Looking for Inclusion

African Development Bank Group in North Africa
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The thematic chapters are based on recent research led by The North Africa Regional Department (ORNA). Chapter 1 is drawn from the AfDB North Africa Policy Series publication «The Search for Inclusive Growth in North Africa: A Comparative Approach» by Hassan Hakimian. Chapter 2 draws from the paper «Labour Market Reforms in Post-Transition North Africa» prepared by Gita Subrahmanyam and Vincent Castel for the International Conference on ‘Social inclusion in the aftermath of the Arab Spring: from politics to policies’, which took place on 27 and 28 July 2013 at the Palau Centelles in Barcelona and which was organised by the European Institute of the Mediterranean, (IEMed). Chapter 3 is based on inputs of papers from Gilles Nancy (Aix-Marseilles University), Sofien Gaaloul (Tunisian Ministry of Development and International Cooperation), Zouhour Karray (University of Tunis), Slim Driss (University of Tunis), Salma Zouari (University of Sfax), Vincent Castel, Ines Ayadi and Yassine Jmal (AfDB).

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The African Development Bank Group

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Preface

North Africa has seen remarkable changes in the past three years and is still undergoing complex social, economic and political transitions. The pace and nature of the changes differ widely across countries. It is difficult to maintain macroeconomic stability amid political discord, security concerns and social unrest. It is even more challenging to bring about social and economic transformation during such periods. For North Africa, a few figures convey a broad sense of the complexity and challenge of the current situation:

- Economic growth in 2013 was barely 2% in Algeria, Egypt and Tunisia while Libya registered a decline in GDP of about 12%.
- Rating agencies downgraded Egypt and Tunisia 7-8 times since 2010 and budget deficits are increasing in the entire region.
- The share of the population living on less than USD 2 a day varies from 12.8% in Tunisia to 18.4% in Egypt.
- Labor force participation rates remain below 50% and during the third quarter of 2013, unemployment reached 15.7% in Tunisia, 13.4% in Egypt, 13% in Libya, 10.1% in Mauritania, 9.8% in Algeria and 9.5% in Morocco, numbers considerably worse than global averages.
- Young people aged 15-24 are three times more likely to be unemployed than adults aged 25 and older with 19.1% of this age tranche being jobless in Morocco while 39.3% of those between 20 to 24 in Egypt also remained unemployed.
- Women are twice as likely to be unemployed when compared to their male peers.

Clearly, much remains to be done.

The report puts particular emphasis on serious imperfections characterizing labor markets and in-country regional developments.

Chapter 1 on “Attempting to Measure the Inclusive Nature of Growth” reviews the economic performance in North African countries during the past decade and presents a new approach to measuring progress in human welfare--an approach that better allows comparisons in experience between North Africa and other developing economies.

Chapter 2 on “Labor Market Reforms in Post-Transition North Africa” discusses how barriers to employment in North African countries create high unemployment levels and low labor force participation rates, while relegating the bulk of skilled workers to the informal sector that is characterized by low pay and precarious working conditions.

Chapter 3 on “Regional Disparities: The Tunisian Case” uses the Tunisian example to illustrate the high levels of inequality prevailing in most North African countries and proposes an approach to industrial development that could reduce these disparities.

The Annual Report provides a brief introduction to the Bank Group and gives an overview of our lending and non-lending activities in North Africa. This will help to familiarize you with our active portfolio while giving you a snapshot of what we do and how we work to help North African countries forge better futures for more of their people.

We hope you find this report useful, and look forward to any feedback you may have. We would welcome the opportunity to discuss our findings and recommendations in more detail.

Jacob Kolster
Director
North Africa Regional Department
### WHO WE ARE

The African Development Bank Group is Africa’s premier development finance institution.

### OUR STRUCTURE

<table>
<thead>
<tr>
<th>President</th>
<th>Donald Kaberuka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of creation</td>
<td>1964</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Abidjan, Côte d’Ivoire</td>
</tr>
<tr>
<td>Temporary Relocation Agency</td>
<td>Tunis, Tunisia</td>
</tr>
<tr>
<td>Subscribed capital</td>
<td>UA 65.22 billion (USD 100 billion)</td>
</tr>
</tbody>
</table>

### Mission

Fight poverty and Promote inclusive and sustainable growth in Africa.

### Entities

- The African Development Bank (AfDB), the African Development Fund (ADF) and the Nigerian Trust Fund (NTF).

### Clients and Beneficiaries


### Key Dates

- **September 1964**: The Agreement establishing the Bank comes into force when 20 member countries subscribe 65% of the Bank’s capital stock amounting to USD 250 million. Inaugural Board of Governors’ Meetings in Lagos, Nigeria. Choice of Headquarters, Election of Mamoun Beheiry of Sudan as the Bank’s first President.
- **July 1966**: The Bank officially begins its operations with 10 staff. First Annual meeting at the Headquarters in Abidjan, Côte d’Ivoire.
- **November 1972**: Signature of the Agreement establishing the African Development Fund (ADF) in Abidjan by the Bank and 13 non-regional countries (States Participants).
- **April 1976**: Signature of the Agreement establishing the Nigerian Trust Fund (NTF) by the Bank and the government of Nigeria. Election of Dr. Kwame D. Fordwor as the third President of the Bank in Kinshasa, Zaire.
- **May 1982**: Ratification of the opening of capital to non-regionals in Lusaka, Zambia. The AfDB’s capital increases to US$ 6.3 billion.
- **August 1995**: Decision on the limitation of the term of office of elected Officers and members of the Board of Directors to two terms of three years, and that of the President to two terms of five years. The Moroccan Omar Kabbaj is elected as the sixth AfDB President.

1964 - 2014

A journey of 50 years

1964 - 2014

50 YEARS SERVING AFRICA
8 million Africans have benefited from new electricity connections
43 million Africans have benefited from improved access to transport
14 million Africans have benefited from new or improved access to water and sanitation
27 million Africans have benefited from access to better health services

OUTCOMES 2012 - 2013

PORTFOLIO AS OF 31 DECEMBER 2013
(in billion UA)

May 1997
For the first time, two African countries, South Africa and Botswana, decide to contribute resources to the ADF window.

February 2003
The Bank decides to temporarily relocate to Tunis, Tunisia due to the security situation in Abidjan, Cote d’Ivoire. Annual meetings held back-to-back with the UN Economic Commission for Africa Finance Ministers meeting on the theme: Poverty Reduction, Social Development, and the Millennium Development Goals in Africa: Are We Making Progress on the Ground?

May 2010
The Board of Governors endorsed a 200 per cent increase in the Bank’s capital resources from UA 24.0 billion, (USD 35.0 billion) to UA 67.69 billion (USD 104.0 billion). This substantial increase allowed the Bank Group to sustain a higher level of lending including to the private sector.

April 2011
The Board of Directors of the Bank approved a five year 2011-2015 decentralization strategy. A permanent committee on decentralization (PECOD) is established. The Bank established two pilot Regional Resources Centers in Nairobi, Kenya and Pretoria, South Africa. In 2012, the Bank had 32 field offices.

May 2013
The Bank adopts a new 10 year strategy with the objectives to achieve growth that is more inclusive and to ensure that inclusive growth is sustainable. The Strategy outlines five main operational priorities: infrastructure development, regional economic integration, private sector development, governance and accountability, skills and technology. In implementing its ten-year Strategy, the Bank will pay particular attention to fragile states, agriculture and food security and gender.

April 2014
Launch of the AfDB 50th Anniversary Celebrations to be celebrated in Abidjan in November 2014. After 10 years in Tunis, the Bank returns to its headquarters in Abidjan. In 50 years of serving Africa, the Bank has mobilized over USD 100 billion in key sectors of the economy of African countries.
## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEO</td>
<td>African Economic Outlook</td>
</tr>
<tr>
<td>AfDB</td>
<td>The African Development Bank Group</td>
</tr>
<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>ALMP</td>
<td>Active labour market program</td>
</tr>
<tr>
<td>AMINA</td>
<td>Microfinance Initiative for Africa of the African Development Fund</td>
</tr>
<tr>
<td>AMU</td>
<td>Arab Maghreb Union</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>AVERROES-Paris</td>
<td>Funds sponsored by Proparco and CDC Entreprises</td>
</tr>
<tr>
<td>AWF</td>
<td>African Water Facility</td>
</tr>
<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</td>
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<tr>
<td>BMC</td>
<td>Basic Medical Coverage</td>
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<tr>
<td>BMICE</td>
<td>The Maghreb Bank for Investment and Foreign Trade</td>
</tr>
<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>
</tr>
<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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<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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<td>EGFO</td>
<td>Egypt Country Office</td>
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<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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<td>FAO</td>
<td>United Nations Food and Agriculture Organization</td>
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<td>FAPA</td>
<td>Fund for African Private Sector Assistance</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>FIV</td>
<td>Neighbourhood Investment Facility</td>
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<td>FMI</td>
<td>Fonds Monétaire International</td>
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<td>FMO</td>
<td>The Netherlands Development Finance Corporation</td>
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<tr>
<td>FPMEI</td>
<td>Fonds pour les PME et l'innovation</td>
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<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<tr>
<td>FTA</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<tr>
<td>GDP</td>
<td>Global Environment Facility</td>
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<td>GEF</td>
<td>Government of Egypt</td>
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<td>GoE</td>
<td>Human Development Index</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>GSM</td>
<td>Global system for mobile communication</td>
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<td>HDI</td>
<td>Human Immunodeficiency Index</td>
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<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
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<td>IDB</td>
<td>Islamic Development Bank</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IRMS</td>
<td>Integrated Resources Management Strategy</td>
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<tr>
<td>ISET</td>
<td>Institut Supérieur d'Enseignement Technologique</td>
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<tr>
<td>JBIC</td>
<td>Japanese Bank for Investment and Cooperation</td>
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<tr>
<td>KFAED</td>
<td>Kuwait Fund for Arab Economic Development</td>
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<tr>
<td>LEPC</td>
<td>Libyan Export Promotion Centre</td>
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<tr>
<td>MAFO</td>
<td>Morocco Country Office</td>
</tr>
<tr>
<td>MAPM</td>
<td>Ministry of Agriculture and Maritime Fisheries</td>
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<tr>
<td>MDBs</td>
<td>Multilateral Development Banks</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<tr>
<td>MENA</td>
<td>Microfinance Institutions</td>
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<tr>
<td>MERCOSUR</td>
<td>Middle East and North Africa</td>
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<tr>
<td>MFI</td>
<td>Mercado Común Sur (Argentina, Brazil, and Uruguay)</td>
</tr>
<tr>
<td>MFN</td>
<td>Middle Income Countries</td>
</tr>
<tr>
<td>MIC</td>
<td>Most Favored Nation</td>
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<td>MLA</td>
<td>Maghrebian Leasing Algeria</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>MSE</td>
<td>Micro and Small Enterprises</td>
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<td>MTS</td>
<td>Medium Term Strategy</td>
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<tr>
<td>MW</td>
<td>Megawatt</td>
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<td>MWPP</td>
<td>Multi-Donor Water Partnership Program</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NBE</td>
<td>National Bank of Egypt</td>
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<tr>
<td>NGO</td>
<td>Non Governmental Organisations</td>
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<tr>
<td>NPLs</td>
<td>Nonperforming loans</td>
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<tr>
<td>NTF</td>
<td>The Nigeria Trust Fund</td>
</tr>
<tr>
<td>NTMs</td>
<td>Nontariff measures</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>The Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>ORNA</td>
<td>Country Regional Department North Africa</td>
</tr>
<tr>
<td>OTRI</td>
<td>Overall Trade Restrictiveness Index</td>
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<tr>
<td>OTRI_T</td>
<td>Tariff-only Trade Restrictiveness Index</td>
</tr>
<tr>
<td>PADESFI</td>
<td>The Financial Sector Development Support Program</td>
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<tr>
<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>PISEAU II</td>
<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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<tr>
<td>PNDSE</td>
<td>Education System Development Support Project</td>
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<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PRECAMF</td>
<td>Project to build the capacities of Microfinance Stakeholders</td>
</tr>
</tbody>
</table>
PRP  Poverty Reduction Program
RAMED  Régime d’Assistance Médicale aux Economiquement Démunis
RMCs  Regional Member Countries
RWSSI  Rural Water Supply and Sanitation Initiative
SESP II  Secondary Education Support Project Phase II
SFD  Egypt Social Fund for Development
SFD*  Saudi Fund for Development
SIFEM  Swiss Investment Fund for Emerging Markets
SME  Small and Medium Enterprises
SNIM  National Industrial and Mining Company
STRI  Services Trade Restrictiveness Index
TRAINs  Trade Analysis and Information System
UA  Unit of Accounts
UN  United Nations
UNCTAD  United Nations Conference on Trade and Development
UNDP  United Nations Development Program
UPS  Unified Power System
USA  United States of America
USAID  United States Agency for International Development
WB  World Bank
WTO  World Trade Organization
Introduction
Introduction*

From 1990 to 2010, North African countries achieved rapid economic growth and significant progress in human welfare indicators such as poverty reduction, life expectancy, and health status. Nevertheless, this period ended with popular uprisings that toppled long-standing political regimes in Egypt, Libya and Tunisia.

This year’s North Africa Annual Report is largely devoted to the topic of inclusive growth and development, the absence of which in several ways helped trigger the uprisings, in an attempt to better understand why economic growth over the 5-10 years preceding the revolutions was associated with widespread dissatisfaction. A particular focus is placed on the high levels of inequality that characterized labor markets and in-country regional developments.

Besides the introduction, this Annual Report includes three chapters. The first reviews economic performance in North African countries and presents a new approach to measuring progress in human welfare—an approach that better allows comparisons in experience between North Africa and other developing economies. The second chapter discusses how barriers to employment in North African countries have resulted in high levels of unemployment and low rates of labour force participation, while relegating the bulk of workers to the informal sector, which is characterized by low pay and precarious working conditions. Finally, in the third chapter, the example of Tunisia is used to illustrate the high levels of inequality within and between geographical areas in North African countries, and proposes an approach to industrial development aimed at reducing these disparities.

Inclusive growth in North Africa

Interest in the relationship between growth and equity has deep roots in development economics (see Box 1). The traditional view is that governments face the challenge of striking the right balance between focusing on efficiency and growth to overcome poverty and inequality, and implementing targeted policies to assist the poor even at the cost of slower overall growth (Bourguignon, 2000: 2). In recent years, however, thinking has evolved beyond this presumed trade-off, which calls for a better understanding of the relationship between growth and wealth distribution.

Recent developments in Africa and Asia have contributed to this shift in focus. Africa’s GDP rose by 6% per year during 2001-08, yet poverty has been declining at a slower pace while inequality has been rising both between and within countries (JICA, 2012: 6). By contrast, Asia’s rapid and sustained growth has reduced poverty substantially in the face of persistent, and widening, inequalities. This experience has led to a sharper differentiation between policies dedicated to fighting poverty and those aimed at improving equality, and more broadly, to a greater interest in ensuring that growth benefits all social and economic groups. For example, India’s Eleventh Five-Year Plan (2007-12) includes strategies to promote the well-being of the poor and disadvantaged groups (Government of India, 2006; see also Klasen, 2010). Similarly, the African Development Bank’s long term strategy for 2013-2022 sets up inclusive growth as one of its 2 objectives, addressing the intrinsic value of equity and focusing on its positive impact on long term development.

* This chapter draws substantially from working papers for the AfDB’s papers by Hassan Hakimian, Gita Subrahmanyam, Vincent Castel, Gilles Nancy, Sofien Gaaloul, Zouhour Karray, Slim Dris, Salma Zouari, Ines Ayadi and yassine Jmal.
Box 1: The Growth and Inequality Debate

The debate about the relationship between growth and inequality is a long-standing one. Early post-war thinking was influenced by Kuznets (1955), who suggested an ‘Inverted-U shaped relationship’ between growth and income distribution: growth initially worsens inequality, but this is reversed over the long run. This process is driven by shifts in surplus labour from the poorer and less productive, traditional sectors to the richer and more productive, modern sectors. Initially, the availability of surplus labour tends to restrain wages in the modern sectors while profits soar, thus boosting inequality within the modern sectors. As the weight of the sectors with greater inequality (the modern sectors) rises, and simultaneously the gap between the two sectors widens, overall inequality deteriorates (McKinley, 2009:12). However, as growth continues, labour becomes scarcer in the modern sectors because the supply of surplus labour from the traditional sectors dries up. Accordingly, wages rise relative to profits. With inequality eventually declining, the impact of growth on equality would thus show up as an inverted-U shape. This view dominated development economics during the 1960s and the structural adjustment reforms of the 1980s and early 1990s (Bourguignon, 2000: 3). It led to a focus on growth promotion policies rather than addressing short-term, inevitable declines in income distribution.

Empirical investigations failed to unambiguously confirm this view. Barro (2000 and 2008) finds support for the inverted U-shape hypothesis. However, other studies find that periods of rapid growth (such as in Korea and Taiwan between the 1970s and 1990s) were not accompanied by deteriorating income inequality (Ali, 2007a: 8). More generally, a cross-country analysis of the relationship between growth and a measurement of inequality (the Gini index) failed to support Kuznets’ inverted-U curve (Deininger and Squire 1996).

Subsequently, emphasis shifted to analysing the relationships among growth, inequality and poverty, beyond the simple formulation of a trade-off between growth and distribution. The debate between Kakwani and Ravallion is a good example. Kakwani and Pernia (2000) focus on the distributional consequences of growth, defining “pro-poor growth”- - growth achieving a greater reduction in poverty than would result if all incomes grew at the same rate. Ravallion (2004), by contrast, argues that rapid growth is inherently pro-poor because it reduces poverty.

Recent empirical studies underline the potential of rapid growth to both reduce poverty and increase inequality. Ali (2007:2) reports that each 1 percentage point increase in GDP in Asia has been associated with about a 2 percentage points reduction in poverty, while income inequality has increased over time. The Gini coefficient deteriorated in almost all Asian countries (with the exception of Indonesia, Malaysia and Thailand, which were severely hit by the Asian financial crisis), and household expenditure surveys show that the per capita expenditure of the top quintile exceeds that of the bottom quintile by as much as 2.5 in China, 3 in India, and a staggering 25 in Bangladesh (Ali, 2007: 5). Much of the fall in poverty was attributed to rapid growth in China and Vietnam, while the incidence of poverty remains high in South Asia.

Overall, there seems to be an increasing consensus among policymakers that both the pace and the pattern of growth are critical to poverty reduction. Thus, ensuring a more equitable distribution of the benefits of growth requires an agenda that goes beyond maximizing growth.
Box 2: Inclusive growth for AfDB (Ten year strategy for 2013-2022)

Inclusive growth has four elements: (i) economic inclusion, (ii) social inclusion, (iii) spatial inclusion and (iv) political inclusion. Despite increases in GDP over the past decade, African growth has been narrowly concentrated in a few sectors and geographic areas. It has not been inclusive enough, nor has it led to deep reductions in poverty and inequality. That is why the Bank’s Strategy emphasizes wider access to economic opportunities for Africans across age, gender and geographic divides. It will help countries address the constraints that limit the participation of women and youth in the economy and help fragile states acquire finance and knowledge to build capable institutions. The Bank will assist African member countries in building safety net programs to reduce vulnerability and increase the integration of disadvantaged and marginalized groups. Safety net programs, as part of a broader social protection agenda, would address the risks, vulnerability and social exclusion that these groups normally face.

- Broadening the economic opportunities for women. This is important in its own right and as a driver of economic competitiveness, because economies that harness the energy and talent of women will outperform those that do not. Studies show that a level playing field for women can boost productivity, particularly in agriculture, and reduce inequality. Providing basic services will ease the burden of women and free their time for more productive activities. Giving women more voice is also associated with better outcomes for children.

- Broadening the economic opportunities for youth. A large majority of young people in Africa are out of work, accounting for up to 60% of unemployment in the region. Even if working, most young people engage in low productivity and poor-quality jobs, mostly in the informal economy. According to International Labor Organization estimates, roughly 90% of the region’s jobs are in the informal economy. Hampering the productivity of young workers is their lack of technical and entrepreneurial skills—and of information about jobs and market needs.

- Broadening the economic opportunities for fragile states. Africa’s fragile states, home to more than 200 million people, face a daunting array of challenges, with as much as 80% of their population surviving on subsistence agriculture and more than 50% living on less than USD1.25 a day. Poor infrastructure depresses their productivity by an estimated 40%. Their limited social cohesion, weak governance institutions and processes, and high unemployment, poverty and inequality can also be sources of insecurity and instability in neighboring countries. All this makes close attention to fragile states imperative.

- Supporting countries as they build safety net programs. Safety nets are inextricably linked with inclusion and poverty reduction in the most vulnerable and disadvantaged groups. They cushion economic and social shocks, thus helping to include the excluded and vulnerable in the benefits of broad economic opportunities.

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1 AfDB, Inclusive Growth: An Agenda for the Bank, 2011.
3 ILO, Key Indicators of the Labour Market, 2011.
The outbreak of mass protests against authoritarian regimes – dubbed the ‘Arab Spring’ – revealed several issues relating to the growth path of North African countries. Economic problems were an important, although not the only, cause of the widespread dissatisfaction with these regimes. Protests followed an extended period of robust economic performance: average per capita growth rates in Algeria, Egypt, Libya, Morocco and Tunisia ranged between 2.2% and 3.5% a year from 2000 to 2010, outperforming other countries in the MENA region and other regions such as Latin America and Sub-Saharan Africa. What’s more, North African countries that experienced severe political upheavals during the Arab Spring had achieved relatively rapid per capita growth in the last half of the decade (4.3% in Egypt, 2.3% in Libya, and 3.6% in Tunisia).

Rapid growth was accompanied by substantial improvements in living standards. From 1990 to 2009, life expectancy at birth increased by 4 to 11 years, and the under-5 mortality rate fell by 46% to 77%, in the five countries. Maternal mortality ratios have declined substantially as well in all five countries, by 2009 falling below 60 per 100,000 births in Morocco and Tunisia, much less than in other developing regions. Yet, progress in reducing the incidence of disease was mixed. For example, in Egypt and Tunisia by 2009, the incidence of tuberculosis had declined to below the average levels in Middle East & North Africa and in Latin America & the Caribbean. By contrast, the incidence of tuberculosis remained higher than these regional averages in Morocco and Algeria. Similarly, the share of the urban population living in slums has declined substantially since 1990 in Egypt and Morocco (recent data for the other three countries are not available), while the share of the population with access to improved water and sanitation increased in most of the North African countries.

Extreme poverty in North Africa is low by international standards: the share of the population living on less than $2 a day varies from 12.8% in Tunisia to 18.4% in Egypt. However, purchasing parity price indices used in this calculation may not accurately represent the relative price levels faced by very poor consumers, leading to distorted comparisons of poverty rates across countries in the MENA region. Likewise, income inequality in North Africa appears moderate by international standards, and showing little deterioration in the most recent data.

More importantly, most North African countries experience a significant deficit in social inclusion, voice, accountability and participatory mechanisms, contributing to an overall sense of disempowerment amongst the population. Although until recently the consensus on the part of international organizations was that governance could best be promoted through top-down political reform, innovative projects promoting participatory values at all levels of government have proved successful. In this regard electoral democracy is no longer sufficient, and the need for enhanced citizen participation in the design and delivery of social policies is becoming a must, particularly when it comes to enhancing accountability.

Public access to information is essential to promoting the accountability of governments and of administrations. Constraints on access to information and statistics generate significant information asymmetries and transaction costs. Limited access to economic and social data, and the lack of transparency of public accounts, have an impact on the optimal allocation of resources and the development of the countries according to real needs and affect citizen control of public services efficiency.

Similarly, public procurement regimes often need to be improved so as to restore citizen and investor confidence. Too often, existing rules negatively affect procurement efficiency resulting in significant delays in the implementation and benefits of public investments.

**Overall indices of inclusive growth**

Chapter 1 develops a composite index to measure the ‘inclusiveness’ of growth in North Africa. The index
aggregates many of the above-mentioned indicators of economic performance and welfare into a single number. This exercise is designed to evaluate the overall welfare of the general population, in comparison to other countries. Results drawn from this index are also compared to existing indicators of inclusive growth, namely the Human Development Indicators (HDI) and its inequality-adjusted version.

The United Nations Development Program produces an annual ranking of countries based on their estimated HDI, which provides an alternative to conventional measures of national development, such as the level of income and the rate of economic growth. The HDI is calculated based on income, life expectancy, and education, all of which are given equal weights. Of the 187 countries included in the HDI for 2011, Egypt and Morocco are ranked well below the median (113th and 130th, respectively), Tunisia and Algeria rank close to the median level (94th and 96th, respectively), and Libya’s ranking is in the top third (64th). Interestingly, for all five countries except Morocco, the inclusion of health and education in the HDI has a limited impact on their ranking, compared to a ranking based on income alone. An alternative index (the Inequality-adjusted Human Development Index-IHDI), which also takes into account the degree of inequality, results in a slight improvement in the rankings of Egypt, Morocco and Tunisia⁵.

The composite Inclusive Growth (IG) index, which encompasses measurements of income, income inequality, health status and expenditures, life expectancy, employment, gender equality, sanitation, and governance (see chapter 1 for how this index is developed), generates somewhat lower rankings for North African countries. According to this IG index for 2008-2010, all five North African countries rank worse than the median in a list of all countries (with adequate data) in the world. Tunisia has the best ranking, followed by Egypt, Libya, Morocco, and Algeria. What’s more, all these countries have achieved a consistent improvement in their rankings throughout the last decade. North Africa has worse rankings on the IG index compared to the HDI, largely because the former includes information on North Africa’s poor labour market conditions (in particular the low ratio of employed to total population and of female workforce to total workforce), while the latter does not.

Despite the significant economic progress in North African economies, both in absolute and relative terms compared to other developing economies, there are two areas where inequality among and between groups has deteriorated sharply: labour markets and geographic regions.

**North African dual labour markets**

Labour markets in all North African countries feature a sharp divide between employees of the formal sector and everyone else, the latter including informal sector workers, the unemployed and discouraged workers. Labour force participation rates remain below 50% and unemployment rates around 10 percent in all North African countries, considerably worse than global averages. Young people aged 15-24 are three times more likely to be unemployed than adults aged 25 and above, and many of the young people classified as ‘employed’ work only negligible hours. Unemployment is particularly high among well-educated young people and women, who are twice more likely to be unemployed compared to their male peers. The situation of women is even worse among those aged 15-24, who are 3 times more likely than adult females to be unemployed. Long-term unemployment often results in withdrawal from the labour market, chronic poverty, marginalisation and – as the Arab Spring demonstrates – social unrest.

Moreover, of those who are employed, a high proportion have poor quality jobs in the ‘informal’ sector, without contracts or social protections. For example, only 30% of workers in Morocco, 46% in Tunisia, and 50% in Egypt have an employment contract. Informal workers generally experience poor working conditions compared to formal sector workers, and are often subject to low

⁵ The Inequality-adjusted Human Development Index (IHDI) takes into account the implications of the level of inequality on welfare. It would be identical to the HDI if there was no inequality.
(or even no) pay and precarious working conditions. Nearly two-thirds of women across North Africa are in vulnerable employment, compared to one-third of men, and informality among young workers is particularly high. For most workers informality is a permanent condition, rather than a transient stage to formal sector employment.

High rates of unemployment, low labour force participation, and informality reflect several factors. Rapid growth of the youth population and increased female labour force participation have sharply increased the number of potential workers (although persistent gender discrimination has led many women to withdraw from the labour market). Moreover, outdated or inadequate educational systems have generated graduates with skills that do not meet private sector needs. Indeed, many students enroll in disciplines such as law, economics and management in preparation for positions within the public sector which are increasingly difficult to get. At the same time, North African economies suffer from excessive red tape: the cost and time involved in starting a business, such as obtaining construction permits and registering property, can be prohibitive for small firms, encouraging informality. Restrictions on employers’ ability to fire, high severance requirements, high costs of social security and retirement contributions, and high minimum wage levels encourage employers to either not hire workers or to hire them ‘off the books’. New entrants without prior work experience are particularly affected. Limited access to finance, concentration (in some North African countries) in natural resource sectors which are heavily capital intensive, and restrictive regulatory regimes have prevented the formation of dynamic new private enterprises, impeded job creation, and limited diversification and the technical sophistication of production. Until the Arab Spring, most workers had little ability to express their grievances, due to restrictions on the ability to organize demonstrations and strikes, as well as government control of many unions.

**Regional disparities**

Income levels and other indicators of welfare differ significantly across geographical areas in North African countries. Tunisia is a good example of this problem, although there are, of course, significant differences among North African countries. In Tunisia, coastal governorates have a comparative advantage given their access to the sea. This advantage has been reinforced by the benefits of agglomeration - or the ability of large firms and economic centers to achieve higher levels of productivity growth than small firms and locations. Coastal governorates also have received preferential access to government-financed investment and services.

Consequently, Tunisian coastal governorates exhibit better indicators of social welfare. For instance, poverty rates in the south are about double the rate in Tunis, and unemployment rates are about 50% higher. These disparities were an important reason for the outbreak of the revolution. In Tunisia, differences in unemployment rates reflect both the benefits of agglomeration and the provision of services. Delegations (administrative units in Tunisia) with greater distance from a port or an airport, and from the central business districts (Tunis, Sousse, and Sfax), have higher rates of employment. High rates of unemployment are also positively associated with the number of inhabitants and negatively related to the graduation rate from secondary school (but not from higher education) and the share of the population in the labour force.

Industrial structure also differs substantially across governorates, with those on the coast being more

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6 Government administration in Tunisia is divided among 24 governorates, each of which is divided among smaller geographical units called delegations.

7 The positive relationship between the size of the population and unemployment does not contradict the view that areas with higher population density can achieve higher productivity growth (see box on the benefits of agglomeration in chapter 1). This positive relationship exists only after an important agglomeration benefit (low transport cost) is already taken into account.
diversified than the interior ones. The relatively diversified industrial structure of most of the coastal governorates has changed little since 2000, while the interior governorates have become slightly more diversified. With only a few exceptions, the ten governorates located near the coast have higher ratings in terms of human development, as measured by Tunisia’s Ministry of Regional Development, than the interior governorates.

Indicators of health status also differ substantially across governorates. For example, in 2009 life expectancy at birth was 77 years in Tunis and Sfax, but did not exceed 70 in Kasserine and Tataouine. Similarly, national infant mortality rate in 2009 was 17.8 per thousand, but 23.6 per thousand in the midwest and 21.0 per thousand in the south.

These differences reflect, among others, uneven levels of health service provision. For instance, home delivery is much more common in the poorer governorates, but rare in Tunis, Bizerte, and Beja. The availability of hospital beds varies also from 0.4 per 1000 inhabitants in Ben Arous to 4 in Tunis, and higher-quality hospitals tend to be located in the better-served governorates. While the number of inhabitants for each public sector physician fell from 2,176 in 2002 to 1,569 in 2010, Tunis, Sousse, Monastir, and Sfax have less than 1,500 people per public sector physician, and are all in the top ten governorates in terms of availability of private sector physicians. By contrast, the number of inhabitants per public sector physician is higher than 3,000 in Kairouan, Jendouba, Sidi Bouzid, Medenine and Kasserine. Similar levels of inequality, with the same governorates enjoying relatively greater access, can be seen in data on the number of inhabitants per dental office and pharmacy.

An overall index measuring the availability of the three main components of health care facilities (health infrastructure, human resources in public and private health facilities, and equipment) shows that some groups of governorates (called clusters) are disadvantaged across all three dimensions. Tunis, Sousse and Monastir consistently fall within the most favoured cluster across all three components, while Jendouba, Kairouan, Kasserine and Sidi Bouzid consistently fall within the most disadvantaged cluster. The geographic distribution of medical human resources stands out as the most unequal, with a significant concentration on the coast. All in all, the poorer, more isolated governorates suffer significantly in terms of access to health services, compared to the richer, coastal governorates.

**The making of the Arab Spring**

Longstanding inequalities in labour markets and geographical disparities were underlying drivers behind the social upheavals that led to the so-called Arab Spring, however, not the only ones and possibly not the immediate ones either. Initial disturbances in around the turn of the year 2010/2011 were set off by the sharp rise in international food prices in 2003 and the global financial crisis of 2008, which particularly affected small firms, informal sector workers, the unemployed, and the poor. Moreover, government responses to the crises exacerbated existing inequalities. Increases in public sector wages improved the incomes of formal sector workers compared to everyone else. In every country, at least 80% of the benefits from the subsidies introduced to support consumption were captured by the non-poor. And other changes in government expenditures, for example loans to large export firms, tended to favour the wealthy. Governments did support the disadvantaged through active labour market programs (ALMPs). However, these programs were largely unsuccessful in creating decent, sustainable private sector jobs due to severe flaws (e.g. vocational training programs did not teach marketable skills), in part because the private sector was not involved in their design. Hence, the governments that could afford to do so reduced unemployment by creating temporary public sector posts – an expensive and only short-term solution that does nothing to address the true causes of unemployment and creates false labour market signals, reinforcing graduates’ propensity to queue for government positions.

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8 The coastal governorates include Ariana, Ben Arous, Bizerte, Mahdia, Manouba, Monastir, Nabeul, Sfax, Sousse, and Tunis.
Governance issues must also be kept as a backdrop even if they are not the heart of this report (they have been in our 2011-2012 and 2013 editions). These governance issues have affected in many countries private sector’s ability to grow and create jobs. They also led in many cases to a misallocation of resources worsening existing disparities and in particular regional disparities.

Yet another driver of the growing dissatisfaction with the distribution of wealth in the region was a collapse in satisfaction with public services. In just one year, between 2009 and 2010, satisfaction with public transportation systems in Egypt fell by 30%. Satisfaction with efforts to improve the environment fell by 15% and satisfaction with housing services fell by 14%. Housing and healthcare show similarly large declines in Tunisia. Even satisfaction with schools and education, which had been seen by international organizations as a relative success in the Arab world had started to fall.

