



**EUROPEAN NEIGHBOURHOOD  
AND PARTNERSHIP INSTRUMENT**

**TUNISIA**

**STRATEGY PAPER 2007 - 2013  
&  
NATIONAL INDICATIVE PROGRAMME 2007 - 2010**



## **ABBREVIATIONS AND ACRONYMS**

2PA	Neighbourhood action plan support programme
AA	Association Agreement (with the European Union)
ADB	African Development Bank
AEP	Active Employment Programme
AFD	French Development Agency
CAS	Country assistance strategy (World Bank)
CSP	Country Strategy Paper
EC	European Commission
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FTA	Free Trade Area
GDP	Gross domestic product
GTZ	German Technical Cooperation Agency
ICT	Information and communication technologies
IMF	International Monetary Fund
IOM	International Organisation for Migration
M&E	Monitoring and Evaluation
MDCI	Ministry of Development and International Cooperation
MENA	Middle East and North Africa
MFA	Multifibre Arrangement
NAP	European Neighbourhood Policy Action Plan
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NPL	Non-performing loans
ODA	Official Development Assistance
P3A	Association Agreement support programme
R&D	Research and Development
SAF	Structural adjustment facility
SME	Small and medium-sized enterprises
SWAP	Sector-wide approach
TA	Technical assistance
UN	United Nations
UNDP	United Nations Development Programme (UNDP)
WTO	World Trade Organisation

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### **Exchange rate and currency**

Currency = Tunisian Dinar (TND)

€1 = TND 1.6170 (28.11 2005)

€1 = USD 1.1712 (28.11 2005)

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## 0. SUMMARY

This country strategy paper (CSP) lays down a strategic framework for EU cooperation with Tunisia under the European Neighbourhood and Partnership Instrument (ENPI) in 2007-2013 (national allocation). The national indicative programme (NIP) is the Commission's operational response for the period 2007-2010; it sets out the objectives, the expected results and conditions to be met in the priority areas of cooperation. The indicative amount for the 2007-2010 NIP is €300 million.

Tunisia is participating fully in the Barcelona process. The first Mediterranean country to sign an Association Agreement (AA) (in July 1995), it was one of five countries in the Southern Mediterranean to adopt a European Neighbourhood Policy Action Plan in 2005 with an ambitious political, economic and social agenda for the following three to five years which had been discussed in detail by the relevant bodies.

Tunisia has recorded annual economic growth of between 4 and 5% over the last fifteen years and has implemented economic reforms while also maintaining a cohesive society. Its economic and social performance has promoted the emergence of a significant middle class which, it can be assumed, wants to play a greater part in the decision-making process and favours greater transparency and accountability (a bigger role for civil society and the private sector). This development is crucial in promoting more dynamic governance in a more open environment. If private investment is to increase, which is vitally important if high levels of growth are to be maintained, improvements must be made to the business environment and the way in which the justice system functions.

In contrast to the performance of the Tunisian economic and social model, progress on the political aspects has been slow, for some of them - such as freedom of expression or association - very slow. Leaving aside the issues this lack of progress raises in terms of political pluralism, it may also impact on the country's social and economic development.

The strategy's characteristics are determined by the imperative of implementing the objectives of the Policy Action Plan, which will help to establish an area of peace, stability and prosperity. However, in view of the serious difficulties in implementing third-generation MEDA projects and the problems surrounding the recent launch of the justice support programme, the Commission takes the view that efforts over the first period of the CSP should focus on good economic governance. In the light of the above, the 2007-2010 NIP is to concentrate on:

- economic governance, competitiveness and convergence with the EU;
- human resources and improvements in employability;
- sustainable development.

The programme (NIP part) was drawn up in close cooperation with the Tunisian authorities and reflects national priorities. The CSP was sent in full to the Tunisian authorities, which had the opportunity to submit their comments before the management

committee meeting. The whole process took place in coordination with the Member States and the main multilateral donors.

Due consideration was given to the Commission's comparative advantage as a donor, in the light of previous experience of cooperation, complementarity with the other donors and the European Neighbourhood Policy's cohesion with other EU policies (policy mix).

## 1. EU POLICY OBJECTIVES

### **General objectives of external policy, security policy and EU development policy**

The aim of the **European Union's external policy** is to preserve its common values, promote peace and security in accordance with the Charter of the United Nations and promote international cooperation. It also seeks to develop and consolidate democracy, the rule of law and respect for human rights and fundamental freedoms. To implement its external policy the EU has a large array of instruments. A coherent set of instruments to ensure maximum effectiveness will be selected when the objectives of EU-Tunisia cooperation are formulated.

**European security policy:** in December 2003 the EU adopted the European Security Strategy, which recognises that a Union of 25 States with 450 million inhabitants accounting for a quarter of the world's gross domestic product (GDP) is a global player. One of the priorities identified by the European Security Strategy is the need to promote “a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations.” The strategy also clearly states the need to promote an order based on effective multilateralism and refers to the security of the EU's energy supplies.

**European development policy:** In December 2005 the European Council adopted an EU strategy for Africa which provides a long-term strategic framework for interaction between Europe and Africa at all levels, with pan-African institutions such as the African Union, regional organisations and national authorities. The strategy rests on three pillars: (i) promotion of peace, security and good governance as prerequisites for development, (ii) support for regional integration, trade and interconnectivity to promote economic development and (iii) improved access to basic social services (health and education) and environmental protection. For partner countries covered by the neighbourhood policy, the strategy dovetails with that for Africa by giving priority to measures designed to promote the political, economic and social reforms necessary for integration into the Euro-Mediterranean area.

### **Strategic aims of cooperation with Tunisia**

**Association Agreement:** Since March 1998 an Association Agreement (AA) has governed bilateral relations between the European Union and Tunisia. It provides for a free trade area (FTA) between the two parties in the longer term. The agreement constitutes the framework for EU-Tunisia political, economic, social, scientific and cultural cooperation. It also contains provisions which allow political questions (international, domestic, human rights and democracy) and migration issues to be covered. The agreement forms part of the **Barcelona process** launched in 1995 and based on the development of cooperation in terms of political dialogue and economic partnership and in the social and cultural fields. Tunisia has played a dynamic part in this partnership by rapidly concluding an association agreement and by working constructively as EuroMed coordinator within the Arab group.

