

*Republic of Tunisia*  
*Finance Ministry*



# ECONOMIC & SOCIAL PROGRAM

THE JASMIN PLAN

September 2011

## **TUNISIA'S ECONOMIC & SOCIAL PROGRAM**

### **EXECUTIVE SUMMARY**

Having ignited the first spark that led to the coming out of the Arab Spring, Tunisia takes on a historic responsibility to successfully carry out the transition towards democracy, and to hold a new vision for its future that will bring about hope and prosperity to its people. The Economic and Social Development Plan that the Tunisian interim government has elaborated (**'Jasmine Plan'**) aims to set forth optimal conditions to generate future prosperity, or anticipation thereof, thereby consolidating its nascent democracy. It is only when it reaches the virtuous circle of enhanced prosperity and consolidated democracy that Tunisia would have definitely succeeded in setting the stage for a promising future to its people.

- The Jasmine Plan has been articulated along a three-pronged approach: (i) Post-revolution crisis management and political reform, (ii) carrying out the transition towards democracy, and (iii) setting forth the conditions for sustained social and economic development in the medium term.
- Politically, the interim government has set up several independent bodies aimed at achieving the objectives of the revolution, investigating corruption and abuses by the previous regime, and setting forth the proper conditions to hold free and democratic elections. The government has also signed several international conventions that the previous regime had persistently refused to endorse. These include, but are not limited to, the Optional Protocol on Political Rights and Civil Liberties, the accession of Tunisia to the Rome statute of the International Criminal Court, the Optional protocol to the UN Convention against Torture, the approval of the International Convention for the Protection of all Persons from Enforced Disappearance, and the withdrawal of all reservations made by the previous regime pertaining to the Convention on the Elimination of all forms of Discrimination against Women. Furthermore, the interim government has initiated several actions aimed at enhancing transparency by allowing free public access to administrative documents and databases, and made certain commitments with respect to enhancing corporate governance and opportunities.
- Short term economic and social emergency measures initiated by the government included job-support programs, enhanced financial support for social and regional development, assistance to those enterprises that were adversely affected by social disturbances, as well as various fiscal incentives aimed at reactivating the economy. The interim government has also conducted a complete overhaul of the regulatory frameworks pertaining to microfinance and private equity in view of their immediate impact on job creation and the promotion of small businesses particularly in the rural areas. Other regulatory fixes are underway such as those pertaining to Public Private Partnership ('PPP'), and support of the SME's. The short term measures initiated by the government have thus far contributed in

stabilizing the post-revolution socio-economic conditions in the country which augurs well for holding the upcoming elections in the best possible conditions.

- During the transitional period (2012-2013) Tunisia aims to resume a robust economic growth (around 5% p.a.) and initiate the necessary political, social and economic reforms that are necessary to uplift socio-economic conditions in the country. During the emergence phase (2013-2016) Tunisia targets to achieve growth rates in excess of 7%, and engage in a convergence process with the European Union and other developed economies.
- The medium term economic and social program has been articulated around a set of 10 strategic targets which are summarized as follows:
  1. Establishing trust through transparency, social responsibility and citizen participation;
  2. Ensuring that development is all-inclusive and equitably shared amongst the different strata of society ;
  3. Promoting a knowledge-based economy in which science and technology will play a significantly enhanced role;
  4. Creating favourable conditions for the promotion of productivity, and free-entrepreneurship;
  5. Fostering integration to the world economy;
  6. Investing in human capital through education and training, and fostering professional competency in all fields;
  7. Promoting social justice and equal opportunity programs;
  8. Ensuring an adequate, balanced and viable financing of the economy;
  9. Rehabilitate public service and civil action;
  10. Optimizing an efficient utilisation of resources and the preservation of the environment.
- Whilst in the medium term the State must gradually disengage from those activities that can be handled by the private sector, it must still play, in the meanwhile, a critical role in setting forth the success factors to reach Plan objectives. In particular, the State will continue to be the principal catalyst for economic development and social equity that promotes individual liberty, social justice and cohesion. It will encourage the creation of a business environment that encourages free initiative, whilst maintaining stable and constructive labour relations, as the principal engine of economic development. Finally, it will promote a climate of cooperation and constructive cohesion between the different components of the Tunisian society.
- Tackling unemployment, particularly amongst graduates in the less-developed regions, is Tunisia's top priority. Indeed, the unemployment rate exceeds 18% in the interior of the country. It varies between 31% and 48% amongst graduates in the interior compared to 23%

nationwide. Whilst the short term measures introduced by the interim government have somewhat alleviated the pressures on the labour market particularly amongst graduates, the longer term solutions can only be worked out through ambitious investment programs across the various economic sectors with particular emphasis on the less developed regions. Speeding-up the investment programs will have a prompt beneficial effect on reducing unemployment even if their full impact on the economy will be felt at a later stage.

