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**MEMORANDUM AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED EDUCATION AND TRAINING SECTOR LOAN  
IN AN AMOUNT OF US\$95.0 MILLION  
TO THE  
REPUBLIC OF TUNISIA**

**APRIL 6, 1989**

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**CURRENCY EQUIVALENTS**  
(As of December 1988)

Currency Unit	=	Tunisian Dinar (TD)
US\$1.00	=	TD 0.86
TD 1.00	=	US\$1.16

**FISCAL YEAR**

January 1 - December 31

**GLOSSARY OF ABBREVIATION**

**MEN** Ministère de l'Education Nationale  
Ministry of Education

**OFPE** Office de la Formation Professionnelle et de l'Emploi  
Office of Vocational Training and Labor.

**REPUBLIC OF TUNISIA**

**EDUCATION AND TRAINING SECTOR LOAN**

**Loan and Project Summary**

**Borrower:** Republic of Tunisia

**Amount:** US\$95.0 million equivalent

**Terms:** Repayable in seventeen years, including a five-year grace period at the Bank's standard variable interest rate.

**Financing Plan:**

Government	US\$ 88.0 million
IBRD	US\$ 95.0 million
<b>Total</b>	<b>US\$ 183.0 million</b>

**Economic Rate of Return:** N.A.

**Staff Appraisal Report:** Report No. 7696-TUN

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT  
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED  
EDUCATION AND TRAINING SECTOR LOAN  
TO THE REPUBLIC OF TUNISIA**

1. The following memorandum and recommendation on a proposed loan to the Republic of Tunisia for US\$95.0 million equivalent is submitted for approval. The proposed loan would provide investment finance for the education and training reform program prepared by the Government with Bank assistance, and help the authorities implement policy changes initiated in 1988. The loan would have a term of 17 years, including five years of grace, at the standard variable interest rate.
2. Background. The Tunisian Government is continuing its economic adjustment program with a new emphasis on reform in the human resources sector. A major concern for the government is the continuing high level of unemployment (over 14 percent in 1988) despite significant decreases in the price of labor relative to capital in the last five years. The economic adjustment program is likely to increase unemployment in the short term as it reduces the size of the public sector. In the medium and long-term, the demand for labor should increase as growth accelerates, and the impact of past and present family planning efforts should moderate the supply of labor at the same time as enhanced education and training services improve the profile of the labor force and its responsiveness to changing demand conditions.
3. Tunisia has undertaken a massive effort since 1956 to develop its human resources, paying special attention to family welfare, education, and training. As a result, from the early 1960s to 1985, infant mortality was more than halved from almost 160 to 60 per thousand, life expectancy at birth rose from 48 to 62 years, and adult literacy rates increased from 15 percent to 62 percent. An active family planning policy, long supported by the Bank, led to a decline in birth rates of 27 percent between 1965 and 1985. Mortality also declined by 45 percent, and population growth is still about 2.5 percent a year. The young age structure of the population, together with the increasing entry of women into paid work, caused the labor force to grow at 2.8 percent a year in the mid-1980s.
4. The education and training system is called upon to play a major role in responding to the challenge of a rapidly, changing economy. The Government's export driven growth strategy places a premium on the availability of a highly skilled and well educated labor force. At the same time, intense world market competition -- in particular the development of a very active EEC market -- and rapid technological change require the best possible use of human potential. In order to be internationally competitive in the next century, Tunisia needs a labor force with much higher levels of mastery of math, science and language skills than is presently the case. There is an urgent need to step up investments in education and training to enhance the broad cognitive and problem solving skills and personal qualities that make workers trainable and more productive. The Government is committed to a major improvement of the education and training system, at the same time as it reinforces its family planning services.
5. Despite remarkable quantitative achievements in primary education (99 percent of the 6 year olds are enrolled in grade 1), there are still

serious shortcomings. Only 1 in 3 children goes beyond grade 6, 1 in 5 goes beyond grade 9, and 1 in 20 progresses to higher education. The internal efficiency of the education system is seriously impeded by a lack of facilities in the lower grades of secondary education, and by the relatively poor quality of education programs. Repetition rates are high (between 20 and 30 percent), and a sizeable number of children who drop out during primary education will lapse back to illiteracy. The Ministry of Education (MEN) has offered various vocational education programs, but in practice these do not prepare students for specific jobs. The type of labor force necessary for Tunisia's export development strategy requires the teaching of problem-solving skills up to a level that cannot be attained in six years. A key prerequisite for broadening individual employment options and improving labor force productivity is access to an expanded and reinforced cycle of basic schooling (grades 1 through 9), whether it is followed by further formal education, formal and non-formal vocational training, or direct entry to the labor force.