**The European Neighbourhood Policy:** In 2004 the EU launched the European Neighbourhood Policy (ENP), which invites Tunisia and other countries neighbouring the EU to establish together an area of peace, stability and prosperity. The ENP is designed to prevent a new divide being created between the EU and its neighbours by stepping up relations in the security field and in the political, economic and cultural fields. It also meets one of the objectives of the European security strategy, namely the need to strengthen Europe's security in its immediate neighbourhood. The ENP partner countries will benefit from closer relations with the EU, the opportunity to take part in certain European programmes, a direct stake in the single market and assistance with political and economic reform.

The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The ENP extends and consolidates the current cooperation framework. In the case of Tunisia, specific objectives were laid down in an European Neighbourhood Policy Action Plan (NAP<sup>1</sup>) which has been in force since 4 July 2005. The NAP is a broad tool for economic and political cooperation, carrying to a further stage the commitments and objectives contained in the AA.

## **2. POLICY AGENDA OF THE TUNISIAN GOVERNMENT**

The Government's main priorities are set out in the five-year economic and social development plans, which are the main programming tools. They set the strategic guidelines and the priority policies as well as the investment programmes needed to implement them, thus forming the basis of the State's investment budget. The Eleventh Plan, covering the period from 2007 to 2011, should be adopted in the first quarter of 2007. At this stage, therefore, analysis of the Government's policy priorities should be based on the priorities set out in the guidance note for the Eleventh Plan, on the Presidential programme covering the period 2004-2009 and on the main work in progress in the Tenth Plan. The Government's main political and sectoral priorities are as follows:

**Employment policy**, designed to reduce serious structural unemployment, especially among young graduates. The aim is to reduce the 2001 unemployment rate of 15% to 14% in 2006 and to 13.1% in 2011. This target was achieved in 2005 (rate brought down to 13.9%), but pressure is still high because of the increasing numbers of young graduates coming on to the labour market (university open to everyone and population peak in 2009), increased international competition and ongoing industrial restructuring (textiles sector). Reducing graduate unemployment (to 14.1% in 2011) and increasing staffing levels (17% in 2009) are also important factors in developing a knowledge-based economy, which is the priority of the Eleventh Plan.

Another priority of the Eleventh Plan is to strengthen the economy and boost growth, which is over 6%, in order to tackle social problems and meet the objective of economic convergence. To achieve that objective, the Government plans to increase overall factor productivity and carry out structural reforms which will promote diversification of sources of growth into sectors with high added value and high knowledge content as well

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<sup>1</sup> [http://europa.eu.int/comm/world/enp/document\\_en.htm](http://europa.eu.int/comm/world/enp/document_en.htm)

as increased international integration. This strategy takes the form of sectoral and horizontal incentive policies, a programme to upgrade businesses, a further round of privatisations and an increase in private investment in public infrastructure in the form of concessions.

**Economic and financial policies**, and in particular improvements to the business environment, competition policy, commercial policy geared to tariff dismantling in line with the AA, optimising financing of the economy and reform of the financial sector, will form an important part of the Eleventh Plan. These priorities are reflected in the following specific objectives: The national savings ratio is to increase to 23.2% in 2011 against 21.4% in 2003 and will make a growing contribution to financing the economy (71.4% during the Eleventh Plan as against 69% during the Tenth Plan), foreign direct investment is to increase to 3% of GDP and the debt ratio is to be reduced from 50.2% in 2006 to 40.5% in 2011.

**Consolidation of good governance and transparency and the corresponding legislative, institutional and administrative reforms** are indicated as important factors in growth and development but do not appear to be specific priorities of the guidance note. The main reforms identified are: (i) adoption of modern, efficient management methods within the administration, (ii) use of new technology and IT, (iii) ongoing reforms of the judicial system, (iv) introduction of goal-oriented budget management and (v) reforms to reinforce devolution and decentralisation. The Eleventh Plan should examine these reforms in greater detail in view of their importance.

**Sustainable development**, particularly protection of natural resources and the environment and measures to combat pollution appear to be a political priority. The Tenth Plan provided for a budget of more than €500 million for environmental protection and emphasised its importance for the development of tourism. A Ministry of the Environment and Sustainable Development was set up in the course of the last government reshuffle. The Presidential programme covers these subjects too and they will definitely feature in the Eleventh Plan.

**Regional and international integration** is fundamental for a country like Tunisia; it underpins economic growth targets, including growth in exports of 8.1% during the Eleventh Plan, and appears to remain a priority for the Government, which is strongly committed to liberalising trade between the countries of the Maghreb and between the Arab countries as a whole within the framework of the Agadir process. The establishment of Free Trade Areas between most of these countries and the European Union and the introduction of PAN-EURO-MED cumulation of origin should be a major incentive for deeper regional integration. Tunisia could be the chief beneficiary of this trend given its advanced stage of development and the limited size of its internal market. The Tunisian authorities are aware of the benefits of regional integration and seem to regard it as a priority, as witnessed by their support for the reopening of the border between Morocco and Algeria.

**The development of human resources, education and teaching** are the underlying priorities of the Eleventh Plan. These sectors account for the bulk of the State budget and there are a growing number of reforms under way in these areas: introduction of the LMD system (Degree, Master's, Doctorate), mutual recognition of diplomas, development of courses leading to practical qualifications, etc., often supported by Community sectoral programmes. Improving pupils' and students' chances of success is the President's second priority after employment, these two objectives being very closely linked. These sectors are bound to be a strong priority of the forthcoming plan.

Lastly, building the **knowledge-based society** and developing **information technology** have been Government priorities since the Tenth Plan. These priorities received a boost with the world summit on the information society, held in Tunis in mid-November 2005. These subjects are crucial to Tunisia's development policy as outlined in the guidance note, but at the same time progress needs to be made on freedom to do business, freedom of expression and independent regulation of the sector, these being necessary conditions for the development of digital services.