The reform program

North African countries face a historic opportunity. Demographic forces will continue to generate an increasing supply of people in the working ages through 2020—forces which with well-functioning labour markets and attractive investment climate could foster high and sustained growth for the coming decade. The advent of new governments in the region could provide the impetus for the bold structural reforms required to capitalize on this ‘demographic dividend’.

In reforming labour market policies, governments need to address the immediate needs of the transition while keeping in mind the long-term issues that impede job creation. The design of active labour market programs should reflect international experience, including consultation with a wide range of stakeholders, particularly private sector firms; the development of adequate statistics on labour market dynamics and on trends and skills needed by employers, and their use in providing career guidance for young workers; effective targeting to reach those most in need of assistance; and linkages between skills training and job placement, and between entrepreneurship schemes and access to finance, markets and training. The reform of labour market regulations is critical to a successful transition. Nevertheless, easing restrictions on firing workers and reducing requirements for social security contributions need to be complemented by the implementation of social safety nets and improvements in collective representation, to protect workers and avoid undue hardship during the transition.

North African countries’ capacity to implement labour market reforms is uneven. The level of financial resources, quality of human capital, strength of institutions, and the nature of the transition process differ widely across the region. Thus, while in some respects these countries face similar problems, the desirable depth, pace and timing of reforms varies. Fundamental principles which need to be observed during the reform process include the importance of sustaining macroeconomic stability, improving the business environment, developing the skills required for private sector employment (particularly vocational training), and observing the rule of law.

Vigorous policy actions also will be required to reduce geographical disparities within countries. Decentralization is essential, through easing central government requirements and upgrading local institutions to take on new responsibilities, coupled with greater financial autonomy. In general, activities should be brought as close to the local level as possible. Improving the responsiveness of administration at the local level will require a greater commitment to democracy, with free and fair elections and a more participatory approach to major policy decisions, including extensive consultations with civil society. Greater resources need to be targeted to disadvantaged areas. And all of these activities need to be evaluated regularly by independent agencies, to draw lessons to inform future policy decisions and program design.

In Tunisia, boosting national income while narrowing inequalities will require both promoting technologically sophisticated industrial activities in coastal governorates and increasing the productive capacity of the less diversified, more isolated governorates. On the one hand, coastal governorates should capitalize on existing advantages, principally a skilled and diversified labour
force and the benefit of a learning process driven by the pressure of foreign competition. Experience shows that countries that export more sophisticated goods tend to be more successful. Therefore industrial incentives in coastal governorates should encourage more technologically-advanced production. The more disadvantaged governorates in the interior suffer from small economic size and limited diversification. As on the coast, policies should capitalize on existing advantages, in this case building on either existing industries or promoting industries where synergies with coastal governorates can be achieved. An important example is the production of labour-intensive goods to serve coastal markets. This approach may require a revisit of targeted industrial sectors in the different interior governorates, but all of these governorates will need to be supported by a strong public sector investment program to perform critical investments, including transport infrastructure, communications, and the development of industrial zones.

Note, however, that industrial structure changes slowly, and can be driven by changes in the level of demand, a reduction in investment costs, or an increase in factor productivity. These changes, in turn, may have long-lasting effects, as some advantages can be self-reinforcing due to the benefits of agglomeration. Similarly, one cannot expect to shift these forces overnight: the recommended regional development policies will take time to deliver a substantial impact on the growth and geographical distribution of Tunisian industry.

**Inclusive growth and North Africa: the way forward**

Despite rapid economic growth and significant improvements in overall living standards, North African economies have been suffering from severe disparities between formal sector employees and other workers, and between the coast and the interior. These inequalities were exacerbated, among others, by adverse international shocks, and pro-rich government policies, eventually leading to the 2011 revolutions that swept away three longstanding authoritarian regimes in Tunisia, Egypt and Libya.

It is useful to conclude with three caveats that policymakers should keep in mind when implementing reforms to promote inclusive growth. First, inclusive growth strategies should not lose sight of the importance of generating growth to alleviate poverty. Thus, it is essential to pursue policies that aim at accelerating overall income growth, while at the same time ensuring that the benefits of growth are widely shared.

Second, the Arab Spring was not entirely driven by economic considerations. To the extent that policies evolve to avoid the mistakes of ancient regimes, there is an expectation that achieving inclusive growth should enable
countries to avert future upheavals. This perspective ignores the fact that political discontent was also driven by forces, in particular the desire for greater democracy that cannot be addressed simply by economic improvements.

Finally, it is important in the context of transition not resist undue increases in public spending and the deterioration of economic stability that would result, a scenario that would surely undermine growth.
Chapter 1

Attempting to Measure the Inclusive Nature of Growth
The 2011 popular uprisings in North Africa commonly referred to as the Arab spring, erupted after a period of solid economic performance. From 2000 to 2010, annual per capita GDP growth averaged 3.5% in Tunisia, 3% in Egypt, and 2.3% in Libya compared to -0.2% and 3.1% over the period 1991-2000 (Table 1.1). This raises important questions concerning the relationship between growth and political stability. Specifically, the question is if the uprisings occurred despite widespread advances in living standards, so that improvements in economic well-being were essentially irrelevant to political developments? Alternatively, did the steady growth observed in North Africa fail to translate into a general rise in living standards, which lead some segments of the population to express their discontent?

These questions are at the heart of the debate on inclusive growth (see introduction). The main lesson from the Arab spring is that, if rapid income growth benefits an elite rather than the bulk of the society, there is likely to be significant dissatisfaction and perhaps political turmoil. In North Africa, growth was accompanied by improvements in many indicators of health status, access to education, access to key public services, and poverty levels. However, there were significant labor market failures and high levels of corruption and nepotism, which prevented a large part of the population from having decent employment and improving their livelihood.

This chapter reviews North Africa’s recent economic performance, and presents comprehensive indicators that can be used to measure inclusive growth. It is structured in 3 sections. The next section examines a wide range of performance-indicators pertaining to growth and distribution in Algeria, Egypt, Libya, Morocco and Tunisia (Mauritania is not covered because of a lack of adequate data on many of the issues). It reviews, where possible, the experience of these countries over time and in a comparative context with other developing regions. Section 2 offers a methodology to construct a multifactor score measuring inclusive growth, and applies it to these countries and to a number of other developing countries, for comparison purposes. Section 3 concludes the chapter with some thoughts on the relationship between economic performance and the Arab Spring.

* This chapter draws substantially from a working paper for the AfDB’s North Africa Policy Series by Hassan Hakimian
1.1 Evolution of the socioeconomic conditions in North African countries

Per capita growth in North Africa over the period 2000-2010 surpassed the average for the rest of MENA, Latin America and Sub-Saharan Africa, and was comparable to levels reported by East Asian countries, although well below that of South Asia. Interestingly, North African countries that experienced the Arab Spring achieved relatively rapid per capita growth in the last half of the decade (4.3% in Egypt, 2.3% in Libya, and 3.6% in Tunisia).

### Table 1.1: Real GDP and Real GDP per Capita Growth Rates in North Africa & Other Regions (1991 - 2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP growth (average annual %)</th>
<th>Real GDP per capita growth (average annual %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>0.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Libya</td>
<td>-</td>
<td>3.7</td>
</tr>
<tr>
<td>Morocco</td>
<td>1.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Arab World</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>MENA*</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>East Asia &amp; Pacific*</td>
<td>3.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean*</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>5.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa*</td>
<td>1.2</td>
<td>3.5</td>
</tr>
<tr>
<td>World</td>
<td>2.3</td>
<td>3.4</td>
</tr>
</tbody>
</table>

**Note:** *Refers to countries at all income levels.
Source: WDI (2012).

**Living standards in North African countries have improved significantly**

North African countries have also achieved significant improvements in living standards over the past decades, with increases in life expectancy, falling mortality rates, improved health indicators, a reduction in the share of urban population living in slums, and increased access to improved drinking water and sanitation.

From 1990 to 2009, life expectancy at birth increased by up to 11 years, and the under-5 mortality rate fell by 46% to 77%, in the five countries (Table 1.2). North Africa’s decline in infant mortality was faster than the MENA region (it more than halved from 71 to 31 per 1,000) and compares favorably with other parts of the world.
One important implication of the decline in mortality rates in the context of high (albeit falling) fertility rates has been rapid population growth. The annual growth of the labor force in Algeria and Libya, for example, reached 4.5% to 5.5% in the 1990s, exceeding average growth in all regions (Table 1.3). While labor force growth eased in the past decade, dependency ratios (the ratio of those under 15 and above 65 to those aged from 15 to 65) have declined substantially, from between 75% (Tunisia) and 88% (Algeria) in 1990 to 44% and 46% respectively in 2009 (Table 1.4). The rising share of working-age in the total population presents the opportunity for rapid growth in incomes. However, in the context of regulatory regimes that severely constrain private sector job creation, rapid growth in the supply of workers has resulted in high unemployment and under-employment rates (see chapter 2), as well as extremely low ratios of employment to population (Table 1.3).
Table 1.3: Labour Force Growth Rates and Employment-to-Population Ratios in North Africa & Other Regions, 1991-2009

<table>
<thead>
<tr>
<th></th>
<th>Labour Force Growth, Average Annual (%)</th>
<th>Employment-to-Population Ratios (% of population aged 15+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>5.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Egypt</td>
<td>2.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Libya</td>
<td>5.2</td>
<td>4.8</td>
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<td>Morocco</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Arab World</td>
<td>3.6</td>
<td>3.1</td>
</tr>
<tr>
<td>East Asia &amp; Pacific*</td>
<td>1.4</td>
<td>1.3</td>
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<td>Latin America &amp; Caribbean*</td>
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<td>MENA</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>South Asia</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Sub-Saharan Africa*</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>World</td>
<td>1.6</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: WDI (2012).

Table 1.4: Age Dependency Ratios in North Africa & Other Regions, 1990-2010

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>87.6</td>
<td>62.2</td>
<td>46.3</td>
</tr>
<tr>
<td>Egypt</td>
<td>81.0</td>
<td>67.9</td>
<td>57.9</td>
</tr>
<tr>
<td>Libya</td>
<td>85.4</td>
<td>55.7</td>
<td>53.2</td>
</tr>
<tr>
<td>Morocco</td>
<td>77.2</td>
<td>62.0</td>
<td>50.4</td>
</tr>
<tr>
<td>Tunisia</td>
<td>74.5</td>
<td>57.2</td>
<td>43.7</td>
</tr>
<tr>
<td>Arab World</td>
<td>86.3</td>
<td>72.4</td>
<td>60.9</td>
</tr>
<tr>
<td>East Asia &amp; Pacific*</td>
<td>54.5</td>
<td>50.2</td>
<td>42.2</td>
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<tr>
<td>Latin America &amp; Caribbean*</td>
<td>69.7</td>
<td>60.2</td>
<td>53.3</td>
</tr>
<tr>
<td>MENA</td>
<td>87.6</td>
<td>69.0</td>
<td>53.9</td>
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<tr>
<td>South Asia</td>
<td>75.0</td>
<td>66.8</td>
<td>57.1</td>
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<tr>
<td>Sub-Saharan Africa*</td>
<td>93.1</td>
<td>88.4</td>
<td>83.9</td>
</tr>
<tr>
<td>World</td>
<td>63.9</td>
<td>59.1</td>
<td>52.5</td>
</tr>
</tbody>
</table>

Note: dependency ratio is the ratio of people under 15 and above 65 years old to those between 15 and 65 years old.
Even if the availability of data is limited, there is some evidence of improvements in other aspects of welfare in North African countries as well. The share of urban population living in slums has declined substantially since 1990 in Egypt and Morocco (Table 1.5) while being already low in Algeria and Tunisia (although somewhat higher in Libya). The share of the population with access to improved water sources and sanitation facilities has also increased over time in most of the North African countries (Table 1.6).

| Table 1.5: Urban Population Living in Slums in North African Countries (1990-2009) |
|----------------------------------|---------------------------------|--------------------------|
| **Population in Urban Areas** (% Total Population) | **Population Living in Slums** (% Urban Population) | **Population Living in Slums** (*000s)** |
| Algeria | 52.1 | 59.8 | 63.3 | 66.5 | 11.8 | - | - | - | 1.507 | - | - | - |
| Egypt | 43.3 | 42.6 | 42.6 | 42.8 | 50.2 | 28.1 | 17.1 | 14.4 | 12.029 | 7.978 | 5.312 | 5.505 |
| Libya | 75.7 | 76.4 | 77 | 77.9 | 35.2 | - | - | - | 1.242 | - | - | - |
| Morocco | 48.4 | 53.3 | 55 | 56.7 | 37.4 | 24.2 | 13.1 | 13.1 | 4.490 | 3.713 | 2.196 | 2.276 |
| Tunisia | 57.9 | 63.4 | 65.3 | 67.3 | 9 | - | - | - | 425 | - | - | - |

**Source:** WDI (2012) and MDG Goals Indicators (2012).

| Table 1.6: Water and Sanitation in North Africa (1990-2008) |
|----------------------------------|---------------------------------|
| **Population Using Improved Drinking-Water Sources (%)** | **Population Using Improved Sanitation Facilities (%)** |
| Algeria | 94 | 93 | 89 | 85 | 83 | 88 | 90 | 92 | 94 | 95 |
| Egypt | 90 | 93 | 96 | 98 | 99 | 72 | 79 | 86 | 93 | 94 |
| Libya | 54 | 54 | 54 | 97 | 97 | 97 | 97 | 97 | 97 | 97 |
| Morocco | 74 | 76 | 78 | 80 | 81 | 53 | 59 | 64 | 68 | 69 |
| Tunisia | 81 | 86 | 90 | 94 | 94 | 74 | 78 | 81 | 85 | 85 |

**Source:** WHO (2012).

*Poverty and inequality appear to be low by international standards, although data are suspect*

Extreme poverty in North Africa appears to be surprisingly low by international standards\(^9\). The share of population living on less than $1.25 a day is under 3% for the three countries where data are available (Table 1.7). This rate is comparable to the one reported for Europe and Central Asia, and lower than the rate in Latin America, even though both regions are much richer than North Africa. By contrast, the number of people living on less than $2 a day, which according to the latest available survey varies from 12.8% in Tunisia to 18.4% in Egypt, is well above the average in Europe and Central Asia and, with the exception of Egypt, comparable to that in Latin America,

\(^9\) The same appears to be true for the Arab region as a whole (Bibi and Nabli, 2009; Adams and Page, 2003; Bargawi and McKinley, 2011).
although well below rates in the poorer regions of South Asia and Sub-Saharan Africa. The $2 a day indicator may provide a more accurate comparison of poverty rates across countries, as the use of universal purchasing power parity indices may not be representative of relative price levels faced by very poor consumers. For example, UNDP (2011) argues that the $2.00 a day line is ‘a more appropriate benchmark’ for global poverty measurement.

**Table 1.7: Poverty Headcount Ratios at $1.25 and $2 a Day in North Africa**

<table>
<thead>
<tr>
<th></th>
<th>Survey Period</th>
<th>Population (%) below $1.25 a day</th>
<th></th>
<th>Population (%) below $2 a day</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Earliest Survey</td>
<td>Latest Survey</td>
<td>Earliest Survey</td>
<td>Latest Survey</td>
</tr>
<tr>
<td>Algeria</td>
<td>1995</td>
<td>6.8</td>
<td>23.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>2000-2005</td>
<td>1.8</td>
<td>2.0</td>
<td>19.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Morocco</td>
<td>1998-2007</td>
<td>6.8</td>
<td>2.5</td>
<td>24.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1995-2000</td>
<td>6.5</td>
<td>2.6</td>
<td>20.4</td>
<td>12.8</td>
</tr>
</tbody>
</table>


As a general rule, data on income do not fully capture the incidence of poverty, and this may be particularly true for the MENA region. Indeed, while the decline in income-based poverty indicators has been more important in the MENA region than in the global average, MENA’s fall in child malnutrition is similar to the global average (Breisinger et al, 2012: 9). Breisinger et al (2012) attribute these discrepancies partly to data inaccuracies and partly to the importance of non-income factors (such as health and education) that may be relatively less developed in the region and are not reflected in income-based poverty measures. Sabry (2010) argues that household expenditure surveys indicate a much worse poverty situation in Egypt than shown in poverty calculations based on international poverty lines.

Income inequality in North Africa appears moderate by international standards, and showed little deterioration in the most recent data. Measures of inequality estimated from household expenditure surveys in the last decade were little different from those taken 8-10 years earlier: inequality fell slightly in Egypt, very little in Tunisia, and increased slightly in Morocco (Table 1.8). However, these surveys may understate the rise in inequality because they do not adequately reflect the top 5% income groups, which from other evidence appear to have enjoyed very large increases in incomes (UNDP, 2011: 26-7).

**Table 1.8: Indicators of Income Distribution**

<table>
<thead>
<tr>
<th></th>
<th>Survey Period</th>
<th>Earliest Survey</th>
<th>Latest Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Ratio of top 20% To Bottom 20%</td>
<td>Gini Index</td>
</tr>
<tr>
<td>Algeria</td>
<td>1995</td>
<td>3.9</td>
<td>35.5</td>
</tr>
<tr>
<td>Egypt</td>
<td>2000-2005</td>
<td>3.2</td>
<td>32.8</td>
</tr>
<tr>
<td>Morocco</td>
<td>1998-2007</td>
<td>4.8</td>
<td>39.5</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1995-2000</td>
<td>5.6</td>
<td>41.7</td>
</tr>
</tbody>
</table>

Source: WDI (2012).
Overall, it appears that growth in North Africa has been accompanied by improvements in some indicators of living standards, notably mortality rates, life expectancy, access to critical services, and some income-based poverty. However, there remains a concern that important groups have not shared in this general progress. Non-income poverty indicators have not improved to the same extent as income-based poverty measurements. Moreover, available surveys may underestimate the rise in inequality, because they tend to exclude the richest families that have probably enjoyed very large increases in income.

1.2 Measuring inclusive growth

As displayed in section 1, North African countries have enjoyed fairly rapid growth in per capita incomes, moderate and falling poverty rates, and significant improvements in various indicators of living standards over the past decade or two. Yet, these indicators fail to describe in a comprehensive way to what extent growth has been ‘inclusive’, as defined in the introduction to this report. This section 1.2 draws on the various development indicators discussed above to calculate a summary indicator of inclusive growth. This is challenging, given the issues surrounding cross-country data comparisons (e.g. differences in the kinds of data included in surveys, the timing of surveys, definitions used, and the quality of data collection efforts) and uncertainty regarding the selection of indicators and the weighting system to use in calculating country scores (see, for example, McKinley 2010 for one approach).

Overall, results indicate that North African countries have achieved significant improvements in inclusive growth in comparison to many developing countries, although most of the North African countries underperformed compared to the average developing country. The chapter considers two approaches to estimate an inclusive growth performance indicator, the United Nation’s Human Development Index and a composite indicator that was developed in a background paper to this report (Hakimian 2013).

The United Nations Development Program’s Human Development Indicators

The UNDP’s annual ranking of countries based on their estimated Human Development Indicators (HDI) can be taken as a readymade – albeit limited – comparison of levels of welfare in developing countries. Introduced in 1990, the HDI provides an alternative to conventional measures of national development, such as the level of income and the rate of economic growth. HDIs offer a broader definition of well-being, based on three basic dimensions of human development: income, life expectancy and education. These are given equal weights and the resulting combined score is used to rank countries, where a higher value indicates a worse outcome. Since 2010, the UNDP has also offered an inequality-adjusted score (IHDI) to capture the effect of inequality on country rankings. These two measures would in fact be the same if there were no inequality; in that sense the “IHDI is the actual level of human development (taking into account inequality), while the HDI can be viewed as an index of the potential human development that could be achieved if there is no inequality” (UNDP, 2012a).

Egypt and Morrocco are in the bottom half of country rankings (better-ranked than only about 40% and 31% of the countries in the index, respectively), whereas Tunisia and Algeria rank at the median level (around 50%). Somewhat surprisingly perhaps, Libya’s HDI is situated in the top one-third of all country rankings (66%) (Table 1.9). Interestingly, for these five countries, rankings based on income alone are generally a good proxy for their overall HDI rankings, as the inclusion of the other two indicators (health and education) only makes a marginal difference to their HDI rankings. The only exception is Morocco, where a severe underperformance in education leads to a significant divergence between its income
ranking and overall HDI. Also, despite many of the issues surrounding gender equality in the Arab world, the gender ranking helps Tunisia – with a rank of 45 out of 134 countries (significantly above its HDI based on other indicators) – and makes no difference for Algeria and Morocco (data for Egypt are missing). Finally, taking into account inequality (the IHDI) results in a slight rise in the rankings of Egypt, Morocco and Tunisia.

Table 1.9: Human Development Rankings by Various Components, North African Countries, 2011

<table>
<thead>
<tr>
<th></th>
<th>Income</th>
<th>Health</th>
<th>Education</th>
<th>Inequality</th>
<th>Gender</th>
<th>Overall HDI Rank</th>
<th>Normalised rank (max=100; min=0)</th>
<th>Overall HDI Rank</th>
<th>Normalised rank (max=100; min=0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>91</td>
<td>93</td>
<td>107</td>
<td>-</td>
<td>71</td>
<td>96</td>
<td>48.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Egypt</td>
<td>107</td>
<td>92</td>
<td>129</td>
<td>78</td>
<td>-</td>
<td>113</td>
<td>39.8</td>
<td>80</td>
<td>40.6</td>
</tr>
<tr>
<td>Libya</td>
<td>64</td>
<td>65</td>
<td>69</td>
<td>-</td>
<td>51</td>
<td>64</td>
<td>66.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Morocco</td>
<td>115</td>
<td>108</td>
<td>147</td>
<td>95</td>
<td>104</td>
<td>130</td>
<td>30.6</td>
<td>91</td>
<td>32.3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>96</td>
<td>70</td>
<td>110</td>
<td>81</td>
<td>45</td>
<td>94</td>
<td>50.0</td>
<td>66</td>
<td>51.1</td>
</tr>
<tr>
<td>Total countries</td>
<td>187</td>
<td>188</td>
<td>188</td>
<td>134</td>
<td>146</td>
<td>187</td>
<td>100</td>
<td>134</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Ranks data from UNDP (2012b). Normalised ranks are author’s calculations based on the equation (2) explained in the Appendix.

Note: For individual indicators (income, health, education, inequality, and gender) and for the overall rank, a higher rank indicates a worse outcome. However, for the normalized rank, a higher value indicates that the country has a better outcome than that percentage of countries.

The IG index, a more comprehensive approach to measuring inclusive growth and welfare

While useful, the Human Development Index includes only a limited number of economic and social indicators. A more comprehensive index would encompass a wide range of areas where internationally-comparable data are available, including measurements of income, income inequality, health status and expenditures, life expectancy, employment, gender equality, sanitation, and governance (see the Appendix 1.1 for how the Inclusive Growth–IG index is calculated). According to the IG index, all five North African countries rank less than the median country for 2008-2010 (Table 1.10). Tunisia does best followed by Egypt, Libya, Morocco, and Algeria.

All these countries achieved an increase in their normalized ranking (indicating an improvement) from 2000-02 to 2008-10 according to the IG index (Table 1.11). Libya and Algeria increased their ranking by more than 20%, while Egypt and Morocco showed more modest improvements. Improvement in Tunisia’s ranking was the lowest, but retained the highest ranking among the five countries. Many other MENA countries also achieved substantial improvements in the IG index over this period, although Iran and Syria showed marked declines. The five North African countries ranked well below the rapidly-growing developing economies of East Asia and Latin America, although well above India and South Africa.
Table 1.10: Estimated 'Inclusive Growth' Scores, 2000-2002 and 2008-2010
Based on Normalised Ranks (max=100; min = 0)(a)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000-2002</th>
<th>2008-2010</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria(b)</td>
<td>24.1</td>
<td>29.6</td>
<td>22.8%</td>
</tr>
<tr>
<td>Egypt</td>
<td>34.7</td>
<td>38.8</td>
<td>11.8%</td>
</tr>
<tr>
<td>Libya(b)</td>
<td>29.4</td>
<td>37.6</td>
<td>28.1%</td>
</tr>
<tr>
<td>Morocco</td>
<td>29.2</td>
<td>31.6</td>
<td>8.3%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>41.3</td>
<td>42.4</td>
<td>2.8%</td>
</tr>
<tr>
<td>Other Middle East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iran(b)</td>
<td>32.2</td>
<td>27.9</td>
<td>-13.1%</td>
</tr>
<tr>
<td>Israel</td>
<td>59.7</td>
<td>69.2</td>
<td>15.9%</td>
</tr>
<tr>
<td>Jordan</td>
<td>39.7</td>
<td>42.6</td>
<td>7.4%</td>
</tr>
<tr>
<td>Lebanon(b)</td>
<td>35.2</td>
<td>43.8</td>
<td>24.7%</td>
</tr>
<tr>
<td>Saudi Arabia(b)</td>
<td>25.5</td>
<td>27.1</td>
<td>6.5%</td>
</tr>
<tr>
<td>Syria</td>
<td>36.2</td>
<td>29.1</td>
<td>-19.4%</td>
</tr>
<tr>
<td>Turkey</td>
<td>31.7</td>
<td>36.3</td>
<td>14.4%</td>
</tr>
<tr>
<td>Yemen</td>
<td>16.7</td>
<td>21.6</td>
<td>29.6%</td>
</tr>
<tr>
<td>Selected LDCs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>47.8</td>
<td>56.5</td>
<td>18.2%</td>
</tr>
<tr>
<td>Chile</td>
<td>47.2</td>
<td>50.2</td>
<td>6.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>41.1</td>
<td>45.0</td>
<td>9.6%</td>
</tr>
<tr>
<td>India</td>
<td>25.2</td>
<td>28.8</td>
<td>14.3%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>27.4</td>
<td>31.6</td>
<td>15.2%</td>
</tr>
<tr>
<td>South Korea</td>
<td>62.0</td>
<td>54.1</td>
<td>-12.7%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>54.5</td>
<td>48.8</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Mexico</td>
<td>41.6</td>
<td>40.8</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>53.4</td>
<td>42.9</td>
<td>-19.7%</td>
</tr>
<tr>
<td>South Africa</td>
<td>30.1</td>
<td>20.6</td>
<td>-31.8%</td>
</tr>
</tbody>
</table>

Note: (a) Based on Normalised Country Rankings for indicators specified in Table 1.20. Mean values of ranks estimated are based on geometric means (for details and methodology, see Appendix 1 Tables 1.2 & 1.3).
(b) Data for these countries exclude ‘Inequality’ and ‘Governance’ for 2000-02 and ‘Inequality’ for 2008-10.

Source: Author’s estimates based on data from WDI (2012) and Transparency International (2012) as specified in Appendix 1 Tables 1.2 & 1.3.
Some of the North African countries have higher rankings on the Human Development Index (HDI) than on the Inclusive Growth (IG) index. Libya shows the most dramatic difference, with an HDI ranking better than 66% of all countries versus only 37% according to the IG index, followed by Algeria (HDI of 49% versus IG index of 30%), and Tunisia (HDI of 50% versus IG index of 42%). Rankings for Egypt and Morocco do not substantially differ little between the two indicators. The North African countries’ low rankings on the IG index largely reflect their poor labor market conditions. North Africa’s low ratio of the employed to the total population and of the female workforce to the total workforce sharply reduce their IG scores compared to other countries (see the Appendix 1 for a discussion of how this is calculated). These results are consistent with the conclusions drawn in Section A on the improvements in various individual indicators of well-being in North Africa (see Section A). However, the methodology used to construct the IG index is at best a starting point for the estimation of a single inclusive growth index. Both the choice of indicators selected and the weights attached to them are unlikely to meet with universal agreement. Nevertheless, this methodology is flexible enough to incorporate other choices for indicators and weights applied. In that respect, it is hoped that this approach will encourage debate and prove useful in stimulating attempts to quantify inclusive growth.

1.3 Conclusion

This chapter started by noting that popular uprisings observed in North Africa, the Arab Spring, followed an extended period of rapid growth. To what extent, then, were economic factors important in generating the widespread dissatisfaction with governments in the region that led to such intense political upheavals? One important conclusion drawn from this chapter is that the increase in living standards, as measured by income per capita, was accompanied by increases in life expectancy, improvements in educational and health indicators, a reduction in the importance of slums, and increased access to improved drinking water and sanitation. Although more controversial, most North African countries also achieved declines in poverty (measured by international benchmarks) and at least little deterioration in inequality. Notably, the chapter shows that all North African countries improved their international rankings according to a multivariate index of inclusive growth (the IG index). Thus, rapid growth did have a beneficial impact on the population at large.

At the same time, North African economies’ IG rankings were significantly constrained by their poor labor market conditions, pointing to a major economic reason for the political turmoil encountered in the region. Thus reforming labour markets seems to be essential both to political stability and to sustained growth (see Chapter 2). No matter what notion of inclusive growth is adopted, generating high quality employment will pose one of the main challenges to achieving inclusive growth in North Africa. With the uncertain economic future that many North African countries might encounter, ensuring that growth benefits all social and economic groups has become more pressing than ever before.
Chapter 2
Labour Market Reforms in Post-Transition North Africa
Despite considerable differences in terms of natural resource endowments, fiscal resources, diversification and sophistication of production, and ease of transition in the aftermath of the Arab Spring, all North African countries face, to different extent, employment challenges and have implemented broadly similar labour market policies.

The region’s labour market policies have produced vast income inequalities, separating formal sector workers in the public sector and in large firms from the rest of the labour force, and generating high levels of unemployment, particularly among young graduates and women. Moreover, policy responses to the recent global food and financial crises have tended to exacerbate income inequality: informal sector workers, the unemployed and the poor have emerged even weaker than before (Subrahmanyam, 2013). These issues are central to understanding the social tensions that lead to the outbreak of the Arab Spring, which has resulted in major economic disruptions and a further loss of jobs. While North African governments face considerable challenges in trying to balance social expectations against governments’ capacity, they have a unique opportunity to implement deep reforms. Striking the right balance between supporting private sector development and the creation of new jobs, while protecting existing jobs and current workers, remains a critical issue.

This chapter is structured in 3 sections. Section 1 provides an overview of labour markets in North Africa and the factors that explain high unemployment and informality. Section 2 discusses how the recent global crises and policy responses have exacerbated inequality, fuelling social tensions and igniting the Arab Spring. Section 3 concludes the chapter, offers recommendations for labour market reforms, and highlights long-term issues that should be considered while addressing job creation during the ongoing transition.

Key Messages*

- North African countries’ labour market policies have produced dual labour markets, characterised by high rates of unemployment, as well as wide disparities between formal and informal sector workers and between large and small firms.

- Government policies to mitigate the impact of the global food and financial crises led to a widening of these inequalities and a weakening of already vulnerable groups.

- The growing divide between the ‘haves’ and the ‘have nots’, in a difficult environment characterised by rising living costs, heavy job destruction and increasingly binding constraints on job creation and new enterprise formation, was the main cause of the Arab Spring. The situation was further compounded by the economic slowdown resulting from the political transition of Arab Spring countries.

- Governments in North African countries now face a window of opportunity to implement reforms required to ensure that growth is translated into job opportunities and improved livelihoods for all. However, the main challenge will be to strike the right balance between supporting the creation of new and better jobs over the long term, and protecting existing jobs and current workers.

* This chapter draws substantially from paper by Gita Subrahmanyam and Vincent Castel for the International Conference on ‘Social inclusion in the aftermath of the Arab Spring: from politics to policies’, which took place on 27 and 28 July 2013 at the Palau Centelles in Barcelona and which was organised by the European Institute of the Mediterranean, IEMed.

12 Throughout the chapter, the term ‘labour market policies’ is used to denote the broad range of policies that contribute to labour market outcomes, including fiscal, monetary, regulatory, industrial, credit, educational, etc.
2.1 Stylized facts about labour markets in North Africa

Labour market conditions in North Africa (Algeria, Egypt, Libya, Morocco and Tunisia) were already dire in 2010 and have deteriorated further over the recent years\(^ {13}\). The key features include: high unemployment and disengagement from the labour market; large but inadequately-skilled supply of workers with unrealistic employment expectations; insufficient job creation with inadequate supply of skilled jobs for educated workers; weak regulatory frameworks contributing to high unemployment and widespread informality; and limited voice options for workers’ groups wishing to highlight these problems.

Labour force participation is low, unemployment is high, and informality is widespread

Labour force participation rates are below 50% and unemployment rates are around 10 percent in all North African countries, considerably worse than global averages (see Figure 2.1)\(^ {14}\). Notably, North African countries suffer from a severe unemployment problem among youths aged 15-24, who are three times more likely to be unemployed than adults aged 25 and above (ILO, 2013a: 135). The situation is even worse among young graduates (see Figure 2.2)\(^ {15}\). Moreover, many of the young people classified as ‘employed’ work only negligible hours and are impoverished, which impedes their transition to an independent adulthood.

Women are particularly exposed to this problem as they are more than twice as likely to be unemployed compared to their male peers, notwithstanding the fact that they are three times less likely to participate in the labour market (ILO, 2013a: 134; 138)\(^ {16}\). Young women are especially disadvantaged: the unemployment rate among women aged 15-24 is eight times higher than for adult males and three times higher than adult females (ILO, 2012: 52). For instance, in 2010, 55% of economically active young females in Egypt were out of jobs (see Figure 2.1).

\(^ {13}\) Mauritania is not included due to lack of data.

\(^ {14}\) See ILO, 2013a: 85. The unemployment rate in Libya is much higher, estimated at 26% overall and 33% for youth in 2010 (IMF, 2012: 16).

\(^ {15}\) However, the bulk of the unemployed are not highly educated. For example, 59% of Morocco’s unemployed have basic or less than basic education (ILO Dept of Statistics, 2011: 11).

\(^ {16}\) Women’s lower participation rates and higher unemployment levels are a primary cause of poor labour market outcomes across the region.
There are also notable regional disparities. For example, in some regions of Tunisia, only 1 out of 10 people of working age has a job (Institut National de la Statistique, 2010). This reflects, among other issues, the fact that most of the economic opportunities in Tunisia are concentrated in the coastal regions. Similar trends can be found in other North African countries.