- The 2012-2016 Plan calls for an unprecedented aggregate investments of TD125Bn (\$100Bn) with annual growth rates of over 15% (far in excess of the 9% consumption growth rate) at current prices reaching an average GDP percentage of 28% during the period. Public investments are estimated at TD50Bn (\$40Bn) of which TD44Bn are to be taking up by the government budget, the remaining being carried out by public companies. Private investments are expected to reach TD75Bn of which FDI's will represent TD22Bn. A listing of public investment projects in the pipeline are illustrated in Annexe II of the main document.
- In order to speed-up the investment process in the country the interim government is launching two major investment vehicles which are expected to be operational by year-end: a Generational Investment Fund, and a Deposit and Consignment Vehicle ('Caisse de Depot et de Consignation' or '**CDC**').
- One of the virtues of democracy, if properly pursued, is that it promotes enhanced conditions for private initiatives. The Jasmine Plan puts a decisive emphasis on the critical, but newly defined, role that the government will play in significantly promoting the contribution of the private sector in carrying out new investments in order to ensure the success of the program. In this context, the government will imminently launch a large generational investment vehicle (the "**Ajyal Fund**") with a significant amount of seed-money. The Fund will only invest in projects that will meet investment criteria of private investors. It will aim to help finance large ticket projects with a definite exit strategy from the outset that will ultimately leave the projects in the hands of the private sponsors while ensuring acceptable returns. A variety of sub-funds will be launched by this vehicle including a private equity fund of funds, and sector-specific funds in infrastructure (including renewable energies), agriculture (including bio and agribusiness), technology, tourism, real estate, and retail. The Fund will ultimately contribute in the emergence of a new generation of Tunisian entrepreneurs well versed in the best business practices and financial management. The Ajyal Fund, which will be structured as a fund of funds, aims to raise equity of TD5Bn (\$4Bn) within two years from its creation. Large investors, both Tunisian and foreign, will be invited to invest in the sub-funds and will be granted a variety of privileges including a participation in the governance of the funds as well as co-investment rights in the projects that will be financed. It is estimated that through the combined leverage and the multiplier effects the Ajyal Fund should ultimately generate aggregate investments in excess of TD35Bn (\$30Bn) during the upcoming five year period. This level of aggregate investments should contribute in the creation of more than one million direct and indirect jobs in Tunisia within the five-year Plan. Being the main sponsor of the Fund, the government will play a primary role in its governance, but will leave it up to private entrepreneurs to carry out their projects independently. Furthermore, by pushing down indebtedness to the project level the

government will avoid taking on any additional debt and will limit its exposure to equity participations in the projects. The Fund will abide by some basic principles such as the safeguard of the environment and will engage in socially responsible activities. It will also adhere to the Santiago Principles of good governance and transparency.

- The creation of the **CDC**, a special-status public sector company, whose creation was only recently approved by the Cabinet, will mainly be engaged in financing large infrastructure projects in the country and the support of the SME's. It will initially get the lion's share of its funding from postal deposits but will develop other sources of funding over time such as those stemming from public pension funds and retirement accounts. Investments to be carried out by the CDC in the near term will be in excess of TD5Bn. Reinforcing the infrastructure networks will play favourably in promoting industrial zones thus fostering the creation of SME's in the interior and the rest of the country. Projects to be financed by the CDC usually do not meet the investment criteria of private investors or cover sizes of investment that exceed their capacity. On the other hand, the CDC will initiate a comprehensive program aimed at supporting SME's including the launch of a variety of new government-sponsored equity and mezzanine funds, and credit enhancement schemes specifically designed for early-stage support of SME's.
- For the Jasmine Plan to be successful there will be a pressing need to initiate **significant reforms** of the financial system, the public sector in general and the state apparatus in particular, as well as a significant overhaul of the education and judicial systems. It will also prove necessary to conduct a comprehensive Fiscal Reform as well as a review of the Investment Code in order to ensure the success of the Plan.
- The reform of the financial system in general and the banking system in particular, must start without further ado. In particular, there will be a pressing need to conduct a complete restructuring of the public banks by cleaning up their problem loans, reinforcing their capital funds, improving their risk management policies and procedures, upgrading their information management systems, enhancing human capital and significantly improving their governance. The government must, within a reasonable time frame, disengage from its involvement in the management of these banks and set forth the proper conditions for them to align themselves to, and compete on equal footings, with the private banks.
- The government must also firmly engage in the promotion of the financial system in general, and the capital markets in particular. Of particular importance to Tunisia is the creation of full-fledged capital markets promoting such activities as fixed income, corporate and project bonds, commodities, long dated FX and interest rate swaps, new hedging techniques covering the different markets and the emergence of new asset classes. The emergence of an efficient capital market will help mobilize long term savings, and will offer new investment opportunities to institutional investors such as insurance companies and pensions funds.
- Bolstering innovation, R&D and investment in human capital are sine qua non for the success of the Plan. These will include the development of a technological infrastructure (e.g. e-governance), and encouraging the creation of a knowledge-based economy. In this