### **3. COUNTRY ANALYSIS**

With a population of 10 million (2004), (*Annex 1: Tunisia in brief*), Tunisia is a medium-sized country for the Mediterranean region (*Annex 2: Map of Tunisia*). Its population growth is stable (1.2% per annum for the period 1998-2004). Per capita income was USD 2 630 in 2004, placing Tunisia significantly above the average (i) of USD 2 000 for the Middle East and North Africa (MENA) and (ii) of USD 1 580 for lower middle-income countries. At 4.9% per annum over the period 1994-2004, economic growth was higher than the average for 1984-1994 (3.8%).

The Tunisian indicators for development, especially for human development, are amongst the most favourable of the Arab world. They reflect the positive results of a governmental action in the fields of education, rights of women and health.

#### **3.1 Political situation**

Tunisia is a **constitutional presidential** republic. The President of the Republic is the Head of the Executive. He is elected by universal suffrage. The current President, Zine El Abidine Ben Ali, has been in power since 1987, and in the last elections (in 2004), he received 94.4% of the votes. The constitutional reform approved by referendum in May 2002 abolished the limit on the number of presidential mandates and raised the age limit for Presidential candidates from 70 to 75 years (Article 40 of the Constitution). The electoral process could be more transparent. The electoral law limits the number of seats which can be held by one political party in the Chamber of Deputies (and in the municipal Council) to 80%, 20% of the total seats being reserved in any case for minority parties – even if they have not reached the percentage.

A second house of parliament (the Chamber of Counsellors) met for the first time at the end of 2005. One third of its members is elected by indirect suffrage by members of parliament, mayors and town councillors, the majority of whom belong to the RCD. The

RCD won 94% of seats at the last local elections. The second third of representatives of the second house is elected by employers and trade associations, but the UGTT union has refused to take the fourteen seats set aside for it as a protest against the imposed repartition of 14 members on the three professional organisations which represent the employers (UTICA), the farmers (UTAP) and the employees (UGTT). The remaining third is composed by personalities nominated by the President of the Republic. In practice, the balance of power between opposition parties and the ruling party means that Parliament has very limited scope for opposing Government policy.

Within the framework of the NAP, Tunisia has entered into far-reaching undertakings on democracy, governance and human rights. These undertakings must now be followed up by tangible progress. It has accepted the establishment of a sub-committee for human rights in the framework of the Association Agreement.

The Constitution provides guarantees on **democracy and freedom of association**, but in practice a number of factors continue to restrict the development of political pluralism in Tunisia, for instance the way in which political parties are set up and the electoral system, which favours the ruling party.

Institutions and political life are dominated by the RCD, which is presided over by the Head of State. The President of the Republic is the Head of the Executive and appoints the Prime Minister, who coordinates government policy.

The foundations of an independent **judiciary** are laid down in the Constitution. However, the Supreme Judicial Council and the Public Prosecutor's Office remain heavily under the influence of the Executive. The principle of irremovability has never been established and judges may be transferred at any moment. The Lawyers' Association nevertheless manages to maintain a degree of independence from the Executive even if it cannot always guarantee the rights of defence. However, a number of observers have reported irregularities affecting the independence of the association of magistrates; after voicing criticism of the new law on the status of magistrates, this body's legitimate ruling body was replaced by judges regarded as close to the Government. On several occasions international observers and specialist NGOs have drawn attention to the conditions in which prisoners are held (including solitary confinement of political prisoners). A step towards improving conditions of detention and imprisonment was taken when the Red Cross was granted permission to carry out regular visits to all prisons. Tunisia and the EC have approved a programme for the modernisation of the legal system. It has not yet been fully implemented. Tunisia has introduced the function of the "Médiateur administratif" (ombudsman).

Article 8 of the Tunisian Constitution guarantees the **freedoms of opinion, expression, assembly and association**. Notwithstanding these constitutional guarantees, observers have noted serious obstacles to these freedoms in practice. In a joint statement at the fourth meeting of the EU-Tunisia Association Council, the EU took the view that "efforts should be stepped up to ensure respect for human rights, in particular the freedom of expression and the freedom of association. Those freedoms determine the democratic process and are conducive to economic and social development." International observers and organisations have regularly condemned harassment of human rights defenders and

have highlighted the need to guarantee freedom of opinion and freedom of expression in the fight against terrorism. As regards **corruption**, Tunisia ranked 43rd in the world in 2005 according to Transparency International.

The Tunisian Constitution guarantees the **freedom of the press and freedom of publication**. However, the Press Code strictly regulates the exercise of these freedoms through rules governing publication and printing, the setting-up of periodicals, concentration of ownership, circulation of foreign periodicals, subversion and libel. A step forward was taken when the obligation for a number of copies to be deposited with the authorities prior to publication was abolished. Wide-ranging censorship of the national and international media, newspapers and foreign publications continues under this restrictive legislation. Foreign newspapers and journals and especially their distribution in Tunisia may result in governmental interventions which equal censorship. This situation is confirmed by international watchdogs and specialist NGOs.

The Criminal Code punishes **ethnic and religious discrimination** as well as public incitement to ethnic and religious discrimination. With Article 8, the Tunisian Constitution prohibits that a political party fundamentally bases itself in its principles, objectives, activities or programs on one religion, one language, one race, one gender or one region. On **equal opportunities**, the Constitution states that “all citizens have the same rights and the same duties. They are equal before the law.” Since the independence of Tunisia in 1956, the successive governments have made equality between the sexes one of Tunisia’s development objectives. The promulgation of the “Code du statut personnel (CSP) on 1<sup>st</sup> August 1956 constitutes the basis of this policy. The CSP has been improved several times, the last positive modification stipulating the minimum age for marriage at 18 years (instead of 16 years) for both sexes. Although the rights of women and their representation in society make Tunisia rank 1<sup>st</sup> out of all Arab countries, progress is still possible, especially with regard to the law of inheritance. As regards **membership of regional and international organisations**, Tunisia forms part of the UN, the WTO, the IMF, the World Bank, the ADB, the Arab League, the Maghreb Arab Union, the Community of Sahel and Sahara States and the African Union. It takes part in the informal 5 + 5 dialogue which it regards as of considerable political interest. It is also one of the six Mediterranean partners of the OSCE and takes part, in that capacity, in the regular meetings of the relevant contact group and in seminars on Mediterranean issues.