6. In upper secondary schools (grades 10-13) there is a need to revamp course offerings, update programs and ensure complementarity between technical education offered by MEN and the vocational training programs run by the Vocational Training and Labor Office (OFPE). The OFPE vocational training system is hampered by weak labor market linkages and is not geared up to the production of highly skilled labor that the economy requires. Shortages of skilled and technical manpower, particularly technicians, may inhibit the Government's effort to restructure the Tunisian economy and blunt the export drive. The skill distribution of the work force is characterized by a remarkably low share of higher-level professionals and even fewer mid-level technicians. Production line technicians and senior technicians represent only 3 percent of the total number of people employed in all branches of the economy. Moreover, there is an urgent need to develop or adapt programs on the basis of up-to-date labor market signals. Greater employer involvement in program definition, skill certification, and management and financing of training institutions is also highly desirable.

7. Policy measures and Rationale for Bank Involvement. The Government has decided to engage in far-reaching reforms of the education and training system. This reform program has been prepared with Bank assistance and in collaboration with local, regional and national administrations, and extensive consultations with teachers and parent teacher associations have taken place. These reforms will be introduced in two phases. The first phase of the reforms, which will be supported by the proposed loan, is designed to make the education and training system more consistent with the country's medium-term development needs, more equitable and more cost-effective. It would do this through three major policy changes: (i) allocation of a larger share of resources to a self-contained basic education cycle of sound quality (grades 1-9); (ii) improvement in the quality and relevance of secondary education (grades 10-13), while better controlling access to it; and (iii) promotion of pre-service and in-service training in collaboration with companies in the productive sectors, and mobilization of additional resources for training. The content and timing of the specific reform measures, prepared jointly with the Bank over the past year and reviewed at appraisal, are detailed in a supplemental letter. The second phase of the reforms would introduce measures related to higher education access and financing. This second phase is now being prepared for extensive political consultations, also in collaboration with the Bank. In parallel with the proposed sector loan, the Government and the Bank are also discussing a set of institutional and policy reforms aiming at liberalizing labor markets and improving labor mobility. The Bank

involvement in the education/training sector has been instrumental in developing the reforms being introduced in Tunisia. Continued Bank support is necessary to complete the design of the reform program and implement it over a sequence of several years. These major structural changes in the human resources policy framework will complement, by significant shifts in efficiency of human capital investment, the overall country strategy which is to maximize efficiency of institutions and investments and fuel the process of economic growth through liberalization.

8. Project Description. The agreed reform program generates the need for major investments in education and training infrastructure, teaching materials, and related software. The Bank has reviewed the proposed investment program in detail and agrees with its main parameters and with the design, costing and phasing of all its major elements. The proposed project consists of two parts. The first part, with the Ministry of Education, would cover 100 percent of the foreign exchange cost of the agreed investment program for the five years covered by the proposed loan (1990-1994). This would cover the following investments: (i) rehabilitation of some 1,600 primary and 330 secondary schools; (ii) construction and equipment of 800 school canteens; (iii) construction and equipment of some 130 new upper basic education schools (grades 7, 8 and 9); (iv) distribution of books and educational materials on the basis of pedagogical improvement plans; and (v) technical assistance for improving the quality of education and the efficiency of education management. The second part, with the Office of Vocational Training and Labor (OFPE), would provide civil works, equipment and technical assistance, for the development of sector specific vocational training centers in collaboration with industry associations and based on a sub-project approach.

9. Cost and Financing. The total cost of the project with contingencies, net of taxes and duties, is estimated at US\$183.0 million equivalent with a foreign exchange cost of \$95.0 million. The Bank loan of US\$95.0 million would cover about 52 percent of total project costs and 100 percent of the foreign exchange cost. Local costs in the amount of US\$88.0 million would be financed from the investment budget. Retroactive financing of up to US\$4 million (4 percent of the loan amount) would be allowed to cover eligible expenditures incurred after January 1, 1989. A breakdown of project costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and the disbursement schedule are shown in Schedule B. A timetable of key processing events and the status of Bank Group operations in Tunisia are given in Schedules C and D respectively. The staff appraisal report No. 7696-TUN, dated April 6, 1989, is being distributed separately.

