free medical insurance cards to an extra 25,000 individuals. TDN100 per month for 25,000 people for AMAL-2 programme (cost: TDN 30 million for one year).</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>Building new houses.</td>
<td></td>
<td></td>
<td>Acceleration of public infrastructure investment project. Support for pilot projects in telecommunications sector.</td>
</tr>
<tr>
<td><strong>Jobs</strong></td>
<td>Up to 2.5 million public sector jobs. Sustainable job creation in agriculture by funding 100,000 new farms.</td>
<td>Permanent jobs for about 450,000 temporary contract public sector employees who have been in post for three or more years.</td>
<td>Recruitment of 20,000 new civil servants and plan to create 20,000 new additional jobs under new budget law. New active labour market programme for educated unemployed (AMAL-2). Half the 4,303 graduates to be hired by government, the other half to be integrated into autonomous public establishments.</td>
<td></td>
</tr>
<tr>
<td><strong>Total cost (% GDP)</strong></td>
<td>Increased public spending by 25% of GDP.</td>
<td>Increased public spending by 0.8% of GDP.</td>
<td>Annual total cost of 2011 budget of salary increase is estimated at US$508 million and will cost US$760 million in 2012.</td>
<td></td>
</tr>
</tbody>
</table>


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31 Some of the measures were implemented in response to the global financial crisis rather than the Arab Spring crisis, so less attention is be paid to those measures in this subsection.
Crises are often referred to as ‘normal accidents’, because their causes reside within the system but remain undetected or are ignored until crisis erupts (Perrow, 1999; Sagan, 2004; Wolf and Sampson, 2007). This is clearly the case with the Arab Spring uprisings, since the warning signals were palpable during the 2008 food riots – and perhaps even earlier. The Arab Spring riots caused more damage to North African countries’ growth trajectories and fiscal capacities than the world food crisis and global financial crisis combined. The most vulnerable countries, with the least spare capacity to shoulder further economic shocks, are the net oil importing countries, in particular Egypt. There are widespread concerns that worsening economic conditions could lead to further unrest in the countries, undermining their political stability and economic recovery.

On a more positive note, recent studies have shown that countries undergoing political transition experience GDP contractions averaging 3-4 percentage points during their first year of transition, after which growth quickly resumes or exceeds pre-transition rates and then stabilises with less volatility at the higher rate. If that is the case, then the constitutional and social reforms taking place in North Africa could provide countries with greater long-term stability and developmental capacity. However, the new regimes will need to shift away from past policies for this to happen. In addition, the eurozone debt crisis could jeopardise North African countries’ recovery from the Arab Spring as well as their longer-term growth prospects.

**Eurozone Debt Crisis: Vulnerabilities and Implications**

North African countries are highly exposed to the eurozone crisis because of their economic openness – more specifically, their strong trade and financial links with Europe. A contraction in European demand for North African goods and services would damage fiscal balances in the region and could affect North African countries’ abilities to meet their spending commitments – in particular, their costly food and fuel subsidies and hefty public sector wage bill.

However, countries differ in their specific vulnerabilities to the eurozone threat. Egypt would be most resilient to a fall in European demand for North African goods, since it is least dependent on merchandise trade from either Europe or the euro area. Meanwhile, Libya is the most vulnerable: it exports nearly half of its goods to Italy and Spain, two of the most-troubled eurozone countries32. Egypt, Morocco and Tunisia would suffer most from a

| Table 4: Vulnerability of North African Countries to the Eurozone Debt Crisis |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Key indicator               | Algeria | Egypt | Libya | Morocco | Tunisia |
| Trade dependence on EU      | 49%     | 30%   | 77%   | 58%     | 73%     |
| Tourism dependence EU*      | - 75%   | -     | -     | 79%     | 85%     |
| FDI dependence on EU**      | -       | 61%   | > 50% | 80%     | 58%     |
| Remittances dependence on EU*** | 95%     | 12%   | -     | 87%     | 88%     |
| Fiscal balance (surplus/deficit) | deficit | deficit | -     | deficit | deficit |
| Fiscal space in 2011 compared to 2009**** | improved | worsened | - | worsened | worsened |
| Current account balance (surplus/deficit) | surplus | deficit | - | deficit | deficit |
| Current account balance in 2011 compared to 2009* | improved | improved | - | worsened | worsened |
| Gross public debt in 2011 compared to 2009***** | worsened | worsened | - | worsened | improved |
| Official reserves in 2011 compared to 2009******* | improved | worsened | - | worsened | worsened |

Source: Adapted from table 2 in Massa et al (2011 : 5).
* High vulnerability areas (defined as >50%) are highlighted in red
** Figures for Egypt from Ibrahim (2011); Morocco & Tunisia from De Bock et al (2010).
***** Current account balance/GDP (%); 2011 levels from IMF (2012b).
drop in the number of European visitors to North Africa, since Europeans make up the bulk of the countries’ tourists. International capital markets would likely tighten in the event of a worsening of the crisis, making it even more difficult for North African governments to secure affordable loans. Concerns of a potential Greek default have already put pressure on European banks to retain more capital and lend less, and have raised the costs of borrowing across North Africa. Interest rates on sovereign debt have risen sharply over the past two years: for example, the yield on a one-year Treasury bill in Egypt increased from 10.5% in October 2010, to nearly 14% in October 2011 and to around 16% in May 2012. Higher debt servicing costs would add to fiscal pressures for countries with already high costs.

A deepening of the crisis would also have severe consequences for small businesses and poor households across North Africa. North African firms, in particular SMEs, would experience problems in accessing capital and credit if European banks and investors decide to concentrate their resources at home. The debt crisis has already led to a collapse in investor appetite and the deepest panic in 31 years, as measured by the Credit Suisse Global Risk Appetite Index. An outflow of FDI could stunt private sector growth, especially in the net oil importing countries. After all, the EU supplies 80% of FDI in Morocco, 61% in Egypt and 58% in Tunisia. Morocco is the most exposed of the North African countries to contagion from the European banking sector, since foreign (mainly European) banks control over one-third of its total bank assets.

The crisis could affect North African households in several ways. First, higher unemployment in Europe could result in lower remittances to North African households. Families in Algeria, Morocco and Tunisia would be most affected, since around 90% of their remittances originate in the EU. Second, a fall in European demand for North African products could lead to job losses, especially in the net oil importing countries’ tourism, manufacturing and agricultural sectors. Third, some European countries have responded to the crisis by introducing financial incentives to encourage jobless migrants to return home. If successful, these schemes could add to unemployment problems in North Africa. The combined effect of a collapse in remittances and a spike in unemployment would be detrimental for poorer households.

Whatever evolution occurs in Europe, led by the controversy “fiscal austerity pact” against “growth compact”, North African countries will still need to make substantial changes to their longstanding policies to avoid the worst effects of future shocks and place themselves on a more crisis-resilient pathway. This means learning from their past experiences.

**Crisis Resilience Analysis: Conclusion**

The crisis analyses presented in this section produce a picture of both growth patterns and crisis performance across North Africa over the past decade. It also discusses resilience in the region. The table below summarizes the findings.

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32 Algeria and Morocco also trade heavily with Italy and Spain.
33 SMEs suffer more than larger firms during a ‘credit crunch’, as banks and depositors exhibit a flight to quality that penalises SMEs, even potentially profitable ones (Ding et al, 1998: 12-13).
34 Egypt, although one of the world’s top remittance recipients, would be least affected, since 59% of its remittances come from Arab countries and only 12% from Europe (Migration Policy Institute, 2011).
Table 5: Vulnerability of North African Countries to the Eurozone Debt Crisis

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Egypt</th>
<th>Libya</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structural vulnerabilities</strong></td>
<td><em>Merchandise trade dependence</em></td>
<td><em>FDI dependence</em></td>
<td><em>FDI dependence</em></td>
<td><em>Merchandise trade dependence</em></td>
<td><em>Merchandise trade dependence</em></td>
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<tr>
<td></td>
<td><em>Export concentration (oil)</em></td>
<td><em>Remittance dependence</em></td>
<td><em>Remittance dependence</em></td>
<td><em>Export concentration (oil)</em></td>
<td><em>Remittance dependence</em></td>
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<tr>
<td></td>
<td><em>Food import dependence</em></td>
<td><em>Food import dependence</em> (high)</td>
<td><em>Food import dependence</em></td>
<td><em>Export concentration (manuf.)</em></td>
<td><em>Food import dependence</em></td>
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<tr>
<td></td>
<td><em>Fuel import dependence</em></td>
<td></td>
<td></td>
<td><em>Fuel import dependence</em> (high)</td>
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<tr>
<td><strong>World commodity price exposure</strong></td>
<td><em>Fuel (exports)</em></td>
<td><em>Food (imports)</em></td>
<td><em>Food (imports)</em></td>
<td><em>Food and fuel (imports)</em></td>
<td><em>Food and fuel (imports)</em></td>
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<td><em>Food and fuel (imports)</em></td>
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<tr>
<td><strong>European exposure</strong></td>
<td><em>Trade</em></td>
<td><em>Tourism</em></td>
<td>Trade</td>
<td><em>Trade</em></td>
<td><em>Trade</em></td>
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<td></td>
<td><em>Remittances</em></td>
<td><em>FDI</em></td>
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<td></td>
<td><em>Remittances</em></td>
<td><em>Remittances</em></td>
</tr>
<tr>
<td><strong>Other areas of weakness/threats to crisis resilience/inclusive growth</strong></td>
<td><em>Weak private sector</em></td>
<td><em>Political uncertainty</em></td>
<td><em>Political uncertainty</em></td>
<td><em>Weak fiscal capacity</em></td>
<td><em>Political uncertainty</em></td>
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<td></td>
<td><em>Weak human capital</em></td>
<td><em>Weak fiscal capacity</em></td>
<td><em>Weak private sector</em></td>
<td><em>Weak private sector</em></td>
<td><em>Weak fiscal capacity</em></td>
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<tr>
<td></td>
<td><em>Oil depletion</em></td>
<td><em>Weak human capital</em></td>
<td><em>Weak human capital</em></td>
<td><em>Weak human capital</em></td>
<td><em>Weak private sector</em></td>
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<td></td>
<td><em>Climate change/water scarcity</em></td>
<td><em>Oil depletion</em></td>
<td><em>Climate change/water scarcity</em></td>
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<td></td>
<td><em>Climate change/water scarcity</em></td>
<td></td>
</tr>
<tr>
<td><strong>Factors that have contributed to growth and crisis resilience over past decade</strong></td>
<td><em>Valuable natural resources (oil)</em></td>
<td><em>Tourism</em></td>
<td><em>Tourism</em></td>
<td><em>Tourism</em></td>
<td><em>Tourism</em></td>
</tr>
<tr>
<td></td>
<td><em>Political stability (survived Arab Spring)</em></td>
<td><em>Diversified economic sectors</em></td>
<td><em>Valuable natural resources (oil)</em></td>
<td><em>Diversified economic sectors</em></td>
<td><em>Valuable natural resources (phosphates)</em></td>
</tr>
<tr>
<td></td>
<td><em>Long-term investment in agriculture</em></td>
<td><em>Diversified trade partners</em></td>
<td><em>Investment in agricultural land abroad</em></td>
<td><em>Diversified trade partners</em></td>
<td><em>Long-term investment in agriculture</em></td>
</tr>
<tr>
<td></td>
<td><em>Prudent macroeconomic management</em></td>
<td><em>Prudent macroeconomic management</em></td>
<td><em>Trade liberalisation and privatisation</em></td>
<td><em>Prudent macroeconomic management</em></td>
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<td><em>Trade liberalisation and privatisation</em></td>
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Lesson-Learned for Successful Crisis Resilience Measures in Other Regions

Some countries outside of the region have successfully faced the same issues and the programmes they introduced had led to increased peace, growth and crisis resilience. Those of specific relevance are the social policy in Argentina, the SMEs support in Taiwan, the post-transition economic reforms in Estonia. Adapted to and implemented in North Africa, these programmes could produce favourable outcomes for the region. A number of key lessons emerge from the country examples:

- **Need for timely response.** Crises demand rapid and decisive action. Policy measures need to be implemented in a timely fashion before the crisis has produced detrimental long-term effects. Examples from Estonia, Taiwan and Argentina highlight the mechanisms that other countries have applied to respond to the need for immediate action: by commissioning policy assistance from think tanks (Estonia), by utilising existing networks between government and market institutions (Taiwan), and by having effective programmes in place that can be quickly adapted and expanded in times of crisis (Argentina).

- **Focus on vulnerable groups and sectors.** Crisis mitigation measures should be tightly targeted to those groups and sectors that are most susceptible to negative crisis impacts. Policies aimed at vulnerable groups can reduce social exclusion and marginalisation, thus lessening propensities for social unrest. Targeted programmes tend to be more affordable than universal programmes, and well-designed programmes can deliver multiple benefits to a large pool of participants at a fairly low cost. The Argentina example demonstrates how effective programmes can strengthen community cohesion and individual confidence, while the Estonia example shows how including groups in government decision-making can increase political legitimacy and compliance.

- **Importance of capacity-building.** Government crisis policies should build groups’ long-term adaptive capacities, rather than rendering them dependent on state support. In Argentina poor households were provided with jobs and training, rather than unconditional cash transfers, and in Taiwan SMEs were provided with practical assistance and support, rather than subsidies. Empowering groups to function independently means that crisis-related programmes can be scaled down once the crisis has passed – thus freeing up state resources for other uses.

Table 6: Lesson-Learned: Key Challenges and Related Measures

<table>
<thead>
<tr>
<th>Key indicator</th>
<th>Specific measures</th>
<th>Relevant country example(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To build adaptive capacity in sectors/groups that - have been damaged over time</td>
<td>Dedicated support for SMEs</td>
<td>Taiwan SME support</td>
</tr>
<tr>
<td></td>
<td>Measures to reduce poverty and inequality</td>
<td>Argentinian Plan Jefes/Trabajar</td>
</tr>
<tr>
<td></td>
<td>Measures to reduce unemployment</td>
<td>Argentinian Plan Jefes/Trabajar Taiwan SME support</td>
</tr>
<tr>
<td>To create a sustainable basis for sustained rapid growth</td>
<td>Improvements in the investment climate</td>
<td>Estonia post-transition reforms</td>
</tr>
<tr>
<td></td>
<td>Improvements in the standard of educational provision</td>
<td>Associated measures (Taiwan)</td>
</tr>
<tr>
<td></td>
<td>Broadening the economic sectors contributing to growth</td>
<td>Associated measures (Argentina/Estonia)</td>
</tr>
<tr>
<td>To reduce vulnerability to trade/capital shocks</td>
<td>Measures to support domestic economic development</td>
<td>Taiwan SME support</td>
</tr>
<tr>
<td></td>
<td>Diversification of trade and financial partners</td>
<td>Associated measures (Estonia)</td>
</tr>
</tbody>
</table>
A tailored policy package combining features from these programmes could help North African countries to overcome the key challenges that they face today. An employment-intensive infrastructure programme modelled on Argentina’s Plan Jefe could enable countries to tackle poverty, inequality and unskilled unemployment. The added benefit of improvements to their infrastructure would be especially useful for North Africa’s transition countries, given the considerable damage that they suffered during the Arab Spring. Providing dedicated support to SMEs, incorporating some of the features of Taiwan’s comprehensive programme, could help to reduce informality and educated unemployment in North Africa, while increasing private sector durability and productivity. Economic reforms following Estonia’s example could enhance macroeconomic stability, raise the competitiveness and dynamism of North African industries, and boost formal private sector growth and investment. If North African countries were also to adopt Estonia’s practice of including a wide range of groups in political decision-making, as well as Argentina’s model of social inclusion through community projects, they would likely enjoy greater social and political stability. But to realise the full benefits of these policies, North African countries should undertake the associated measures highlighted in the best practice examples. Programmes to upgrade their standard of education and steps toward diversifying their trade and financial partnerships would increase the countries’ overall growth and crisis resilience.
Recommendations: Roadmap for Promoting Resilient Growth in the Short to Medium Term

Each North African country faces distinct challenges and opportunities in future. Hence, the recommendations proposed below apply to the region as a whole and need to be adapted to the unique circumstances of each country. They should be viewed as general policy options that can be used as a roadmap for promoting crisis-resilient growth in the short- to medium-term.

The recommendations are set out according to the constituents of crisis-resilient growth – that is, strengthening adaptive capacity, reducing systemic vulnerability, and expanding the drivers and distribution of growth. Following the recommendations are given practical suggestions for how governments can obtain funding and support in implementing these measures.

**Strengthening Adaptive Capacity**

- **Countries should continue to exercise monetary and fiscal restraint, but not as an unwavering goal.** Prudent macroeconomic management builds fiscal capacity, which allows governments to run deficits, borrow funds and/or implement countercyclical measures during crises without damaging countries’ macroeconomic stability or debt sustainability. However, monetary and financial authorities should not unwaveringly pursue nominal targets. Macroeconomic policies need to be flexible and supportive of broader development aims and structural reforms. Moreover, building adaptive capacity at macroeconomic level without strengthening groups and sectors at microeconomic level can result in nurtured vulnerabilities that can eventually produce a crisis from within – as evidenced in Argentina in 2001 and in North Africa in 2011.

- **Social policies and programmes should be re-designed to tightly target, strengthen and protect vulnerable households, both during and between crises.** Historically, North African social policies and programmes have tended to benefit non-poor groups more than poor groups and formal sector workers more than informal sector workers. They have also eroded countries’ fiscal capacities through creating dependence. The good practice example from Argentina provides a pro-poor alternative that is cheaper than North African countries’ current schemes, extends to a wider number of beneficiaries, empowers individuals and their communities, and provides participants with a route to formal sector employment – thus limiting their need for long-term government support. North African countries’ social insurance systems also need to be reconfigured, so that more households are protected during labour and market transitions.

- **Formal and non-formal education systems should be reformed, so that they deliver the skills demanded by the labour market.** A greater emphasis should be placed on job-relevant skills to reduce the mismatches that are currently complicating the education to employment transition in North Africa. Apprenticeship schemes, involving private sector firms in curriculum design and class activities, and placing greater emphasis on problem solving and creative group work are some ways of achieving this goal. For groups outside the formal education system, public-private partnerships in vocational training and in the design of active labour market programmes can increase the success of initiatives and improve workers’ technical and core skills, which could in turn fuel innovation.

- **State institutions need to become more inclusive and responsive to restore trust in government and enable a full recovery from the Arab Spring.** The Arab Spring highlighted the importance of voice and accountability mechanisms in maintaining social
stability and averting internally generated crises. Full recovery from the Arab Spring thus entails North African governments including a broader set of groups in public policy processes and reacting to bottom-up pressures in a productive manner. The best practice example from Estonia demonstrates that political inclusiveness can increase government legitimacy and contribute to more peaceful outcomes, since key stakeholders as well as ordinary citizens are brought ‘on board’ as partners in solving problems.

Reducing Systemic Vulnerability

- **Diversification of trade and financial partners should be undertaken to spread risk and reduce countries’ vulnerability to shocks arising from a single country or region.** North African countries’ heavy reliance on Europe for trade and capital flows was a main reason why the global financial crisis affected the region and why countries are highly vulnerable to the eurozone debt crisis. Strengthening ties with regional partners and/or other emerging market economies can protect countries from shocks originating in the developed world. Regional integration can provide numerous benefits, including cost savings related to proximity and increased bargaining power in international trade negotiations.

- **Investments in agriculture and alternative energy sources should be placed to reduce countries’ strategic import dependence.** Over the past decade, the net oil importing countries’ fiscal balances have been damaged by the rising costs of food and fuel imports. Escalating food prices have also affected the net oil exporters and explain why the Arab Spring spread across North Africa. Programmes focused on domestic agricultural production and alternative energy sources could insulate countries from oscillations in world food and fuel prices and contribute to their long-term food and energy security, especially if countries were to also adopt measures to tackle climate change, water scarcity and fuel depletion issues. Agricultural investment could also benefit small farmers and their families, who form a large share of North Africa’s vulnerable and food-insecure populations.

- **Countries should support local SME development to reduce their exposure to external shocks.** A central platform of any domestic development strategy should be supporting SMEs, especially those catering to the local market. SMEs can reduce an economy’s exposure to external shocks by strengthening sectors that are less exposed to fluctuations in international capital flows, as well as commodity and foreign currency markets. Comprehensive support for SMEs – that is, providing smaller businesses with access to capital and other factors of production, as well as technical, research and market assistance – can not only aid the development of innovative products and sectors, but can also induce informal sector firms to join the formal sector. The best practice example from Taiwan provides concrete suggestions for how governments can promote SME growth and development.

- **Crisis monitoring tools should be developed and/or strengthened so that countries can learn from their past experiences.** The social conditions that led to the 1984 bread riots were the same as those that caused the 2011 Arab Spring riots and revolutions – which means that North African countries have not learned from their past experiences. To improve countries’ future performance, governments need to ensure that there is accurate and reliable information regarding the causes of past crises, their transmission channels and their impacts on specific groups and sectors. This is not yet available: for example, lack of good-quality economic data made impossible for researchers to assess the employment impact of trade shocks on Egypt during the global financial crisis. Countries should also collate information from other regions, so that lessons can be learned without undergoing hardships.

Expanding the Drivers and Distribution of Growth

- **Countries should continue to pursue trade liberalisation and privatisation, but should ensure that measures are in place to lower the risks associated with closer global integration.** Opening up their markets enabled North African countries to attract higher quantities of trade, FDI and other capital
flows during the global economic boom. Hence, further steps are encouraged as a means of achieving the growth levels needed to substantially reduce poverty and unemployment. However, countries should ensure that measures are in place to lower the risks associated with economic and financial openness, such as capital controls and financial sector regulations. The best practice example from Estonia shows how countries can usefully apply tax exemptions to deter outflows of FDI, without imposing restrictions that could block FDI or providing preferential treatment to foreign investors that could deter local investment.

- The legal and regulatory impediments to formal private sector growth and employment need to be removed to enable sustained rapid economic expansion. Key areas include lowering the costs of doing business, strengthening private property rights and contract enforcement legislation, and making labour market regulations more flexible while still providing adequate protection for workers. A more business-friendly environment can encourage domestic and foreign investment and lead to higher formal sector job creation. It may also induce informal sector firms to join the formal sector, which could boost government revenues and result in better conditions for workers. The best practice example from Estonia shows how strong investor protections, low barriers to entry, streamlined and transparent bureaucratic procedures, and low business costs can foster the development of a fast-growing and dynamic private sector.

- Governments should promote sectoral diversification for more broad-based economic growth. The Algerian and Libyan governments should support the development of non-energy sectors to reduce economic concentration in oil. They should also invest in alternate energy sources to prevent the countries becoming fuel import-dependent in future. Libya’s proven oil reserves will deplete in around 40 years, while Algeria’s hydrocarbon outputs will begin to decline – so they need to act fast. Governments in the net oil importing countries should promote investment in labour-intensive industries, such as agriculture and services, both to reduce unemployment and because those sectors were resilient during the global financial crisis. However, they should also support high-productivity areas, such as manufacturing and telecommunications.

- Policies to promote private sector productivity and competitiveness should be adopted to encourage innovation and enable more rapid economic growth. Policies that persuade firms to undertake research and development, invest in staff training and adopt new technologies can promote higher productivity growth and innovation. Governments can also encourage higher value-added activities and industrial competitiveness by supporting international knowledge exchanges, technology transfer and cluster upgrading, as well as facilitating greater cooperation between businesses and universities or research institutes. The best practice example from Taiwan provides suggestions for how governments can aid private sector growth and innovation.

- A final question, after surveying these vast and costly recommendations, is how will they be funded? After all, Egypt, Tunisia and Morocco are also fiscally constrained. Libya’s financial wellbeing is contingent on its ability to achieve internal stability, while Algeria’s fiscal capabilities are reliant on oil prices remaining at a high level. Below are suggestions for how countries can boost the level of funds and practical support at their disposal.

- Involve a wide range of local and international partners. Involving a wide range of partners in policy formulation and implementation can increase the financial, technical and personal support available, thus ensuring the success of programmes. Key partners include civil society organisations, academic institutions, diaspora groups, multinational corporations, foreign governments and international agencies. However, the effectiveness of multilateral partnerships is contingent on interventions being well coordinated and integrated.

- Explore the scope for innovative funding sources. In recent years, countries such as Nepal, Ethiopia
and Kenya have issued ‘diaspora bonds’ – that is, sovereign bonds marketed to migrant populations – to fund infrastructure and other large development projects. A key benefit of diaspora investments is that they are less cyclical than other forms of international capital, since migrants’ homeland bias and lower perception of sovereign risk make them less likely to withdraw funds during economic downturns. Another idea that North Africa’s transition countries may wish to consider is the possibility of creating new financial instruments backed by stolen assets – in other words, «asset recovery backed securities». There may be scope to issue such instruments.

The recommendations contained in this chapter call for far-reaching changes. Some of the measures require strong political will and commitment, while others require significant funding and support. However, in the fallout of the Arab Spring, North African governments may have an easier time passing difficult, but ultimately worthwhile, measures. Indeed, a recent study has shown that political crises are more conducive to radical structural reforms, such as on labour market and trade than economic crises (Campos et al, 2010). Crises represent difficult challenges, but they also provide opportunities for significant positive change. The Arab Spring may be the impetus that North African governments need to make the changes required to achieve more inclusive, broad-based and rapid growth, which is the basis of long-term crisis resilient growth.
Chapter 2

The Political Economy of Food Security in North Africa
Introduction

When discussing the food security of North Africa, it is important to be aware that food security can be achieved at two levels – national aggregate food security and individual food security. The former exists when a nation has adequate food supplies to feed its population, either via domestic production, food imports, food aid or some combination of these. Individual food security exists when all individuals in a country have access to adequate food. National food security is necessary but not sufficient for individual food security in that a nation may have adequate national food supplies but they may not be accessible to all individuals – if for example they are tied up in centrally located national grain silos or if individuals cannot afford to buy food. In the past domestic policy makers in developing countries have sometimes focused excessively on national food security with strategies such as strategic grain reserves but have failed to achieve individual food security in their countries. The focus on individual food security was strengthened by Amartya Sen’s famous analysis of famines (Sen 1981) in which he used the demand-side concept of “entitlements” to food. Sen argued that individuals need entitlements to food and this will depend, amongst other things, on their income and assets. Hence, there can be individual hunger and famine even when food supplies are adequate. Sen’s analysis showed that it is not just the supply side of food that is important but also demand side factors in ensuring individual food security.

Another way of expressing the importance of both supply side and demand side factors is the “three As” – Availability of food, Accessibility of food and Affordability of food. Related to this is the definition of food security adopted by the World Food Summit in Rome in 1995 and now generally accepted by most international organisations as a working definition:

“Food security exists when all people, at all times, have physical, social, and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life.”

Since the early 1970s, there has been a steady growth of food demand in the North Africa region stimulated by rapid population growth and urbanisation and, changing patterns of food consumption based on rising incomes that favour higher valued foods. Ecological constraints on food production in North Africa, however, are severe, with shortages of both arable land and water. As a result of these demand and supply factors, North African countries are forced to import a large percentage of their total food requirements. Most Arab countries in the broader Middle East and North Africa (MENA) region now import at least 50% of the food calories they consume and the region is the largest importer of cereal in the world. The North African dependence on food imports is projected to increase in the coming two decades, with the greatest increase of all MENA countries predicted for Egypt. The recent food price shock and the projected increased reliance on food imports mean that North African governments have become acutely aware of the vulnerability caused by reliance on global food markets to meet domestic demand.
These vulnerabilities were displayed in terms of the adverse socio-economic and political impact of the global food price shocks on the North African economies. The sharp rise in the price of food imports contributed to macroeconomic problems such as rising inflation, widening trade deficits and fiscal strain as governments tried to cushion the effects of higher food prices. The failure to prevent transmission of increased global food prices to increased domestic food prices in the region also meant that local populations suffered from increasing living costs which contributed to poverty, under-nutrition and other negative social welfare effects. This in turn seems to have acted as one of the trigger factors contributing to the political uprisings in 2011 in countries such as Tunisia, Egypt and Libya, popularly known as the “Arab Spring”. In addition to the domestic political implications, a heavy reliance on food imports brings with it geo-political considerations. Global food markets are thin, in the sense that only a small proportion of total global food production is actually traded on international markets. As a result, five major suppliers, Argentina, Australia, Canada, the EU and USA, account for 73% of the world’s traded cereals. This means that access to cereal imports for the North African states is contingent on good geo-political relations with these major suppliers.

The recent global food price shock combined with the political upheaval in North Africa, provides an opportune moment for the North African countries, along with the international community, to take stock of the food security status of the region and to reappraise food security strategies in countries like Egypt, Tunisia, Libya, Algeria, Morocco and Mauritania. There are already signs that governments in the region are doing this and are becoming less willing to rely so heavily on food imports as the route to food security. Consequently, the concept of “food sovereignty” is gaining currency in the region, whereby nation states secure greater control and power over their sources of food, and adopt strategies that are not just dictated by international market forces. This is leading to two new approaches to food security – land acquisition in third party countries to secure direct access to food supplies which by-passes international food markets and a renewed emphasis on domestic food production in the North African countries themselves.

This chapter is designed to provide a greater understanding of food security in North Africa from a political economy perspective. Section 2 presents an analysis of the current food security status of the six North African. Section 3 looks at the impact of the 2007/08 food price shock on the macro economy, on the welfare of households and individuals and on the politics of the region. Section 4 assess the short-term response of Governments to the shock and questions the sustainability of such responses. Section 5 looks at the longer term options for achieving sustainable food security and food sovereignty in the region and discusses the policy implications of such options and the potential role of the international donor community in helping to design and implement such strategies. Section 6 concludes.
The Food Security Status of North Africa

It is often argued that MENA – and its North Africa sub-region – are among the most food insecure regions in the world. This characterisation is based on the region’s heavy reliance on food imports and the fact that it has the largest food deficit of any region in the world in terms of cereal imports as a proportion of domestic consumption.

However, food imports are only one dimension of food security and relate to the macro level of national food security from a supply side perspective. Other variables that help determine a region’s food security status include wealth levels, income distribution, and fiscal position. These variables differ not only between regions but also between nations. Libya and Algeria for example are not particularly vulnerable to global food price shocks as due to their natural resource base, predominantly oil and gas, they have a sound fiscal position and can afford food imports, as global food prices and oil prices traditionally move together. Their high import dependence however makes them vulnerable to quantity shocks such as trade embargoes or export bans by food exporting countries. Egypt is less dependent on cereal imports as the country has a strong food production base, but is fiscally strained making her vulnerable to global price shocks. Morocco and Tunisia have both high cereal import dependence as well as being fiscally strained. However, looking at the micro-level, the individual food security is not guaranteed by the countries’ mineral resource endowment. All of the North African countries have seen an improvement in their Global Hunger Index36 since 1990 and - apart from Mauritania - score well on the GHI.

According to various reports37, using the micro level data, Morocco is the only other country that stands out as having a Moderate hunger level. However, once macro level indictors (such as dependence on food imports and fiscal position) are introduced to the analysis, all of the North African countries seem to suffer from food insecurity problems. Hence, in the remainder of this paper, we pay particular attention to the macro dimensions of food security, including the role of food imports in the region and the fiscal implications of policies designed to curb the impact of rising food import prices on the population of the North African countries.

Figure 1: Food Insecurity at the Micro and Macro Levels


36 The GHI measure hunger combining three equally weighted indicators: the proportion of undernourished as a percentage of population, the prevalence of underweight children younger than five, the mortality rate of children younger than five.

37 World Bank 2009; IFPRI 2010; IFPRI 2012; GHI 2011
The Impact of the 2007/08 Global Food Price Shock

The Magnitude of the Food Price Shock

2007 and the first part of 2008 witnessed a massive increase in global food prices. Although this was partially reversed by the end of 2008, early 2011 saw a second major spike in which prices reached an historic high. Figure 3 clearly shows these two spikes in global food prices.

Figure 2: FAO Food Price Index

The sharp increase in global food prices since 2007 is due to a number of underlying structural factors. Rapid population and income growth in countries such as China, India and the Gulf States has led to demand-pull price increases for food in recent years. Related to this are changing global food consumption patterns towards meat – 30 per cent of world grain now goes to feed animals, but an acre of arable land can produce 63 kilos of protein from grain but only 9 kilos of protein from beef. Another source of recent increased demand has been the growth in biofuel demands for land and crops especially in the USA which accounts for 28 per cent of world cereal exports. This is in response to record high oil prices in recent years. High oil prices have also pushed up the price of food in a more direct way since oil is an input to fertilisers, pesticides and fuel for tractors and machinery and also affects transport costs of food.

Structural factors on the supply side have also contributed to the recent increases in food prices. The thinness of global food markets along with limited global stocks of food especially in OECD countries compared to high levels of the 1980s and 1990s, have pushed up prices. This has been exacerbated by the effects of climate change causing natural disasters in major producers of food such as the severe flooding in Pakistan and Australia and droughts in Russia, Ukraine and Argentina. These supply side problems triggered export restrictions or bans by major world suppliers, for example in 2007/08 India and Egypt restricted their rice exports, and wheat exports and other grain exports were banned by Russia, Ukraine, Argentina and Kazakhstan. Finally, financial trading in agricultural commodities has increased dramatically in recent years. In 2008 $150 billion was invested in index and other funds for agricultural commodities compared to only $15 billion in 2004. This financial speculation has pushed up
prices in the last few years and also caused increased volatility in food prices. The persistence of these underlying structural factors means that global food prices are predicted to remain high in the foreseeable future, with Oxfam (2011) predicting that global food prices will double in the next twenty years.

**The Macro-Economic Impact of the Global Food Price Shock**

At the macroeconomic level the global food price increases contributed to inflation in the MENA region, with regional inflation increasing more than twice the speed of world inflation in 2007/8. It also contributed to widening trade deficits in many countries. In addition, as governments in the region tried to cushion the impact of rising global food prices on their domestic populations, this increased fiscal strain especially in the resource poor non-GCC countries.

Albers and Peters (2011) have analysed the impact of rising global food prices on inflation in the Southern Mediterranean region (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia). They concluded: “The share of food inflation in total inflation in the region has been extremely high at some points during the price upsurge, as much as 60% and 80%. This shows once more the extent to which food inflation had put considerable upward pressure on total prices in ENP Mediterranean countries. ” In North African countries, the food price increases in Mauritania Algeria and Egypt were larger than those recorded in Tunisia and Morocco and Albers and Peeters speculate that this was due to the fact that the latter two countries have larger domestic agricultural sectors. Although global food prices fell in the second part of 2008, this decrease was mitigated by a degree of downward price rigidity in the Southern Mediterranean countries, which was particularly notable in Egypt where inflation hardly dropped below 10%38.

**Figure 3: Food Price Inflation in North African Countries 2000-2009 - Agricultural Trade Deficit for North African Countries 2000-2009 (US$ million)**

![Graph showing food price inflation and trade deficit](source: FAOSTAT)

**The Impact on Living Standards and Welfare**

The global food price shock of 2007/08 led to a sharp increase in the consumer prices of food in the import-dependent North African countries which has affected the population’s living standards, increased poverty and made it increasingly difficult for many to feed their families. Although Government policies,

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38 Albers and Peters examined downward price rigidity in consumer price inflation in Southern Mediterranean countries, and found that a 10% upward shock in global food prices leads almost immediately to a 1% increase in CPI inflation, but that a 10% decrease in global food prices has no effect on these countries’ CPI.
such as increasing expenditure on food subsidies, mitigated the extent to which the global food price increases were transmitted to the domestic economy, there was still a significant degree of food price inflation in the region.

At the microeconomic or household level, rising global food prices contributed to increased poverty. Indeed, it is well known that the poor in the region spend between 35 per cent and 65 per cent of their income on food. Hence, to the extent that rising food prices were transmitted to domestic consumer food prices the poor were adversely affected. In addition, in the North Africa region there is a high concentration of people who are near the poverty line (just above), such that poverty vulnerability in the region is high. For example, although less than 3% of the population live below the $1.25 per day poverty line in Egypt, Morocco and Tunisia, over 12% fall below the $2 per day level in Tunisia and Morocco with this figure rising to 18.5% for Egypt. This makes poverty very sensitive to even small increases in the cost of living, with relatively small shocks having the potential to tip large numbers into poverty. Rural landless, marginal farmers and urban poor are the most vulnerable groups in this respect.

The impact of rising food prices on poverty has been exacerbated by the fact that despite registering high rates of economic growth during the first decade of the twenty first century, growth has failed to trickle down. In recent years Rather, in many countries poverty, unemployment and income inequality have worsened over the past decade. In addition to declining living standards due to inflation, unemployment is another pressing problem in North Africa.

Food Prices and the Arab Spring

The 2011 political uprisings in North Africa had important socio-economic underpinnings. High rates of unemployment, especially amongst youth, combined with increasing poverty and inequality, essentially meant that the old implicit Social Contract between regimes and their citizens, whereby autocratic regimes were tolerated in return for their provision of social welfare (Richards and Waterbury 2006) was unravelling (Harrigan and El-Said 2009a,b; Karshenas and Alami 2012).

It was not just the poor who were affected by rising food prices. The middle classes, who made up many of those who took to the streets during the political uprisings in North Africa, were also adversely affected. This is because on average NA populations spend a much greater share of their income on food compared to the high income Western economies: in USA the average amount of income spent on food is only 6.8%, whilst for countries like Tunisia, Egypt, Morocco, and Algeria it is around 40%.

The link between rising food prices and political unrest is not new or unique to the North Africa region. Historically,
rising food prices have often triggered political unrest. Attempts to reduce food subsidies under the economic reform programmes led to riots in Egypt in 1977, Morocco in 1981, Tunisia in 1985 and Jordan in 1989 and 1996. Recent research at the University of Adelaide has provided robust empirical evidence for the causal link between rising food prices and political unrest (Arezki and Bruckner 2011). The link between food prices and civil unrest is supported by other theory and empirical evidence.

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39 This Social Contract has consisted of governments providing populist forms of social welfare such as heavy universal subsidies on food, housing, fuel and utilities as well as through providing guaranteed jobs with many perks in a bloated public sector.

40 Arezki and Bruckner examined the effects of variations in international food prices on democracy and intra-state conflict (data for over 120 countries, period 1979-2007). They found that for Low Income Countries ‘increases in the international food prices lead to a significant deterioration in democratic institutions and a significant increase in the incidence of anti-government demonstrations, riots, and civil conflict’. No such relationship was found for High Income Countries.
Short-Term Policy Responses to the Global Food Price Shock

The North African governments responded to both the 2007/08 global food price hike as well as to the 2010/11 global food price increases and the political unrest of the Arab Spring in 2011 by introducing a variety of measures designed to cushion the impact of food price inflation. Measures included increasing public sector wages, increasing government expenditure on bread and other food subsidies, reducing tariffs on imported food items as well as increasing direct cash transfers to the poor. But these measures placed a heavy fiscal drain on government budgets and in light of current fiscal problems in the North African economies, the sustainability of these short-term responses is questionable.

Albers and Peeters (2011) analyse the fiscal implications of increased expenditure on food (as well as fuel) subsidies in the immediate aftermath of the 2007/08 global commodity price increases. They argue that in view of the relatively high level and extent of pre-existing subsidies in the Southern Mediterranean region, the impact on public finances of the commodity price increases has been large by comparison with other regions.

For Egypt, Algeria and Tunisia food subsidies as a percentage of GDP increased during 2007 and 2008, reaching 1.8% of GDP in Algeria (in 2009) and over 2% in Tunisia (2008) and Egypt (2009). In Morocco, however, food subsidies as a percentage of GDP fell during the global food crisis. However, the subsidies - both food and fuel - as a percentage of current government expenditure also increased dramatically for all four countries during 2007 and 2008, particularly in Egypt where they reached 30.9% of current government expenditure in 2008, but also in Morocco and Tunisia where they reached 19.9% and 17.7% in 2008. As global commodity prices fell in 2009 there was some easing of the fiscal pressures caused by subsidies (except in Algeria), but the second peak in global prices in 2011 brought renewed pressure.

The governments of the two mineral rich North African countries, namely Algeria and Libya, did not respond to the global food price increases of 2007/08, with the exception of Algeria’s increase in food or energy subsidies. However, in the face of the 2011 political uprisings both countries introduced a variety of measures in an attempt to improve living standards and appease restive populations – both countries reduced import tariffs on food, increased subsidies, reduced taxes, increased public sector salaries and increased social transfers. By contrast, the mineral poor countries, namely, Egypt, Morocco and Tunisia were much faster to act and in response to the events of 2007/08 introduced measures such as reducing tariffs on food imports, increasing subsidies, increasing public sector salaries in the case of Egypt and Morocco, and increasing targeted transfers to the poor in the case of Egypt. They also repeated a number of these measures during the political uprisings of 2011.

41 Egypt and Morocco spend more on fuel subsidies than on food subsidies, whilst Tunisia spends more on food subsidies.
With the exception of mineral rich Libya, these fiscally costly measures were undertaken in the context of budget deficits, with Egypt in particular witnessing a high level of fiscal stress with a budget deficit of 8.1% of GDP in 2010, and Morocco also experiencing a significant deficit of 4.2% of GDP. As these North African economies start to shrink in the face of the adverse economic effects of the political unrest of 2011, fiscal pressures are likely to grow and the sustainability of these fiscally costly measures is questionable.
A Longer Term Food Security Strategy for North Africa

Strategies

Traditionally there have been three basic ways that a country can achieve food security at the national level – via domestic production, commercial food imports, or food aid. A strategy relying purely on the first option is synonymous with national food self-sufficiency and in the past, policy makers have sometimes wrongly confused food self-sufficiency with food security. But food self-sufficiency is only one route to food security and in reality most countries are forced to rely on a combination of domestic production and imports, sometimes supplemented by food aid.

A nation’s approach to food security can combine a wide variety of strategies and both price and non-price polices to promote domestic food production. If a trade-based strategy of food imports is used this can be supported by policies which promote the production of agricultural export crops to earn the foreign exchange necessary for food imports and/or polices which develop other foreign exchange earning sectors such as manufacturing and services. Both strategies can be supplemented by food aid. In addition, the MENA response to the 2007/08 global food price shock has produced a fourth innovative strategy: acquiring land overseas to directly source food requirements.

Figure 5: Food Security Strategies and Policies

Source: Harrigan 2005
At the individual level, households likewise have a choice between own food production or livelihood diversification into other activities with income used to purchase food in domestic markets. This needs to be supplemented by adequate social safety net programmes for households and individuals who would otherwise remain food insecure. Such programmes include food for work, school feeding programmes, targeted food subsidies, direct cash transfers etc.

The discussion of future strategies and policies to improve food security in North Africa is obviously linked to a more general discussion of the broad development agenda. For example, in order to generate the export earnings needed to fund food imports there is a need to diversify and strengthen each country’s export base. Economic growth also needs to be inclusive and pro-poor and should create employment opportunities given the region’s high level of unemployment, particularly amongst youth. This pattern of growth is necessary if food security is to be achieved at the individual level. As argued in Section 3.iv. the North African economies have registered fairly high rates of economic growth over the past decade, but this growth was neither inclusive nor pro-poor (Harrigan 2011a, Hakimian 2011, Karshenas and Alami 2012).

This chapter will focus on some of the more specific policies that could help to directly improve food security at both the national and household level. The following policies will be discussed:

- Policies to improve access to and cost of imported foods
- Policies to improve agricultural productivity, including food crop production
- Reforming social safety nets

Before discussing the above policies, we locate them within the current debate concerning the food security strategies for the region.

For the last two decades the orthodox view on food security strategies for the MENA region, which includes the North African countries, accepted that food imports would continue to remain an important component of the region’s food security strategy. This view was based on predictions that for Arab countries dependence on food imports will increase by 64 percent in the next 20 years. The IFPRI IMPACT model (IFPRI 2008) and the FOA Food Balance Model (FAO 2006, 2008) both predict that demand for food in the Arab world will grow substantially to 2030 and their food production will not keep pace, leading to increased reliance on food imports, with the greatest increase in cereal imports predicted for Egypt. The only other MENA country predicted to decrease its cereal imports is Morocco (by 17 percent).

The predicted increased reliance on food imports is due, on the demand side, to strong population growth, income growth and urbanisation. On the supply side, low agricultural productivity growth is predicted for the region. This is largely due to factors relating to natural resource endowments – projections show that by 2050 renewable water in MENA will fall to an average of 500 cubic meters per capita and arable land to 0.12 hectares per capita (World Bank 2009). Climate change is also predicted to reduce water availability in MENA via reduced rainfall which will adversely affect both crop area and yields (Cline 2007).