Tunisia cooperates on **non-proliferation of weapons of mass destruction** and has signed up to and implements the instruments and systems for the regulation of exports. Tunisia generally participates and plays an active role in **measures to combat international terrorism**, particularly on a bilateral basis with the EU Member States and in the wake of the Djerba attack in April 2002. It has signed and ratified most international conventions, including UN Security Council resolutions 1373/01 and 1267/01, and adopted anti-terrorist legislation in December 2003. Tunisia is not engaged in any **territorial disputes** and is on good terms with its two larger neighbours, Algeria and Libya.

Tunisia is a country of **emigration** and transit to Europe (*Annex 3: Migration profile*). There is a legal vacuum in the legislation determining refugee status, which prevents nationals of sub-Saharan countries from settling in Tunisia. Although Tunisia has signed the 1951 Convention, it hosts only a small number of refugees. The High Commissioner for Refugees is dealing with some 100 cases concerning asylum applicants and refugees. The frontier is controlled by the police. The Tunisian authorities work closely with their Italian counterparts to patrol their coasts more effectively. The Tunisian authorities have indicated their willingness to examine a readmission agreement with the EC, on condition that this matter is dealt with in the course of negotiations within the broader framework of the Association Agreement as a corollary to discussions on socioeconomic development. Tunisia has ratified the Convention against **Transnational Organised Crime** and two protocols on human trafficking and smuggling of migrants.

Tunisia helps to ensure the **security of the EU's energy supply** as a transit country for Algerian gas. It has future transit potential in connection with energy from Libya.

### **3.2 Economic and social situation**

#### *Macroeconomic developments*

In 2004 Tunisia's GDP was estimated at the equivalent of €24 billion, with agriculture accounting for 12.6% of added value, industry 27.8% and services 59.6% (*Annex 1*). After a period marked by high growth rates (5.2% on average from 1997 to 2001), a combination of internal and external shocks slowed down the increase in GDP in 2002 to 1.7%. A marked recovery has since taken place (GDP growth in excess of 5.5% in 2003 and 2004), driven by exports and an increase in agricultural production. Tunisia ranks 30th out of 125 countries in the Davos World Economic Forum's competitiveness index. The medium-term outlook is encouraging.

Thanks to prudent macroeconomic management, there has been a fair degree of price stability in Tunisia, with inflation rates well under 5% since the second half of the 1990s.

**Unemployment** remains an issue for concern. Despite economic growth, Tunisia has not yet achieved its goals of increasing income to the level of OECD countries and of reducing unemployment. 13.9% of the working population was unemployed in 2004, against 15.8% in 1999. Official growth scenarios show that to reduce unemployment significantly, the economy must grow by 6.5% a year. Interaction between education, research and the labour market must be improved. Reducing unemployment requires growth to be speeded up, which in turn depends to a large extent on **investment** growth (which decreased as a percentage of GDP in 2002-2003), and private investment growth in particular. Tunisia has a low level of private investment compared to similar countries; private gross fixed capital formation represented only 12.5% of GDP in 2004, partly as a result of numerous obstacles to investment in industry and services, red tape, a rigid labour code and a business environment with too few incentives and insufficient transparency (cf. Chapter 5). These problems were exacerbated by the small scale of the local market, limited regional integration, increased international competition

(dismantling of tariffs under the Association Agreement and Agadir Agreement) and by the erosion of export preferences (end of the Multifibre Arrangement).

**Monetary policy** is being modernised and made more flexible against a background of gradual liberalisation of the capital account. The central bank's remit was amended recently to make control of inflation and of the money supply its top priorities and to liberalise exchange rate policy in close conjunction with the IMF. The far-reaching reform of the banking sector currently under way (liberalisation, privatisation, restructuring), which is backed by the Commission, the World Bank and the ADB is creating the right conditions for this new monetary policy.

As regards **foreign trade**, the trade balance has improved significantly since 2002. The substantial decrease in the current account deficit, brought down to 2.1% of GDP in 2004, was made possible by the upturn in tourism in 2004 and the large remittances by Tunisians working abroad. Foreign borrowing remains relatively high (58.6% of GDP in 2004) and total foreign debt requires servicing equivalent to 2.3 months of exports of goods and services and to 14% of current expenditure. The short-term external commitments coverage rate for reserve assets is very satisfactory: nearly 178% at end-2004.

The **budget deficit** amounted to 2.5% of GDP in 2004. Public finances are handled responsibly. For several years Tunisia has been making efforts to control and reduce its budget deficit. According to the 2005 budget and the Tenth Development Plan (2002-2006), these efforts should continue over the coming years. The aim of the authorities is to reduce the burden of public debt, which is still high compared to other similar countries (50% of GDP at present, against 59% in 2004), to balance the budget by 2009 and to reduce the State's share of the economy. Management of public finances should improve following the introduction of a more dynamic policy of public debt management (which will accompany the development of financial markets) and the introduction and subsequent generalised implementation of goal-oriented budget management. The approach currently remains experimental but the authorities are receiving technical assistance from the World Bank, France and the Commission. It should be launched and subsequently put into general application by 2009.

In terms of **trade**, Tunisia is still the MED country with the highest degree of integration in the European economy and the Free Trade Agreement appears to be further reinforcing its links with the EU: the EU's share of imports increased to 76% at end-2004 as did the share of Tunisian exports to the EU, representing some 89% of total exports in 2004. Sectoral policies (private investment, financial sector and macroeconomic framework) are described in Annex 4.

#### *Social development*

***Tunisia has made steady progress on social development, particularly in the fields of poverty reduction, education and health.*** There has been systematic improvement in health indicators, witnessed by the increase in life expectancy to 72.1 years, which is close to the norm in high-income countries, and the reduction in infant mortality, child mortality and maternal mortality. The Government also intends to make health insurance cover universal. The State provides free or subsidised healthcare to the lowest income

groups; the remainder of the population is covered by social security. Primary education is virtually universal and illiteracy is almost non-existent among the youngest generations, although a number of disparities remain between boys and girls. Although there is still scope for improving quality and ensuring the financial sustainability of social policies, Tunisia is outperforming countries with similar income levels and is well placed to achieve the **Millennium Development Goals** (*cf. Annex 5*). Nevertheless, symptoms of social unrest and poor governance are present (tension in universities, strikes in the textile industry, hunger strikes by opponents of the regime, etc.).