These high unemployment rates, especially among underserved groups, often create a negative loop that further compounds the problem. Indeed, difficulties in finding jobs often lead to widespread discouragement and withdrawal from the labour market. This disengagement from the labour market, especially at an early career stage, can damage longer-term employment prospects, and result in the erosion of professional and social skills (ILO, 2013a: 11). Long-term unemployment can result in chronic poverty, marginalisation and – as the Arab Spring demonstrates – social unrest.

North African labour markets are not only characterised by scarce job opportunities but also by the limited quality of existing ones. Indeed, a high proportion of the employed population work in poor conditions in the informal sector of the economy (World Bank, 2007), where workers’ rights are not protected. By way of illustration, over 41% of non-agricultural jobs in North Africa are in the informal sector, and do not have contracts or social protection (ILO, 2013a: 86)\(^\text{17}\). Only 30% of workers in Morocco, 46% in Tunisia and 50% in Egypt have an employment contract (Achy, 2010: 21; Tunisia Labour Force Survey 2007; De Gobbi and Nesporova, 2005). Informal workers generally experience poor working conditions compared to formal sector workers, who are the main beneficiaries of North African countries’ labour market regulations and social protection policies. Formal sector workers enjoy minimum wages and high levels of employment protection, while informal workers are often subject to low (or even no) pay and precarious working conditions (Subrahmanyam, 2011: 9).

Women are more prone to informality than men: nearly two-thirds of women across North Africa occupy vulnerable jobs, compared to one-third of men (ILO, 2013a: 86). Many women work under conditions where pay is uncertain: on average from 2006 to 2010, only 34% of working women in Morocco, 39% in Algeria and 51% in Egypt worked in jobs where the basic remuneration was not tied to the revenue of the unit for which they worked (ILO Department of Statistics, 2011: 9).

Young people are also more susceptible to informal sector employment than older groups. For example, in Egypt, the share of new entrants’ first jobs in the informal sector rose from less than 20% in the 1970s to 60% by the end of the 1990s (Wahba and Mokhtar, 2002). Moreover, 95% of young people continue to remain in insecure employment eight years after they get their first position. Hence, for most workers, informality is a permanent condition, rather than a transient stage en route to formal sector employment (World Bank, 2004).

Across North Africa, informal employment tends to be higher in rural areas than in urban areas. In Egypt, for example, 70% of rural workers are informally employed, compared to 43% of urban workers (Angel-Urdinola and Tanabe, 2012: 10). What’s more, young women in rural areas have a higher tendency towards informal

\(^{17}\) Lack of job security and social protection were central social demands during the Arab Spring.
employment than all other segments of the population (World Bank, 2007).

*High rates of unemployment and informality have been driven by a rising supply of labour, coupled with poor investment climates that limit the demand for workers*

On the supply side, the demographic transition has boosted the pool of potential workers. In the 1990s, the growth in North African mortality and fertility rates slowed, producing an increase in the prime-age working population relative to all other groups. Under the right conditions, an increase in the supply of young workers can raise incomes and spur development. However, given the severe constraints on job creation (see below), North African economies have faced difficulties in generating jobs at a sufficient pace to absorb all new entrants to the labour market (Figure 2.3). For example, in Tunisia from 2000-2008, the number of new jobs generated was insufficient to cover the increase in the labour force—so both youth and overall unemployment rates rose. In Morocco, job creation exceeded labour force growth; however, new jobs did not substantially benefit youth, so youth unemployment continued to increase (Boudarbat and Ajbilou, 2007: 17). By contrast, job creation in Algeria exceeded new entrants, enabling the country to significantly reduce its high youth unemployment rate.

The supply of workers has also increased due to the rise in female participation in the job market. Greater equality in access to education and employment opportunities has boosted female labour force participation across North Africa, although economic activity remains lower among women than men. In Tunisia, for example, legislative reforms in the late 1950s enabled girls to attend school on an equal basis to boys and allowed women to work or establish a business without the permission of their husbands or fathers (Ben Salem, 2010: 488). As a result, female labour force participation in Tunisia grew from less than 5% in 1960, to 10% in 1970, to 20% in 2000-2008.

Figure 2.3: Job supply and labour force increase, 2000-2008

Source: Boudarbat and Achy (2010: 17).

18 ‘Youth bulges’ are a common feature in most developing countries today. North Africa’s youth bulge is expected to last until 2020 (Achy, 2010: 5; Gubert and Nordman, 2009).

19 Nevertheless, most of the jobs created in Algeria were short-term public sector posts (Subrahmanyam, 2011).

20 Growth in female economic activity has been attributed to a range of modernising reforms implemented by North African governments – including, for example, the extension of unilateral divorce rights to women (ILO, 2012: 21). However, greater access to education and employment opportunities is the most direct determinant.
1980 and to over 20% after 1990 (Institut National de la Statistique, various years). More women are pursuing higher education: enrolment rates for women actually exceed those for men in Algeria and Tunisia (see Figure 2.4). And gender equality in hiring is a longstanding public policy across North Africa, with public sector job openings open to candidates of both genders (World Bank, 2013). Until recently all individuals – including women – with a post-secondary or vocational secondary qualification were guaranteed public sector jobs (Assaad and Hamidi, 2009).

Despite progress towards gender equality, entrenched and outdated social attitudes make it difficult for most women, including highly educated ones, to secure good jobs in the private sector (Ben Salem, 2010). Private sector employers tend to prefer hiring and retaining men, particularly during periods of limited job opportunities, so women often lack access to well-paid formal sector jobs. Persistent gender discrimination is one reason why young women across North Africa are more prone to high unemployment than other groups and why most women either remain outside of the labour market or work in the informal sector. Because the public sector is the main provider of formal employment opportunities for educated young women, many opt to remain unemployed unless they can secure a public sector position (Stampini and Verdier-Chouchane, 2011). This is likely to explain why 37% of employed young women in Egypt work in the public sector, compared to only 10% of employed young men (Sieverding, 2012: 4).

While the number of potential young workers has increased, North African educational systems have not prepared them adequately for private sector jobs. Since the mid-1980s, most North African governments have implemented economic reform packages requiring privatisation, greater economic openness, and an end to governments’ role as the main employer of graduates. As a result, public sector employment has shrunk. For example, the Algerian public sector employed 65% of the labour force in 1987 but only 25% in 2004 (Aita, 2008: 40-44). Yet education systems across North Africa are still preparing young people for jobs in the public sector, rather than providing them with the skills and training adapted to private sector needs. There is an emphasis on theory, rather than application, and a high proportion of students major in law, economics and management (Stampini and Verdier-Chouchane, 2011: 1). In addition, young people do not receive early and effective career guidance informing them of the limited employment opportunities
in the public sector and the skills required by the private sector. Hence, young graduates continue to display a strong appetite for public sector jobs and, in some countries, remain voluntarily unemployed as they wait for openings in the shrinking public sector (Stampini and Verdier-Chouchane, 2011: 14).

More generally, skills produced by the North African education systems are not necessarily those in demand by employers. Skill mismatches take place on several dimensions. First, as discussed above, there is an oversupply of university students majoring in social science and humanities subjects and an undersupply of engineers, scientists and technicians (see Figure 2.5).

Second, while access to education in North Africa is comparable to global averages (see Figure 2.4), educational quality remains poor. North African students perform below the global average in international exams, such as the Trends in International Maths and Sciences Study (see Figure 1.6) and the OECD Programme for International Student Assessment (Subrahmanyam, 2011: 5-6). This low performance reflects North African educational systems’ reliance on rote learning, rather than on problem solving or application of knowledge (World Bank, 2007: 5). Moreover, skills mismatches are not addressed through training: according to the World Bank Enterprise Surveys, only 17% of firms in Algeria, 22% in Egypt and 25% in Morocco offer their employees formal training – a low proportion even among MENA countries (26.5%) and well below the global average (35%). Lack of an adequately skilled supply of workers has been a barrier to private sector growth and investment – including foreign direct investment, which has been a key driver of private sector-led growth in other regions – and has therefore impeded productivity gains and innovation in the region (Subrahmanyam, 2013).

21 Career guidance is offered in many schools, as well as in public employment agencies. However, provision generally suffers from major flaws, including: career guidance is not offered as part of the educational curriculum; individuals offering career guidance lack formal training; the information provided is not automated so is not widely available; and information quality is weak due to sparse data on the labour market (Sultana and Watts, 2008).

As the supply of workers has risen, poor business climates in North African countries have severely constrained the demand for labour. North African firms face high costs of doing business and rigid labour market regulations, which have deterred private sector growth and employment and encouraged informality (Subrahmanyam, 2011: 7-9). Notwithstanding their
distinct rankings in the World Bank’s Doing Business report (World Bank, 2013a), all North African economies suffer from excessive red tape and corruption. The procedures involved in starting a business, such as obtaining construction permits and registering property, can be prohibitive, encouraging smaller firms to operate in the informal sector and to remain small to avoid detection.

Restrictive hiring/firing policies and high minimum wage levels encourage employers to either not hire workers or to hire them ‘off the books’, often at below minimum wage. Strict worker termination policies make firms reluctant to hire young workers, in particular new entrants without a prior work history and established professional experience. Tunisia ranks at the bottom of the 2013 Doing Business database on Employing Workers in terms of rigidity of rules regarding the dismissal of workers (World Bank, 2013a). Minimum wages across North Africa are centrally determined through collective bargaining arrangements, providing leverage to formal sector workers that tends to keep wages artificially high. Wages determined through collective bargaining are also not linked to labour productivity; so many firms view them as a disincentive to hire workers formally. Likewise, the considerable costs of social security and retirement contributions encourage employers to avoid paying them, either by hiring fewer workers or by hiring them on a temporary or illegal basis (Dyer, 2005: 24). Firms’ propensity to evade labour charges creates a self-perpetuating cycle of worker insecurity.

Inappropriate investment climates, combined (in some countries) with a heavy reliance on natural resources, has limited diversification and technical sophistication in North African economies, contributing further to the private sector’s inability to generate a sufficient number of skilled jobs (AfDB, 2012a). Indeed, North African economies that have limited diversification, such as Algeria or Libya, are facing tremendous challenges generating skilled jobs for their educated youth outside of the oil sector. However, even more diversified economies, such as Morocco or Tunisia, are facing similar challenges due to a lack of sophistication in their service and industry sectors.

Manufacturing sectors in these countries have declined relative to all other sectors over the past 20 years, owing to a failure to develop the more sophisticated industrial sectors, such as electronics, which have driven fast growth and an upward movement in the value chain in other regions. In Egypt, for instance, high-technology exports made up less than 1% of all manufactured exports between 2008 and 2011 (World Bank, 2013b). In parallel, because most jobs created in the countries’ fast-growing services sector are characterised by low productivity and wages, there has been a shift in the overall composition of employment towards lower skilled jobs. Given these dynamics, the government remains the

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22 Social security costs comprise 15% of the total wage bill in Algeria, 24% in Morocco and 28% in Tunisia; and between one-half to three-quarters of the costs are borne by employers (Blanc and Louis, 2007: 61-71). Mandatory retirement plans bring up the total further, adding 15% to the wage bill in Algeria and 12% in Morocco, with employers funding 10% and 6%, respectively. In addition, companies wishing to terminate workers must pay severance, averaging 85 weeks’ salary in Morocco and 17 weeks’ in Algeria and Tunisia (Achy, 2010: 21).

23 Moreover, despite their high costs, social protection mechanisms in the region are weak, so do not cushion even many formal sector workers from economic shocks. Less than 20% of dismissed workers in Algeria, 19% in Morocco and 5% in Tunisia are eligible for unemployment benefits (Blanc and Louis, 2007; Tunisia Labour Force Survey 2007; European Commission, 2010b: 25-31). In Egypt, only workers laid off as a result of court-approved firm closures qualify for unemployment benefits (Bardak et al, 2006: 52). Retirement benefits are paid to only 5-10% of the elderly across all MENA countries (European Commission, 2010a: 40).

24 ‘Sophistication’ in economic terms refers to the production of high-tech, high-value, high productivity goods and services.

25 These are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.
main provider of skilled and well-paid jobs for educated youth in North Africa – which explains why graduates continue to ‘queue’ for these positions (Stampini and Verdier-Chouchane, 2011).

Uneven public investment over long time periods has also led to vast and growing inequalities between the coastal and interior regions and between urban and rural areas in every North African country. In Tunisia, for example, industrial policy between 1973 and 2006 supported more rapid development of the coastal regions to the north and east of the country, relative to the interior regions in the south and west (Erdle, 2011). Coastal regions received the bulk (65%) of public investment between 2000 and 2005, whereas two interior regions received no government assistance whatsoever (Page, 2012: 3326). Differential development has encouraged the migration of educated youth from the interior of the country to the coast, affecting longer-term private sector development patterns in the interior (Erdle, 2011). Tunisia is not unique in this respect: similar patterns of uneven regional development can be found in other North African countries (Page, 2012: 33).

**Overall picture: dual labour markets, income inequalities and limited voice options**

Overall, labour markets in North Africa are characterised by dualism and inequality: on one side, there are large firms and formal sector workers, who earn at least the minimum wage and enjoy high levels of social protection; on the other side, there are small firms and the remainder of the labour force, who are unemployed or informally employed, generally earning much lower salaries than formal sector workers and facing poor working conditions. Moreover, people in the latter category cannot easily move to the former category, owing to systemic barriers – including gender discrimination, inadequate skills or experience, high barriers to setting up a business amid low access to financing, and an insufficient number of skilled jobs in the private and public sector.

Until the Arab Spring, social tensions arising from these issues were only episodically expressed in the form of ‘bread riots’ or other small-scale outbursts, because open expression was generally not permitted (Subrahmanyam, 2013). Most private sector workers – not just informal sector workers – had limited options for voicing their grievances or agitating for better conditions, given the nature of trade union legislation. In Algeria, forming a trade union required government authorisation (Blanc and Louis, 2007: 43). In Morocco, the judiciary system was able to dissolve unions that did not meet strict criteria. In Tunisia and Algeria, the right to strike was not guaranteed (Aita, 2008: 53-56). Less than 5% of private sector workers in Algeria benefited from any form of collective representation (Blanc and Louis, 2007).

Moreover, government groups heavily controlled union activity. In Algeria, a single trade union monopolised labour activity, and public sector employees made up half of its members (Blanc and Louis, 2007). In Tunisia, one union dominated labour activity, and 60% of its members were government employees (Aita, 2008: 57). In Morocco, there were 17 recognised trade unions, but four government-connected syndicates enjoyed the greatest influence (European Commission, 2010b: 25-31). In Egypt, government and public enterprise employees comprised 75% of trade union members (Bardak et al, 2006). Not surprisingly, in all of the countries, public sector workers enjoyed the highest wages and best benefits.

### 2.2 Recent crises, labour market impact and the making of the Arab Spring

Longstanding inequalities between formal sector workers – in particular, in the public sector – and the remaining bulk of the labour force were a significant

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26 One of the regions ignored in government investment plans was Sidi Bouzid, the ‘birthplace’ of the Arab Spring.
factor that fuelled the Arab Spring, but were not the proximate cause. Instead, riots and revolutions that rocked North Africa were ignited by a series of crises that struck the region beginning in 2003. The impact of the crises and the effects of government policy responses resulted in a growth in inequality, which was the main cause of the Arab Spring.

The sharp rise in international food prices in 2003, followed by the global financial crisis of 2008, further widened inequalities between large businesses and small enterprises, as well as between formal and informal sector workers. Small firms, informal sector workers, the unemployed, and the poor were hardest hit by these crises, yet government responses bolstered privileged groups and sectors, rather than sought to protect vulnerable groups and sectors (Subrahmanyam, 2013).

While the international food crisis did not directly reduce job opportunities or wage levels, rising food and fuel prices created great difficulties for those on low (or no) wages and pushed an estimated 7.4 million people in the Middle East and North Africa below the poverty line (De Hoyos and Medvedev, 2009: 14). As a result, ‘bread riots’ erupted in Algeria, Egypt, Morocco and Tunisia in late 2007 and early 2008 (Subrahmanyam, 2013). The global financial crisis had a larger and more direct impact on North African labour markets: employment fell sharply in net oil importing countries, particularly in the manufacturing, agricultural and tourism sectors, which affected women and young people more than other groups (ILO, 2011; Subrahmanyam, 2011). In addition, more restricted access to credit and capital as a result of the crisis spill overs affected small businesses more than large firms.

Government responses to the crises increased the income gap between wealthier and poorer groups in three ways. First, increases in public sector wages (which Egypt, Algeria and Morocco implemented during the world food crisis) and/or minimum wages (which Algeria, Morocco and Tunisia implemented during the global financial crisis) widened the remuneration gap between formal and informal sector workers27. Second, every country in the region introduced subsidies to support consumption, but these mostly (80%) benefited non-poor groups (Subrahmanyam, 2013). Third, changes in government expenditures in response to the crises tended to favour wealthier groups over poorer groups. For instance, during the 2008 global financial crisis, large export firms were inundated with funds and guaranteed loans, while small enterprises were offered limited credit and continued to experience difficulties in obtaining loans28. During the world food crisis, 89% of Egypt’s additional budget to address the crisis was used to raise public sector wages and pensions, while only 11% was devoted to the food ration card scheme for the poor (Egypt Ministry of Finance, 2009: 3).

Government investment in active labour market programmes (ALMPs) provided the main support to informal sector workers, the unemployed and the poor during the two crises (Box 3 provides an overview of ALMPs in North Africa). However, these programmes were largely unsuccessful in creating decent, sustainable private sector jobs. The programmes were offered mainly by government providers. For example, until 2009, Morocco’s Labour Code prohibited non-public provision of government-financed employment; so ANAPEC29 was the monopoly supplier of ALMPs in the country (Subrahmanyam, 2011; 18). As a result, programmes often suffered from design flaws: the newly self-employed completing entrepreneurship programmes continued to experience difficulties accessing credit; jobs created through wage subsidy schemes rarely lasted beyond the subsidy period; vocational training programmes did not teach

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27 Informal workers are not subject to minimum wage legislation.


29 National Agency for the Promotion of Employment and Competencies.
marketable skills because businesses were not involved in their design or implementation; and job placement services had low success rates placing their educated youth clientele (the bulk of registered jobseekers) in unskilled jobs, which accounted for the bulk of listed vacancies (Subrahmanyam, 2011). Hence, the governments that could afford to do so (mainly the net oil exporting countries) reduced unemployment rates by creating temporary public sector posts – an expensive and only short-term solution. Moreover, long-term constraints on job creation and weaknesses in the skill sets of job seekers continued to hamper the ability of the private sector to address unemployment and poverty in North African countries.

### Box 3: Overview of publicly-provided active labour market programmes in North Africa Algeria

**Pre-Arab Spring**

Algeria has a long record of implementing ALMPs with substantial public funding, thanks to oil revenues. Five institutions deliver a range of ALMPs: (i) the National Employment Agency (DAIP) provides temporary work contracts and internships for youth; (ii) the National Agency for Employment Support of Youth supports micro-enterprises by young people aged 19 to 35; (iii) the National Unemployment Insurance Fund provides unemployment benefits and support for the creation of micro-enterprises for unemployed individuals aged 30 to 50; (iv) the Social Development Agency undertakes public works programmes for the poor; and (v) the National Agency for the Management of Micro-credits finances micro-credits to the poor.

**Post-Arab Spring**

The ALMPs have not changed dramatically since 2011.

**Egypt**

**Pre-Arab Spring**

A number of ALMPs are in place, including employment services for jobseekers (through 300 employment offices), public works (particularly through the Social Fund for Development and more recently with the support of international donors) and vocational training programmes.

**Post-Arab Spring**

The new National Programme for Training for Employment (NPTE) has been in the pilot implementation phase since October 2012. NPTE aims to improve the skills of Egyptian industrial workers through three main components: setting up a labour market information system (LMIS); supporting training and qualifications; and matching jobseekers to decent jobs. The total cost of the project is estimated at EGP 500 million, met through limited government funding as well as contributions from the private sector and international donors. In the pilot phase, 17,000 jobs were created in 10 different sectors (50% in the ready-made garment sector). All new employees receive social and medical insurance coverage.

**Libya**

**Post-Arab Spring**

The reintegration of demobilised fighters (145,000) is Libya’s most important priority. A Warriors Affairs Commission (WAC) was set up with a budget of around LYD 1 billion, thanks to oil revenues. Reintegration is to be achieved
through three main programmes. IFAD (‘sending’) targets ex-fighters who would like to pursue higher studies abroad. WAC plans to send 18,000 individuals abroad over a five-year period and expects to receive organisational and planning support from international organisations and host countries. KADER (‘able’) targets ex-fighters without any skills or qualifications. WAC plans to send 28,000 individuals abroad for vocational training. Finally, TAMOUH (‘ambitious’) supports ex-fighters in setting up their own businesses. The programme plans to support 5,000 projects.

Morocco

Pre-Arab Spring

ANAPEC is responsible for implementing ALMPs in Morocco. Registration is compulsory for anyone wishing to access ALMPs. There are three main programs. IDMAJ (first-time recruitment contract) provides employers with wage subsidies and tax exemptions if they hire young graduates on temporary contracts. The programme has been relatively successful from a quantitative point of view (300,000 beneficiaries placed between 2006 and 2012), but has not contributed to a substantial increase in permanent jobs. Taehil (vocational training/retraining contract) benefitted around 50,000 jobseekers from 2006 to 2012. And Moukawalati (entrepreneurship) supports small business creation by offering comprehensive support to entrepreneurs in the form of loans, pre- and post-creation assistance, and interest-free advances of investment.

Post-Arab Spring

Its ALMPs have not changed dramatically since 2011.

Tunisia

Pre-Arab Spring

Since 1981, a range of ALMPs – including training internships, self-employment programmes and wage subsidy schemes to assist graduates in obtaining jobs – have been implemented by ANETI (Agence nationale pour l’emploi et le travail indépendant) and (since 2000) the National Fund for Employment in Tunisia. In 2009 the government reviewed its ALMP provision and reduced the number of programmes from around 50 to 7.

Post-Arab Spring

Following the revolution in 2011, the transitional government formulated an Employment Emergency Plan (or ‘Roadmap’) to support employment along four main axes: job creation; the promotion of entrepreneurship and micro-enterprises; the protection of existing and threatened jobs; and employability and activation of the unemployed through training (Amal). Meaning ‘hope’, the Amal programme provides unemployed graduates with training, coaching, reconversion, internships and a monthly allowance for a maximum of one year.

In October 2012, four additional programmes were created by decree, including the “Chèque d’amélioration de l’employabilité” (aimed at supporting jobseekers’ employability), “Chèque d’appui à l’emploi” (aimed at supporting employment), “Programme d’appui aux promoteurs de petites entreprises” (aimed at assisting jobseekers to become self-employed), and “Programme de partenariat avec les régions pour la promotion de l’emploi” (aimed at correcting regional inequalities by funding development programmes to create jobs and/or enterprises at the local level).
The growing divide between the ‘haves’ and the ‘have nots’, in a difficult environment characterised by rising living costs, poor governance, heavy job destruction and increasingly binding constraints on job creation and new enterprise formation, was the main cause of the Arab Spring. Countries where revolutions were ‘successful’ and lead to a political transition have suffered major economic disruptions, resulting in high job losses and further deterioration of their labour market conditions.

The Arab Spring had a more severe impact on economic growth and jobs than the two previous crises combined (Subrahmanyam, 2013). Direct damage to companies, sit-ins, and strikes disrupted economic activities, especially in transition countries (Shahin and Zreik, 2011). Tourists and foreign investors fled countries experiencing social turbulence and violence, and did not return until they were convinced that the situation had stabilised. The economic and social costs to countries undergoing transition were huge. In Egypt, tourism fell by almost half in the first quarter of 2011, costing Egypt about $1 billion per month; factories were reportedly working at half capacity even after the fall of Mubarak; FDI plunged from $6.4 billion to $500 million; and unemployment reached double-digit levels (Hakimian, 2011; The Economist, 2012). In Tunisia, 120 foreign owned firms left the country, leading to a loss of 40,000 jobs. In Libya, oil production ground to a near-halt during the eight-month battle between rebel and pro-government forces (World Bank, 2011b: 24).

Adding to the problems of a region still reeling from the Arab Spring, a new crisis – the euro zone debt crisis – has emerged that threatens the region’s economic recovery. North African countries are heavily dependent on Europe for trade and capital flows, so economic slowdown in Europe carries consequences for North Africa (Subrahmanyam, 2013)\(^\text{30}\). For example, a sharp fall in European demand for North African exports would likely result in severe job losses, especially in the net oil importing countries’ tourism, manufacturing and agricultural sectors.

Some governments have responded to the emergency by expanding public sector employment. In Egypt, one million new public servants were recruited in 2011, increasing the country’s wage bill by 15% (AfDB, 2012b; Subrahmanyam, 2013). In Tunisia, the public sector expanded in the aftermath of the revolution through the creation of 40,000 additional civil service posts and through Tunisair, the government-owned aviation company, absorbing its (formally private sector) service providers (Subrahmanyam, 2013; Belhadj Ali, 2011). In Libya, demobilisation of militias has occurred alongside massive absorption of ex-combatants (and others) into the public forces (Saleh, 2013).

While understandable given the short-term economic crisis, addressing unemployment by increasing public sector jobs has several negative consequences. First, it is an expensive measure that places immense pressure on state finances, and thus is ultimately unsustainable. Second, it does nothing to address the true causes of unemployment. Third, it creates false labour market signals, reinforcing graduates’ propensity to queue for government positions. All in all, relying on public sector employment to address the employment crisis can create a self-perpetuating cycle, whereby unemployment continues to grow and the public sector must continually expand to keep it under control. The only way to break this cycle is to undertake the necessary structural reforms to unleash private sector-led growth, so that sustainable jobs are created and unemployment is permanently reduced.

In the aftermath of the Arab Spring, the region’s recovery is complicated by high social expectations for change, coupled with countries’ reduced fiscal capacity to execute such change amid a difficult economic environment. On the other hand, North African countries – in particular, those undergoing transition – are now presented with a unique opportunity to implement deep labour market reforms, which could lead to major economic and social transformation.

\(^{30}\) Every North African country is dependent on Europe for over 50% of its trade, tourism and/or FDI (Subrahmanyam, 2013). None of the countries, apart from Egypt, has cultivated substantial trade and financial links with regional partners or emerging market economies.
2.3 Labour market reforms: the road ahead

North African countries are at a historic juncture. The region’s youth bulge is expected to last until 2020. If countries are able to address skill mismatches and generate enough high-quality jobs to utilise the skills of their educated youth, they can enjoy a significant ‘demographic dividend’ in the form of rising per capita output and enhanced savings and investment.

The post-transition environment offers North African governments a chance to initiate the bold structural reforms that would make this possible. After all, the post-Arab Spring era demands that a greater number of groups be included in policy decisions, and greater inclusiveness tends to weaken the hold of long-standing vested interests, enabling change to occur. Greater inclusiveness, combined with a focus on policies that boost private sector growth and innovation, can bridge the gap between formal and informal sector workers, large and small firms, and the rich and the poor. This would in turn increase countries’ resilience to future shocks, rendering growth more sustainable.

In reforming labour market policies, governments need to address the immediate needs of the transition period while keeping in mind the long-term issues that impede job creation. First, their overall strategies need to take into account all four dimensions of labour market policies: active labour market programmes, labour regulations, social protection legislation, and collective representation.

The design of active labour market programmes (ALMPs) should reflect lessons learned from international experience:

- ALMPs should involve multiple partners for greatest effectiveness and coverage. Including a wide range of partners and stakeholders in ALMPs increases the levels of financial, technical, and personal support available to beneficiaries and can ensure the success of programmes, so long as efforts are coordinated and integrated.

- To ensure that ALMPs deliver the right skills, private sector firms should be involved in the design and implementation of programmes. This seems an obvious point, but did not occur in Tunisia following the Arab Spring. Tunisia’s AMAL (or ‘hope’) programme which was designed as a job activation mechanism for young graduates. However, it was initially implemented as a direct cash transfer programme without any on-the-job training component.

- Reliable information about the labour market and skills needs of employers is required for designing effective employment programmes. Governments need to place a greater emphasis on knowledge generation and the production of reliable statistics. Labour market information also needs to be communicated early and widely – for example, through career guidance for young people.

- Effective targeting of programmes is essential to ensure that the groups most in need of assistance receive state support. In many cases, the benefits of government programmes are ‘creamed’ by less needy or privileged groups. Disadvantaged groups may require special programmes designed to overcome specific constraints on their employment – for example, entrepreneurship programmes targeting young women who face job discrimination issues.

- Finally, a comprehensive approach should be adopted – so that, for example, skills training programmes are complemented by job placement and support services, and entrepreneurship schemes provide access to finance and markets as well as training.

31 Rapid growth in the East Asian ‘tiger’ economies from 1965 to 1990 has been attributed to the countries having fully capitalised on their youth bulge (Bloom and Canning, 2008).
During the transition phase, the three remaining dimensions (revising labour regulations, making sure that social safety nets are in place, and improving collective representation and bargaining) should occur in parallel to strike the right balance between protecting workers and protecting jobs. As previously indicated, labour market regulation should be revised to allow for greater flexibility, so that it supports formal employment growth and the creation of better jobs. However, easing limits on firing workers requires improvements in safety nets to protect workers who are in between jobs. In the post-Arab Spring era, reforms to labour regulation will be difficult to pass, finance and sustain without some form of collective representation and bargaining.

In most countries in the region, a national dialogue is needed to renegotiate the social contract, so that formal sector employment is expanded in a manner that benefits both firms and workers. This dialogue should include previously excluded civil society representatives. Tunisia initiated this process in 2012, and its New Social Contract was signed on 14 Jan 2013 with the participation of the government and two major social partners. However, much remains to be done to include more partners in the process, which is necessary to tackle some of the fundamental issues that have thus far contributed to widening inequalities and prevented job creation.

Second, the capacity of countries to implement reforms differs, depending on their structural composition and execution capacity:

1. The net oil exporting economies have greater capacity to finance labour market reforms than the net oil importing countries. However, given their reliance on a single sector that has limited potential for job creation, they tend to rely on public sector employment to reduce unemployment levels. These countries need to undertake deep reforms to mitigate the ‘Dutch disease’.

2. The level of human capital differs widely across the region, affecting job creation and employment opportunities. For instance, Morocco has a much less educated and skilled population than Tunisia, both in terms of years of schooling and education quality.

3. The level of economic diversification and sophistication affects the capacity of the private sector to absorb new labour market entrants, particularly those with higher levels of education. The net oil importing countries are more economically diversified than the net oil exporting countries in the region.

4. The solidity of institutions varies across countries in the region. In Libya, there is weak institutional capacity, while in Tunisia and Morocco the administrative apparatus is fairly robust. Countries with stronger institutions have a greater capacity to implement policy reforms. However, across the region, institutions are insufficiently decentralised, which limits the effectiveness of labour market reforms.

5. Finally, the pace and outcome of the transition varies across countries that experienced the Arab spring, influencing their capacity to implement policy reforms. The transition has been relatively successful in Tunisia, but very difficult in Libya. Continuing social tensions within Libya affect the new government’s capacity to engage in constructive social dialogue.

Third, labour market policies need to be viewed as part of a wider comprehensive reform and investment package. Care is required to ensure that policies designed to address the short-term needs of the transition period do not impair the long-term objective of reducing inequality and strengthening the private sector’s capacity to create ‘decent’ and sustainable jobs.

32 Social partners were the Tunisian General Labour Union and the Tunisian Union of Industry, Trade and Handicrafts
To conclude, reform programs should adhere to four fundamental principles:

1. Macroeconomic stability is essential to job creation and growth. Stability is currently being weakened in some countries through the implementation of expensive, short-term measures.

2. An enabling business environment, including wider access to credit, needs to be developed. Some governments in the region do not understand the extent of changes in laws and regulations required to attract investors and promote innovation.

3. The right type of human capital should be developed. The nature of skills mismatches varies across the region, but two general observations could be made for all countries in the region: (a) vocational training is undervalued, and there is a critical need for workers with job-relevant skills; and (b) education and economic systems need to work together to produce the skills required for the 21st century, including entrepreneurial skills and attitudes.

4. Finally, the rule of law needs to be enforced to attract both local and foreign investors which are required to accelerate growth over the long term and achieve sustainable job creation.

The African Development Bank is committed to assisting North African countries in formulating and implementing effective labour market reforms. This means supporting the private sector as an engine for sustainable growth and job creation and strengthening sectors and regions that have been weakened over time. Box 4 outlines the main features of the Bank’s response to the issue of unemployment in Tunisia.
Box 4: African Development Bank’s response to the issue of unemployment in Tunisia

Since the revolution, the Bank has focused on supporting the private sector as the driving force behind job creation and employment in Tunisia. The Bank’s intervention strategy for Tunisia consists of two pillars, implemented using a range of instruments. The Bank has intervened, firstly, by funding technical assistance and budget support operations to streamline the reform agenda and stabilize the macroeconomic situation; and, secondly, by financing public and private sector investments to create jobs in the short term (with SMEs developing the Bank-financed infrastructure) and in the long term (through private sector projects or as a spillover of infrastructure improvements).

The first pillar of the Bank’s intervention 2012-2013 strategy focuses on supporting Tunisia’s economic transformation. Implementation of this objective can take place directly, by funding the authorities’ reform agenda to improve the business climate, or indirectly, by financing innovative projects that can establish the foundations for the development of dynamic new sectors and the creation of higher value-added jobs. To support business climate improvements, the Bank has extended direct and indirect support to reforms of the investment code, the operationalization of the revised public-private partnership law, and establishment of a participatory process for revising administrative procedures related to economic activities. The Bank has also supported legal reforms pertaining to investment vehicles, venture capital and mutual funds, and national procurement systems. To support the development of higher value-added industries, the Bank has funded various lines of credit, including one recent credit line specifically targeting SMEs, and has financed private and semi-public sector projects, such as Gas Project ETAP and Airport Enfidah.