A predominantly trade-based approach to food security is advocated by many analyst and international organisations. For example, the joint report of the World Bank, FAO and IFPRI (World Bank 2009) states that the challenge facing the MENA region is “to find the best ways to improve food security, whilst recognising that there will be a continued and increasing dependence on imports.” This is echoed in the 2008 World Development Report (World Bank 2008) and by IFPRI (2010a), ESCWA (2010), Lofgren and Richards (2003), Richards and Waterbury (2006), FAO (2008), DeRosa (1995), Allan (1998).
An increased reliance on a trade-based food security strategy has implications for future resource allocation in the MENA region. Within the agricultural sector, international organisations are advocating a shift away from domestic cereal, dairy and meat production towards production of tree crops, vegetables, fruit and semi-arid crops, which make more efficient use of water and which can be partly destined for export markets. Hence, within agriculture the policy advice is to shift away from water intensive food crops towards more water efficient agricultural exports, with the foreign exchange earned from such exports helping to fund a higher level of food imports. This type of approach is sometimes known as Virtual Water Trade (Allan 1998) – whereby water scarce countries should import water intensive goods. However, due to price distortions in water scarce countries such as trade protection, price supports, and subsidized credit, energy and water, all of which encourage excess water use for irrigation, water scarcity currently plays only a small role in determining global trade patterns (African Development Bank 2011).

In addition to changing the structure of agriculture towards export crops, another strategy is export diversification into industrial and manufactures for export in order to earn foreign currency to import food. This should form part of any sensible strategy since ecological constraints in the MENA region limit the potential of agriculture\(^\text{42}\). As a result of constraints to agricultural production, the agricultural sector in MENA contributes only 12 percent to the region’s GDP yet uses over 80 percent of water as compared to 4 percent used by industry. The extent to which countries will need to rely on sectors other than agriculture to help achieve food security varies, particularly according to their availability of water resources.

In addition, the fact that the region’s exports are concentrated, with approximately 70 percent of the region’s export earnings coming from oil, exposes the region to food security risks via fluctuations in oil prices.

Lofgren and Richards (2003) argue that in a trade-based food security strategy, labour-intensive exports can play a crucial role, not only as a source of foreign exchange but also by boosting real wages of poor people. Since the scope for increasing wages and employment in agriculture is limited they advocate a focus on manufacturing and to a lesser extent services to promote pro-poor, labour-intensive, export-orientated growth\(^\text{43}\).

Despite the above policy orthodoxy, the recent global food price increases mean that countries in MENA are starting to question a reliance on a trade-based food security strategy. In addition, as new regimes come to power in North Africa there is a question mark over the extent to which they will want to remain reliant on a global food market dominated by five key players. As a result, governments throughout the MENA region are starting to focus on the concept of “food sovereignty” as opposed to “food security”, whereby the former includes the political dimensions of power and control over food supplies (Harrigan 2011b, Harrigan 2012 forthcoming). The desire for sovereignty over food supplies means that governments are less willing to rely on international markets for their food via imports. Instead, as in the 1970s and 80s (Weinbrum 1984), they are considering greater levels of domestic food production as part of their national aggregate food security policies.

Morocco, Egypt and Algeria have all launched new initiatives for their agricultural sector in response to the global foods crisis of 2007/08, all of which emphasise the development of the agricultural sector

\(^{42}\) 83 percent of land in the Arab MENA receives less than 4 inches of rain annually and among these countries all but Syria, Sudan and Tunisia have over 50 percent of their land classified as desert, waste or urban (Wilson and Bruins 2005).

\(^{43}\) Lofgren and Richards (2003) also argue that it is wrong to conflate national food security with food self-sufficiency in drought prone countries which characterise North Africa since this wrongly assumes that domestic production is a less risky mode for satisfying domestic demand than is dependence on international trade. They argue that the empirical evidence shows that cuts in domestic grain supplies due to droughts in MENA are far more significant than cuts in import supplies due to embargoes.
as a key route to achieving food security. Morocco adopted a strategy to tackle food insecurity in 2008 which prioritised the agricultural and water sector. Likewise, Egypt adopted the “Strategy for the Sustainable Agricultural Development (SADS) towards 2030” (Arab Republic of Egypt 2011). This new strategy aims is to achieve food security by modernising Egyptian agriculture and improving the livelihood of rural inhabitants through the efficient use of development resources, the utilisation of geopolitical and environmental advantages, and the comparative advantages of the different agro-ecological regions. The strategy pursues several strategic objectives, among them the sustainable use of agricultural natural resources, the improvement of the competitiveness of the agricultural products in local and foreign markets, higher rates of food security in strategic goods, better opportunities for agricultural investment and the improvement of the living standards of rural inhabitants. Algeria has also drawn up a 5 year programme for agricultural renewal (Government of Algeria 2011), with the focus being on agriculture to achieve “sustainable national food security and sovereignty”. The programme has three complementary components: agricultural renewal; rural renewal; and human capacity building and technical support to producers.

Although from a political and strategic point of view, an approach to food security and sovereignty in North Africa that emphasises agriculture and domestic food production may be justified, in that it can help reduce vulnerability to international markets and reliance on other countries, it can come at a high economic cost (Harrigan 2012 forthcoming). The economic costs of such a strategy vary from country to country, although in general the resource endowments of most North African countries are not well suited to food production, particularly cereal production, and their comparative international advantages lie in other economic activities.

In addition to refocusing on domestic food production, many MENA countries are moving towards a new and innovative food security strategy which involves acquiring land in water and land abundant third party countries to directly grow food for the home market. In North Africa, Egypt and Libya have recently engaged in such activities.

Table 2: Land Acquisition Overseas by North African Countries

<table>
<thead>
<tr>
<th>Target country</th>
<th>Investor country</th>
<th>Nature of deal</th>
<th>Status of deal</th>
<th>Date announced/signed</th>
<th>Date of media report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mali</td>
<td>Libya Gov. to Gov.</td>
<td>100,000 ha secured for rice</td>
<td>Signed</td>
<td>n.a.</td>
<td>April 09</td>
</tr>
<tr>
<td>Sudan</td>
<td>Egypt Gov. to Gov.</td>
<td>Land secured to grow 2 million tons wheat annually</td>
<td>Signed</td>
<td>n.a.</td>
<td>June 08</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Libya Gov. to Gov.</td>
<td>247,000 acres or hectares secured</td>
<td>Signed</td>
<td>Nov 08</td>
<td>Dec 08</td>
</tr>
</tbody>
</table>

Source: Von Braun and Meinzen-Dick 2009

44 Although Egypt is emphasising domestic food production she has also recently adapted her production strategy to save water and preserve resources. For example there is a new focus on poultry production rather than beef production and a recent cut in the area planned with rice, all of which is policy driven.
Dependence on food imports has implications for food security, since reliance on international markets raises concerns about both price and supply shocks. Recently the World Bank stated that “Policy-makers need to develop a comprehensive strategy that balances the risks associated with imports with the increasing costs associated with increasing domestic production”. (World Bank 2009 p.17).

Within the context of the above debate on appropriate strategies to achieve both food security and greater food sovereignty, we now discuss more specific policies which could help to enhance the food security position of the North African countries.

**Better Integration into Global Food Markets**

Even if the North African economies significantly increase their domestic food production and/or their direct access to food via land acquisition overseas, they will still rely on imports for part of their food supplies particularly cereals, with only Morocco predicted to experience declining demand for imported cereals over the next twenty years. Hence, there is a need to introduce measures that will strengthen their position in global food markets and reduce their vulnerability to price and supply shocks. The World Bank/IFAD/FAO report (World Bank 2009) suggests a number of ways in which MENA countries could reduce their exposure to international market and price volatility for imported foods. This includes: improving supply-chain efficiency to reduce cost and improve food distribution; developing virtual stockpiles of food to insure al cooperation. These recommendations are echoed in the recent ESCWA report (ESCWA 2010).

Given that much of the food imported into North Africa consists of bulky cereals, a large part of the final cost is due to international and domestic transport, warehousing and storage costs. Weak performances in terms of trade development partly due to lack of integration of border services and inspections, lack of simplified procedures for transit freight, the poor state of railways and roads, inefficient and lengthy border clearance procedures, and lack of ability to trace and track consignments. According to the Logistics Performance Index (LPI)45, there is considerable scope for Algeria, Egypt, Libya and Tunisia to improve their trade logistics. This is particularly true for Algeria and Libya who rank 130th and 132nd out of 155 countries and have a LPI below the average for the MENA region as a whole as well as below the average for Lower Middle Income countries (when they are Upper Middle Income) and below the East Asia Pacific region.

The above argument is echoed by Lampietti et al (2012). They study the Wheat Import Supply Chain (WISC) in ten Arab countries, which include the North African countries of Egypt, Morocco and Tunisia, and compare this to the reference countries of the Netherlands and South Korea. The WISC covers the supply chain from unloading at the port to bulk storage at the flour mill (unloading at port, transport to inland silo, storage at inland silo, transport to flour mill, and bulk storage at flour mill). For 2009 they found that the average WISC costs for the ten Arab countries was $40 per MT of wheat46, which is up to four times that of the Netherlands, with the highest costs recorded by Egypt and the fifth highest by Tunisia. Given that most of the North African countries will continue to rely heavily on grain imports, there is considerable scope to reduce the cost of imported food by investing

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45 The Logistics Performance Index is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics “friendliness” of the countries in which they operate and those with which they trade. They combine in-depth knowledge of the countries in which they operate with informed qualitative assessments of other countries with which they trade, and experience of global logistics environment. Feedback from operators is supplemented with quantitative data on the performance of key components of the logistics chain in the country of work. The LPI consists therefore of both qualitative and quantitative measures and helps build profiles of logistics friendliness for these countries. It measures performance along the logistics supply chain within a country and offers two different perspectives: International and Domestic.

46 The $40 per MT consisted of: 36% on WISC management; 29% on port logistics; 22% on inland transport and 12% on storage.
in infrastructure to store and transport food, and generally improving the management and logistics of food imports.

Countries that rely heavily on food imports, particularly for grains, can also mitigate against price and supply shocks in international markets by holding a strategic grain reserve which can be used both for emergency aid during a shock or as a buffer to stabilise prices. As an alternative to the costly holding of physical grain reserves there is scope for countries to use financial instruments to create virtual stockpiles of food i.e. by using futures contracts and option contracts. The United Nations High-Level Task Force on the Global Food Crisis has recommended that countries hold food reserves to help stabilise domestic prices, but it has argued that it would be better to hold regional stocks or make food reserve agreements. ESCWA (2010 p.91-2) has suggested that Port Said in Egypt could be one location for a regional food reserve not just for North Africa but the entire MENA region.

It is not just with regard to strategic grain reserves that there is scope for greater regional cooperation in North Africa and MENA. As MENA countries are the single largest group of cereal importers there is potential for economies of scale via multinational procurement and MENA countries as a group could do more to monitor world and regional cereal demand and supply to foresee price shocks. Linked to this is the need for better monitoring of national food demand and supply in MENA. The League of Arab States has proposed a regional food security and early warning system to help predict quantity and location of any needed assistance and this could work with established institutions that already monitor food supplies such as the FAO.

**Improving Agricultural Productivity**

We have argued above that many of the North African countries are beginning to increase their focus on domestic food production as a route to food security. Improving agricultural productivity (not just in food crop production) in North Africa can contribute to food security in three ways: it can increase the purchasing power of the rural poor via higher incomes from increased productivity enabling them to buy food; it can increase foreign exchange earnings via increased agricultural exports of crops in which the North African countries have comparative advantage so providing foreign exchange to purchase food imports; and it can increase domestic production of food and hence reduce need for imports.

For developing countries in general, agricultural is seen as an important sector in overall economic growth and poverty reduction and therefore productivity growth in the sector plays a key role in the development process. For example, Christiaensen et al (2011) found that growth in the agricultural sector is up to 3.2 times better than that in the non-agricultural sector at reducing the $1-day poverty headcount in both low-income and resource rich countries – when societies are not fundamentally unequal. In addition, the relationship between the agricultural sector and food security, through the poverty reduction transmission, is often more direct than for other sectors.

However, a study by Breisinger et al (2012) suggests that the strong link between agricultural growth and poverty reduction does not hold always for the Arab countries plus Turkey and Iran (the Arab-TI region). A positive relation was found for Egypt, Morocco and Tunisia and a negative relationship held for Algeria. The report suggests several structural reasons for the failure of agricultural growth to translate into poverty reduction in the Arab T-I region, including the fact that although about half the population in the region still live in rural areas, the majority earn non-agricultural incomes – for example in Egypt, despite a relatively high share of agriculture in GDP (14%), rural households earn 73% of

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47 It has been estimated that a 10 percent increase in agricultural yields in Africa, is associated with a 7 percent reduction in poverty (World Bank 2008 cited in Foresight 2011, p.127).
their income from non-agricultural activities. In addition, in Egypt it is the richer quintiles that earn a higher share of income from agriculture, reflecting factors such as inequality in land and credit distribution. These findings suggest that policies in North Africa to improve agricultural productivity clearly need to be designed to be pro-poor if they are to maximise their impact on poverty reduction and food security, and need to consider asset distribution, and access to credit and other resources as well as human capital development for small and poor farmers.

In North Africa there is limited scope to increase agricultural production extensively i.e. via increased use of resources like land and water that are already scarce. The available agricultural land per capita in the Near East and North Africa in 2006 was only 1.11 ha/per capita, with nearly a third of this land already under irrigation - the Near East and North Africa region has almost eight times the proportion of irrigated area compared to sub-Saharan Africa. For the North African countries, agricultural land per capita in 2006 ranged from 0.036 in Egypt to 0.259 in Tunisia. However, in the North African countries, with the exception of Egypt, there is potential to increase the amount of land under irrigation since less than 16% of arable land is irrigated in countries like Algeria, Morocco, Tunisia and Mauritania and in these countries the amount of irrigated land has grown by an average of less than 1.5% per annum since 1990.

Resource scarcity means that the North African countries will need to rely on intensive increases in agricultural output i.e. productivity increases in terms of yields per unit of land and water rather than in extensive increases of agricultural production. There is considerable scope to improve agricultural productivity in the North African countries. In addition to the potential to increase irrigated area in countries other than Egypt, fertiliser use could be increased. Although the Near East and North Africa uses more than five times the amount of fertiliser than sub-Saharan Africa, fertiliser use is particularly low in Algeria, as well as being quite low in Tunisia and Morocco. Although in the mid-1980s agricultural productivity in MENA started catching up with other net food importing developing regions, largely due to adoption of improved wheat and rice varieties in countries like Syria, Iran and Egypt, more recently productivity growth is again lagging most other regions, except for in the production of fruits.

If cereal yields in MENA exceed those of sub-Saharan Africa, they are still well below the global average and this gap is widening. Between 1990-2007 cereal yields in the Arab world increased by 14.5 percent compared to global average of 21.5 percent. All the North African countries have cereal yields significantly below the developing country average of 28,363 kg/ha as well as being below the regional average for the Near East and North Africa. Yields are particularly low in Algeria, Mauritania and Morocco. Mauritania, Morocco and Tunisia have all experienced fairly slow annual growth rates of cereal yields of 1.2 percent or less between 1990-2005, with Morocco standing out as particularly poor with a growth rate of only 0.4 percent.

In order to improve agricultural productivity, including that of domestic cereal production, North African countries need to give greater policy priority to the agricultural sector in terms of both government expenditure and Research and Development (R&D) expenditure. In Asia during the 1980s and 1990s the share of government expenditure devoted to agriculture was regularly between 10-15% compared to less than 5% in most Arab countries. In addition, Arab countries only invest 0.66% of their agricultural GDP in R&D with very little increase since the 1980s. While this is slightly higher than the developing country average of 0.53% it is still well below the recommended level of 2 percent (Alston et al 2000) and is striking in view of the relatively high returns to agricultural R&D in the region – around 36 percent (ibid). For the North African countries for which data is available public R&D spending in agriculture as a percentage of agricultural value added was 0.72 for Egypt, 0.99 Mauritania, 1.0 for Morocco and 0.7 for Tunisia (World Bank 2008). ESCWA (2010, p.81) recommends a regional approach to agricultural R&D given that the MENA countries share similar challenges of water scarcity and climate change and points out that the League of Arab States and UNDP have proposed a regional R&D fund with a committed long term budget (League of Arab States and UNDP 2009). Such a regional
approach would reduce fragmentation and produce economies of scale.

Agricultural R&D projects in North Africa need to be complemented with measures to ensure more effective and efficient water use and measures to strengthen the position of farmers, especially poor farmers in global and national commodity chains.

**Reforming Social Safety Nets**

Regardless of whether North Africa’s food security strategy focuses on a trade-based approach or puts greater emphasis on domestic production, there will remain a need for effective social safety nets to ensure that the poor and vulnerable are able to access and afford food. It is generally acknowledged that social safety nets and social protection policy more generally needs to be reformed to become more efficient in the MENA region (Karshenas and Alami 2012, International Labour Office 2010) and the North Africa sub-region is no exception.

Breisinger et al (2012) argue that the Arab T-I countries, particularly the Lower Middle Income Countries (LMIC) in the group, have by far the highest level of spending on social protection of any developing region—more than double that of Eastern Europe and Central Asia and more than four times that of sub-Saharan Africa. In the region, such spending is the largest single government spending account, averaging 5.3% of budget grew at an annual average rate of 18.8% per capita between 2000-2007 in Arab LMICs, outpacing the growth of all other public spending accounts. Given the responses to the global food price shocks, where many governments in the region increases subsidies and other welfare related expenditures, spending on social protection has continued to increase. Despite the high level of public expenditure on social protection, estimates of the coefficients of growth-public spending models show that social sector spending in the Arab-TI region is less effective than elsewhere at generating economic growth (Breisinger et al 2012 Table 6). They conclude:

“Findings from the model suggest that spending one additional international dollar in the Arab-TI region yields only about half the growth of a dollar spent in the rest of the world, indicating a large potential for improving the allocation and efficiency of social sector spending in the Arab-TI region.”

In addition to the limited impact of social spending on growth, much of the social protection spending in the Arab world is not efficient in alleviating poverty. Expenditure on untargeted fuel and food subsidies, is often higher than more targeted social spending, despite evidence that better-off households often benefit disproportionately from such subsidies compared to more targeted subsidies and interventions which are more efficient and effective in reducing poverty (Coady et al 2006, Coady et al 2010, Breisinger et al 2011, Bacon and Kojima 2006, World Bank 2006).

Social protection reform in North Africa needs to consider moving away from often regressive universal subsidies on food and fuel towards more targeted subsidies. In Egypt, for example, there is a plethora of programmes aimed at reducing the price of staple foods, such as bread price subsidies and although the government has already introduced targeting into its food subsidy programme, there is still considerable scope to improve the efficiency of such targeting (Coady 2004, Ahmed and Bouis 2002). ESCWA (2010) has argued that five basic targeting mechanisms need to be considered: means testing, categorical and geographical targeting, community-based methods, proxy means testing, and self-targeting; and suggests that lessons be learnt from programmes introduced in South Asia. Examples of targeting include systems that make subsidised food available to selected households via low-price shops in poor neighbourhoods or via ration cards.

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48 Egypt is currently investing in a research project to develop new wheat varieties with yields 30% higher than currently available ones, with resistance to several key environmental stresses. The project will include not only crop improvement but also crop management and capacity building components and is led by scientists from Egypt’s Agricultural Research Centre (ARC), together with an ICARDA team (ICARDA 2009).
In addition to reformed subsidy programmes, labour-intensive public works programmes, especially in rural areas (ESCWA 2010, World Bank 2003), conditional or unconditional cash and/or food transfers (ESCWA 2010, Skoufias 2005, Gertler 2004, World Food Programme 2009) and nutritional support programmes (ESCWA 2010) have often proved to be effective forms of social safety nets which help achieve both poverty reduction and individual food security in many parts of the developing world. Many of these schemes are in place in the North African countries and further work is needed to monitor their impact and improve their effectiveness.

Karshenas and Alami (2012) have argued that social protection in MENA is in need of a total paradigm shift to a fairer, rights-based, systematic approach, but that political regimes in the past have lacked the political will or desire to respond to such a challenge, since the old implicit Social Contract was based on the provision of universal subsidies and state employment in return for loyalty to autocratic regimes. The Arab Spring now provide an opportune moment to reform the old grammes so as to make them more effective and efficient. The increasing fiscal deficits in many of the North African countries make this need all the more pressing. There is already evidence that international organisations are becoming involved in helping new regimes with such reforms (ILO 2011).
Conclusion

Food security or food sovereignty in the North Africa region cannot be approached from a purely economic perspective. It also has deep political connotations – as seen by the role that food prices played in the domestic politics of the Arab Spring as well as by the geo-political implications of relying on a small number of international grain suppliers for a large part of the region’s food requirements. The Arab Spring combined with the recent global food price shock provides an opportune moment to reassess food security strategies and policies in North Africa.

Although there is some evidence that the region is becoming more concerned with food sovereignty, as reflected in increased interest in domestic food production and land acquisition overseas, food imports will continue to play a significant role in food security for the region, with Morocco being the only country for which cereal imports are predicted to decline over the next twenty years. Hence, future approaches to food security will need to focus on ways in which the North African countries can better position themselves to take advantage of global food markets. This needs to be combined with effective programmes to boost domestic productivity of food production and agriculture more generally, mindful of the economic costs and resource allocation implications of such programmes. In addition, social safety nets and social protection policy needs to be reformed to become more effective and efficient at alleviating poverty and enhancing the food security of poor and vulnerable individuals. This is because food security is intimately linked with income security.

However, the above types of reforms alone will not be adequate to ensure full food security for all citizens in the region. A comprehensive pro-poor, labour-intensive and inclusive growth trajectory is needed for the region and issues of food security cannot be divorced from this broader development agenda. In this respect there is a danger that the recent global food price crisis will trigger a reaction whereby domestic food production and the agricultural sector alone is seen as the panacea for food security. Already countries in the MENA region are starting to respond to the global food crisis by setting-up inter-ministerial food security committees supported by technical units, but these units tend to be located in the Ministry of Agriculture with the committees chaired by the Minister for Agriculture (for example in Jordan and Yemen). An effective institutional structure needs to place food security at the heart of the development process, with the unit or secretariat located at the highest level of government, such as in the Prime Minister’s or President’s Office. Such a holistic, multi-agency approach to food security represents the way forward for the new governments of the North African region, and this cannot be divorced from the more general and pressing need for a new type of inclusive socio-economic development strategy.

49 Mauritania has set-up such a body in the form of The Commission for Food Security, a Governmental body led by a Commissioner with the rank of Minister. Its mission is to fight hunger, underfeeding and malnutrition situations that threaten men, women and children. This was not however established as a response to the 2007-08 food price crisis, as it was formed in 1982.
Chapter 3

Maghreb Economic Integration –
a Time for Action
This chapter examines the status of Maghreb countries’ economic integration with the world, with the Arab world, and within the Maghreb. It focuses on trade in goods and services and on cross-border infrastructure integration and discusses the potential benefits of and key constraints to greater integration. The main objective is to enable policymakers in the Maghreb countries and their development partners to intensify efforts toward rapid integration in the Maghreb and beyond.

The Maghreb subregion comprised about one-quarter of the Arab world’s population (89 million people) and one-sixth of its gross domestic product (US$ 378 billion or slightly less than half of Netherlands’s GDP) in 2011. The subregion includes five countries: Algeria, Libya, Mauritania, Morocco, and Tunisia. Algeria and Morocco are the largest countries, accounting for over three-quarters of both the subregion’s population and GDP.

The countries of the Maghreb are quite diverse in terms of resource endowments. While Algeria and Libya are resource-rich, the other three are resource-poor and labor-abundant countries. The subregion’s main natural resources are oil, metallic and nonmetallic minerals, and fisheries. In the context of renewable energy resources, the Maghreb could be a major source of solar energy. Though quite large geographically (over 70 percent of the size of the continental United States), a high proportion of the subregion’s land is desert and thus not suitable for agriculture; only Morocco and Tunisia have relatively significant tracts of arable and cultivated land. While Morocco and Tunisia have been undergoing significant economic reforms, Algeria, Libya and Mauritania are lagging behind.

As in the rest of the Arab world, the Maghreb countries face major development challenges. These include a rapidly growing young population, high youth unemployment, vulnerability to price shocks and climate change, weak governance, and inefficient public sectors. The subregion is going through a significant political change as a result of the Arab Spring, which has unleashed a torrent of protests across the region that have given voice to popular frustrations with the lack of jobs and poor governance. The subregion’s governments are sensitive to these calls for reform and are implementing measures to stimulate job creation, make the economic growth process more inclusive, and foster popular participation in the development process. The Arab Spring imposes a sense of urgency to revitalize and intensify regional integration efforts. Support from the international community is critical in this regard, as spelled out in the Deauville initiative.
It has been well documented in the literature and empirical studies that the overall benefits from integration in the world economy outpace the costs. Regional cooperation and global economic integration can be seen as complementary to each other, with regional cooperation and integration setting the stage for wider global market cooperation, and integration with larger and more affluent markets outside the region helping to raise standards and create incentives for deeper integration within the region.

Regional economic integration can have positive market, efficiency, and long-term welfare effects. First, extending domestic markets provides opportunities for greater economies of scale and access to markets, and can thus lead to efficiency and productivity gains. Second, opening up markets on a preferential basis can help export-oriented firms learn about and adapt to foreign market conditions. Third, regional economic integration can help lock-in desirable reforms; contribute to good governance; and accelerate institutional transformation in areas such as customs procedures, investment rules and regulations, and product quality standards. Fourth, it can help small economies overcome inherent structural problems such as underdiversified production structures, large overhead costs, and great vulnerability to shocks. Finally, regional integration can be seen as an investment in security and conflict resolution.

However, regional economic integration implies forgoing some of the rights of member countries to set their own standards and policies, which may be difficult for national political leaders to accept. If not managed appropriately, regional integration can foster inefficiency by diverting trade, bolstering protectionism, and discouraging integration into global economies. The benefits and costs of economic integration are not the same for all Arab countries, and this explains why economic integration priorities tend to vary within the region.

Deeper economic integration goes beyond the elimination of tariff and nontariff barriers. It covers the integration and improvement of transport, infrastructure, and trade logistics; harmonization of institutional arrangements and practices; and improvement in “behind-the-border” policies and regulations that can impose burdens on business activity (such as exchange rate policies, financial regulations, and competition policies).

Experience from other regions suggests that the intensification of regional integration is often a response to external shocks. For example, the development of the regional bond market in Asia (the Asian Bond Market Initiative) was a reaction to the 1997 currency crisis in East Asia. Similarly, the substantial increase in trade among ASEAN countries over the past few years resulted from a drop in world demand, particularly in industrialized countries, following the 2008 global economic and financial crisis. In Latin America and the Caribbean, the push for integration was a response to increased competition from countries in the Asia-Pacific region.

Experience in various parts of the world suggests that progress in economic integration is directly linked to sustained political support for economic integration efforts, achievement of “early wins,” and building widespread awareness of the potential benefits of economic integration. A country’s goal is no longer to produce finished goods, but instead intermediate goods as part of the value chain. Today, intermediate inputs represent 56 percent of world goods trade and 73 percent of global services trade. Successful integration efforts have often

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53 According to a statement made by Raed Safadi (OECD) at a workshop on “Unlocking the Potential of North Africa through Regional Integration,” held in Carthage, Tunisia, on September 14, 2012.
followed the development of cross-country networks of suppliers. This is the case in the automobile industry of Eastern Europe and in the electronics, natural resources, and petrochemical sectors of East Asia. These networks have contributed significantly to the economic success of these regions. Such cross-border production networks are able to take advantage of intercountry wage and natural resource endowment differentials, short transport distances, and economies of scale arising from specialization.

Such production networks are constantly evolving, with different countries coming to play different roles in the value chains as national competencies and capacities evolve. In Asia, for example, as economies have become integrated through trade, financial flows, and direct investment, intraregional trade has grown such that Asia trades about as much with itself as Europe and North America do with themselves. The payoffs from the integration of the ten-member Association of Southeast Asian Nations (ASEAN), which started in 1967 and has evolved over time in terms of both country and trade activities coverage, have been substantial (see below). The growth of trade in ASEAN has connected the region’s wealthier and poorer countries, creating strong regional production networks and a vibrant regional economy. As discussed below, this cross-border collaboration involves exchanges of raw materials, industrial parts and components; movements of skilled labor; and foreign direct investment (FDI).

Studies suggest that trade in the Arab world and the Maghreb subregion is below potential. Gravity models, which are used to estimate trade potential between countries based on economic size, geographical distance, and other country characteristics, consistently find that trade in the MENA region is below its potential. Estimates continue to indicate that exports are less than 50 percent of potential and as low as 75 percent below potential (Behar and Freund 2011; Diop et al. 2011). Another sign of limited progress in economic integration is low inflows of FDI, particularly before 2000. Net FDI inflows to the Arab world stagnated between 1985 and 1999, a period during which FDI inflows as a percentage of GDP grew sixfold in most other regions. Since 2000, FDI inflows have increased considerably as a result of the Gulf oil boom, together with efforts to improve the business environment and accelerate structural and institutional reforms (Gourdon 2010).

Moreover, research indicates that there are large potential economic gains associated with deep regional integration in the Maghreb and the Arab world more broadly. A World Bank study (Brenton et al. 2006) suggests that per-capita GDP in Algeria, Morocco, and Tunisia would nearly double between 2005 and 2015 if meaningful regional integration were to take place. Casero and Seshan (2006) estimate the potential implications of various scenarios of regional integration in the Maghreb on overall GDP growth over a ten-year period (2005–2015). Their findings suggest that countries in the Arab Maghreb Union (AMU) would reap substantial economic benefits from deeper and wider integration among themselves as well as with the EU. A more recent study by the African Development Bank (Santi, Ben Romdhane, and Shaw 2012) suggests that the lack of integration among North African countries could be costing them as much as 2 to 3 percent of GDP. Another study by the AfDB (2012a) shows that Tunisia would reap great benefits from integration with Libya provided that a deep economic reform package, including removal of non-trade restrictions, investment in infrastructure and, establishment of a customs union, is implemented. Finally, Freund and Ornelas (2010) show that trade creation, not trade diversion, is the norm in regional trade agreements. The study suggests that regionalism has become the most popular form of reciprocal trade liberalism and should thus be integrated with multilateralism.

54 The study suggests that the overall gains from liberalizing trade in goods (including the removal of nontariff measures) could reach at least US$ 350 million and outstrip the static gains, with productivity improvements as the main driver. The estimate is based on a simulation and includes Egypt among the North African countries.

55 In the case of Morocco and Tunisia, which already have free trade in manufactures with the EU, the potential for trade diversion is minimal.
Impact Assessment and Lessons Learned from Regional Integration Efforts

Regional Integration Agreements

Several bilateral and multilateral agreements involve countries of the Maghreb. All five Maghreb countries are members of the League of Arab States, which has traditionally led the region's integration efforts, and founding members of the AMU. The Pan-Arab Free Trade Area (PAFTA), signed in 1997, includes all but Mauritania. Morocco and Tunisia are founders of the 2004 Agadir Agreement for the Establishment of a Free Trade Zone. Mauritania joined the Community of Sahel-Saharan States (CEN-SAD) in 2009, having withdrawn from the Economic Community of West African States (ECOWAS) in 2001. Three Maghreb countries have signed association agreements with the EU (Tunisia in 1995, Morocco in 1996, and Algeria in 2002), and Morocco signed a free trade agreement with the United States in 2006. Mauritania, Morocco, and Tunisia are members of the World Trade Organization (WTO).

Figure 1: Food Price Inflation in North African Countries 2000-2009 - Agricultural Trade Deficit for North African Countries 2000-2009 (US$ million)


56 Over the past 15 years, there has been an unprecedented increase in the number, breadth, and depth of Preferential Trade Agreements in the world. The number of PTAs has doubled during this period, reaching 278 at the end of 2010. South-South PTAs represent about two-thirds of all PTAs and North-South PTAs about one-quarter.
Impact of Preferential Trade Agreements (PTAs)

Identifying the impact of PTAs is challenging given that many factors influence trade and investment flows but cannot be controlled for in practice. This section should therefore be treated cautiously and viewed as an attempt to provide estimates that are by no means definitive, using a variety of qualitative and quantitative techniques.

Many of the Maghreb countries’ intraregional agreements have yet to reach their promise. For example, the AMU has not yet succeeded in creating the North African customs union or economic common market envisioned at its founding. Rather than intensifying, as expected, trade among Maghreb countries remains low despite some reform efforts. The Maghreb compares poorly with other subregions in the Arab world. In 2008–10, exports within the MENA region represented only 4.1 percent of the Maghreb’s total exports, as compared to 12.4 percent for the Mashreq (i.e., Iraq, Jordan, Lebanon and Syria), 6.2 percent for the Gulf Cooperation Council (GCC), and 7.3 percent for the Arab world.

The Arab region has benefited from the effects of PAFTA, however, which helped remove tariffs on intraregional trade and encourage improvements in customs clearance procedures (See Hoekman and Zarrouk 2000). While the average uniform tariff equivalent of all tariffs (ad valorem and specific) imposed on countries outside PAFTA for the MENA region as a whole fell from nearly 15 percent in 2002 to less than 5 percent during 2008–09 in the midst of the global economic crisis (in fact, MENA was the region in which tariffs decreased the most during the crisis, especially on manufactured goods), it remained high at around 15 percent for the Maghreb countries. This was the case even in the midst of the global economic crisis; (Chauffour 2011).

There are some indications that EU association agreements and free trade agreements with the US have led to higher growth in overall trade, but with imports outpacing exports (Rouis and Tabor, forthcoming). Using a gravity panel framework, Freund and Portugal-Perez (forthcoming) have estimated the impact of MENA PTAs on trade flows to and from MENA countries. Their findings suggest that trade preferences granted to MENA countries by the United States, the EU, and Turkey do not have an additional effect on exports compared to PTAs in general. Importantly, however, PAFTA and Agadir do have the effect of expanding the exports of their members—though it should be highlighted that this expansion starts from a very low base. Moreover, within PAFTA and Agadir, the gravity model’s findings support the conclusion that countries that are better prepared to compete regionally tend to experience the greatest export gains from participation in regional PTAs.

Analyses of the impact of preferential trade agreements should not be limited to trade performance only, as there are other important benefits associated with the agreements. PTAs are pursued for diverse motives, beyond that of simply gaining market access. Deep PTAs extend to rules and disciplines on various regulatory

57 They conducted a survey that covered trading firms in nine PAFTA countries (including Morocco and Tunisia), collected data on official trade and tax policies, administrative requirements that confront traders, and the costs and quality of transport infrastructure.

58 Cieslik and Hagemejer (2009) went further, suggesting that while EU agreements have significantly increased Maghreb countries’ imports from the EU, they have not had a positive impact on exports to the EU. This finding was based on an augmented gravity model for seven MENA countries for which association agreements had been signed. But estimates for individual MENA countries show significant heterogeneity. In the case of bilateral imports, the analysis obtained positive coefficients on the indicator variables for the new EU association agreements only for Morocco, Tunisia, and Turkey. In the case of bilateral exports, all estimated parameters displayed negative signs. The pattern of trade and investment within the subregion might be explained by the fact that the subregion comprises two countries that are quite advanced in trade openness (though the agenda is unfinished) and two major countries that are not yet WTO members (Algeria and Libya).
border and behind-the-border policies, such as competition policy, investment policy, government procurement, and intellectual property. According to a World Bank study (Chauffour and Kleimann, forthcoming) that examined 13 country case studies from around the world (including Egypt, Jordan, and Morocco from MENA), the implementation of PTAs poses a number of challenges that are largely associated with the participating countries' institutional capacity and political economy considerations. One of the key findings of the study was the need to consider PTAs as "living instruments" that are subject to continuous adjustments, and to provide for institutional feedback mechanisms.

Lessons Learned from Other Regional Trading Blocs

In ASEAN, integration was initially a response to China's growing global role and the fear that Southeast Asia would be bypassed on global markets. It quickly evolved into open regionalism as countries in the subregion were keen to obtain WTO membership and enjoy preferences in global markets. Over time, trade and investment flows developed, bringing the ASEAN's wealthier and poorer countries together and creating strong regional production networks. This evolution created a vibrant regional economy, characterized by cross-border collaboration involving shipments of raw materials as well as manufacturing parts and components that crisscross the region, along with foreign investment and skilled labor. The payoffs from ASEAN integration have been substantial, as measured by the sevenfold increase in the total trade-to-GDP ratio from 20 percent in the 1960s to an average of 140 percent in mid-2000s, far surpassing the EU as the world's most trade-oriented region. Trade within ASEAN has increased from 4 percent of GDP to 35 percent over the same period.

Central and Eastern European countries' accession to the EU provided several key lessons (see, for instance, Kaminski 2001). First, the policy-induced integration framework has contributed to foreign trade expansion and increased FDI inflows. The EU-associate status has provided preferential access to the EU and lent credibility to the reforms. Second, some transition economies have fared better than others in terms of both trade and FDI. The difference can be explained by the commitment and depth of policy reforms undertaken, notably in the area of foreign trade institutions and policies and the business climate. Third, those countries that have attracted more FDI have managed to change the pattern of their exports to the EU to reflect more advanced stages of production and have seen their firms integrating into global production and marketing networks. Fourth, those countries that have narrowed their income gap with the EU are those that have implemented policies to increase investment, support human capital development, and promote the legal, regulatory and policy framework needed for market mechanisms to function. Finally, behind-the-border factors play an important role in determining bilateral trade flows.

Mercosur involved cooperation with countries that had a strong legacy of industrial protectionism and favoured state enterprises: Argentina, Brazil, Paraguay, and Uruguay. Therefore, there was a conflict inherent in this grouping between those countries that would benefit from access to competitive global markets and those that sought to enlarge the markets for their protected industries. Until recently, this trade area had experienced a boom in cross-border trade and investment. In recent years, however, the two major members (Brazil and Argentina) have become more protectionist. Although

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59 See Chauffour and Maur (2011) for deep commitments in selected EU and United States PTAs by type of provision. PTAs cover a wide range of policy areas. For instance, Association Agreements with Europe and MENA countries provide a framework for the economic, political, and social dimensions of the EU-MENA countries' partnership. The agreements cover agriculture and sanitary and phytosanitary (SPS) measures, non-agricultural market access (NAMA), technical barriers to trade (TBT), services, customs, investment, competition, intellectual property rights, government procurement, environment, and labor markets.
intra-Mercosur trade has continued to rise in absolute terms, it has dropped in relative terms due to the commodity boom, which increased exports outside the region, and more importantly due to the fact that “Mercosur has not evolved into the seamless single market its founders dreamed of” (The Economist 2012). As countries in the region liberalized trade, Mercosur became more of a barrier to competitiveness than a force for reform. Especially during mineral boom years, interest in Mercosur waned and globalization became more prominent. Recent political moves, such as the suspension of Paraguay and the admission of Venezuela, are poised to turn Mercosur into a political rather than economic union. It now compares less favorably with the free-trading Pacific countries, namely Chile, Colombia, and Peru.

The North American Free Trade Agreement NAFTA between the United States, Canada, and Mexico, which came into force in 1994, had positive impact on trade, FDI flows, and productivity. A major study of NAFTA’s impact on the Mexican economy was carried out by Lederman, Maloney, and Serven (2005) ten years after the agreement came into force. After controlling for major events that took place before and after the signing of the agreement, this study found that NAFTA had greater effects than expected on trade, FDI flows, and productivity increases; but more modest effects than expected on income convergence and real wages. The study drew two main conclusions that are relevant for countries pursuing regional integration. First, trade agreements may have positive effects, but are no panacea for addressing basic determinants of long-term standards of living. Developing countries should thus use PTAs to create domestic support for basic policy and institutional reforms. Second, the effects of FTAs vary widely among types of workers, firms, and regions, and as such they need to be complemented by policy actions focused on those that would benefit the least or who may be harmed. Another study by Hoyos and Iacovone (2011) shows that, while NAFTA stimulated the productivity of Mexican firms through an increase in import competition and a positive effect on access to imported intermediate inputs, the impact of trade reforms was not identical for all integrated firms.
Trade in the Maghreb is low compared to its potential, both within the subregion and with the rest of the world. Furthermore, the level of regional trade among Maghreb countries is low compared with other trading blocs. There are some indications, however, that trade within the region is underestimated. This is particularly true for trade between Libya and Tunisia, and between Algeria and Tunisia. In addition, the period just before the Arab Spring saw some dynamism in trade and, to some extent, investment, particularly between Tunisia and the three other North African countries.

Trade in Goods

As competitiveness has improved over the past decade, trade volumes in the Maghreb have increased sharply over the past decade, accounting for 62 percent of combined GDP during 2008–10. Algeria and Mauritania show the greatest increase during the past decade, whereas Tunisia remains the most open economy in the subregion with the share of total trade in GDP exceeding 90 percent on average in 2008–10.

Intra-Maghreb trade has remained small relative to GDP and total trade flows, at around 2 and 3 percent, respectively. Only Tunisia exceeds that benchmark, with ratios of 6.6 and 7.4 percent, respectively. Libya and Mauritania are the least integrated in the region. While Algeria and Tunisia are net exporters to the subregion, all other countries are net importers. Other trading blocs are more dynamic than the Maghreb and MENA region as a whole. In 2008–10, intraregional trade (exports and imports) was 63 percent for the EU-27, 39 percent for NAFTA, 25 percent for ASEAN, and 15 percent for Mercosur. Even in sub-Saharan Africa, trading blocs such as the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS) perform much better than the Maghreb.

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60 Based on a gravity model, Al-Atrash and Youssef (2000) found that Maghreb countries traded less with the rest of the world than the model would have predicted.

61 Exports from Tunisia to Libya grew from nearly US$ 500 million in 2003 to nearly US$ 1.1 billion in 2008 and euro 1.25 billion (US$ 1.8 billion) in 2009. Exports to Algeria rose from US$ 100 million to US$ 500 million over the same period. Tunisia’s imports from both countries saw a similar pattern. There was also growth in cross-border investment, though the amount was modest.
The EU is the Maghreb’s largest trading partner. Exports to the EU accounted for an average of 57 percent of total exports in 2008–10 and imports from the EU amounted to an average of 53 percent of total imports.

Export composition varies widely among countries in the Maghreb. Tunisia and Morocco export significant shares of manufactured goods, including chemicals, machinery, and equipment parts (74 percent and 65 percent, respectively, in 2008–10). In Tunisia, exports of parts and components have surged, nearly tripling from less than 4 percent of total exports to 10 percent over the course of the 1990s and have increased steadily since then, largely as a result of trade networks with Europe. By contrast, exports from Algeria and Libya are dominated by fuels and those from Mauritania by primary commodities such as iron ore, copper, and fish. In the MENA region as a whole, as primary commodities, largely oil and gas, make up 86 percent of exports while manufactured goods account for the remaining 14 percent.

Overall, Maghreb countries export a low range of products compared to other regional groupings. In 2004, for example, Maghreb countries exported 100 products, half the range of products exported by NAFTA and ASEAN. Diversification is low in both the Maghreb and in the broader Arab region as compared to the world average\(^2\), though both subregions have seen some improvement during the same period. On the other hand, Morocco and Tunisia are among the least concentrated countries in the Arab region, with an export concentration index of less than 0.2. While these countries saw some improvement over the past decade, Algeria did not.

The technology content of the Maghreb’s exports is low. This is problematic, as there is evidence that the nature of exports matters for growth (World Bank 2006). There are encouraging signs in at least two Arab countries, Jordan and Tunisia, where high-tech exports are gaining momentum, though evolving from a low base and, in the case of Jordan, a narrow base related to the pharmaceutical industry.

Trade in Services

The service sector represented, on average, around 41 percent of GDP in the Maghreb over the period 2008–10. The exceptions were Morocco and Tunisia, where the service sector comprised 55 and 59 percent of GDP.

\(^2\) This should be treated cautiously, as similarity indices are often calculated at a highly aggregated level, and yet there are huge opportunities for intra-industry trade at a disaggregated level.
respectively. By comparison, the sector accounts for 74 percent of GDP in OECD countries. Boosting the services trade would be important for Maghreb countries, as reforms in service sectors could facilitate the entry of new domestic and foreign firms, improving access to new technologies and generating employment opportunities (Brenton et al. 2006).

In spite of its comparatively small size, the services sector has been a key source of growth and wealth creation in the subregion and the broader Arab world. For the Maghreb the average annual growth of services value-added stood at 4.4 percent during the period 2000–10, as compared to 3.6 percent for overall economic growth. The positive relationship between the growth of real per-capita GDP and the growth of services value-added in MENA countries implies that MENA countries with high growth in services tend to have higher national incomes or, conversely, that countries with high overall economic growth also have high service-sector growth.

Trade in services is improving in the Maghreb, with great variation among countries and over time. For Libya, trade in services represented 4.8 percent of GDP on average between 1990 and 2008. Morocco has seen the most substantial growth in the share of services trade, from 12.5 percent of GDP during 1990–99 to 18.7 percent during 2000–08. Tunisia is the most active country in the Maghreb, with trade in services averaging more than 20 percent of GDP over the period 1978–2008. Libya is a big importer of health and tourism services from Tunisia, as is Algeria to some extent. For Algeria and Mauritania, recent information on trade in services is lacking.

Maghreb countries as a group are net service exporters. In 2010, these countries exported a total of about US$ 21 billion in services as compared to over US$ 25 billion in service imports. Maghreb countries trade primarily transport services, followed by communications and financial services. Morocco and Tunisia are net exporters, while Algeria and Libya are net importers. The EU is the primary partner of the Maghreb countries, followed by Russia and some Eastern European countries that focus on services related to the trade in petroleum and other mineral products. For Maghreb countries, the principal service imports are travel services, and the main service exports are transport services. Data on trade services between Maghreb countries are not available.