*The second half of the 1990s saw a significant reduction in poverty.* “Hardcore poverty” (i.e. persons living below a poverty threshold equivalent to a minimum level of consumer expenditure determined by the World Bank) affected only 4% of the population in 2000, against some 8% in 1990/1995, 22% in 1975 and 40% in 1960. This reduction in poverty was recorded in urban and rural areas alike and throughout Tunisia.

### **3.3 Environmental policy**

Tunisia is committed to **environmental protection and sustainable development**. Over the last five years a significant percentage of public expenditure has been earmarked for environmental protection and the management of natural resources; this is estimated at more than 1% of GDP, in line with the figure for some European countries. The annual cost of degradation of the environment was estimated at 2.1% of GDP in 1999, the lowest rate for the countries of the MENA region.<sup>2</sup>

This progress notwithstanding, Tunisia faces major challenges in connection with the management of its natural resources. Its main problems (*Annex 6: Environmental Profile*) are water quality, waste management, marine and coastal pollution, nature conservation and desertification. The development of industry and tourism and the growth in road traffic, which are concentrated along the coast, coupled with a rapid increase in the urban population, have put the country’s land and water resources under considerable pressure and are increasing pollution in coastal areas and waste generation. Sanitation requires continuous attention, particularly in rural areas. Water is a major priority because it is scarce in Tunisia. Its strategic importance is most pronounced in the agricultural sector, which consumes 85% of water resources. Environmental upgrading of industry requires considerable efforts. Strategic environmental planning requires constant attention, as does involvement by civil society in environmental issues, particularly environmental impact studies.

### **3.4 Medium-term challenges**

As Tunisia opens up to the outside world and competition increases, the analysis highlights the following key challenges for the next five years (which will certainly continue to be relevant for the five years after that):

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<sup>2</sup> World Bank, METAP (Mediterranean Environmental Technical Assistance Programme), 2003. Republic of Tunisia: Evaluation of the cost of degradation of the environment.

- **PROMOTION OF GOOD GOVERNANCE:** Tunisia's economic and social performance has promoted the emergence of a significant middle class. To that extent, the Tunisian economic and social model has performed very well. However, there is little evidence of progress in political governance. The challenge that this represents is twofold. First, it can be assumed that a significant proportion of the population wishes to play a bigger role in the decision-making process, which would lead to greater transparency and accountability. Second, the lack of real progress in political governance could have an adverse effect on economic and social progress. For example, increases in domestic and foreign investment, needed to boost economic growth, are contingent on major improvements being made to the business environment and the way in which the justice system operates.
- **SUSTAINABLE ECONOMIC GROWTH AND REFORM:** The Tunisian economy is performing well. However, the labour market is unable to absorb additional demand for jobs and private investment is still too low. The task is to reduce unemployment, which remains high. That will mean improving the investment climate for the private sector and the quality of economic governance.
- **UPGRADING SKILLS AND MAKING QUALIFICATIONS MORE RELEVANT:** The Tunisian education system is facing up to a major challenge resulting from demographic change (rapid increase in staff in secondary and higher education) at a time when it is also vitally important to improve school results and promote interaction between education, research and the labour market so that Tunisia acquires the skills needed in a knowledge-based world. This trend calls into question the capacity of higher education and vocational training systems to cope with increased demand by improving the quality of education and its relevance to the labour market and maintaining expenditure at current levels. Today there are 70 000 unemployed graduates; by 2012 there could be 300 000.
- **CONSOLIDATING SOCIAL PROGRAMMES WHILE BALANCING THE BUDGET:** In this area too, demographic trends and new developments on the labour market resulting from competition pose major challenges for healthcare, social protection and pension systems.

#### **4. COOPERATION PROGRAMMES**

##### **4.1 Community Programmes**

Tunisia has received significant support from the Community cooperation programmes for over 25 years. The main financial instrument is the MEDA programme, which in its current phase (MEDA II) provides commitments of some €20 million for the period 2000-2006, representing around 12% of available funds, while Tunisia's population represents only 5% of the population in the MEDA area. In addition to these amounts there is previous funding (MEDA I and financial protocols) and **thematic budget lines** (NGO/EIDHR, environment, youth, culture, etc.). The overall total granted to Tunisia (excluding regional MEDA programmes) over the period 1995-2006 exceeds EUR 1 billion. *Annex 7* sets out in detail the EU's cooperation programmes.

Aid granted to Tunisia by the EC and the EIB (€million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
<i>MEDA - commitments</i>	20	120	138	19	131	76	90	92	<b>49</b>	22	<b>118</b>	<b>757</b>
<i>EIB (loans)</i>	<b>65</b>	<b>0</b>	<b>130</b>	165	98	150	225	290	<b>395</b>	<b>184</b>	260	<b>1.962</b>

A **sectoral breakdown** in percentage terms of the various MEDA programmes, implemented or being implemented over the period 1995-2005 is set out below:

Macroeconomic support and institutional governance	32%
Economic cooperation, private sector	25%
Social (education, health, vocational training, employment)	24%
Rural development, environment	16%
Media, justice	3%

The MEDA Programme<sup>3</sup> covers the key areas of the modernisation of Tunisia's economy and society: the macroeconomic dimension, sectoral reforms (customs, ports, privatisation, etc.), the education sector as a whole, financial reform, sickness insurance, the media and the justice system. Preparation and implementation of the latter two programmes are delicate by virtue of their very nature, and they are being effected with great difficulty. Various programmes in the MEDA **regional cooperation** framework dealing with transport, energy, migration and improvements to the statistical system touch on aspects relating to neighbourhood and cross-border cooperation. Tunisia wants greater EU involvement in financing intra-Maghreb projects, especially concerning infrastructure.

The EIB has lent Tunisia a total of €1 962 million from own resources since 1995. Its action essentially comprises three different, complementary components: (i) consolidation and development of economic infrastructure (long-term loans), including transport (railways, roads, Tunis metro), energy (gas and electricity networks) and water (dams), (ii) protection of the environment (water treatment, solid waste, cleaning-up and development of the coastal area and other projects), and (iii) support for private sector development (global loans to banks and leasing companies). There are also programmes for healthcare and technology parks.