The second pillar focuses on reducing regional disparities by supporting measures that improve the employability of people living in less-developed regions and that make the regions more attractive to the private sector. This may be achieved in three main ways: by improving local governance and public service delivery through state devolution; through capacity building of local authorities involved in delivering public services, such as education, procurement and basic infrastructure; and through project funding for infrastructure development and maintenance, to increase people’s access to basic services, create a more conducive environment for private sector growth and investment, and improve the competitiveness of the Tunisian economy. To support employability, entrepreneurship and employment in the regions, the Bank funded reforms of Tunisia’s main active labour market programmes (National Employment Fund and AMAL), of the microfinance sector, and of higher education through two budget support operations in 2011 and 2012, at a total value of approximately $1 billion. The funds have also been used for highway, road, electricity and sanitation infrastructure projects, as well as for implementing rural development programmes to develop agribusinesses.
Chapter 3

Regional Disparities: The Tunisian Case
North African countries, like many other countries, report significant differences in income levels and welfare indicators across their local regions. Tunisia is not an exception. For a relatively small country, differences among local regions are substantial. Indeed, access to the sea has provided coastal regions with significant economic advantages. And differences were further amplified by preferential access to government-financed investment and services that coastal regions benefited from. Accordingly, interior regions have been suffering from higher poverty and unemployment, and poorer human capital outcomes compared to coastal regions. Regional disparities helped to ignite the Tunisian revolution; reducing them will be an important test of the sustainability of post-revolutionary governments.

Addressing regional disparities is not only a question of devoting more government resources to disadvantaged regions, although this is important. An efficient strategy for improving the distribution of income and production among regions must take into account two important principles. First, concentration of industrial activity in large, densely-populated areas can generate important efficiency gains. Thus there are good economic reasons why Tunisian industry is concentrated on the coast, and these considerations should not be ignored when addressing the severe inequities between the coast and the interior. Second, while encouraging more rapid industrial growth in the interior is an important goal, support programs should take into account existing comparative advantages of these regions, as well as the potential for synergies with nearby coastal regions.

This chapter explores regional disparities in Tunisia and discusses their underlying causes, with the aim of drawing lessons for other countries facing the same problem. While the issues facing Tunisia and the discussion of policies to address them may not necessarily be relevant for all North African countries, it is believed that a detailed look at regional disparities in Tunisia provides very interesting lessons for the region. Broadly speaking, the chapter argues that more technologically sophisticated production should be supported in coastal regions, while interior regions

* This chapter is based on inputs of papers from Castel Vincent (Chief Country Economist, AfDB); Gilles Nancy (Aix- Marseilles University) and Sofien Gaaloul (Statistician Economist MDCI); Zouhour Karray (Professor, Department of Economics, University of Tunis) and Slim Driss (Lecturer, Department of Economics, University of Tunis); and Salma Zouari (Professor of Economics, University of Sfax), Ines Ayadi, and Yassine Jmal. We also relied on material from AfDB (2013).
The chapter is structured into 3 sections. The next section explored major differences in welfare across Tunisian regions, focusing on poverty, unemployment and access to health services, and discusses their underlying causes. Section 2 describes differences in industrial structure between the coast and the interior, while section 3 offers recommendations for industrial policy that could help improve equity and boost industrial growth in interior regions.

3.1 Differences in welfare across Tunisian regions

Chapter 1 of this report explored the substantial increases in real incomes and improvements in various indicators of well being in Tunisia over the past two decades. However, this progress has been uneven among regions, leaving interior regions well behind coastal ones.

Interior regions have higher unemployment and poverty rates than coastal regions

Statistics published by the National Statistical Institute (INS) show that decline in poverty in Tunisia over the past few decades was in part due to a reduction in inequality within regions, while inequality between regions was increasing significantly. In 2010, poverty rates in the southern regions were nearly twice that of Grand Tunis (Figure 3.1). Similarly, unemployment rates in the western regions and in the south east were substantially higher than in the capital (Tunis). These regional disparities, and in particular the high rates of unemployment in disadvantaged regions, significantly contributed to the outbreak of the revolution in Tunisia.

Figure 3.1: Incidence of poverty and unemployment in 2010

Regional disparities reflect a high degree of isolation in the interior regions due to distance and limited transport networks, as well as inadequate investment in other forms of infrastructure that would support production. For example, underinvestment in irrigation has reduced agricultural potential in many interior regions (Brisson and Krontiris 2012). Disparities also reflect the more limited provision of a variety of other public goods, for example education and health services, access to clean water and sanitation, and communications, in the poorer and more isolated regions. In addition, there can be a self-reinforcing aspect to regional disparities, as both firms and workers find it profitable to locate in areas of relatively large population density, referred to as the benefits of agglomeration (see box 5).
Box 5: Benefits of agglomeration

Concentration of economic activity in specific geographical regions, particularly those close to transport links, is a natural process. Both firms and workers benefit from locating in areas where there is already substantial economic activity. Indeed, inputs costs are often lower in such areas, because of the availability of transport networks and competing suppliers which drive production costs downward (Ayadi and Amara 2011). Also, it is often easier to find workers with specialized skills in areas with large and relatively sophisticated populations. Firms also benefit from spillovers, or increases in productivity thanks to technology transfer fostered by proximity. For example, a firm may learn how to improve its production process simply by hiring workers from highly productive firms that operate in the same region. Moreover, firms may locate to regions with large number of high-income consumers to access a larger market, and thus benefit from economies of scale, at minimum transport cost. World Bank (2009) finds that the principal motivation for the choice of location is market demand, rather than productivity benefits.

Workers are also attracted to areas of dense economic activity, to earn higher salaries made possible by increases in firm productivity, to access specialized jobs which are not available in less developed regions, or to benefit from the availability of multiple employers and therefore greater employment opportunities. Empirical research (Steinnes and Fischer 1974) has used models of regional development to highlight the interdependence between workers’ decisions on where to live and firms’ decisions on where to locate.

Concentration of economic activities does not only deliver benefits, as congestion can also impose costs on both firms and workers, such as lengthy commutes, pollution, and rising land and housing prices. And benefits of agglomeration are not the only determinants of workers’ and firms’ decisions on where to locate. Workers may respond to the availability of local public goods and services, social and natural amenities (e.g. entertainment and climate), and distance from friends and family. Firms may take into account the local business climate, particularly tax rates and the availability and reliability of services such as water and electricity. Firms may also be influenced by financial incentives from local governments. Nevertheless, concentration has a very significant influence on workers’ remuneration and firms’ costs.

Benefits of agglomeration and proximity to transport links along the coast have had a powerful impact on where Tunisian firms and workers have located. Henderson (1986) concludes that Tunisian firms’ decisions on location respond to the size of local demand and minimization of transport costs in serving a large market. Thus locating in greater Tunis has a positive and significant effect on firms’ growth.

Policymakers face a dilemma when designing industrial support programs and schemes, including the provision of financial incentives, building transport infrastructure, establishing schools, and providing health services. While concentration of industry may maximize national income from the benefits of agglomeration, supporting production in more remote areas may be essential to promote equity and avoid the negative effects of agglomeration. It is important to recognize that local governments, which are essentially competing for firms’ location, are unlikely to come to decisions that, in aggregate, promote either efficiency or equity from a national perspective (Ottaviano and Thysse 2002).


Significant differences in unemployment among regions in Tunisia can be explained by a combination of variables that reflect both the benefits of agglomeration and the provision of services. To avoid reaching misleading conclusions driven by data aggregation into large regional groupings, the analysis is undertaken at the level of relatively small
administrative units, referred to as delegations in Tunisia. The chapter develops a model where the rate of unemployment depends on the number of private enterprises, surface area, share of population graduating from secondary school, distance to central business districts (Tunis, Sousse, and Sfax), distance from the nearest port or airport, share of workers employed in private enterprises, share of the population in the labor force, population growth rate, and net migration between censuses (see Appendix 3 I for the definition of variables and estimation results).

Results underline the importance of transport infrastructure and distance. The greater a delegation’s distance to a port or airport, and to the central business districts, the higher is the unemployment rate. Demographic variables are equally important. The unemployment rate increases with the number of inhabitants and decreases with the share of the population in the labor force. The graduation rate from secondary school, but not from higher education, is significantly related to the unemployment rate. On the other hand, net migration, the share of employed workers in private firms, and the number of enterprises in the private sector are not found to be significantly related to the unemployment rate, according to this model. These results were found to be robust to different estimation techniques, including controls for endogeneity.

Lower unemployment is associated with lower net emigration. Private sector development is associated with low unemployment, which may encourage workers to remain in their home region: delegations with a larger number of private firms have lower levels of net emigration. However, the causal relationship between migration and unemployment seems weak, although large emigration raises social and developmental issues that are not captured in this model. The simultaneous equation procedure (see footnote) can account for other indirect effects among variables, for example the link between access to services and unemployment. The greater the availability of recreational facilities and the greater the access to local public services (sewage connections, natural gas connections, and the number of post offices), the larger the number of private sector firms; a larger number of private sector firms is associated with lower emigration; and lower emigration is associated with lower unemployment.

**Access to public services is limited in poor regions**

To exemplify how lower access to public services affects human capital in the regions – this chapter looks at the health dimension.

Health indicators have improved substantially for Tunisia over past decades. Life expectancy at birth increased from 58 years in 1956 to 75 years in 2011 and was driven by a very sharp decline in mortality rates, particularly a reduction in infant mortality from 120 per thousand births in 1966 to 14 per thousand in 2011. Nevertheless, there are considerable differences in life expectancy and infant mortality rates across governorates. In 2009, life expectancy at birth was 74.5 years for Tunisia, but 77 years in the Tunis and Sfax governorates compared to less than 70 in Kasserine and Tataouine. Similarly, infant mortality rate in 2009 was 17.8 per thousand for Tunisia and particularly low in Tunis, Sousse, Monastir and Sfax, but 23.6 per thousand in the Midwest and 21 per thousand in the South. Differences in infant mortality rates increased over time, as the coefficient of variation, a measure of the dispersion of the data, roughly doubled from the late 1990s to 2010.

While differences in health status across governorates reflect many factors, including income levels, there were exacerbated by sharp inequalities in the provision of health services. And the availability of health services in different

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33 Endogeneity refers to the possibility that one or more of the explanatory variables, such as transport infrastructure and distance, are in fact determined by the dependent variable, the unemployment rate. In estimations that took account of the potential for endogeneity through the use of simultaneous equations, additional variables, including the size of the delegation, the availability of recreational facilities and the share of individual entrepreneurs, were also found to be significantly related to the unemployment rate.
governorates is highly unequal, along many aspects of health care provision. For example, home delivery of babies is much more common in the poorer governorates such as Zaghouan, Kasserine, and Manouba, where almost 40% of women who report their delivery place, state that they gave birth at home. Conversely, this rate is close to zero in Tunis, Bizerte, and Beja. Despite some decline in inter-governorate inequality from 1998 to 2010, the availability of hospital beds remained highly unequal, varying from 0.4 per 1000 inhabitants in Ben Arous to 4 in Tunis. Importantly, high-quality hospitals tend to be located in the better-served governorates.

The number of primary health centers (PHCs) per inhabitant varies considerably across governorates as well, although this does not provide a very good indicator of access to healthcare. Indeed, Tunis has the smallest number of PHCs per inhabitant, reflecting its dense population which makes it possible to serve more people per clinic, as well as the greater reliance on private health services. Moreover, some of the poorer, rural governorates with low population density are served by many PHCs, each of which operates only a day or two a week. In 2010, 1040 of the 2085 PHCs provided at most one day of consultation per week.

The number of inhabitants for each physician is a better indicator of unequal access to healthcare services. For Tunisia, the number of inhabitants per public sector physician dropped from 2,176 in 2002 to 1,569 in 2010, reflecting a significant improvement in public sector health services. However, while Tunis, Sousse, Monastir, Sfax and Tozeur have less than 1,600 people per physician (Tunis less than 500), the number of inhabitants per physician is over 3,000 in Kairouan, Jendouba, Sidi Bouzid, Medenine and Kasserine. Moreover, the former group of governorates, except Tozeur, are in the top ten governorates in terms of availability of private sector physicians. Thus inter-governorate inequality in terms of access to a doctor’s care is more acute than what is documented by data on public sector physicians. Similar levels of inequality, with the same governorates enjoying relatively greater access, can be seen in data on the number of inhabitants per dental office and pharmacy (although inter-governorate inequality in pharmacies declined substantially from 2001-2010).

In order to better capture inequalities across governorates while taking into account the multiple dimensions of access to health services, an index was constructed using indicators of the three main categories of access to health care, namely health infrastructure, for example clinics; human resources, for example physicians, in public and private health facilities; and support equipment and entities, for example biomedical laboratories and radiology units. For each category, the degree of access in each governorate was calculated compared to the others (see Figure 3.2: Inhabitants per public health physician

**Figure 3.2: Inhabitants per public health physician**

Source: Ministry of Health and authors’ calculations.

![Figure 3.2: Inhabitants per public health physician](image-url)
Appendix 3.2 for the indicators used and data by governorate). Governorates with similar levels of access were then grouped into clusters for each of the three categories. Table 3.1 summarizes the classification of governorates, with one being the best-served and four the worst.

Among the three components of health care facilities, the geographic distribution of medical human resources stands out as the most unequal, with a significant concentration on the coast. Despite an overall increase in the density of physicians, disparities among governorates seem wide. The degree of inequality is even greater in qualitative terms, as more than 2/3 of specialists are found on the coast.

A key finding of this exercise is that the richer, coastal governorates enjoy superior access to health services across all indicators, compared to the poorer, more isolated governorates. Tunis, Sousse and Monastir consistently fall within the most favoured cluster in all three components. Conversely, Jendouba, Kairouan, Kasserine and Sidi Bouzid fall consistently within the most disadvantaged cluster. The position of the remaining governorates varies, depending on the category analysed.

Table 3.1: Assignment of governorates to clusters

<table>
<thead>
<tr>
<th>Governorate</th>
<th>Human Resources</th>
<th>Infrastructure</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>MONASTIR</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>SOUSSE</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TUNIS</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sfax</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Manouba</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ariana</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Medenine</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Ben Arous</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Tozeur</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Mahdia</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Bizerte</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Nabeul</td>
<td>2</td>
<td>2</td>
<td>4</td>
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<tr>
<td>Gabes</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Kebili</td>
<td>4</td>
<td>2</td>
<td>3</td>
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<tr>
<td>Le Kef</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Zaghouan</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Beja</td>
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<td>3</td>
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<tr>
<td>Gafsa</td>
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<tr>
<td>Tataouine</td>
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<tr>
<td>Siliana</td>
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<td>3</td>
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<tr>
<td>Jendouba</td>
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<tr>
<td>Kairouan</td>
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<tr>
<td>Kasserine</td>
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<tr>
<td>Sidi Bouzid</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
3.2 Differences in industrial structure among Tunisian governorates

The distribution of economic activity, and thus opportunity for productive employment, is significantly unequal among governorates, with the bulk of production located on the coast. More than 83% of firms are concentrated in the littoral governorates, and nearly 40% of firms are concentrated in the two central business districts of Tunis and Sfax (Ayadi and Matoussi 2012). This is consistent with the conclusion drawn earlier about the uneven access to health services and underperformance of interior governorates.

Coastal governorates are also more diversified than interior ones. In Figure 3.3, most of the coastal governorates (the first 10 listed along the horizontal axis, starting from the far left of the figure) count a large number of manufacturing firms and workers spread out across several sectors (represented by a low number in the figure). By contrast, in most of the interior governorates (the last 14 listed along the horizontal axis) only a few sectors account for the bulk of the manufacturing firms and employees. The Mahdia and Monastir governorates, which are specialised in textiles and clothing, are exceptions. Note that the level of diversification in Zaghouan (in the interior) is comparable to that of coastal governorates, because of its proximity to 2 coastal governorates, namely Tunis and Nabeul. The high level of concentration in certain interior governorates (e.g. Siliana, Tataouine and Tozeur) stems from the fact that a number of industrial sectors are not represented in these governorates.

![Figure 3.3: Concentration of Tunisian industry by number of firms and employment](image)

*Note: Data are Herfindahl indices describing the degree of concentration (see Appendix 3.3).*

*Source: Agency for the Promotion of Industry and Innovation.*

Changes in concentration levels since 2000 have followed very different paths in the coast and the interior. The relatively diversified industrial structure of the coastal governorates has changed little over time (except for Mahdia and Monastir), while the interior governorates have become slightly more diversified (Figure 3.4). For example, the industrial diversification of Kairouan stems from the development of sectors like textiles and clothing and electronics, whereas in 2000, employment in Kairouan was largely concentrated in the agro-food industry. Similarly, the
Siliana governorate experienced some diversification in 2012 thanks to the establishment of a large foreign-owned company operating in the electronics sector and the development of other industries, such as agro-food. In contrast, Tozeur and Medenine governorates experienced greater specialization in the agro-food industry.

Figure 3.4: Changes in the concentration of Tunisian industry, by governorate, 2000 to 2012

Coastal governorates are not only more diversified, but also more developed than the interior ones (figure 3.5). With few exceptions, the level of human development in the coastal governorates (the first 10 governorates listed on the horizontal axis in Figure 3.5), as measured by Tunisia’s Ministry of Regional Development, exceed those of all of the interior governorates (the last 14 governorates listed along the horizontal axis in Figure 3.5). At the same time, their degree of specialization is substantially lower than all but the most diversified of the interior governorates (see Appendix 3.3 for explanation of the specialization index). Of the governorates ranked in the top half by level of development, only Monastir (near the coast) and Tataouine (in the interior), have relatively specialized industrial sectors. Interestingly, employment and the number of firms involved in FDI tend to be more concentrated than domestic industry. Thus, FDI tends to moderate the degree of diversification in coastal governorates, while further increasing concentration in the interior.

Note: Data are Herfindahl indices describing the degree of concentration (see Appendix 3.3).
Source: Agency for the Promotion of Industry and Innovation.
3.3 Recommendations to achieve reduced regional disparities in Tunisia

A coherent regional development strategy will require a reorientation of institutions at various levels and sectors of the Tunisian economy. Specifically, all relevant stakeholders, including the central government, local institutions, the private sector, the local education and training system, and local development agencies, should be involved in this process. The three guiding principles of a regional development strategy should be deconcentration/decentralization, strengthening of democracy, and improved targeting. Deconcentration and then decentralization will require both easing centralized government requirements and upgrading local institutions to take on new responsibilities. Local authorities will require greater financial independence, through increasing self-generated resources and improving mechanisms used for the allocation of resources from the central government. For example, educational institutions could achieve greater financial autonomy if central government support were based on objective indicators of performance. In general, activities should be undertaken as close to the local level as possible.

Major policy decisions should be the result of a participatory process, involving extensive consultations with civil society. Local development committees, with representatives of civil society, employers, and unions, should be established to identify projects, contribute to the social life of the community, and act as an interface between the administration and users of services.

Resources need also to be targeted to the more disadvantaged governorates. Since the mid-1980s the Tunisian government has undertaken expensive public investments in remote areas to create a positive business environment for firms and strengthen the productivity of the labour force. “However, these policies have not offset the unequal spatial distribution of economic activities and the large regional disparities in economic performance and employment opportunities between coastal and interior areas” (Ayadi and Amara 2011).

Finally, in all of these activities, the establishment of processes to ensure periodic, ex-post evaluations by independent agencies is essential.

Going forward, industrial policy in Tunisia should focus both on boosting national income, which may require promoting economic activities in the more diversified and more developed coastal governorates, and promoting equity, which will require increasing the productive capacity of the less diversified, more isolated governorates. To achieve more
balanced industrial development, new industrial policies should take advantage of proximity between interior governorates and their coastal neighbours in order to trigger a partial migration of labour-intensive activities to disadvantaged regions.

Improving productivity in the coastal governorates will require capitalizing on existing advantages, principally a skilled and diversified labour force and the benefit of a learning process driven by the pressure of foreign competition, while entering into new economic activities with higher levels of value added. Researchers have shown that countries that export goods requiring sophisticated technology (for example, computers or advanced machinery) tend to achieve higher rates of growth than countries that export simpler goods (for example textiles or tools). Thus, industrial incentives in the coastal governorates should focus on encouraging more technologically-advanced production, both to increase productivity and to help absorb the masses of young, unemployed college graduates (see chapter 2). Embarking on such process is feasible for coastal governorates that already enjoy a relatively high level of development.

The 13 more disadvantaged governorates located in the interior account for only 17.9% of national manufacturing sector employment and 22.5% of industrial companies. The relative paucity of skilled labour and the small market has resulted in some concentration in industrial activity in a limited number of sectors. Given their small economic size, industrial policy in these governorates should be undertaken at the level of three regions (northwest, centre west, and south). As with the coastal regions, policies should capitalize on existing advantages, in this case building on either the current industries or promoting industries where synergies with the coastal region can be achieved. Policy measures to be undertaken may include: i) classification of development zones according to the region’s industrial strategy; ii) implementation of fiscal incentives (within the new investment code) depending on the resources (material and human) and industrial strategy of each region; and iii) creation of techno-cities to encourage collaboration among main stakeholders in a given sector. Obviously this approach may require focusing on different industrial sectors in the three regions, for example:

- **North-West Region**: The main industrial sectors in this region (comprising Béja, Jendouba, Le Kef and Siliana governorates) are agri-business and electronics. The proximity of Bizerte, where the textile and electronic sectors are relatively developed, could contribute to the expansion of these three sectors in the whole region.

- **Center-West Region**: The relatively developed sectors in this region (Kairouan, Kasserine and Sidi Bouzid) are agri-business and textiles. Incentives could promote the development of metals production by taking advantage of its proximity to Sfax and Sousse, in which the sector is relatively well developed. This is similar to the experience of the expansion of the textile sector in Kairouan due to its proximity to Sousse, Monastir and Mahdia.

- **South Region**: In the governorates of this region (Gabes, Gafsa, Kebili, Medenine, Tataouine and Tozeur), the most developed industrial sectors are agri-business; construction, ceramics and glass; chemical and rubber; and textiles. Most other sectors are virtually non-existent. The industrial development of this region requires structural reforms targeting these four sectors while boosting and restructuring the multi-sectoral competitiveness pole of Gafsa that is designed to generate synergies of proximity, as well as the sharing of information and knowledge among the region’s establishments.

Achieving more balanced national development will require targeting the more disadvantaged regions for public sector investment in infrastructure. This should include:

- **Substantial investments in highways and roads to improve access between the interior regions and the coast, and transport connections among disadvantaged...**

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regions. According to a study conducted by the Ministry of Development and International Cooperation in 2012, the percentage of classified roads (which reflects the level of access) varies greatly among governorates and between the delegations of the same governorate. Similarly, there is a need to develop and upgrade the inter-regional railway network.

- Communication infrastructure in the three regions needs to be improved, to encourage knowledge sharing and information dissemination networks. A study by the Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ) in 2012 found significant differences among regions in an index of knowledge (reflecting both education and communications). For instance, this index is 91% and 78% for Tunis and Sousse, respectively, but only 19% and 24% for Sidi Bouzid and Jendouba, respectively.

- Planning and development of the most important industrial zones in the interior regions needs to be accelerated, and new forms of public-private partnership are required to increase the competitiveness of industrial and service firms.

- The competitiveness poles established mostly in the coastal governorates (they are located in Bizerte, Sousse, Monastir and Gafsa) should be used to enhance the appeal of these governorates to investors and increase the employment of experts (World Bank, 2010). These poles, each of which focuses on an industrial sector, should help promote the creation of businesses and jobs in neighbouring interior governorates. Trade and partnership initiatives should create catalytic effects and expand economic activities from the coast to the hinterlands.

In fine, achieving more balanced regional development would involve boosting the technological sophistication of production and exports in coastal regions, while capitalizing on proximity between interior governorates and their coastal neighbours to trigger a partial migration of labour-intensive activities with low value-added towards disadvantaged regions. These regions should begin by focusing on their current pattern of specialization before attempting to increase the diversification of industrial production.

Finally, the concentration of economic activity takes place over long periods of time. A change in the level of demand or of available public infrastructure, a decrease in investment cost, or an increase in factor productivity may trigger mutually-reinforcing forces with long-lasting effects (Krugman 1991). Similarly, one cannot expect to shift these forces overnight; the recommended regional policies in this chapter will take time to produce a visible impact on the growth and geographical distribution of the Tunisian industry.

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36 The share of classified roads (ratio of classified roads to the total road network in kilometres) is 10% in Sidi Bouzid and 42% in Bizerte, whereas the national average is approximately 32%.

37 The knowledge index is defined as a simple average between the education index (which covers the baccalaureate enrolment rate, the school enrolment rate and the literacy rate) and the communication index (which covers internet access and telephone density).
Chapter 4
The African Development Bank Group in Brief
The African Development Bank Group in Brief

Who we are & what we do

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

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. The Agreement came into force in 1964 when 20 of member countries subscribed to 65% of the Bank’s capital stock of USD 250 million.

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.

In only half a century, the African Development Bank has mobilized and invested more than 66 billion Unit of Account (UA), that is about USD 100 billion in critical sectors of the African economies. With more than 4000 operations, the Bank has 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.

In the last two years alone, thanks to the support of the Bank:

- 8 million Africans have benefitted from new electricity connections through the Bank’s work;
- 34 million Africans have benefitted from improved access to transport;
- 14 million Africans have benefitted from new or improved access to water and sanitation;
- 27 million Africans have benefitted from access to better health services.

In 2013, the Bank approvals for loans and grants reached UA 4.322 billion (US$ 6.7 billion), reflecting the importance of its actions.

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 Bank’s strong shareholder support, preferred creditor status, sound capital adequacy, and prudent financial management and policies.

In 2013, the Bank adopted a new Strategy for the period 2013-2022. This ten-year Strategy reflects the aspirations of the entire African continent and places the Bank at the center of Africa’s transformation. The Strategy is built around two objectives aiming to improve the quality of Africa’s growth: inclusive growth and a gradual transition to green growth. It aims to broaden and deepen the process of transformation in Africa, mainly by ensuring that growth is shared and not isolated, for all African citizens and countries, not just for some. It also aims to bring about growth that is not
just environmentally sustainable, but also economically empowering.

The Strategy is supported by five operational priorities in which the Bank has unmatched advantage, expertise, access and trust. These are:

- Infrastructure development;
- Regional economic integration;
- Private sector development;
- Governance and accountability;
- Skills and technology.

In implementing its ten-year Strategy, the Bank will pay particular attention to:

- Fragile states;
- Agriculture and food security;
- Gender.

**How we are financed**

In its efforts to reduce 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 79 member countries, including 53 regional countries, and 26 non-regional countries. Together, the member countries subscribe to its capital, which, as of December 2013, stood at UA 65.21 (USD 100 billion). The subscription to the capital is divided between regional member countries (60%) and non-regional members (40%). 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 26 donor countries replenish ADF funds every three years.

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.

**Africa’s Knowledge Bank**

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.

In 2013, the Bank’s Open Data Platform became operational for the entire African continent. This follows the completion in July 2013 of the last phase of the project for the following 14 African countries: Benin, Comoros, Côte d’Ivoire, Djibouti, Equatorial Guinea, Eritrea, The Gambia, Guinea-Bissau, Liberia, Kenya, São Tomé and Príncipe, Sierra Leone, Swaziland, and Togo.

Statistical data for all African countries are now available to all users. In addition to social and economic statistics, data on key development topics such as climate change, food security, infrastructure, and gender equality can be accessed by researchers, analysts and policymakers worldwide.

The Open Data Platform is part of the AfDB’s Africa Information Highway initiative to scale up the collection, management, analysis, and sharing of quality statistics relating to the continent’s development. This ambitious initiative sees the establishment of live data links between the AfDB, National Statistical Offices, Central Banks and line ministries in all African countries on the one hand and subregional organizations, international development institutions, and a worldwide community of users on the other.

By providing quality data aligned to the highest international statistical standards, the initiative will foster evidence-based decision making, good governance and public accountability. It will also allow for the tracking of progress in areas such as the Millennium Development Goals at both national and regional levels.

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.
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.
Chapter 5
Bank Group Activities in North Africa
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 by Africans, and for Africans. All signed the Agreement establishing the Bank in 1964\(^{38}\), and all, with the exception of Libya, subscribed to the Bank’s capital stock, contributing upwards of USD 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 18.669% of the total subscribed stock 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.

Since the beginning of its operations, the Bank has approved loans and grants to the private and public sectors of North African economies totaling UA 18.49 billion (USD 28.6 billion), which represents about 30% of Bank’s total loans and grants approvals for all regional member countries.

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\(^{38}\) Libya, while present at the 1964 conference, only ratified the Agreement eight years later.
Since its inception:

- Algeria has benefited from financing of operations totaling UA 1891.5 billion;
- Egypt has benefited from financing of operations totaling UA 3761.5 billion;
- Libya has benefited from financing of operations totaling UA 0.6 million;
- Mauritania has benefited from financing of operations totaling UA 508.6 million;
- Morocco has benefited from financing of operations totaling UA 6951.5 billion; and
- Tunisia has benefited from financing of operations totaling UA 5383.3 billion.

**Figure 5.1: Cumulative Loans and Grants by Country in North Africa (1968-2013)**

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 have also been equity participations in two regional investment funds (MEFP II and III MEFP) investing in the three Maghreb countries (Morocco, Algeria and Tunisia).

### Orientation 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 the Bank’s country strategy papers in which it can have the greatest development impact.

As of December 2013, the Bank Group’s portfolio in North Africa comprised over 100 approved and ongoing operations, with a total net commitment value of UA 4.5 billion (USD 6.97 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.

Equally important is integration at the regional level. Despite strong ties due to a common history, religion
and language, the North African region remains poorly integrated. The economic cost of this lack of integration is estimated to be around 2 to 3 percent of GDP.

The preparation of a Regional Integration Strategy Document for North Africa was re-launched in the third quarter of 2013. It will be enriched with national and regional consultations scheduled to take place in 2014 in all of the six countries to ensure appropriation of the Strategy by the potential beneficiaries. It is important to ensure the impact of the Strategy on inclusive growth and job creation both in the medium and long-term. The Strategy is scheduled to be presented to the Board during the last quarter of 2014.

The aim of this Strategy is to contribute to North African countries’ efforts to address regional challenges in terms of wealth and job creation, both goals in line with the Bank’s long term Strategy. The Bank recognizes that regional integration is imperative to build markets and foster new opportunities for growth, and improved living standards.

The Strategy will be aligned to the operational priorities of the North African countries as well as those of the Bank as regional integration is one of the five operational priorities of the Bank’s long-term Strategy.

Another way the Bank supports regional integration is 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 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.

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.

The Bank’s ongoing portfolio of technical assistance and economic and sector work in North Africa consists of 55 operations with a total value of UA 37 million (USD 57.3 million).

This includes roughly:
- UA 19 million for Tunisia;
- UA 15 million for Egypt;
- UA 11 million for Morocco;
- UA 7 million for Mauritania and;
- UA 5 million for Algeria.

The Bank’s North Africa Department (ORNA) oversees two Trust Funds and one technical assistance Fund as follows. These are the Middle East and North Africa (MENA TF) Transition Fund, the Multi-donor Trust Fund for Countries in Transition (TFT) and the Middle Income Country Technical Assistance Fund (MIC TAF).

The Middle East and North Africa (MENA TF) 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 and Morocco. As of December 2013, the MENA TF had approved 6 operations totaling to UA 8.8 million (USD 13.5 million).

The Multi-donor Trust Fund for Countries in Transition (TFT): The TFT has been set up to address the increasingly challenging needs for reform in regional member countries. The Fund is designed to support a multi-phased action plan to be implemented over a five (5) year period, with an initial two years phase extended for a further two years phase dedicated exclusively to the North Africa region, with preference given to requests for financing of activities in 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 December 2013, there were 15 approved proposals totaling about UA 3.5 million (USD 5.4 million) for this Fund.

The Middle Income Country Technical Assistance Fund (MIC TAF): The MIC TAF 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.
## Algeria

<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, 1967-2013</td>
<td>40</td>
</tr>
<tr>
<td>Number of ADF operations approved, 1967-2013</td>
<td>3</td>
</tr>
<tr>
<td>Subscribed Capital (%) as of December 2013</td>
<td>4.24</td>
</tr>
<tr>
<td>Number of operations in the current portfolio</td>
<td>5</td>
</tr>
<tr>
<td>Total loan amount of operations in the current portfolio (UA million)</td>
<td>3.04</td>
</tr>
</tbody>
</table>
People's Democratic Republic of Algeria

Recent Developments

Within the context of the political stability it enjoys, compared to the turbulence that has prevailed in the countries of North Africa since 2011, Algeria continues to showcase a solid economic performance. The country is pressing ahead with reforms initiated to modernize its economy and consolidate its achievements with a view to transitioning to a market economy. Implementation of the current five-year development plan will end in 2014 with generally satisfactory results. In 2013, the growth rate was 2.7% compared to 3.3% in 2012.

Although Algeria has been growing constantly, its growth rate still falls short of its potential, considering the country’s enormous assets. First of all, the country enjoys political stability, which enables it to concentrate on implementing its development strategy. Secondly, Algeria’s relatively developed infrastructure is a comparative advantage for the economy’s competitiveness, particularly when combined with the enormous financial resources raised (USD 286 billion) under the 2010-2014 Five-Year Plan.

Lastly, the country’s abundant and diversified natural resources remain a major asset. In terms of oil reserves, Algeria is ranked 3rd in Africa, after Libya and Nigeria. It also has other natural resources, including non-conventional hydrocarbons (3rd in world rankings), a renewable energy potential (particularly solar), various minerals and ores (iron, phosphate, copper, gold, uranium, etc.) as well as an enormous potential for agricultural and fisheries development.