The dynamism of the service sector in the Maghreb pales in comparison to countries in East Asia, South Asia, and, to a lesser degree, Europe and Central Asia, reflecting the sector’s low value-added orientation. Exports of services continue to be dominated by tourism-related travel services. Travel and transport together made up 64 percent of total Maghreb service exports in 2010. This contrasts sharply with South Asia, driven by India, where information and communications technology and finance are the leading export services; making up 68 percent of service exports.

There are indications that the payoffs to further trade liberalization are higher for services than for manufacturing. According to a case study on Egypt and Tunisia (Konan 2003), it is estimated that the services sector could yield benefits two to three times greater than those achieved through tariff removal alone if comprehensive reforms to strengthen competition and streamline regulatory frameworks were pursued. Such reforms could usefully focus on areas such as the financial sector, transportation and logistics, and communications and information.
Labor Markets

The key achievement in facilitating the movement of people within the Maghreb has been to allow citizens from the AMU to travel from one member country to another without the need for visas. This is a step in the right direction and could be built upon to allow fully free movement of persons (including for residency, work, and property ownership). This is something Tunisia is focusing on more recently and is similar of what is happening in the GCC. However restrictions still remain, notably on work permit and right of establishment. Also, at present the movement of labor within the Maghreb is largely confined to Tunisia and Libya.

Migration is less important in the Maghreb than in other parts of the Arab world. Between 1990 and 2010, the number of migrants in the Maghreb increased by about 20 percent—as compared to 132 and 75 percent, respectively, in the Mashreq and GCC subregions, where labor markets show some signs of integration. In relative terms, the migrant population in the Maghreb dropped from 1.4 percent of the total population in 1990 to 1.3 percent in 2010. Migrants from the Maghreb tend to be unskilled and are often in search of opportunities to settle in Europe permanently. A recent study by the AfDB and the International Organization for Migration (Kriaa 2012) indicates that migration from Tunisia into Libya has been historically high (around 92,000 in 2010), largely unskilled and informal. The political change taking place in the two countries provides an opportunity for the two countries to develop a clear strategy about labor mobility. The Libyan labor market could according to the AfDB (2012b) absorb 2-5 times the historical level.

Financial Sector and Capital Flows

Experience from the EU, East Asia, and other regions highlights the importance of financial integration in promoting regional trade and growth, provided that two conditions are fulfilled (see Jian Zhang in Santi, Ben Romdhane and Shaw 2012). “First, barriers to intraregional activities need to be eliminated; and second, the depth of financial integration must be commensurate with the strength of institutions and the government’s commitment to integration. In the light of the East Asian currency crisis of 1997 and the current Eurozone crisis, it is critically important when considering regional integration to establish down the road an effective regional financial safety net to prevent and manage financial crisis and contagion. Such an initiative has been introduced gradually in the case of ASEAN+3 through the adoption of an Asian Bond Market Initiative (ABMI), a Credit Guarantee Investment Facility (CGIF), and a Macroeconomic Research Office (AMRO). However, the region’s efforts to attain meaningful financial cooperation still have a long way to go (see Aziz 2012).”

The financial system in the Maghreb can currently be characterized by several key weaknesses (see Tahari et al. 2007). “The banking sector dominates, and there is a
heavy public sector presence in most countries. Financial sector openness is limited in some countries; in particular, the entry of foreign banks remains constrained in Algeria and Libya. In Morocco and Tunisia where some reforms have taken place, capital accounts are only partially open, significantly constraining trade in services. Public banks are burdened with inefficiencies and nonperforming loans (NPLs) are at a high level in certain countries (see Tahari et al. 2007). In insurance, Morocco and Tunisia have among the most restrictive regulatory environments, due mainly to restrictions on cross-border trade and consumption abroad. For Morocco, important nondiscriminatory concessions have been included as part of its free trade agreement with the United States; once effective, the provisions in that agreement will open the sector significantly. Fixed-income and equity markets are embryonic, with the exception of Morocco and Tunisia. The institutional investor industry is nascent and microfinance generally underdeveloped, except in Morocco. Some countries in the subregion have relatively weak legal, regulatory, and supervisory frameworks and largely cash-based payment systems in need of further modernization.”

In the case of the Maghreb, there are some initiatives in the direction of regional integration in the financial sectors. These include the presence of Moroccan and Tunisian banks in each other’s markets, and ongoing work to allow cross-listing of trade companies in Moroccan and Tunisian stock markets. This type of cooperation could be intensified, leading to consolidation of the banking sector and capital market. Also, notwithstanding the financial reforms that have taken place in each country in recent years63, there are a number of areas where further reforms are needed, particularly in ensuring a sound banking system, strengthening competition in banking, deepening financial markets, strengthening financial sector oversight, and upgrading financial sector infrastructure.

**Efforts to improve financial integration in the Arab world are being coordinated by the Arab Monetary Fund, and are expected to benefit the countries of the Maghreb.** Arab financial systems are weak in comparison to other regions, particularly with regard to transparency and crisis management. As such, efforts to strengthen transparency and design cross-border crisis resolution mechanisms will be challenging at the regional level—even more so than domestically. Initiatives that are already underway include the harmonization of regional payments systems as well as analytical work on financial regulation and identification of obstacles to further integration.

Maghreb countries receive high levels of foreign direct investment, second only to the Mashreq in the Arab world, and together with remittances these inflows play an important role. During 2000–08, FDI inflows to Maghreb countries averaged 5.3 percent of GDP. Mauritania’s receipts were highest among the subregion’s countries owing to oil sector investments. Net FDI inflows to the Maghreb dropped 1.6 percent of GDP, on average, in 2010. Remittances grew, on the other hand, rising from an average of 3.3 percent of GDP during 2000–08 to 3.6 percent in 2010, the global economic crisis notwithstanding64. Remittances are particularly important in Morocco and Tunisia; Morocco’s share more than tripled over the last decade.

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63 In 2005, the Maghreb countries decided to revive their efforts at regional integration with support from the International Monetary Fund. They focused on four areas: trade facilitation, financial integration, promotion of the private sector, and joint projects. Four high-level regional conferences were held, but only limited progress has been achieved thus far. Some actions have been taken toward harmonizing payment systems and technical platforms, but these remain modest. The Maghreb Bank for Investment and Foreign Trade was launched in 2013 after lengthy delays. A few bilateral agreements between central banks have been signed.

64 According to a study by the World Bank and EU (2010), the North Africa Region (Algeria, Egypt, Morocco, and Tunisia) is estimated to have experienced a 10.6 percent drop in remittances in 2009 as a result of the global financial crisis.
There is growing evidence of the importance of improved infrastructure and cross-border trade facilitation on the volume of trade and extent of economic integration. A review of the literature on this subject shows that a 10-percent increase in transport costs may reduce trade volume by more than 20 percent; and that the decline in transport costs accounts for 8 percent of average world growth since 1945 (World Bank 2006). Doubling the number of paved airports per square kilometer of territory in a country would be expected to boost imports by 14 percent, and doubling the kilometers of paved roads per 100 square kilometers would increase trade by an estimated 13 percent.

**Transport Sector**

The development and performance of different modes of transportation varies a great deal within the Maghreb subregion. While road density in the Maghreb is higher than averages in the Arab world and, for instance, Central and Eastern Europe, access to railway infrastructure is lower in the Maghreb. Morocco and Tunisia have higher-density road networks, but only in Tunisia is the road system well developed and maintained. Across the Arab world, only the Moroccan railways perform reasonably well in carrying general freight and making a profit (even after subsidies). The Tunisian railway, like its Jordanian counterpart, serves well the export of phosphate, but at a financial loss, which impedes investments in service improvements. The railways in Egypt operate at the most significant financial loss in the Arab world. Morocco is the most active Maghreb country in the maritime transport sector, thanks to its 3,000 kilometers of Mediterranean and Atlantic coastline and its geographical position in the northwest corner of Africa. Morocco’s 26 ports include the regional hub of Tanger-Med. Algeria has the next-highest number of ports at 10. Regarding air transport, the Maghreb performs less well than other regions. The main airlines remain small, and Morocco is the only Maghreb country to have an open sky policy.

Morocco has undertaken some key reforms to liberalize the transport sector, which have improved its quality. The late 1990s saw the restructuring of the public railways company, followed by the state-owned maritime company in 2004. The roads sector was opened to foreign competition and the road transport network upgraded beginning in 2003. The road network was connected to Mauritania’s through construction of the Nouadhibou–Nouakchott road in 2005. The air transport sector was liberalized in 2004 with the aim of turning Casablanca Mohammed V Airport into a hub for North and West Africa and attracting 10 million tourists by 2010—a target which has yet to be met.

Transport links within the Maghreb are improving gradually. Algeria has virtually completed construction of its East-West Motorway (1,216 km), which runs from its border with Tunisia to Tlemcen near its western border with Morocco. Morocco and Tunisia are in the process of completing comparably high-standard highways on their respective sides of the border. While the borders between Algeria and Morocco have been closed since 1994, cooperation between the two countries continues at the technical level. In Libya, there are plans for the construction of a coastal motorway from the Tunisian

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65 For a summary of progress made on transportation and logistics in Algeria, Morocco, and Tunisia, see Hassan Benabderrazik (2008).

66 For instance, the ministries of public works of Morocco and Algeria have cooperated to ensure continuity at the border when the political will materializes to reopen it. Similarly, the railway companies of the two countries have coordinated plans for a future high-speed passenger line to link Tangiers, Casablanca, and Rabat in Morocco with Algiers and Tunis.
border to the Egyptian border, a distance of 1,700 km; and for a railway line from the Tunisian border to the Egyptian border (2,178 km, including feeder lines). This line will be designed to carry freight using standard-gauge track, as is found in Egypt and in the Maghreb lines other than those south of Tunis, which are of a narrow gauge.

Information and Communication Technology (ICT)

The ICT sector can play an important role in fostering the Maghreb’s regional and global integration. There is a positive correlation between the ratio of trade to GDP and the density of fixed and mobile phone lines (World Bank 2006). Furthermore, broadband infrastructure and services contribute directly to domestic productivity, competitiveness, job creation, and economic diversification. Low-cost and high-quality ICT services (network and applications) reduce transaction costs and allow flexible firm locations. Voice and data communications enable faster service delivery and reduce unnecessary travel time. ICT contributes to the competitiveness of the services sector, bringing positive spillover effects to less technology-intensive industries. Also, according to a study by Wilson, Luo, and Broadman (2006), improvement in ICT infrastructure has the greatest marginal impact on trade gains compared to the other dimensions of trade facilitation (port efficiency, customs, and regulatory policy).

Maghreb countries have taken some steps to reform the telecommunications sector. Ongoing initiatives include the separation of regulatory functions from operational functions and the creation of independent regulators, privatization of the incumbent telecommunications companies and the gradual opening of the fixed-wire network to competition, tendering of competing GSM licenses, and the full liberalization of value-added services. Mauritania has shown more interest in opening its network to regional companies, as three-quarters of its telecommunications sector is serviced by Maroc Telecom and Tunisian companies.

Energy Sector

The energy sector could be an important driver for regional integration in the Maghreb. A number of cooperative initiatives have taken place in recent years. Joint ventures such as the oil pipeline crossing Tunisia from Algeria to Europe and the gas pipeline crossing Morocco from Algeria to Europe are good examples of how AMU countries can develop cross-country networks based on mutual economic interests. In the power sector, many interconnection projects have allowed the countries of the Maghreb to be hooked to neighbors’ transmission networks. However, the low capacity of these connections permits only emergency and peak exchanges. The Maghreb regional interconnection was initiated in the 1950s and has evolved into multiple high-voltage transmission interconnections between the three countries. Morocco was connected to Spain in the late 1990s, and Morocco, Algeria, and Tunisia are now all synchronized with the pan-European high-voltage transmission network.

To further regional integration, several capacity expansions are planned. These include the North Africa—
Middle East–Europe Mediterranean Power Pool to connect the power grids of Algeria, Morocco, Tunisia, Libya, Egypt, Spain, and the Middle East. Consideration has been given to establishing interconnections between Algeria and Spain, Algeria and Italy, and Tunisia and Italy (Sicily), with the interconnection between Tunisia and Sicily being the most promising. Trade cannot currently be conducted between the Maghreb and Libya and points beyond to other MENA countries because Libya is not synchronized with the Maghreb. Yet there is a need for such synchronization to take place67.

The Maghreb countries, together with other countries in MENA, hold the world’s best potential for production of solar power and, to some extent, wind power. MENA’s considerable solar and wind energy potential is estimated at 630 TW and 75,000 MW, respectively. The Maghreb accounts for a big share of this.

Access to electricity in the Maghreb is relatively high as compared to the MENA region more broadly. Tunisia enjoys round-the-clock service, and coverage is universal in urban areas. Similarly, coverage is universal in Morocco’s four largest cities. In Algeria, however, an intermittent supply system is still in use. In the countries of the Maghreb, as in many other Arab countries, there is significant subsidization and cross-subsidization of pricing in the power sector, a policy that needs to change to allow more efficient allocation and use of resources and thus improve competitiveness and facilitate regional integration.

Constraints to Integration

High Tariffs and Nontariff Restrictions

Trade in goods in the Maghreb suffers from high tariff levels and nontariff restrictions. While tariffs have been reduced significantly under PAFTA (and, in fact, all tariffs on goods of Arab origin were removed in January 2005), they remain high vis-à-vis the rest of the world. The level of applied tariffs in Maghreb countries, currently at over 15 percent, is 60 percent higher than the average for low- and middle-income countries. This high level of protection has serious negative implications for trade in the region, as it encourages the production of import-competing goods and discourages exports, since high duties on imported inputs lower the competitiveness of products exported from the region.

Figure 4: Applied Tariff Rates and Market Access Overall Trade Restrictiveness Index (%)\textsuperscript{68}

![Figure 4: Applied Tariff Rates and Market Access Overall Trade Restrictiveness Index (%)](image)

Source: Kee, Nicita and Olarreaga (Economic Journal, 2009)

Nontariff measures (NTMs) have become the most important barriers to trade in the subregion. These include border closures as well as excessive delays resulting from lengthy clearance and inspection processes, the large number of documents and signatures needed to process a trade transaction, and the frequency of problems with customs and other government authorities. Trade Analysis and Information System (TRAiNS) data indicate that nontariff measures were applied by Algeria to 417 products in 2002, by Tunisia to 746, and by Morocco to 1,204. There are indications that these restrictions have increased over time. Only the South Asia region ranked higher than the MENA region on the Tariff-only Overall Trade Restrictiveness Index in 2009, but when NTMs are included in the calculation of the overall trade restrictiveness index (OTRI), the MENA region comes across as the most restrictive region in the world, driven by high NTMs on agriculture goods. The only exception is South Asia for agriculture.

\textsuperscript{68} Market Access Overall Trade Restrictiveness Index (MAOTRI) captures trade policy distortions imposed by the trading partners of each country on its export bundle. It measures the uniform tariff equivalent of the partner country tariff and non-tariff barriers (NTB) that would generate the same level of export value for the country in a given year. Tariffs can be based on the MFN tariffs which applied to all trading partners, or the applied tariffs, which takes into account bilateral trade preferences.
Despite the importance of the services sector in the economy and exports, the Maghreb, like the Arab world more broadly, is characterized by a high level of restrictiveness in the services trade. According to the World Bank’s Services Trade Restrictiveness Index (STRI) survey, the most restrictive policies are observed in GCC countries. Morocco and Tunisia are the only Maghreb countries included in the STRI database. Morocco, with an overall score of 22, performs better than the world average of 28, while Tunisia’s score of 41 is at the level of the PAFTA average (Borchert, Demartino, and Mattoo 2010). The survey covers five key sectors: financial services (banking and insurance), telecommunications, retail distribution, transportation, and professional services. In all sectors but the last two, PAFTA countries rank highest (that is, most restrictive). In transportation, their ranking is above only that of South Asia, and in professional services, they outperform only East Asia and the Pacific.

Country case studies in the Arab world (Morocco, Tunisia, Egypt, Jordan, and Lebanon) show that services sectors in the region have been only partially liberalized (Rouis and Tabor, forthcoming). Governments tend to retain control, leading to a lack of transparency and excessive discretion in how restrictions are applied. In the financial sector, Morocco and Tunisia, the two most advanced countries in implementing reforms, still display many restrictions. In telecommunications, some Maghreb countries rank among the most restrictive for entry in fixed telecommunications services (relative to Asian and transition economies). The sector is becoming more open in line with recent reforms, especially for mobile services. In maritime transport, while major restrictions exist in Morocco, Tunisia has fairly open maritime sectors. While foreign equity limits have been relaxed in most MENA countries in recent years, many service markets remain dominated by state-owned or domestic enterprises. High levels of state control persist in such cases through conflicting regulations that protect current market structures.

Partial Investment Climate Reform

The overall investment climate in the subregion could be strengthened substantially to promote private sector development and trade. The public sector and state-owned enterprises play, to a varying degree, a dominant role in the economy. Furthermore, as discussed below, the existing business environment promotes privilege rather than competition. With the exception of Tunisia, all the countries in the subregion rank poorly on the ease of doing business. Overall scores on the Logistics Performance Index are also low for Maghreb countries. China and Turkey have performed significantly better than Maghreb countries on all dimensions of logistics performance. It is interesting to note, however, that Tunisia and Morocco outperformed India on most of the indicators.

Figure 5: Country Ranking on Ease of Doing Business and Logistics Performance Index, 2012

Sources: Doing Business Report 2012 and LPI 2012
The movement of labor is constrained largely by labor market laws and regulations, which rarely distinguish between temporary and permanent labor mobility. Restrictions include burdensome and costly procedures for obtaining work permits, limitations on the length of stay, quantitative limits and sectoral bans on work permits, job nationalization, workers’ educational status, and restrictions on the mobility of family members. In Algeria, for example, temporary work permits are issued to foreign workers for a period not exceeding three months and cannot be renewed more than once a year. Algeria’s labor law also stipulates that work permits should not exceed two years, though they may be renewable. Also, agreements on the mutual recognition of diplomas concerning regulated professions are rare in the region.

Although financial systems in the Maghreb have seen improvement in recent years, a lot remains to be done. Thus far, reforms have focused more on global than on regional integration. Gradually, each country has been lifting restrictions on cross-border capital flows and foreign ownership in order to strengthen domestic financial markets. For example, Tunisia, before the Arab Spring, aimed to achieve full capital convertibility with a freely floating exchange rate, and Morocco is transitioning to a flexible exchange rate. However, on the regional level, agreement was reached to establish a new regional bank, the Maghreb Bank for Investment and Foreign Trade (BMICE), in Tunisia.

High Infrastructure Cost and Inefficient Cross-Border Trade Facilitation

Trade continues to be hindered by underdeveloped and costly transport systems, high communication costs, inadequate provision of logistics, and inefficient trade facilitation processes and procedures. The lack of adequate infrastructure constitutes a serious concern for investors, as it increases direct transportation costs and extends the time required for delivery and thus leads to higher domestic production and trading costs.

While most countries in the Maghreb subregion have made good progress with respect to investment in and reform of infrastructure and cross-border trade institutions, such as customs, additional reforms and investments are still needed to better integrate the subregion. Such reforms include privatizing port services and promoting private investments in ports, facilitating access to trade-related transport for foreign investors, modernizing and restructuring state-owned enterprises in the railways sector, and liberalizing airport and air transport services. On the infrastructure side, there are missing road links between Algeria and Morocco; railway links and standardization between Algeria, Morocco, and Tunisia; and highway links between Libya and Tunisia. Most of the bottlenecks, however, relate to standardization and harmonization of procedures and institutional capacity building (including training and information sharing). The World Bank has carried out a study on cross-border trade facilitation and infrastructure in the Maghreb countries, with a view to assisting the countries in developing an action plan similar to the one completed recently in the Mashreq69.

The performance of the Maghreb’s power and water sectors could be enhanced. These sectors continue to be dominated by state-owned monopolies, as recent reforms to introduce competition, restructure the state-owned utilities, and liberalize and modernize the regulatory framework remain marginal. Private sector participation in electricity markets is generally limited to independent power producers and independent water and power producers.

Weak Political Commitment and Slow Reforms

Since its creation, the AMU has experienced political tensions that have impeded intraregional exchanges. For example, the border between Morocco and Algeria has been effectively closed since 1994 for political reasons, and threats of terrorism have prompted tighter restrictions on movement and trade.
controls over border-crossing activities. Algeria, Mauritania, Morocco, and Tunisia decided to implement the 1992 United Nations embargo on Libya and, in retaliation, Libya boycotted the AMU. These tensions and restrictions have delayed integration.

**Given the high priority currently placed on integration with the EU, political commitment to intraregional integration seems to be a secondary goal.** This does not necessarily pose a problem, as EU integration could spur regional integration by helping individual countries harmonize their trade policies, by encouraging integration in manufacturing (given that the European rules of origin allow for cumulation of import inputs from the AMU), and by strengthening their competitiveness in international markets. In addition, though, it would be desirable for Maghreb countries to continue strengthening the enabling environment for deeper intraregional trade integration. There are indications that the Arab Spring movement has created a sense of urgency to revitalize and intensify regional integration efforts. There are already good signs that the new leaders are focusing on regional integration in spite of the daunting short-term transition agenda they face. For instance, Tunisia recently announced its intention to reinvigorate the AMU, which has been dormant since its inception. Regional integration would require strong leadership, patience, adaptation to the region’s unique historical and political context, and sustained reforms. Public policies have often lacked transparency, suffered from discretionary and arbitrary implementation, and favored a status quo of privileges rather than a culture of competition and open and rule-based economies (World Bank 2009).

**There is great variation among the five AMU members in terms of overall economic and institutional reforms.** Morocco and Tunisia have introduced a series of reforms to promote growth and private sector development since the mid-1980s, while the challenges of economic transition continue in the other three countries. In all countries, however, the reform agenda remains daunting and incomplete. For instance, Algeria has yet to achieve accession to the WTO, while Libya needs to build strong institutions to support the requirements of a market economy. All Maghreb countries suffer from relative price distortions caused by the large volume of subsidies (essentially of fuel and food) in the economy.
Conclusion and Recommendations

Trade among the Maghreb countries and with the wider Arab region and the rest of the world is relatively small by regional and international standards, with exports concentrated in a few commodities or products. There are wide country variations, however, with Tunisia’s relatively open economy exhibiting higher trade volumes and Morocco and Tunisia showing greater export diversification. Tunisia and Morocco have begun to be active in network trade in recent years. The bulk of Maghreb trade is with Europe, which is partly a reflection of historical conditions, the nature of trade commodities, and, more recently, efforts on the part of individual countries to liberalize trade with Europe.

Trade within Maghreb subregion remains low in absolute and relative terms, despite the establishment of the AMU over two decades ago. In 2008–10, intra-Maghreb trade represented around 2.5 percent of total subregional trade and 1.5 percent of the subregion’s combined GDP. This contravenes the predictions of the conventional gravity model, which suggests that countries trade more with nearby countries. The Maghreb’s low trade performance can be attributed in part to the high barriers to trade, high infrastructure costs, logistical bottlenecks, and political considerations. Though the region has seen some expansion in intraregional infrastructure links and improvements in trade facilitation, much remains to be done to streamline cross-border facilitation logistics and boost critical investment in physical infrastructure.

Benefits to regional economic integration have been relatively modest in the Arab world, and in the Maghreb region in particular for several reasons: the dominance of oil in the exports of nearly two-thirds of the countries, similar industrial practices, and low trade complementarities, all of which combine to lower the potential (short-run) payoffs for intra-Arab regional trade and investment flows. In addition, some Maghreb countries’ public policies and institutional weaknesses significantly impede effective economic integration and private sector development in general. Although some countries, such as Tunisia, have reduced the role of the state in the economy by privatizing state-owned enterprises, more progress is needed. Similarly, the investment climate continues to promote privilege over competition.

Individual Maghreb countries can draw from the current focus on trade liberalization with the EU and the United States, and on accession to the WTO, to lock in policies that will eventually strengthen intra-Maghreb harmonization. In aligning and harmonizing their policies over time, Maghreb countries would reduce market segmentation and the costs arising from border trade, thus reaping significant benefits on top of those gained through liberalizing trade with Europe.

One of the key policy measures that Arab countries can take in the context of PAFTA is the streamlining of nontariff measures, which are exceptionally high in the Maghreb. A successful regional integration agenda would include completion of the free movement of goods within PAFTA through the elimination of NTMs, integration of the region into global supply chains and production networks, implementation of a regional program to liberalize services trade, and strengthening of the institutional rules applicable to regional trade and other policies of common interest.

Trade in services varies from one Maghreb country to another and over time, but its potential is significant, notably in transport and logistics, communications and information, and banking and finance. Morocco and Tunisia are net exporters of services (especially tourism), whereas Algeria and Libya are net importers. Trade in services is most active in
Tunisia, representing over 20 percent of GDP in that country, and has grown the most substantially as a share of GDP in Morocco. There are indications that the payoffs to liberalization of trade services (in areas such as the financial sector, transportation and logistics, and communications and information) could be substantial—two to three times greater than those achieved through tariff removal alone.

**Reform of the financial sector and the capital market within the Maghreb and the Arab world will be critical if integration is to be enhanced.** Policies to facilitate entry and exit of financial institutions, improvement of the payment system, and expansion of equity markets are urgently needed. The capital market is showing signs of integration, with countries implementing significant structural reforms (particularly Morocco and Tunisia) and investors from the GCC searching for opportunities, increasingly in the Arab world. International experience shows that it is a normal pattern for financial integration to lag behind trade integration. In the light of the ASEAN and Eurozone experiences, there is a need to establish down the road an effective regional financial safety net to prevent and manage financial crisis and contagion.

**Labor movement within the Maghreb and the right of individuals to establish residency, work and own property are critical areas in need of strong collaboration among member countries,** given the acute issue of unemployment in some countries and the labor shortage in others. Tunisia and Libya have a history of collaboration which needs to be reaffirmed and expanded upon.

**In sum, in the wake of the transformative Arab Spring movement, the countries of the Maghreb and of the Arab world more broadly have a window of opportunity to take action on global and regional integration efforts.** Deeper integration, in creating the conditions for the emergence of regional supply chains and production networks, could help address some of the tough challenges facing the region, notably export diversification and job creation. In moving forward on this agenda, it will be important to design regional and global integration mechanisms in complementary ways to avoid the high cost of trade diversion and resource misallocation.

**Taking advantage of this opportunity to deepen economic integration would require the implementation of critical reforms and strong political commitment.** These include implementation of key trade and investment policies, investment in missing infrastructure links, institutional improvements, and cross-border trade facilitation. Joint action should not, however, preclude individual countries from pursuing unilateral reforms to strengthen their international competitiveness. In this context, regional and preferential trade agreements are powerful instruments for transformational change, as they help lock in polices and attract investments. Furthermore, countries in the region could unilaterally reduce their most favored nation tariffs to the level of East Asia, the most competitive region in the world. A key lesson learned from the experience of other regional trade blocs is that open regionalism can expand markets while steadily fostering global integration, whereas attempts to use regional cooperation to mask competitiveness are likely to be short lived.
The approach taken to integration needs to be endowed with a clear vision and strong leadership—two ingredients in successful trading blocs in the world. The approach to integration should involve a wide variety of stakeholders, among them the private sector and civil society (including young people, women, universities, and nongovernmental organizations). Political leaders need to send a strong signal to their people that something has changed with respect to the past and that their discourse on regional integration is more credible. Better communication and knowledge sharing on the achievements and challenges facing Maghreb integration are essential in promoting regional integration. The aim is to highlight the progress made on integration and cooperation, using specific indicators, so as to address potential challenges to deep integration.

Policy makers should adopt a concrete action plan to revive and enhance regional cooperation and integration. This plan should be developed around four priority areas: (i) elimination of nontariff measures; (ii) improving cross-border trade facilitation and logistics; (iii) reducing the cost of infrastructure (notably transportation and ICT); and (iv) giving a prominent role to the private sector. These measures, most of which are “soft” and cost little, together with the alignment of policies and procedures on investment and labor mobility, are meant to significantly improve the regional investment climate. The investment regime needs to be strengthened by phasing out restrictions on equity participation, introducing norms and standards, and reforming governments’ procurement systems.
The African Development Bank Group in North Africa
Chapter 4

The African Development Bank in Brief
The African Development Bank Group at a Glance

Who We Are & What We Do

The African Development Bank (AfDB)\(^5\) Group is the premier source of multilateral financing for the African continent. Established in 1963 as a Bank for Africans, by Africans, the AfDB’s mission is to help reduce poverty, improve living conditions and mobilize resources for the economic and social development of the continent’s 53 countries.

History of the African Development Bank Group

The AfDB was created in 1963, in Khartoum, Sudan, when 23 newly independent African countries signed the Agreement establishing the institution. In 1964, the Agreement came into force when 20 member countries subscribed to 65% of the Bank’s capital stock of US$ 250 million. Less than two years later, the institution opened its headquarters in Abidjan, Côte d’Ivoire, and officially began operations in 1966.

African member countries provided all of AfDB ordinary capital during the first two decades. In 1982, membership was opened to include non-African countries, enabling a capital increase from about US$ 2.9 billion in 1982 to US$ 6.3 billion in 1983.

Since its inception, the Bank Group has provided more than UA 58 billion in development assistance to its regional member countries. With close to 3,600 operations to date, Bank Group projects have transformed the continent’s infrastructure, connecting countries and crossing borders. These projects have improved the quality of education, augmented the depth of Africa’s growing financial sectors and provided the continent with a chance to compete in an increasingly global community.

The Bank Group’s compelling achievements have helped build the Bank’s image and credibility in international financial markets, while making possible its AAA ratings from major international rating agencies. These ratings reflect the AfDB’s strong shareholder support, preferred creditor status, sound capital adequacy, and prudent financial management and policies.

As part of its medium-term strategy 2008-2012, the Bank has intensified its efforts to contribute to poverty reduction and inclusive growth in Africa. The strategy provides the framework that guides and sets direction for the Bank at a critical time for Africa. Focusing the Bank Group’s efforts on infrastructure, private sector development, higher education, and governance, the Medium Term Strategy allows the Bank to respond to the continent’s changing needs and circumstances. The Bank Group is emphasizing operational selectivity in order to maximize effectiveness, while contributing to regional integration efforts, middle-income country support, fragile state assistance, as well as human and agriculture development. Knowledge generation, climate change, and gender are also mainstreamed in the Bank’s operations.

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\(^5\) The African Development Bank Group (AfDB or Bank Group) consists of three related but financial independent institutions: African Development Bank (ADB); African Development Fund (ADF); and Nigeria Trust Fund (NTF). Hereafter, references to the “Bank” refer to the Group at large.
The Medium Term Strategy has proved crucial. During the food and fuel crises that commenced in 2007, and the financial crisis, which affected the continent a year later, the Strategy enhanced the Bank’s capacity to deliver. Indeed, the institution’s Medium Term Strategy enabled it to respond swiftly to crisis-related needs by accelerating and restructuring ongoing programs; advancing the approval of new projects; and making greater use of fast-disbursing instruments. At a moment when global credit was contracting at an unprecedented rate, the Bank established an Emergency Liquidity Facility, with a US$ 1.5 billion budget, as well as a US$ 1 billion Trade Finance Initiative to support trade finance by African banks.

In 2009 alone, the Bank approvals for loans and grants reached an unprecedented UA 8 billion (US$ 12.5 billion), reflecting the Bank’s quick, effective, and efficient response—actions made possible by a Strategy that will continue to benefit Bank operations in the long term.

**How We Are Financed**

In its efforts to combat poverty and promote social and economic development, the Bank operates through three related, but financially independent institutions:

- The African Development Bank (ADB);
- The African Development Fund (ADF) and;
- The Nigeria Trust Fund (NTF).

The ADB is the parent organization of the Bank Group, comprising 78 member countries, including 53 regional countries, and 25 non-regional countries. Together, the Bank’s 78 members subscribe to its capital, which, as of December 2012, stood at UA 66.98 (US$ 102.48 billion).

The ADB provides financing to 16 of the Bank’s regional member countries (13 of which are middle income and three “Blend”). Through the ADB lending window, the Bank uses the capital provided by its shareholders as the basis on which to borrow from financial markets, and then on-lends these resources to eligible regional member countries. In essence, ADB funding helps middle income and blend countries to access critical development financing at competitive rates, which might otherwise not reach them.

Over the past 40 years, the ADB has for example:

- Promoted financial sector reforms in Morocco, strengthening the micro-credit sector and improving access to finance for women who constitute 66% of micro-credit beneficiaries;
- Helped provide credit in agricultural development for roughly 12,000 men and women in rural parts of Egypt; and
- Added value and improved competitiveness, as in the case of the Bank’s loan to a Djiboutian cereals facility, which led to improved turnaround time in the storing and processing of cereals, empowering local and indigenous companies, creating new business opportunities, and supporting regional integration efforts.

The ADF funds on the other hand, provide concessional loans and grants to finance projects and programs, as well as technical assistance for studies and capacity building activities, in 40 low-income African countries, which represent nearly 80% of the continent’s population. ADF loans are interest free, repayable over a 40-year period, and carry minimal service charges. As such, the 25 donor countries replenish ADF funds every three years.

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6 Examples of such responses include: reallocating resources from specific projects towards activities that could increase agricultural production in the short term (e.g., the purchase of fertilizer) during the food crisis, while improving rural infrastructure and increasing rice production in the long term, among other measures.

7 For operational and analytical purposes, the ADB Group classifies economies by their gross national income (GNI). Based on GNI per capita, countries are classified as low (2008 GNI US$975 or less) or middle income (2008 GNI US$ 976 or more). Middle income countries include: Algeria, Botswana, Egypt, Equatorial Guinea, Gabon, Libya, Mauritius, Morocco, Namibia, Seychelles, South Africa, Swaziland, and Tunisia. Blend countries, in turn, are ones whose income qualifies them for ADF funding (which is only accessible to low income countries) and whose international credit worthiness qualifies them for ADB financing; these countries include: Angola, Cape Verde and Nigeria.
Multilateral Development Banks

Multilateral Development Banks (MDBs) are institutions that provide financial support and technical assistance for economic and social development activities in developing countries. The term typically refers to the four regional development banks—the African Development Bank; the Asian Development Bank; the European Bank for Reconstruction and Development; the Inter-American Development Bank—and the World Bank Group. MDBs are characterized by a broad membership, including borrowing developing countries and developed donor countries, both within and outside of the institution’s region.

The MDBs provide financing for development through:

- Long-term loans based on market interest rates. To fund such loans, MDBs borrow on the international capital markets and re-lend at very competitive rates to borrowing governments in developing countries.
- Very long-term loans (often termed credits), with well below market interest rates. These are funded through direct contributions from governments in donor countries.
- Grant financing is also offered by some MDBs, mostly for technical assistance, advisory services or project preparation.

Several other banks and funds that lend to developing countries are also identified as multilateral development institutions. They differ from MDBs due to their narrower ownership/membership structure or their focus on special sectors or activities.

Through its projects, in 2011 the AfDB completed the following:

- Rehabilitated and installed 14,985 km of energy transmission and distribution lines;
- Constructed and rehabilitated 38,614 latrines;
- Constructed 6,079 educational support facilities;
- Trained 32,780 health workers and improved access to health care for over 11 million people.
- Trained or recruited over & million people in rural areas to use improved technology.
- Created 67,990 jobs.

For its part, the Nigeria Trust Fund (NTF) supports development projects for the Bank’s poorest members, as well as areas such as inter-African trade and financial services. Established in February 1976, NTF is a special fund administered by the Bank on behalf of the Nigerian government, whose resources and assets are not consolidated with those of the African Development Bank or the African Development Fund.

Regional member countries can also benefit from special sources of funding—including multi-donor thematic funds, bilateral trust funds, and co-financing agreements with other development partners—which provide opportunities for technical assistance and capacity building.

Bank multidonor funds included 63 new approvals in 2012 alone, totalling roughly UA 53 million, and covering areas from water and sanitation, to infrastructure. Meanwhile bilateral funds included 53 approvals amounting to UA 13.4 million. The Bank currently hosts nine co-financing projects.

1 These include: Argentina, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Italy, Japan, Korea, Kuwait, Netherlands, Norway, Portugal, Saudi Arabia, Spain, Sweden, Switzerland, the United Kingdom and the United States of America. The United Arab Emirates is also a State Participant, bringing the total to 25 non-State participants; however it is not a non-regional member country of the Bank Group.
2 These funds include: African Water Facility (AWF), Rural Water Supply and Sanitation Initiative (RWSSI), Multidonor Water Partnership Program (MWPP), NEPAD - Infrastructure project, Preparation Facility (NEPAD-IPPF), the Fund for African Private sector Assistance (FAPA) and the Congo Basin Forest Fund.
Africa’s Knowledge Bank

Going forward, the Bank aims to become the “Premier Knowledge Bank for Africa,” cementing its role as a leading change agent for sustainable socio-economic development of the continent. Recognizing the importance of generating, mobilizing, sharing, and applying knowledge, the Bank is undergoing reforms to deepen its analytical capacity, build partnerships, and increase collaboration with universities, think-tanks, and relevant external institutions.

The Bank will also continue to enhance knowledge dissemination and sharing, and continually apply the knowledge it generates to strengthen its operational and development effectiveness in its regional member countries.
Chapter 5
Bank Group Activities in North Africa
Regional Overview

North African countries hold a significant place in the Bank Group’s history: all were present in Khartoum (Sudan), when newly independent African countries gathered to discuss the creation of a premier financial institution for Africans, by Africans. All signed the Agreement establishing the Bank in 1964, and all, with the exception of Libya, subscribed to the Bank’s capital stock, contributing upwards of US$80 million (or about 40%) in funds so that operations could begin in 1967. Such a significant contribution placed North African countries in a strategic position to play a key role in the management of the institution’s affairs in its formative years. While the AfDB’s capital structure has changed with the admission of non-regional member counties in 1982, North African countries hold roughly 18% of the total subscribed stock as of January 2010 and continue to play an important role in the Bank Group.

Bank Operations

North Africa’s early commitment to the Bank Group, coupled with its strong economic position, has made it the leading client and largest beneficiary of Bank’s support. Indeed, Morocco, Tunisia, and Egypt are the Bank’s largest beneficiaries.

As of December 2010, the Bank Group provided nearly 400 public and private sector loans and grants in North Africa, totalling about UA 17 billion, and representing nearly 30% of cumulative loan and grant approvals for all member countries.

Among North African countries, the major beneficiaries of Bank financing have been Morocco (34%), Tunisia (27%), Egypt (23%) and Algeria (12%).

Libya, while present at the 1964 conference, only ratified the Agreement eight years later.
Since its inception:

- Algeria has had 39 operations, totalling UA 2.05 billion;
- Egypt has had 86 operations, totalling UA 3.73 billion;
- Libya has had 2 operations, totalling UA 1.06 million;
- Mauritania has had 63 operations, totalling UA 500 million;
- Morocco has had 124 operations, totalling UA 6.71 billion; and
- Tunisia has had 106 operations, totalling UA 4.58 billion.

The Bank Group has also funded four regional operations including, four technical assistance targeting the Arab Maghreb Union (UMA) and an operation for the infrastructure investment (Argan) Fund. There are also been equity participations in two regional investment funds (MEFP II and III MEFP) investing in the three Maghreb countries (Morocco, Algeria and Tunisia).

In 2012, Bank Group loans and grants have predominantly supported infrastructure and financial sector deepening.

**Thrust of Bank Operations**

Currently, the Bank’s operations are cast against the backdrop of North Africa’s specific economic, social and regional needs. Although dominated by middle income countries with relatively good access to capital markets, the region still needs substantial investments in infrastructure and private sector development in order to propel broad-based and sustained economic growth. Moreover, capacity building, advisory services, and improved banking information systems in the sub-region are also benefiting from Bank Group support. Like the other parts of the continent, there are still substantive human development needs that must be addressed to ensure that quality of life improves and is evenly enjoyed by all. Bank’s operations thus reflect such specific needs, as well as the areas which take into account national development plans and AfDB country strategy papers in which it can have the greatest development impact.

As of March 2013, the Bank Group’s portfolio in North Africa comprised 133 approved and ongoing operations,
with a total net commitment value of UA 5.8 billion, displaying the importance of the portfolio.

Clearly, energy, transport, and water supply are the dominant areas for Bank Group lending. To a large extent, this reflects North Africa’s growth performance and state of development—with demand for energy growing in parallel to meet household and private sector needs (industry, agriculture, tourism and transport). As these countries become increasingly integrated into the global economy, they will invariably face greater competition and a heightened need for connectivity with the rest of the world. This calls for infrastructure development and increased efficiency, especially in the areas of transportation and communications—roads, railways, air transport, etc.

**Figure 5.4: Current Portfolio in North Africa Sector Allocation**

- Agriculture - 0.4%
- Finance - 23%
- Multi-sector - 32%
- Energy - 0.1%
- Social - 0.14%
- Transport - 11%
- Water Supply and Sanitation - 9%
- Industry Mining - 23%
- Others - 0.5%

Equally important is integration at the regional level. Indeed, the Bank recognizes that regional integration is imperative to build markets and foster new opportunities for growth, job creation, and improved living standards, and that it contributes to competitive and diversified economies. The Bank has contributed to regional integration through institutional support and technical assistance to various organizations at the regional level, particularly to the Secretariat General of the Arab Maghreb Union, equipping different regional bodies with the necessary skills and knowledge to fully play the role assigned to them in the integration process. The Bank’s support to regional bodies is in line with its 2009-2012 Regional Integration Strategy, which places particular emphasis on strengthening the capacities of regional economic communities.

The Bank also contributes to regional integration by supporting private sector development. In 2008, this included investments of nearly €20 million to the Maghreb Private Equity Fund, which strengthened selected small and medium enterprises in Morocco, Algeria, Tunisia and Libya in an attempt to transform them into stronger regional players. In 2010, the Bank also approved an equity investment of roughly US$20 million in an infrastructure fund operating primarily in North Africa.

**A Knowledge Bank**

For all its various operations—from finance to infrastructure, water and sanitation to agricultural development—the Bank remains committed to generating and purveying knowledge through technical assistance and economic and sector work. The Bank’s technical assistance in the region covers a wide range of critical issues, including water and sanitation, social development, transport and communication, agriculture, and finance.

Currently, the Bank’s ongoing portfolio of technical assistance and economic and sector work consists of 68 operations. With a total value of about UA 35.8 millions. This includes roughly UA 11.5 millions for Egypt, 9 millions for Tunisia, 1 million for Libya and 1 million approved for the Multi-Donor Trust Fund for countries in transition (TFT).

As of end 2012, the Bank’s North Africa ongoing portfolio of technical assistance and economic and sector work consists of 38 operations with a total value of about UA 23m. This includes about UA 11.5m in Egypt, UA 1m in Libya, UA 9m in Tunisia. In addition; about UA 1m had been approved as of end 2012 under the newly created Multi-donor Trust Fund for Transitions (TFT) for Morocco and Tunisia.

The Bank’s North Africa Department (ORNA) is overseeing 2 Trust Funds and 1 technical assistance fund as follows:

1) The Middle East and North Africa (MENA) Transition Fund: Under the Deauville Partnership, this Fund was launched as a response to the historic changes underway
in several countries in the Middle East and North Africa (MENA) region and as a long-term, global initiative that provides countries in transition with a framework based on technical support to: (i) strengthen governance for transparent, accountable governments; (ii) provide an economic framework for sustainable and inclusive growth and (iii) to support the countries in transition to formulate policies and programs and implement reforms. The World Bank has been assigned as trustee for the fund whilst the African Development Bank has become an implementation support agency (ISA) for the fund in order to channel support to Tunisia, Egypt, Libya, Morocco and Tunisia. The source of funding for the Fund is untied grant resources with initial contributions provided by the UK’s Department of International Development (DFID) and the Government of Denmark. As of end 2012 there were four proposals totaling about UA 1m approved for this Fund.

3) The Middle Income Country Technical Assistance Fund (MIC TAF): The MIC TA Fund is an integral part of the Bank Group’s commitment and strategic thrust to enhance the quality, development effectiveness, volume and competitiveness of its operations in its regional member Middle Income Countries (MICs). It was set up in 2001 with the objective to provide grant resources for building capacity, promoting regional integration, promoting private sector development, undertaking economic and sector work and preparing projects in MICs. The evolving development needs of Middle Income Countries (MICs) continue to demand innovation and improvement in delivery of assistance on the part of the Bank.
<table>
<thead>
<tr>
<th>Membership year</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of lending operations</td>
<td>1971</td>
</tr>
<tr>
<td>Number of ADB operations approved, 1967-2012</td>
<td>39</td>
</tr>
<tr>
<td>Number of ADF operations approved, 1967-2012</td>
<td>3</td>
</tr>
<tr>
<td>Subscribed Capital (%) as of December 2012</td>
<td>4.247</td>
</tr>
<tr>
<td>Total voting power (%) as of December 2012</td>
<td>4.226</td>
</tr>
<tr>
<td>Number of operations in the current portfolio</td>
<td>6</td>
</tr>
<tr>
<td>Total loan amount of operations in the current portfolio (UA million)</td>
<td>3.34</td>
</tr>
</tbody>
</table>
People's Democratic Republic of Algeria

Recent Developments

Algeria is pursuing reform programs in order to modernize the economy and consolidate the achievements of the transition process towards a market economy. In 2012, the country recorded a strong economic performance in a rather sluggish regional and global socio-economic environment and developed strategic partnerships to support the ongoing implementation of the 2010-2014 Five-Year Development Program.