context, the government plans to launch a National Initiative for Industrial and Technological Development in cooperation with the private sector setting forth 80 measures and actions aimed at bolstering the technological content of the Tunisian economy. An investment of TD10Bn (\$8bn) will be necessary to successfully carry out this program during the period 2012-2016. This, combined with the National Strategy for Research and Innovation Program, aims at increasing investments made on R&D to 1.75% of GDP during the plan period.

- Tunisia has historically achieved a respectable track-record in the promotion of human capital by investing heavily in education since its independence. By allocating over 7% of GDP to education, Tunisia enjoys the best ranking in the region and even exceeds the average expenditure on education in the OECD countries. However, despite such advances Tunisia still suffers inequalities in the fields of health, education, disposable income, and gender. This is the reason why the Plan puts great emphasis on human development as a cornerstone for its ultimate success. The objective is to improve the Human Development Index (adjusted for inequalities) from 0.511 in 2010 to 0.586 in 2016 by reducing the gap due to inequalities from 25.2% in 2010 to 20% in 2016 and the gender inequality index from 0.515 to 0.410. These objectives will be achieved by increasing disposable income, reducing poverty, improving the quality of education and health care, particularly in the less developed regions and by ensuring that prosperity will translate into real improvement in the quality of life and the well being of the population at large. Emphasis will also be put on cultural development as an essential cornerstone for human achievements, a determinant factor in social cohesion and inclusiveness, and an important leverage to inculcate and promote democratic values and human rights. In this respect, the government plans to increase to 1.5% its budgetary allocations to culture by 2016, and will concomitantly create the proper incentives to further enhance private initiatives and support.

Tunisia is writing a new and illustrious chapter in its history. Tunisians, particularly the youth amongst them, who successfully put a term to tyranny and despotism, are now eager to build a better and promising future for their country and themselves. The impending free and democratic elections of the Constituent Assembly represent the first historic manifestation of the free-will of the people. The political institutional framework that will ensue will set forth optimal conditions for Tunisians to make their choices in designing their future and pursuing their dreams. Tunisia is endowed with the necessary ingredients to successfully conduct its democratic transition. The prospect of an impending prosperity offers the best security to consolidate democracy thereafter. Prosperity will translate in a tangible improvement in the quality of life and well-being for all Tunisians. This, in turn, will strongly consolidate the democratic process and will set in motion a virtuous cycle of economic growth and political stability. In pursuing the objectives set forth in the Jasmine Plan, Tunisia aims to reduce inequalities and poverty, and enhance human and cultural development. It also aims to reduce the development gaps between regions, offer equal opportunities to all Tunisians, and share equitably the values created. Tunisia will also be a force for change in the region and in the world. The élan of hospitality and generosity with which Tunisians have embraced their Libyan neighbours, during very trying times, is testament to their deep sense of civil responsibility and moral obligations. This will most likely bode well for a mutually beneficial prospect for economic and social developments in both countries. Tunisia also aims to become a haven of peace and prosperity in the Mediterranean region, and intends to pursue its ambitions to

be granted an advanced status with the European Union, and expand free trade agreements with its main trading partners. Tunisia is well positioned to become a trade and investment hub bridging commercial, financial and investment opportunities between the regions of Europe, Africa, the Middle East and the Far East.

In carrying out its Social and Economic Program Tunisia will depend first and foremost on its people and its resources. However, in seeking the support of its traditional and new financial partners, it aims to speed-up the execution of the Jasmine Plan, thus effectively managing the strong expectations of its young population, while ensuring that the short term challenges are successfully surpassed and will not constitute disparaging handicaps for the successful execution of the Plan. Failure to successfully carry out this delicate transitional phase will have far reaching and detrimental effects not only on Tunisia but on the outcome of the Arab Spring as well. Tunisia's partners will stand to reap tremendous benefits both politically and financially in supporting the country at this momentous phase of its history.