10. Agreed Actions. During negotiations, the Government provided assurances that: (a) the policy measures, summarized in para. 7 and detailed in a supplemental letter containing a matrix of specific targets and actions, would be implemented within the time frame specified and every year the Government and the Bank would jointly monitor the progress achieved in the reform program, and the proposed investment and recurrent budgets for the next year, including the level of non-salary expenditures; (b) OFPE would prepare sub-projects related to the development of sector-specific training centers in accordance with agreed criteria and provide the Bank with detailed appraisal reports for approval of each individual sub-project; (c) MEN would distribute books and educational materials on the basis of pedagogical improvement plans prepared by individual schools, using agreed criteria; (d) no later than December 1990, a preventive maintenance plan for all MEN schools, designed

with the assistance of experts, would be ready for implementation and thereafter all MEN's schools would be maintained adequately; (e) no later than December 31, 1993 an evaluation study would be completed to assess the quantitative and the qualitative impact of the proposed reform program as well as its organization and finances; and (f) two Project Coordinators (one each for MEN and OFPE) would be maintained for the duration of the project under terms of reference acceptable to the Bank.

11. **Benefits.** The education reform program supported by the proposed loan is expected to yield very significant development benefits for the country. The reform program would restructure education and training in Tunisia so that a much larger number of children would benefit from a solid foundation of education and training helping prepare them for active careers in a fast-changing economy. It would reorient the system in favor of basic education and would improve the quality and efficiency of educational inputs. At the same time, collaborative training with industry associations would be promoted. This would make training programs more job-related and would make young people more employable. Quantitative benefits include an increase in the number of students enrolled in upper basic education of 123,000 over the 1992-1996 Plan and 152,000 over the 1997-2001 Plan and a decrease in the number of dropouts, in grade 1 through 9 of 104,000 and 124,000 respectively. A portion of the additional costs necessary to finance the expansion at the level of grades 7, 8 and 9 would be offset by a decrease in the number of students in primary education due to improved efficiency rates. The total MEN recurrent budget is projected to grow at an average yearly rate of 3.2 percent in real terms and its share of total Government budget would remain at its current level of about 25 percent.

12. **Risks.** The reform program also entails some risks. The first risk is that some teachers may resist the introduction of new educational methods and in particular the utilization of diagnostic testing and remedial instruction. The improvements in pre- and in-service training for teachers should go a long way to ensure acceptance of the new methods. The second risk is that unexpected pressures on the government budget may reduce the scope for sustaining the steady increase in investment allocations the sector program calls for and which Parliament has already expressly approved. This could slow down the implementation of the reforms, although the proposed loan financing safeguards the most critical software expenditures aimed at building various quality improvements into the school system. Finally, the Government may face opposition to the next phase of the reform process, complementary to these basic education reforms, involving limitations on free access to the upper levels of the education and training system. However, the Tunisian public is increasingly aware of the trade-offs in this area and Government is adamant that the reform program will progress steadily on track, as has indeed been the case with all past reform commitments made by Tunisia within the adjustment process.

13. **Recommendation** I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber Conable  
President

Attachments

Washington, D.C.  
April 6, 1989

REPUBLIC OF TUNISIA

EDUCATION AND TRAINING SECTOR LOAN

Estimated Costs and Financing Plan

Estimated Project Costs

	Local	Foreign	Total
	(US\$ Million)		
A. School Rehabilitation Program (MEN)	12.1	12.0	24.1
B. Canteens for Primary Schools (MEN)	4.7	5.1	9.8
C. School Construction (MEN)	40.9	43.7	84.6
D. Complementary Equipment Programs (MEN)	0.6	1.5	2.1
E. Distribution of Books and Materials (MEN)	-	4.0	4.0
F. Institutional Development (MEN)	-	1.7	1.7
G. In-Service Training (MEN)	6.4	1.2	7.6
H. Development of Sectoral Training Centers (OFPE)	6.0	11.8	17.8
<b>Total Baseline Costs</b>	<b>70.7</b>	<b>81.0</b>	<b>151.7</b>
Physical Contingencies	7.1	8.1	15.2
Price Contingencies	10.2	5.9	16.1
<b>Total Project Costs</b>	<b>88.0</b>	<b>95.0</b>	<b>183.0</b>