The real GDP growth rate reached 2.5% in 2012 compared to 2.4% in 2011. This rate could be boosted in light of the country’s development potential, in particular, its significant oil and gas reserves. Algeria is ranked 3rd after Libya and Nigeria, in terms of the continent’s oil reserves, estimated at 12.7 billion barrels in 2010. It also has natural resources such as gas and solar energy (over a national territory of over 2 million km²) as well as fishery resources and huge agricultural development potential.

These resources could contribute to creating further wealth and jobs and providing momentum to the Algerian economy’s structural reform process and the diversification of income sources. The oil and gas sectors alone account for 37% of the country’s wealth, 70% of its fiscal revenue and 97% of its export earnings. In light of the performance over the last decade, the non-oil and gas sectors provide opportunities which should be capitalized on. These sectors average annual growth rate has exceeded 5% over the past decade (and 5.7%, 5.8% for 2011 and 2012 respectively) and could be the alternative providing lasting responses to the issue of youth employment.

According to the 2013 African Economic Outlook, the country’s economic growth forecasts are 3.2 % for 2013 and 4% for 2014. These are based on the maintenance of oil prices (at US$112 per barrel in 2011 and US$110 in 2012), and the deepening of structural reforms around national strategic options as updated in the Government’s Action Plan, adopted by Parliament in October 2012, with a view to the continuation of the 2010-2014 Five-Year Program. This Action Plan makes the improvement of governance and the strengthening of transparency the first pillar of the country’s development program with a view to enhancing the effectiveness of public policies, improving the business environment and promoting both public and private investment. In order to be sustainable, public investment and domestic demand-driven growth should preferably be generated by productive investments which develop value chains in the economy’s different sectors. Over the period between 2007 and 2011, the average gross investment rate stood at 39%, a significant proportion of which was attributable to the public sector; and gross domestic savings were estimated at 50% of GDP.

The main challenge to be addressed by Algeria is the deepening of reforms with a view to structurally transform the economy while capitalizing on the availability of financial and natural resources. Other sectors with the potential to stimulate growth in Algeria are the agriculture and manufacturing industry, the respective shares of which in GDP in 2011 were 8.2% and 4.3%. Consequently, and in light of the existing regulations in terms of a 51%-49% capital structure between national and foreign investors, a more transparent and simplified business environment will be one of the key factors influencing private sector promotion.

As a result of the expansionary policy pursued in 2012, the public investment rate was maintained and strong social demand contained. The ongoing implementation of the public investment program in line with the 2010-2014 Five-Year Plan (for an amount of US$ 286 billion) and the responses to strong social demand concerning purchasing power, jobs and housing, reflected in particular, in salary increases, consumer price subsidies and social transfers, resulted in an increase in public expenditure which represented about 43.2% of GDP in 2012. The fiscal deficit widened to 3.3% of GDP compared to 1.3% in 2011.
Inflation has been fueled by the expansionary fiscal policy and reached a rate of 8.89% as a result of the persistent malfunctions of the domestic market for goods as well as inflationary pressure heightened by a significant increase in household incomes.

The country’s external position remained comfortable in 2012 with a trade surplus of about US$ 27.18 billion. The current account surplus was estimated at 8.2% of GDP. As of December 2012, official foreign exchange reserves stood at US$190.7 billion (equivalent to over three years of imports).

On the social front, Algeria is on track to achieve the Millennium Development Goals (MDG). However, public authorities are paying particular attention to closing the housing gap which is the result of annual supply of about 80,000 houses to meet steadily rising demand (225,000 houses). To address this, Algeria has initiated strategic partnerships to achieve the objective of building 2 million houses by end 2014. The issue of women’s and youth unemployment is also a top priority. Indeed, 22.3% of 15 to 24 year olds are job seekers. Stronger and more sustained growth would help to bring down the unemployment rate, particularly the youth unemployment rate, and would be bolstered by the Algerian economy’s diversification and the ongoing implementation of policy, economic and financial reforms.
The Bank and Algeria have pursued and deepened their partnership as described in the cooperation framework paper, namely the 2011-2012 Country Dialogue Note. The September 2012 evaluation of the implementation of this note provided both parties with an opportunity to assess the relevance of the strategic options of their cooperation, namely, to: (i) deepen dialogue on efficient public policies; (ii) support the building of development program implementation capacities and; (iii) provide technical assistance for the conduct of analytical work to assist decision-making and, on the basis of the lessons learnt, to agree on the pillars for the new strategy for the 2013-2015 period. The three areas of concentration for the Bank’s operations, i.e. (i) public administration capacity building, (ii) private sector development and (iii) regional integration were also considered relevant on completion of this evaluation.

In 2012, the Bank maintained its support to the modernization of the communication and collaboration system within the Ministry of Finance; the building, monitoring and evaluation capacities of the key anchor projects and; the implementation of the training program for Ministry of Finance officials. A new capacity building program as part of the reforms to modernize the information systems of public banks and improve financial intermediation was approved in August 2012, with financing from the Middle Income Country Technical Assistance Fund (MIC-TAF).

The Bank has also broadened the scope of its activities to include two new sectors: (i) Agriculture and Rural Development, following the approval of a new farm development support operation in December 2012 on MIC-TAF resources; et (ii) Industry, Small and Medium-Sized Enterprises and Investment Promotion.

Finally, due to continued dialogue with the Government on the basis of two strategic study concept notes prepared by the Office on Economic Diversification, and the other on Inclusive Growth and Employment in Algeria, both parties have undertaken to conduct these studies in 2013 with a view to assisting the Authorities in the formulation, implementation and monitoring of public policies which address these two priorities.

2012 was, therefore, marked by the strengthening of the strategic alignment of Bank assistance on Algeria’s priority objectives. Indeed, the country is pursuing the deepening of its reforms to modernize the economy, to develop the potential of all sectors by supporting the creation of wealth and jobs. It is also continuing to implement key anchor projects. Its objective is to take up the challenge of structurally transforming the economy. Algeria’s economic performance, especially economic growth estimated at 2.5% in 2012, in a rather sluggish international environment but with a comfortable financial position against a backdrop of high oil prices, averaging US$ 110 per barrel, has enabled Algeria to consolidate the strategic options guiding national development.

Algeria has also participated actively in the extended consultations on the definition of the Bank’s long-term strategy (2013-2022) by supporting the organization of the related national workshop. Collaboration between the Algerian government and the Bank was facilitated...
and boosted by the presence of the Field Office in Algeria, as was cooperation with the other development partners such as the European Union, World Bank and bilateral cooperation institutions.

In 2012, the Bank and Algeria initiated a strategic reflection on the preparation of the new framework for their partnership for 2013-2015. Two pillars of concentration for the Bank’s operations are emerging, namely: (i) governance improvement; and (ii) economic diversification support. The finalization of this cooperation framework and the launching of the first implementation operations will be the main focus of the Bank’s dialogue with Algeria in 2013.
Overview of Bank Group Operations in Algeria

Since the approval of the first project for Algeria by the Bank’s Board of Directors on 21 March 1971, cooperation between the Bank and Algeria has considerably developed and diversified. As at 31 December 2012, the Bank had approved a total of 42 operations in favor of Algeria for a cumulative amount of about UA (Unit of Account) 2.056 billion. These operations concerned 23 projects (including one in the private sector), 1 study, 4 lines of credit, 3 reform support programs, 2 emergency programs and 9 technical assistance or institutional support projects. Most of the operations were financed by ADB loans and grants (99.8%); with ADF loans only representing 0.2% of the total.

Figure 5.5: Cumulative Bank and Group Loans and Grants by Institutions in Algeria (1971 – 2012)

ADB - 99.9%
ADF - 0.1%

However, it should be noted that, since 2006, in order to meet the evolving needs of the Algerian economy, the Bank and Algeria have agreed to give their cooperation a new direction. Following Algeria’s decision to no longer, for the moment, use external borrowing to finance the country’s development, this cooperation will now prioritize technical assistance, advice, training, capacity building, economic and sector work and private sector promotion. The technical assistance operations (about 6) have been financed through the Middle-Income Country Technical Assistance Fund (MIC-TAF).

The operations approved by the Bank from 1971 to 2012, covered several sectors headed by infrastructure (transport, water and sanitation, energy), representing 33% of cumulative approvals for the period. The other sectors which have benefited from the Bank’s support include: multi-sector projects (29%), the financial sector (19%), agriculture and rural development (12%) and the social sector (4%).

Agricultural Sector and Rural Development

Algeria is pursuing its agricultural and rural renewal policy, initiated in 2009, on the basis of the following fundamental conceptual options: (i) food security, agribusiness integration, integrated and inclusive development and the importance attached to basic economic units (farm, firm and rural household). Its implementation is producing tangible results in terms of access to agricultural inputs and production by sub-sector.

Agriculture sector growth was estimated at 13.7% in 2012, compared to 10.5% in 2011. The agriculture sector’s share of GDP formation was estimated at 10% in 2012. However, the food security issue is one of the country’s strategic objectives. The efforts made to modernize and mechanize Algerian agriculture combined with the promotion of water saving irrigation schemes as well as the use of improved fertilizers are all initiatives aimed at reducing the vulnerability of production to the climatic variations.
The Bank has supported Algeria in the implementation of its different agricultural and rural development programs since the beginning of their cooperation in 1971. During 2012, this partnership was revitalized through capacity building support for the Ministry of Agriculture and Rural Development for the implementation of the Agricultural and Rural Renewal Policy. In this context, a project was prepared and approved by the Bank in December 2012 for technical assistance for the implementation of the program to establish new farms. Two other capacity building support operations are being prepared: (i) Saving irrigation water to support desertification control and (ii) support for the establishment of an integrated agricultural hub.

**Infrastructures**

One of Algeria’s strategic options is to develop infrastructure which is necessary for any sustainable development process. With regard to Transport infrastructure, Algeria has made tangible progress regarding the construction and maintenance of the road network: 112,000 km of paved roads, 3120 km of well-maintained and managed motorways and express highways. This network will be strengthened by the finalization of the new High Plateau motorway as well as the construction of three motorways from the North to the South-East, the Centre-South and South-West, slated for 2020. The Algerian coastline currently has 51 maritime facilities and 32 airports are open to civil air traffic.

The Algerian Government’s commitment to development infrastructure is also reaffirmed in its plan to rehabilitate railway infrastructure and open lines linking the East to the West and North to South of the country (US$18 billion). It also intends to expand the rail network from 1769 km in 2008 to 4316 km, including 499 km of electrified lines plus 1500 km of railway line being constructed between the North by-pass route and the highlands. Concomitantly, the deep-water port, construction of which is ongoing at DjenDjen and whose management has been awarded to DWP (Dubai Ports World), a United Arab Emirates company, as well as the expansion of the ports of Oran, Algiers and Béjaïa, will increase medium-size container vessel capacity and, consequently, enable the country’s ports to handle more containers directly.
motorways and tunnels (El Golea-Insaleh Road, Constantine Motorway, El Achir Tunnel); (ii) improvement and building of port capacities (Port of DjennDjen); and (iii) upgrading of airport facilities (Air Algerie maintenance base). These projects have had a positive impact on the development of the transport sector and helped to stimulate economic activities (increase in traffic and trade, lower transport costs, etc.). The 2010-2014 National Development Plan continues to support vast infrastructure projects in the areas of road, railway, port and airport construction, sea water desalination, and development of electric power plants, dams and housing. These public investments, which result in mobility improvements and lower operating and transport costs, also contribute to income distribution and help to ease the unemployment constraint.

Since the start of its operations in Algeria, loans approved by the Bank Group in the transport sector have reached an amount of UA 280.6 million, representing 13.7 % of all its commitments in the country. The Bank has helped the Algerian Authorities to modernize the transport sector by improving the efficiency and quality of services while promoting national (between the East, Centre and West) and regional (Maghreb and Sahel) integration.

Multi-Sector Operations

Algeria and the Bank have also cooperated in the implementation of several strategic programmes. Implementation of the economic reforms has led to an improvement in the country’s economic indicators and restored more sustained growth.

Through these programs, major reforms have been implemented by the Government with the following main objectives: (i) improvement of the legal and regulatory framework for doing business; (ii) promotion and diversification of external trade; (iii) strengthening of public financial management (debt management, tax reform, etc.); (iv) public enterprise reform; (v) financial sector restructuring; (vi) implementation of a new housing strategy and; (vi) improvement of the social welfare system. By backing these reforms, the Bank has been able to support Algeria in its transition phase towards a market economy and help to improve management.

Banking Sector

In 2012, the Algerian banking and financial system comprised 27 banks and financial establishments (including 6 public banks, 14 private banks; 3 financial establishments, 3 leasing companies and 1 agricultural mutual fund) and embryonic stock exchange (the Algiers Stock Exchange with 5 listed companies). The public banking sector still dominates and controls 85.7% of assets, 89.1% of deposits and 86% of credits. There is still a structural liquidity surplus in Algerian banks and the rate of liquidity expansion was estimated at 11.59% in 2012, up on 2011. The banks have consolidated their financial soundness indicators and the solvency ratio remains high at almost 24%. Non-performing loans are estimated at 14%, about 10% of which are not provisioned.

In terms of access to financial services, Algeria has 1246 bank branches, i.e. one outlet per 27,500 inhabitants. Household deposits represent 33.2% of total bank deposits due to the rather stringent requirements for opening a bank account. Credit to households only represents 8% of total credit granted. Credit to the private sector represents 53.2% of total bank credit compared to 46.8% to the public sector. According to banking sector officials, projects submitted by firms, especially very small businesses (VSB) lack consistency and are not bankable. Only two thirds of this population of firms has bank accounts. However, the country’s savings rate is above 50%, one of the world’s highest.

In 2012, the Bank approved a technical assistance program in an amount of UA 750,000, the main objective of which is to build the capacities of the Ministry of Finance in its mission to monitor and implement modernization plans for the six public banks’ information systems.

Social Sector

Algeria has made significant progress towards the achievement of the Millennium Development Goals (MDG). According to the UNDP’s 2011 Human Development Index, Algeria is ranked 96th out of a total of 181 countries. It is ranked among the countries with average human development with an estimated HDI value of 0.698. In 2011, the country’s estimated
The African Development Bank Group in North Africa - 2013

gross domestic product (GDP) per capita was over US$ 4500 (compared to US$ 1610 in 2000). Absolute poverty declined from 1.7% of the population in 1990 to 0.5% in 2011. Despite these strides, Algeria remains faced with major challenges on the social front, mainly unemployment especially of young people, a housing gap and health care quality. According to the National Office of Statistics (ONS 2011), unemployment affects about 10% of the Algerian workforce and 22.4% of 15- to 24- year olds, with wide gender disparities (19% for men and 38.1% for women).

Algeria and the Bank have also cooperated in the social sector. This cooperation has been mainly focused on the quantitative and qualitative improvement of technical education. It has chiefly concerned the extension of school infrastructure and the strengthening of teaching and logistics systems.
The 2011-2012 Dialogue Note is the most recent cooperation document between the Bank and Algeria. The document was the subject of a combined completion report and portfolio performance review of the Bank’s operations in the country. The report was considered by the Committee on Operations and Development Effectiveness (CODE) on 22 January 2013. In line with the Government’s priorities, the dialogue areas retained are: (i) public administration capacity building; (ii) private sector development; and (iii) regional integration. The technical assistance projects have been financed from the resources of the Middle Income Country Technical Assistance Fund (MIC-TAF). A new strategy paper, 2013-2015 Synthesis Note is being prepared.

Cooperation between the Bank and Algeria is focused on technical assistance, training and capacity building as well as economic and sector work. This new strategic partnership is reflected in the following areas: project appraisal, the development of on-line banking services and information and communication technologies. As part of its private sector support, the Bank has made an equity investment in the Maghreb Private Equity Fund3 (MPEF III), a regional investment fund, thus contributing to the financing of the local private sector by strengthening equity capital.

The Bank’s portfolio in Algeria comprises six (6) technical assistance (TA) operations for a total amount of almost UA 3.34 million, four of which are active.
portfolio only comprises technical assistance operations financed from the Middle Income Country Technical Assistance Fund (MIC Fund). These are: i) National Equipment Development Fund Technical Assistance Project (UA 600,000); ii) Electronic Banking System Development Project (494 800 UC); iii) Project to Modernize the Communication and Collaboration System of the Ministry of Finance (UA 495 500); iv) Ministry of Finance Capacity Building Program (UA497 000); v) Project to support Public Banks’ Information System Modernization Plans (UA 750,000 UC); and vi) the Young Agricultural Entrepreneurs’ Promotion Support Project (504 000 UC).

In addition to technical assistance operations, the Bank has made equity investments in the following four regional investment funds involved in private sector operations in Algeria: Maghreb Private Equity Fund 2, ECP Africa Fund, AIG Infrastructure Fund and Argan Infrastructure Fund. Through these Funds, the Bank indirectly supports private investment in Algeria. As at 30 June 2010, these Funds’ investments in the country stood at almost US$102 million with an estimated Bank share in these investments of about US$ 13 million.

Furthermore, the Bank focuses on economic, social and sector work which contributes, in general, to fostering dialogue and improving project quality at entry. It also help to improve the Bank’s and Authorities’ understanding of the main development stakes and challenges which Algeria has to address. As part of the process to diversify the economy, provide support to dialogue on SME/SMI development and job creation and, more generally, to support more inclusive growth, two studies are being prepared with a view to possible financing from the resources of the Middle Income Country Technical Assistance Fund (MIC-TAF). These are: (i) the Study on Growth and Employment in Algeria; (ii) and the Study on the Diversification of Sources of Growth of the Algerian Economy.
Project for Technical Assistance in Support of Caisse Nationale d’Equipement pour le Développement

Objective and Description

The project has a two objectives:

- Organizing specialized training to build CNED (Caisse Nationale d’Equipement pour le Développement) capacities for appraisal and monitoring of large-scale projects. More specifically, the project seeks to raise the level of expertise of CNED staff to: (i) review the identification dossiers for projects that are under the supervision of sectoral ministries or, by delegation, specialized national agencies or enterprises; (ii) review feasibility studies for large-scale infrastructure projects; and (iii) follow up implementation and conducting post evaluation of large-scale projects;
- Improving CNED information system by putting in place the documentary resources required for more effective qualitative evaluation of large-scale projects.

Expected Outcomes

The project intends to:

- Reinforce CNED’s analytical capacity to conduct economic, social & financial evaluation of large-scale projects;
- Reinforce institutional expertise on project monitoring and evaluation.
Electronic Banking Development Project

**Objective and Description**

The project is in line with the government’s goal of modernizing the banking system, in particular, speeding up the development of electronic banking. The latter is seen as a key lever in consolidating the modernization of the payments system and also as a means of improving the transparency and traceability of inter- and intra-bank payment transactions.

This operation consists in implementing a study with two main components: (i) diagnosis through analysis of the current situation and identification of obstacles to development of electronic banking; (ii) design of a new architecture through the formulation of a cohesive and holistic solution, and a plan of action for the implementation of the proposed architecture.

**Expected Outcomes**

The project intends to:

- Speed up electronic banking development in Algeria;
- Identify bottlenecks to electronic banking development for the development of a master plan;
- Propose institutional and organisational frameworks, regulatory texts and a marketing strategy for electronic banking development;
- Improve banking sector performance.

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**ADB MIC Grant**

- **Approval Date**: July 2007
- **Expected Completion Date**: December 2013
- **Location**: Algiers
- **Executing Agency**: Ministry of Finance

- **UA 0.49 million**
Ministry of Finance Communication and Collaboration System Modernization Project

Objective and Description

The overriding project objective is to modernize the Collaboration and Communication System of the Ministry of Finance, as part of the government’s action aimed at upgrading and improving public service efficiency. The operation has been envisaged in two phases: (i) the first phase is the study to define the new architecture of the Ministry’s collaboration and communication system; (ii) a second phase supports staff training initiatives to facilitate implementation of the new architecture.

Expected Outcomes

The project intends to:

- Reinforce capacity and efficiency of the Ministry of Finance;
- Provide a communication system to answer the needs of a large decentralized institution;
- Favour exchange and dissemination of information among the different units of the ministry to support the implementation of the reforms.

<table>
<thead>
<tr>
<th>ADB MIC Grant</th>
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<tr>
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<td>Location</td>
<td>Algiers</td>
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<tr>
<td>Executing Agency</td>
<td>Ministry of Finance</td>
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Objective and Description

Through the implementation of macroeconomic reforms and the launching of a major public investment program, Algeria has demonstrated its commitment to modernize its economy and diversify sources of growth. Cognizant of the important role the Ministry of Finance will continue to play in the economic reform of the country, the Government of Algeria has requested a training program for the Ministry’s key employees.

As such, the objective of this project is to support the Ministry of Finance through technical assistance so the ministry may implement the broad agenda of structural reforms.

Description

This project will entail:

- A diagnostic study of the Ministry’s training needs and the identification of promising young managers;
- The development of a training program for executives and;
- Support for the pilot phase of these programs.

Expected Outcomes

The project will result in:

- The definition of a strategic plan for training in the medium term, 2012-2015;
- The development of a plan for prioritized training based on the skills needed by the Ministry of Finance;
- The development of a specific support program for promising young managers.
Project to Support Public Sector Banks’ Information System Modernization Plans

Objective and Description

In recent years, Algeria has embarked on a programme to modernize its banking and financial sector. The aims of the banking and financial sector reform, started in the 90s, include the development of financial intermediation, the building of banks’ risk management capacities and modernization of their information and payment systems in order to improve the quality of banking services.

Against this backdrop, this programme’s objective is to build the capacities of the MoF, especially at the Directorate for Public Sector Banks and the Financial Market (DBPMF) in order to improve the monitoring of the modernization plans of the IS of the six public sector banks to ensure they have efficient IS which can: (i) provide banking services to their clients’ satisfaction; (ii) meet banking management prudential and transparency standards; (iii) improve the quality of information required to prepare periodic activity reports to help decision making; and (iv) ensure effective risk management.

Description

The project activities are as follows:

- Building the monitoring/supervision capacities of the Ministry of Finance, in particular, of the Directorate for Public Sector Banks under the General Treasury Directorate with regard to the implementation of public banks’ information system modernization plans.

- Support to the ‘DELTA Solutions’ audit;
- Support to the conduct of a feasibility study on: i) the possibility of outsourcing a number of banking IT services and the feasibility of establishing a Banking IT Service Company; and ii) the pooling of IT facilities (back-up centres, computing centres, etc.).

Expected Outcomes

The project outcomes will be as follows:

- The capacities of the MOF (Directorate for Public Sector Banks and the Financial Market (DBPMF) are built up for the supervision of the information system (IS) modernization plans of the six public sector banks in order to improve financial intermediation and the business environment in Algeria.
- The availability and quality of banking services provided to customers comply with international standards; and
- The improvement of the business environment in terms of financial intermediation is particularly reflected in an increase in the economy’s access rate to banking services.
Young Agricultural Entrepreneurs Support Project

Objective and Description

The agriculture sector is one of the country’s development priorities and its estimated contribution to GDP formation was 10% in 2012. The Ministry of Agriculture and Rural Development has adopted an agricultural and rural renewal policy which is being implemented. This project aims to achieve inclusive development and the promotion of local agricultural services in order to improve agricultural productivity and the integration of young people to play a key role in the local and regional development process. This project directly supports the Agricultural and Rural Renewal (RAR) initiatives in Algeria in order to lay the foundations of an incubator structure and implement a youth employment promotion model focused on entrepreneurship where institutional synergies could be enhanced in order to strengthen those between government structures, the private sector and professional organizations.

Description

In its operational phase, the project will:

• Carry out a needs assessment and prepare a training programme for officials and young entrepreneurs; and
• Provide technical assistance to the implementation of the training programme and support to young people (installation and post-installation).

Expected Outcomes

The project will have the following outcomes:

• Building the institutional capacities of the project owner, namely the National Institute for Rural Development Studies (BNEDER): private firms-BNEDER network; and training of officials of the Ministry of Agriculture: 30 trainers in all (promotion of the programme’s institutional environment); and
• Building the actors’ knowledge and enhancing their professional qualifications: 100 young agricultural (YAE) and rural (YRE) entrepreneurs are trained, installed and supported (promotion of a YAE/YRE network and interaction with the economic/private integrator).
Egypt

<table>
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<td>1974</td>
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<td>Number of ADF operations approved, 1967-2012</td>
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<td>Total voting power (%) as of December 2012</td>
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<tr>
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Arab Republic of Egypt

Recent Developments

In 2012, Egypt continued its path towards democratic transition. The first democratically elected president in over 60 years has been appointed, and a new Constitution was approved in mid-December 2012 by 63.8% of voters.

Despite these important advances, many challenges remain. Violence and on-going protests have demonstrated that Egyptians remain unsatisfied with the pace of change. Moreover, the continued political unrest two years after the revolution has had a severe economic impact on the county, with growth down to 2.2% during the fiscal year 2011/12 against a pre-revolution growth rate of 5.1% in 2009/10.

In 2012, consumption (private and public) —which comprised 90.9% of total GDP in 2011/12 compared to 87% of GDP, a year earlier— was the main driver of real GDP growth. However, total investment spending decreased from 16.7% in 2010/11 to 15.3% in 2011/12. Meanwhile, exports declined from 20.6% in 2010/11 to 18.6% in 2011/12 while imports increased from 24.7% to 26.2% over the same period. Foreign direct investment (FDI) and tourism, the two key growth drivers, were hard hit by political instability; in 2012, tourism revenues fell by US$ 1.2 billion, and FDI that averaged 5.2% of GDP over the period 2008 to 2010, dropped to 0.8%.

Fiscal policy remained expansionary in response to the demands of the revolution. As a result, the budget deficit-to-GDP ratio climbed to 11.2% in 2012 from 9.8% in 2011, but is targeted to fall to 7.6% by 2014 if the government implements planned cuts on energy subsidies. The government has financed the fiscal deficit by issuing Treasury-bills leading to an increase in public debt to 80.6% of GDP in 2012, from 76.2% of GDP a year earlier. External debt remains manageable, dropping to 13% of GDP in 2012, from 15.2% in 2011.

Egypt’s external sector continues to be under stress. The current account deficit widened by 30% in 2012 to US$ 7.9 billion (-2.6% of GDP) as tourism revenues plummeted, and the trade deficit worsened. The balance of payments deteriorated to a deficit of US$ 11.3 billion in 2012, from a surplus of US$ 33.6 billion in 2010 as FDI inflows softened. Net International Reserves that stood at US$ 26.6 billion (6.3 months of imports) in 2011 dramatically fell to US$ 15 billion (3.2 months of imports) in December 2012. As the political crisis deepened and CBE continued to sell its US$ reserves to defend the currency, the Egyptian pound depreciated by over 12.5% since the revolution.

In the midst of these challenges, 25.2% of Egyptians live below US$1.5 per day, illiteracy rate is high at 27%, and there are wide income disparities among regions. Unemployment rate stand at 12.6% (second quarter, 2012) overall, but is far higher among the youth (ages 25-29 years), at 25.3%.
2012 was a difficult year for Egypt as it embarked on a process of transition following the departure of President Hosni Mubarak in February 2011. Some key developments on the political side included the election of a new President and the approval of a new constitution. On the economic side, macroeconomic conditions deteriorated on various fronts as Foreign Direct Investment (FDI) dropped to 0.8% of GDP, tourism witnessed a reduction of 40% in revenues and export growth remained flat. In addition, the foreign reserves fell to US$ 15 billion in December 2012, from US$ 26 billion in 2011. The Central Bank of Egypt continued the policy of selling its US dollars to defend the Egyptian Pound, which has depreciated by over 12.5% since the revolution. On the social front, unemployment remained a major concern as 23% of the youth could not secure decent jobs.

In this context, the Bank, through its Field Office in Egypt, remained actively engaged in 2012 in the management of the current portfolio which is comprised of 26 operations, amounting to UA 1.27 billion in net commitments. The Bank’s lending is dominated by the power supply sector, which accounts for 79% of approvals; the financial sector which accounts for 10%; the social sector which comprised close to 4%; and water resource and sanitation development which represents 4%. Through active engagement with the PIUs, the Bank disbursed US$ 298 million in 2012, compared to US$ 186 million in 2011. On the non-lending program, the key deliverables included the approval by the Board of the Interim Country Strategy Paper for 2012-2013; the High Level Policy Dialogue Seminar on Youth Employment, organized jointly with the Social Fund for Development (SFD); and the publication of the Egypt Economic Quarterly Review.

The new Delegation of Authority Matrix will enhance the decentralization process and will enhance the capacity of the Bank Field Office in Egypt to extend quicker and more efficient client-oriented services in line with the country’s portfolio. In close collaboration with other development partners, it will focus on enhancing its knowledge work, i.e. Economic and Sector Work, feasibility studies, pipeline of projects and dialogue with the Government, private sector and civil society. It will also strengthen its technical assistance and capacity building programs through various Trust Funds such as MENA Transition Fund and MIC grants.

The challenges facing Egypt are daunting, but the prospects for sustained economic growth are positive and the Bank will continue to strive to remain a key development partner.
Energy/Power Supply Sector

A continuous and reliable supply of electricity is required for Egypt’s socio-economic development. With a highly urbanized population and an increasing demand for electricity, a systematic expansion of electricity generating facilities and other infrastructure is imperative. At the same time, economic growth will hinge on the provision of adequate and reliable power to vital sectors like industry, agriculture, tourism and transport sectors, to which the government gives high priority. Against this background, the Egyptian government has made the expansion of electricity infrastructure, including generation, one of its priorities under its Sixth (2007-2012) National Development Plan, which outlines the country’s development agenda. The focus on expansion of power supply is likely to continue in any future development plan once the new Government takes over, as evidenced by the power generation expansion plan for 2012 - 2017.

Since starting lending operations in 1974, the Bank Group has, as of December 2012, approved 90 operations, representing a total net commitment of about UA 3.761 billion. Ninety-four percent of this amount is made up of ADB loans and grants while 6% is comprised of ADF loans and grants. No new operations were approved in 2012.

Cumulatively from 1974 to end December 2012, the Bank-financed operations mainly in the power supply sector, accounting for 57% of the portfolio’s net commitment, followed by the finance sector which takes up 22% of portfolio resources. The remainder of the portfolio is comprised of social sector operations which account for 7%, and multi-sector operations which account for 3% of net commitments. The agricultural and rural development sector took up close to 4% of portfolio resources while the transport and industry, mining and quarrying sectors account for 4%. Lastly, the water and sanitation sector represents 1.3% of the Bank’s net commitments.
El Kureimat 750 MW Combined Cycle Power Plant Project (Module III), which has been successfully completed in June 2012 and the PCR is under finalization;

- Abu Qir 1300 MW Steam Power Plant Project;
- Suez 650 MW Thermal Power Plant, and
- Ain Sokhna 1300 MW Steam Power Plant Project.

These projects represent a cumulative lending amount of over UA 1.7 billion. Other ongoing operations include grant support to a study on the integration of wind energy, the establishment of a wind integration grid code as well as a study on the improvement in operational efficiency of thermal power plants. Furthermore, the Bank has mobilized resources from the Clean Technology Fund (CTF) to the tune of USD 2 million for preparation grants for the Gulf of Suez Wind Project and Kom Ombo Concentrated Power Plant Project.

Financial Sector

The Egyptian financial sector comprises the banking and the non-bank financial sector, the latter includes the insurance, mortgage, capital market, and other financial services, such as leasing and venture capital. Microfinance institutions are also gradually becoming integrated into the financial sector. The sector has a major role to play in stimulating development in the country, particularly that of the private sector. In support of the development of SMEs, a dedicated SME stock exchange - the Nilex - was established as well as a credit bureau and an equity facility for SMEs.

From 2006-2009, the Bank supported the government’s Financial Sector Reform Program (FSRP) to the tune of US$ 500 million. This program, co-financed with the World Bank and USAID, and including privatization and bank divestiture, has reduced concentration and improved performance of Egypt’s banking sector, making it more efficient and responsive to private sector needs. The success of the FSRP was proven by the resilience of the Egyptian economy during the 2008 global financial crises.

Social Sector

To date, the Bank has financed 19 operations in the social sector, comprising projects in education, health, poverty alleviation, microfinance and gender sub-sectors. Following the support of the Health Sector Reform Project which ended in 2008, along with the World Bank, the USAID and the European Union, the Bank stands ready to support the next reform agenda which includes the provision of universal health care. Meanwhile, some activities related to the human capacity development of Health Sector Professionals are being conducted. The decision by the Government to focus its borrowing on income-generating projects has limited the Bank Group operations in the health and education sectors. However, the Bank became a main stakeholder in support of the microfinance subsector, with the aim of reducing poverty, enhancing job creation and entrepreneurship. This has had a positive impact on the Egyptian economy, particularly with regards to job creation for youth. The Bank’s ongoing operations in the social sector include the
Micro and Small Enterprise Support Project and the Rural Income and Economic Enhancement project, as well as 3 grants to support agribusiness lending, agricultural value-chain development and institutional capacity of the SFD and its financial intermediaries.

**Multi-sector**

The current portfolio comprises three multi-sector operations. The Bank’s current loan and technical assistance to the sector are intended to facilitate the development of Egypt’s franchising finance market. This project includes capacity building support, institutional development, awareness raising, as well as fostering the necessary business climate to ensure that ethical franchising methods are being adhered to and to encourage growth of the sector by encouraging both banks and potential entrepreneurs in the sector. The project also aims to provide access to capital for first-time small entrepreneurs interested in franchising as a means of small enterprise development, through several partner financial intermediaries who are involved in franchise lending for the first time.

**Water and Agriculture Sector**

The Bank is currently financing five studies in the irrigation and water resources management sub-sector. Each study is being conducted with Middle Income Country Technical Assistance Fund (MIC TAF) and African Water Facility grants. There are also a number of projects in the pipeline aimed at improving agricultural productivity through the development of irrigation infrastructure.

The first study in Nubaria and Ismailia is a joint effort between the agriculture sector and the African Water Facility which provided a grant of UA1.66 million to develop and manage Egypt’s limited water resources in the most efficient manner that meets irrigation and other needs through the application of the principles of integrated water resources management to maintain resource sustainability. The joint effort is being conducted through a study on Egypt’s irrigation network and major hydraulic structures.

The second study is on the Zefta Barrage whose objective is to determine the most technically viable, economically feasible, and environmentally and socially acceptable option for the rehabilitation or reconstruction of the Barrage. With a MIC grant of UA 600,000, the study includes a production of a comprehensive feasibility report and the associated engineering designs, bills of quantities and tender documents for the selected option. The majority of the beneficiaries of the Zefta Barrage Study are among the poorest in the country, living in rural areas and depending mainly on agriculture for subsistence.

The study on the rehabilitation of the Nile Hydraulic structures will involve the investigation of 150 hydraulic structures for the development of a master plan. With the funding provided jointly by the MIC TA Fund (UA 600,000) and AWF (UA 1.2 million) the study will involve three phases including site investigations and the development of a geographic information system database; safety evaluations and the development of a master plan and preparation of detailed designs for the top priority structures and their investment proposals.

In 2011 the Bank approved the Helwan Public Private Partnership (PPP) Waste Water Study which intends to support the expansion of the treatment plant.

The Bank also approved the project on Monitoring and Evaluation for Water-sector MDGs in order to increase the North African countries’ capacity in water sector monitoring.

**Transport sector**

The Bank financed a study for the launching of the Geostationary Satellite Project (NAVISAT), which aims to confront problems the continent is facing regarding air navigation safety. Once completed the NAVISAT project will provide satellite-based air navigation and safety communication services allover Africa. The first phase of the study has been completed (end 2012), and the final phase is currently under implementation, with further support from the Bank through the NEPAD IPPF.
Bank Group Strategy & Ongoing Activities in Egypt

The Bank’s intervention strategy during the interim period 2012-2013 is based on primarily pursuing macroeconomic stabilization to support the recovery and secondly promoting inclusive growth to reduce poverty. Under the first pillar, the focus will be on macroeconomic stability and economic recovery. Under the second pillar the focus will be on improved job creation and improved effectiveness and delivery of basic services.

As of December 31, 2012, the ongoing operations portfolio is comprised of 26 operations that amount to UA 1.273 million in net commitments. The ADB public sector window accounts for close to 87% of the net commitments followed by private sector window (12.2%), MIC (0.37%), AWF (0.34%) as well as CTF and FAPA grants. Active operations are dominated by the power supply sector, which accounts for 79% of approvals; the financial sector which accounts for 10%; the social sector which comprised close to 4%; and water resource and sanitation development which represents 4%.
Abu Qir 1300 MW Thermal Power Plant Project

Background and Objectives

Egypt’s rapid economic growth requires, among other things, a systematic expansion of the electricity generation facilities to cope with increasing demand from various sectors of the economy. Indeed, the provision of sufficient and stable power supply is vital for all productive and social sectors of the economy, to which the government gives high priority. To attain this goal, the country is in the process of securing reliable and adequate energy supply by investing in appropriate, diversified and economically competitive sources.

The project is in line with both the government’s development strategy and the Bank’s operational strategy in Egypt, as articulated in the 2007-2011 Country Strategy Paper, as the energy sector is critical for enhancing the private sector’s efficient functioning.

The project’s objective is to increase the generation capacity to partly meet the electricity demand on the Unified Power System in the short-to-medium term.

Description

The project components comprise:

- Site preparations, piling and foundation works and construction of buildings, structural steel, underground piping, access roads, cooling intake and discharge structures and portable water and sewerage systems;
- Supply and installation of steam turbine generators, steam generators and auxiliaries, mechanical equipment/pipes, electrical equipment, instrumentation and control system and a switchyard;
- Design, fabricate, deliver, install and commission of an environmental monitoring station with all associated electrical instrumentation equipment;
- Engineering services for project management.

Expected Outcomes

The project intends to:

- Increase energy generation; and
- Provide 4% of energy supply.
Ain Sokhna Thermal Power Project

Background and Objectives

Egypt’s rapid economic growth requires, among other things, a systematic expansion of the electricity generation facilities to cope with increasing demand from various sectors of the economy. Indeed the provision of sufficient and stable power supply is vital for all productive and social sectors of the economy, to which the government gives high priority. To attain this goal, the country is in the process of securing reliable and adequate energy supply by investing in appropriate, diversified and economically competitive sources.

The project is in line with both the government’s development strategy and the Bank’s operational strategy in Egypt, as articulated in the Country Strategy Paper (2007-2011), as the energy sector is critical for enhancing the private sector’s efficient functioning.

Specifically, the project’s objective is to enhance Egypt’s socio-economic development by providing infrastructure to increase the country’s electricity generation capacity.

Description

The project comprises the following major components:

- Site preparations, piling and foundation works, construction of buildings, structural steel, underground piping, chimneys, access roads, yard tanks, cooling intake and discharge structures and circulating water and rack systems;
- Supply and installation of steam turbine generators and condensers, steam generators, mechanical equipment/ pipes, electrical equipment, instrumentation and control system and a switchyard;
- Design, fabricate, deliver, install and commission of an environmental monitoring station with all associated electrical instrumentation equipment;
- Engineering services for project management.

Expected Outcomes

This project intends to:

- Increase total installed capacity; and
- Increase the number of consumers.

| ADB Loan Amount | UA 215.93 million |
| Co-Financiers | WB, AFESD, KFAED, Egyptian Electricity Holding Company |
| Approval Date | December 2008 |
| Expected Completion Date | June 2014 |
| Location | El-Ain Al-Sokhna |
| Executing Agency | Egyptian Electricity Holding Company |
The African Development Bank Group in North Africa - 2013

Egyptian Refining Company (ERC)

Background and Objectives

Egypt currently has a surplus of fuel oil and a supply shortage of diesel, which it consequently imports. This deficit was estimated at 2 million tons in 2006 and is expected to grow to 5 million tons by 2015.

The Egyptian Refining Company was incorporated in July 2007. Its shares are 75% owned by private and institutional Egyptian and regional investors, led by Citadel Capital, and 24% owned by the Egyptian General Petroleum Corporation (EGPC).

The Egyptian Refining Company envisages the construction of a new refining complex located adjacent to, and serving to upgrade, the existing Cairo Oil Refining Company (CORC) and the Petroleum Pipeline Company facilities. ERC will use as a feedstock the low quality Atmospheric Residue currently produced as a by-product by the CORC refinery, and to convert it in high-value petroleum products that are presently imported into Egypt, including 47,964 barrels-per-day of ultra-low sulphur diesel fuel (roughly 50% of total products).

Expected Outcomes

The project will:

- Create both direct and indirect jobs;
- Contribute to government revenue by way of taxes and dividends;
- Build the environmental management capacity at ERC;
- Develop local community-oriented social programmes at ERC.

Description

This project will be comprised of the following:

- The construction of a new hydro-cracking/coking facility and ancillary units for the ERC adjacent to the existing refining units of the Cairo Oil Refinery Company (CORC);
- ERC will use the low quality atmospheric residue from CORC as feedstock and produce 4.8 million tons per year of refined products for the domestic market.
The main components of the project include:

- Supply and installation of an outdoor dual fuel fired (natural gas and mazout) steam generator, an indoor condensing steam turbine generating unit rated at 650 MW with and auxiliaries, a balance of plant auxiliary equipment and a switchyard;
- Environmental Monitoring;
- Project Management; and
- Wrap-up Insurance

**Expected Outcomes**

This project will:

- Increase in the supply of electricity to the UPS to guarantee the availability of power to increase the number of consumers from 24.7 million in 2008/9 to 34 million in 2017;
- Contribute 5.5% of the targeted increase in the installed generation capacity to reach 41 GW by 2017;
- Use state-of-the-art technologies firing natural gas in line with efforts to mitigate climate change and move towards a greener economy.
Study on the Improvement of Power Efficiency

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Background and Objectives

The Government of Egypt requested financial assistance from the Bank to undertake a comprehensive study of a power generation plant to increase efficiency from an operational, maintenance, administrative and human resources perspective. Egypt has a power generating capacity of more than 24,000 MW comprising 12 percent of hydropower and 88 percent thermal plants. Thus, any improvement in operational efficiency of thermal plants can potentially yield significant economic and environmental benefits.

The objective of this study is to contribute to Egypt’s sustainable growth and the international climate change agenda by supporting Egypt’s pursuit of a more efficient supply of energy.

Description

The study will entail:

- An assessment of plant operating conditions including malfunctioning components and interventions which may improve plant performance;
- A review of O&M management practices such as identity component failures and repairs, the prioritization of maintenance activities and preventive methods;
- Training and capacity-building.

Expected Outcomes

This study will result in:

- An improvement in the efficiency of the power plant by replacement or rehabilitation of components;
- Increased efficiency of plant management through adoption of best practices;
- Strengthening of technical capacity through knowledge transfer.
Study on the Integration of Wind Energy

Background and Objectives

The Government of Egypt requested financial assistance from the Bank to undertake a study for the integration of wind power in the Egyptian POWER System and the establishment of a Wind Integration Grid Code. Egypt is committed to increase the share of renewable energy in its energy mix to 20% capacity in the coming decade and is therefore planning to implement up to 7200 MW capacity of wind power.

The study will assess the impact of such a sizable addition to the power system. It will also determine the safe maximum amount of wind power that could be added to the system with minimal impact on system operation and will include a preparation of the wind integration grid code. The output of the study will serve as input for the technical design of the 200 MW Gulf of Suez wind power project, which is in the pipeline of the Bank’s operation.

Expected Outcomes

The study will result in:

- The creation of new large scale wind farms fully integrated in the power system;
- The safe operation and full integration of wind power.

Description

This study will entail:

- Updating grid code for wind power plants and thermal units;
- Developing suggestions on how to integrate wind forecasting in power system operation.

- The review of technical documentation;
- The Review of a dynamic model of the Egyptian power system;
- Assessment of transmission capacity requirements and load-following capability requirements;
Studies for the Launching of the Geostationary Satellite Project (NAVISAT)

Background and Objectives

Considering the problems encountered in Africa regarding air navigation safety, which results from the region’s difficult terrain; lack of adequate aviation safety facilities; and the urgency to implement the International Civil Aviation Organization strategy regarding air safety aimed at addressing challenges from the expected air traffic increase, the acquisition of the proposed CNS/ATM new system is considered as most promising and responsive approach in this region.

In this regard, the Egyptian Ministry of Civil Aviation Authority, through the Egyptian Aviation Holding Company, took the lead to initiate the Geostationary Satellite NAVISAT Project aimed at providing satellite-based air navigation and safety communication services over Africa and some surrounding countries.

The objective of the project is to help improve communications, navigation, surveillance and air traffic management services, therefore enhancing the continent’s air transport safety and efficiency. The project will consequently result in the provision of cost-effective satellite communications and major improvements in the aeronautical services.