<sup>3</sup> In addition, the Framework Programme for Research and Technological Development (FPRTD) comprises specific activities designed to meet the needs of the Mediterranean partner countries and encourage their participation (cf. programmes INCO-MED in the 5th FPRTD (1998-2002) for a total budget of €1.5 million and INCO-MPC in the 6th FPRTD (2002-2006) for a total budget of €66 million). Moreover, the 6th FPRTD's thematic programmes are open to third countries. Tunisian participation in the FPRTD (via research institutes and researchers) is one of the most significant of all the Mediterranean countries. On a per capita basis, Tunisia is more heavily represented in the INCO programme and thematic priorities than any other country.

## 4.2 Lessons learnt

The lessons learnt and future trends can be summed up as follows. They were taken on board when preparing the CSP/NIP:

- Tunisia's **absorption capacity** can be regarded as good. The Tunisian administration is competent and relatively well prepared for managing Community cooperation programmes. Tunisia is one of the MEDA partners with the highest payment rates by comparison with commitments (1995-2004: 64%).
- The **deadlines for implementation** laid down when the programmes are drawn up are often exceeded and require repeated extensions. This is true in particular for programmes to finance complex and ambitious reforms (need for realism).
- The areas where Community cooperation is most effective are **education, economic reforms** and **support to the private sector**. On the other hand, implementation of the so-called **3rd generation programmes** (democracy and human rights, rule of law, good governance) has proven difficult.
- The cooperation programme is increasingly shifting towards **budgetary aid** (sectoral policy support programmes or macroeconomic SAF) as a source of financing for Community measures (65% of ongoing projects in 2005). This is a reflection of the high level of maturity of EC cooperation (**accountability**), faith in the administration's quality of management (in particular as regards management of public finances and control of expenditure), the good level of ownership and the suitability of the reform programmes.
- This trend is particularly relevant within the ENPI, which implies greater accountability on the part of the partner country. Budget aid reinforces ownership on the part of the authorities and as such gives rise to greater accountability on the part of recipients, the possibility for all donors to use national procedures (partly as a result of untying of aid, harmonisation of procedures, etc.), more dialogue at macroeconomic and sectoral level and good coordination between donors and the government. However, exceeding the current high level of budget aid would not appear to be advisable because this would be detrimental to other types of project and cooperation with local and regional authorities, the private sector and civil society.
- A significant number of the current programmes already incorporate aspects of the ENP and can be regarded as precursors of future programmes to support implementation of the NAP, in particular (i) the "third generation" projects (Justice, Media), (ii) twinning and regulatory approximation programmes (P3A), (iii) the industrial modernisation programme and (iv) consolidation of political dialogue with the Government and coordination with the relevant donors within the context of sectoral support programmes.
- Sixty percent of the P3A programme allocation for 2005 consists of **twinning schemes**, a component which will be continued in the new programme period.

In the light of the difficulties in reaching agreement and in implementing **3rd generation** MEDA projects (media: implementation difficulties; justice: lengthy negotiations; NGO project: cancelled) and EIDHR projects, the Commission takes the view that efforts for the 2007-2010 NIP should focus on strengthening the rule of law by improving the mechanisms of good economic governance (in no sense is this tantamount to pulling out of the 3rd generation projects, because the Media and Justice projects are being implemented during the initial period of the CSP and any follow-up can take place only on the basis of the results of implementation). The experience acquired with MEDA shows that macroeconomic governance and sectoral projects reflect major concerns surrounding implementation of the necessary reforms and net borrowing of the economy (cf. **evaluations**<sup>4</sup> for the Mediterranean countries). There is no doubt that the Commission provides leverage for the preparation and implementation of reform, including in the governance field. It also helps generate synergies and consensus between the various governmental authorities on the key guidelines.

The main lesson to be drawn from previous experience (cf. evaluations) is that projects should be better targeted, prior knowledge of the different areas of intervention should be improved and progressive performance indicators based on resources, products and outcomes should be identified.

#### **4.3 Member States and other donors**

Quantitatively speaking (ODA according to the DAC/OECD methodology), Tunisia received more than €80 million from the EU (excluding the EIB) for the period 2004-2005. The largest sums were awarded by France (€294.5 million), the Commission (€193.6 million), Italy (€47.03 million) and Germany (€45.5 million). *Focal sectors of the Member States and other donors are set out in Annex 8. Programmes of the Member States and the Commission, by sector (matrix), are quantified in Annex 9.*

The Tunisian authorities organise consultation meetings with the main donors on a strictly bilateral basis. Macroeconomic reform programmes are an exception and involve the World Bank, the ADB and the Commission. This type of coordination has also applied to the new EC sectoral programmes on secondary education, training and higher education since 2004. However, to date the results have not always been convincing, and work still needs to be done to improve sectoral coordination. There is a consultation mechanism between the **Member States, the EIB and the Commission**. Various sectoral meetings take place and a joint annual report is drawn up.

Coordination with the **World Bank** takes place via a strategic partnership mechanism which also includes the EIB. In Tunisia, which is one of the pilot countries for implementing this partnership, coordination involves an annual action programme with

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<sup>4</sup> Mid-term evaluation of MEDA II, Evaluation of EU development aid to the MED Region; Evaluation of the MEDA Regulation; Evaluation of the MEDA Democracy Programme; Evaluation of the structural adjustment programmes in the Southern Mediterranean countries; Independent appraisal of the EC Investment Partners (ECIP) financial instrument; North-South cooperation to combat the spread of the HIV/AIDS epidemic and aid for population policies and programmes in developing countries; Evaluation of the MEDA Global Allocation.

priority activities in the various areas covered by the Partnership Agreement, such as programming (CAS/CSP), sectoral dialogue and analytical work. Specific coordination meetings are being held with the **Member States, the EIB and the World Bank** as part of preparations for this CSP/NIP. As regards the **World Bank**, there are plans to examine, on a joint basis, budget support for governance and competitiveness and to establish advanced coordination on the environment, jobs, the private sector, the financial industry and the investment climate. The areas involving specific coordination with the **EIB** are: the environment, education/research and energy. The table in *Annex 9* indicates points of convergence with the **Member States**. A dialogue has been held with representatives of civil society. Coordination with the United States has also been improved.