This huge potential notwithstanding, Algeria still faces enormous challenges. It will need to complete the structural transformation process for its economy and diversify its growth sources by reducing its dependence on the oil sector. Indeed, the country draws one-third of its wealth, 70% of its budget revenue and 98% of its export earnings from the oil sector alone. Given its average performance of the non-oil sector over the last decade (5%), it offers a potential that should be developed as an alternative for providing lasting solutions to the problem of youth unemployment. The 2013 growth rate of this sector is estimated at 5.9%, compared to 7.1% in 2012.

Inflation stood at 3.3% in 2013, representing a significant decline compared to the 8.9% recorded in 2012. Inflationary pressures were contained thanks to a prudent monetary policy and measures adopted to enhance distribution channels. The Bank of Algeria’s recourse to monetary policy instruments such as the mandatory reserve requirements, collection of fixed-term deposits and a domestic credit squeeze, also helped to reduce liquidity and contain a price hike.

Although Algeria’s external position remains solid, it began showing signs of a slowdown in 2013. Indeed, the current account surplus dwindled to 1.1% compared to 5.9% in 2012, due to the dual effect of a slump in exports and a spike in imports. However, foreign exchange reserves remain at a comfortable level (USD 196 billion at end-2013, representing over 3 years of imports) and the external debt is low (USD 3.2 billion at end-2013, or 1.5% of GDP).

As of public finance, the Government’s return to fiscal prudence in 2013 helped to raise non-oil tax revenue, did not reduce social spending (social transfers, price support and wage bill) and sought to streamline other public spending. Hence, budget consolidation, one of the first outcomes expected from public finance modernisation, led to a 12% reduction in operating expenses, thus generating substantial savings. Meanwhile, capital expenditure declined by 10% compared to 2012, since the 2010-2014 Public Investment Programme was drawing to an end. Hence, with total spending representing approximately 39.7% of GDP and revenue representing 39.5% of GDP, the overall balance in 2013 showed a deficit of 0.2% of GDP.

As of the social sector, Algeria has achieved the Millennium Development Goals (MDGs). According to
the 2013 Human Development Index, Algeria was ranked 93rd out of 181 countries in 2012 and the 2011 HDI increased by 2.2%. In 2013, the GDP per capita was estimated at USD 5,503 compared to USD 2,056 in 2003.

Housing and unemployment (which declined to 9.8% in 2013 compared to 10% in 2012) equally remain as major challenges for the country. To address the current housing deficit, the authorities intend to complete the construction 2 million new housing units by the end of 2014. Addressing the unemployment of women and youth is also one of the top priorities of the Government. Indeed, 22.4% of youths aged 15 to 24 years are jobless. More robust and sustained growth would help to bring down the unemployment rate, especially among the youth, and such growth could be stimulated through greater diversification of the economy and the continued implementation of structural reforms.

According to the latest African Economic Outlook report, economic growth should stand at 4.3% in 2014 and 4.2% in 2015. Hence, for 2014, Algeria’s economy should grow at a more sustained rate than in the previous two years. It should be driven by public investments and sustained by the revival of activities in the oil sector which should grow by 2%. Non-oil sector should grow at an above-average pace of 5.3%. Inflation is expected to stand at 4%, which is still within the limits set by monetary authorities.
Algeria is a major partner of the African Development Bank and was one of the founding members of the institution in 1964. Since then, Algeria has continued to support the Bank in the implementation of its initiatives to ensure the development of the continent. The Bank, for its part, has consistently supported Algeria through major economic and social reform programs and backbones infrastructure projects. The Bank currently supports Algeria in the implementation of its development strategy through technical assistance, capacity-building operations and analytical studies.

2013 was marked by the adoption of the Bank’s 2013-2022 long term Strategy. Algeria assisted the Bank’s field office in Alger in the organization of national consultancies aiming to enrich the long-term strategy as well as in the dissemination of the Strategy among other actors of development.

In 2013, the Bank continued implementing the various ongoing operations financed by the Middle-Income Countries Trust Fund (MIC-TAF). These are essentially projects aimed at modernizing the functioning of the Ministry of Finance and building the capacity of its staff. To help with the formulation of public policies and sectorial strategies, the Bank also played an advisory role in the conduct of studies and analyses. Similarly, the Bank and Algeria continued high-level dialogue that led to the identification of areas of partnership for the 2014-2015 period. Such partnership seeks to address the needs and priorities of the authorities and will focus on the areas of intervention defined in the 2013-2022 Strategy. Hence, the focus will be on supporting economic diversification and enhancing of competitiveness, promoting local private sector and industrialization and; improving economic governance and services rendered to citizens.

In 2013, there was also an agreement between the Bank and the Algerian government on the relevance of strengthening the knowledge of both parties on employment policy manual. Thus, in 2013, Algeria requested a technical assistance from the Bank to provide a diagnosis of potential employment problems with the aim to assist the country in the formulation of employment policies.

Lastly, the Bank intends to further deepen its dialogue with Algeria, especially through analytical and strategic studies that will help to lay the foundation for its future operations, to support the upcoming 2015-2020 five-year plan currently being prepared.
Overview of Bank Group Operations in Algeria

The cooperation between Algeria and the Bank is almost five decades long. The approval of the first project for Algeria by the Bank’s Board of Directors on 21 March 1971 has opened the door for a total of 42 operations for a cumulative amount of about UA 2.056 billion (USD 3.1 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.

Following Algeria’s decision to no longer, for the moment, use external borrowing to finance the country’s development, the Bank-Algeria cooperation now focus on technical assistance, advice, training, capacity building, economic and sector work and private sector promotion. Thus, 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.

The technical assistance operations (4) in 2013 have been financed through the Middle-Income Country Technical Assistance Fund (MIC-TAF).

The operations approved by the Bank from 1971 to 2013, 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 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.

A progress report presenting the results of various reforms conducted in the agriculture sector since the advent of the Policy of Agricultural and Rural Renewal in 2009 helped draw useful lessons. This has helped identify key constraints to address and necessary elements in the building of institutional, organizational, ecological, economic and social dynamics.

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 develop infrastructures 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). The Government 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.
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.

**Figure 5.8: Cumulative ADF Loans and Grants by Instruments in Algeria (1971 – 2012)**

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 (USD 433.9 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 2013, the Algerian banking and financial system comprised 26 banks and 1426 financial establishments and stock exchange (the Algiers Stock Exchange). The public banking sector still dominates and controls 90% of assets, 86% of credits. The activities of private banks is concentrated in foreign trade.

In 2013, the excess of liquidity in Algerian banks remained structural. However, the increase of credits and lower export income have reduced the size of the liquidity. However, despite these reductions, financial soundness indicators of the banks, particularly public banks reflect their solvency. Private banks on the other hand, have insufficiently advanced financial intermediation to be able to drain the household savings, due to a limited number of agency products. In general, these banks are moving towards more profitable and less risky foreign trade operations.

Moreover, the scarcity of long-term resources for financing major projects constitute significant obstacles for bank financed investment. In 2013, public enterprises were encouraged by the administration to enter the stock market. However, the stock market remains limited. Private banks collect about 20% of the resources of the private sector which is comprised to 95% of very small companies. Most of these companies have no access to banking services, neither do the households which still make most of their operations in cash. However, the country’s savings rate is roughly 47%, one of the world’s highest.

**Social Sector**

Algeria has made significant progress towards the achievement of the Millennium Development Goals (MDG). According to the UNDP’s 2013 Human Development Index, Algeria is ranked 93rd out of a total of 181 countries in 2012, with an index of 0.710 compared to 0.713 in
In 2013, the country’s estimated gross domestic product (GDP) per capita was over US$ 5503. 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 2013), unemployment rate, after stabilizing around 10% from 2010 to 2012, is now reduced to 9.8%.

This reduction from 2012 is more effective among men (-1.3%) than women (-0.7%) and more pronounced among youth (24.8% in 2013 compared to 27.5% in 2012).

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.
Bank Group Strategy & Ongoing Activities in Algeria

The 2011-2012 Dialogue Note is the most recent cooperation document between the Bank and Algeria. The dialogue areas retained are: (i) public administration capacity building; (ii) private sector development; and (iii) regional integration. A new cooperation framework paper, 2014-2015 is being prepared. The paper will take into consideration the operational priorities of the Algerian authorities and those of the Bank’s 2013-2022 Strategy.

Currently, cooperation between the Bank and Algeria focuses primarily on technical assistance, analytical work and capacity building (training, etc.). The Bank operates in various sectors, including governance of the public sector, financial sector, agriculture and ICT.

The Bank’s portfolio in Algeria comprises 4 technical assistance (TA) operations for a total amount of almost UA 3 million (USD 4.64 million), three of which are active. The 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 (UA 494 800); iii) Project to Modernize the Communication and Collaboration System of the Ministry of Finance (UA 495 500); iv) Ministry of Finance Capacity Building Program (UA 497 000); v) Project to support Public Banks’ Information System Modernization Plans (UA 750 000); and vi) the Young Agricultural Entrepreneurs’ Promotion Support Project (UA 504 000).

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.

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.

4 Are considered active operations for which agreement grant letters have been signed.
Project for the Modernization of the Collaboration and Communication System of the Ministry of Finance

Background and Objectives

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.

Description

The operation has been envisaged in two phases:

- The first phase is the study to define the new architecture of the Ministry’s collaboration and communication system;
- 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.
Capacity Building to Support a Training Program for the Ministry of Finance

Background and Objectives

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.

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<td>Ministry of Finance</td>
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Project to Support the Modernization of the Information System of Public Banks

Background and Objectives

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 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.
Project to Support the Redefinition of the e-Algeria Strategy and the Implementation Method for the e-GOV Pillar

Background and Objectives

Algeria’s ICT sector has been developing since the early 2000s to address the growing needs of the economy which recorded an average growth rate of over 3% during the last decade. Act No. 2000-03 ended the monopoly instituted in the post and telecommunications sector and defined new rules that govern these sectors. Since 2008, Algeria has had a development strategy for its ICT sector (E-Algeria 2013).

The objective of this strategy is to open up Algeria to the information society and the digital economy by improving access to communication services in the country. In February 2012, a Directorate General for the Information Society (DGSI) was created within the Ministry of Post, Information and Communication Technologies (MPTIC). This Directorate is tasked with preparing the e-Algeria strategy, ensuring its implementation and proposing a statutory and regulatory framework for the construction of the information society.

The Bank’s technical assistance is aimed at developing ICT usage in Government services in order to consolidate e-governance and improve the services rendered to citizens.

Description

The project comprises the following activities:

- Diagnosis of the activities of various stakeholders in the ICT sector;
- Élaboration d’un un plan d’actions détaillé et définition des indicateurs de suivi et de performance ;
- Définition des référentiels/normes/standards à utiliser ;
- Institution of governance to steer, coordinate and monitor the execution of the e-Algeria strategy; and
- Strengthening of the statutory and regulatory framework by enacting new laws which will be crucial for creating a climate of confidence for the generalisation of ICT usage.

Expected Outcomes

The project results will be:

- The capacity of the DGSI and the Post and Telecommunications Regulatory Board (ARPT) is developed and their staff trained; and
- Universal access is developed and community access to ICT services is improved.
Support Project to Young Agriculture Entrepreneurs

Background and Objectives

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

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Arab Republic of Egypt

Recent Developments

After the ouster of President in July 2013, one year after he took office, Egypt entered another phase of political uncertainty. Economic growth was moderated at just above 2% in both 2011/12 and 2012/13 fiscal years. In 2012/13, the resilience of private consumption (81.2% of GDP) and munificence of government consumption (11.7% of GDP) kept the economy from sliding into a recession, as investment (14.2% of GDP), and exports (17.6% of GDP) remained weak. Unceasing violent protests and political instability have adversely affected manufacturing (15.6% of GDP), trade (12.9% of GDP) and tourism (3.2% of GDP). Only traditional sectors such as agriculture (14.5% of GDP) and mining (17.3%) have remained relatively unscathed.

The budget deficit, at 13.7% of GDP in 2012/13, is unsustainably high, and tops all emerging economies. The fiscal deficit in 2013/14 is expected to exceed 12% of GDP, well past the government’s target of 9.1%, as fiscal reforms are off the table for now.

In 2012/13, Egypt’s total public debt reached 99% of GDP, a level last seen in 2006/07. While public domestic debt reached 87.1% of GDP in June 2013, up from 78.6% in June 2012, resulting in interest payments of 8.4% of the GDP. For the first time in four fiscal years, Egypt’s balance of payments (BOP) recorded a surplus of USD 237 million in 2012/13 aided by about USD 16 billion of Gulf countries’ financial support. This has released pressure on the exchange rate of the Egyptian pound against the US dollar and has increased reserves to USD 17 billion in December 2013, from USD 15.5 billion in June 2012.

International credit rating agencies have recently responded favorably to Egypt’s economic outlook because of the massive inflow of funds from the Gulf (UAE, USD 7 billion; Saudi Arabia, USD 5 billion; and Kuwait, USD 4 billion). A longer term solution for Egypt to restore economic competitiveness is through gradual structural reforms of its wasteful energy subsidies, and taxation. By targeting subsidies to the most deserving segments of its society, Egypt will better bolster its social justice agenda, and provide room for its fiscal policies to work better to reduce poverty. Economic reforms, however, require a stable political dispensation.

To give hope to the youth, many of whom are getting poorer, Egypt needs to implement policies that will enable its small and medium enterprises (SMEs) to better capture the benefits of global value chains especially in areas of information and communications technology, given the country’s large market, language advantages, and proximity to Europe, Asia, and the Gulf.
Note From the Egypt Field Office
Ms. Leila Mokkadem, Resident Representative

2013 continued to be another transition year in Egypt. The days leading to the first anniversary of former President’s accession to power (June 30) led to popular protests, culminating in the removal of the president by the military, (on July 3, 2013) followed by the suspension of the divisive Islamist-drafted constitution, the formation of a transitional technocratic Government, and issuance of a transitional Roadmap. In line with the Roadmap, a new Constitution was approved in January 2014, and parliamentary and presidential elections will be organized by mid-2014.

The protracted political transition and security concerns have dampened Egypt’s economic growth, and have adversely affected most sectors of the economy, including tourism and manufacturing. The economic climate has contributed to the deterioration of macroeconomic indicators.

For the third consecutive year, the continuous social unrests, political uncertainties and economic slowdown impacted negatively on the Bank operations. In 2013, the Bank had no new lending. In this context, the Bank, through its Field Office in Egypt, remained actively engaged in 2013 focusing on advisory services and technical assistance to the Government as well as portfolio management.

In 2013, the Bank approved and signed four grants in 2013 for the tune of USD 7.12 million to support the government in enhancing the potential role of SMEs and MSMEs in innovative pilot programs dealing with industrial waste management and organic clusters as well as providing advisory services for NAVISAT.

The current portfolio is comprised of 27 operations, amounting to UA 1.28 billion (USD 1.96 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%.

On the non-lending program, the extension of the Interim Country Strategy Paper for 2014-2015 was approved in June 2014 as well as the publication of two Egypt Economic Quarterly Reviews.

Efforts were made to operationalize the Delegation of Authority Matrix so as to enable the Bank Field Office in Egypt to extend quicker and more efficient client-oriented services in line with the country’s portfolio.

The challenges facing Egypt are daunting but it is expected that with the Transition Roadmap being in place, the Government along with the other partners will be able to provide support for sustained and inclusive economic growth. In this context, the Bank will continue to be a key development partner in Egypt.
Overview of Bank Group Operations in Egypt

Egypt was one of the founding members of the African Development Bank Group in 1964. As a key Bank Group partner, the country’s mutual cooperation with the continent’s leading development finance institution has grown considerably over the years. Its Cairo field office continues to enhance the institution’s dialogue and effectiveness in the country.

Since starting lending operations in 1974, the Bank Group has, as of December 2013, approved 94 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 loans were approved in 2013 except four grants.

Cumulatively from 1974 to the end of December 2013, the Bank-financed operations mainly in the power supply sector, accounting for 49% of the portfolio’s net commitment, followed by the finance sector which takes up 27% 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 4% 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 6%. Lastly, the water and sanitation sector represents 2% of the Bank’s net commitments.

Energy Sector

A continuous and reliable supply of electricity is required for Egypt’s socio-economic development. With a highly urbanized and growing 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 a key priority for the Government as evidenced by the power generation expansion plan for 2012 - 2017.

Since 1974, the Bank Group has financed 25 operations in the power sector. Bank Group interventions are aimed at ensuring that Egypt achieves its goal of expanding its electricity supply by no less than 7% annually and to meet growing needs of various economic sectors in order to promote growth. The Bank has investments in the following ongoing projects:
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 USD 1.32 billion. When completed, they will contribute about 26% of the 12,400 MW total generation capacity increase targeted by 2017. Other ongoing operations (USD 3.5 million) 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.

Social Sector

To date, the Bank has financed 20 operations in the social sector, comprising projects in education, health, poverty alleviation, microfinance and gender sub-sectors. 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 (through line of credit to National Bank of Egypt), and the Rural Income and Economic Enhancement Program (RIEEP), as well as 3 grants to support agribusiness lending, agricultural value-chain development, institutional capacity of the SFD and its financial intermediaries. Some of the main outcomes achieved to-date from the above interventions include creation of almost 17,000 jobs (8,868 jobs from RIEEP and 8,119 from LOC to NBE).

Multi-sector

The current portfolio comprises five 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 three financial intermediaries who are involved in franchise lending for the first time. In addition, there are three grants as increased electricity supply to the grid by 4,666 GWh per year. The Abu Qir project is also supplying the UPS with 5% of the total energy with installed thermal generation capacity reaching 23,539 MW.

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approved in 2013 on industrial waste management and SME entrepreneurship hub and support to MSMEs in organic clusters. Some of the outcomes achieved from the franchising project include on-lending to 3 commercial banks that in turn have financed 4 franchise operations.

**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 USD 2.52 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 Zefat 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 USD 0.9 million, 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 Zefat 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 (USD 0.9 million) and AWF (USD 1.84 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 addition there are two ongoing projects on supporting Public Private Partnership (PPP) model for waste water treatment sector as well as providing support services for Monitoring and Evaluation for Water-sector MDGs in order to increase the North African countries’ capacity in water sector monitoring. In addition, the implementation of the expansion of the Gabel El-Asfar wastewater treatment plan (loan of USD 76 million) got a head-start with the signing of the contract for works to begin in 2014.

**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. The second phase which was approved in 2013 through funding from the NEPAD IPPF is provision of transaction advisory services for procurement of NAVISAT satellite system. Once completed the NAVISAT project will provide satellite-based air navigation and safety communication services all over Africa and parts of the Middle East.
The Bank’s intervention strategy during the interim period 2013-2014 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 31 December 2013, the ongoing operations portfolio is comprised of 27 operations that amount to UA 1.28 billion (USD 1.96 billion) in net commitments. In 2013, the Bank was not able to approve any new loans but only approved 4 grants (USD 7.12 million).

The ADB public sector window accounts for close to 87% of the net commitments, followed by private sector window (12%), and grants (1%). 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%.
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.
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.

Expected Outcomes

The project intends to:

• Increase energy generation; and
• Provide 4% of energy supply.

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.
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.
Suez 650 MW Steam Cycle Thermal Power Plant Project

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**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 a 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 a reliable and adequate energy supply by investing in appropriate, diversified and economically competitive sources.

The purpose of the Suez Power Plant Project is to increase the power generation capacity in Egypt leading to the enhancement of socio-economic development. It involves the construction of a 650 MW steam cycle power plant at a site located in the vicinity of Suez city approximately 150 km east of Cairo. Power will be evacuated from the plant to the UPS through 220 kV network by rehabilitating the existing double circuit overhead transmission line and implementing two additional underground cables. In creating a more robust power supply for Egyptians, the project will not only promote economic growth and improve the standard of living of the population of Egypt, it will also support the sixth National Development Plan (NDP) for Egypt (2007-2012), whose goal is to reduce poverty and improve socio-economic development.

**Description**

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 Integration of Wind Energy

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
<th>UA 494,000</th>
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</thead>
<tbody>
<tr>
<td>Co-Financers</td>
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<tr>
<td>Approval Date</td>
<td>May 2011</td>
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<tr>
<td>Expected Completion Date</td>
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<td>Location</td>
<td>Egypt</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Egyptian Electricity Transmission Company</td>
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</table>

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:

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

Description

This study will entail:

- 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;
Study on the Improvement of Power Efficiency

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
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<td>Egypt</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Egyptian Electricity Holding Company</td>
</tr>
</tbody>
</table>

**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.

**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.

**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.
CTF Project Preparation for Suez Gulf wind Project

**Background and Objectives**

The Government of Egypt has committed to increasing the share of renewable energy (both wind and solar) to 20% by the year 2020 as a means of meeting growing electricity demands and to diversify its energy sources. The Government has established a series of wind power plants of 545 MW at Zafarana area on the Gulf of Suez. This is an area determined to have high potential of wind power. Further, three new wind farm projects of 200, 220 and 120 MW are at various phases of implementation by NREA with co-financing from KfW, JICA and Spain respectively.

NREA has thus sought the assistance from the CTF to help undertake preparation activities and capacity building related to development of a 200 MW wind farm project in Gulf of Suez to be jointly developed and operated by NREA with Masdar Clean Energy of Abu Dhabi. An ESIA study has already been completed; and the economic and financial feasibility analyses will be carried out by Masdar.

**Description**

The proposed assistance will include:

- Carrying out a complete technical feasibility study (TFS) to provide a thorough assessment of the wind resources at the proposed site, investigate the integration of wind farm into the unified electricity grid and estimate the site-specific costs;
- Providing technical assistance to NREA for the preparation of EPC bidding documents and provide assistance during the EPC procurement process.

**Expected Outcomes**

The main expected outcome will be having full detailed analyses of the wind farm so as to enable the launch of the procurement process and eventual establishment of the 200 MW wind farm.

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**Table**

| ADB MIC Grant Amount | UA 0.64 million |
| Approval Date        | November 2011   |
| Expected Completion Date | December 2014 |
| Location             | Gulf of Suez    |
| Executing Agency     | New and Renewable Energy Authority (NREA) |
CTF Project preparation for Kom Ombo Concentration
Solar Power

Background and Objectives

The Government of Egypt has committed to increasing the share of renewable energy to 20% by the year 2020 as a means of meeting growing electricity demands and achieving the economic objective of utilising natural gas for higher value purposes. Egypt possesses the best solar resources in the MENA region, reaching almost 30% of the total potential in the region. The electricity generation expansion plan for Egypt includes achieving total solar capacity of 150 MW by 2017.

A pre-feasibility study for the Kom Ombo has already been carried out (executed by KfW on behalf of BMZ/UNEP) which concluded that a parabolic through a CSP was technically feasible. The full feasibility study is under finalisation supported by the European Commission via the Neighbourhood Investment Facility (NIF) under the lead of KfW.

The objective of the project is thus to prepare a detailed Environmental and Social Impact Assessment (ESIA) report as well to provide necessary technical assistance to the government.

Description

The proposed assistance has 2 components:

- Environmental and Social Impact Assessment (ESIA);
- Technical assistance to the New and Renewable Energy Authority (NREA).

Expected Outcomes

The main expected outputs of the project will be:

- The finalization of the ESIA report;
- The development of complete procurement/contractual documents for the works anticipated under the project;
- The obtention for NERA of the environmental permit for the project from the concerned authorities, the financing and the launch of the procurement process for an EPC contractor to develop the Kom Ombo CSP plant.
Franchising Sector Support Program

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<td>Location</td>
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<tr>
<td>Executing Agency</td>
<td>The Egyptian Social Fund for Development</td>
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</table>

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.
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.
Glabel Elasfar Wastewater Treatment Plant

**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.

- 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.

**Description**

The proposed project comprises the following main components:

- Wastewater treatment expansion works;
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 masterplan 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.

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.

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.
Helwan PPP Waste Water Study

<table>
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<tr>
<th>ADB MIC Grant Amount</th>
<th>UA 600,000</th>
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<tbody>
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<td>Approval Date</td>
<td>October 2011</td>
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<td>Expected Completion Date</td>
<td>June 2015</td>
</tr>
<tr>
<td>Location</td>
<td>Egypt</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Housing, Utilities and Urban Development and the Construction Authority for Portable Water and Wastewater.</td>
</tr>
</tbody>
</table>

**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.

**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.

**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.
Zefta Barrage Feasibility Study

<table>
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<th>ADB MIC Grant Amount</th>
<th>UA 0.6 million</th>
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<td>Co-Financiers</td>
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<td>Approval Date</td>
<td>April 2009</td>
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<tr>
<td>Expected Completion Date</td>
<td>December 2014</td>
</tr>
<tr>
<td>Location</td>
<td>North Cairo</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Water Resources and Irrigation through the Reservoirs and Grand Barrage Sector</td>
</tr>
</tbody>
</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.
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.

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.

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 | UA 1.7 million |
| Co-Financiers        | CEDARE, N-AMCOW countries |
| Approval Date        | April 2011 |
| Expected Completion Date | December 2014 |
| Location             | Egypt, Tunisia, Libya, Algeria and Mauritania |
| Executing Agency     | CEDARE |
Social Audit to Improve Governance and Accountability in Social Sectors

Background and Objectives

Develop social audit framework and tool kit for application in Egypt and build capacity at Ministry of Health.

Description

The Program has 2 components:

- Development of social audit framework based on best practices and
- Capacity building to implement social audit.

Expected Outcomes

The main expected outcomes will be:

- Number of dissemination events;
- Number of planning consultations and budget; and
- Expenditure information published.

<table>
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<tr>
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<tr>
<td>Location</td>
<td>Cairo</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Bank executed but working with Ministry of Health</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>ADB MIC Grant Amount</th>
<th>UA 490,000</th>
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<tr>
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<td>Executing Agency</td>
<td>CAPMAS</td>
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</table>

**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.

**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.

**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.
Green Growth: Industrial Waste Management and SME Entrepreneurship Hub

**Background and Objectives**

Develop a sustainable and integrated industrial waste exchange system in the pilot area positioned as a Green Entrepreneurship Hub linking industrial waste generators, potential users and recyclers to improve cross-industry resource efficiency, promote the development of new innovative SMEs, create green job opportunities, reduce the environmental impact of industrial waste and improve the lives of Egyptian citizens.

**Description**

The proposed assistance will include:

- Mapping of the industrial waste at the enterprise level in the selected pilot area;
- Policy recommendations towards an enabling environment for industrial waste exchange;
- Raising awareness and capacity building of stakeholders on IWEX;
- Implementation of 3 demonstration projects in industrial waste exchange in pilot areas; and
- Project management.

**Expected Outcomes**

The main expected outcomes of the program are as follows:

- An Industrial Waste Exchange System in one industrial zone is set up and utilized as a pilot for scalability;
- Identify and select 3 enterprises creating 50 direct and 150 indirect jobs.
Support to MSMEs in Organic Clusters

<table>
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<td>Executing Agency</td>
<td>Social Fund for Development (SFD)</td>
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</table>

**Background and Objectives**

Create an overall enabling environment for MSMEs operating out of organic clusters and increase their contribution towards economic growth and employment.

**Description**

The proposed assistance will include:

- Policy recommendation towards an enabling environment for development of MSMEs through evidence based studies and policy briefs;
- Institutional and operational capacity building for key support institutions and stakeholders; and
- Increase organic MSMEs contribution to manufacturing value added (pilot project).

**Expected Outcomes**

The main expected outcomes of the program are as follows:

- 50% increase in contribution of organic MSMEs to manufacturing value-added in identified cluster; and
- 50% increase in demand for financial and non-financial services tailored to develop MSMEs in cluster.
Multi sector
Libya

Membership year
- 1972

Subscribed capital (%) as of 31 December 2013
- 4.057
Libya

Recent Developments

2013 was a challenging year for Libya’s political and economic transition. The transition was heavily affected by the increasing tensions between tribal groups, the weak regulatory and institutional environment, the limited private sector, the undiversified economy and the strong dependence on hydro-carbon income.

Libya continued to face high levels of security incidents and violence, particularly in the second half of 2013 due to the increasing tensions between tribal groups, regional militias and the Libyan government.

These rising tensions had a negative impact on the economy which witnessed a downturn in the second half of 2013. According to the Libyan Ministry of Economy, the oil blockades have cost the Libyan economy over USD 10 billion in 2013, threatening the government’s fiscal stability and, hence, its ability to focus on economic recovery and political transition following the country’s 2011 unrest.

Expanding protests at the country’s major oilfields and export terminals in 2013, held by workers demanding better working conditions and by armed rebels demanding greater political and economic autonomy, resulted in major declines in oil production to well below its 1.6 million barrels per day (bpd) average, reaching a low of 200,000-300,000 bpd in October 2013, corresponding to a decrease of about 80%.

With hydrocarbons revenues constituting the largest source of government income (78% of GDP), the low oil production of 2013 constituted a substantial budgetary pressure. According to the Libyan Ministry of Economy, the oil blockades have cost the Libyan economy over USD 10 billion in 2013, threatening the government’s fiscal stability and, hence, its ability to focus on economic recovery and political transition.

GDP declined sharply in 2013 but is expected to rebound during 2014/2015 on the condition that the security situation and in particular the incidents at the oil terminals come to an end. The 2013 budget is estimated to have experienced a deficit of 9.3% and is likely to remain in deficit in 2014 but return to balance in 2015. 2013 also saw the deterioration of the current account due to the declining hydrocarbon exports. Given a return to normal oil production, the current account is expected to see a surplus in 2015.

The public finances remain vulnerable to the continuation of strikes affecting oil production and revenues. Further increases in recurrent expenditures, such as the regular increases in public sector wages, pose risks to the state’s fiscal sustainability and an appreciation of the real exchange rate.

In the medium term and in the absence of a reduction of current spending, reconstruction and development spending might push the budget into deficit. In the 2013 budget, passed in March 2013, the total spending amounted to Libyan Dinars (LD) 66.9 billion, down from LD 68.5 billion in the 2012 budget. Almost a third of this amount (LD 20.8 billion) was allocated to public sector salaries, implying a wage bill that was more than LD1.8 billions higher than in the 2012 budget.

Moreover, the subsidies, constituting around 16% (LD10.6 billion) of the 2013 budget, are believed to result in high levels of inefficiency and fuel smuggling without targeting those most in need of the subsidy. The government has announced plans to remove fuel subsidies by 2016 and replace them with cash transfers to the citizens. However, the feasibility of these reforms is difficult to apprehend given Libya’s current uncertain political and social climate.

Private sector activity remains limited due to the volatile political environment, weak regulatory and institutional environment, lack of access to finance, and the weak banking system. According to the latest Mo Ibrahim Index and Global Competitiveness Index, Libya is still performing poorly in terms of business environment, prevalence of

The new Companies Law passed in 2013 allows Libyan shareholders to issue only up to 49% of a joint venture to a foreign partner (rather than 65% provided for in Decree No. 103 of 2012). As a result, many Libyan start-up ventures, operating in a high-risk country such as Libya and previously funded by foreign investors, will no longer be capitalised by such partners. In addition, the new minimum capital requirement of LD 1 million implies a significant outlay for most companies (and in particular small- and medium-sized enterprises). Restrictive labour laws and regulations are other major constraints to private sector development and employment creation. Reforms to the tax system have, however, been carried out with the aim of moving towards a more business- and investment-friendly tax environment.

For much of Libya’s contemporary history, economic activity and growth have not been inclusive, leaving behind the youth, the unemployed and a large section of the country’s women. Unemployment continues to be a challenge in Libya. The post-revolution economic recovery has been primarily based on the growth of the capital-intensive energy sector, failing to address the country’s estimated 13% unemployment (with youth unemployment at 50%). The country’s volatile political and security status in 2013 prevented the emergence of a new growth and development framework which could aim at economic diversification, productive employment generation, and an inclusive development trajectory.

Libya lacks primary health care facilities such as local clinics and district hospitals. The country also suffers from bad quality education. Despite literacy levels of around 84%, among the highest in the region, Libya scores very poorly when it comes to the quality of the educational services.

Due to the increasing political instability in 2013, the government’s efforts have been focused on trying to contain the country’s security situation. As a result, efforts on constitutional process have been limited. Progress on drafting the new Libyan Constitution has been slower than anticipated. The Constitutional Declaration, which is the current supreme law of Libya, was finalised on 3 August 2011 but it was only in September 2013 that mechanisms for the national Constituent Assembly (CA) elections were put in place.

However, despite these considerable challenges, Libya continues to make gradual progress on its transitional roadmap. Despite delays, the country’s Constitutional Assembly elections were held in February 2014 and a new Constitutional Assembly was announced on 2 March, 2014. Achieving a full transition to political stability might be a lengthy and volatile process. In this regard, a stable security environment remains essential to Libya’s successful political and economic transition.
Despite being one of AfDB’s largest shareholders, the Bank’s assistance to and engagement with Libya has been very limited until recently. This has been largely due to the restrictive operational environment prior to the 2011 revolution and the previous Libyan regime’s lack of willingness to engage with the Bank as well as the limited need for Libya to borrow development finance. Despite this, in 2009 and 2010 the Bank approved two MIC TAF grants for Libya, in the areas of export promotion (UA 0.48) and SMEs development (UA 0.58), respectively. The weak institutional capacity of the Libyan counterparts delayed the initiation of the implementation of the grants; subsequently, the onset of the revolution and the subsequent political and governance vacuum that followed also made the task of maintaining communications with (and operations through) the previously designated Libyan authorities impossible. As a result, the projects were not initiated and no funds were disbursed. During the Bank’s first post-revolution mission to Libya, undertaken in March 2013, a mutual agreement was reached between the Bank and the Libyan government to cancel the existing grants and to instead focus on newly emerging challenges facing the post-revolution Libya.
Bank Group Strategy & Ongoing Activities

The Bank is determined to accompany Libya during this period of economic and political transition. The Bank can utilize its expertise and experiences on the continent to help respond to Libya’s post-revolution needs for development strategy formulation, institutional capacity building and service-delivery enhancement. As a significant sign of a renewed and more engaging approach towards the Bank, the government of Libya announced at the Bank’s 2013 annual meetings in Marrakech its decision to pledge USD 37 million towards the thirteenth replenishment of the African Development Fund (ADF-13). Given Libya’s lack of long term financing needs, most of Bank’s operations in the country are envisaged to focus on the urgently-needed technical assistance and advisory services.