Expected Outcomes

The major outputs of the study will be the production of:

- Legal, financial, and human resources documents that will be used as main input in the implementation phase of the NAVISAT project; and
- The study documents will also serve as an input to prospective donors for their project appraisal.

Description

The Bank Group has approved the financing of four studies: legal; financial; and human resources for a specialised satellite for air navigation and safety communication.

<table>
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<td>Executing Agency</td>
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Franchising Sector Support Program

Background and Objectives

As part of the reform agenda launched in 2004/2005, the Egyptian government has been encouraging private sector investment and development as the key driver of the country’s economic progress and job-creation effort. Within this context, the government has been undertaking major legal, structural, fiscal and operational reforms, leading to a more conducive and enabling environment. As a result, Egypt has been rated as a top reformer across 178 countries in Doing Business 2008.

Egypt has the second largest franchising market in Africa, with 2,327 outlets. There are significant opportunities for further franchise development, but also huge constraints. These include an incorrect application of the franchise concept with strong control of franchisors over franchisees’ businesses, and the absence of available finance and skills.

The Bank Group Assistance Strategy is also geared to support the Government’s efforts in addressing poverty reduction and job creation. The proposed franchising project, which targets the private sector, is therefore well aligned with government efforts to support SMEs and franchising. The project aims at removing these constraints in order to unlock the market potential.

Description

The Bank Group is providing a long-term loan to the Egyptian government with an on-lending agreement to the Egyptian Social Fund for Development (SFD). SFD is the executing agency, and will pass on the funds to local FIs for on-lending to franchisees. An associated technical assistance grant is part of the support package, to help build capacity in the franchising sector.

Expected Outcomes

The project is expected to:

- Create 375 franchise outlets and over 7,000 direct jobs;
- Increase the number of SMEs operating in the formal sector; and
- Ensure technology transfer to SMEs, fostering increased productivity and export potential, thereby increasing government revenues.

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<td>Executing Agency</td>
<td>The Egyptian Social Fund for Development</td>
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</table>
Comprehensive Study and Project Preparation for the Nubaria and Ismailia Canals

Background and Objectives

The Egyptian government is continuously seeking means to reduce system losses, to improve system efficiency and effectiveness, and to optimise water distribution equitably for beneficiaries. However, there are many-water related challenges facing Egypt. On the one hand, Egypt’s growing population and related industrial and agricultural activities have increased demand for water to levels that reach the limits of available supply. On the other hand, Egypt’s water resources are limited mainly to the River Nile; the supply is therefore almost fixed.

Specifically, the Nubaria and Ismailia canals are experiencing similar serious problems such as decaying and poorly functioning infrastructure, seepage and water logging adversely affecting valuable agricultural land, insufficient water conveyance capacity, unauthorized abstractions, environmental degradation from pollution. The Bank is financing a comprehensive study on Nubaria and Ismailia canals that will seek technically feasible and economically and socially viable solutions for efficient water control and system management in these two canals, concentrating on the main canal system.

The primary objective of the proposed study is to seek improvement in the Nubaria and Ismailia canals which will lead to more efficient and sustainable use of land and water resources.

Description

The study will undertake pre-feasibility and feasibility level work, to include developing semi-detailed designs, bills of quantities, cost estimates and tender document preparation so that major investment operations for both Nubaria and Ismailia canals can follow immediately upon conclusion of the study. The study will also comprise a full environmental and social impact assessment, including an environmental and social management plan as well as an environmental monitoring program with associated costs for the implementation of any recommendations.

Expected Outcomes

The project outcomes may be summarized as follows:

- Improved irrigation infrastructure development and management;
- Support for implementation of the country’s Horizontal Expansion Plan;
- Improved agricultural productivity;
- Alleviating or mitigating the problems caused by the present canal situation on agriculture production and other users;
- Safeguarding the water demand for different sectors in the two study areas; and
- Generating higher income levels for the rural households.

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<td>Executing Agency</td>
<td>Ministry of Water Resources and Irrigation through the Horizontal Expansion and Projects Sector</td>
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</table>
Gabel Elasfar Wastewater Treatment Plant

ADB Loan Amount
UA 48.56 million

Co-Financiers
AFD, Government of Egypt

Approval Date
October 2009

Expected Completion Date
June 2014

Location
Cairo

Executing Agency
Ministry of Housing, Utilities and Urban Development/
Construction Authority for Potable Water and Waste Water

Background and Objectives

Water is one of the most important resources of Egypt. In recognition of the increasing limitation of this resource, the Government within its Integrated Resources Management Strategy (IRMS) is undertaking measures for its efficient use, protection from pollution including that related to wastewater disposal, as well development of new resources.

In line with the IRMS, the Egyptian government has an ongoing investment program aimed at addressing national issues such as public health and environmental protection, including the protection of the country’s finite water resources. The Bank Group is supporting Gabal El-Asfar Wastewater Treatment Plant – Stage II Phase II, project which is part of that program.

The project’s primary objective is to improve the quality of wastewater discharged into the drainage system in Cairo East, thereby contributing to increased coverage of improved sanitation and clean environment for the nearly 8 million people living in the area.

Description

The proposed project comprises the following main components:

• Wastewater treatment expansion works;

• Institutional Support and Sanitation and Hygiene Promotion; and

• Engineering services for project management.

Expected Outcomes

The project’s main outcomes are a clean environment and subsequent improvement in health through reduction of water and sanitation related diseases. Therefore the project intends to:

• Increase the average capacity throughout the treatment process by at least 5,000,000m3/d of wastewater;

• Increase the flow of improved effluent into the drains and Lake Manzala;

• Increase the awareness of improved sanitation and hygiene by the communities; and

• Increase the ability of the Construction Authority for Potable Water and Wastewater and Greater Cairo Sanitary Drainage Company to manage the environment and social challenges.
Helwan PPP Waste Water Study

Background and Objectives

Egypt is almost wholly dependent on the River Nile as its main source of water. Meanwhile, the country’s population estimated at 84 million of which about 43% are classified as urban dwellers, is projected to increase to 127 million by 2037. The project to expand the Helwan Wastewater Treatment Plant (HWTP) is part of the wastewater development program, designed to cater for the 20 million people living within Greater Cairo, which covers an area of 1,100 km². Helwan WWTP is currently treating a total of 0.550 Mm³/day and is envisaged to have an ultimate treatment capacity of 1.05 Mm³/d.

The main objectives of the proposed study are to elaborate and support in the implementation of the most appropriate PPP modalities for the structuring, financing and implementation of the HWTP and to enhance skills and competences of staff of the sector to develop and implement similar PPP projects in the future.

Description

This project will entail:

- The undertaking of a PPP feasibility study;
- PPP market sounding;
- Support during procurement and negotiations; and
- Capacity building through on job training and workshop.

Expected Outcomes

The study will result in:

- Coverage of improved water supply and sanitation service;
- A number of PPP projects successfully implemented in the water and sanitation sector.

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<td>Executing Agency</td>
<td>Ministry of Housing, Utilities and Urban Development and the Construction Authority for Portable Water and Wastewater.</td>
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Master Plan for the Rehabilitation Maintenance of Major Hydraulic Structures in Egypt

**Background and Objectives**

The Egyptian government’s water sector goal is to develop and manage the very limited water resources in the country in the most efficient manner that satisfies all needs whilst maintaining the sustainability of the resources through the application of integrated resources management strategy principles.

Egyptian authorities recognise that given current resource constraints, it is necessary to have, in place, a master plan that ensures the prioritization of appropriate and timely interventions in the different hydraulic structures. The plan is expected to also address the issues of timely resource mobilization.

In line with that, the Bank Group is supporting Egypt to undertake a study to prepare: (i) a Master Plan for the rehabilitation/replacement of hydraulic control structures on the Nile and (ii) a feasible investment project for the top priority large structure identified under the study to facilitate the mobilization of resources for work implementation.

**Expected Outcomes**

The study will produce plans for efficient management of capital investment projects for the rehabilitation or the replacement of hydraulic control structures as well as for the mobilization of resources required for these investments.

**Description**

The study will comprise the following three phases of field implementation:

- Undertake the inspection of hydraulic control structures and data collection;
- Develop a geographic information system database;
- Carry out safety evaluations on the hydraulic structures;
- Carry out a Strategic Environmental and Environmental Impact Assessments;
- Develop a Decision Support System;
- Organize report validation and technical workshops;
- Develop a Master Plan; and
- Organize donor and technical workshops.

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<td>AWF Grant Amount</td>
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<tr>
<td>Executing Agency</td>
<td>Ministry of Water Resources and Irrigation through the Reservoirs and Grand Barrages Sector</td>
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</table>
Monitoring and Evaluation for Water-sector MDGs in North Africa

**Background and Objectives**

Egypt has limited water resources with an average dependency ratio of over 96%. While Egypt benefits from a strong monitoring and evaluation (M&E) system, the country lacks mechanisms for sub-regional collaboration amongst its water sectors in M&E and surveillance systems, with indicators and tools shared among them which are also regionally and globally acceptable. There is a need for Egypt to build a comprehensive M&E system, strengthen its national capacity in M&E and develop cooperation and assistance for a sub-regional North African mechanism.

The objective of this project is to increase the country’s capacity in Water Sector Monitoring and Evaluation, through the setting-up of a mechanism that allows for the annual reporting of the status of the water sector within North Africa.

**Expected Outcomes**

This project will lead to:

- A better understanding and knowledge of the water sector M&E system;
- The establishment of a monitoring system at the local, national and sub-regional (North Africa) levels to annually report on standardized indicators tracking water resources management;
- The mobilization of adequate resources for M&E infrastructure development.

### ADB MIC Grant

- **Amount**: 1.58 million UA
- **Co-Financiers**: CEDARE, N-AMCOW countries
- **Approval Date**: April 2011
- **Expected Completion Date**: December 2013
- **Location**: Egypt
- **Executing Agency**: CEDARE

**Description**

The project has three main components:

- The Assessment of the existing M&E System;
- The harmonization of N-AMCOW M&E systems and reporting; and
- The preparation of a North African M&E Action Plan and Program.
Small and Medium Enterprise Support Project  
(Second Line of Credit to the National Bank of Egypt)

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<td>National Bank of Egypt</td>
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**Background and Objectives**

Small and Medium-sized Enterprises (SMEs) constitute the engine of growth for the Egyptian economy, comprising more than 97% of the country’s private establishments in the non-agricultural sector, and contributing two-thirds to the labour force. The development of SMEs therefore represents a key component of the government’s economic and poverty reduction strategies.

The Bank Group has assisted the country’s SMEs and approved funding to the National Bank of Egypt in October 2002 to support the development of SMEs in the country. This line of credit contributed in increasing NBE’s financings to SMEs, as well as engendering positive institutional changes in the bank.

The proposed Small & Medium Sized Enterprise support program is a follow-on to the previous line of credit. It was designed to complement other development assistance. The project’s objective is to support Egypt’s efforts at promoting economic growth and poverty alleviation in the country through the development of SMEs.

**Description**

The project comprises the provision of financial resources for SME development in Egypt, using line of credit instruments through the National Bank of Egypt (NBE), as well as a parallel technical assistance to NBE to improve the institution’s capacity for SME financing. More than 200 SMEs in manufacturing, tourism, construction and services sectors are expected to benefit from the project. The project will contribute to the economy’s objectives of increasing output, creating new jobs and increasing foreign exchange earnings.

**Expected Outcomes**

The project aims at developing financial and non-financial services to the SMEs in Egypt. Specifically the project intends to:

- Increase the availability of medium and long-term financial resources to SMEs;
- Increase the number of SMEs with access to financial services; and
- Improve the institutional capacity of NBE for SME financing.
Zefta Barrage Feasibility Study

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</table>

Background and Objectives

Egypt’s water sector goal is to develop and manage the very limited water resources in the country in the most efficient manner that meets all the needs while maintaining the sustainability of the resources through the application of the principles of integrated water resources management.

The Bank Group is supporting government efforts at improving water management and controlling efficiency, which includes the proposed feasibility study on the Zefta Barrage. The Barrage should have a positive impact on a wide spectrum of the country’s population, the majority of whom are the rural poor. More importantly, it should also help the country in its race towards achieving the Millennium Development Goals by making the most efficient use of Egypt’s water resources.

The specific study objective is to determine the most technically viable, economically feasible, and environmentally and socially acceptable option for the rehabilitation/reconstruction of Zefta Barrage, including the production of a comprehensive feasibility report and the associated engineering designs, bills of quantities and tender documents for the selected option.

Expected Outcomes

The major expected outcome of the study is to partly contribute towards the development of a master plan of the grand barrages and regulators, assessment of the conditions of these infrastructures and the proposal of an action plan with the view to meeting water demand through optimal management.

Description

The present study is designed as a comprehensive detailed investigation to formulate a project for the rehabilitation of Zefta Barrage or reconstruction of a new barrage in replacement of the current structure as a solution for: (i) improved water management in 1 million feddans; (ii) increasing the availability of fresh water for irrigation of 3 million feddans additional agricultural land as well as domestic and industrial uses; (iii) navigation throughout the year; and (iv) miscellaneous uses by the beneficiaries.
National Program for Taxi Replacement Scheme Based Employment Generation

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**Background and Objectives**

Today about 90,000 taxis in Egypt are over 20 years old, with serious negative socio-economic impacts, including the deterioration of air quality; traffic congestion affecting productivity and growth; and increased consumption of subsidized fuel. As a result, the Egyptian government enacted the 2008 Traffic Law which stipulates that mass transport vehicles (including taxis) over 20 years old are not allowed to operate starting July 2011.

However, without external assistance, taxi owners would be unable to replace their cars, and risk becoming unemployed. In that regard this project to reinforce the National Taxi Replacement Scheme (NTRS) to support the government’s initiative to curb the costs of using old vehicles without negatively impacting the livelihoods of drivers. The scheme supports owners of such taxis through the provision of finance and facilitation of the replacement of the old taxis with new ones. In doing so, the scheme protects the employment of taxi owners and provides environmentally-friendly cars.

• Strengthening the capacities of NSB through technical training, as well as the training of management in strategy formulation and human resource development.

**Expected Outcomes**

This project will:

• Air pollution and greenhouse gas emissions caused by old taxis in the country will be reduced by 0.3 million metric tons of CO2 emission out of 1.2 million;
• Incomes of taxi drivers are expected to increase by 40%;
• At least 21,250 jobs will be sustained and a further 10,500 direct and 1,000 indirect new jobs will be created in the form of drivers as well as staff of vehicle factories, car maintenance and car scrapping companies.

**Description**

The main components of the project include:

• Financing replacement of 21,250 cars for eligible beneficiaries;
Rural Income and Economic Enhancement Project

Background and Objectives

The National Development Plan (2007-2012) calls for the creation of approximately 750,000 new jobs every year in order to cope with new entrants to the workforce, the reduction of the current level of unemployment from around 8.4% to 5.5% as well as reduction of poverty from 20% to 15% by 2012. It also calls for: (i) fostering agro investments as a means of stimulating private sector development in rural economies; (ii) improving income levels of the low income citizens; and (iii) improving the standard of living of the citizens, especially for the population living in Upper Egypt.

This is consistent with the Bank’s broader medium term strategy which promotes agro industry development in regional member countries (RMCs) and the Egypt Country Strategy Paper (2007–2011) which focuses on: (i) private sector development; and (ii) support to social development and protection.

Therefore the Bank Group is supporting a project with the objective to improve the socio economic livelihood of the economically active rural smallholder farmers engaged in the production, processing and marketing of selected agricultural commodities.

Description

To achieve this objective, the project will:

- Create business linkages between the farmer associations and the private sector agribusinesses in a value chain;
- Develop capacities of financial intermediaries to develop and introduce new and innovative financing instruments for agribusiness (including micro-insurance schemes); and
- Address the financing constraints faced by agribusiness institutions.

Expected Outcomes

The project intends to:

- Increase the number of households with sustainable improvements in incomes and living standards;
- Increase agribusiness lending;
- Increase the volume of trade in horticulture and diary products;
- Reduce post harvest losses; and
- Increase in the number of jobs created.
Statistical Capacity Building Program II (SCB II)

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**Background and Objectives**

Over the past years, Egypt has been implementing reforms to modernize and strengthen the capacity of its administration. A main objective of these reforms has been to improve its capacity in the area of statistics. Through SCB I the Bank assisted Egypt in their efforts to strengthen the National Statistical system in order to provide reliable and timely data as well as to strengthen their capacity to coordinate the statistical support of activities.

Specifically, the program aims at achieving statistical capacity building through statistical training and institution building, improving poverty monitoring, strengthening economic and social policy evaluation and enhancing decision making.

**Expected Outcomes**

The main expected outcomes of the program are as follows:

- Increase the reliability of national and regional poverty and other socioeconomic data;
- Improve data-bases and efficiency of the statistical system;
- Build capacity in the management, creation and maintenance of databases, infrastructure statistics, household surveys and analysis;
- Increase in the number of trained and retrained national staff in the use of up-to-date analytical tools and the production of analytical reports;
- Collect, process and upload infrastructure data into the Data Platform (DP) database at national, sub-regional and regional level.

**Description**

The proposed assistance will include:

- The procurement of goods and works;
- The acquisition of consulting services, training and allowances for field workers and consultants at national level;
- The regional component of the SCB.II program will undertake support missions to Egypt.
Libya

Membership year: 1972
Subscribed capital (%) as of 31 December 2012: 4.056
Total voting power (%) as of 31 December 2012: 4.035
Libya

Recent Developments

2012 was a momentous year for Libya, during which the country’s first post-revolution national elections were held, with the economy witnessing a rapid recovery following the resumption of oil production and exports. With 80% of eligible voters taking part in the July 7th elections, the National Forces Alliance (NFA) received a plurality of party list seats, taking 39 out of the 80 seats in the 200-seat National Congress. The smooth voting process and peaceful transition of power from the National Transitional Council to the General National Congress (GNC) were widely heralded by international observers.

However, the subsequent difficulties of forming a new government in Libya have highlighted the challenges of achieving political unity in a country emerging from a lengthy political vacuum. The first elected Prime Minister of the new Libya in September 2012, was soon dismissed following GNC’s disapproval of his proposed cabinet. The Constitution is to be drawn up by an elected 60-member Constitutional Commission and the help of the international community, notably the UN and the EU.

Further, regional rivalries over political representation and control over hydrocarbon resources have resulted in an upsurge of political instability, security incidents and violence, hindering a smooth transition path. This was manifested in, for example, the September 2012 attack on the US consulate in Benghazi or the early 2013 quitting of the Congress by the NFA, the country’s largest political party.

With an estimated 95.5% real GDP growth, Libya’s economy has experienced a major rebound in 2012. However, this is not due to an overall rise in productive economic activity but mainly a result of the resumption of oil production as well as the low base from where the economy started off in 2012. By the last quarter of 2012, Libya’s oil production had already recovered to nearly 1.5 million bpd, nearly reaching its pre-conflict levels of 1.6 million. The increase in demand for construction and infrastructural activity also played an important role in the massive increase in the levels of real GDP. However, this is likely to be a short-term contributing factor associated with the post-war reconstruction. In 2012, the oil sector constituted the largest sector of the economy, contributing to nearly 78% of the GDP. Although non-hydrocarbon economic activity was growing fast before the conflict, it still accounts for no more than 22% of GDP and a negligible part of total exports. The non-hydrocarbon economic activities were affected adversely by the war due to the destruction of infrastructure and production facilities, disruptions to banking activity, limited access to foreign exchange, and the departure of expatriate workers.

In addition, Libya’s strong growth in 2012 was not employment-intensive, as it has been mainly concentrated in the capital-intensive energy sector; hence, failing to address the high levels of unemployment and the large informal sector. In response to the estimated 13% overall unemployment rate and 50% youth unemployment, and given the relatively low wages of the large public sector workforce, the government has increased its expenditure on subsidies and transfers by 170% in 2012, after nearly a 30% decline in 2011 due to the disruptions to government revenues.

In February 2012, Libya’s interim government approved a budget of LD 68 billion for 2012 (equivalent to 63% of the 2012 GDP), which included funds for reconstruction and development. The oil price at which the budget was balanced has increased from USD58 per barrel in 2010 to USD91 per barrel in 2012. Continued dependence on volatile international oil prices could threaten the stability of public expenditure and government budget in the forthcoming years. Currently, however, regardless of short-term supply and demand imbalances, hydrocarbon revenues continue to provide the Libyan authorities with the funds required for reconstruction and resumption of economic activity. Given the country’s current account surplus, which stands at 27.2% of GDP in 2012, there is limited risk of Libya encountering an external account surplus.
deficit in the short term should hydrocarbon prices plummet.

Wartime damages to key ports have, however, lowered Libya’s import-offloading capacity, creating supply bottlenecks which can contribute to generating inflationary pressures given the country’s heavy reliance on food imports. Following from a temporary decline in domestic demand caused by the flight of Libyan nationals and foreign workers in the wake of the civil war, the gradual move towards political stability and the resumption of reconstruction efforts in the non-oil sector is attracting the return of these groups. The subsequent rise in demand combined with an increase in consumer confidence creates higher risks of demand-driven inflation too. However, inflation had gone down to nearly 7% in 2012, and is expected to stabilise in 2014 and ease back towards its long-term trend.

Attempts to diversify the economy have focused on agriculture, tourism, fisheries, mining, and natural gas. Agricultural sector accounts for less than 2% of the GDP, but the sector is becoming a top government priority. The completion of the USD30 billion Great Man-Made River project has reduced the country’s water shortage by drawing water from aquifers beneath the Sahara and conveying it along a network of huge underground pipes to the Mediterranean coast. However, climatic conditions and poor soil still severely limit agricultural output and mean that domestic food production meets only 25% of the demand. Given Libya’s almost total dependence on wheat imports and its large consumption per capita of nearly 190 kilos, and in an effort to lessen the inflationary impact of rising world food prices, the government increased food subsidies and removed all customs duties and taxes on imported foodstuffs in early 2011.

Despite the visible economic recovery, the political volatilities surrounding the formation of a new government, together with an increase in domestic security incidents act as obstacles to a smooth recovery and delayed long-term economic planning. The major long-term challenge facing the Libyan economy, besides maintaining political instabilities, is the dependence on oil revenues, particularly in the light of the slowdown in international demand and the urgent need for economic diversification in order to address the long-term financial and economic stability and Libya’s unemployment challenge. Despite its large contribution to the GDP, the oil and gas sector contributes to less than 2% of total employment (according to the latest data from 2007). In addition, sustainable management of Libya’s petroleum resources is a major challenge facing the new Libyan leadership. The management of domestic oil operations, coordination of the fast-growing inflow of FDI in the petroleum sector, and containing the political and regional tensions over distribution of oil revenues are major variables determining the sustainable management of the petroleum sector.
Overview of Bank Group Operations in Libya

The Bank approved two MIC TAF grants for Libya in 2009 and 2010: ‘Capacity Building Support to the Libyan Export Promotion Centre’ (UA 0.48 million) and ‘Technical Assistance for Small and Medium Enterprise Development’ (UA 0.58 million). However, the onset of the revolution and the subsequent political and governance vacuum which followed made the task of maintaining communications with (and operations through) the previously-designated Libyan authorities impossible. The instabilities associated with the transfer of power from the transitional government to the National Congress further undermined the potentials for Bank activities at such uncertain political times. As a result, the two MIC TAF grants for Libya have not been initiated and no funds disbursed. The fate of these projects and their potential termination/revitalization will be discussed with the Libyan authorities during an AfDB scoping mission to the country in March 2013. The latter will contribute to the formulation of an Engagement Bank Strategy for Libya in 2013.
Technical Assistance for Small and Medium Enterprise Development

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<tr>
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<tr>
<td>Executing Agency</td>
<td>Academy of Graduate Studies</td>
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Background and Objectives

The Libyan economy is characterized by a high dependence on the oil and gas sector and an oversized and inefficient public sector. The lack of diversification in the economy has impacted job creation with overall unemployment levels in 2006 estimated at 20.7% and up to 30% for youth under 25. There is now both the political will and potential to stimulate the private sector and act to develop and support a thriving SME sector.

SMEs have the potential to become growth engines for Libya’s private sector. This project aims to contribute to the diversification of the Libyan economy and the sustainability of growth.

Description

This project will entail:

- A report detailing the needs, opportunities and challenges facing SMEs development in Libya discussed within a national forum, validated by the Bank and endorsed by the GoL;
- The production of a curriculum for SME training, integrating the outcomes of the report;
- The training of public sector representatives and academy staff on the needs of SMEs and how to promote entrepreneurship;
- The establishment of a center to support and foster entrepreneurship;
- The hosting of a forum on entrepreneurship by the Academy;
- The training of students on SME development through a virtual incubator, internships and job fairs.

Expected Outcomes

This project will result in:

- A conducive environment for SME development;
- Improved understanding by both the public and private sectors of the needs, opportunities and challenges facing SMEs development in Libya;
- Improved entrepreneurship capability and leadership of Libyan SMEs;
- Increase in business development opportunities within and outside Libya;
- Improved capacity of the Academy of Graduate Studies to support entrepreneurs.
Capacity Building Support to Export Promotion

<table>
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<td>Executing Agency</td>
<td>The Libyan Export Promotion Centre</td>
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Background and Objectives

The Libyan government recognises that the ongoing globalization and the country’s re-integration process into global markets have created both challenges and opportunities. In this context, the authorities have set up the Libyan Export Promotion Centre (LEPC) to deliver direct trade-related services and also play advisory and advocacy roles in trade issues.

However, the paucity of technical trade and export promotion expertise is a major weakness facing the country as it aspires to maximize the benefits of regional cooperation, bilateral agreements and other multilateral arrangements. The Bank’s role is to encourage the transfer of technical advice and know-how that can contribute to efforts at building institutions such as LEPC and the requisite skills.

The overall objective of the proposed AfDB-funded program is to contribute to efforts at diversifying the production and export base, sustain growth and create jobs in Libya. The program’s specific purpose is to help develop the Libyan Export Promotion Centre’s institutional capacity and human resources.

Description

The program’s main components are:

- Organizational and managerial enhancement: This will involve organizing a training program for management and leadership, a forum on export constraints, development and promotion as well as reviewing and making suggestions to improve the centre’s organizational structure and its human resources systems; and
- Export Promotion and Business Development Services: This will include developing a strategic plan for the centre’s export promotion and business development services, organizing training and capacity building sessions to assist with the service delivery and efforts at strengthening the centre’s “Trade Information System.”

Expected Outcomes

The project intends to:

- Support emerging opportunities for diversification;
- Improve human resources by upgrading skills and changing mindset/attitude;
- Improve provision of training and business services; and
- Enhance the centre’s capacity to effectively deliver export promotion and business development services.
Mauritania

- **Membership year**: 1964
- **Start of lending operations**: 1972
- **Number of ADB operations approved, 1967-2012**: 15
- **Number of ADF operations approved, 1967-2012**: 49
- **Number of NTF operations**: 2
- **Subscribed Capital (%) as of December 2012**: 0.059
- **Total voting power (%) as of December 2012**: 0.068
- **Number of operations in the current portfolio**: 11
- **Total loan amount of operations in the current portfolio (UA million)**: 145.3
Islamic Republic of Mauritania

Recent Developments

Mauritania achieved positive growth for the fourth consecutive year in 2012. Specifically, the economy grew 6.0% and is forecasted to grow 6.4% in 2013. Unlike previous years, the economy’s dynamism was driven mainly by construction and public work and agriculture sectors, supported by public’s investments and mining investment, and a good rainfall.

Excluding products from the hydrocarbon sector, fiscal consolidation has resulted in the reduction of the fiscal imbalance to -3.6% of GDP in 2012. Meanwhile the government has improved the macroeconomic environment by implementing a sound monetary policy, focusing on controlling inflation, which was 6.0% in 2012. Additionally, the rise in international commodity prices and the food crisis in 2011 have resulted in the implementation of social policies favoring the poor.

Concerning the political evolution, in 2011, Mauritania undertook an important inclusive dialogue between the leading party and the opposition. However, this dialogue did little to ease political tensions fuelled also by the recent crisis in Mali. Furthermore, the inability of the government to organize elections remains a source of tension.

Socially, Mauritania is challenged by the rising prices of basic commodities, which led to the government’s implementation of the National Solidarity Program. This context could be further aggravated by the large influx of Malian Touareg refugees following hostilities in the North East of the country. However, the outlook for 2013 appears favorable presaging optimal agricultural crops.

As in the rest of the region, Mauritania also faces important challenges regarding youth unemployment. Indeed, the unemployment rate for those between the ages of 15-24 is 50.8% for men and 69% for women. Cognizant of the destabilizing political impact that unemployment could have, the authorities have created a National Agency for the Promotion of Youth Employment (ANAPEJ) and reinforced policies on professional training. Nevertheless, the question of unemployment amongst the educated remains a problematic and urgent challenge for the country.
Since commencing operations in Mauritania in 1972, the Bank Group has provided the country with total financing of UA 509 million for 66 operations. Of these: 45% are ADB loans and grants, while 53% are ADF loans and grants, and 2% are NTF loans and grants.

Since 1972, the sectorial breakdown of operations indicates that industry accounted for 42% of approvals to Mauritania. This is followed by infrastructure (water, energy, and transport) with 37%, the social sector with 13%, agricultural sector with 11% and the financial sector accounts for 4%.

Mining and Quarrying Industry sector

Mauritania has substantial mining and oil reserves, with the mining sector contributing an estimated around one third of GDP in 2012. In 2011 and 2012, iron production grew respectively by -2.7% and -0.9%, copper by -10.1% and -4.5% and gold by +7.4% and 7.9%.

The mining sector benefited from a series of developments since 2009 including the reopening of the Akjoujt copper mine after an investment of more than USD 104 million by copper mining consortium MCM. In addition, MCM began producing gold in 2009 with an annual target of 60,000 ounces.

Thus far, the Bank Group has participated in financing six projects in the mining sector since 1978 for a total of UA 214.32 million. The Bank Group has partnered with the National Industrial Mining Company for the past 30 years with a long-term objective of diversifying and increasing mining production up to the level of the country’s mining potential, improving the government’s tax revenue from the sector; and contributing to the country’s economic and social development.

Water and Sanitation sector

As a Saharan and Sahelian country, Mauritania is confronted with serious surface and underground water problems. The government has designed a strategy to improve access to drinking water by giving priority to the most underprivileged population in Mauritania. The long-term objective is to provide all villages with over 500 inhabitants with a drinking water supply system, and to raise the water connection rate to 85% in rural areas.

Since 1967, the Bank Group has provided finances to the sector amounting to UA 62.02 million to help
mitigate the problem of water scarcity in Mauritania. In December 2012, the Bank has approved a new operation (Integrated National Program of Water in Rural sector) for UA 8.562 million. Bank interventions have improved socio-economic and health conditions of rural communities in Mauritania by improving water supply and household sanitation.

**Figure 5.16: Cumulative ADB Loans and Grants by Instruments in Mauritania (1972 – 2012)**

The agro-livestock sector accounted for 15.2% of GDP in 2012, growing at roughly -2.6% in 2012, after the rainfall deficit in 2011. The Mauritanian government made efforts to achieve self-sufficiency by upgrading facilities, increasing the subsidies in the rural sector, ensuring timely and adequate supply of fertilizers, using 40% selected seeds for harvests instead of the previous 15%, and reinforcing technical supervision. Livestock provides more than 80% of the whole sector’s value added and about 9.5% of GDP.

The Bank Group has approved 14 operations in the sector with total commitments reaching UA 57.62 million, thereby contributing to food security by increasing agricultural production and improving farmers’ incomes.

**Financial Sector**

The financial system remains modest and partitioned compared with the other Maghreb countries. The low level of banking intermediation constitutes an obstacle to the domestic saving mobilization and the access to credit which represents a major constraint on economic growth. However, the important Government’s efforts to modernize and strengthen the stability of the financial sector should be highlighted. They include the reform of the legal and regulatory framework that was implemented in 2009. Recently numerous banks increased their capital in order to meet the new rules instituted by the Central Bank which stipulate that the minimum capital a bank can have is 18 million USD.

In 2011, the banking sector witnessed the arrival of a new institution, the Islamic Bank of Mauritania, which holds 22 million USD in capital. Sixty per cent of the Bank is owned by the Islamic Society for the development of the private sector (SID), a subsidiary of the Islamic Development Bank (IDB) and the remaining 40% is owned by the ASYA bank. In 2012, three new banking institutions have emerged.

The Bank has contributed to the development of the country’s financial sector by financing several credit lines for Mauritania. In 2012, the Bank has approved a technical assistance to support Mauritania leasing which became Banque Populaire de Mauritanie en 2012.

**Figure 5.17: Cumulative ADF Loans and Grants by Instruments in Mauritania (1972 – 2012)**
The main thrusts of the Mauritanian government’s development agenda are: i) accelerating growth while maintaining a stable macroeconomic framework; ii) anchoring growth on the economic sphere of the poor; iii) developing human resources and expanding essential services; iv) improving governance and building capacity and v) improving management, monitoring/evaluation and coordination.

The Bank has released its new strategy of assistance for the period between 2011 and 2015, which aims to contribute to the realization of the country’s priorities, most notably by reinforcing the competitiveness of their economy and reducing poverty.

The Bank’s ongoing portfolio in Mauritania, as of December 31, 2012 had 11 operations, representing total commitments of nearly UA 145.313 million. Active Bank operations show that the industry, mining and the quarrying sector account for 77% of the financing to Mauritania. This is followed by the water and sanitation sector account for 12.5% and 5.5% excluding in public operation.

On the basis of lessons learned from the preceding strategy, the 2011-2015 strategy will base its work on the following two pillars: the reinforcement of infrastructure, and the improvement of economic governance and financial management. The first pillar will concentrate on the development of water infrastructure in rural areas so that the goal of providing 75% of the population with drinking water by 2015 is reached. This pillar will also allow the bank to support the distribution and production of electricity. The second pillar regarding the improvement of economic governance will allow the Bank to support reforms and reinforce the institutional capacity of governmental administration. Here, the objective is to promote macroeconomic stability and maintain economic growth through the improved management of public finances, the modernization of the administration, and an improvement in the business climate.
The Nouakchott City “Aftout Essaheli” Drinking Water Supply Project

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<tr>
<td>Executing Agency</td>
<td>National Water Corporation</td>
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**Background and Objectives**

The Mauritanian government is taking action to address the country’s water shortage problem, which hampers the social and economic development of Nouakchott city. The government conducted a study which led to the preparation of a water supply project aimed at meeting the city’s requirements right up to 2030.

The current project is consistent with the Bank’s water and sanitation sector strategy. Water from the Senegal River will benefit the poorest on the outskirts of the capital who have no access to basic drinking water supply infrastructure. The project will also supply drinking water to rural populations living around the water supply installations. Furthermore, it will include a study on water supply for rural populations along the aqueduct. To that end, the project will also contribute to the achievement of the Bank’s Rural Drinking Water Supply Initiative.

More specifically, the project aims to increase coverage of water requirements of the Nouakchott population by increasing the daily drinking water production.

**Description**

The project comprises the following main components:

- Supply structure and pumping stations aimed at drawing water from the Senegal River and transferring it to the Béni-Nadj pre-treatment station;
- Water treatment structures;
- Raw water transfer pipes from the Nouakchott supply;
- Pre-treated water conservation pool at Nouakchott;
- Drinking water transfer pipes;
- Consultancies, inspection and supervision of works; and
- Institutional support and project management.

**Expected Outcomes**

The project intends to:

- Improve drinking water supply for Nouakchott residents;
- Mobilize water for rural populations located along the aqueduct.
Rural Drinking Water Supply and Sanitation Project in the South

The African Development Bank Group in North Africa - 2013

ADF Loan Amount
UA 9.70 million

Co-Financiers
Community Beneficiaries, Government of Mauritania

Approval Date
November 2006

Expected Completion Date
December 2012

Location
Three regions: Hodh El Chargui, Assaba and Gorgol

Executing Agency
Ministry of Water Resources

Background and Objectives

In Mauritania, there is limited access to drinking water and sanitation facilities, especially in rural areas. In response to this concern, the government designed a national water supply and sanitation program for the year 2015. The national program is in line with the Bank’s Rural Water Supply and Sanitation Initiative which aimed, inter alia, at accelerating access for rural communities to adequate water and sanitation systems.

The project’s specific objective is to improve drinking water supply in rural communities; provide adequate sanitation to rural communities; and contribute to efforts at improving the performance of rural drinking water supply and sanitation.

Description

The project will be implemented through the following activities:

- Provision of a modern water point to rural dwellers and all the rural localities;
- Set up an efficient system of sanitation in all the rural localities;
- Develop water management and sanitation structures; and
- Sensitize and involve communities in the design and management of drinking water supply structures.

Expected Outcomes

The project intends to:

- Develop drinking water supply structures;
- Install adequate household and public latrines;
**Water Management**

### Background and Objectives

Currently, Mauritania is focused on improving access to water drainage in an affordable manner. Indeed, in 2006 the government released a declaration on the country’s development policy in the water sector which announced the creation of a water management organization (AGIRE), which would best equip Mauritania with a means of managing its water resources.

The objective of this project is to create an environment that enables an integrated and sustainable management of water resources and water infrastructure so as to contribute to poverty reduction and development.

### Expected Outcomes

- The creation of a study on the possibility of creating a system of regional information on water, and creating subsequent models suggested in the report.

### Expected Outcomes

The expected results of the project include:

- The development of a new strategy that reinforces the competencies of AGIRE so they are better able to collect and organize information available on water management;
- The decentralization and support for communities in the region of Berkna;
- The improvement of the living conditions of the poor in terms of their revenue, environment, health, education, and the livelihood of their children, which will be achieved through the extended access of basic services and through proper water management.

### Description

This project will entail:

- The creation of a central mechanism for evaluating the water management system;
- An analysis of information, studies and other relevant sources of knowledge on the water management system;
- A report on the lacuna present in the system as well as options for responding to those problems;
- The reinforcement of decentralization at a regional level in Brekna;
- The optimization of the network of measures available in the region;
Integrated national project in the area of rural water

Background and Objectives

The project aims at substantially improving living conditions of rural populations, particularly in Brakna, Gorgol and Tagant, through better access to drinking water and water for livestock and agricultural production. The project will build water and sanitation infrastructure (pastoral water and small irrigation). The project also provides institutional support through the development of a national strategy for integrated management of water resources and support to regional and agricultural cooperatives.

Description

The project has three components:

- Infrastructure development (74.7%)
- Institutional support (17.03%)
- Project management (8.26%)

Further, the project focuses on an integrated approach that takes into account the needs of people in drinking water, livestock and small-scale irrigation development of vegetable production.

Expected Outcomes

The expected results are:

- Improve the rate of access to drinking water for the targeted population with an increase from 53% in 2011 to 75% in 2015 and 80% in 2020 for drinking water.
- Improve the rate of access to sanitation for the targeted population by 2015 with an increase from 21% in 2011 to 32% in 2015 and 65% in 2020.
- Ultimately, the project targets reach 110,000 additional individuals and 120 public institutions (schools, health centers) and 140 villages.
SNIM Expansion Project: GUELB II

The project’s objective is to increase SNIM’s contribution to government revenue and the local economy and to improve the environmental management system for an ISO 14000 certification.

Description

The project will be implemented through the following activities:

- Construction and operation of a new enrichment plant and related infrastructure;
- Building SNIM’s institutional capacity for the environmental management and monitoring of projects;
- Technical assistance which will use the FAPA grant to fund SNIM Foundation’s capacity building.

Expected Outcomes

Specifically, the project intends to:

- Increase government revenue;
- Create job opportunities for nationals;
- Increase technical training; and
- Improve SNIM environmental and social management of its projects.
SNIM Export Capacity Enhancement Project

**Background and Objectives**
Approximately 12.9% of the Mauritania’s GDP can be attributed to the mining sub-sector. The exploitation of major iron ore reserves and the geological potential of the Mauritanian under soil in terms of non-ferrous (copper, lead, zinc) and precious ores, are seen as pivotal to the development of the country’s economy.

The aim of this project was to upgrade the significant potential of the mining sub-sector in order to increase its export capacity while diversifying the mineral products exported. Specifically, the project will optimize the mining of the various deposits with a view to increase the contribution of the mining sector to the national economy.

**Expected Outcomes**
As a result of this project:

- SNIM production and exports from 11.5 to 13.5 million tons beginning in 2001;
- An optimization of the mining of the different mining deposits resulting in an average annual growth rate for the sector at 5% beginning in 2001 and a 50% increase in iron export rates as share of exports will be obtained.

**Description**
This project entailed:

- The provision of an ore carrier port;
- The improvement of ore processing through the construction and installation of two grinders, spiral processing facilities at the Guelb factory, a wt magnetic separation shop, a 10 MW generator, and ancillary infrastructure;
- The improvement of railway transport capacity through the construction and installation of a 10.4 km railway line and train station, a 6km electricity line, tracks over 235.9 km, 125,000 wooden switch ties, 150 ore wagons and 7 shunting engines.

**ADB Loan Amount**
UA 22.318 million

**Approval Date**
May 2001

**Closing Date**
December 2011

**Location**
Nouadhibou, Zouerate

**Executing Agency**
The National Industrial and Mining Company
Public Procurement Reform

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<td>Ministry of Economic Affairs</td>
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**Background and Objectives**

This project seeks to continue the implementation of the procurement reforms initiated by the Mauritanian authorities in 2004. The project is designed to support all stakeholders (public administration, project implementation unit and the private sector members) to better understand the new rules. This will be achieved through the wide distribution of the new texts as well as a training program tailored to the specific profiles of actors. It is essentially an activity of capacity building for improved governance and financial transparency. These new provisions will improve the absorption capacity of the country with regard to external financing, which could eventually match the national procedures for procurement.

**Description**

This project will entail the following:

- The drafting of different types of documents for procurement;
- Training and capacity building activities;
- Assistance in setting up new structures for procurement;
- The design and implementation of a training program at the Ecole Nationale d’Administration.

**Expected Outcomes**

This project will result in:

- The design and implantation of a training program;
- The training and capacity building of 270 people in public procurement;
- The development of an annual plan for public procurement.
Invasive Aquatic Weeds

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</table>

**Background and Objectives**

The proliferation of invasive aquatic weeds in the rivers of Western Africa constitutes a significant threat. This weed invasion constitutes an obstacle to the natural replenishment of bodies of water and as a result has negative effects on the daily life of local populations. In affected zones, these obstacles could take the form of complicating the navigability of bodies of water, or the aggravation of health problems. Fishermen and fish traders, for example, see a great loss in their income as a result. Farmers that depend on water for irrigation purposes have to dedicate more time to cleaning canals and their livelihoods are thus also affected. The efficient management of invasive aquatic weeds is thus necessary.

This project aims to develop the sustainable management of natural resources, specifically of water resources, to maximize their contribution to social, economic and environmental development. Specifically, it will contribute to the fight against the invasion of aquatic weeds with a minimum affect on the local environment.

**Description**

The project will entail:

- The integrated management of proliferating aquatic weeds;
- The reinforcement of capabilities to curb the growth of these weeds;
- The creation of a unit for coordination of the project.

**Expected Outcomes**

For the 8 countries involved in the project, the expected results of the project include:

- A considerable reduction in the infestation of these weeds;
- The sensitization and mobilization of 150,000 to 300,000 people for the management of water resources;
- The organization of 400 committees along with other forms of national coordination;
- Capacity building regarding the understanding of the evolution of invasive aquatic weeds;
- The training of 2, 400 farmers and compost technicians;
- An improvement in agricultural production of 2200t over 5 years and the composting of 120 hectares.
West Brakna Irrigation Scheme Project

| ADF Loan Amount | UA 2.67 million |
| NTF Loan Amount | UA 4.30 million |
| Co-financiers   | Government of Mauritania and Beneficiaries |
| Approval Date   | November 2004 |
| Expected Completion Date | November 2012 |
| Location        | Right bank of River Senegal–Brakna Area |
| Executing Agency| National Rural Development Company |

Background and Objectives

With over 80% of its land mass in the desert zone and an average annual rainfall of 100 mm, Mauritania has based its rural development and poverty reduction strategies on irrigation. The country’s long-term vision in this respect is to transform the River Senegal Valley into one of the major sources of its development and economic growth. In line with this, the government set up a program which sets out the modalities for intervention in the irrigation sub-sector through technical, economic, legal and institutional measures for a revitalized agricultural development.

The Bank Group provided a grant to conduct a study on an irrigation scheme for natural infrastructural units in West Brakna. The study enabled the government to explore possibilities for emergency intervention to improve food security and the living conditions of the communities concerned.

Furthermore, the current project objective is to increase irrigated and agricultural outputs and increase farming incomes in a sustainable manner.

Description

The project will be implemented through the following activities:

- Construction, rehabilitation and improvement of core water infrastructure;
- Capacity building of farmers’ organisations;
- Project management.

Expected Outcomes

The project intends to:

- Increase agricultural production;
- Improve food security;
- Increase farmers incomes;
- Create jobs; and
- Reduce poverty.
Humanitarian Aid Rosso Floods

**FSS Grant Amount**  
US$ 1 million

**Approval Date**  
January 2009

**Expected Completion Date**  
November 2012

**Location**  
Rosso and surrounding areas

**Executing Agency**  
Commissariat à la Sécurité Alimentaire (CSA)

### Background and Objectives

On the 27, 28 and 29 August 2009, torrential rains of exceptional quantities—176 mm in 48 hours—fell on the town of Rosso, causing flooding in some neighborhoods in the city over the district of El Jidr Mohuguen, Chgara, and Tounguen Rghelwatt. The rains have caused casualties and significant damages in these localities, including public buildings and other socio-economic infrastructure.