Financing Plan:

Government	88.0		88.0
IBRD	---	95.0	95.0
<b>Total</b>	<b>88.0</b>	<b>95.0</b>	<b>183.0</b>



**REPUBLIC OF TUNISIA**

**EDUCATION AND TRAINING SECTOR LOAN**

**Procurement Method and Disbursements**

Category of Expenditures	US\$ Million				Total Cost
	Procurement Method				
	ICB	LCB	Other	N/A	
Civil works		135.0 (65.6)			135.0 (65.6)
Equipment and vehicles	25.5 (16.8)		2.0 (2.0)		27.5 (18.2)
Furniture		5.1 (2.7)			5.1 (2.7)
Books and Educational Materials	2.0 (2.0)		2.8 (2.8)		4.8 (4.8)
Expert Services				2.5 (2.5)	2.5 (2.5)
Fellowships				0.6 (0.6)	0.6 (0.6)
In-service Training				7.5	7.5
<b>Total</b>	<b>27.5</b>	<b>140.1</b>	<b>4.8</b>	<b>10.6</b>	<b>183.0</b>
<b>Bank financing</b>	<b>(18.8)</b>	<b>(68.3)</b>	<b>(4.8)</b>	<b>(3.1)</b>	<b>(95.0)</b>

a/ Figures in parentheses are the respective amounts financed by the Bank.

**Disbursements**

Category	Amount US\$ Million	% financed by the Bank
Civil works	65.6	65% of expenditures
Equipment and Vehicles	18.8	100% of foreign expenditures for directly imported goods and 80% of local expenditures for locally purchased goods.
Furniture	2.7	
Books and Educational Materials	4.8	
Experts Services and Fellowships	3.1	100% of expenditures

**Estimated Disbursements**

Bank Fiscal Year	90	91	92	93	94	95
	(US\$ Million)					
Annual	12.0	16.5	19.5	23.0	17.5	6.5
Cumulative	12.0	28.5	48.0	71.0	88.5	95.0

**Rate of Return: Not Applicable**

REPUBLIC OF TUNISIA

EDUCATION AND TRAINING SECTOR LOAN

Timetable of Key Project Events

- |     |                                |  |
|-----|--------------------------------|--|
| (a) | Time taken to prepare:         | 16 months  |
| (b) | Prepared by:                   | Government with Bank assistance  |
| (c) | First Bank Mission:            | January 1988   |
| (d) | Appraisal mission departure:   | November 1988  |
| (e) | Date of Negotiations:          | March 1989   |
| (f) | Planned Date of Effectiveness: | September 1989   |
| (g) | List of Relevant PPARs:        | Education II (Cr. 94-TUN)<br>PPAR Report No. 2226, Sept. 1978<br><br>Education III (Ln. 1155-TUN)<br>PPAR Report No. 5740, June 1985 |

THE STATUS OF BANK GROUP OPERATIONS IN TUNISIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS

(As of March 31, 1989)