Notably, the Bank has established a strong institutional relationship with the Libya Africa Investment Portfolio (LAP), one of Africa’s largest sovereign wealth funds, and is assisting the latter with institutional and strategic reforms and capacity building. As part of a capacity building scheme, four LAP personnel have been stationed at the Bank since September 2013, undergoing secondments with the aim of increasing their expertise in the areas of investment, private sector operations and legal issues. More LAP personnel will soon be joining the Bank’s various departments for the same purpose in 2014. This scheme is not only proving highly successful for assisting with capacity building within LAP, but it has also created a highly valuable and potentially lucrative partnership between the Bank and one of continent’s leading investment funds.

As part of the Deauville Partnership, and under the Multi-donor Trust Fund for Countries in Transition, the Bank obtained approval for UA 162,870 in September 2013 to enhance dialogue between the new Libyan authorities and the Bank. In December 2013, at the request of the Libyan government, the Bank prepared and obtained approval for the project entitled, ‘Leading the Way: A Leadership Capacity Building Pilot Project’ under the MENA Transition Fund. These two technical assistance projects mark the Bank’s first formal assistance to the post-revolution Libya, and aim to address the key challenges facing the country’s transition process.

Following a scoping dialogue mission in March 2013, the Bank hosted several visits by Libyan institutions during the second half of 2013 aimed at exploring new areas of assistance and collaboration. These included the Ministry of Health, the Libya Africa Investment Portfolio, the Libyan Local Fund for Investment and Development (a USD 12 billion Sovereign Wealth Fund financing local development in Libya) and the National Investment Company (NIC). Fruitful dialogue with these and other Libyan institutions have resulted in emergence of key potential areas of collaboration and assistance.
Leading the Way Program: Pilot Project for Developing Leadership Capacity to Support Libya’s Transition

<table>
<thead>
<tr>
<th>MENA TF Amount</th>
<th>USD 3.5 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Ministry of Planning, Libya</td>
</tr>
<tr>
<td>Approval Date</td>
<td>December 2013</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2016</td>
</tr>
<tr>
<td>Location</td>
<td>International</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Africain Development Bank</td>
</tr>
</tbody>
</table>

**Background and Objectives**

The project will contribute to strengthening the efficiency and effectiveness of the Libyan institutions to deliver better governance as well as sustainable economic and social development.

Under the leadership of the Libyan authorities, many internationally recognized institutions will work together to reinforce transformative leadership capable of streamlining institutional and organizational structures.

**Description**

The project aims to:

- Support the transition government and prepare conditions for a successful handover to the new government;
- Run a pilot leadership training program for executive level officials (public, private and civil society); and
- Produce a strategic campaign plan which will lay the foundations for long-term transformative leadership capacity in the Libya in support of the Libya 2050 Vision.

In order to achieve the above objectives, the project will consolidate a consortium of international academic and professional institutions for the successful delivery of transformative leadership in Libya and the region. This project will establish leveraging opportunities with a similar project for Tunisia funded by the MENA Transition Fund earlier this year, entitled “Leading the Way Program: Pilot project for developing leadership capacity to support Tunisia’s transition”.

**Expected Outcomes**

The project will:

- Consolidate a technical consortium from international academic institutions;
- Design of Leading the Way Program architectures;
- Develop leadership training program contents for multiple leadership paths and specializations;
- Facilitate government transition and handover of power through effective leadership training;
- Pilot train 200 executive level officials from the public, private and civil society (gender equality);
- Leadership capacity building strategic plan in support of the Libya 2050 Vision;
- Independent and Scientific Assessment of the outcomes and outputs of the project (impact analysis).
### Mauritania

- **Membership year**: 1964
- **Start of lending operations**: 1972
- **Number of ADB operations approved, 1967-2013**: 15
- **Number of ADF operations approved, 1967-2013**: 53
- **Number of NTF operations**: 2
- **Subscribed Capital (%) as of December 2013**: 0.058
- **Number of operations in the current portfolio**: 11
- **Total loan amount of operations in the current portfolio (UA million)**: 154.1
Islamic Republic of Mauritania

Recent Developments

The economic rebound observed in 2012 in Mauritania continued in 2013 with an estimated real GDP growth rate of 6.8%. The production of iron, the country’s main export, attained record levels. Exports rose to 13 million tonnes in 2013 due to strong Chinese demand for raw materials. The Mauritanian economy manifested a certain level of resilience by achieving positive growth for the third consecutive year, standing at 6.8% in 2013. Such performance also stems from (i) the excellent performance of the agricultural sector thanks to good rainfall; (ii) the buoyancy of the civil works sector bolstered by major public investment projects; and (iii) the rebound in mining activities.

From an economic standpoint, 2013 was characterised by the satisfactory execution of the triennial programme, supported by the Extended Credit Facility (ECF) which was completed in June 2013. National authorities respected almost all the quantitative implementation criteria. Official reserves reached the equivalent of 7.3 import months at end-2013. Apart from sound budgetary performance, macroeconomic stability was underpinned by a monetary policy characterized by the prudence and vigilance needed to contain any resurgence of inflationary pressures resulting from excess liquidity in the banks.

The excellent performance of the Mauritanian economy should continue in 2014 with a projected growth rate of 6.9% sustained by the continued buoyancy of the mining sector (especially iron) as well as the sound performance of the civil works and service sectors, despite weak international demand.

The country’s economic buoyancy seems to have triggered job creation. Indeed, the national survey on employment and the informal sector conducted in 2012 and whose findings were published in 2013, placed Mauritania’s overall unemployment rate at 10.1%, which is well below the 32% obtained from the 2008 regular four-year survey on household living conditions (EPCV). Although these two surveys have two different approaches, the unemployment rate from the 2012 survey is encouraging. However, this survey reveals the structural challenges of the labour market, such as the predominance of the informal sector, which employs 96% of the non-agricultural private sector workers as well as a high rate of vulnerable jobs estimated at 53%. As regards the social sector, certain Millennium Development Goals (MDGs) to be attained by 2015 may be difficult to achieve, especially those related to health. However, it is important to recognise the significant progress made by the country on the MDGs relating to education, drinking water supply and sanitation, and gender.

Several constraints and obstacles prevent Mauritania from participating more profitably and strategically in global value chains (GVC). These constraints relate mainly to infrastructure and the rudimentary processing of exported natural resources. Government action should, as a priority focus on eliminating these constraints and obstacles and on developing and implementing a real policy on innovation. By doing this, the authorities could stimulate the diversification of the country’s productive base.
Since commencing operations in Mauritania in 1972, the Bank Group has provided the country with total financing of UA 512 million for 71 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 19.6%, the social sector with 13%, agricultural sector with 11.5% and the financial sector accounts for 3.8%.

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 seven 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 63.1 million to help mitigate the problem of water scarcity in Mauritania.
Agriculture and Rural Development Sector

In collaboration with various development partners, the government has implemented the integrated irrigated areas program, developed and managed pasture lands. This has resulted in increased farm output and reduced post-harvest losses.

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 15 operations in the sector with total commitments reaching UA 58.2 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.

The Bank has contributed to the development of the country’s financial sector by financing several credit lines and approving technical assistance to support several financial institutions. This enabled the promotion of local entrepreneurship and SMEs.
Bank Group Strategy & Ongoing Activities in Mauritania

The Combined CSP Mid-Term Review Report and 2013 Review of the Bank’s Portfolio in Mauritania is the most recent cooperation document between the Bank and Mauritania. This document was reviewed by the Bank’s Committee on Operations and Development Effectiveness which confirmed the relevance of the intervention pillars set out in Mauritania’s 2011-2015 CSP, namely infrastructure development (Pillar I) and the improvement of economic and financial governance (Pillar II). These two pillars reflect the country’s development priorities as outlined in PRSF III. They are also consistent with the Bank’s 2013-2022 Strategy. Hence, they will remain unchanged for the remaining CSP period (i.e. 2014-2015). Special emphasis will be laid on promoting inclusive growth following adoption, during the mid-term review mission, of the country’s roadmap for promoting inclusive growth. This was also one of the major objectives of the Bank’s 2013-2022 Strategy. In addition to inclusive growth, climate change control, training and capacity-building are among the core objectives targeted by Bank operations for the 2014-2015 period.

The Bank’s portfolio in Mauritania comprises ten ongoing operations for a total commitment of almost UA 146.3 million. These interventions comprise 7 (seven) public sector operations, including a multinational technical assistance operation of an amount of UA 33.7 million and three operations under the non-sovereign window for a total of UA 112.6 million. The mining sector, which has 77% of total portfolio commitments, is the Bank’s main intervention sector in Mauritania. Sectoral distribution of the public sector portfolio shows that priority is given to the water and sanitation sector which represents almost 56% of public sector commitments, followed by rural infrastructure (20%) and microfinance (18%). Public sector operations are financed with ADF and NTF resources. The non-sovereign portfolio comprises the SNIM-GUELBJ Extension Project, which is an enclave project, as well as technical assistance to the National Industrial and Mining Corporation (SNIM) and Mauritanie Leasing, financed by FAPA.

Figure 5.18: Structure of the current portfolio by sector in Mauritania
Rural Drinking Water Supply and Sanitation Project in the South

<table>
<thead>
<tr>
<th>ADF Loan Amount</th>
<th>UA 9.70 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Community Beneficiaries, Government of Mauritania</td>
</tr>
<tr>
<td>Approval Date</td>
<td>November 2006</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2014</td>
</tr>
<tr>
<td>Location</td>
<td>Three regions: Hodh El Chargui, Assaba and Gorgol</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Water Resources</td>
</tr>
</tbody>
</table>

**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 Bank Group is financing a project in the rural areas of the southern part of the country which embodies aspects related to integrated water resources management. It lays emphasis on environmental protection and the integration of women in the development process. 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;
- Conduct awareness campaigns within communities;
- Undertake the training of stakeholders.
Integrated National Project in the Area of Rural Water

<table>
<thead>
<tr>
<th>ADF Loan Amount</th>
<th>UA 3.97 million (ADF Loan), UA 2.44 million (ADF Grant) and UA 3.08 million (RWSSI Grant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Government of Mauritania and Beneficiaries</td>
</tr>
<tr>
<td>Approval Date</td>
<td>December 2012</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2018</td>
</tr>
<tr>
<td>Location</td>
<td>Nationwide</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Hydraulic</td>
</tr>
</tbody>
</table>

**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.

- 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.

**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:
West Brakna Irrigation Scheme Project

### 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.

### Expected Outcomes

The project intends to:

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

### 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.
Public Investment Management Support Project (PAGIP)

Background and Objectives

The objective of PAGIP is to improve public investment efficiency to ensure robust and inclusive economic growth. Its operational objectives are: (i) the improvement of public investment programming and of the linkage between the various programming tools and the PRSF; and (ii) capacity-building on the identification, preparation, implementation and monitoring/evaluation of public investment projects. The project has two components: (i) improvement of public investment management; and (ii) project management and coordination.

Description

The project focuses on two components:

- Improvement of public investment management; and
- Project management and coordination.

Expected Outcomes

The project intends to:

PAGIP complements previous Bank operations. By strengthening the public investment planning, programming, implementation and monitoring/evaluation process, it will ensure greater efficiency in public investment management and more efficient channelling of the State’s financial resources towards projects that guarantee inclusive and sustainable growth.
Project to Build the Capacities of Microfinance Stakeholders (PRECAMF)

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.

Expected Outcomes

The project intends to:

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

Description

The project will be implemented over a five-year period and it comprises the following three components:
Line of Credit to “Banque pour le Commerce et l’Industrie”

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>USD 8 million (private sector)</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>
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</tr>
<tr>
<td>Executing Agency</td>
<td>Banque pour le Commerce et l’Industrie</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. 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.

Description

The project will be implemented through the following:

- A line of credit being provided for on-lending to SMEs

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.
Line of Credit to Mauritania Leasing

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>USD 5 million (private sector)</th>
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<tr>
<td>Approval Date</td>
<td>July 2008</td>
</tr>
<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.

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.
Morocco

| Membership year | 1964 |
| Start of lending operations | 1970 |
| Number of ADB operations approved, 1967-2013 | 141 |
| Number of ADF operations approved, 1967-2013 | 9 |
| Subscribed Capital (%) as of December 2013 | 3.512 |
| Number of operations in the current portfolio | 29 |
| Total loan amount of operations in the current portfolio (UA million) | 2.114,17 |
Republic of Morocco
Recent Developments

Despite slow global growth, in 2013, the Moroccan economy growth rate reached 4.7% after it eased to 2.7% in 2012. This performance was boosted by an exceptional harvest as the net slowdown in non-agriculture activity remained less dynamic compared to 2012. Exports of goods went down to 4% due to a decline of nearly 28% of exports of phosphates and its by-products. Only exports of goods, mostly electric cables, benefited from the recovery of external demand.

Furthermore, Morocco’s continued strong economic progress and effective management of monetary policy fostered a stable budget in 2013. Inflation reached 1.9% and the current account deficit was reduced to 7.2% of GDP, compared to 10% in 2012. Foreign exchange reserves were increased to 4.5 months of imports of goods and services. Budget deficit reached 5.3% of GDP. Nevertheless in 2014, the Government initiated corrective measures to improve revenue collection and scale back public investment. The objective being to reduce the budget deficit to 3% of GDP by 2016. However, to achieve this goal, reforms of the compensation fund and the application of the indexing system of petroleum products will be crucial.

Overall, Morocco’s economic performance is encouraging, as the country enjoys political and social stability. The business climate has improved and the country gained eight spots in the Ease of Doing Business annual ranking from the 95th in 2012 to the 87th place in 2013. In addition, 2013 was marked by improved tourism income, transfers from Moroccans living abroad, and a significant increase in foreign direct investment (+20%).

Despite this good performance and the improvement of the economic situation, Morocco has not managed to meet the challenge of youth unemployment (15-24 years), which reached 19.1% in 2013. In 2014, Morocco will continue to implement the country’s reform program (subsidies, taxation, retirement, social protection and fiscal system), with a dual purpose: i) improve the efficiency of public finances; and ii) support the development of a model of inclusive growth driven by the private sector (a sector creating jobs for young people).

To support this reform and accelerate the process of transformation and diversification of its economy and thereby create more jobs, Morocco is using sectorial strategies. In 2014, Morocco launches the National Industrial Acceleration Plan for 2014-2020 which follows the National Pact for Industrial Emergence launched in 2008. This plan aims to (i) increase the share of industry in GDP from the current 14% to 23%; (ii) create a new dynamic, a better coordination and deeper partnership between large companies and SMEs; and (iii) strengthening the role of industry as a major source of employment, particularly for youth (creation of 500,000 jobs).
The year 2013 was characterised by a significant increase in the operations of the African Development Bank Group in Morocco’s social sector. Indeed, the Bank Group continued and intensified its reform support in the areas of health, training and youth employability, by approving two loans for a total of UA 200 million. These loans relate to financing of the Programme in Support of Matching Training and Employment (PAAFE) and the Medical Coverage Reform Support Programme – Phase 3 (PARCOUM III). The Bank also approved seven new technical assistance operations and studies to be financed with Deauville Partnership trust funds.

2013 was also marked by the holding of the Bank’s Annual Meetings in Marrakesh in May 2013 on the theme: Structural Transformation in Africa. This event benefited from the exemplary collaboration with the Moroccan authorities and was a real success. Hence, on that occasion, the Bank signed an agreement with the Moroccan Government to ensure that the procurement procedures applicable in the Kingdom of Morocco are used in national competitive bidding for goods and works in ADB-funded projects. The agreement, which gives concrete form to one of the main commitments made under the Paris Declaration and the Accra Agenda for Action on development effectiveness, is the very first of its kind signed between a multilateral donor and a partner country and became effective, for an indeterminate period of time, from 1 January 2014.

The Bank supports Morocco in its strategic policies, both structural and sectoral, by pursuing a common objective: promote inclusive growth that benefits all Moroccans throughout the national territory and is environmentally-friendly. In keeping with the priorities of the Moroccan government, the strategy adopted by the Bank for Morocco, for 2012-2016 period, is based on two major pillars: the strengthening of governance and social inclusion on the one hand, and support for the development of green infrastructure, on the other.

The Bank’s active portfolio in Morocco at end-2013 was over EUR 2.4 billion. This portfolio is heavily oriented towards the infrastructure sector. Infrastructure (transport, energy, water and sanitation, irrigation, private sector) does indeed continue to dominate the portfolio (19 operations, 85% of commitments), followed by the social sector (3 operations, 10% of commitments) and the governance sector (7 operations, 5% of commitments). The two private sector infrastructure operations relate to: (i) a loan to the “Office chérifien des Phosphates” (Moroccan Phosphates Authority) in June 2011 of an amount of USD 250 million fully disbursed in August 2012; and (ii) an equity investment of EUR 15 million in a regional investment fund for infrastructure financing “Fonds Argan pour le développement des infrastructures” (Argan Fund for Infrastructure Development), approved in February 2010.

The Bank’s presence in the field made it possible to improve portfolio quality and performance and also enhanced its participation in the coordination of aid with other bilateral and multilateral partners. This cooperation developed through consultations initiated by thematic groups and during joint operations missions.

The Bank, which has established itself as a leading partner, intends to continue supporting the Kingdom in its ambitious development programme through structural reforms and its major innovative infrastructure projects while paying due attention to social inclusion.

Note from the Field Office in Morocco
Mrs. Yacine Fal, Resident Representative
Morocco and the African Development Bank have been partners for a long time. Their cooperation dates back to 1970, year of the first Bank financed projects in the Kingdom. There are four priority areas: infrastructure, economic and financial governance, social sector and agriculture.

Since 1970, the Bank has approved 139 operations for cumulative commitments amounting to UA 6.36 billion (USD 9.89 billion), 99.1% of which are ADB loans and grants, 0.9% are ADF loans and grants. Morocco is one of the major borrowers of the Bank. In 2013, new approvals represented an additional 231 millions Euros in the social sector.

Transport Sector

The transport sector is one of the main drivers of economic growth and development in the Kingdom and is therefore among the top priorities of the Government. 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.

Thus, Morocco has approved a new strategy based on three pillars, namely (i) competitiveness, equitable and sustainable development, (ii) transparency, good governance and efficiency, and (iii) quality and safety of transport services.

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. In 2013, the active portfolio of the Bank consisted of three operations in this sector. This is the 3rd Airports Project (UA 205 million), the proposed increase rail capacity in Tangier/Marrakech axis (UA 263 million) and the second phase of the National Rural Roads Program (UA 38 million).

**Energy Sector**

Morocco imports almost all the energy it consumes (95%). The power generation comes substantially from thermal power. The installed capacity of the hydroelectric plants represent roughly 20% of total capacity 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 Ourarzazate solar power plant of UA 90 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 Ourarzazate 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 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 Morocco, due to the vulnerability of the climate, marked by years of drought, drinking water has always been a source of major concern for the population. Due to rapid population growth, continued improvement of living standards, accelerated urbanization and industrial development, the socioeconomic context of the use of water has changed considerably over the past decades. These socio-economic changes have led to a sharp increase in demand for drinking water and also to increased disparities between regions. For sewerage, Morocco launched the implementation of a National Liquid Sanitation Programme and Wastewater Treatment with the goal to achieve a rate of global connection to the sewerage system of more than 80% in urban environment and reduce water pollution to at least 60%.

Since the beginning of its operations in Morocco in 1970 and in the context of the water policy defined by the Government of Morocco the Bank is committed to support the Water department of the National Office of Electricity and Water Supply (ONEE) in its mission to provide safe drinking water to urban and rural populations and economic actors (industry, tourism) in the country in sufficient quantity and quality, as well as to prepare the implementation of sanitation systems.
The Bank also participates in the financing of several projects covering many major cities in Morocco in the drinking water and sanitation sector.

Since the beginning of its interventions in Morocco, the Bank has financed 14 operations in the water sector, bringing the total cumulative commitments of the Bank Group in this sector to the equivalent of about 11 billion MAD. This positions the Bank as the first donor in the water sector in Morocco. Installations made within the framework of various projects funded by the Bank ensured a supply of drinking water in a sustainable manner for several cities of Morocco and facilitated access to drinking water in rural areas not served. This has contributed to improve health conditions of populations as well as to protect and preserve of water resources.

Put in numbers, the different projects financed by the Bank resulted in the improvement of water supply and distribution systems in 30 Moroccan cities (more than 2/3 of the population of the country) spread over the entire territory. These projects have helped to secure access to drinking water in urban areas of the order of 100% and to the increase in access to safe drinking water in rural rate increased from 14% in 1990 to 93% today and also to access to sanitation in urban areas rising from less than 50% in 1990 to 70% today.

Operations currently being financed by the Bank in Morocco aim at ensuring:

- Water supply for rural population of 450,000 inhabitants in the provinces of Chefchaouen, Azilal, Settat and Kenitra;

- Collection and treatment of wastewater from the cities of Khouribga, Oued Zem and Boujaad, estimated at close to 380,000 inhabitants;

- Reinforcement of water supply systems of 9 major Moroccan cities (Taounate, Khénifra, Azilal, Tahanaout, Agadir, Settat, Marrakech, Tamesna and Axis Rabat-Casablanca) experiencing a major tourist and urban development. The goal is to improve the quantity and quality of drinking water for about 3 million people and give ONEE and the self-governed water distribution concession companies the resources to support the changing demands of the affected areas until 2030;

- Strengthen and improve the quantity and quality of drinking water of the Rabat-Casablanca axis of about 5 million people in 2014 (about 700,000 in rural areas) and give ONEE the means as a producer and distributor as well as to private operators “LYDEC REDAL” as distributors, to support the changing demands of the people of the affected areas until 2030 (when the affected population will exceed 8 million inhabitants, of which about 1 million in rural areas);

- Secure the supply of drinking water supply for about 2 million inhabitants in 2017 in Al Haouz and Al Kelaa regions (which are experiencing a urban, tourist and major industrial development); empower the ONEE (Water department) as producer and distributor as well as the Marrakech Autonomous Water and Electricity Authority "RADEEMA" also a distributor, to support the changing demands of the people of the Marrakech region until 2030 (when the population of the concerned area is expected to be 3 million people with more than a million in rural areas);  

- Enable the Youssoufia Phosphates “OCP” to meet its needs in industrial water for the site of Ben Guerir;

- Empower the ONEE (Water department) to ensure the planning of drinking water to ensure the sustainability of the water supply service in the Eastern region through the study of the master plan of drinking water supply to urban and rural populations in the northern zone of Moulouya hydraulic basin financed by the MIC-TAF.

Agriculture Sector

The agricultural sector plays a pivotal role in Morocco, both in terms of contribution to growth and as a provider of employment. 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.

The Bank’s agricultural sector portfolio for Morocco has 5 ongoing projects. These projects represent a total funding of UA 133.71 million (equivalent to 160,4 milliers €) of which UA 132.24 million loan (equivalent to 158,5 milliers €) and UA 1.47 million in grant (equivalent to 1.87 million €) go to the following projects: support to the national conservation program of irrigation water (PAPNEEI), support program to the Morocco Green Plan (PAPMV), technical support to project oasis South (ATPOS), technical support to the development of irrigation infrastructure (ATDII) and technical support to the promotion of young agricultural entrepreneurs (ATPJEA).

**Multisector**

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.

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. These reforms have resulted in major outcomes including financial inclusion of populations and SMEs with, in three years, almost a double of the Bank rate from 30% in 2009 to 55% in 2012 and more than a double of CGC guarantee commitments for Micro / SMEs over the same period. In light of these positive results, the preparation of a third phase of PADESFI started in 2013. In addition, two grants were mobilized to support projects with a significant leverage on the effects of PADESFI: one approved 2012 to support the development of the Moroccan Monetary and Financial Code (COMOFIM) and one approved in 2013 to support the modernization of the organizational framework for debt management.

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.
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.) and especially in the areas of education and health.

In 2013, the Bank approved two loans totaling UA 200 million financing on one hand, the Support Programme Adequacy training Employment (PAAFE) and on the other hand financing the Support Program to the Reform of the Medical Coverage Phase 3 (PARCOUM III). The Bank also supports Morocco through studies and technical assistance financed by resources from transition trust fund and funds for middle-income countries. In 2013, seven new operations were approved in this setting for a total amount of €2.5 million.

The operations directly managed by the Bank are: (i) the strategy of health sector financing, (ii) technical assistance to the national dialogue on new constitutional roles for civil society, (iii) the assessment of quality of vocational training, (iv) the identification study for skills needed for the construction sector to develop a training plan for 2015, (v) the training case for participation women in elected bodies, (vi) the establishment of a support system for the integration of recipients of higher education and (vii) the implementation of the digital university at the International University of Rabat.

**Social Sector**

**Figure 5.22: Cumulative ADF Loans and Grants by Instruments in Morocco (1970 – 2013)**

ADF project Loans - 99.1 %
ADF Grants - 0.09 %
Bank Group Strategy & Ongoing Activities in Morocco

The Bank Group’s strategy in Morocco (CSP 2012-2016) was approved by the Board of Directors in April 2012. The two pillars adopted for this CSP are: (i) reinforcement of governance and social inclusion; and (ii) support for the development of “green” infrastructure. Hence, Bank support of the Government’s efforts in the areas of governance and social inclusion is a sign of consistency.

Indeed, under its previous strategy for Morocco, the Bank together with the World Bank and the European Union, participated actively in the preparation and implementation of the Public Administration Reform Support Programme (PARAP), which was conducted in several phases. PARAP helped to improve public administration efficiency in the management of human and budgetary resources. Similarly, the Bank supported financial sector modernization by funding the Financial Sector Reform Support Programme (PADESFI). Under the first pillar of the strategy currently being implemented, the Bank has, in collaboration with the other development partners (European Union, World Bank, French Technical Assistance Fund – Agence française de développement, etc.), continued to support second-generation reforms by broadening its intervention scope to new areas (education, local governance).

Under Pillar I: Strengthening of Governance and Social Inclusion, the operations approved during the first two years of implementation of the 2012-2016 CSP were the following lending programmes: (i) the Green-Morocco-Plan Support Programme; and (ii) PARAP (new generation), the Programme in Support of Matching Training and Employment and the Medical Coverage Reform Support Programme (PARCOUM III). There are also 13 non-lending programmes: (i) Technical Assistance for MTEF Development; (ii) Study on the Preparation Skills Benchmarks in Logistics Professions; (iii) Study on the Relationship between Inclusive Growth and Employment in Morocco; (iv) Technical Assistance for the Promotion of Young Agricultural Entrepreneurs; (v) Modernisation of the Debt Management Organizational Framework; (vi) Preparation of the Monetary and Financial Code; (vii) Health Sector Financing Strategy; (viii) Technical Assistance in the National Dialogue on the New Constitutional Roles of Civil Society; (ix) Assessment of the Quality of Vocational Training; (x) Study on the Identification of Construction Sector Skills Requirements in order to prepare a training programme by 2015; (xi) Training Package to Ensure Women’s Participation in Elective Bodies; (xii) Establishment of a Support System for the Integration of Higher Education Graduates; and (xiii) Establishment of the Digital University at the International University of Rabat.

Under Pillar II: Support for “Green” Infrastructure Development, the approved operations are: (i) Marrakech Region Drinking Water Supply Project; (ii) the Ouarzazate Solar Power Station Project; and (iii) the Integrated Wind Energy, Hydro Power and Rural Electrification Project.

Hence, after the second year of implementation of the 2012-2016 CSP, the portfolio was rejuvenated with a total of 20 new operations. A review of the sectoral distribution of the portfolio shows that infrastructure (energy, transport, water and sanitation) is the Bank’s main area of intervention. Through its massive involvement in the infrastructure sector, the Bank has helped to enhance the attractiveness to become a regional platform for investment, production and trade.
The second focus area for Bank operations is structural reform support. Given the scope and complexity of the country’s reform programmes, Bank support is designed and implemented jointly with other development partners.
Second Program of National Rural Roads

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>€ 45 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Special Rural Funds and Government; local Communes; BEI; BM; AFD; FADES; OPEP; FKDEA; JICA; Hassan II Funds; Italian Cooperation and EU</td>
</tr>
<tr>
<td>Approval Date</td>
<td>September 2007</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2014</td>
</tr>
<tr>
<td>Location</td>
<td>Rural areas (23 provinces of the country, as regards the part financed by the Bank)</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Road Fund Agency with supervision and monitoring of the works delegated to the Directorate of Roads and Road Traffic</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>€300 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval Date</td>
<td>December 2010</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2016</td>
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<tr>
<td>Location</td>
<td>Tangier-Marrakech</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>National Railway Company ONCF</td>
</tr>
</tbody>
</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 recording 2.9% per year between 2004 and 2007 before the international crisis caused a 21.8% per year contraction. 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 by 2016.

Description

This project will entail:

- Strengthening works on the existing tracks, including the construction of a third track, 148 km long between Sebata and Kentira dedicated to fright 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;
- Employment creation of both direct and indirect jobs during the project implementation and operational phases, especially in the logistic zones created;
- Improving the competitiveness of railway transport especially on the rail freight market niche.
Third Airport Project

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>€ 240 million</th>
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<tbody>
<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/National Airports Authority</td>
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<tr>
<td>Approval Date</td>
<td>April 2009</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>November 2015</td>
</tr>
<tr>
<td>Location</td>
<td>Casablanca, Fez, Agadir, Marrakech and Rabat</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>National Airports Authority</td>
</tr>
</tbody>
</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.

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.

Description

The project comprises the following components:

- Construction of a control centre;
- Rehabilitation and expansion of terminals, aeronautical infrastructure and cargo platforms;
Ouarzazate Solar Power Plant Project – Phase 1 (NOOR1)

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.

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>€ 100 million (+ € 70 million from FTP)</th>
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<tbody>
<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/MASEN; BM; AFD; BEI; KfW</td>
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<tr>
<td>Approval Date</td>
<td>May 2012</td>
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<tr>
<td>Expected Completion Date</td>
<td>December 2016</td>
</tr>
<tr>
<td>Location</td>
<td>The province of Ouarzazate</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>MASEN</td>
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</tbody>
</table>
Electricity Transmission and Distribution Network Development Project

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
<th>UA 100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Financiers</td>
<td>Kingdom of Morocco/ National Electricity Authority</td>
</tr>
<tr>
<td>Approval Date</td>
<td>December 2009</td>
</tr>
<tr>
<td>Expected Completion Date</td>
<td>December 2014</td>
</tr>
<tr>
<td>Location</td>
<td>Nationwide</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>National Electricity Authority</td>
</tr>
</tbody>
</table>

**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.

**Expected Outcomes**

The project intends to:

- Reduce power loss;
- Increase transit capacity;
- Increase installed power;
- Improve access to electricity; and
- Reduce greenhouse emissions.

**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.
Integrated Wind Energy, Hydro-Power and Rural Electrification Programme (PIEHER)

**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 à 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.

**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.

**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.
Training-Employment Matching Program

<table>
<thead>
<tr>
<th>ADB Loan Amount</th>
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<td>Co-Financiers</td>
<td>Moroccan Government</td>
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<td>Approval Date</td>
<td>July 2013</td>
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<td>Expected Completion Date</td>
<td>December 2014</td>
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<tr>
<td>Location</td>
<td>Kingdom of Morocco</td>
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</table>

Background and Objectives

The objective of the Programme in Support of Matching Training and Employment is to improve the employability of technical, vocational and higher education graduates in order to boost the development of economic sectors and ensure greater compatibility between training and the labour market.

This support will enhance the performance of educational and training establishments while improving sectoral governance. To that end, PAAFE contributes to: (i) greater private sector involvement in educational and training mechanisms; (ii) diversification and professionalization of academic and training programmes; (iii) the improvement of equity; and (iv) strengthening of sectoral coordination and governance.

Description

The measures which contribute to the achievement of these results are classified into three components:

- Component 1: Increase technical and vocational education performance in response to labour market needs. The objective of this component is to propose reforms that adapt the training curricula to market needs;
- Component 2: Improve the relevance and management of higher education. This component mainly seeks to support key reforms of the new education strategy that are likely to generate a significant impact in terms of graduate employability and the development of potential resources;
- Component 3: Improvement of Sectoral Coordination and Governance.

Expected Outcomes

The overall expected outcomes of the programme are:

- Greater involvement of the productive sector in the national training mechanism through strengthening of the link between academic training and work-place experience and the delegation of training to professionals;
- Extension of the training system to ensure greater equity;
- Improvement of the quality of public and private training establishments;
- Diversification and professionalization of public and private training programmes;
- Institutionalisation of quality assurance; and
- Improvement of sectoral coordination and governance.

The programme will indirectly affect the entire Moroccan population mainly through its catalytic effect on the long-term training of human capital. Specifically, PAAFE will directly benefit 879,269 eligible secondary school students (of whom 48% are girls), 510,000 higher education students (of whom 47% are girls), 370,000 vocational training interns (of whom 43% are girls), 30,000 unskilled job seekers, as well as businesses in the professional branches targeted by the new vocational training strategy.
Establishment of a Geographic Information System and a Health Care Card

### 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 (GIS). 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 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 on health care provision;
- The reference document for the introduction of the health map is validated and delivered to the Ministry of health.

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Establishment of an Integrated Vocational Training Evaluation System

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Background and Objectives

The objective of this support 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:

- Each training establishment has a self-evaluation tool;
- Each operator has a monitoring and management tool;
- The Ministry has a national management tool.

- Availability of useful consolidated information for the management of the sector in order to improve training centre quality;
Study on Growth and Employment in Morocco

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.
Development Strategy 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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Preparation of a Health Financing Strategy

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<td>Kingdom of Morocco</td>
</tr>
<tr>
<td>Executing Agency</td>
<td>Ministry of Health</td>
</tr>
</tbody>
</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.
Establishment of a Digital University – International University of Rabat

**Background and Objectives**

In a bid to narrow the digital divide and position the Kingdom on the international scene, Morocco, in consultation with public and private stakeholders, launched the “2013 digital plan” in 2010. To consolidate its position in this strategic sector, Morocco has to invest massively in digital technologies while training a critical mass of highly-qualified human resources in this area.