Relations with Tunisia are heavily influenced by a number of Community policies, and as such the right policy mix is of crucial importance. This is of particular relevance to the CFSP, migration, trade, energy, transport and the environment. Cultural dialogue and good governance are also important subjects. The ENP's consistency with other EU policies underpins Community intervention and forms the main focus of Chapter 5.

## **5. THE EU'S RESPONSE STRATEGY (2007-2013)**

### **5.1 Principles and general objectives**

The 2004 enlargement profoundly altered the political, geographical and economic situation of the Union, providing it with an opportunity to consolidate and deepen its relations with neighbouring countries. The European Neighbourhood Policy will go beyond existing ties to offer the EU's neighbours the prospect of a significant measure of economic integration through gradual integration into the internal market and deepening political, cultural and social cooperation.

This EU neighbourhood policy sets ambitious goals based on the mutually recognised acceptance of common values such as democracy, the rule of law, good governance, respect for human rights, market economics, free trade, sustainable development, poverty alleviation and the strengthening of political, economic, social and institutional reforms. As such, it gives a new dimension to all aspects of the Association Agreement. The Policy Action Plan in force since July 2005 puts the European Neighbourhood Policy agenda into effect for a period of between three and five years.

In addition to technical and financial aid, the ENP provides a number of opportunities to support implementation of the NAP, such as business openings, access to the single market, participation in certain Community programmes and Community agencies, and the possibility of attending TAIEX seminars. These elements represent a genuinely innovative approach to cooperation with neighbouring countries.

## 5.2 Specific cooperation priorities and objectives

The following objectives and priorities form the system of reference when selecting priority areas for cooperation between the EU and Tunisia; of particular significance are the commitments entered into in the Association Agreement and the Policy Action Plan:

- the EU's objectives, and in particular the priorities listed in the "Ten years of Barcelona" declaration: (i) human rights – democracy – governance – justice – security, (ii) sustainable economic reforms (growth/jobs) and (iii) the Millennium Development Goals in the field of education;
- national policy and reform priorities, analysis and the main challenges ahead;
- requirements resulting from implementation of the Policy Action Plan and the Association Agreement;
- previous experience of cooperation and the results of meetings with the main donors (complementarity, comparative advantages, concentration), in particular the Member States, the EIB and the World Bank.

Against that background, the EU's strategic priority objectives for 2007-2013 should be as follows (priorities and the timetable for their implementation may be amended to reflect progress in achieving objectives and adjustments and updates to the Policy Action Plan, including political dialogue):

- medium-term political reforms concerning democracy and human rights, the rule of law and sound institutional governance;
- reforms concerning the justice system, management of migration and asylum in accordance with the principles laid down in the 1951 Convention and measures to combat organised crime, money-laundering and terrorism whilst safeguarding human rights;
- creation of the right conditions for private investment, the development of competitive SMEs, growth, a reduction in unemployment and sustainable rural development;
- creation of the right conditions for the three components of sustainable development (environmental concerns, social equity and economic growth);
- developing education and training, higher education and **scientific research** as vital building blocks of the knowledge-based society and a crucial factor in reducing unemployment as the economy opens up;
- consolidating social programmes while balancing the budget;
- facilitating trade in goods and services, approximation of technical regulations and conformity assessment procedures and standards;
- **developing transport based on safety and security, reinforcing national and regional infrastructures and their inter-connection with the Trans-European Transport Network; developing the energy and information society sectors.**

Interest-rate subsidies and other combinations of grants and loans may boost investment by international lending institutions in the environment, energy and transport. Whenever interest-rate subsidies are considered, an evaluation will be carried out on a case-by-case basis and care should be taken to avoid significant distortions of the market. Regarding the environment, the relevant sectors include water management, waste management and industrial pollution. In that connection, due account will be taken of the strategic priorities identified by the Horizon 2020 initiative. Possible areas in the energy sector include renewable resources and energy efficiency. In principle, investments in energy infrastructure and networks should be commercial transactions in the light of their viability. However, in exceptional circumstances where specific EU interests are at stake (such as security of the energy supply) and where launching a project appears problematic, targeted interest-rate subsidies or other combinations of grants and loans could also be considered for specified investment projects. With regard to transport, interest-rate subsidies and other combinations of grants and loans would focus on attracting funds for vital infrastructure of strategic importance, and in particular on cross-border measures concerning priority routes or the sections necessary for their completion. As regards research, the 7th Framework Programme for Research and Technological Development (2007-2013) should develop cooperation with Tunisia under its science and technology cooperation agreement and as part of an intensified biregional dialogue with the Mediterranean countries.

(1) POLITICAL REFORMS CONCERNING DEMOCRACY AND HUMAN RIGHTS, THE RULE OF LAW AND SOUND INSTITUTIONAL GOVERNANCE

One of the undertakings by Tunisia and its Euro-Mediterranean partners in the Barcelona declaration was to respect freedom of expression and to guarantee its effective and legitimate exercise. The AA also treats this freedom as a fundamental component of Euro-Tunisian relations. Real progress in this field as provided for in the NAP will be of crucial importance, including for the maintenance of strong, sustainable growth, which needs an environment conducive to **democratic transition** that tends to favour consultation with civil society and the private sector, to respond to their aspirations and to allow freedom of expression and association. It is also vital to consolidate the **rule of law** so as to provide guarantees which inspire confidence in citizens and economic operators. This development is crucial if there is to be more dynamic **governance** in a more open environment. The **State's** wide margin of discretion to intervene, coupled with low levels of civic responsibility, freedom of expression and participation have weakened the investment climate and boosted the position of "insiders"; strong competitive forces are largely absent<sup>5</sup>.

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<sup>5</sup> According to the World Bank study on governance in the MENA region entitled "Towards better governance in the Middle East and North Africa: Increasing inclusivity and accountability," Tunisia performs slightly better than the average for the region but below the world average for lower middle-income countries as regards public accountability, freedom of expression and public participation. The public accountability index assesses the process whereby existing bodies are selected and replaced. It measures the quality of governance in terms of inclusivity of access to basic civic and political rights and the relative solidity of external accountability mechanisms. It also measures transparency and the State's responsiveness to public opinion and the degree of political accountability in public life.