The purpose of the emergency response grant is to provide financial assistance to the Government in its efforts to provide food and relief supplies, assist cooperatives allocated to resume their economic activities and restore the functioning of economic and social infrastructure so as to quickly restore normalcy in the economic and social life of affected populations.

### Description

This project will entail:

- The provision of food;
- The supply of equipment and emergency equipment;
- The Servicing of the host sites;
- The provision of assistance to redevelop damaged stores; and
- The development of new markets around the site of the disaster.

### Expected Outcomes

As a result of this project:

- The living conditions of the victims will be returned to normal;
- The economic activities and social services of the area will be revived;
- Lives will be saved and vital infrastructure will be rehabilitated.
Education System Development Support Project (PNDSE)

<table>
<thead>
<tr>
<th>ADF Loan Amount</th>
<th>UA 8.30 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Government of Mauritania</td>
</tr>
<tr>
<td>Approval Date</td>
<td>November 2001</td>
</tr>
<tr>
<td>Closing Date</td>
<td>April 2011</td>
</tr>
<tr>
<td>Location</td>
<td>Rosso</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Directorate of Education and Training Projects (DPEF)</td>
</tr>
</tbody>
</table>

**Background and Objectives**

There is a recurrent need to improve the quality of education, research/development and strengthen equity within the Mauritanian system. The government believes that certain key thrusts of the educational system reform lie in the professionalization and introduction of short training courses to create an enabling environment to improve necessary skills to meet the country’s social development, economic productivity and competitiveness needs.

Within the context of the educational system reform, the extension and upgrading of the Rosso Training Institute addresses the double concern for efficiency and anticipation of national development exigencies. The Bank Group is therefore supporting this institute with the specific objective of diversifying education supply, improving the quality of instruction and research with a view to providing intermediate technical training (senior technicians) and senior managers (engineers) in agro-pastoral, forestry and food technology fields.

**Expected Outcomes**

The project intends to:

- Rehabilitate and equip the Institut Supérieur d’Enseignement Technologique (ISET) in Rosso;
- Review institutional set-up and governance at the tertiary level;
- Encourage and sustain research and development; and
- Strengthen and make fully operational the planning, management and follow-up mechanism.

**Description**

The project has the following components:

- Developing basic infrastructure (ISET in Rosso);
- Institution building;
- Supporting research/development, teaching and technological innovations; and
- Supporting project management structure.
Line of Credit to GBM

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>US$ 10 million</th>
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<tbody>
<tr>
<td>Approval Date</td>
<td>December 2002</td>
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<tr>
<td>Closing Date</td>
<td>December 2011</td>
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<td>Location</td>
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</tr>
<tr>
<td>Executing Agency</td>
<td>General de Banque de Mauritanie (GBM)</td>
</tr>
</tbody>
</table>

Background and Objectives

The Mauritanian economy depends largely on the agricultural sector, iron ore mining and fisheries although commercial services are showing clear signs of growth, especially tourism and telecommunications.

The objective of this line of credit was to contribute to the deepening of the financial needs of economic agents. By envisaging the recruitment of professional engineers for the Corporate Department, the line of credit will be a vector of GBM institutional strengthening in appraisal of projects and monitoring of financed projects.

Description

This project entailed:

- The financing in the medium term of viable projects mainly in the sectors of industry and services eligible for Bank-financing;
- The credit was used to procure goods, equipment and supplies needed for making investments so as to establish, modernize, and carry out extensions, as well as to renovate enterprises presenting a high growth potential.

Expected Outcomes

This project will have the following results:

- Increase the availability of medium and long term financing for the services industry;
- Expand and modernize the services industry to increase its contribution to economic development;
- Create new jobs.
Project to build the capacities of Microfinance Stakeholders (PRECAMF)

<table>
<thead>
<tr>
<th>ADF Loan Amount</th>
<th>UA 5.98 million</th>
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<tbody>
<tr>
<td>Co-Financiers</td>
<td>Government of Mauritania</td>
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<tr>
<td>Approval Date</td>
<td>March 2007</td>
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<tr>
<td>Expected Completion Date</td>
<td>December 2012</td>
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<tr>
<td>Location</td>
<td>Nouakchott, Gorgol, Guidimaka, Assaba, Brakna, Hodh El Gharbi, Hodh EchChargui, Trarza, and Tagant</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Direction de l’Insertion du Commissariat aux Droits de l’Homme, à la Lutte Contre la Pauvreté et à l’Insertion</td>
</tr>
</tbody>
</table>

**Background and Objectives**

In 2003, the government prepared and adopted its National Microfinance Strategy (NMFS) designed to improve access to sustainable financial services for the poor. However, the weak operational and organizational capacities of Mauritania’s microfinance institutions (MFI) and their limited financial autonomy, impeded the development of microfinance in the country.

The combined support of several partners, the Bank Group in particular, through the Poverty Reduction Project (PRP) financed by the ADF from 1998 to 2004 and the African Development Bank Initiative for Micro-Finance in Africa (AMINA) from 1998 to 2000, have contributed significantly to the emergence of microfinance in Mauritania.

Furthermore, the Bank is supporting Mauritania’s microfinance industry through this project which will finance capacity building for microfinance operators. The objective of the project is to build stakeholder capacity with respect to supply and demand for microfinance services, with a view to improving access to sustainable financial microfinance services for poor workers in order to reduce poverty.

**Description**

The project will be implemented over a five-year period and it comprises the following three components:

- Improving microfinance supply services;
- Improving demand and financial services; and
- Providing project management

**Expected Outcomes**

The project intends to:

- Make the supervision and control environment conducive for microfinance development;
- Extend the supply of microfinance services to the majority of the population;
- Improve demand for financial services;
- Adapt the services and products of microfinance institutions to customer needs; and
- Strengthen the capacity to supervise the microfinance sector.
Line of Credit to Mauritania Leasing

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>US$ 5 million</th>
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<tr>
<td>Approval Date</td>
<td>July 2008</td>
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<tr>
<td>Expected Completion Date</td>
<td>December 2011</td>
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<tr>
<td>Location</td>
<td>Nationwide</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Mauritania Leasing</td>
</tr>
</tbody>
</table>

Background and Objectives

The Mauritanian government has undertaken several initiatives to boost the private sector’s impact and improve the enabling business environment. The Mauritanian private sector policy calls for an increase in the pace of SME creation and the upgrading of existing enterprises. This trend is expected to lead to an increase in demand for more flexible financing means to meet the investment requirements of small enterprises with respect to the procurement of equipment.

The Bank Group is supporting this agenda by providing term funding to Mauritania Leasing. The line of credit will enable Mauritania Leasing to increase its on-lending activities and new bankable and viable projects.

The project objective is to finance the procurement of equipment, materials, and immovables for leasing to SMEs operating in Mauritania’s commercial, industrial, agricultural, fisheries, and services sectors.

Expected Outcomes

Specifically, the project intends to:

- Increase the SME sector’s contribution to economic development;
- Expand the SMEs production and modernize industry’s production facilities;
- Create new jobs;
- Transfer technology and develop local entrepreneurial and technical skills;
- Increase the use of raw materials;
- Increase exports;
- Increase tax base and government revenues; and
- Reduce poverty and gender inequity.

Description

The project will be implemented through:

- The provision of a line of credit for on-lending to finance the procurement of equipment, materials, and immovables for leasing to SMEs operating in the commercial, industrial, agricultural, fisheries, and services sectors.
Background and Objectives

The Mauritanian government has undertaken several initiatives to boost the private sector’s impact and improve the enabling business environment. Mauritania’s private sector policy calls for an increase in the pace of SME creation and the upgrading of existing enterprises. This trend is expected to lead to an intensification of demand for longer-term debt financing in the country.

The Bank Group is supporting commercial banks to deepen the local financial market and, in particular, to strengthen the SME segment. In line with that, by providing term funding to the Banque pour le Commerce et l’Industrie (BCI), the Bank Group will enable it increase its on-lending activities to SMEs operating in the construction, commercial, manufacturing, tourism, agribusiness, fisheries, and service sectors. BCI is targeting existing export-oriented SMEs with high growth potential, with a view to modernizing, expanding and / or rehabilitating their operations.

The project’s objective is to help develop the SME sector and contribute to Mauritania’s economic development.

Expected Outcomes

Specifically, the project intends to:

- Extend the SME sector’s contribution to economic development;
- Develop entrepreneurship and technical skills;
- Create new jobs;
- Develop the infrastructure sector;
- Increase the use of raw materials;
- Increase exports;
- Increase tax base and government revenues; and
- Reduce incidence of poverty through financial and SME sector development.

Description

The project will be implemented through the following:

- A line of credit being provided for on-lending to SMEs operating in the construction, commercial, manufacturing, tourism, agribusiness, fisheries, and service sectors.

| ADB Loan Amount | US$ 8 million |
| Approval Date   | July 2008     |
| Expected Completion Date | December 2011 |
| Location        | Nationwide   |
| Executing Agency | Banque pour le Commerce et l’Industrie |
Technical Assistance to Mauritania Leasing

Background and Objectives

The purpose of the Grant is to finance certain expenditures required for Mauritania Leasing (ML) that will contribute to address some of the capacity building needs of ML, through a highly focused and targeted technical assistance. This will ensure that Mauritania Leasing will be able to effectively implement its business plan and achieve its financial & commercial targets. Based on needs assessment, the TA will provide a well-directed, broadly supported and internally coherent capacity building program to address institutional weaknesses. A strengthened Mauritania Leasing will be better positioned to support increased participation of the private sector in the leasing market.

Description

The grant will:

- Finance a TA on market diversification with a component on real estate leasing, factoring and long term rental.
- All components will include feasibility studies, development of operational guidelines and policies as well as staff training and the provision of software.

Expected Outcomes

The grant will result in:

- Improved market diversification through the increased of direct foreign investments;
- Improved factoring through the consolidation of financing activities resulting in increased access to financial products for Mauritanian SMEs.

<table>
<thead>
<tr>
<th>FAPA Grant Amount</th>
<th>230 million UA</th>
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<td>Approval Date</td>
<td>August 2011</td>
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<td>Expected Completion Date</td>
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<tr>
<td>Executing Agency</td>
<td>Mauritania Leasing</td>
</tr>
</tbody>
</table>
Morocco

Membership year: 1964
Start of lending operations: 1970
Number of ADB operations approved, 1967-2012: 129
Number of ADF operations approved, 1967-2011: 9
Subscribed Capital (%) as of December 2012: 3.510
Total voting power (%) as of December 2012: 3.494
Number of operations in the current portfolio: 27
Total loan amount of operations in the current portfolio (UA million): 2011
The Kingdom of Morocco

Recent Developments

For Morocco, 2012 was had a historical experience: the country was governed by a coalition government led by the Islamic Party (the Party for Justice and Development) which won the November legislative elections. The Kingdom has continued to enjoy economic stability, which is its specificity, in a region where sporadic socio-political unrest has continued in the wake of the Arab Spring.

On the economic front, the arrival of the coalition government did not lead to any real break in the policies implemented but rather a continuity which overall, has preserved the soundness of economic fundamentals and institutional framework, the outcome of a decade of sound macroeconomic policies and pertinent policy reforms. In August 2012, after the Moroccan Authorities provided evidence of sound policies and the solidity of the economic results, the IMF responded favourably to their request for an agreement under the two-year Precautionary and Liquidity Line of US$ 6.2 billion to support the authorities’ home-grown reform agenda aimed at «achieving higher and more inclusive economic growth by providing a useful insurance against external shocks».

However, Morocco has been unable to repeat its 2011 economic growth performance, which happened despite the negative impact of the Arab Spring on the economies of the North Africa Region. In 2012, the estimated growth rate was 3.4% compared to 5% in 2011. This fall in growth was the combined effect of weak global demand addressed to Morocco, a fall in international tourism revenues and remittances by Moroccans living abroad as well as a decline in value-added agriculture, especially in the production of food crops due to a shortage of rainfall which affected the previous crop year.

However, the most significant recent development was the downgrade on 12 February 2012 of Morocco’s sovereign rating by Moody’s (financial rating agency). The rating was downgraded from ‘stable’ to ‘negative’ following (i) the widening of the overall fiscal deficit from 6.2% in 2011 to 7.1% of GDP in 2012 and (ii) the hike in prices of energy product.

The announcement of the downgrade has however not given any indication of a decrease of confidence from the country’s international investors. It is worth noting that, two months before Moody’s decision, Morocco had successfully launched a bond issue of US$ 1.5 billion on the international capital market. Similarly, despite the new Moody’s rating, the IMF reaffirmed Morocco’s ‘continued’ qualification to benefit from the Precautionary and Liquidity Line (PLL) approved in August 2012. Moody’s has, moreover indicated that it would return to a stable outlook for the country ‘if the government implements measures to arrest the deterioration in the public finances’. It is, therefore, urgent for the Government to considerably accelerate the pace of implementation of structural reforms such as reform of the subsidy system, reform of the public pension fund and tax reforms.

Morocco must also address other challenges and constraints which are continuing to prevent its economy from fully tapping into the country’s vast economic growth potential. These challenges include: (i) persisting unemployment of young graduates; (ii) the difficulties of achieving strong, sustainable and inclusive growth; (iii) the economy’s weak external competitiveness; (iv) the lack of export diversification; (v) the inadequacy of the business climate; and (vi) vulnerability to the impact of climate change.
The African Development Bank operations made significant progress in 2012 in Morocco. The Bank Group stepped up its support to the country’s development strategy, especially with regard to renewable energy, agriculture, drinking water supply and the improvement of economic and financial governance. Thus, the amount of new operations approved in 2012 was about €1.1 billion. These new operations consolidate the Bank positioning and its place as Morocco’s leading donor especially in the Water, Energy, Governance and Transport Sectors.

The volume of the active portfolio is over €2.4 billion. The portfolio distribution reveals a concentration of Bank operations in the infrastructure sector. Energy sector operations represent 34% of the commitments of the Bank’s portfolio in Morocco, followed by the transport sector (24%), water and sanitation (21%) and agriculture (7%). Multi-sector operations concerning the reform support programs represent 5% of the portfolio. The portfolio also includes two private sector window operations (Loan to OCP and equity investment in the ARGAN Fund for infrastructure development) and twelve technical assistance operations, including one with a regional scope (Assistance to the General Secretariat of the Arab Maghreb Union).

The Bank’s Country Office in Morocco (MAFO) closely monitors its operations in the country while ensuring their coordination with the public authorities, executing agencies and development partners. These activities are in keeping with the Bank’s decentralization process in Morocco, which began with the opening of MAFO in 2006. It is therefore with great satisfaction, that a new year has begun and with enhanced cooperation with the Authorities thanks to the increased presence of multidisciplinary AfDB teams at the country Office in Rabat as well as new tools and procedures to support deeper decentralization.

The Bank’s presence in the field has helped improving portfolio quality and performance as well as strengthening participation in the coordination of aid with the other bilateral and multilateral partners. This cooperation has developed within a framework of consultations initiated by the thematic groups, and in the context of joint operational missions.

In this very difficult situation mainly due to the debt crisis in Europe and the upheavals in North Africa, the Bank continues to support the Kingdom in its efforts to successfully implement economic and institutional reforms. The level of commitment and continuity of the support are good indicators of the dynamism and exemplary nature of the partnership between the Bank and Kingdom of Morocco.
Since 1970, the Bank has approved 139 operations for cumulative commitments amounting to UA 6.89 million, 99.1% of which are ADB loans and grants, 0.9% are ADF loans and grants.

The Bank, while respecting its rules on financial stability and prudential ratios, responded quickly to the financial needs of the Moroccan economy faced to a severe economic crisis. Morocco is one of the largest borrowers of the Bank. In 2012, new approvals represented more than 65% UA (nearly 1 billion extra in the energy sector alone.

In few decades of being in Morocco, the Bank has managed to diversify its portfolio. The Bank funds multi-sectoral operations which constitute about 21% of the overall portfolio, as well as energy projects (18%), transport (17%), and water and sanitation and finance, both for 12% resources. The interventions of the Bank Group in the social sector accounted for 8% of the portfolio and those of agriculture and rural development 9%. The remaining 3% was invested in telecommunications, the environment and industry, mining and quarrying.
Transport Sector

The transport sector plays a crucial role in the Moroccan economy, not only because it promotes internal movement of goods and people, but also because it contributes to strengthening economic and social cohesion and integration of Morocco in the global economy. From an economic and social point of view, the entire transport sector represents an average of 6% of GDP, employing 10% of the workforce and responsible for 21% of national energy consumption. In recent years, a broad process of modernization of the various means of transport took place with the launch of institutional reforms and ambitious projects.

The transport sector is one of the main areas in which the Bank operates in Morocco. Since 1967, the Bank has approved 13 operations in this sector, for a total of over 1.2 billion UA, nearly 20% of ADB approvals in favor of Morocco. These interventions have affected both the roads, airports and railways. Currently, the active portfolio of the Bank consists of two operations in this sector. This is the 3rd Airports Project (UA 205 million) and the proposed increase rail capacity in Tangier / Marrakech (axis 263 million of UC).

Energy Sector

Morocco imports almost all the energy it consumes. The power generation comes substantially from thermal power. The installed capacity of the hydroelectric plants is lower and their operation depends on climatic factors, especially rainfall. Therefore, the country relies heavily on electricity generated by thermal power plants and the costs are lower, especially for coal. This has a negative impact on the cost of electricity, especially when assessing the price of oil.

In 2012, the Bank approved two projects in the energy sector that will contribute to improve the energy security of Morocco and mitigate the effects of energy production on climate change-The Integrated Project Wind, hydropower and rural electrification PERG of UA 320 million and the project Ouazarzate solar power plant of UA 150 million. Given the focus on renewable energy in the context of these two projects, the Bank’s resources were linked with those of the Clean Technology Fund (CTF), which contributed by funding the tune of 140 million UA (UA 78 million for the Integrated Project Aeolian and PERG and UA 62 million for the project Ouazarzate solar power). Besides these two projects, the active portfolio of the Bank comprises a third operation in the energy sector, the development of networks and transports electricity distribution (UA 100 million) program. The total assets of the Bank portfolio in the energy sector reached nearly to UA 710 million.

Water and Sanitation Sector

In terms of the quality of services and the use of technology, drinking water has greatly increased in the kingdom of Morocco.

Government reforms since 2001 have called for a new approach based on the integrated and sustainable management of water, creating a new momentum in the rural sector. This has helped to fill the supply gap between urban and rural areas and to standardize procedures in all regions.

In 2012, the Bank has approved a water supply project to Marrakech, adding 12 operations with a total value of more than € 1.1 billion to help preserve resources water and improve the mobilization and allocation of funds in the area of water and sanitation.

Agriculture Sector

The agricultural sector plays a pivotal role in Morocco, both in terms of contribution to growth and as a provider of unemployment. The authorities have introduced important reforms that combine different areas that include irrigation, livestock, rural development, natural resource management and the environment.

In 2012, the Bank approved the Support Programme Green Morocco Plan (PAPMV), as part of the support to reforms, amounting to a budget support of UA 100 million.

Multi-Sector

In recent years, Morocco has undertaken economic and financial reforms both in the financial sector and in public administration. Reforms were the main objectives of consolidating macroeconomic stability, strengthen public...
financial management, modernize the financial sector, improve the business climate and increase the efficiency of the public service. The total amount of Bank support to these reforms amounted to more than UA 1.200 million.

**Figure 5.21: Cumulative ADB Loans and Grants by Instruments in Morocco (1970 – 2012)**

- ADB Project Loans (public) - 56%
- ADB project Loans (private) - 1.3%
- ADB Line of Credit (public) - 7.7%
- ADB Policy Based Lending - 31.5%
- ADB Other - 3.5%

**Multisector operations**

In recent years, Morocco has undertaken economic and financial reforms both in the financial sector and in public administration. Reforms were the main objectives of consolidating macroeconomic stability, strengthen public financial management, modernize the financial sector, improve the business climate and increase the efficiency of the public service. The total amount of Bank support to these reforms amounted to more than UA 1.200 million.

Since the 90s, Morocco has been through a long process of profound transformation of the financial sector in order to address two major challenges: (i) modernize of the regulatory framework of the entire sector (banking, insurance, capital markets) to be aligned with international standards, and (ii) improve access of households and enterprises including SMEs and micro financial services. After the first generation reforms supported by the Bank and implemented successfully in 1991 (I PASFI to PASFI IV), a new series of so-called second-generation reforms were launched with the support program for development of the sector. Financial (PADESFI) started in 2009 with the PADESFI I supported by a World Bank loan of 162 million Euros in 2011 and with the PADESFI II supported by a loan of 224 million Euros. On the other hand, a PRI grant was approved in 2012 to support the development of the Moroccan Monetary and Financial Code (COMOFIM).

Between 2002-2011, Morocco embarked on a series of major reforms of the public administration through the PARL, supported by the Bank. This helped the state to build powerful tools in the management of financial and human resources and launch a process of administrative simplification through the development of e-government. However, in light of recent social demands in the context of the "Arab Spring", in search of greater transparency and social justice, it became necessary to focus more public action to be better perceived and experienced by citizens.

The Bank approved PARGEF-I (Phase I) in November 2012. These activities should lead to a reduction of the budget deficit and reduce delays in obtaining administrative acts and an increase in regional GDP of the most vulnerable regions.
Social Sector

Morocco continues resolutely to try to reach the Millennium Development Goals (MDGs). To this end, as part of the National Initiative for Human Development (NIHD) launched in 2005, the budget priorities of the country include the redistribution of wealth to fight poverty, precariousness and social exclusion. The Bank is supporting the country’s efforts in this area through various operations (sector budget support, technical assistance, etc.), Especially in the areas of education and health.

In 2011, the Bank approved a PRI donation to support private education. In 2012, two grants were approved on the trust funds for the countries of North Africa in Transition: The study on the financing of the health sector and a study on quality assurance in vocational training. These operations, which date back to 1970, and whose value is greater than UA 400 million contributed to the improvement of social indicators.
Bank Group Strategy & Ongoing Activities in Morocco

The Bank Group’s Strategy for Morocco which, in 2012, guided the ongoing operations is set out in the 2010-2016 Country Strategy Paper. This strategy was approved by the ADB Board of Directors in April 2012. The choice of pillars retained in the 2012-2016 CSP was determined by the lessons learned from the experience of implementing the 2007 to 2011 CSP as well as the 2011 Portfolio Performance Review. This strategy is underpinned by the following two pillars: (i) strengthening of governance and social inclusion, and (ii) support to the development of ‘green’ infrastructure.

The Bank’s support to the Government’s efforts in the area of governance and social inclusion is a continuation of its previous strategy for Morocco under which the Bank, in association with the World Bank and European Union, actively participated in the preparation and implementation of the Public Administration Reform Support Programme (PARAP) which was implemented in several phases. The PARAP helped to improve the public administration’s efficacy in human and budget resource management. Similarly, the Bank supported the modernization of the financial sector by financing the Financial Sector Support Programme (PADESFI). Under Pillar I of the strategy being implemented, the Bank is continuing its support in collaboration with the other development partners (European Union, World Bank, French Development Agency, etc.), to the second generation reforms by expanding the scope of its operations to new areas (Education, and Local Governance).

Under Pillar I: strengthening of governance and social inclusion, all the operations slated for the 2012-2016 CSP’s first year of implementation were approved as scheduled. For the lending programmes, these were: (i) Green Morocco Plan Support Programme; and (ii) PARAP (new generation). The non-lending programmes comprise six operations: (i) technical assistance for the preparation of MTEFs; (ii) Study on the preparation of a competency framework for logistics jobs; (iii) Study on the relationship between inclusive growth and employment in Morocco; (iv) Technical Assistance for the Promotion of Young Agricultural Entrepreneurs; (v) Modernization of the Debt Management Organizational Framework; and (vi) Preparation of the Monetary and Financial Code.
Under Pillar (II): Support for the development of Green Infrastructure, all the operations slated for the first year of the CSP being implemented have been approved in accordance with the Indicative Work Programme. With regard to the lending programme, the following operations have been approved: (i) Marrakesh Region DWS Project; (ii) Ouarzazate Solar Power Plant Project and (iii) the Integrated Wind, Hydro-Power and Rural Electrification Project. With regard to the non-lending programmes, three operations have been approved, namely: (i) Rural Road Programme Impact Study; (ii) Technical Assistance to MASEN; and (iii) Technical Assistance to Mitigate the Impacts of Climate Change.

Thus, on completion of the first year of implementation of the 2012-2016 CSP, 13 new operations had rejuvenated the portfolio. A review of the portfolio’s sector distribution reveals that the infrastructure sector (energy, transport, water and sanitation) represents the Bank’s main area of intervention. By fully involving itself in the area of infrastructure, the Bank has helped to enhance the attractiveness of this country which is making every effort to become a regional investment hub for production and trade. The second area of concentration for Bank operations is support to multi-sector reforms. Because of their scope and complexity, Bank support to intersector reform programmes aimed at reducing the structural vulnerability of the Moroccan economy has often been provided to the country in collaboration with other development partners.
Second Program of National Rural Roads

### Background and Objectives

Rural development is one of the grassroots policy objectives advocated by the Moroccan government and represents a major challenge in the overall development of the Kingdom. In this connection, basic infrastructure, in particular, access roads, is a key element of the social and economic development strategy for rural areas. To implement this strategy, the government has put in place rural development programs and the resources necessary to speed up the construction of basic facilities, in order to meet pressing needs to open up the territory within a reasonable period of time.

Hence, following the first national rural roads program completed in 2005, a second national rural roads program was designed by the government, with the aim of raising the level of road access to the rural populations to 80% by 2015. The second program will therefore help bring the population closer to administrative and economic centres, enabling them to produce more and at lower cost, increase their incomes and improve their social welfare.

The program is among the government’s priority actions in the transport sector for the 2006-2010 period and it is in line with the Bank Group’s strategy in Morocco. The specific objective of the Bank’s project is to help with efforts at providing rural populations with access routes and outlets and improving transportation services in rural areas.

### Description

The project comprises the following components:

- The construction of paved and earth roads;
- The construction drainage systems;
- The installation of related works;
- The inspection and supervision of works; and
- Audit operations.

### Expected Outcomes

The project intends to:

- Provide better road access to the rural population;
- Increase of incomes in rural areas through the improvement, in particular, of agricultural production and better access to markets;
- Improve transport conditions and availability at all times;
- Improve access to socio-educational, health and security services for children and women in particular; and
- Create jobs.
Project to Increase Capacity on the Tangier-Marrakech Railway

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<th>ADB Loan Amount</th>
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<td>Expected Completion Date</td>
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<td>Location</td>
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<tr>
<td>Executing Agency</td>
<td>National Railway Company ONCF</td>
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</table>

Background and Objectives

Over the last few years, there has been sustained growth in Morocco’s rail transport sector. Over the 2004-2009 period, passenger traffic increased at an average annual rate of 8.1% from 19 to 30.4 million. Freight traffic also increased, but at a fairly modest annual rate recoding 2.9% per year between 2004 and 2007 before the international crisis caused a 21.8% per year contraction starting in 2008. In order to meet 2004-2009 traffic increase ONCF made investments to upgrade its production system and boost rail transport supply.

This project aims to increase the capacity on the Tangiers-Marrakech railway line concerning the two sections, Kenitra-Rabat-Casablanca and Casablanca-Settat-Marakech that link the South to both the North and East of the country.

Description

This project will entail:

- Strengthening works on the existing tracks, including the construction of a third track, 148 km long between Sebata and Kenitra dedicated to freight along the existing Kenitra-Rabat-Casablanca line;
- Upgrading and partial double tracking works on 40km between Settat and Marrakech on the Casablanca-Marrakech line.

Expected Outcomes

This project will result in:

- A significant increase in rail travel supply starting in 2016, with an improvement in rail traffic fluidity and frequency of shuttle, mainline and freight trains;
- Increased population mobility in the area; and
- Employment creation of both direct and indirect jobs during the project implementation and operational phases, especially in the logistic zones created.
Third Airport Project

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<th>ADB Loan Amount</th>
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<td>Approval Date</td>
<td>April 2009</td>
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<tr>
<td>Expected Completion Date</td>
<td>December 2013</td>
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<tr>
<td>Location</td>
<td>Casablanca, Fez, Agadir, Marrakech and Rabat</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>National Airports Authority</td>
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</table>

Background and Objectives

The government’s policy is designed to upgrade the road transport sub-sector through improved services to users, thereby enhancing its competitiveness and liberalizing the activities of the sector. However, Morocco has, recently, experienced a significant and rapid increase in various traffic categories, leading to the saturation of the operational capacities of the airports concerned. This upsurge in passenger traffic requires infrastructure and equipment adaptation to meet demand, and enable the major airports concerned to provide quality services in line with international standards.

The Bank has become a strategic partner in the air sub-sector. The present project is a continuation of previous operations, and the relevant experience acquired in their management will be useful in the implementation. Specifically, the project’s objective is to increase airport operational capacity by upgrading infrastructure, expanding the air navigation system, and reinforcing ground security facilities.

Description

The project comprises the following components:

- Construction of a control centre;
- Rehabilitation and expansion of terminals, aeronautical infrastructure and cargo platforms;
- Development of terminal installation and related facilities;
- Strengthening of the training system.

Expected Outcomes

The project intends to:

- Upgrade airport infrastructure and facilities to meet international standards;
- Improve the quality and efficiency of air services in line with international standards;
- Complete coverage of the Moroccan sky by the air control service, and become a continuum of the European space; and
- Create jobs.
Study to Diagnose and Design Programme to Strengthen and Repair the Protective Structures of Seven Ports

<table>
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<tr>
<th>ADB MIC Grant Amount</th>
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<td>Location</td>
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<tr>
<td>Executing Agency</td>
<td>National Ports Agency (ANP)</td>
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</table>

Background and Objectives

A significant portion of Moroccan port structures are quite old and in an advanced state of degradation due to several factors. To meet the growing traffic demand and raise the competitiveness level of ports to international standards, the national maritime sub-sector of Morocco has found it necessary to establish a good diagnosis and consequently propose appropriate strengthening solutions.

This study is part of an overall vision to preserve port infrastructure assets, with a view to continually adapt port services supply to traffic demand. Specifically, the study aims to determine optimal options for strengthening the protective structures concerned and designing bidding documents for the necessary repair and strengthening works to be undertaken on the said structures.

Expected Outcomes

This study will lead to:

- The development of dossiers for the strengthening of works designed for the structure of 7 ports that will determine optimum solutions for strengthening the protective structures of 7 ports (Nador, Safi, Al Hoceima, Tangiers, Casablanca, Mohammedia, Agadir);
- The implementation of the report’s recommendations will contribute to preserving port infrastructure assets so that a high level of infrastructure service is completed by 2015.

Description

The study is comprised of:

- The detailed diagnosis of structures of 7 ports undertaken, including the schedule for strengthening operations;
- An outline on the possible technical options for strengthening the structures of the 7 ports, including a repair programme and a schedule for monitoring the works.
Ouarzazate Solar Power Plant Project – Phase 1 (OZZ1)

**Background and Objectives**

The Ouarzazate Solar Power Plant Project – Phase I will enable Morocco to honour its national and international commitments. It is part of the Moroccan Solar Plan designed under Morocco’s energy strategy and, on a larger scale, it forms part of the Concentrated Solar Power (CSP) Investment Plan of the Middle East and North Africa Region (MENA). This investment plan was prepared with countries of the region under the aegis of the ADB and the World Bank. It will enable participating countries to contribute their solar resources to the global effort to combat the effects of climate change, while significantly increasing the world’s installed CSP capacity.

**Description**

The project comprises:

- The construction of a 160 MW CSP plant with a 3-hour storage capacity (solar field, generator, energy transmission facility, site development, storage facilities and related infrastructure).

**Expected Outcomes**

The expected project outcomes are:

- The management of large-scale solar energy generation and increase in total installed capacity;
- The increased diversification of Morocco’s sources of energy;
- The increase in the quantity of CO2 prevented;
- Greater private sector participation in green electric power generation investments and establishment of a local industry able to provide manufactured inputs;
- The creation of domestic jobs and;
- In the longer term, export of green energy to Europe.
Background and Objectives

The Integrated Wind Energy, Hydro-Power and Rural Electrification Programme is in keeping with Morocco’s energy strategy vision of which aims to: (i) improve energy security, (ii) achieve a greater proportion of renewables in the energy mix, thus reducing the effects of the generation of electricity on climate change, and (iii) ensure energy access in rural areas. To 97%, Morocco depends on the outside world to meet its energy needs. Over the past ten years, electricity consumption has increased at an average annual rate of 6 to 8%, as a result of the country’s robust economic development and the implementation of a major Global Rural Electrification Programme (PERG). It is also expected that this rise in demand for electricity will continue at an annual rate of 5 to 7% over the next ten years (see Annex IV), in line with forecast GDP growth of 5.5%. Morocco’s energy strategy aims at increasing the proportion of renewables in the energy mix from 10% in 2007 to 42% in 2020, which accounts for approximately 6,000 MW of additional renewable energy.

Description

The main project components are:

- The construction of four wind farms with a total capacity of 750 MW;
- The construction of a pumped power transfer station (STEP) as well as one for a hydro-power complex with a total capacity of 20 MW;
- The construction of transmission lines and step-up transformers for connection to the national grid; and
- The construction of MV and LV lines and MV/LV distribution sub-stations in order to connect 86,000 households in 25 provinces.

Expected Outcomes

The expected project outcomes are:

- An increase in total installed capacity;
- Improved electricity access rate through the electrification of 86 households, i.e. about 516,000 Moroccans living in rural areas;
- An increase in the amount of CO2 prevented (65 million tonnes during the project’s life span);
- A reduction in energy product imports, and
- Increased private sector participation in electric power generation investments.
Electricity Transmission and Distribution Network Development Project

| ADB Loan Amount | € 110 million |
| Co-Financiers    | Kingdom of Morocco/ National Electricity Authority |
| Approval Date    | December 2009 |
| Expected Completion Date | December 2014 |
| Location         | Nationwide |
| Executing Agency | National Electricity Authority |

Background and Objective

The operation of Morocco’s electricity network is fast approaching the permissible limits. Indeed, the current configuration of the extra high voltage and high voltage transmission network is fraught with major operational problems (saturation, appearance of constraints or overloads, increased level of losses and degradation of the level of security of supply). In view of the situation’s seriousness and the growing demand for electrical energy, a transmission network reinforcement scheme was formulated by ONE. This is an offshoot of the electricity transmission and distribution network development program without which reliable and secure power supply cannot be assured.

The project forms part of the electricity transmission and distribution network development program and specifically, the project aims to improve the performance of the power transmission.

Description

The project’s main components are:

- Construction of high voltage lines and substations;
- Reinforcement and expansion of high voltage and extra high voltage network;
- Provision of project management services.

Expected Outcomes

The project intends to:

- Reduce power loss;
- Increase transit capacity;
- Increase installed power;
- Improve access to electricity; and
- Reduce greenhouse emissions.
The Ain Beni Mathar Solar Thermal Power Station
Project Supplementary Loan

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<td>Location</td>
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<td>Executing Agency</td>
<td>National Electricity Authority</td>
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Background and Objectives

Morocco is structurally dependent on external sources for its power supply. Its energy deficit has been on the increase since 1998 due to the combined effect of rapid population growth and an increase in average energy consumption per capita and per year. In a bid to address this situation, the National Electricity Authority initiated a series of electric power generation projects based on the development of renewable resources. Such projects include the energy transfer pumping station (STEP) in Afourer and the wind farms in Sim and Tangiers.

Furthermore, the National Electricity Authority is promoting the use of solar energy to generate electricity to meet the country’s power needs at lower costs under satisfactory conditions of regular power supply and quality service. The Bank Group provided an additional loan intended to cover the additional cost arising from changes in the technical specifications of the power station and the layout of the electricity transmission network. These changes are necessary in view of the delay in the implementation of the program to extend electric power generation facilities coupled with a higher increase in electricity demand than initially expected.

The sector goal of the project is to generalize access to electricity and develop renewable energies. Its specific objective is to help ensure a steady supply of electricity to the country, diversify energy sources and reduce greenhouse gas emissions.

Description

The project’s main components include:

- The installation of an electric power station, 220 and 60kV lines and extra high voltage and high voltage substations;
- The constructing of access roads and two bridges;
- The procurement of ing land;
- Drilling and sinking of at least two boreholes;
- The construction of the connection to the gas pipeline; and
- The provision project management services.

Expected Outcomes

The project intends to:

- Increase Morocco’s power generation;
- Create new SMEs and increase productivity of existing ones;
- Create jobs; and
- Reduce greenhouse emissions.
Energy Efficiency in the Industrial Sector

<table>
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<tr>
<th>ADB Grant Amount</th>
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<td>January 2010</td>
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<td>December 2011</td>
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<td>Executing Agency</td>
<td>Office National de l’electricite</td>
</tr>
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Background and Objective

The overall objective of the project is to improve energy efficiency of small and medium Moroccan enterprises (SME) and significantly reduce fine GHG emissions by removing the regulatory, financing and informational barriers that prevent activities and investments in energy efficiency and energy conservation. The specific objectives are to reduce GHG emissions through the optimization of energy use, and contribute to global environmental benefits; to promote the development of energy efficiency techniques in the industrial sector by demonstrating the financial benefits of energy savings and strengthening the incentive framework for EE; to reduce the country’s dependence on fossil sources of energy; and to reduce energy cost and thereby increase the competitiveness of Moroccan enterprises.

Expected Outcomes

The grant will result in:

- The creation of industry guidelines to facilitate EE projects;
- Monitoring mechanisms to track energy consumption;
- The creation of a framework to assess progress;
- 125 EE investments in industries connected to the national grid, especially highly intensive energy;
- Capacity building for 125 SME and local stakeholders as well as the establishment of knowledge and business networks through the creation of a website and business briefs.

Description

This grant will entail:

- Energy efficiency audits;
- The definition of adequate lending mechanisms for SME to invest in EE technologies;
- Energy Efficiency investments;
- Capacity building of stakeholders.
Establishment of a Geographic Information System and a Health Care Card

<table>
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Background and Objectives

The Moroccan economy saw a 4.6% increase in their GDP between 2004-2008. With regard to the health sector, life expectancy indicators improved, with the infant mortality rate decreasing between 2002 and 2004 from 44 to 40 deaths for every 1,000 births. The improvement of national indicators, however, hides the significant disparities between rural and urban areas, as well as differences between genders. The government has undertaken a number of reforms in health care to continue improving health care in the country.

Building on recent progress the Health Ministry has focused on developing a new approach to planning health care provision. The objective of this project is to improve the availability and access to information on health care through the establishment of a health care map and a geographic information system (SIG). The project will enhance the availability of, and access to, reliable information on the supply of health services.

Description

The project has two components:

- The establishment of a Geographic Information System (SIG) and a health map. This entails an in-depth study of the database on health care provision and creating a geographical interface between this database and the health care provision planning portal;
- Capacity building of health personnel involved in GIS design and utilization.

Expected Outcomes

The project will result in the following outcomes:

- A report highlighting weaknesses and remedial actions related to the products developed under the new approach to health care provision;
- The relationship between the new approach to health care provision, and the database is established so as to design a specific geographic information system (SIG) on health care provision;
- The reference document for the introduction of the health map is validated and delivered to the Ministry of health.
National Education Emergency Support Program

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<td>Location</td>
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**Background and Objectives**

On the whole, a review of Morocco’s educational system shows contrasts. First of all, in recent years, it has made remarkable progress in several areas. For instance, the enrolment rate reached 94% in 2007, thus approaching the objective of universal primary education. With regard to secondary education, enrolment has increased by 40% over the last seven years.

On the other hand, the illiteracy rate remains very high. This indicator stands at 43% at the national level and 60.5% in rural areas. Furthermore, 39.5% of girls aged 15 to 24 years are illiterate, with nearly 60% of them living in rural areas. Morocco’s educational system also has weaknesses in terms of internal and external performance.

The national education emergency program is consistent with the Bank’s intervention strategy as it focuses on structural reforms and improved governance in the educational sector. It will also help with efforts at developing human resources through increased availability of education and improved quality.

The proposed program aims at accelerating the implementation of reforms resulting from the National Education and Training Charter by consolidating gains and making the necessary readjustments. Its specific objective is to make education available to all and improve the quality of teaching and performance of the educational system.

**Description**

The project is centred on four components:

- Improvement of the quality and performance of qualifying secondary and university education;
- Access to education for all;
- Immediate resolution of cross-cutting problems in the education system; and
- Improvement of the management of the financial resources.

**Expected Outcomes**

The key expected outcomes of this project are to:

- Increase enrolment in qualifying secondary and higher education;
- Improve availability of qualifying secondary education;
- Increase and upgrade university infrastructure;
- Reduce repeat and drop-out rates;
- Promote initiative and excellence; and
- Promote and develop scientific and technical research.
Grant for the establishment of an integrated vocational training evaluation system

**Background and Objectives**

The objective of this support operation is to improve the quality and relevance of training courses in order to facilitate job market insertion for young people. The establishment of a vocational training quality evaluation system will increase the results-based accountability of centres and improve the overall governance of the system.

**Description**

The main project components are:

- Review of the different tools and instruments;
- Design of the evaluation system;
- Preparation of a computer application to support the evaluation system;
- Training of Ministry officials at regional and central levels; and
- Support to the Ministry during installation.

**Expected Outcomes**

The expected outcomes are:

- Availability of useful consolidated information for the management of the sector in order to improve training centre quality;
- Each training establishment has a self-evaluation tool;
- Each operator has a monitoring and management tool;
- The Ministry has a national management tool.
MIC Grant for the Study on Growth and Employment in Morocco

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| ADB MIC Grant Amount | € 704 600 |
| Co-Financiers        | Ministry of Economic Affairs and Finance |
| Approval Date        | December 2012 |
| Expected Date of Completion | July 2014 |
| Location             | Kingdom of Morocco |
| Executing Agency     | Ministry of Economic Affairs and Finance / Research Department |

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Background and Objectives

This study aims to build knowledge on conditions that will foster more inclusive growth with a view to guiding the Government’s reform actions and the Bank’s operations in Morocco. Following the economic crises of the past five years and the events of the Arab Spring, it has become necessary to update, supplement and deepen the analyses of the growth and employment creating sectors.

Description

The main stages of the study are:

- The diagnosis of the impact of the growth plan on employment;
- The identification of existing and foreseeable constraints to ensure faster job-creating and more inclusive growth;
- Strategic directions, action plan and monitoring/reporting system;
- The dissemination of the study results and project audit;

Expected Outcomes

The expected outcomes are:

- Increase knowledge of the conditions for inclusive and job-creating growth;
- Mainstream the issue of job creation in public policies and;
- Enable the Government to better understand and incorporate job promotion policies in its economic and social programme.
Support for the Strategy Development of Private Education

Background and Objectives

Though the government of Morocco has implemented a number of reforms to its education system since 1999, the sector continues to experience important challenges. These include the absence of clear economic and educational models for the sector and a lack of regulation in the sector. As a result, the government intends to pursue the development of private sector education for which it requested financial support from the Bank.

The objectives of this project are to elaborate a strategic and integrated plan for the development of private education at the graduate level, primary level and professional education. The project also intends to propose operational plans for each sector.

Description

The project will entail the following components:

- The creation of a strategic and integrated plan for private sector development which will include the creation of a diagnostic on each of the three levels of education;
- A comparative study on private sector education in 5 case countries;
- The creation of operational plans on the private sector development strategy.

Expected Outcomes

The project will lead to:

- A methodological note on the diagnosis;
- A report on the field survey and benchmarking on models of teaching and private education;
- A diagnostic report will include a description and analysis of Moroccan private sector education;

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<td>Executing Agency</td>
<td>Conseil Supérieur de l'Enseignement</td>
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Grant for the preparation of a health financing strategy

<table>
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</table>

**Background and Objectives**

The objective is to establish a financing strategy for the entire health sector which will serve as a reference document for the implementation of medical coverage, the improvement of health-care supply and improvements concerning the sector’s efficacy and sustainability.

**Description**

The project’s main components are:

- Support to the development process and operationalization of the health financing strategy;
- Building the Ministry’s capacities including the regional directorates in order to allow decision makers to take and implement decisions relating to health financing;

**Expected Outcomes**

- A draft health sector financing strategy; and
- An MTEF organized around programmes and sub-programmes including key performance indicators.
Ninth Drinking Water Supply and Sanitation Project

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<td>Location</td>
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<td>Executing Agency</td>
<td>National Water Drinking Authority</td>
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Background and Objectives

In Morocco, the supply of drinking water has always been a major issue of concern for the population because of the variable climate characterised by years of drought. Socio-economic conditions of water use have changed significantly over the past few decades on account of rapid population growth, continuing improvements in living conditions, rapid urbanisation and industrial development. This socio-economic change has led to a huge rise in demand for drinking water and accentuated regional diversities. Very few areas have adequate purification and raw wastewater is released directly into the natural environment (seas, rivers, wadis, nature, pits), polluting the groundwater table and depleting water resources that can be used to supply drinking water to the population.