Based on the assumption that developing digital technologies in higher education will boost graduate employability, the goal of such technical assistance is to promote the development of innovative teaching methods using ICTs as the framework for designing academic and training curricula.

The International University of Rabat (UIR), which promotes the project, is developing a vast partnership network with academia and the private sector to provide top-quality training.

**Expected Outcomes**

This project should lead to:

- The enhancement of training to guarantee success and employability;
- Collaboration and communication with other universities; and
- Better positioning of the university within the knowledge economy.

**Description**

This technical assistance comprises two main components:

- Technical assistance studies and services to provide digital solutions, steering of the development of detailed digital solutions and capacity development;
- Procurement of appropriate equipment and software to be used for the deployment of the digital platform.
Grants for Countries in Transition

| Grants for Countries in Transition | € 1.4 million |
| Approval Date                     | 2013          |
| Expected Completion Date          | Not yet determined |
| Location                          | Nationwide   |
| Organe d'exécution               | Government of Morocco |

**Background and Objectives**

Under the Transition Countries Fund, six grants were allocated to support the Government in various sectors, particularly: (i) vocational and higher education, to enhance the employability of graduates; (ii) health, in order to institute a strategy for financing the sector; (iii) capacity building for women in elective positions; and (iv) the last grant that will enable the Government to continue its dialogue with civil society on its new roles defined in the new constitution.

**Description**

1- Vocational training:

- Establishment of an integrated quality assessment system;
- Identification of the skills requirements in the civil works sector.

2- Higher education: Support in the establishment of a national mechanism to enhance the employability of Moroccan university graduates.

3- Civil society: Support to the national dialogue on the new constitutional roles of civil society organisations.

4- Health: Support to the preparation of a new health sector financing strategy.

5- Local communities: Institute a package to train women for elective bodies.

**Expected Outcomes**

This technical assistance will help the Government in key development and capacity-building actions.
Medical Coverage Support Programme – Phase III

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<th>ADB Loan Amount</th>
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<td>Executing Agency</td>
<td>Ministry of Health and Ministry of Finance</td>
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**Background and Objectives**

Morocco intends to improve access to basic social services for its population by developing social welfare mechanisms. RAMED and basic medical coverage are indeed two of the Government’s nine major projects. They are consistent with the Kingdom’s poverty reduction policy as stated in the Government’s programme (January 2012) and in the Speech from the Throne on 30 July 2012.

PARCOUM III will support structural reforms in social welfare and help to cover the financing deficit in the Government’s programme. This programme will help the Moroccan Government to define a long-term social welfare vision for its entire population, by addressing challenges related to reform coordination and financing.

**Expected Outcomes**

The programme should help extend social welfare coverage to a larger proportion of the population (from 46% to 60%), a reduction of the share of direct payments in health expenditure (from 53% to 48%) and an improvement in the perception of the quality of health care services (from 23% to 40%).

**Description**

After establishing coverage mechanisms for public and private sector employees and for the economically disadvantaged, the Government intends to pursue these efforts by developing the same mechanisms for the so-called “independent” population. The goal of the programme is to support the Kingdom of Morocco in its efforts to promote universal coverage of its social protection mechanism. This programme seeks to improve the social and medical protection of Moroccans, especially the most vulnerable social segments, by expanding basic medical coverage and access to quality health services.

To that end, the programme lays emphasis on:

- The steering and financing of reform;
- The extension of medical coverage; and
- The regulation of healthcare supply.
Tenth Drinking Water Supply and Sanitation Project

| ADB Loan Amount | € 33.84 million |
| Co-Financiers   | Kingdom of Morocco/National Drinking Water Authority |
| Approval Date   | November 2008 |
| Expected Completion Date | December 2014 |
| Location         | Taounate, Khénifra, Settat, Marrakech, Tamesna and other neighbouring rural centres |
| Executing Agency | National Drinking Water Authority |

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 of 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.
Support Project to the National Irrigation Water Saving Program (PAPNEEI)

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**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 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 gains energy value at 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);
- Creation of three research programs and development of targeted and localized irrigation experiments;
- Organization of producers to support value chains and marketing (aggregation process);
Project to Strengthen the Drinking Water of the Coastal Zone of Rabat-Casablanca

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**Background and Objectives**

The project is based on 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.
Office Cherifien des Phosphates (OCP) Investment Program

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**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.

- 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.

**Expected Outcomes**

This project will result in

- An increase in phosphate production capacity from 28 to 47 (Million Tons Per Year);
Study of the Drinking Water Supply Master Plan for the Northern Part of the Moulouya Water Basin

Background and Objectives

The purpose of the grant is to support the Water Branch of the National Water and Electricity Corporation (ONEE) in the conduct of the Study on the Drinking Water Supply Master Plan for Urban and Rural Communities in the Northern Part of the Moulouya Water Basin. The objective of this study is to plan sustainable drinking water supply in the region. It also seeks to prepare a needs-resources assessment of the study area and design supply plans to cover the long-term water needs of urban and rural communities in the study area while conducting an exhaustive diagnosis of the current drinking water supply situation.

Description

The project has a single component, namely the Study on the Drinking Water Supply Master Plan for the Urban and Rural Communities in the Northern Part of the Moulouya Water Basin, to be conducted in three phases, referred to as missions.

The three missions are as follows:

- Mission I: Study of Drinking Water Supply Needs by 2035;
- Mission II: Inventory and Analysis of the Resources Used and/or Allocated to Drinking Water Supply and Needs/Resources Analysis; and

Expected Outcomes

This study concerns the drinking water supply master plan for urban and rural communities in the northern part of the Moulouya water basin. The study will provide the requisite tools for drinking water supply planning in order to ensure DWS sustainability in this region.
Water Supply in Marrakech

| ADB Loan Amount   | €120 million (USD +37 million ) |
| Co-Financiers     | Moroccan Government             |
| Approval Date     | November 2012                   |
| Expected Completion Date | December 2018 |
| Location          | Marrakech                        |
| Executing Agency  | ONEE                             |

Background and Objectives

The water supply project in the region of Marrakech is funded by an ADB loan amounting to EUR 120 million and USD 37 million approved by the Bank in November 2012 and signed in December 2012. This project is at its development stage. It was launched in late February 2013. The project required the recruitment of technical assistance to support the ONEE in the preparation of calls for proposals for firms.

The recruitment process for this technical support component is ongoing. Effectiveness and first disbursement conditions have been met. The first calls for proposals were launched in early December 2013.

Description

This project has two components:

- Development of production infrastructure for storage and water supply;
- Technical Support.

Expected Outcomes

- Ensure safety of drinking water supply for about 2 million from 2017 in the area, Al Haouz and Al Kelaa, experiencing development urban, tourism and industrial importance;
- Empower ONEE (Water Division) as producer and distributor, as well as the Independent Board for water and electricity distribution in Al Haouz and Al Kelaa, "RADEEMA " as a distributor. To accompany the changing demands of the population in the region until 2030 (when the affected population will be around 3 million inhabitants, more than a million in rural areas).
- Help Youssoufia Phosphates "OCP" meet its needs for industrial water for the Ben Guerir and El Youssoufia sites.
Green Morocco Plan Support Programme (PAPMVM)

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<td>Ministry of Agriculture, Drinking Water, Mines and Environment</td>
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**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 PAPMVM 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.

**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).

**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.
Technical Support for & Irrigation Infrastructure Development

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<td>Ministry of Agriculture and Maritime Fisheries</td>
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Background and Objectives

To address the 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.

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

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.
Strengthening the Supervision of Financial

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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 DCVM;
- 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.
Argan Infrastructure Fund

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**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.

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.
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 design of the target information system, taking into account existing needs;
- The implementation of the information system and its deployment through the integration of all processes and products;
- 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.
Support Project to Modernise the Debt Management Organisational Framework (P-MOCOGEDE)

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**Background and Objectives**

Cognizant of the importance of organising debt management structures, the Treasury sought to adapt its organisation to applicable international best practices by creating a debt management unit (pôle dette) in June 2010. The new unit comprises the domestic debt division, the external debt division and the international financial markets division and the risk management division. The ultimate goal of this reform is to create a single framework for the Treasury financing and debt management strategy and also create optimal conditions to achieve this objective.

The main missions of the pôle dette are to: (i) make all necessary proposals and conduct all necessary studies on debt policy; (ii) handle the issue and investment of Treasury bills; (iii) prepare the Treasury’s external financing policy and strategy; and (iv) manage Treasury debt, prepare and implement public external debt restructuring strategies and centralize the relevant data.

**Description**

The overall objective of the project is to institute a new organizational framework for the pôle dette and the tools needed to improve efficiency in the management of government debt and cash flow.

Its specific objectives are to:

- Reorganise the structures that comprise the pôle dette into a front office, middle office and back office;
- Establish a framework to control and manage risks related to debt and cash-flow management operations;
- Establish an internal audit framework for pôle dette activities;
- Institute performance indicators for debt and cash-flow management; and
- Identify the training needs of pôle dette staff and ensure their training in order to enable them perform the new tasks under good conditions.

**Expected Outcomes**

The expected outputs of the project in the short term are:

- Mastery of the debt and cash-flow management process that will translate into a reduction of the timelines for disseminating bidding results and;
- Control of debt and cash-flow management risks that will translate into at least a 20% reduction in the number of operational incidents as of 2016.
Tunisia

Membership year 1964
Start of lending operations 1968
Number of ADB operations approved, 1967-2013 128
Subscribed Capital (%) as of December 2013 1.408
Number of operations in the current portfolio 42
Total loan amount of operations in the current portfolio (UA million) 962.62
Republic of Tunisia

Recent Developments

Tunisia recorded a moderate increase of real GDP of +2.6% in 2013, representing a decline compared to 2012 (3.7%) and a shortfall on the initial projection of +4.5% set in the 2013 Finance Act. Political bottlenecks, deterioration of the security situation, a fragile social context, lethargic recovery in the Euro area – the country’s main economic partner - and the decline in agricultural production (-3.3% in 2013) were the factors that led the government to scale down its budget and growth projections on several occasions in 2013 to 3.6% in September 2013 and subsequently to 2.8% in November 2013.

Furthermore, Tunisia’s growth was affected by the unexpected slump (-36%) in royalties from the gas pipeline which transports Algerian gas and the poor performance of the mining sector (phosphate production did not exceed 3.8 million tonnes compared to an output of over 8.1 million tonnes in 2010) and the oil sector.

Nonetheless, despite the terrorist threats and the political crisis which rocked the country, certain key sectors such as tourism (+2% of foreign exchange earnings) and industrial exports (+6%), driven by the textile, mechanical and electricity sectors as well as the excellent performance of the chemical industries, demonstrated unexpected 10% resilience, bolstered, inter alia, by the steady depreciation of the Dinar relative to the Euro and 6.7% against the dollar. However, the main macroeconomic indicators continued to deteriorate throughout the 2013 fiscal year. Meanwhile, the value-added for commercially-traded services continued to rise in 2013 (+ 4.1%) compared to 2012, driven by the excellent performance of the telecommunications activities (+ 9.7%), financial services (+ 5%) and the transport sector (+3.8%). Lastly, the expansionist budget policy adopted to revive the economy fuelled a rapid growth in the value-added of non-market services for the 3rd consecutive year (+3.5% in real terms), thereby raising its GDP share to 18% in 2013.

The employment situation continued to improve timidly, compared to 2012. Recent 2013 figures show that the average unemployment rate fell to 15.3% compared to 16.7% for the same period in 2012. Nevertheless, the unemployment of educated youth remains a particularly disturbing phenomenon (32%, representing one out of every three graduates) caused by the increasing mismatch between the real needs of businesses, the overall supply of the different types of training and the skills of young graduates.

Lastly, social spending relating to compensation, especially energy subsidies and the wage bill (about 17% and 37% of the budget, respectively) continued to heavily upset budget balances, with the budget deficit standing at approximately 6.2% in 2013.

Inflation continued to rise in 2013, reaching 6% compared to 5.6% in 2012. The main causes of such high inflation included (i) a hike in food prices, (ii) the depreciation of the Dinar against the Euro, and (iii) inadequate control of distribution networks and smuggling. Furthermore, the presence in Tunisia, since 2011, of a large Libyan community with a significant purchasing power induced a price increase for the Tunisian business community.

The foreign trade situation continued to deteriorate, aggravating the current account deficit, which inched up to 8.3% of GDP at the end of 2013, from 8.2% a year earlier. Furthermore, operations to shore up the dinar, deterioration of the current account situation and difficulties in raising external financing, the stagnation of foreign exchange revenue accruing from tourism and the slide in FDI (-29.8% in dinars terms compared to 2012) caused an erosion in foreign exchange reserves. At end-2013, their level declined to 106 import-days from 119 import-days at end-2012.

As of growth components, consumption (+2.4%) remained the main engine of growth in 2013 due to massive recruitment and a salary increase in the public sector. This trend should continue in 2014, although a readjustment is expected between public and private
consumption due to wage moderation and the freeze on public service recruitments, as well as the recovery in investments whose contribution to real growth should increase by 1.6% in 2014 compared to 0.4% in 2013.

Growth should also be boosted over the next two years through the implementation of structural reforms prompted by the IMF, technical and financial partners (TFPs) and the Tunisian authorities. Indeed, the expected implementation of tax reform and the energy subsidy reform, coupled with more rigorous public finance management and restoration of the financing capacity, should make it possible to contain the budget deficit which will still remain high in 2014 before declining in 2015. Meanwhile, the current account deficit should gradually improve as of 2014, thanks to economic recovery and revival of the tourism sector. The expected recovery in the Euro zone in 2014 should lay the foundation for revival in the manufacturing sector, especially the off-shore manufacturing sector.

Furthermore, promulgation of the new Constitution on 10 February 2014, followed by the appointment of a caretaker government composed of technocrats tasked with preparing the upcoming general elections of end-2014 should help to reduce political uncertainty, boost investor confidence and drive economic activity in 2014, thereby helping to ease social tensions.
Overview of Bank Group Operations in Tunisia

Tunisia remains one of the Bank’s three main clients. As a middle-income country, Tunisia is eligible mainly to the ADB window resources to finance its development projects and programs. Since 2005, the Bank has also provided Tunisia with grants from the Middle-Income Countries (MIC) Trust Fund, bilateral trust funds and the African Water Facility (AWF) to finance studies and capacity-building support aimed at enhancing knowledge of the country’s challenges and potential and improving its institutional capacity.

ADB operations in 2013 were affected by the sustainable lending limit (SLL). However, the Bank has made major efforts, in close collaboration with its bilateral partners and international financial institutions, to increase the institution’s capacity to continue its support to the Transition and to the medium and long-term development of the country. In this regard, the Bank’s operational activity in Tunisia focused on supporting the implementation of already-approved sectorial operations, the approval of an agricultural sector project and support to enhancing knowledge of the challenges and potential of the country’s medium and long-term development through the conduct of several studies and institutional-support operations financed with grants.

Since it started operations in 1968, the Bank Group has approved 128 operations in the form of reform programs, projects, economic and sectorial studies and capacity-building support for net cumulative commitment of approximately UA 4,843.5 million. The breakdown of this amount shows a concentration of the Bank’s commitments in reform support (27% of the total) followed by the financial (22%), transport (21%), agricultural (11%), mines and industry (9%), energy (7%) and social (3%) sectors.

With an overall score of 2.60 out of 3, as of 30 September 2013 compared to 2.8 in 2011, the performance of the Bank’s portfolio in Tunisia has weakened compared to that of the previous portfolio review in 2011. However, it should be considered in Tunisia’s current context as satisfactory, overall.

As of 31 December 2013, the current portfolio comprised 15 (fifteen) active projects, including 4 in the private sector and 27 (twenty-seven) studies and institutional support operations financed with technical assistance funds (MIC), trust funds and the AWF for a net cumulative commitment of UA 1,015 million, of which UA 998 million in loans.

Excluding the private sector, technical assistance and studies, the overall disbursement rate for the portfolio was 65%, as of 31 December 2013. The public sector accounts for 79% of all current operations while the private sector
has 4 projects (21%). The sectorial distribution of the Bank Group’s active portfolio in Tunisia shows that it is largely dominated by infrastructure projects.

Infrastructure development remains a priority in the Transition Government’s economic policy and the Bank’s 2012-2013 interim country strategy for Tunisia. In an effort to address the aspirations of the revolution, the Government’s sectorial policies were geared towards major infrastructure projects and reform implementation in order to transform Tunisia’s development model. This program which is partly a continuation of the actions of the previous Government, seeks to boost competitiveness, reduce regional disparities and generate high economic growth in order to combat poverty and ensure a sustainable improvement in the living conditions of the population.

In 2013, the Bank continued to support implementation of the infrastructure projects that it funded, especially in the transport, water, sanitation and energy sectors, in order to build on previous achievements and thus improve its comparative advantage in the infrastructure sector.

**Transport Sector**

As regards the road transport sector, in order to establish an efficient and good quality transport system that can enhance the competitiveness of Tunisia’s economy and increase national exports, especially to the European Union, which is Tunisia’s main client, the Bank works closely with the Government to ensure the efficient implementation of its sectorial portfolio, which comprises the following 3 projects: (i) Road Network Development Project, Phase V; (ii) Road Project, Phase VI; and (iii) the Gabes-Medenine-Ras-Jedir Highway, which seeks to promote integration, especially between Libya and Tunisia. Phases V and VI of the road projects are currently being implemented in accordance with the schedule established by the executing agencies.

To help Tunisia mitigate the drastic effects of lack of road safety, particularly the high number of persons injured and killed on the roads, which have transformed road safety into a major concern to the Government and its development partners like the ADB, the Bank financed a study on the Road Safety Strategy with grant resources from the Middle-Income Countries Fund. The Strategy seeks to sustainably reverse the casualties of road insecurity and reduce the number of deaths by half by 2020.

**Energy Sector**

Since the early 1990s, Tunisia has experienced a sustained increase in energy demand of approximately 5% per annum. This trend is driven by productive sector growth, social development and new consumer demand fuelled by an improvement in household living standards, the country’s openness to the outside world and infrastructure consolidation. To address its steadily growing energy demand, Tunisia has decided to implement a sectoral policy aimed at diversifying and safeguarding supplies over the long term, reducing its energy bill, increasing the rational use of energy and promoting the development and use of new and renewable energy supplies.

In this regard, the Bank, which since 1975 has been an important energy sector partner for Tunisia, with 9 operations approved for a total net commitment of UA 254 million, completed the Tunisian Electricity Distribution Networks Rehabilitation and Restructuring Project (ADB-VII), following the full implementation of all its components and is currently continuing implementation of the Electricity Distribution Networks Rehabilitation and Restructuring Project (ADB-VIII). Close to 80% of the network construction works have been completed.

**Water and Sanitation Sector**

The water and sanitation sector also continues to receive significant attention from the Bank. Efforts deployed to provide the country with adequate water-supply infrastructure were intensified and accelerated with a view to enabling it control demand, cater for the various national needs and address by 2030, the predicted water resource deficit.

Bank’s activities could lead to the design of infrastructure projects that are capable of addressing the drinking water supply and sanitation problems of several regions of the
country and protect against floods that have become recurrent over the last two decades in Tunis. In addition to the efforts it deployed to modernise and reinforce infrastructure, the Bank focused on reducing poverty and regional disparities by supporting agricultural sector development.

**Agriculture Sector**

With a 12% contribution to GDP, the agricultural sector is one of the main engines of the Tunisian economy. The rural population, which accounts for one-third of the total population, is one of the population segments most hard-hit by poverty. One quarter of the labour force is employed in the agricultural sector. Certain products such as olive oil and dates have real comparative advantages, which justifies the intensification of their production.

To help the Government reduce some of the constraints that hinder increased agricultural production and consequently poverty reduction, the Bank decided to support and speed up the execution of 2 ongoing agricultural development projects, namely: (1) the Kairouan Integrated Agricultural Development Project aimed at promoting sustainable agricultural development in the region through the strengthening of rural infrastructure, participatory agricultural development and institutional development for the government and organisations of the beneficiaries; and (2) the Water Sector Investment Programme – Phase II (PISEAU 2) specifically aimed at promoting the mobilisation and integrated management of water resources and environmental protection in the 24 governorates of the country.

In order to strengthen its support to the Transition, the ADB approved the Integrated Agricultural Development Project of North Gafsa in 2003, which seeks, inter alia, to contribute to rural poverty reduction in the Governorate of Gafsa and to reduce regional disparities. In this regard, the project intends to invest in the construction of major rural infrastructure for one of the most disadvantaged regions of the country. The Bank has also approved 2 studies, financed through grants from the MIC Fund, for the: (i) preparation of the Integrated Agricultural Development Projects (IADP) of Gabes and Gafsa; and (ii) the Preparation Study for the “500 km of Farm-to-Market Roads” Project.

**Social Sector**

For several decades, the Bank has supported Tunisian education by financing various development and institutional support projects. These projects helped Tunisia to achieve universal primary education and significantly reduce regional and gender disparities. Hence, the enrolment rate for children aged 6-12 years rose from 97.9 % in 2002 (95.6 % for girls) to 110% in 2012, while the class-repeating rate dropped by 50% from 12% to 6% between 2000 and 2012. At the same time, higher education sector investments in Tunisia raised the number of students per 100,000 inhabitants from 1,359 to 3,539 between 2000 and 2012 compared to 1,732 for countries with similar GDP per capita.

To help the Government promote inclusive growth and encourage job creation, especially for higher education graduates, the Bank works in synergy with other development partners to support the promotion of SMEs and Tunisian entrepreneurship as well as microfinance development. In this regard, the SME line of credit is still being utilized. Meanwhile, the Souk At-Tanmia initiative has provided financial support in the form of grants to over 60 operators. The study on the micro-credits system managed by the BTS has started with the joint support of the Bank and the European Union and should be completed by end-2014.
Thanks to the achievements made during several decades of implementing a resolute health policy, Tunisia has not only made significant progress reflected by all the indicators but has also developed an enormous potential for exporting health services to other countries of the region. To help the country develop this potential and support economic growth, the Bank financed the conduct of a study.

In addition to the efforts it has deployed to help Tunisia promote inclusive growth and job creation in the medium and long terms, the Bank paid close attention to addressing several of Tunisia’s major development challenges relating to the reduction of regional disparities, consolidation of transparency, promotion of foreign direct investment (FDI), improvement of institutional capacity, consolidation of public-private partnership, etc.. Several capacity-building studies and projects were approved and financed from grants coming from bilateral trust funds in support of the Transition and in favour of middle-income countries, to enable Tunisia and the Bank to deepen their knowledge of Tunisia’s major challenges and development potential.
Bank Group Strategy and ongoing Activities in Tunisia

The 2014-2015 Interim Country Strategy Paper (I-CSP) focuses on the operational priorities of “governance” and “infrastructure” and factors the environmental dimension into their implementation. Furthermore, the I-CSP will guarantee regular dialogue between the authorities and the private sector and support the promotion of PPPs in accordance with the Bank private sector development strategy. In this regard, operations will be underpinned by technical assistance activities and studies to ensure better alignment. The I-CSP will be operationalized through external co-financing to the extent possible.

The 11 operations approved in 2013 comprise one project as well as 10 studies and capacity-building-support activities.
Enfidha Airport

| ADB Loan Amount | UA 60 million (Private sector) |
| Co-Financiers   | TAV Tunisia, IFC, EIB, Proparco, OPEC, Commercial Banks, The Tunisian Government & Monastir Airport operations |
| Approval Date   | January 2009 |
| Expected Completion Date | March 2010 |
| Location        | Enfidha and Monastir |
| Executing Agency | TAV Tunisia |

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 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

**Background and Objectives**

Roads are an important mode of transport in Tunisia, with an average density of 70 km/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

**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.

**Expected Outcomes**

The outputs of the project after completion include:

- 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.

**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.
Road Safety Strategy

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<td>Organe d’exécution</td>
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Background and Objectives

In March 2010, the UN General Assembly adopted a resolution declaring the 2011-2020 decade as the “Decade of Action for Road Safety”, with a view to stabilising and subsequently halving the number of road accident deaths in the world. A similar resolution was also adopted under the aegis of continental bodies (African Union, UN Economic Commission for Africa).

Although some progress has been made, road safety remains a major problem in Tunisia. In 2012, 9,351 accidents were recorded, which is well in excess of the European average, even though Tunisia’s vehicle ownership rate is four times lower. The accidents are quite serious with a casualty rate of one death for every 6 accidents and 1.2 injured per accident.

To ensure a gradual reduction in the number of road accidents and the number of persons killed each year, the Tunisian Government requested the Bank to finance a strategic study on road safety in Tunisia.

Description

The objective of the study is to develop Tunisia’s institutional capacity with a view to reversing the spike in road accidents and associated costs. It will broaden the scope for reflection by helping the Tunisian Government to prepare a comprehensive and multi-dimensional road safety strategy, which will translate into a two-tier action plan.

The study will comprise the following stages:

- A comprehensive diagnosis to supplement the one conducted under the study funded by the European Investment Bank (EIB);
- Analysis of the institutional, financial, legislative and regulatory frameworks governing safety;
- Definition of a road safety strategy;
- Study on the new structure;
- Identification of a short and medium-term action plan; and
- Support to database improvement.

Expected Outcomes

The main expected outcomes are:

- A reduction in the number of road accident deaths and injuries; and
- A sustainable reversal of the road insecurity toll with the ultimate objective of a 50% reduction in the number of deaths by 2020.
ETAP Corporate Loan

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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.

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.

Expected Outcomes

The project will result in:
- Increasing Tunisia’s energy independence in particular for gas as the Hasdrubal 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.
Electricity Distribution Networks Rehabilitation and Restructuring Project

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<td>The Tunisian Government/Tunisian Electricity and Gas Company</td>
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<tr>
<td>Approval Date</td>
<td>July 2009</td>
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<td>August 2015</td>
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<td>Executing Agency</td>
<td>Tunisian Electricity and Gas Company</td>
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</tbody>
</table>

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.

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.
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.

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.

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.

Water Sector Investment Project Phase 2 (PISEAU II)

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<tr>
<th>ADB Loan Amount</th>
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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.

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
Support for the Programme to Strengthen Drinking Water Agricultural Development Cooperatives (GDA)

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.
Study of 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.

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.
Gafsa Integrated Agricultural Development Project

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<td><strong>Executing Agency</strong></td>
<td>Ministry of Agriculture</td>
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</table>

**Background and objectives**

Despite Tunisia’s substantial investments in the agricultural sector over the past decades, a huge segment of the rural population continues to live on very modest incomes.

In the wake of the January 2011 Revolution, the transition government resolved to combat poverty and reduce regional disparities through greater investment in the most disadvantaged regions of the country. Phase II of the Gabès Integrated Agricultural Development Projects (PDAI II) is one of the components of this regional development programme.

**Description**

The objective of the project is to contribute to rural poverty reduction in the Gafsa Governorate. It hinges on three components, namely:

- Rehabilitation of rural infrastructure;
- Participatory agricultural development; and
- Project coordination and management.

**Expected Outcomes**

The main expected project outcomes are:

- Development of rural roads (50 km);
- Implementation of WSC works on 5,000 ha;
- Electrification of water points;
- Planting of fruit trees over 1,940 ha;
- Support to farmers;
- Micro-projects for women and the youth;
- Apurement; and
- Remembrement foncier.
Preparatory Study of the 500 km of Rural Feeder Roads

<table>
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<th>ADB MIC Grant Amount</th>
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<td>Approval Date</td>
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<td>Expected Completion Date</td>
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<td>Location</td>
<td>Zaghouan, Beja, Jendouba, le Kef, Silina, Kairouan Sidi Bouzid, Kasserine, Gabes</td>
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<tr>
<td>Executing Agency</td>
<td>Ministry of Agriculture (DGDR)</td>
</tr>
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</table>

Background and objectives

Irrigated farms play a major role in Tunisia’s economic and social development as well as its food security. The development of rural feeder roads in irrigated areas improves the conditions for input supply, produce marketing and the conduct of farming operations (cultivation, fertilizer spreading, harvests...), thus helping to cut production costs and post-harvest losses.

Furthermore, feeder roads also open up rural areas, thus improving living conditions for local communities. Since 2011, the State has launched a programme to pave feeder roads. Hence, 410 km of roads are being developed under a project co-financed by the Kuwait Fund for Arab Economic Development (KFAED). Furthermore, the Government decided to implement a new project to develop 500 km of feeder roads in the most disadvantaged governorates of the country in order to reduce poverty in the regions concerned and improve the living conditions of rural communities by developing agricultural production and improving infrastructure. The objective of this project is to reduce poverty in the regions concerned and improve the living conditions of rural communities by enhancing agricultural production and infrastructure.

Description

The first component comprises a study on surveillance and construction of 500 km of feeder roads in the irrigated areas while; the second component relates to implementation of the project’s environmental and social management plan.

The project components are:

- Infrastructural study; and
- Coordination and management of the operation.

Expected Outcomes

The conduct of studies prior to project appraisal will make it possible to:

- Obtain the updated and precise cost of proposed investments;
- Prepare technical studies and bidding documents which would be available as soon as the loan becomes effective; and
- Launch the construction of feeder roads in the first year of project implementation.
Support to the Holistic Social Business Movement of Tunisia

Background and objectives

The Bank has battled the youth unemployment crisis since 2011 through a joint youth employment initiative. The social enterprise model has been successful in Bangladesh, India, Haiti, Albania and other countries. The Bank hopes that this model will achieve the same success with poverty reduction in Africa by encouraging the poorest people to participate in the creation of sustainable businesses, develop the entrepreneurial spirit and create jobs.

The entrepreneurial social programme for Africa will be piloted in Tunisia. The Bank chose Tunisia after assessing its youth unemployment situation. If this pilot programme succeeds, the Bank will extend this programme to other African countries.

This programme was designed in partnership with the African Union Commission, the UN Economic Commission for Africa, and the International Labour Organisation. Working closely with the Tunisian Government, development partners and the private sector, the programme seeks to resolve the youth unemployment crisis, reduce regional disparities. It seeks to amend the Microfinance Act, adapt the labour law to a more active labour market, strengthen labour market programmes for highly-skilled youth in order to increase their long-term employability and support short-term employment for unskilled workers.

Expected Outcomes

- Economic promotion and social inclusion through sponsorship and investment in social activities (products and services) initiated by the poor in disadvantaged regions;
- Job creation, through the above-mentioned activities, for poor communities; and
- Development of private investment and entrepreneurship.

Description

The objective of the project is to support the emergence of a strong socio economics concept in Tunisia.

The project focuses on the following 6 components:

- Capacity building of the national project implementation structure;
- Structuring of the project incubator and the project accelerator;
- Implementation of the project incubator;
- Training of project stakeholders and establishment of a monitoring committee;
- Selection and support of social development projects; and
- Project management.

Expected Outcomes

- Economic promotion and social inclusion through sponsorship and investment in social activities (products and services) initiated by the poor in disadvantaged regions;
- Job creation, through the above-mentioned activities, for poor communities; and
- Development of private investment and entrepreneurship.

ADB TFT Grant Amount  
UA 0.22 million

Co-Financiers  
The Tunisian Government

Approval Date  
April 2013

Expected Completion Date  
December 2016

Location  
Countrywide

Executing Agency  
Not yet determined
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.

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 the development of cultural industries;
- An action plan to implement this strategy.

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.
Secondary Education Support Project Phase II (SESP II)

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<td>Expected Completion Date</td>
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<td>Executing Agency</td>
<td>General Directorate of Common Services in the Ministry of Education and Training</td>
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</table>

**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.

**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.

**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.
Evaluation of the Performance of the Tunisian Social Welfare System and the Challenges of Informality

<table>
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<tr>
<td>Executing Agency</td>
<td>Centre de Recherches et des Etudes Sociales (CRES)</td>
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</table>

Background and objectives

This planned study falls within the context of transition in Tunisia and it is consistent, in particular, with the need for the authorities to better understand the social issues which triggered protests against the former regime. Hence, evaluation and measurement of the performance of social welfare mechanisms in Tunisia, the programme of assistance to needy families, free medical aid programmes and their contribution to improving the standards of living of beneficiary communities are crucial concerns in the Transition Government’s social policy. The study will also focus on identification of the determinants of informality and will target non-contributive social programmes, with the ultimate goal of identifying a series of reforms that can lead to the establishment of a Social welfare framework (SPF).

The project will help to provide institutional support to the Research and Social Studies Centre (CRES) and will indirectly buttress the efforts of the Ministry of Social Affairs to steer the social safety net reforms.

Expected Outcomes

- Improvement of the capacity of CRES and the Ministry of Social Welfare to analyse and steer social welfare programmes;
- Development of institutional capacity within CRES and the Ministry of Social Welfare to design, monitor and evaluate social safety nets;
- Development of inter-institutional capacity between CRES, INS and the National Social Security Fund (private sector) to facilitate monitoring and management of issues relating to informal employment and the extension of social coverage;
- Enhancement and better dissemination of knowledge on informality and precarity; and
- Initiation of an institutional dynamics with a view to establishing a social protection framework.

Description

The study will focus on 2 components, namely:

- Evaluation and measurement of the performance of targeted social welfare mechanisms in Tunisia and...
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.
Programme to Build Tunisia’s Managerial Capacity to Support the Transition

### Background and objectives

In the wake of the January 2011 Revolution, it became necessary to review the country’s managerial model in order to overhaul the poor governance that had plagued management of the country hitherto. At the request of the Transition Government, the Bank approved a pilot capacity-building training project for several decision-makers in the country to ensure success of the Transition.

### Description

The project objective is to build the managerial capacity of Tunisian decision-makers in order to enhance their decision-making efficiency.

This pilot project focused on the following two components:

- Define and steer a training programme for senior officials of the government and political parties; and
- Manage a training programme for middle-level executives in the Tunisian Government.