Loan or Credit Number	Year	Borrower	Purpose	US\$ Million Amount (Less Cancellations)		
				Bank	IDA	Undisbursed
Forty-seven Loans and Ten Credits Fully Disbursed				780.11	75.16	
1797	1980	Office des Ports Nationaux	Third Port	35.20		1.23
1961	1981	Republic of Tunisia	Fourth Education	21.00		6.09
1969	1981	Republic of Tunisia	Small-Scale Industry Development	30.00		3.74
1997	1981	Republic of Tunisia	Northwest Rural Development	17.54		2.09
2005	1981	Republic of Tunisia	Health and Population	8.50		2.76
2052	1981	Republic of Tunisia	Grain Distribution and Storage	33.40		1.01
2108	1982	Republic of Tunisia	Fifth Highway (Rural Roads)	35.50		7.75
2157	1982	Republic of Tunisia	Irrigation Development	15.30		2.14
2223	1983	Republic of Tunisia	Urban Development III	25.00		16.02
2230	1983	Republic of Tunisia	Education V	27.00		15.59
2234	1983	Republic of Tunisia	Central Tunisia Irrigation	13.70		5.68
2255	1983	Republic of Tunisia	Urban Sewerage III	34.00		20.54
2289	1983	Republic of Tunisia	Sfax Flood Protection	22.30		.29
2346	1984	Republic of Tunisia	Mining Technical Assistance	7.80		2.31
2368	1984	Republic of Tunisia	Seventh Water Supply	50.00		27.54
2429	1984	Republic of Tunisia	Second Urban Transport	33.00		19.74
2455	1984	Société Tunisienne de l'Electricité et du Gaz	Fourth Power	21.52		6.25
2502	1985	Republic of Tunisia	Northwest Agricultural Production	8.80		7.49
2522	1985	Republic of Tunisia	Export Industries	32.50		20.06
2554	1985	Republic of Tunisia	Second Electrical and Mechanical Industries	32.50		22.84
2573	1985	Republic of Tunisia	Irrigation Management Improvement	22.00		16.52
2605	1985	Republic of Tunisia	Gabes Irrigation	21.70		12.57
2735	1986	Republic of Tunisia	Energy Conservation	4.00		3.87
2736	1986	Republic of Tunisia	Fourth Urban Development	30.20		24.26
2754	1986	Republic of Tunisia	Agricultural Sector Adjustment	150.00		42.37
2781	1987	Republic of Tunisia	Industrial & Trade Policy Adjust.	150.00		50.11
2865	1987	BNT	BNT IV	30.00		21.86
2870	1987	Republic of Tunisia	Agriculture	20.00		17.93
2896	1987	Republic of Tunisia	Highways Maintenance & Rehabilitation	63.00		62.99
2911	1988	Republic of Tunisia	Second Small & Medium Scale Ind. Development	28.00		28.00
2962	1988	Republic of Tunisia	SAL I /	150.00		150.00
3023	1989	Republic of Tunisia	Petroleum Exploration /a	5.50		5.50
TOTAL				1,963.00	75.16	626.54
Of which has been repaid				481.52	13.06	
Total Now Outstanding				1,481.48	62.10	
Amount Sold				34.82		
of which has been repaid				26.93	7.89	
Total now held by Bank and IDA					62.10	
				1,473.59		
Total Undisbursed						626.54

/a Not yet effective.

**B. STATEMENT OF IFC INVESTMENTS IN TUNISIA**

(as of March 31, 1989)

Fiscal Year	Obligor	Type of Business	Amount of US\$ Million		
			Loan	Equity	Total
1962	NPK Engrais	Fertilizers	2.00	1.50	3.50
1966/70/78	Société Nationale d'Investissement (now BDET)	Dev. Finance Co.		2.30	2.30
1969	COFIT Tourism (now BNDT)	Dev. Finance Co.	8.00	2.2	10.20
1973	Société Touristique et Hôtelière RYM SA	Tourism	1.60	0.3	1.90
1974	Industries Chimiques du Fluor	Chemicals		0.6	0.60
1975	Société d'Etudes et de Développement de Sousse-Nord	Tourism	2.50	0.6	3.10
1985/86	Société Tunisienne de Leasing	Leasing Co.	3.40	0.5	3.90
1985	Société Minière de Spath Fluor et de Barytine (Fluobar)	Mining Co.		0.3	0.30
1986	Société Industrielle des Textiles (SITEX)	Textiles and Fibers	5.0	3.2	8.20
1987	Adwya S.A.	Pharmaceuticals	2.0	0.3	2.30
1987	Rozzi Edilizzia Industrializzata (REIT S.A.)	Prefabricated Panels	1.3	0.4	1.70
1987	COMETE Engineering	Engineering Services	-	0.04	0.04
1988	Société des Industries Textiles Réunies S.A. (SITER)	Textiles & Fibers	<u>2.35</u>	<u>2.14</u>	<u>4.49</u>
	<b>Total Gross Commitments</b>		<b>28.45</b>	<b>14.38</b>	<b>42.83</b>
	<b>Less cancellations, Terminations, Repayments and Sales</b>		<b><u>15.21</u></b>	<b><u>2.80</u></b>	<b><u>18.01</u></b>
	<b>Total Commitments Held by IFC</b>		<b><u>13.24</u></b>	<b><u>11.58</u></b>	<b><u>24.82</u></b>
	<b>of which Undisbursed</b>		<b><u>6.11</u></b>	<b><u>.20</u></b>	<b><u>6.31</u></b>