This project was aligned with the priorities determined by the National Water Drinking Authority in its 2003-2007 investment program and approved by the Government. The project is consistent with the Bank’s strategy which aims at making drinking water accessible to all the populations of its regional member countries and backing socio-economic development projects in neglected areas. The project objective is to supply drinking water in the provinces of Chefchaouen, Azilal, Kénitra and Settat and waste water drainage in three towns of the Khouribga province. Sustainably improving drinking water supply in the rural area and improving the management of waste water in the medium and small urban centres.

Description

The project’s main components include:

- Providing access to drinking water to the rural population (production and supply);
- Providing drinking water supply and managing waste water in the rural area;
- Providing waste-water drainage in the towns of Khouribga, Oued Zem and Boujaâd;
- Technical assistance and support for project implementation.

Expected Outcomes

The project aims at:

- Increasing water flow at the treatment plant; and
- Increasing availability and ensuring sufficient provision of good quality resources.
Tenth Drinking Water Supply and Sanitation Project

### Background and Objectives

In Morocco, the supply of drinking water has always been a major issue of concern for the population because of the variable climate characterised by years of drought. Socio-economic conditions of water use have changed significantly over the past few decades on account of rapid population growth, continuing improvement in living conditions, rapid urbanisation and industrial development. This socio-economic change has led to a huge rise in demand for drinking water and accentuated regional diversities. Very few areas have adequate purification and raw wastewater is released directly into the natural environment (seas, rivers, wadis, nature, pits), polluting the groundwater table and depleting water resources that can be used to supply drinking water to the population.

The project was designed based on the priority needs adopted by the National Drinking Water Authority in its 2008-2010 investment plan. It is consistent with the Bank’s strategy which aims at making drinking water accessible to all the populations of its regional member countries and backing socio-economic development projects in neglected areas.

The specific objective is to reinforce the drinking water supply to the towns of Taounate, Khénifra, Settat, Marrakech, Tamesna (Rabat Casablanca coastal zone) and to the linked urban and rural centres that are witnessing significant urban and tourist development.

### Description

The project’s main components include:

- Reinforcing drinking water supply systems;
- Providing technical assistance and supporting project implementation.

### Expected Outcomes

The project intends to:

- Secure and reinforce the drinking water production systems;
- Increase access to drinking water increased for the rural population;
- Carry out the extension of the Marrakech and Taounate treatment plants;
- Carry out the extension of water intake of the Khénifra treatment plant and the demineralization plant; and
- Separate Settat water supply and pumping facilities.
Replenishing the Groundwater of Haouz

AWF Grant Amount: UA 1.709 million
Co-Financiers: FAE and Moroccan Government
Approval Date: January 2009
Expected Completion Date: November 2012
Location: Marrakech-Tensift-Al Haouz
Executing Agency: l’Agence du Bassin Hydraulique du Tensift (ABHT)

Background and Objectives

Due to its arid and semi-arid characteristics, Morocco has historically dealt with the uneven distribution of rainfall in time and space and the resources it generates. The country has relied on the construction of storage dams to store water from wet years for use during dry years. Despite efforts by the government to improve water availability, however, the country still faces significant challenges including the depletion and degradation of water resources due to the decrease in rainfall and increased human activities; unequal access for safe water by the rural population, and the need to improve technical performance of water infrastructure.

This project aims to improve the living conditions of people in the plain of Haouz by securing their access to water. The project’s goal is to reverse the tendency of groundwater to decrease in the region, through the artificial replenishment of the groundwater. The resulting improved living conditions are expected to reduce poverty and contribute to the country’s Millennium Development Goals.

Description

The project revolves around four components:

- A technical, socio-economic and environmental study assessing the initial state of the ground water;
- Construction and management of infrastructure for groundwater replenishment;
- Monitoring, evaluation and documentation of the activities completed during the project;
- Assessment of project results, dissemination of the findings and an implementation of the recommendations of the project for Morocco and the continent at large.

Expected Outcomes

This project will result in the:

- Increased understanding of water resources, their uses and an improvement in the management of water;
- Increased flow of water through the use of infiltration techniques;
- Improved understanding of the process behind groundwater replenishment;
- Dissemination of reliable information on the process of groundwater replenishment allowing for the creation of favourable conditions for the management of groundwater resources in Haouz.
Project to Strengthen the Drinking Water of the coastal zone of Rabat-Casablanca

<table>
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<tr>
<th>ADB Loan Amount</th>
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<tr>
<td></td>
<td>ONEE</td>
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<tr>
<td>Approval Date</td>
<td>May 2005</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2014</td>
</tr>
<tr>
<td>Location</td>
<td>National/coastal Rabat/Casablanca</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>ONEE</td>
</tr>
</tbody>
</table>

Background and Objectives

The project is in keeping with the new national water strategy in Morocco. It is based on the needs in water and sustainable development, and the appropriate use and management of water resources and sustainable water management. At the national level, the strategy aims to strengthen national water policy. It parts on the achievement of ambitious goals, including the needs in water and the preservation of water resources against the effects of global warming, the radical change in the management of water resources. The water strategy will protect the country’s water resources and also support, over time, economic development in Morocco.

The project aims at reinforcing drinking water production and supply cities along Rabat-Casablanca as well as in urban centers and surrounding rural areas.

Description

The main components of the project are:

- Strengthening the supply of drinking water in the coastal zone close to Rabat-Casablanca;
- Pumping Stations;
- Water treatment;
- Treated water pipes.

Expected Outcomes

- Ensuring access to safe drinking water by 2030 in targeted areas;
- Strengthening and improving the quality of access to drinking water for nearly 5 million people in 2014, including 700,000 in rural areas.
Southern Oasis (POS) Protection and Development Support Program

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
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<tbody>
<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/Agency for the Development and promotion of Provinces</td>
</tr>
<tr>
<td>Approval Date</td>
<td>May 2009</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>May 2013</td>
</tr>
<tr>
<td>Location</td>
<td>The province of Guelmim and Tata</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Agency for the Development and promotion of Provinces</td>
</tr>
</tbody>
</table>

Background and Objectives

The situation of the Southern Oasis is now critical and could lead to a worsening of the impacts of desertification, the overexploitation of the groundwater table and palm tree diseases. This accelerated degradation has led to the loss and abandonment of entire oases and fostered desert encroachment and the loss of fertile land. Human actions play a significant part in this process due to increasingly irrational and ill-adapted exploitation. The incomes of the oasis communities are gradually declining resulting in the exacerbation of the social situation and increased poverty and migration.

The project objective is to build the capacities of four communes with a total area of 90,326 km² and almost 6,110 households (two communes in Tata province: Fam El Hisn and Tata, and two rural communes in Guelmim (AsrirandIfrane Anti-Atlas), on a pilot basis, in the area of strategic planning in a development perspective reconciling natural resource conservation and improved living conditions of the population.

Expected Outcomes

The programme’s expected outcomes are:

- Building the capacities of 4 rural communes for a total population of 35,000 inhabitants;
- Preparation of 4 Communal Development Plans (PDC);
- Implementation of a capacity building programme for local actors;
- Implementation of a micro-enterprise promotion plan;
- Preparation of a rational, environmentally-friendly, oasis resource management plan;
- Establishment of a results-based monitoring and evaluation system; and
- Preparation of Southern Oasis Investment Programme (PIOS).

Description

The main project components are:

- Empowerment of local actors;
- Participatory and integrated development;
- Building the capacities of the oasis communes by protecting and enhancing the oases and improving the quality of life of their inhabitants.
Irrigation Infrastructure Development

Background and Objectives

Morocco’s environment is such that its demand for water renders this resource quite limited. The irrigation sector for instance consumes 80% of mobilized water resources, the loss of which often exceeds 50%. Given the backdrop of water scarcity and with the view to ensure the water conservation strategy of the government this project aims to increase the visibility and operational capacity of the management of water resources in the country.

Specifically, the project is intends to support the country’s national economy of irrigation program (PNEEI) which aims to put in place irrigation infrastructure in important zones including Loukkos, Tadla, Doukkala and Mouloya as well as measures for improving the efficiency of irrigation through the capacity building of actors involved.

Description

This project will entail:

- The development of strategic tools for the irrigation sector;
- The implementation of operational tools of water management and capacity building;
- The coordination and audit of these operations.

Expected Outcomes

The expected results of this undertaking include:

- The development of tools for the strategic planning and management of water resources including the development of a road map to ensure consistency between the Agriculture and Water strategies;
- The development of the National Irrigation Map;
- The development of a management model based on water management demand applicable in the context of large irrigated areas;
- The capacity building of key stake-holders.

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
<th>UA 0.49 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>The Moroccan Government</td>
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<tr>
<td>Approval Date</td>
<td>February 2011</td>
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<tr>
<td>Expected Date of Completion</td>
<td>May 2012</td>
</tr>
<tr>
<td>Location</td>
<td>Morocco</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Direction de l’Irrigation et des Aménagement de l’Espace Agricole (DIAEA)</td>
</tr>
</tbody>
</table>
Support to Agricultural Entrepreneurs

**Background and Objectives**

Morocco, with its increasingly large young population facing important employment challenges, has responded to the obstacles of the labor market by developing intermediation efforts and tools that improve the employability of young people. Though efforts in this vein have previously focused on urban level opportunities, the government is looking to develop other key sectors including agriculture, industry and the green economy.

The objective of this project is to provide technical support to inclusive development initiatives and promote local agricultural services to help improve the productivity and integration of young people in the dynamics of local development.

**Description**

This project entails the following:

- The formulation of a program and selection of young agricultural entrepreneurs;
- Training, and support for the young agricultural entrepreneurs;
- Assessment and replicability of the model to promote young agricultural entrepreneurs.

**Expected Outcomes**

This project will lead to:

- The development of a curriculum and training manual for young agricultural entrepreneurs;
- The training of 200 young agricultural entrepreneurs; the creation of micro-enterprises and promotion of local employment;
- The development of a replicable model contributing to the fight against youth unemployment.
**Green Morocco Plan Support Programme (PAPMV)**

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
<th>€105 millions</th>
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<tbody>
<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/Ministry of Economic Affairs and Finance</td>
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<td>Approval Date</td>
<td>July 2012</td>
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<tr>
<td>Expected Completion Date</td>
<td>July 2014</td>
</tr>
<tr>
<td>Location</td>
<td>Morocco</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Agriculture, Drinking Water, Mines and Environment</td>
</tr>
</tbody>
</table>

**Background and Objectives**

The Green Morocco Plan was prepared and validated in April 2008 by the Moroccan Authorities to concretize these reforms and promote investments which would: i) provide new impetus to the agricultural sector; ii) address new challenges (food crisis, job opportunities, fragility of resources) and develop potential to the extent possible; iii) integrate the upstream and downstream phases of the production process and support the deep transformation which the agribusiness system is undergoing.

The PAPMV seeks to support the implementation of the GMP [2008-2020] by providing targeted assistance for the sustainable management, development and conservation of agricultural water within a context of growing scarcity of this resource. The strategic objective of the programme is to contribute to strengthening the competitiveness of the agricultural sector for inclusive economic growth. Its specific objective is to improve the business climate and ensure sustainable agricultural water management.

**Description**

The main project components are:

- The support of the modernization of irrigation infrastructure;
- The improvement of governance for the sustainable management of agricultural water;
- The promotion of the business climate and agricultural water enhancement; and
- Gender promotion, water resource protection, and energy conservation.

**Expected Outcomes**

The programme’s expected outcomes are:

- Improvement of the business climate and sustainable management of agricultural water (draft law and implementing laws on aggregation, the economic council and interprofessional organizations …etc.);
- Achievement of agricultural water savings of 360 million m3;
- Creation of 5000 job openings in the agriculture sector;
- Increase in developed land area over 197,000 ha;
- Increase in production (20 000 tonnes) of organic products. and
- Improved productivity and competitiveness of the agricultural sector by the promotion of agricultural hubs (six);
- Improved ground water conservation: signature of two water table contracts; promotion of energy in the agriculture sector (4 biomass plans prepared and 10 energy audits); and
- Strengthening of environmental monitoring and protection (establishment of 12 regional environmental observatories).
The objective of this technical support project is to contribute to inclusive development and the promotion of local agricultural services to increase agricultural productivity and strengthen the integration of young people to ensure they play a driving role in the local development process. It aims to: i) reduce unemployment among young graduates and promote job opportunities ii) establish 160 viable micro-enterprises through training, integration and technical guidance to young agricultural entrepreneurs (YAE) capable of contributing to increased agricultural productivity. This operation aims to support and sponsor the YAEs with innovative agricultural and agri-business projects thereby contributing to the development of local dynamics and efficient and sustainable agriculture. The incubation of innovative projects and the involvement of the private sector are the main focuses of this operation’s institutional organization backed by a team of qualified experts (see. para. 7.1). Its objective is to support the project initiators in their strategic, financial and operational reflections.

**Description**

The main project components are:

- Formulation of the programme and selection of YAE;
- Training, installation of and support to YAE;
- Post-installation support; and
- Evaluation and replicability of the YAE promotion model.

**Expected Outcomes**

The expected project outcomes are:

- Establishment of an entrepreneurship-focused youth employment model.
- Promotion of local proximity agricultural services;
- Promotion of a PPP approach for agricultural services; and
- Setting up of a youth employment incubator and the emergence of 160 viable agricultural micro-businesses managed by young people.
Technical Support to Irrigation Infrastructure Development

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
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<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/Ministry of Agriculture and Maritime Fisheries</td>
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<td>Approval Date</td>
<td>February 2011</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December cembre 2013</td>
</tr>
<tr>
<td>Location</td>
<td>Loukkos, Doukkala and Tadla</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Agriculture and Maritime Fisheries</td>
</tr>
</tbody>
</table>

Background and Objectives
To address this situation marked by the scarcity of water resources and the impacts of climate change, and with a view to ensuring consistency between the Water Strategies and the GMP as well as providing support to the implementation of the PNEEI, this operation aims to enhance water resources by promoting irrigation infrastructure in a context of climate change. This technical support will help to increase water productivity on a sustainable basis through support to the PNEEI by focusing on two main thrusts: (i) the design and preparation of strategic tools for monitoring and ensuring the consistency of the Water Sector and GMP policies; and (ii) the preparation and establishment of tools to streamline PNEEI implementation.

Description
The main project components are:

- Preparation of strategic tools for the irrigation sector;
- Establishment of operational tools for water management and capacity building; and
- Coordination and auditing of the operation.

Expected Outcomes
The expected project outcomes are:

- Improved planning of water resources over an area of 400,000 ha;
- Promotion of irrigation water conservation over an area of 30,000 ha;
- Increased agricultural production and productivity;
- Improvement of water service in the main irrigation areas (30,000ha); and
- Preparation of a Water Conservation Investment Programme
Technical Assistance for Statistical Services

**ADB MIC Grant Amount**
UA 0.49 million

**Co-Financiers**
Morocco

**Approval Date**
March 2011

**Expected Completion Date**
December 2012

**Location**
Morocco

**Executing Agency**
Bank Statistical Unit

**Background and Objectives**

Over the past years Morocco has been implementing reforms to modernize and strengthen the capacity of its administration, a main objective of which has been to improve its capacity in the area of statistics. The Bank has supported these reforms through its Statistical Capacity Building (SCB) program.

The grant will contribute to the country ongoing SCB program which aims at: (i) achieving statistical capacity building through statistical training and institutions building in RMCs and (ii) improving poverty monitoring, improving economic and social policy evaluation and decision making through the enhancement of data collection, processing, and dissemination in NSSs and SROs.

**Description**

The assistance will include:

- The procurement of goods (mainly data processing equipment and price survey equipment) and works; and
- The acquisition of consulting services, training and allowances for field workers and consultants at national level

**Expected Outcomes**

The main expected outcomes of the project are:

- Increased reliability of national and regional poverty and other socioeconomic data;
- Improved data-bases and effective statistical system;
- Strengthened national capacity in management, creation and maintenance of databases, infrastructure statistics, household surveys and analysis;
- Increase in the number of trained and retrained national staff in the use of up-to-date analytical tools and the production of analytical reports;
- Mainstreaming of results measurement in Bank operations; and
- Infrastructure data collected, processed and uploaded into the Data Platform (DP) database at national, sub-regional and regional level.
Strengthening the Supervision of Financial Markets

<table>
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<th>ADB MIC Grant Amount</th>
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<td>Co-Financiers</td>
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<tr>
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<td>Location</td>
<td>Nationwide</td>
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<tr>
<td>Executing Agency</td>
<td>CDVM</td>
</tr>
</tbody>
</table>

Background and Objectives

The overall objective of the project is to strengthen capital market governance through capacity building CDVM, the organization responsible for regulating and controlling the market. The specific objectives include strengthening the monitoring of financial information governance and adopting a proactive approach based on management and monitoring of risks. The project also aims to improve the service quality of CDVM with all stakeholders of capital markets.

Description

The project will consist of the following:

- Studies and recommendations on information management;
- The implementation and automation of information management and control corresponding to the actual deployment systems and solutions appropriate to the Information Management systems at CDVM.

Expected Outcomes

The project will result in:

- The effective management of the information system and improved knowledge of information crucial to CDVM;
- The Strengthening of CDVM in the development of domestic markets alongside improved social responsibility and the establishment of its position as a guarantor of market integrity.
Support Project to the National Irrigation Water Saving Program (PAPNEEI)

<table>
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<th>ADB Loan Amount</th>
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<td>Expected Completion Date</td>
<td>December 2014</td>
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<tr>
<td>Location</td>
<td>Tadla, Doukkala, Moulouya and Loukkos</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Agriculture and Maritime Fisheries</td>
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</table>

Background and Objectives

Morocco is a highly water-stressed country, and it is imperative that its increasingly scarce water resources be managed as efficiently and as economically as possible, so as to cope with the high energy costs involved in their mobilization. Such management necessarily entails a positive and sustainable use of irrigation water which accounts for more than 80% of mobilized water resources, with losses often exceeding 50% of the quantity of water drawn. This explains the high priority given by the Government to the National Economy Program Irrigation Water aiming at converting to drip irrigation a total area of 500,000 ha.

The objective of the project is to ensure rational and positive utilization of irrigation water resources against the backdrop of resource scarcity. It will ensure a rational and beneficial use of irrigation water resources in a context of increasing scarcity of this resource. It aims at the development of irrigation infrastructure in localized action of the Uffizi agricultural development in Loukkos areas, Tadla, Doukkala and Moulouya about 20,000 ha involving 5,853 farms with a population target of nearly 30,000 inhabitants, divided by river basin as able as follows: (i) Tadla (2860 ha, 654 farms, gravity irrigation), (ii) Doukkala (3336 ha farm in 1581, and aspersive gravity irrigation) (iii) Loukkos (7,785 ha, 2,118 farms, irrigation aspersive) and (iv) Moulouya (6,000 ha, 1,500 farms aspersive irrigation).

Description

The main project components are:

- Modernization of irrigation infrastructure;
- Support for the development of irrigation water;
- Project coordination and capacity building.

Expected Outcomes

The expected results of the project are:

- Increase of irrigated area drip of 20,000 ha;
- 40% increase in average yield of major crops;
- Improvement of production for 5853 farms with a population of 30,000 inhabitants;
- Creation of a water saving of 68.6 million m3 and gain energy Dhs 8 million per year;
- 25% increase in the average value of additional water production/m3;
- Strengthening the capacity of agriculture and users associations (15 Associations);
- Creation of infrastructure for the conversion of conventional irrigation to drip irrigation at four basins on an area of 20,000 ha (Tadla, Doukkala Loukkos and Moulouya);
- Establishment of a warning to the irrigation systems at three irrigated;
- Creation of three research programs and development of targeted and localized irrigation experiments;
- Organization of producers and support the flow and marketing of products (aggregation process);
Financial Sector Development Support Program (PADESFI)

<table>
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<td>Location</td>
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<tr>
<td>Executing Agency</td>
<td>Ministry of Economic Affairs and Finance (Treasury and External Finance Department)</td>
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</table>

Background and Objectives

The government’s medium-term economic and social program for the period 2007-2012 aims at deepening macro-economic and sectoral reforms so as to deepen the diversification of its economy and enhance its competitiveness. In the financial sector in particular, the government aims at facilitating access to financing for SMEs; reforming the insurance system; developing venture capital; shortening the time taken by the state to pay debts owed enterprises; and encouraging micro-credit as well as promoting the creation of small enterprises by adapting the "Moukawalati" program to the environment and needs of the national economic fabric.

The financial sector assessment program implemented in 2008, records significant progress achieved by Morocco’s financial sector. However, there are still challenges to be addressed in order to improve the financial sector’s contribution to economic growth.

The Bank Group is supporting this project to help to address these challenges by consolidating the gains of PASFI completed in 2004 and extending its impact within a context of the global economic crisis. Specifically, the project will make it possible to (i) improve governance through the reinforcement of transparency and independence of the regulatory and control authorities; (ii) deepen the financial sector by diversifying financial instruments and improve access to financing for companies and access to banking services for the population.

Expected Outcomes

The project intends to:

- Increase the number of people using banking services;
- Strengthen the micro-credit sector;
- Improve the effectiveness of the national guarantee system;
- Develop the financing of enterprises, particularly for SMEs;
- Strengthen the supervision and control of the financial market;
- Revitalize the and insurance sector and financial sector;
- Diversify financial instruments.
Argan Infrastructure Fund

<table>
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<tr>
<th>ADB Loan Amount</th>
<th>UA 13.78 million</th>
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<td>Approval Date</td>
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<td>Nationwide</td>
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<tr>
<td>Executing Agency</td>
<td>RMA Watanya</td>
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</table>

The Fund’s objectives are to develop appropriate infrastructure and related sectors with private sector participation. More specifically the project aims to increase economic growth, and increasing private sector participation in infrastructure projects by leveraging the Fund’s equity investment.

**Description**

The project will entail:

- Sourcing and undertaking appropriate investment opportunities and managing investments in equity, infrastructure and infrastructure related projects.

**Expected Outcomes**

The Fund is expected to contribute to:

- Expanding potential industrial capacity, improving efficiencies for industries that have suffered from down time as a result of power shortages;
- In transport and logistics the Fund will contribute towards providing or improving access to markets, particularly Europe, through new and improved transport/logistics facilities.

Background and Objectives

The Argan Infrastructure Fund is a closed-end fund that will invest primarily in Morocco and other North African countries. The Fund will target areas in energy, transport and logistics, water and electricity distribution, environmental services, telecommunications along with other infrastructure related sectors.
Support to Financial Sector (PADESFI II)

<table>
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<tr>
<th>ADB Loan Amount</th>
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<td>Co-Financiers</td>
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</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Finance</td>
</tr>
</tbody>
</table>

**Background and Objectives**

The purpose of PADESFI II is to help create the conditions for inclusive economic growth through financial sector development. Its specific objective is to strengthen the financial sector by improving governance, diversifying financial instruments, and improving the ability of people and enterprises to access financial services.

The program intends to improve the living standards of the Moroccan population by supporting sustained economic growth, creating jobs and income. The private sector and broader public sector will be intermediate beneficiaries as a result of reforms encouraged by the program.

**Description**

This project will entail:

- Improve access to credit, develop the venture capital business for enterprises and increase mobilization of household savings in favor of corporate finance in order to improve access to finance for enterprises;
- Prepare and transmit to stakeholders the bill on covered bonds in order to deepen capital markets.

**Expected Outcomes**

The expected results include:

- Improving public access to financial services;
- Improving access to finance for enterprises;
- Strengthening governance in the financial sector;
- Deepening capital markets.
Office Cherifien des Phosphates (OCP) Investment Program

**Background and Objectives**

This project aims to finance the short and medium term Investment Program (IP) of the Office Chérifien des Phosphates (OCP) S.A in order to strengthen its competitiveness and leading position in the rock phosphate and derivatives (e.g. fertilizers) export markets. OCP became a limited liability company (OCP SA) in 2008. It specializes in the extraction, beneficiation and marketing of phosphate and its derivatives. The Moroccan Government owns 94% of its shares against 6% for the Banque Commerciale Populaire. OCP S.A is planning to obtain a credit rating in early 2012 in order to access international capital markets.

**Expected Outcomes**

This project will result in

- An increase in phosphate production capacity from 28 to 47 (Million Tons Per Year);
- A reduction in production costs by changing the rock transportation method from the mines to the ports through the construction of about 400km-long ore conveyors ("slurry pipeline"); and
- The establishment of infrastructure to locally process 80% of phosphate into phosphoric acid and fertilizers.

**Description**

This project will entail:

- The financing of the investment program, OCP.

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**Table**

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<tbody>
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<td>Co-Financiers</td>
<td>AFD, EIB, IDB, KfW, local and international commercial banks</td>
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<td>Location</td>
<td>Nationwide</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>OCP</td>
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</table>
Strengthening of the Caisse Centrale de Garantie

<table>
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<tr>
<th>ADB Loan Amount</th>
<th>UA 0.46 million</th>
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<tr>
<td>Co-Financiers</td>
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<td>Approval Date</td>
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<tr>
<td>Executing Agency</td>
<td>Caisse Centrale de Garantie</td>
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</tbody>
</table>

Background and Objectives

The Caisse Centrale de Garantie (CCG) is a unique system through which the government of Morocco facilitates access of SMEs to finance. Its mission is to provide support to the creation, expansion and modernizations of companies. The proposed project aims to modernize the information system of the CCG through a complete overhaul and expand its scope to all products and their life cycle, as well as improving the management of risk faced by the system.

Description

The project will entail:

- Technical assistance to service providers;
- The provision of software and hardware infrastructure;
- Training of IT development techniques.

Expected Outcomes

The grant will result in:

- The modernization of the CCG, including the improvement of efficiency of the system;
- The automatization of the risk management device;
- The improvement of conditions relating to access to finance.
### Tunisia

<table>
<thead>
<tr>
<th>Membership year</th>
<th>1964</th>
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</thead>
<tbody>
<tr>
<td>Start of lending operations</td>
<td>1968</td>
</tr>
<tr>
<td>Number of ADB operations approved, 1967-2012</td>
<td>116</td>
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<tr>
<td>Subscribed Capital (%) as of December 2012</td>
<td>1.408</td>
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<tr>
<td>Total voting power (%) as of December 2012</td>
<td>1.407</td>
</tr>
<tr>
<td>Number of operations in the current portfolio</td>
<td>28</td>
</tr>
<tr>
<td>Total loan amount of operations in the current portfolio (UA million)</td>
<td>1190</td>
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</tbody>
</table>
Tunisian Republic

Recent Developments

The transitional process in Tunis has taken longer than anticipated with the postponement to 2013 of the adoption of the Constitution and the holding of legislative and presidential elections. More than a year after the election of the National Constituent Assembly, the work on the drafting of the Constitution is still continuing. Social conflicts have increased since the summer, especially in the country’s interior, sometimes leading to violent clashes with the security forces. Despite this escalation of violence, strikes and blockages in the productive sectors have declined in comparison with the previous year.

Despite a national and international environment still marked by uncertainties, the Tunisian economy achieved moderate growth of 3.5% in 2012, though slightly below the Government’s target for 2012, compared with a contraction of almost 2% in 2011. This performance which was bolstered by the stability of domestic demand was due to the positive performance of agricultural production as a result of favorable rainfall, the relative recovery of tourism and foreign direct investment (FDI) as well as the resumption of oil and gas and phosphate production which was virtually at a standstill in 2011. On the other hand, the European crisis and consequently the drop in external demand impacted negatively on exports of the offshore sector especially textiles and mechanical and electrical industries.

In the wake of the Revolution, the Tunisian Authorities are still trying to respond to the urgency of socio-economic demands and to support recovery through an expansionary fiscal policy encouraging consumption and public investment. This option, constrained by the slowdown in economic activity, the deterioration of the international environment and persistent social claims, has resulted in a widening of the fiscal deficit which was expected to reach 6.6% of GDP in 2012 (compared to 3.2% in 2011). The forecasts for 2013 predict a fiscal deficit of 5.9% which is expected to gradually narrow to 2.5%, by 2017, due to a higher growth rate. The inflation rate exceeded 5% in 2012 compared to 3.5% in 2011.

The ongoing implementation of the Government’s Economic Recovery Programme coupled with the deterioration of the fiscal deficit resulted in an increase in outstanding public debt from 44.5% of GDP in 2011 to 45.9% of GDP in 2012. This upward trend is expected to continue until 2016 before reversing but will remain sustainable subject to the maintenance of a moderate growth rate. In 2012 the trade deficit stood at about 15% of GDP and the export/import coverage ratio fell to about 60%. The economic results are expected to remain below expectations in the short-term and the unemployment rate to remain high, pending the implementation by the Government of the major structural reforms and a sound economic recovery in Europe, Tunisia’s main economic partner.

The political uncertainties are slowing down economic decisions and weakening the timid recovery. The highest risks concern social movements and possible expansionary fiscal policies which could be implemented in anticipation of the elections. However, Tunisia’s economic development potential remains intact, but the reforms initiated in 2011 by the transitional authorities to intensify growth, improve governance and reduce regional disparities, must be pursued in a stable and predictable long-term political and social climate in order to restore both investor and citizen confidence to encourage the transformation of the economy in favour of sectors with higher value added, including a better use of natural resources, in particular, the modernization of agriculture and the development of renewable energies.
Overview of Bank Group Operations in Tunisia

A founding member of the Bank, Tunisia is one of its main clients along with Morocco and Egypt. Ranked as a middle-income country, Tunisia mainly benefits from ADB resources to finance its investment projects and programmes. However, from 2005, the Bank expanded its support to Tunisia’s development by financing, in the form of grants, from the resources of the MIC Trust Fund, studies and capacity building support operations aimed at deepening its knowledge of the country and strengthening the institutional capacity of the Tunisian administration.

Since 1968, at the start of its operations in Tunisia, the Bank Group has approved 116 operations representing total net cumulative commitments of about UA 4824 million. The breakdown of these resources shows a concentration of Bank commitments in the area of reform support operations (26% of the total) followed respectively by the: i) financial (22%), transport (21%), agriculture (9%), mines and industry (9%); energy (7%) and social (2%) sectors.

At the end of 2012, the Bank’s portfolio in Tunisia comprised fifteen (15) active and thirteen (13) studies and institutional support operations financed on the technical assistance funds (MIC and AWF) for a cumulative amount of net commitments equal to UA 1279 million. The overall disbursement rate was 63.5%. The active portfolio comprises 83% public sector (sovereign) projects and studies and 17% private sector (non-sovereign) projects.

The portfolio’s sector breakdown remains marked by a high concentration on the infrastructure sector and the multi-sector which represent 60% and 26% respectively of the active portfolio. The average age of the public sector portfolio is 2.8 years and remains satisfactory despite frequently observed delays in the start up and implementation of economic and sector work and institutional support operations. The private sector portfolio comprises five active projects. The portfolio does not contain any problem projects or projects at risk. It remains one of the Bank’s best portfolios.

Transport Sector

The transport sector plays a key role in Tunisia’s development process. Since 2008, and as part of the process to increasingly open up the Tunisian economy to the outside world, particularly the European Union, successive Tunisian governments have continued, with the support of their development partners, including ADB, the establishment of an efficient, high quality transport system in order to boost exports and speed up economic growth.
The road network is the most important component of this system since it accounts for almost all movements of persons and over 80% of the transportation of goods and export products. Different road projects implemented by the country have helped to modernize the classified network and build its capacity due to an increase in the proportion of paved roads and widening of the carriageway. The ADB provides regular and significant support to the Government’s efforts to rehabilitate and modernize the classified road network as well as to the construction of rural roads in disadvantaged regions. Over 1700 kilometres of roads have been rehabilitated, a further 1000 kilometers strengthened and several dozen road structures built, with Bank financial support. Since 2011, the Bank has been continuing the implementation of the Gabes-Médénine-Ras-Jedir motorway project aimed at speeding up national and international trade between Tunisia and Libya as well as strengthening sub-regional integration. The Bank is currently preparing a medium term strategy study on improving road safety.

**Water Sector**

Most of Tunisia’s territory is arid due to its geographical location between the Mediterranean and the Sahara. This aridness combined with the variability of the Mediterranean climate means that water is both a scarce resource and unevenly distributed in time and space. Water resources are subject to both seasonal and inter-annual temporal variability which is much more pronounced in the south. These resources are also unevenly distributed geographically and, especially, without any relationship to the concentration of demand.

The most recent assessment of water resources in Tunisia reports 4,503 billion m³ available, 2.7 of which represent surface water and 1.803 ground water. The main wadis, including the Medjerda wadi are to be found in the North and receive the most rainfall (over 400 millimeters per year). The North, therefore, accounts for 82% of the country’s water resources. The centre (between 400 and 200 millimetres per year) and the south (below 200 and often 100 millimetres per year) are characterized by aridness and endorheism: they thus only supply 12% and 6% of the resources, whereas they represent 62% of the country’s surface area, but receive the bulk of the underground resources. These resources have easily led to a doubling of the surface areas of oases over thirty years from 15,000 to 36,000 irrigated hectares. By 2030, a shortfall in resources is forecast and demand management would thus be a priority. In addition to the salinity which affects almost half of the water resources, surface waters are characterized by fairly high levels of suspended solids due to a combination of several factors such as water erosion, the topography, the geological nature of soils, the climate, anthropic activities, etc. This turbidity results in the silting up of water storage facilities which shortens their useful life.

The scarcity of water resources, the variability and irregularity of its distribution on the one hand, and increase in demand for water, on the other, require particular attention on the part of the managers regarding the identification, mobilization and rationalization of the use of water resources. For over three decades water resources have been the subject of detailed planning and many strategic studies on the sector’s main problems, namely: (i) integrated management and conservation of water resources; (ii) the economic efficiency of the use of irrigation water, (iii) institutional reform and capacity building in the water sector. At the present stage, the actions of the public authorities aim to evolve from a water resource mobilization policy to a demand management policy using different technical, legal, economic and institutional instruments.

During the past three decades, water has occupied a major place in Tunisia’s economic and social development plans. Agriculture is by far the most important consumer of water followed by households and tourism. The efforts made to meet the country’s different requirements have enabled it to acquire considerable water infrastructure: 27 dams, 200 hillside dams, 766 hillside lakes and over 3000 boreholes and 151,000 surface wells harness 83% of all exploitable water resources. The African Development Bank is supporting the Government’s efforts aimed at: i) ensuring efficient water resource management; ii) meeting the drinking water requirements of the population, especially in rural areas, as well as the
requirements for the development of agriculture and tourism; and iii) defining a long-term strategy for the development and efficient exploitation of the country’s water resources. There are three ongoing operations and 6 economic and sector studies from ADB loans and MIC and African Water Facility Grants.

**Energy Sector**

Since the early 90s Tunisia has faced with a sustained annual increase in energy demand of about 5%. This trend is due to growth of the productive sector, but also to social development and new consumer demand created by improved household living standards, the country’s opening up to the outside world and the strengthening of infrastructure. To satisfy this demand, Tunisia is seeking to diversify and ensure the security of its supplies in the long-term, reduce its energy bill and promote the rational use of energy. Industry remains the biggest consumer of energy, even though its share has fallen over the past twenty years from 40.2% of total consumption in 1980 to 33.8% in 2004. This decline is mainly due to the fact that the development of energy consuming industries has given way to the development of tertiary sector activities including tourism and the emergence of high value-added industrial sub-sectors such as textiles which are less energy consuming.

In view of rising demand and the decline in natural resources, an appropriate energy policy has been established focused on the following objectives: (i) the development of national oil and gas resources; (ii) the development of national energy infrastructure, regional energy cooperation and integration in order to ensure continuing, guaranteed supplies for the country at least cost (iii) pursuit of the strategy to develop the use of natural gas to replace other hydrocarbons and (iv) the promotion of energy efficiency through the management and rational use of energy, the development of new and renewable energies and environmental protection. In order to achieve these objectives, legislative and regulatory measures have been taken to liberalize the sector, especially in the areas of oil and gas exploration and production, electric power generation and energy management. For several decades, ADB has backed the Government in its efforts to ensure the country’s electrification in order to support economic activity, satisfy the requirements of the population, especially in rural areas, and support growth.

**Agriculture Sector**

The agriculture sector has a key position in the Tunisian economy. For the past two decades Tunisia has pursued an agricultural development strategy mainly focused on economic growth and social stability. Sustainable productivity, easier market access and improved living conditions of farmers are its main objectives. Overall, and under the 7th, 8th, 9th and 10th National Development Plans, agriculture has progressed at the same pace as Tunisia’s economic growth and has achieved average growth rates influenced by climatic factors. The agriculture sector’s contribution to GDP averages about 12%

Though the agriculture sector’s development is heavily dependent on weather conditions, it has real potential, but there are still constraints such as: the rural population in Tunisia represents a third of the total population and is the worst affected by poverty. A quarter of the active population works in the agriculture sector, which to-date has 5.6% of women farm heads. Some products such as olive oil, dates and fishery products have comparative advantages, which could be better capitalized on. However, constraints remain, mainly water and land, followed by credit (problem of access, guarantee and insurance), particularly for small farmers, the lack of autonomy of farmer associations, insufficient enhancement of agricultural produce, (packaging and marketing), land tenure and the parceling of land.
Social Sectors

Thanks to decades of continued health policy, Tunisia has made significant progress which has resulted in the expansion of health coverage and an improvement in the level of all the indicators. It is currently estimated that 90% lives less than 5 kilometres from a health centre and that there is one physician for fewer than 1200 inhabitants, one of the highest rates among developing countries. In addition to central government resources, the sector also benefits from the African Development Bank’s technical and financial support.

The Government’s education policy is in line with a strategic vision for economic development and social transformation will contribute to the emergence of a knowledge society. The results achieved are conclusive, with, in particular a primary school enrolment rate of 99.2% and gender parity in the primary and secondary cycles. The Government’s higher education promotion policy implemented in recent decades, and the real interest in higher education displayed by families have resulted in a large increase in numbers with, as a corollary, graduate output of over 50,000 per year, a significant proportion of whom experience great difficulty in finding a job commensurate with their qualifications. The Bank, in synergy with other development partners, is supporting the Government’s reform programmes to promote inclusive growth and foster job creation especially in favour of higher education graduates.
Bank Group Strategy and ongoing Activities in Tunisia

Since 2012, the Bank’s operational activities in Tunisia are consistent with the 2012-2013 Interim Strategy focused on two Pillars: (i) Growth and Economic Transition (including governance and economic transformation), and (ii) Inclusion & Reduction of Regional Disparities (including job creation and access to basic services in the regions).

The Bank intervention in 2012 was affected by the sustainable commitment ceiling and focused on a budget support operation to encourage reforms in the following areas: reduction of regional and social disparities, the opening of micro-finance and capital markets. The Bank also launched an innovative partnership to promote social entrepreneurship sector (Souk Attamia).
Enfidha Airport

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<th>ADB Loan Amount</th>
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<td>Co-Financiers</td>
<td>TAV Tunisia, IFC, EIB, Proparco, OPEC, Commercial Banks, Tunisian Government &amp; Monastir Airport operations</td>
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<tr>
<td>Approval Date</td>
<td>January 2009</td>
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<tr>
<td>Executing Agency</td>
<td>TAV Tunisia</td>
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Background and Objectives

The Tunisian government’s 2007-2011 Eleventh Economic and Social Development Plan details the country’s strategy to modernise its infrastructure sector. The authorities believe that this will lead to an improvement in trade links, export and tourism sectors thereby boosting the country’s GDP and resilience of the economy.

In line with this, Tunisia is upgrading and expanding its airport infrastructure and in 2007 awarded two Build, Operate and Transfer concessions to TAV Airports of Turkey: (i) to upgrade/maintain and operate the existing Monastir Airport, and (ii) to build, operate, and maintain a new airport at Enfidha, which is about 100 km south of Tunis and 60 km from Monastir Airport.

The Bank has approved a senior loan of € 70 million, with a maturity of 20 years for this project. The project’s primary objective is to remove capacity constraints on Tunisian airport infrastructure by constructing and operating a new International Airport at Enfidha.

Description

The project comprises the:

- Construction, operation, and maintenance of the new Enfidha Zine El Abidine Ben Ali International Airport; and
- Operation and maintenance of the existing Monastir Airport.

Expected Outcomes

The project intends to:

- Improve service quality, safety and security standards;
- Provide better value proposition for tourists;
- Increase government direct revenues; and
- Create jobs.
Road Project V

<table>
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<th>ADB Loan Amount</th>
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<td>Location</td>
<td>All 24 of the country’s Governorates, with the exception of Kasserine, Gafsa, Kebili, Tataouine and Tozeur</td>
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<td>Executing Agency</td>
<td>Ministry of Equipment, Housing and Regional Development, General Directorate of Highways</td>
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Background and Objectives

Roads are an important mode of transport in Tunisia, with an average density of 70lm/km² and 12,600 km of paved roads, the national classified road network serves all the Governorates of the country and provides links with neighbouring countries. This network accounts for virtually all movements of persons and 80% of the transportation of goods.

In view of the important role the transport sector plays in the economic and social development process and as support to the strategy to integrate into the global economy, the government embarked on an ambitious program aimed at establishing an efficient transport system and high quality infrastructure for the 1997-2006 decade (covering the 9th and 10th Plans).

The Bank participated in the financing of these projects by granting five loans of a total cumulative value of UA 459.5 million, thereby helping to rehabilitate 1,700 km of roads, reinforce a cumulative length of 850 km of roads, and build 88 highway structures spread over the classified road network.

To further consolidate these achievements the project will also upgrade the road infrastructure with a view to ensuring a safer, more efficient, high quality transport system. Specifically the project’s objective is to improve the level of service of the classified road network so as to intensify intra and inter regional trade and improve the accessibility of the country’s principal development poles.

Description

The project comprises four main components:

- Developmental road works to be carried;
- Rehabilitation works;
- Strengthening works; and
- Constructions works.

Expected Outcomes

The project intends to:

- Rehabilitate the capacity of roads built in terms of condition of carriage way structures and their size.
## Road Project VI

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<th>ADB Loan Amount</th>
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### Background and Objectives

In order to consolidate its socio-economic performance, Tunisia chose a strategy of progressive integration into the global economy, and in doing so prioritized transport as an important avenue for economic and social development. The current road project constitutes the second branch of the infrastructure investment program outlined by the 11th Plan of Social and Economic Development. This project is built into the framework of the ongoing strategy to upgrade the transport sector. This strategy aims to promote an efficient transport system and quality in order to sustain growth and create conditions for improved export competitiveness. Specifically, the project aims to improve the service level of the road network so as to improve the accessibility of major poles of development, intensify intra and inter regional trade, contribute to the promotion of an efficient transport system in order to sustain growth and create conditions of competitiveness, and to improve the service level of the road network.

- Construction of 12 engineering structures, covering 1,770ml in 10 governorates;
- Improvement of feeder roads, covering 759.4 km in 23 governorates;
- Modernisation of additional road sections involving 52.6 km of roads;
- Supervision of works and coordination of the various activities, including geotechnical and quality control of work implementation and the assistance mission of private consulting firms for the supervision and control of works on engineering structures, feeder roads and modernization of additional road sections.

### Expected Outcomes

The outputs of the project after completion include:

- The expropriation of 50 ha of land, and the displacement of networks for the release of land required for rights of way;
- The rehabilitation of roads through the strengthening and construction of dual carriage way, and the development of feeder roads;
- Traffic conditions improved and secured on the classified road network and freer roads.

### Description

This project will entail the:

- Improvement of the road network, involving the rehabilitation of 862.8 km of roads in 23 governorates;
- Reinforcement of the network covering 691.3 km of roads in 18 governorates;
Highway Project Gabes-Medenine-Ras Jedir

**Background and Objectives**

The region directly influenced by the project in Southeastern Tunisia—including Ben Gardane, Tataouine, Medenine, Zarzis and others—has one of the highest poverty and unemployment rates in the country. This project aims to improve the general efficiency of the transport system so as to increase national and international exchanges in Tunisia. Specifically, the project will facilitate the movement of people and goods between Gabes and the Tunisian-Libyan border.

Due to the creation of both direct and indirect employment resulting from the construction of the highway, the project will contribute to the government’s objectives to reduce unemployment amongst the youth as well as regional disparities, notably in areas that have previously been excluded from highway projects.

**Description**

The project entails:

- The construction of 195,020 km of 2x2 roads between Gabes and Ras Jedir;
- The creation of tolls between Gabes and Ras Jedir.

**Expected Outcomes**

This project will result in:

- The creation of over 2,000 direct jobs in the construction phase, and 160 direct jobs in the operational phase;
- The creation of 30,000 indirect jobs in the tourism sector;
- The reduction of transportation costs and the general improvement of travel conditions between Gabes and the Tunisian-Libyan border.
ETAP Corporate Loan

<table>
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<th>ADB Loan Amount</th>
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<td>Expected Completion Date</td>
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<td>Executing Agency</td>
<td>ETAP</td>
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</table>

Background and Objectives

Tunisia’s National Development Programme, the 11th Development Plan (2007-2011), stresses the need to accelerate economic growth and create jobs in order to reduce the unemployment rate. The National Energy Strategy considers energy management as one of the major national priorities. It emphasizes the replacement of hydrocarbons by natural gas as an alternative that should be developed.