### Expected Outcomes

The expected outputs of the project are:

- Preparation of the pilot programme for Level 1 training;
- Evaluation of the pilot programme for Level 1 training;
- Consolidation of the Project implementation structure.

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Operationalisation of Public-Private Partnerships

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<td>Executing Agency</td>
<td>PPP Unit (Premier Ministère)</td>
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</table>

Background and objectives

Following the 2011 Revolution, the Transition Government resolved to promote public-private partnerships in order to reduce the public debt burden while boosting investments, with a view to improving the quality of service provision, enhancing the quality of corporate governance and attracting more foreign direct investments.

Accordingly, a new law was adopted by the National Constituent Assembly. This law, which is the legal framework for the promotion of PPPs, will serve as the springboard for raising private sector resources to finance the country’s economic and social development, especially infrastructure projects.

At the request of Tunisian authorities, the Bank accepted to build the capacity of the entity tasked with implementation of the PPP law.

Expected Outcomes

The main expected outcomes are:

- PPP regulations and institutional framework;
- Establishment of the entity in charge of PPPs;
- Capacity development and skills transfer;
- Development of a list of PPPs to be implemented and preparation of pilot projects; and
- Consultation and communication.

Description

The project objective is to support the Tunisian Government in the operationalization of the new law on public-private partnerships (PPPs). This will be done in 2 interdependent phases. Phase 1 will focus on capacity-building support while Phase 2 will focus on the identification and preparation of pilot projects to be implemented through the PPP approach.
Support to Improve Implementation of AfDB Projects in Tunisia

<table>
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<tr>
<th>Description</th>
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<td>Countrywide</td>
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**Background and objectives**

The AfDB’s portfolio of ongoing projects in Tunisia remains one of its largest portfolios in regional member countries (RMCs). Since 2011, implementation of the Bank’s active portfolio has been plagued by difficulties that affect its performance. Some of these difficulties have been compounded by the tense political situation in the country. The most significant of these difficulties include: (1) ignorance of the Bank’s procurement rules and procedures by officials of ministries; (2) protracted delays by the Tunisian Government, especially the Major Tender Board, in transmitting its non-objection regarding bidding documents and shortlists to executing agencies; (3) difficulties in applying AfDB rules to small decentralized contracts despite the measures taken by the Bank to ensure ex poste review of contracts; (4) dual application of national procurement procedures and the AfDB rules and procedures for the recruitment of consultants; (5) protracted delays between approval and first disbursement; and (7) delays in the submission of project audit reports.

At the request of the Transition Government, the Bank decided to make special efforts to improve the quality and monitoring of new project supervision and launching missions, particularly by reinforcing mission teams in the field with greater assistance from the Procurement, Fiduciary Management and Disbursements Services.

**Description**

The project objective is to improve portfolio performance.

The project will hinge on the following 3 components:

- Improvement of short-term project implementation;
- Preparation of an institutional support; and
- Project implementation.

**Expected Outcomes**

The main expected outcomes are:

- Contribution to the formulation and implementation of solutions to short-term and structural problems affecting the portfolio in order to speed up project implementation and disbursements;
- Conduct of an indepth diagnosis of the structural problems affecting project implementation and monitoring of public investments by State bodies; and
- Preparation of an institutional support project to build the capacity of State bodies responsible for the implementation and monitoring of public investment programmes.
Commercial Integration Study

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 and the countries of the Gulf of Guinea, Central Africa and Great Lakes region.

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 complement and their priority level.

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.
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.

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.

| ADB MIC Grant Amount | UA 0.68 million |
| Co-Financiers        | The Tunisian Government |
| Approval Date        | December 2012 |
| Expected Completion Date | Not yet determined |
| Location             | Nationwide |
| Executing Agency     | The Tunisian Government |
Statistical Capacity Building II

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 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.

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.
SME Apex Facility Line of Credit

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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.

**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.

**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.
Line of Credit to Banque de l’habitat

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**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%.

**Expected Outcomes**

The line of credit:

- Consolidated BH long-term resources;
- Improved its long-term resources mobilization and capacity to manage environmental risks.

- 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.

**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;
Evaluation Study on Microcredit of BTS

<table>
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<td>Executing Agency</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.
**SME Support Project, Backed by the Small and Medium-Sized Enterprises Financing Bank (BFPME)**

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<td>Approval Date</td>
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**Background and objectives**

The Small and Medium-Sized Enterprises Financing Bank (BFPME), which is one of the main national structures involved in the funding of small and medium-sized enterprises, has become an essential stakeholder in the country.

In the wake of the revolution, the Transition Government resolved to strengthen the role of BFPME with a view to boosting private sector development through the creation and expansion of SMEs in Tunisia in order to fuel job creation and reduce regional disparities.

At the request of the Government, the Bank, using resources from the Japanese Trust Fund, financed an institutional capacity-building project for BFPME to help it achieve the targets set for it by the Government.

The project objective is to help the PFPME improve its services to SMEs in all governorates of Tunisia.

**Expected Outcomes**

The main expected outcomes are:

- Skills development for BFPME staff through training;
- Creation of a database on key sectors of activity, containing technical and financial information that helps to improve the quality of project appraisal and monitoring as well as dissemination of lessons; and
- Advice and technical support to certain businesses with high potential but which are experiencing difficulties in the current economic context.

**Description**

The support will focus on the following components:

- Staff capacity-building for BFPME through certified training, in order to improve on its services to SMEs in all the governorates of Tunisia;
- Creation of a database on key sectors of activity, containing technical and financial information that helps to improve the quality of project appraisal and monitoring as well as dissemination of lessons; and
- Advice and technical support to certain businesses with high potential but which are experiencing difficulties in the current economic context.
Project in Support of the Operationalization of the Public Procurement Reform Action Plan

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**Background and objectives**

From 2011, Tunisia initiated profound changes through structural reforms to ensure better economic governance, greater transparency and increased control by the population of the management of public affairs in general and of public finance in particular. This commitment stems from the expectations expressed in the wake of the Revolution. It initially translated to a determination to modernize the national procurement system, with a view to upgrading it to international standards in terms of transparency and integrity by endowing it with a coherent and efficient regulatory and institutional framework.

Hence, in March 2012, the Government, with the support of the African Development Bank and the World Bank, initiated a self-evaluation of its national procurement system based on the OECD/DAC method. This was done by a national committee open to all stakeholders involved in public procurement (including the private sector and civil society). The self-evaluation yielded an appraisal report and an action plan which were validated by the Government during its cabinet meeting of 24 August 2012. The report revealed shortcomings in terms of the integrity and transparency of the public procurement system, the legislative and regulatory framework, the institutional and managerial framework, etc.

Based on the findings of this self-evaluation, the country plans to implement a series of reforms to improve the procurements system, in keeping with an action plan that focuses on:

- Governance and rationalisation of the legal framework;
- Transparency;
- Performance; and
- Professionalization.

**Description**

The project objective is to support Tunisia’s efforts to implement the measures and actions adopted to address the shortcomings of the national procurement system, detected through the self-evaluation conducted by Tunisia with ADB and World Bank support.

The project will be implemented over a period of 24 months and will focus on the following three components:

- Support for the implementation of the public procurement system action plan approved by the Government;
- Development of public procurement capacity and information system; and
- Project management.

**Expected Outcomes**

- Implementation of the public procurement system action plan approved by the Government; and
- Development of public procurement capacity and information system.
Study for the Desalination of the Sea Water of Zaarat

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<th>ADB MIC Grant Amount</th>
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<td>Location</td>
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<td>Executing Agency</td>
<td>Ministry of Development and International Cooperation</td>
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**Background and Objectives**

The water currently being supplied to the South of Tunisia as drinking water has a salinity higher than 3g/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:

- Training of SONEDE technicians in desalination techniques and processes.

**Description**

The study will entail the following phases:

- The identification and analysis of potential sites for the desalination plant;
- A technical and economic study for the implementation of the seawater desalination concession;
- 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.
Study for the Improvement of the Drinking Water Supply in the Rural Areas of Bizerte and Beja

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**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.
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.

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.

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.
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.

Description

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.
Strategy Study on Sanitation

### 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.
Rural Drinking Water Supply Program (RDWS)

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<td>Ministry of Agriculture and Environment</td>
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**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 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;
Study for the Protection Against Floods in Greater Tunis

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.

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.

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.
Project to Increase Internal Resource Mobilisation by Improving Tax System Efficiency and Enhancing Transparency

Background and objectives

The main challenges facing the Government after the 2011 Revolution are the creation of jobs in sufficient numbers and quality, the promotion of inclusive growth and the reduction of regional disparities to ensure sustainable development in Tunisia.

At the request of Tunisian authorities, the Bank agreed to support the efforts of the Transition Government to improve tax system efficiency and enhance transparency.

Description

The project objective is to support activities likely to create a positive impact on Tunisia’s business environment and which could produce significant results in terms of:

- Improved mobilisation of domestic resources; and
- Improved international cooperation and fiscal transparency.

Expected Outcomes

The expected results are:

- Changes in the laws and procedures to establish transparency and effective exchange of information in accordance with Global Forum standards with a view to ensuring the effective utilisation of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters;
- Establishment of an effective unit for information-sharing; changes in laws and in the policy governing treaties and rules on price transfer to address the issue of tax base erosion and transfer of profits;
- Preparation of an effective audit of the multinational corporations in the country;
- Establishment of a tax analysis unit;
- Production of internationally comparable income statistics;
- Implementation of an improved risk-based approach for tax collection and efficient resource mobilisation following changes in the tax administration structure that show the application of international best practices, an efficient approach to combatting tax offences and better-targeted inspections;
- Adoption of programmes for taxpayers (improvement of services to taxpayers) with an increase in the number of consultations with civil society and the private sector.
Chapter 3
Staff & Contact Details
# Regional Department North (ORNA) Tunis

<table>
<thead>
<tr>
<th>Surname</th>
<th>First Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Mr. Kolster</td>
<td>Jacob</td>
<td>Director, ORNA</td>
</tr>
<tr>
<td>Mrs. Diarra Thioune</td>
<td>Assitan</td>
<td>Regional Economist</td>
</tr>
<tr>
<td>Mr. Charaf-Eddine</td>
<td>Abdourahamane</td>
<td>Chief Country Programme Officer- Tunisia</td>
</tr>
<tr>
<td>Mr. Ahmed</td>
<td>Yasser</td>
<td>Chief Country Programme Officer-Egypt, Libya &amp; Tunisia</td>
</tr>
<tr>
<td>Mrs. Triki</td>
<td>Thouraya</td>
<td>Chief Country Economist-Libya &amp; Tunisia</td>
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<tr>
<td>Mr. Ndong Ntah</td>
<td>Marcellin</td>
<td>Resident Chief Economist-Mauritania</td>
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<tr>
<td>Mr. Trape</td>
<td>Philippe</td>
<td>Principal Country Economist-Tunisia</td>
</tr>
<tr>
<td>Mr. Bouzgarrou</td>
<td>Malek</td>
<td>Principal Country Programme Officer-Algeria, Mauritania &amp; Morocco</td>
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<tr>
<td>M. Lohoues</td>
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<tr>
<td>Mrs. Taghdisi Rad</td>
<td>Sahar</td>
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<tr>
<td>Mr. Theus</td>
<td>Florian</td>
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<td>Mrs. Sonbol</td>
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<td>Mr. Mouaffak</td>
<td>Amine</td>
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<tr>
<td>Mr. Haj Salem</td>
<td>Hatem</td>
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<tr>
<td>Mrs. Dembele</td>
<td>Aoua</td>
<td>Senior Team Assistant</td>
</tr>
<tr>
<td>Mrs. Miled</td>
<td>Sana</td>
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# Egypt Country Office (EGFO)

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<tr>
<td>Mr. Elwan</td>
<td>Yasser</td>
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<tr>
<td>Mr. Abdelmeguid</td>
<td>Saad</td>
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<tr>
<td>Mr. Algindy</td>
<td>Ayman</td>
<td>Procurement Expert</td>
</tr>
<tr>
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<tr>
<td>Mrs. Ezzat</td>
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</tr>
<tr>
<td>Mrs. Elmenshawy</td>
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<tr>
<td>Mrs. Abdel Khabir</td>
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<td>Mrs. Hassan</td>
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African Development Bank Group  
Egypt Field Office (EGFO)  
72b, Al-Maahad El-Eshteraky st. 5th floor  
Afreximbank Bldg. – Opposite to Marryland Roxy /Heliopolis  
Cairo, Egypt  
Telephone: (+202) 22 56 37 90/1  
Fax: (+202) 22 56 37 92
# Morocco Country Office (MAFO)

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<td>Mr. Diarra</td>
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<td>Mr. Breteche</td>
<td>Olivier</td>
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<td>Adama</td>
<td>Principal Power Engineer</td>
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<tr>
<td>Mr. More Ndong</td>
<td>Pierre</td>
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<td>Mr. Khiati</td>
<td>Driss</td>
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<td>Mohammed</td>
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<tr>
<td>Mrs. Kilani-Jaafar</td>
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<td>Mr. Bellamy</td>
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<tr>
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<td>Mrs. Haous</td>
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<tr>
<td>Mr. Essaouabi</td>
<td>Jamal</td>
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<tr>
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African Development Bank Group  
Morocco Field Office (MAFO)  
Park Technoplois Batiment B7 – Sala El Jadida – Rabat I BP 592 – Rabat Chellah I  
Rabat, Maroc  
Tel: (+212) 05 30 17 73 00 - Ext. 7308 / 7309  
Fax: (+212) 53 01 77 30 0
# Algeria Country Office (DZFO)

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<td>Hadia</td>
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<td>Mohamed</td>
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<td>Mrs. Loucif</td>
<td>Karima</td>
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<td>Mr. Smaili</td>
<td>Sid-Ahmed</td>
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<td>Mr. Bouchenak</td>
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Algeria Field Office (DZFO)  
Commune Hydra Paradou  
3, rue Hamdani Lahcène, Daira Birmouradrais  
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Fax: (+213) 21 43 53 92
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DFID (2004), “What is Pro-Poor Growth and Why Do We Need to Know?”, Pro-Poor Growth Briefing Note 1.

Dhillon, Navtej and Tarik Yousef (eds., 2009), Generation in Waiting: The Unfulfilled Promises of Young People in the Middle East, Washington DC: Brookings Institute.


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AfDB (2013). [Nancy and Gahloul]


Appendices
Appendix 1: A comprehensive indicator of inclusive growth

The overall inclusive scores for each country (IGi) are computed as a geometric mean for that country of the standardised values for different indicators (defined below) according to the following formula:

\[ IG_i = \sqrt[n]{s_1 i \cdot s_2 i \cdots s_j i} \]  

(1)

where:

(i = 1,..., m: country i included in the dataset);
(j = 1,..., n: indicator j included in the dataset); and
sj is a standardised score for the rankings obtained in respect of indicator j for country i. Standardised scores are obtained using the following formula (for each indicator for each country):

\[ s_{ji} = 100 \cdot \left( \frac{m_j - r_j}{m_j - 1} \right)_i \]  

(2)

where \( r_j \) is a country’s rank in respect of indicator j (in descending order) and \( m_j \) is the total number of countries for which data for indicator \( s_j \) is available. This takes into account the variable number of countries for which data are available for specific indicators. In general, due to data limitations, the number of the countries declines for variables such as inequality and the structure of employment (percentage of the wage and salaried in total employment) – a factor that is arguably biased against less developed countries (see the detailed data in Appendix Tables 2 and 3).

Standardised scores obtained from equation (2) take a maximum value of 100 (for the highest ranked) and 0 (for the lowest ranked) for each country for each indicator. A list of the thirteen indicators used is given in Appendix Table 1, grouped under their broad categories (growth, health and demographics, etc). All indicators are given equal weights (1/n) when computing the overall inclusive growth index (IGi) in equation 1. All data are taken from the World Bank (WDI, 2012) with the exception of Governance, for which we use the Corruption Perception Index (CPI) provided by Transparency International (2012). To smooth out annual fluctuations in individual ranks, we use three year averages for the first three years (2000-02) and then the last three years of the decade (2008-10). This is done for all indicators, with the exception of the inequality indicator for which, due to data limitations, we use an average of the Gini values available for the periods 2000-04 and 2005-10.
### Appendix 1 - Table 1: Indicators Used for Computation of Inclusive Growth Index

<table>
<thead>
<tr>
<th>Broad Categories</th>
<th>Specific Indicators ($S_j$)</th>
<th>No of countries in the Dataset ($m_j$)</th>
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<tr>
<td>Growth</td>
<td>1. Real GDP Growth</td>
<td>194</td>
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<tr>
<td></td>
<td>2. Real per capita GDP Growth</td>
<td>194</td>
</tr>
<tr>
<td>Health and Demographics</td>
<td>3. Public Health Expenditure (% GDP)</td>
<td>187</td>
</tr>
<tr>
<td></td>
<td>4. Mortality Rate Under-5 (per 1,000)</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>5. Life Expectancy at Birth</td>
<td>196</td>
</tr>
<tr>
<td></td>
<td>6. Tuberculosis (per 100,000 people)</td>
<td>202</td>
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<tr>
<td>Labour Force and Employment</td>
<td>7. Wage &amp; Salaried (% of total employment)</td>
<td>92</td>
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<tr>
<td></td>
<td>8. Employment-to-Population Ratios (% of those aged 15+)</td>
<td>173</td>
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<tr>
<td>Gender</td>
<td>9. Female Labour Force (% of total workforce)</td>
<td>184</td>
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<tr>
<td>Education</td>
<td>10. Ratio of Female to Male Secondary Enrolment (%)</td>
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<td>Inequality</td>
<td>12. Gini Index</td>
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<tr>
<td>Governance</td>
<td>13. Corruption Perception Index</td>
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The sensitivity analyses of the impact of the 13 components on the overall IG score is shown in Appendix 3 Figure 1. In this figure, a baseline of 100% indicates no change and each data point shows the re-estimated IG if a particular indicator were to be excluded from the calculations (given a weight of zero). Figures above 100% (baseline) indicate the indicator has a negative effect on the overall index and hence its elimination (as shown in these figures) will improve the index. The opposite is true of the figures below 100% (i.e., they have an overall positive effect on the IG index and their elimination lowers the IG score).
Appendix 1 - Figure 1: Impacts analysis of the inclusive growth’s components on the global score

Source: Author's calculations based on Inclusive Growth computations as in Appendix Tables 1 and 2. Figures above 100% as baseline indicate a particular indicator has a negative effect on the IG score if its elimination as in these figures pushes IG below 100%).
Appendix 1 - Table 2: Inclusive Growth Scores Based on Country Rankings for Selective Indicators (averaged for 2000-02)

<table>
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<th>Gender</th>
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<th>GDP per capita Growth</th>
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<th>Other LDCs</th>
<th>South Korea</th>
<th>Malaysia</th>
<th>Mexico</th>
<th>Russia</th>
<th>South Africa</th>
<th>Countries included</th>
<th>Missing Countries</th>
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<tr>
<td></td>
<td>Female Labour Force (% of total workforce)</td>
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<td>Tuberculosis (per 100,000 people)</td>
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<td>Employment-to-Population Ratios (% of 15+)</td>
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### Appendix 1 - Table 2 (Cont'd): Inclusive Growth Scores Based on Country Rankings for Selective Indicators (averaged for 2000-02)

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Notes:
(a) The overall inclusive scores for each country (IGi) are computed as a geometric mean for that country of the standardised values for different indicators (defined below) according to the following formula:

\[ CI_i = \sqrt[n]{s_{j1} \cdot s_{j2} \cdots s_{jn}} \]  

where:  
(i = 1,... m: country i included in the dataset);  
(j = 1,... n: indicator j included in the dataset); and  
sj is a standardised score for the rankings obtained in respect of indicator j for country i. These standardised scores are obtained using the following formula (for each indicator for each country):

\[ s_j = \frac{r_j}{m_j} \]  

where \( r_j \) is a country's rank in respect of indicator j in (descending order) and \( m_j \) is the total number of countries for which data for indicator sj is available.

Source: WDI (2012) and Transparency International (2012) for the Corruption Perception Index. The following countries have been excluded from the World Bank's ranking tables mainly for data reasons: Eritrea; Seychelles; Somalia; Antigua and Barbuda; Cuba; Dominica; Grenada; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Bhutan; Iraq; North Korea; Lebanon; Oman; Monaco; San Marino; Vatican City; Kiribati; Marshall Islands; Nauru; Palau; Samoa; Tuvalu; Vanuatu
<table>
<thead>
<tr>
<th>Gender</th>
<th>Female Labour Force (% of total workforce)</th>
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<th>Employment-to-Population Ratios (% of 15+)</th>
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# Appendix 1 - Table 3: Cont’d: Inclusive Growth Scores Based on Country Rankings for Selective Indicators (averaged for 2008-10)

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<th>Governance</th>
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Notes and Sources as for Appendix Table 1
### Appendix 3.1: Modelling unemployment rates in Tunisia

Method: ML - Censored Logistic (Newton-Raphson)
Date: 07/18/13   Time: 14:48
Sample: 1 264
Included observations: 264
Left censoring (value) series: 4
Right censoring (value) series: 40
Convergence achieved after 4 iterations
QML (Huber/White) standard errors & covariance

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*** means that the coefficient is significant at the 1% confidence interval
### Table A2.1: Health infrastructure indicators: Cluster 1.1

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<th>Average distance from a Regional Hospital (RH)</th>
<th>Average distance from a General Hospital (GH)</th>
<th>Inhabit. per Primary Centre (PHC)</th>
<th>Proportion of PHC offering medical consultation 6 days per week</th>
<th>Inhabit. /PHC FTE (Full-Time Equivalent)</th>
<th>Inhabit. per primary care physician</th>
<th>Front-line medical laboratory unit per 10000 inhabit.</th>
<th>Front-line radiology unit per 100000 inhabit.</th>
<th>Front-line dental chairs per 100000 inhabit.</th>
<th>Inhab. /day-time pharmacy</th>
<th>Inhab. /Night-time pharmacy</th>
<th>Medical Laboratory per 100000 inhabit.</th>
<th>Hae-modialysis machines per 100000 inhabit. (Total, public and private)</th>
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### Table A2.2: Health infrastructure indicators, Cluster 1.2

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<th>Governorate</th>
<th>Average distance from a Regional Hospital (RH)</th>
<th>Average distance from a General Hospital (GH)</th>
<th>Inhabit. per Primary Centre (PHC)</th>
<th>Proportion of PHC offering medical consultation 6 days per week</th>
<th>Inhabit. /PHC FTE (Full-Time Equivalent)</th>
<th>Inhabit. per primary care physician</th>
<th>Front-line medical laboratory unit per 10000 inhabit.</th>
<th>Front-line radiology unit per 100000 inhabit.</th>
<th>Front-line dental chairs per 100000 inhabit.</th>
<th>Inhab. /day-time pharmacy</th>
<th>Inhab. /Night-time pharmacy</th>
<th>Medical Laboratory per 100000 inhabit.</th>
<th>Hae-modialysis machines per 100000 inhabit. (Total, public and private)</th>
</tr>
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<tbody>
<tr>
<td>Bizerte</td>
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<td>4432</td>
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<td>1.99</td>
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<td>10047</td>
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<th>Proportion of PHC offering medical consultation 6 days per week</th>
<th>Inhabit. per Primary Centre (PHC)</th>
<th>Front-line medical laboratory unit per 100000 inhabit.</th>
<th>Front-line radiology unit per 100000 inhabit.</th>
<th>Front-line dental chairs 10000 per inhabit.</th>
<th>Inhabit./day-time pharmacy</th>
<th>Inhabit./Night-time pharmacy</th>
<th>Medical Laboratory per 100000 inhabit.</th>
<th>Haemodialysis machines per 100 000 inhabit. (Total, public and private)</th>
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<td>226</td>
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<td>3.51</td>
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<th>Average distance from a General Hospital (GH)</th>
<th>Proportion of PHC offering medical consultation 6 days per week</th>
<th>Inhabit. per Primary Centre (PHC)</th>
<th>Front-line medical laboratory unit per 100000 inhabit.</th>
<th>Front-line radiology unit per 100000 inhabit.</th>
<th>Front-line dental chairs 10000 per inhabit.</th>
<th>Inhabit./day-time pharmacy</th>
<th>Inhabit./Night-time pharmacy</th>
<th>Medical Laboratory per 100000 inhabit.</th>
<th>Haemodialysis machines per 100 000 inhabit. (Total, public and private)</th>
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<tr>
<td>Jendouba</td>
<td>36</td>
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<td>11%</td>
<td>12432</td>
<td>1.42</td>
<td>1.65</td>
<td>1.89</td>
<td>10076</td>
<td>70533</td>
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<td>1.97</td>
<td>1.97</td>
<td>9995</td>
<td>43054</td>
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<td>2.08</td>
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<td>2.67</td>
<td>2.91</td>
<td>2.91</td>
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### Table A2.5: Bed availability indicators, Cluster 2.1

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<td>0.74</td>
<td>0.54</td>
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### Table A2.6: Bed availability indicators, Cluster 2.2

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<td>Le Kef</td>
<td>21.7</td>
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<td>1.17</td>
<td>0.31</td>
<td>0.58</td>
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### Appendix 3.2: Indicators of Health care Facilities by Cluster

<table>
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<th>Governorate</th>
<th>Beds/10,000 inhab. (pub + private)</th>
<th>Hospital beds/10,000 inhab.</th>
<th>Clinic beds/10,000 inhab.</th>
<th>General surgery beds/10,000 inhab.</th>
<th>Gynecology beds/10,000 WBCA</th>
<th>Pediatrics beds/10,000 children below 15 years</th>
<th>Ophthalmology beds/10,000 inhab.</th>
<th>ENR beds/10,000 inhab.</th>
<th>Orthopedics beds/10,000 inhab.</th>
<th>Cardiology beds/10,000 inhab.</th>
<th>Anesthesiology and Intensive care beds/10,000 inhab.</th>
<th>Psychiatric beds/10,000 inhab.</th>
<th>Ranking</th>
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<tr>
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<td>17.9</td>
<td>9.1</td>
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**Table A2.7: Bed availability indicators, Cluster 2.3**

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<th>Governorate</th>
<th>Beds/10,000 inhab. (pub + private)</th>
<th>Hospital beds/10,000 inhab.</th>
<th>Clinic beds/10,000 inhab.</th>
<th>General surgery beds/10,000 inhab.</th>
<th>Gynecology beds/10,000 WBCA</th>
<th>Pediatrics beds/10,000 children below 15 years</th>
<th>Ophthalmology beds/10,000 inhab.</th>
<th>ENR beds/10,000 inhab.</th>
<th>Orthopedics beds/10,000 inhab.</th>
<th>Cardiology beds/10,000 inhab.</th>
<th>Anesthesiology and Intensive care beds/10,000 inhab.</th>
<th>Psychiatric beds/10,000 inhab.</th>
<th>Ranking</th>
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<td>0.45</td>
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<td>0</td>
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<td>14.3</td>
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<td>7.91</td>
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<td>3.77</td>
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<td>2.58</td>
<td>3.77</td>
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<td>0.46</td>
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**Table A2.8: Bed availability indicators, Cluster 2.4**
### Table A2.9: Human resource indicators: Cluster 3.1

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<tr>
<th>Governorate</th>
<th>General pract 100 000 inhab. (public)</th>
<th>Specialists/10 000 inhab. (public sector)</th>
<th>Physicians/100 000 inhab. (public sector)</th>
<th>General pract. 100 000 inhab. (private)</th>
<th>Specialists/100 000 inhab. (private)</th>
<th>Physicians/100 000 inhab. (private)</th>
<th>General pract 100 000 inhab. (total)</th>
<th>Specialists/100 000 inhab. (total)</th>
<th>Physicians/100 000 inhab. (total)</th>
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### Appendix 3.2: Indicators of Health care Facilities by Cluster

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| Governorate | General pract. 100 000 inhab. (public) | General pract. 100 000 inhab. (private) | General pract. 100 000 inhab. (total) | Specialists/100 000 inhab. (public) | Specialists/100 000 inhab. (private) | Specialists/100 000 inhab. (total) | Physicians/100 000 inhab. (public) | Physicians/100 000 inhab. (private) | Physicians/100 000 inhab. (total) | Psychiatrists/100 000 inhab. | Psychologists/100 000 inhab. | Cardiologists/100 000 inhab. | Anaesthetists/100 000 inhab. | Orthopaedists/100 000 inhab. | Podiatrists/100 000 inhab. | Gynaecologists/100 000 inhab. (women of childbearing age 15-49 years) | Gynaecologists/100 000 inhab. (children age 1-4 years) | Gynaecologists/100 000 inhab. (total) |
|-------------|--------------------------------------|---------------------------------------|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|-----------------------------|
| Beja        | 31.7                                 | 31.7                                  | 31.7                               | 16.3                             | 16.3                            | 16.3                            | 74.1                                   | 74.1                                  | 74.1                                 | 3                             | 3                           | 3                           | 3                           | 3                           | 3                           | 3                             | 3                             | 3                             | 3                             |

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Cluster 3:

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Cluster 8:

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<th>Dentists/100 000 inhab. (private)</th>
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### Table A2.12: Human resource indicators. Cluster 3.4

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<th>Specialists/10 000 inhab. (public sector)</th>
<th>Physicians/100 000 inhab. (public)</th>
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### Table A2.13: Indicators of Health care Facilities by Cluster

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<th>Governorate</th>
<th>General surgeons/100 000 inhab.</th>
<th>Gyneco-obstetricians/100 000 women of childbearing age (15-49 years)</th>
<th>Podiatrists/10 000 children</th>
<th>Ophthalmologists/100 000 inhab.</th>
<th>Surgeons/100 000 inhab.</th>
<th>Cardiologists/100 000 inhab.</th>
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## Appendix 3.2: Indicators of Health care Facilities by Cluster

<table>
<thead>
<tr>
<th>Governorate</th>
<th>Pharmacists/100,000 inhab. (total)</th>
<th>Pharmacists/100,000 inhab. (private)</th>
<th>Pharmacists/100,000 inhab. (public)</th>
<th>Dentists/100,000 inhab. (total)</th>
<th>Dentists/100,000 inhab. (private)</th>
<th>Dentists/100,000 inhab. (public)</th>
<th>Paramedical staff/100,000 inhab. (public)</th>
<th>Paramedical staff/100,000 inhab. (private)</th>
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</tbody>
</table>

**Notes:**
- The table above provides indicators of health care facilities by cluster for various governorates in North Africa.
- The indicators include the number of pharmacists, dentists, and paramedical staff per 100,000 inhabitants for both public and private sectors.
- The ranking is based on the total indicator value for each governorate, with lower values indicating better coverage.
Appendix 3.3: Measures of Concentration

The discussion of industrial structure in the main text uses two indicators to measure the concentration of industry by governorate, the Herfindhal Index and the Ellison and Glaeser Index. To simplify things, the indices are presented through consideration of one of the variables used, such as employment (Emp).

A) Herfindhal Index

The Herfindhal index is considered in its dual dimension: sectoral and spatial. The Herfindhal spatial concentration index compares the employment distribution of each sector following the geographic demarcation in G governorates (where G stands for the 24 governorates):

\[ H_s = \sum_{g=1}^{G} \left( \frac{\text{Emp}_{sg}}{\text{Emp}_s} \right)^2 \]

where Emp_{sg} and Emp_s respectively designate sector s employment within governorate g and total employment generated by sector s. The index ranges between 1/G and 1. It is equivalent to 1 when the entire labour force of the sector is concentrated in one governorate. It is minimal when the labour force is equitably distributed among the governorates.

Similarly, the specialisation index of governorate g is defined as:

\[ H_g = \sum_{s=1}^{S} \left( \frac{\text{Emp}_{sg}}{\text{Emp}_g} \right)^2 \]

where Emp_{sg} and Emp_s respectively designate sector s employment in governorate g and total employment generated by governorate g. The index takes the value 1 when only one sector is represented in governorate g and 1/S when all sectors are equitably represented (S being the number of industrial sectors considered).

B) Ellison and Glaeser Index

The index proposed by Ellison and Glaeser compares the degree of geographic concentration in a given sector to the degree that would be obtained if the same establishments of this sector were randomly distributed. The spatial concentration index is calculated as follows:

\[ EG_s = \frac{G_s - H_s}{1 - H_s} \quad \text{with} \quad G_s = \frac{\sum_{g=1}^{G} (Z_{sg} - Z_g)^2}{1 - \sum_{g=1}^{G} Z_g \cdot \frac{2}{g}} \quad \text{and} \quad H_s = \text{und0vronizis2} \]

where Z_{sg} is the employment share of governorate g within sector s and Z_g is the share of governorate g in national employment. H_s is the Herfindhal industrial concentration index for sector s. It reflects the degree of employment concentration among the establishments of this sector regardless of any spatial considerations (Z_{is} is the share of establishment i in the total employment of sector s). In our case, due to the absence of individual data and taking account of industrial concentration, we assume for each of the governorates, that all establishments of the sector in question are of the same size.
Similarly, the Ellison and Glaeser index is calculated at the level of the governorates as follows:

\[ EG_g = \frac{G_g - H_g}{1 - H_g} \]

\[ \text{with } \quad G_g = \frac{\sum_{s=1}^{S} (Z_{gs} - Z_s)^2}{1 - \sum_{s=1}^{S} Z_s^2} \quad \text{and} \quad H_g = \sum \text{und0vronizig}2 \]

where \( Z_{gs} \) is sector \( s \) share of the employment in governorate \( g \) and \( Z_s \) is sector \( s \) share in national employment. In this case, \( H_g \) is the Herfindhal industrial concentration index for governorate \( g \). It reflects the degree of employment concentration in this governorate, regardless of any sector considerations (\( Z_{ig} \) is the share of establishment \( i \) in the total employment of governorate \( g \)). As stated above, due to the absence of individual data and taking account of industrial concentration, we assume for each sector, that all establishments located in a governorate are of the same size. Indeed, \( H_g \) makes it possible to control the effect of local domination by one company.