The purpose of the corporate loan to ETAP, the national state owned oil and gas company, is to finance ETAP’s investment plan over the years 2009-2010 with a main focus on Hasdrubal project. The objective of this project was to construct a stand-alone gas, condensate and oil production system in the Gulf of Gabes so as to enhance the production capacity of oil and gas in Tunisia and thus promote economic growth in the Tunisian oil and gas sector in light of its strategic importance for the country.

Expected Outcomes

The project will result in:

- Increasing Tunisia’s energy independence in particular for gas as the Hadsbyral project will contribute to about 15% of national gas consumption by 2011;
- Increase oil and gas production in the country with 880 million cm of natural gas being produced by the project;
- Increase the Government’s revenue linked to oil and gas activities with a total of USD 720 million (nominal) revenue generated from 2010 to 2014;
- Enhance the country’s balance of payments with a net effect of USD 320 million over 2008-2014;
- Curb unemployment through the creation of 1,300 temporary jobs and 90 permanent jobs.

Description

This project will entail:

- The drilling of six offshore horizontal producing wells;
- An offshore production platform used for production from offshore wells;
- An onshore processing plant used by the Hannibal concession for gas production;
- A gas pipeline between the onshore terminal and the Ben Sahloun city gate;
- LPG facilities: these are LPG processing facilities at the onshore terminal, LPG storage tanks at Gabes and two separate LPG gas pipelines for butane and propane.
Electricity Distribution Networks Rehabilitation and Restructuring Project

**Table: Project Details**

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<th>ADB Loan Amount</th>
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<td>Approval Date</td>
<td>July 2009</td>
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<td>Expected Completion Date</td>
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<td>Tunisian Electricity and Gas Company</td>
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</table>

The Bank’s strategy in Tunisia is closely linked to the thrusts of the 11th Plan which is the cooperation framework of between Tunisia and its development partners from 2007-2011. The plan’s energy sector objectives are in line with the country’s energy policy, which aims to diversify and protect supplies, reduce the energy bill and promote a rational use of energy.

The objective of the Electricity Distribution Networks Rehabilitation and Restructuring Project is to make cuts on fuel spending by reducing losses in the distribution system.

**Description**

The project includes:

- Constructing distribution networks;
- Strengthening STEG’s technical resources; and
- Managing the project.

**Expected Outcomes**

The project intends to:

- Improve the service quality;
- Save energy; and
- Reduce the environmental impact of electricity distribution.

**Background and Objectives**

Since the early 90s, Tunisia has witnessed sustained growth of 5% per annum in power demand. This development stems from the growth of the productive sector, social development and new consumer demands following the improvement of household living standards. This has led to a saturation of part of the existing power distribution system and deterioration in service quality in some areas.
Integrated Agricultural Development Project for Kairouan (IADP)

Background and Objectives

In spite of Tunisia’s substantial investments in the agricultural sector, part of its rural population continues to live on low incomes. Part of the government’s strategy within the framework of its 10th Five-Year Development Plan (2002-06) was to target these rural farmers with a view to improving their income and living conditions.

The Bank Group has funded the implementation of five rural integrated development projects in Tunisia, similar to the envisaged project (the Mahdia Rural Development Project, Phases I & II; the Gabès, Gafsa and Kasserine Integrated Agricultural Development Projects). This cooperation has allowed the Bank to acquire extensive experience in the design and implementation of rural integrated development projects.

The specific objective of the project is to promote sustainable agricultural development through rural infrastructure development, participatory agricultural development, and capacity building for administrative services and beneficiary organizations.

Description

The project includes:

- Developing rural infrastructure which will involve building access roads, laying down water supply networks, creating irrigated perimeters, constructing soil and water preservation works and forestry works;
- Developing agricultural which will allow direct investments in farms; and
- Building capacity to strengthen administrative services and beneficiary organizations.

Expected Outcomes

The project intends to:

- Reduce poverty in the project area;
- Increase in market garden produce;
- Increase in fruit production;
- Increase in production of meat and of milk; and
- Improve the management of natural resources.
Support for the Programme to Strengthen Drinking Water Agricultural Development Cooperatives

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
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<tr>
<td>Executing Agency</td>
<td>The Ministry of Agriculture and Water Resources (MARH)</td>
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</tbody>
</table>

**Background and Objectives**

Support to Agricultural Development Cooperatives (GDA) is an integral part of the Water Sector Investment Programme (PISEAU), which aims to consolidate operations in remote areas where the level of poverty is high.

Having the same overall objective of PISEAU II, this study aims to sustainably improve the rational management of the drinking water supply by the agricultural development cooperatives with the effect of promoting the living conditions of Tunisian rural dwellers, and the mobilization and rational use of water resources in Tunisia.

**Description**

This study will entail the following components:

- Improving the working conditions of GDAs and cooperation with the institutional and organisational environment, namely the stakeholders in the sector;
- Providing training of and technical assistance to GDAs;
- Enhancing the human and material capacity of GDAs;
- Sensitizing the target population;
- Introducing appropriate billing by applying the demand management principle;
- Reorganizing the servicing and maintenance function, and the institutional and organizational development of GDAs; and
- Providing support to the Directorate-General of Agricultural Engineering and Water Supply (DGGREE) and the Regional Agricultural Development Commission (CRDA) for implementing the programme.

**Expected Outcomes**

This study will result in the following outcomes:

- Improvement of the living conditions of Tunisian rural dwellers by increasing the services rate from 92% in 2008 to 97% in 2013 and 100% in 2020;
- Promote the mobilization and rational use of water resources in Tunisia by increasing the percentage of effective GDAs to 70% in 2011, and 90% in 2013.
Water Sector Investment Project Phase 2 (PISEAU II)

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<th>ADB Loan Amount</th>
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<td>Approval Date</td>
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<td>Executing Agency</td>
<td>Ministry of Agriculture and Water Resources</td>
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Background and Objectives

PISEAU II implements the second component of the Tunisian Water Mobilization and Management Strategy 2002-2011, and it is a follow-up on PISEAU I implemented from 2002-2007. PISEAU II extends and consolidates the achievements of PISEAU I by giving priority to interventions in remote regions where poverty is rampant.

The PISEAU II aims at promoting efficient and integrated management of both conventional and non-conventional water sources thereby enabling Tunisia to meet the challenge of safe water scarcity in the country. The aim is to make the project a tool for managing water scarcity by enabling beneficiaries participate in the management of resources and infrastructure, as well as by promoting appropriate tariff systems.

Expected Outcomes

The project intends to:

- Promote sustainable use of irrigation infrastructure;
- Increase drinking water access and use by rural communities; and
- Support investment decisions which will be informed by the data generated through improved monitoring systems.

Description

The project will be implemented through the following activities:

- Developing institutions and building capacity to implement various research activities.

- Developing and strengthening irrigation management in the project area;
- Establishing and rehabilitating drinking water supplies;
- Developing underground water management;
- Establishing and monitoring an environmental protection system; and
North Gafsa Integrated Agricultural Development Project (PDAI)

**Background and Objectives**

Despite a significant reduction in poverty and considerable improvement in social indicators, wide disparities persist between the coastal regions and Tunisia’s interior in terms of access to basic social services. The regional disparities are heightened by the concentration of public services, investments and economic activities in the coastal region, which accounts for 65% of public investments. The North Gafsa PDAI is in line with the Government’s efforts to implement its Transitional Programme focused, among other objectives, on the reduction of regional disparities. The project goal is to reduce rural poverty in the Gafsa Governorate. It will focus on three components: (i) Rural Infrastructure Rehabilitation; (ii) Participatory Agricultural Development; and (iii) Project Coordination and Management.

**Description**

The project activities concern:

- The construction of rural infrastructure, drilling of 29 boreholes for irrigation and rural drinking water supply;
- Establishment of 17 piezometers for monitoring deep-water aquifers; promotion of participatory agricultural development: tree planting in irrigated areas; establishment of planted bunds (tabias);
- Improvement of range-land; procurement of dairy cows mostly benefitting women, the implementation of micro-projects for the poorest;
- Training and capacity building activities for the beneficiaries;
- Support to project coordination and management: procurement of vehicles, machinery, IT and office automation equipment; internal monitoring and evaluation of project performance indicators and;
- Conduct of annual audits.

**Expected Outcomes**

The project outcomes will be:

- The creation and rehabilitation of the PIA, equipped for full control irrigation, covering an area of 180 ha, and the development of 200 ha of land, equipped for back-up irrigation;
- Development of rural roads (118 km); implementation of SWC works on about 5,150 ha; improvement of 700 ha of pastoral land;
- Electrification of irrigation water points;
- Establishment and rehabilitation of 14 DWS systems;
- Planting of fruit trees;
- Support for micro-projects for women and young people;
- Sand encroachment control;
- Animal production development;
- And technical support to farmers and their associations, including those belonging to women.

**ADB MIC Grant Amount**

UA 18.317 million

**Co-Financiers**

Government of Tunisia

**Approval Date**

February 2013

**Expected Completion Date**

Not yet determined

**Location**

Tunisia (North Gafsa)

**Executing Agency**

Government of Tunisia
Study on the Preparation of the Gabes and Gafsa PDAIs

Background and Objectives

Tunisia has made considerable progress in terms of poverty reduction and improvement of social indicators, but regional disparities remain a major challenge for the country. The coastal regions are more developed than those of the centre and south. Over the past decade, these regions have also benefited from 65% of public investment. These geographical disparities combined with poor governance, high unemployment (especially among young graduates) were the main triggers and drivers of the Tunisian Revolution. To contribute to a reduction of regional disparities, the Transitional Government decided to implement Integrated Agricultural Development Projects (PDAI) in the country’s disadvantaged regions.

The study aims to: (a) analyze and define the infrastructure for the Gafsa and Gabes PDAI under preparation; (b) analyze and determine the conditions for micro-project implementation; and (c) analyze and determine the project baseline situation and the establishment of a monitoring and evaluation system.

Description

The study will be conducted in 2 phases:

- Phase I will focus on the preliminary designs (PD): at the PD level, the preparation of engineering designs for the sites identified as well as structural requirements. An overall estimate of the development works will also be presented.
- During the second phase, details of all the components and scenarios of the SIA, DWS and rural road works will be defined in detail along with their costs as well as the agronomic and socio-economic studies and the roles and responsibilities of the different parties involved in their management. In this phase the recurrent operating costs will be determined in relation to the sustainability of the investments.

Expected Outcomes

The outcomes will be:

- An estimate of the total development costs of the North Gafsa and South Gabes PDAI; detailed definition of all the components and scenarios of the SIA, DWS and rural road works along with their recurrent operating costs, in relation to the sustainability of investments; preparation of agronomic and socio-economic studies;
- Determination of roles and responsibilities of the different parties involved in the management of the aforementioned PDAI;
- And the preparation of PDs, the details and justification of the options retained for the development works in the feasibility study as well as the definition of the characteristics of the proposed infrastructure and development works.
Secondary Education Support Project Phase II (SESP II)

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<td>Executing Agency</td>
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**Background and Objectives**

The Tunisian government has made education the focus of its development strategy in order to build human capital which is indispensable to competitiveness in a context of globalization and the knowledge economy. Such emphasis on education was reaffirmed in an education system reform program adopted in 2002 and entitled “The School of the Future”, 2002-2007. This program, bolstered by the 2004-2009 presidential program, provides for a set of concrete actions that should enable the educational system to efficiently address economic and social needs.

The Bank Group had previously, financed two educational sector operations in Tunisia, namely: the Scientific and Technical Education Reinforcement Project completed in 1995 and the Secondary Education Support Project (SESP I). This project will therefore consolidate the gains of past operations financed by the Bank and the country’s other development partners. The specific objective of the project is to help increase the intake capacity, relevance and quality of basic and secondary education.

**Description**

The combined activities of the project components will ensure harmonious development and will improve the quality and relevance of the educational system, in accordance with the national development plan.

**Expected Outcomes**

The project intends to:

- Promote access and equity in 2nd cycle basic education and in secondary education;
- Enhance the quality and relevance of 2nd cycle basic and secondary education;
- Consolidate the management and monitoring/evaluation framework and school system mechanisms; and
- Support project management.
Development of Cultural Industry

**Background and Objectives**

The Tunisian development model is based on a combination of economic and social initiatives and has recorded a satisfactory performance in recent years. Given that the economic activities of cultural vectors can be the source of tremendous growth in developing countries, the Tunisian government has decided to conduct a study on the development of cultural industries in order to define the axes of a national strategy to promote these industries and strengthen their role in achieving sustainable development.

The purpose of the study is to provide an objective overview of the current situation of cultural industries in Tunisia and contribute to the visibility of cultural production through improved information systems.

**Expected Outcomes**

The study will provide the following main results:

- An assessment of the current conditions of Tunisia’s cultural industry and its potential.
- A plan for implementing a strategy that will further develop the country’s cultural activities and as such promote socio-economic development.

**Description**

The study will entail:

- A detailed and comprehensive diagnosis of the current state of cultural industries in Tunisia; an assessment of their contribution in the dynamics of economic and social development;
- The identification of potential in this sector;
- A national strategy for development of cultural industries;
- A plan of actions to implement this strategy.

**ADB MIC Grant Amount**

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<tr>
<th>Amount</th>
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**Approval Date**

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**Location**

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**Executing Agency**

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<tr>
<th>Agency</th>
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<tr>
<td>Ministry of Culture</td>
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</table>
Health Services Export Strategy Development Study

Background and Objectives

In Tunisia, health and related services are considered a growth window and a key engine of economic and social development. In recent years, Tunisia has witnessed steady growth in this area that has propelled it to the level of leading nations on the international scene.

The overall objective of the proposed study is to promote health services export. Its specific objective is to formulate and implement a health services export development strategy. Hence, the study will lead to the formulation of a Strategy and Action Plan to promote Tunisia as a health services exporting pole and investment destination in that sector.

Description

The study will entail:

- A diagnosis of Tunisia’s current supply, including an inventory of each of the health-related services and ancillary activities provided in Tunisia, their export turnover, their trends and consumers, available medical expertise, clinical capacity in terms of hospitals and private clinics, information on the regulatory framework provided to foreigners in Tunisia, cost of treatment, and other relevant information Tunisia’s supply in areas of interest.

- An analysis of development prospects for health services export will be considered by taking into account future developments in health services at the international level;

- The formulation of a strategy and action plan promoting Tunisia as a host country for health care and health-related investments;

- The presentation of the study to trigger the implementation of the action plan.

Expected Outcomes

The study will have the following outcomes:

- A report will be prepared and a meeting held on each of the study stages including the launching report which will address the conclusions of the launching stage of the study;

- A report on the diagnosis of Tunisia’s current accommodation supply;

- A report on Tunisia’s international positioning and promotional papers;

- A report on development prospects by 2016;

- A strategy and action plan report;

- A final report, summarizing the entire study and including an action plan for the implementation of its recommendations.
Line of Credit to La Banque de Tunisie

<table>
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<th><strong>ADB Loan Amount</strong></th>
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<td><strong>Executing Agency</strong></td>
<td>Banque de Tunisie</td>
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**Background and Objectives**

The Tunisian Government has supported private sector development through its various development plans. The 10th plan (2001-2005), called for support of the private sector so that it could take up a paramount role in international competition, expand the productive base and efficiently contribute to employment and exports promotion. To do this, private sector share in global investment should increase to about 60% by the end of 10th plan.

The objective of this line of credit was to finance long term projects in the services industry. Specifically the line of credit was used to procure the capital goods and the supplies necessary for the creation, modernization, expansion and renovation of financially profitable enterprises with a potential for strong growth.

**Description**

This project entailed the:

- Financing of projects in the industry and services sector especially tourism;
- The restructuring of enterprises.

**Expected Outcomes**

The line of credit will:

- Allow Banque de Tunisie to meet with the financing requirements of projects in the industry and services sector, especially tourism;
- Contribute to the financial intermediation, and cover the financing needs of BT;
- Curb poverty through the creation of close to 1,000 jobs, targeting both low-skilled men and women and more likely to suffer from unemployment;
- The line of credit was also meant to contribute to the deepening of financial intermediation and to two growth of the country’s economy by supporting industries and services, unfortunately as of December 2010 no evidence can be provided suggesting that the 8 sub-projects have received a BT loan. As such the development outcome has not yet been rated.
Line of Credit to Banque de l’habitat

<table>
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<th>ADB Loan Amount</th>
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<td>Banque de l’Habitat</td>
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</table>

Background and Objectives

Tunisia hoped to achieve an average GDP growth of about 5.3% during the 10th Development Plan (2002-2006). That objective could only be attained if the private sector increased its contribution to the gross fixed capital formation from 56% in 2000 to 60% in 2006. Reforms including a review of the investment incentive system and the opening up of certain sectors contributed to the development of the private sector.

The objective of the line of credit was to fund the establishment, extension or renovation of sub-projects principally in the industry and tourism sub-sectors, to consolidate BH’s long-term resources, and to improve the institution’s capacity for long-term resources mobilization and environmental risk management. According to the pipeline of sub-projects submitted, the line was expected to finance about 27 operations in the industry and tourism sectors. Upon project completion, the tourism sector was estimated to grow yearly by 6% and the manufacturing industry by 6.8%.

Description

This project:

- Financed the creation, extension and renovation of approximately 27 sub-projects in the tourism and industry sectors by the end of 2004;
- Consolidated BH long-term resources;
- Improved its long-term resources mobilization and capacity to manage environmental risks.

Expected Outcomes

The line of credit:

- Enabled the BH to strengthen its financial capacity and diversify its activities in the industry and tourism sectors;
- Ensured the growth of the manufacturing sector’s value added reaches 6.8% yearly between 2002 and 2004;
- Ensured the growth of the tourism sector’s valued added reaches 6% between 2002 and 2004.
Line of Credit to Tunisie Leasing

| ADB Loan Amount  | € 8 million  |
| Approval Date    | July 2003    |
| Expected Completion Date | December 2005 |
| Location         | Nationwide   |
| Executing Agency | Tunisie Leasing |

Background and Objectives

For several years now, the Tunisian Government has been implementing a resolute SME promotion policy. One of the main constraints to the development and creation of SMEs in Tunisia is access to financing. The Government’s objective was to buttress the pace of creation of SMEs and their modernization. In this regard, leasing will play an important role through its ability to relax the constraint of guarantee, which is so difficult to overcome for SMEs.

Specifically, the envisaged line of credit aimed at financing small enterprises through small-scale operations of TD 20,000 to TD 300,000 maximum. In supporting the leasing sub-sector, this investment proposal backed the Government’s programme to create 2,500 new enterprises per annum during the 10th Plan.

Description

The line of credit:

- Financed the procurement of equipment, materials and immovables for leasing to SMEs operating in commercial, industrial, agricultural, fisheries and service activities;
- TL was the lesser and signed fixed-term contracts with the lessees in return for a lease payment which enabled the lessees to procure all or part of the equipment, materials or immovables at an agreed price while taking into account at least part of the eased payments made;
- Tunisie Leasing was the owner of the items and leased them to the lessee for an agreed duration.

Expected Outcomes

Following the completion of this project, the line of credit will:

- Increase the net proceeds reflecting the result of the intermediation activity thanks to the ability of Tunisie Leasing to recover and lease amounts;
- Enhance the structural balance of TL thanks to a moderate increase in the loans it grants to its clients, an increase in equity funds and an intensive mobilization of medium and long-term resources to match resources to applications.
Line of Credit to Amen Bank

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<tr>
<th>ADB Loan Amount</th>
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<td>Approval Date</td>
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**Background and Objectives**

For the past few years Tunisian economy has been recognised for its buoyancy. During the 9th Development Plan (1997-2001), the average GDP growth rate attained 5.3%. Private investment, despite its progress, has not attained the objectives set by the plan, its share in overall investment is only about 53.2% as against a forecast of 56%.

The Euro 20 million line of credit aimed to contribute to the financial equilibrium of Amen Bank by granting long and medium-term credits to viable projects mainly in the industry and services sectors (especially tourism) which are the growth-bearing sectors of the Tunisian economy. The line of credit was coupled with technical assistance aimed at introducing in Amen Bank new risk assessment and credit procedures, a new portfolio management and monitoring system and an adequate information system, as well as proposals for improving AB’s efficiency.

**Description**

The proposed line of credit entailed:

- The financing of 5 sub-projects in the industry and services sector, including 4 for the establishment and expansion of hotels and one for electricity generation;
- Implementation of technical assistance for these projects involved increasing Amen Bank’s organizational capacity to respond more effectively to customer needs, establishing efficient credit risk management, and reorganizing Amen Bank’s database and consolidating its portfolio monitoring.

**Expected Outcomes**

The line of credit will resulted in:

- A significant socio-economic impact on job creation, especially in favor of women, and the transfer of technology and know-how, including the 1,298 permanent jobs created through the hotel sub-projects 60% or 665 of which are jobs for women between 2004 and 2009;
- Total turnover of the 5 projects will result in TND 204.2 million;
- Foreign exchange generated by the hotels will reach TND 46.2 million in 2009;
- Total taxes generated for the state reached TND 12.3 million in 2009.
SME Apex Facility Line of Credit

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<th>ADB Loan Amount</th>
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Background and Objectives

The protests that accompanied Tunisia’s revolution caused a meaningful disturbance to the country’s economic activity, which was further exacerbated by the events in neighboring Libya. The Bank promptly reacted to the needs of the transition government to ensure social support measures would be in place to address the needs of the population. This SME APEX Facility aligns with the goals of the Budget Support Program (BSP).

The proceeds of the LoC will be used by Tunisia to support SMEs in various sectors of the economy which have demonstrated their viability but may require additional funding as the economy experiences a slowdown. The sectors covered will include, agro-processing, manufacturing, construction, innovative projects including renewable energy, transportation and services.

Expected Outcomes

It is expected that this project will led to:

- Increased availability of short and long term loans to viable SMEs experiencing short term financial difficulties;
- Increase availability of financing to new business with strong potential;
- Strengthen financial institution capacity to lend;
- The expansion of Tunisia’s SME sector in terms of its contribution to economic and employment growth.

Description

The line of credit will:

- Finance 140 SME projects, including 14 in innovative sectors;
- Provide technical assistance to 1000 entrepreneurs and SMEs and 10 financial institutions.
# Evaluation Study on Microcredit of BTS

<table>
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<td><strong>Executing Agency</strong></td>
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## Background and Objectives

As part of the fight against poverty and socio-economic integration of low-income communities, micro-credit schemes were established in Tunisia in March 1999.

In order to maximize the impact of the public resources entrusted to finance micro-credit associations, the BTS now wishes to evaluate the performance and social impact of its interventions, and make the necessary improvements to its policies. Consequently, the study aims to evaluate the social, financial and economic performance of the microcredit scheme managed by BTS and with the objective of reducing poverty, further integrating disadvantaged groups and creating sources of income.

## Description

The study will entail the following components:

- An assessment of the program’s social performance regarding the coherence of BTS’s mission;
- An analysis of the organization of the bank’s microcredit activities including the planning and allocation of resources, decision making procedures, credit policy and procedures, auditing procedures, information systems and the system for following up on the impacts of the scheme, the institutional relations with the associations and all other domains that may influence the performance of the system;
- An analysis of the financial statements of the bank and of the micro-credit associations in terms of performance for achieving set objectives.
- the completion of targeted surveys which will evaluate the effects of training in zones of intervention and allow for defining the criteria of client satisfaction as well as creating the basis for a study on the unforeseen impacts of the program; and
- An analysis of the socio-economic impacts of the scheme with regard to poverty reduction.

## Expected Outcomes

The expected outcomes of the study include the following:

- A detailed plan with proposed methodologies and deadlines to meet, as well as the division of labor for consultants;
- A methodological report that will synthesize the tools and the methods of the project;
- A report on surveys including the database grouping results on the project’s clients;
- A diagnostic report that addresses recommendations to improve the social performance of the microcredit system with regard to poverty alleviation and the socioeconomic integration of low-income communities;
- A final report including all results and recommendations for improving the project.
Fourth Line of Credit to the Investment Bank of Tunisia and the Emirates (BTEI)

<table>
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Background and Objectives

The 10th Development Plan of Tunisia covering the 2002-2006 period, assigned a key role to the private sector to reduce poverty, widen the country’s productive base and contribute to employment promotion. To this end, the Government hoped to intensify efforts by the banking sector to raise the share of private investment of overall investments from 53 to 60% by the end of the Plan.

This project intended to enable private investment growth by furthering the capacity of BTEI to support productive activities, notably in the manufacturing industrial, tourist and other services sectors. As such the objective of the line of credit was to cover the direct and indirect foreign currency costs of sub-projects, some forty SME/SMIs belonging to private promoters.

Expected Outcomes

Expected outputs include:

- An increase in the tourism sector by 6%;
- An increase in the manufacturing industries reaching 5.6%);
- Accrue contributions of the tourism and manufacturing industries to the growth of the GDP.

Description

- The line of credit was used to cover the direct and indirect foreign exchange costs of financially and economically viable sub-projects including the following in the tourism industry: fifteen units of four star and ten three star hotel units will be constructed or refurbished. These hotel units will enhance accommodation capacity by 14,500 beds;
- Credit also supported the following sub-projects for manufacturing and services industry fifteen industrial plants that will be chiefly created in construction materials sub-sector, food industry and commercial services.
Study for the Desalination of the Sea of Zaarat

Background and Objectives

The water currently being supplied to the South of Tunisia as drinking water has a salinity higher than 3 g/l, above the international norm of 2 g/l. The quality objective of the National Water Distribution Company (SONEDE) is to provide water with salinity not higher than 1.5 g/l. As a result, SONEDE recommends the implementation of a sweater desalination plant with a capacity of 50,000 m³/day to meet the 1.5 g/l salinity standard.

The objective of this study is the development of a technical and economic study that will result in a project of desalination of seawater in the Zaarat region of Tunisia. As a result of this project, it is expected that the private sector will become deeply involved in infrastructure management and financing.

Expected Outcomes

The study aims to:

- Provide the entire population with drinking water despite the ever-worsening shortage, especially in the Southern part of the country where the groundwater is not renewable, with limited resources and degradable chemical quality and where demand is increasing steadily;
- Achieve a very high level of private sector involvement in the financing and management of drinking water infrastructure;
- Strengthen Tunisia’s application for the concession principle for infrastructure financing and management;
- Improve the knowledge of appropriate and reliable desalination procedures;
- Provide non-conventional water resources to offset the scarcity of the resources available for the supply of drinking water to the population;
- Enable the private sector to attain a high level of involvement in infrastructure financing and management;
- Achieve proper implementation of the sweater desalination project.

Description

The study will entail the following phases:

- The identification and analysis of potential sites for the desalination plant;
Background and Objectives

The risk that demand for water exceed supply due to population growth and living standards has become a reality in Tunisia. This situation is aggravated by ground water overexploitation as well as the degradation of water resources and soil. One hundred ground water sources suffer from water pollution caused by the annual release of approximately 155 million cubic meters of wastewater. Regarding soil, 50% of irrigated soil is sensitive to salinity while over 22% of these have become water logged.

The objective of the project is to ensure water safety and effectiveness of investments in the water sector in Tunisia by the integrated management of water resources and agricultural soils in irrigated areas and the mitigation of the effects of climatic variations on service-based water and agriculture.

Description

This project will entail:

- The establishment of a national information system on water through the synergy of the National Information System on Water (SINEAU) the various subsystems;
- A preliminary study designed to establish the institutional framework of SINEAU and define indicators for monitoring water and soil irrigated with information from SINEAU;
- The development and implementation of SINEAU and its sub-systems;
- The acquisition of necessary computational equipment.

Expected Outcomes

This project will result in:

- The development of water resources, and their exploitation in a sustainable manner resulting from the availability of integrated information on water;
- An increased rate of the mobilization of sustainable water resources from 93% in 2008 to 96% in 2030;
- That total demand for water is met, and that this comprise of 2610 million m3 in 208 to 2800 million m3 in 2030;
- That demand for water per capita decreases from 250 sq ft per annum in 2008 to 215 m3 per capita in 2030.
Strategy Study on Sanitation

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Background and Objectives

In Tunisia, the sanitation sector is the essential platform for harmonious and sustainable development, and a key factor in environmental conservation in view of its importance and impact on economic, social and human development. The National Sanitation Agency (ONAS), however, does not cover 107 districts, including 93 with a population below 10,000. To remedy this situation and generalize the installation of adequate sanitation services in districts nationwide, the Bank has provided ONAS with a grant to carry out a strategic economic, social, environmental, institutional and technical study to develop a programme for the construction of sanitation infrastructure in districts that do not yet have sanitation facilities and, hence, provide a better living environment for the inhabitants concerned.

As such, the objectives of this study are to facilitate improved access to sanitation, protect water resources by combating the uncontrolled disposal of wastewater and in doing so improve the living standard of Tunisians.

Description

This study will entail:

- A study of the sanitation system of communities lacking adequate sanitation resources;
- The determination of an investment plan and an intervention program for 2012-2016;
- The development of an institutional framework for intervention in communities with less than 10,000 inhabitants;
- The development of a project to construct sanitation facilities in the 6 villages that lack the necessary sanitation infrastructure.

Expected Outcomes

Upon completion of this study:

- 100% of the communities of the country will dispose of a system of collection and treatment of water by 2030;
- Improved access to water sanitation in communities of less than 10,000 habitants as well as the 6 designated communities with over 10,000 habitants that do not dispose of these systems will be achieved and as a result the quality of life of those benefiting from this infrastructure will be improved, while the protection of water resources will be supported.
Study for the Improvement of the Drinking Water Supply in the Rural Areas of Bizerte and Beja

Background and Objectives

In Tunisia, the water sector remains a priority for economic and social development initiatives. Past efforts have helped give the country a large water infrastructure including 27 dams, 200 hillside dams, 766 small lakes and over 3,000 boreholes and shallow wells, mobilizing 83% of all exploitable water resources. However, despite the mobilization and transfer of water, the exploitation of conventional water resources will reach its limit in the near future and it is expected that demand coupled with increasing population and living standards could exceed supply for areas requiring good water quality. Recognizing this, Tunisia is committed to achieving a strategic change to develop its water resources and ensure better demand management in the various socio-economic sectors.

This study aims to compensate for Tunisia’s limited water resources by financing a study which should lead to an improvement in the drinking water supply in the rural areas of Bizerte and Beja.

Description

The study will be completed in three phases:

- A study of the network’s primary drinking water supply including a revision of the water needs calculated by SONEDE in 2000, a study of the network’s potential environmental impact, the establishment of a model and hydraulic study for the network, and the comparison of variable from a technical, economic and environmental perspective;
- Survey of the land measuring the prospect for relevant terrain the results of which will then be applied for the management of the social and environmental impacts of the network; and
- The development of the conditions necessary for the execution of the project.

Expected Outcomes

This study will result in the following outcomes:

- The planning and implementation of the networks in the area of the study;
- The planning and development of an internal distribution network for 20 rural groups;
- The management of the environmental and social impacts of the water networks;
- The planning of a budget necessary to undertake these objectives;
- The development of a portfolio of offers for the execution of the works in 40 prioritized locations, corresponding to the results of the study.
Study for the Protection Against Floods in Greater Tunis

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<td>Ministry of Infrastructure, Housing and Physical Planning-DHU</td>
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Background and Objectives

The water sector remains a priority in Tunisia’s economic and social development. The most recent floods, particularly those of September 2003 and September/October 2007 that occurred in the Greater Tunis area resulted in unprecedented material damage in the North Tunis area. The floods observed in the last two years caused unprecedented problems and the proposed study will be able to better equip the government to handle these challenges.

Specifically, the study aims to protect the cities and towns North and East of Greater Tunis—including Tunis, Ariana, Ben Arous and Mannouba—against floods and improve their water drainage capacity.

Expected Outcomes

As a result of this study:

- Cities North and East of the Greater Tunis area will be protected against floods and a network of drainage for rainwater will be constructed;
- An improvement of knowledge regarding areas most susceptible to floods will be achieved, and affordable solutions for the improvement of water drainage and increased protection against floods will be proposed.

Description

This study will entail:

- The design and assessment of flood protection structures in the study area, including flood protection schemes and drainage of storm water together with primary and secondary structures;
- An estimation of the costs of needed structures to improve resistance against floods and drainage capacity in the designated zones;
- The preparation of bidding documents for the execution of works;
- The training of seven DHU technicians on the scaling of works and mathematical modeling for flood simulation;
- A final report including the assessments of the study will be produced.
Water Strategy for Tunisia 2050

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Background and Objectives

One of the objectives of the Tunisia’s Presidential Program (2009-2014) is to secure Tunisia’s long term access to water. This resulted in the adoption of a coherent strategic framework for improving the governance of water on which the population, and the water-intensive agricultural sector depend.

This study will contribute to the socio-economic development of the country by securing the availability and access to water in an efficient and sustainable manner. Specifically the study aims to promote investment in the structuring of the water sector, provide better control of extreme events that may affect water availability, as well as promote the reduction of poverty.

Description

This study will entail the following:

- The creation of an institutional framework for the study;
- The development of the strategy “water 2050” including an exhaustive diagnostic survey of the water sector;
- The preparation of the Terms of Reference for the study;
- The management of the study.

Expected Outcomes

This study will have the following results:

- Water demand will be completely satisfied in average hydrological conditions by 2050;
- Pollution sources of water will be reduced;
- Reduce poverty from 3.8% to less than 1% by 2050.
Rural Drinking Water Supply Program (RDWS)

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<td>Ministry of Agriculture and Environment</td>
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</table>

**Background and Objectives**

Thanks to various DWS programs implemented by the Tunisian government, the access rate to drinking water is 100% in urban areas and 93.5% in rural areas. However, despite efforts made, the highly dispersed and most disadvantaged communities will have no access to drinking water.

The Rural Drinking Water Supply Program (RDWS) will respond to this demand by covering twenty of Tunisia's 24 governorates. It targets the most disadvantaged rural communities on the national territory, whose isolation and dispersal make it difficult for them to access low-cost drinking water.

**Description**

The program will entail:

- The construction of 161 new DWS systems;
- The rehabilitation of 150 simple DWS systems;
- The rehabilitation of 7 complex DWS systems to be transferred to SONEDE;
- The improvement of water conditions in three transfer areas;
- The procurement of 20 vehicles
- The training of 100 DGGREE experts;
- The recruitment of 20 rural engineers.

**Expected Outcomes**

The program will provide:

- Drinking water access to 328,191 rural inhabitants;
- Training in water treatment quality for 100 DGGREE and CRDA experts;
- Jobs for 20 rural engineers and technicians;
Treated Wastewater Quality Improvement Project

Background and Objectives

An arid and semi-arid country, Tunisia is faced with increasingly pronounced water stress due to the negative impacts of climate change on water resources, increasing water requirements for the economy as well as the degradation of water resources as a result of human activities. About 88% of traditional water resources are harnessed, 80% of which are used in agriculture. While Tunisia’s water requirements are rising rapidly to support a growing economy, the water resource potential is declining due to a combination of natural factors related to climate change and artificial factors related to human activities.

To help address the challenges of its development at an early stage, Tunisia engaged in the rational management of its water resources. One of the thrusts identified to ease the pressure on these resources is the use of non-traditional water resources (waste water and treated salt water). The Treated Wastewater Quality Improvement Programme is the first stage in a process to use and enhance treated wastewater.

The project’s main objective is to improve the population’s living conditions through environmental protection, mitigation of the negative impact of wastewater discharge and support to the National Wastewater Reuse Programme.

The project will serve to upgrade sanitation infrastructure and help building ONAS’s capacities in order to improve wastewater quality for its reuse for watering and water table recharging activities as well as for water discharge in sensitive environments in compliance with the required standards.

Expected Outcomes

The project outcomes will be:

- The achievement of a wastewater reuse rate of 50% by 2016, compared to 30% at present;
- The contribution to aquifer recharging and easing of water stress;
- The development of irrigated agriculture and agricultural productivity;
- The creation, under integrated mini-projects, and revitalization of income-generating activities;
- The promotion of agricultural employment and contribution to the settlement of rural and peri-urban communities;
- the development of the fishery and tourism sectors in the regions concerned,
- The sludge enhancement and production of fodder to make up the shortfall; and
- The improvement of the inhabitants’ living conditions through a reduction in the non-compliant treated waste water discharged on the Mediterranean coast and GT.
Study on Commercial Integration

**ADB MIC Grant Amount**
UA 0.31 million

**Co-Financiers**
Tunisian Government

**Approval Date**
September 2010

**Expected Completion Date**
May 2011

**Location**
Nationwide

**Executing Agency**
Ministry of Commerce

and the countries of the Gulf of Guinea, Central Africa and Great Lakes region.

**Background and Objectives**

According to the “Guidance Note” of the 9th Plan (2007-2016), export promotion is strategically important for the country’s development plan. Indeed, this plan provides for an average growth rate of 6.1% and an average increase of exports of 6.6% for this period. To accomplish these aims, Tunisia is committed to anchor the economy in global networks by way of progressive trade integration.

As such, the objective of this study is to help identify the means to promote the private sector and employment and thus strengthen trade integration between Tunisia

**Description**

This study will entail:

- A diagnosis of the current trade situation with targeted countries;
- The presentation of results from missions to sub-Saharan Africa;
- The preparation of a draft of the report including the strategy that should be implemented;
- A discussion of the final draft and the validation of the study’s results.

**Expected Outcomes**

This study will result in:

- The improvement knowledge of Tunisia’s trade situation with other African countries;
- The identification of the main barriers to trade between Tunisia and African countries;
- The identification of concrete policy options to boost the export of goods and services;
- The creation of a plan of action that is results-oriented;
- The definition of the types of operations (investment, institutional support project and program reforms) to implement and their priority level.
Statistical Capacity Building II

Background and Objectives

Tunisia has been implementing reforms to modernize and strengthen the capacity of its administration. A main objective of these reforms has been to improve its capacity in the area of statistics. On its part, the Bank has supported these reforms through its Statistical Capacity Building (SCB) program in order to strengthen the country’s National Statistical Systems (NSSs).

The objective of this project is to improve the ability of the NSS to reliable and timely data, strengthening the capacity of the government to coordinate statistical support activities as well as the development and management of their national statistical activities. The data generated can facilitate policy formulation, decision making, effective results measurement and program design, implementation, monitoring, evaluation and dissemination, including, as well as the monitoring of progress in reaching the Millennium Development Goals (MDGs).

Description

The proposed assistance will include:

- Procurement of goods including data processing equipment and price survey equipment;
- The acquisition of consulting services, training and allowances for field workers and consultants at the national level;
- Support missions to Tunisia.

Expected Outcomes

The main expected outcomes of the program are as follows:

- Increase the reliability of national and regional poverty and other socioeconomic data;
- Strengthen the country’s capacity in management, creating and maintaining databases, infrastructure statistics, household surveys and analysis;
- Increase the number of trained and retrained staff in the use of analytical tools;
- Collect, process and uploaded infrastructure data into the Data Platform (DP) database at national, sub-regional and regional level.
Support Program to Economic Recovery and Inclusive Development (PARDI)

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Background and Objectives

The 2011 Tunisian Revolution exposed the striking regional inequalities and the need to support the decentralized structures and local communities in the planning and management of grassroots development. The Programme is a continuation of the Governance and Inclusive Development Support Programme PAGDI, approved in May 2011.

The Program’s specific objective is to support the Democratic Transition in a context of severe budget deficit while meeting the population’s priority demands and aspirations in the following areas: access to quality services, job creation, the promotion of transparency and strengthening of participation.

Expected Outcomes

The PARDI has the following 3 expected outcomes:

- Decrease regional disparities by improving access to social services particularly in poorly served regions and decrease exclusion;
- Create and maintain jobs;
- Strengthen citizens’ participation and accountability.

Description

The PARDI is structured around 3 axes:

- Restore socio-economic stability to support the economic transition in Tunisia;
- Address the major needs expressed by the population in the wake of the revolution, in particular, unemployment and regional disparities, and;
- Strengthen the population’s participation in the country’s affairs.
Improved Governance and Inclusive Development Budget Support Project

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Background and Objectives

The main objective of the program is to contribute to the restoration of socio-economic stability to support the democratic transition in Tunisia following the country’s revolution in 2011. Though Tunisia’s long-term political and economic prospects are promising, in the short-term the country faces significant challenges which were amplified by the economic slowdown and ever-growing popular demands.

This project is designed to mitigate the challenges at the macroeconomic level, by contributing to the budget and alleviating pressure on the current account. It also aims to contribute to the transition process by creating greater transparency and encouraging citizen participation in governance as well as expanding employment opportunities and promoting social services in disadvantaged areas.

- The provision of emergency assistance amounting to 600 dinar for 33,000 people repatriated from Libya;
- Boost job creation through the provision of incentives to businesses and by providing training to various sectors of employment.

Expected Outcomes

The results of this project will include:

- The reduction of regional disparities;
- The creation of new jobs, the preservation of existing jobs and the improvement of mechanisms that promote employment;
- The improvement of citizen participation in the management of public affairs.

Description

The project will:

- Support the establishment of a mobile service program in disadvantaged areas covering health, education and social series;
- Extend the coverage of social assistance programs for more than 131,000 to 185,000 needy families with a monthly payment of 70 dinar per family;
E-Government and Open-Government Implementation Support Project

Background and Objectives

Until December 2010, Tunisia lagged significantly in terms of social inclusion, citizen participation and control. The public administrations were highly centralized and the State was omnipresent in the lives of the population. In this context, the development of civil society was limited and exchanges between the Government and population were never optimized. The 2011 revolution profoundly changed the situation regarding the importance attached to transparency and good governance. Tunisians now aspire to greater transparency and openness of public services to civil society; which will create greater citizen commitment. This new environment provides Tunisia with a unique opportunity to improve governance through greater transparency and opening up of the public administration. The project objective is to develop the use of ICTs in the Administration in order to strengthen e-governance, improve the Administration’s efficiency and build closer ties with its citizens.

Description

The project objectives are to:

- Design an e-Government master plan aimed at clarifying the vision of the development of on-line services and improving their quality;
- Strengthen participatory democracy through the promotion of Open-Government, by developing two national platforms for Open-data e-participation;
- Support the implementation of e-government through a) capacity building for civil servants in the area of e-governance, and b) improving sensitization of the general public on, and their access to e-Government projects by adopting a communication policy and reconfiguring the government web-site in a one-stop-shop perspective.

Expected Outcomes

The study outcomes will be:

- The reformulation of the e-government strategic plan;
- The development of two e-governance platforms, i.e. a national open data platform and a national e-participation platform and;
- The building national capacities on the basis of training activities for civil servants in the public administration, communication on the government programme focused on the promotion of governance and enhanced efficiency of the Tunisian administration as well as the procurement of small items of equipment.
Chapter 6
Staff & Contact Details
# Country Regional Department North 1 (ORNA) Tunis

<table>
<thead>
<tr>
<th>Surname</th>
<th>First Name</th>
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<tbody>
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<tbody>
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<td>Mr. Matondo-Fundani</td>
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<td>Mr. Breteche</td>
<td>Olivier Joseph</td>
<td>Country Program Officer</td>
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<tr>
<td>Mr. Diarra</td>
<td>Emmanuel</td>
<td>Financial Economist</td>
</tr>
<tr>
<td>Mr. More ndong</td>
<td>Pierre Simon</td>
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<tr>
<td>Mr. Khiati</td>
<td>Driss</td>
<td>Agriculture Specialist</td>
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<td>Mr. El Ouahabi</td>
<td>Mohamed</td>
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<td>Mrs. Kilani-Jaafor</td>
<td>Leila</td>
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<td>Mohamed</td>
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<tr>
<td>Mr. Rais</td>
<td>Walid</td>
<td>Financial Analyst</td>
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<tr>
<td>Mr. Bellamy</td>
<td>Khalid</td>
<td>Finance &amp; Administrative Officer</td>
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<tr>
<td>Mrs. Arraki</td>
<td>Sanna</td>
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<td>Mrs. Serroukh</td>
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<tr>
<td>Mrs. Ghannami</td>
<td>Habiba</td>
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<tr>
<td>Mr. Essaouabi</td>
<td>Jamal</td>
<td>Driver</td>
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<tr>
<td>Mr. Alami</td>
<td>Mouad</td>
<td>Consultant</td>
</tr>
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## Algeria Country Office

<table>
<thead>
<tr>
<th>Surname</th>
<th>First Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs. Diarra-Thioune</td>
<td>Assitan</td>
<td>Resident Representative, DZFO</td>
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<tr>
<td>Mr. Benbhamed</td>
<td>Tarik</td>
<td>Macroeconomist</td>
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<tr>
<td>Mrs. Benchouk</td>
<td>Siada</td>
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<td>Mrs. Ghezali</td>
<td>Hadia</td>
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<tr>
<td>Mr. Madi</td>
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<td>Mrs. Loucif</td>
<td>Karima</td>
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<tr>
<td>Mr. Bouchenak</td>
<td>Bachir</td>
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</tr>
<tr>
<td>Mr. Smaili</td>
<td>Sid-Ali</td>
<td>Driver</td>
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</tbody>
</table>

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