(2) REFORMS CONCERNING THE JUSTICE SYSTEM, MANAGEMENT OF MIGRATION AND ASYLUM IN ACCORDANCE WITH THE PRINCIPLES LAID DOWN IN THE 1951 CONVENTION AND MEASURES TO COMBAT ORGANISED CRIME, MONEY-LAUNDERING AND TERRORISM WHILST SAFEGUARDING HUMAN RIGHTS

Tunisia has made important commitments in the NAP regarding justice and, in particular, modernisation of the **judicial system** and measures to guarantee its independence and facilitate access to justice. It is vitally important that these commitments should be met. Tunisia is also a transit country and a country of **migration**, essentially for economic reasons, to Europe (it is subject to significant migratory pressure from the sub-Saharan countries, via Libya). Thanks to very tight laws, tougher border checks and bilateral agreements with France and Italy, illegal immigration via and from Tunisia has been considerably reduced. However, Tunisia should be given assistance to ensure that migratory flows are managed even more efficiently and in a humanitarian way. The aim should be to ensure implementation of the principles enshrined in the 1951 Convention, including non-refoulement. Intensified police cooperation and assistance on **crime and terrorism** could help to improve security policy in the region.

(3) CREATION OF THE RIGHT CONDITIONS FOR PRIVATE INVESTMENT, THE DEVELOPMENT OF COMPETITIVE SMES, GROWTH, A REDUCTION IN UNEMPLOYMENT AND SUSTAINABLE RURAL DEVELOPMENT

In comparison with other high-growth countries, Tunisia has a structural deficit in **private investment**, which has stagnated at around 56% of total investment and 12.5% of GDP (2004). This low ratio is explained by a number of reasons, including : (i) limited opening of service markets and network industries markets, which keeps the cost of core services high and distorts competition; (ii) the constraints of red tape and the labour code, and (iii) remaining uncertainties with regard to the business environment, particularly as regards tax (VAT refunds, inspections, etc.), land tenure, regulations (authorisations, administered prices, specifications) and the judicial system (independence and transparency). These constraints concern foreign direct investment (FDI) in particular, which amounts to a mere 2.5% of GDP and 0.3% of FDI from the EU, in spite of increased economic integration with the European Union. Implementing the Euro-Mediterranean Enterprise Charter in Tunisia and developing a regional dialogue based on exchanges of good practice is a medium-term priority. A better investment climate in the energy sector could not just benefit the Tunisian economy but also enhance security of the European Union's energy supply. One direct consequence of this is persistent **unemployment** of around 14%, aggravated by demographic pressure, declining employment content of growth and increased competition. To guarantee sustainable **rural development** which complements the liberalisation of trade in agricultural products with the EU, it would be worthwhile, at the appropriate time, developing the TA on rural development and product quality.

(4) THE DEVELOPMENT OF CONDITIONS FAVOURABLE TO THE THREE PLANKS OF SUSTAINABLE DEVELOPMENT (ENVIRONMENTAL, SOCIAL AND ECONOMIC)

Tunisia is also committed to environmental protection and **sustainable development**. Notwithstanding the progress already made, it faces major challenges in terms of

managing its natural resources. Assistance could be given in various environmental protection fields with a view to contributing to Tunisia's efforts.

At the Barcelona Euro-Mediterranean summit in November 2005 the partners pledged collectively to "endorse a feasible timetable to de-pollute the Mediterranean Sea by 2020." Achieving the objective of reducing pollution levels will require a combination of regional and national measures supported by all the Mediterranean stakeholders. The EC's response strategy for Tunisia could support national and regional measures designed to achieve the objectives of the Horizon 2020 initiative, which embraces all the main sources of pollution, including industrial emissions, urban waste and, above all, urban wastewater. In addition to regulatory convergence and general reform of the way the environment is administered, investment projects financed by international financial institutions may be encouraged by aid for preparation and investment (such as interest-rate subsidies).

(5) DEVELOPING EDUCATION AND TRAINING, HIGHER EDUCATION AND SCIENTIFIC RESEARCH AS VITAL BUILDING BLOCKS OF THE KNOWLEDGE-BASED SOCIETY AND A CRUCIAL FACTOR IN REDUCING EMPLOYMENT AS THE ECONOMY OPENS UP

The **education** system<sup>6</sup> is facing a rapid increase in staff in secondary and higher education at a time when it is also vitally important to improve school results and promote interaction between education, research and the labour market so that Tunisia acquires the skills needed in a knowledge-based world. This trend calls into question the capacity of higher education and vocational training systems to cope with increased demand by improving quality and relevance to the labour market and maintaining expenditure at current levels. Equality between the sexes remains a priority. Although **investment** in scientific research has risen, public research is still largely failing to meet private sector needs and applications, and gateways between universities, the private sector and international R&D activities are weak.

(6) CONSOLIDATING SOCIAL PROGRAMMES WHILE BALANCING THE BUDGET

Social and demographic trends and new developments on the labour market pose major challenges for healthcare, social protection and pension systems. The poor probably spend a significant proportion of their income on private healthcare. Poor quality and inefficient healthcare services are still a major problem, and the cost of these services is increasingly rapidly as a result of the ageing population. The health insurance reform should be implemented as a matter of urgency. The State plays a central role in social protection through significant public sector recruitment, strict regulation of the labour market, tight controls on vocational training, active employment programmes (AEP: 1.5% of GDP with inadequate targeting) and welfare nets. Coverage of the unemployed is low and will pose an increasing problem at a time when some traditional industries have started to shed labour. The two pension funds are in a difficult financial situation which will get worse as the number of elderly persons increases.

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<sup>6</sup> Tunisia could benefit from the Tempus, Erasmus Mundus and Euro-Med Youth programmes.

(7) FACILITATING TRADE IN GOODS AND SERVICES, APPROXIMATION OF TECHNICAL REGULATIONS AND CONFORMITY ASSESSMENT PROCEDURES AND STANDARDS

The AA provides for the gradual creation over a twelve-year period of a **Free Trade Area** for manufactured goods. Good progress has been made on implementing the tariff dismantling schedule; almost 55% of tariff reductions have already been adopted. Customs duty has been totally dismantled. Import duties on consumer goods and on imported goods which are also produced locally have been reduced by almost half and one quarter respectively over five years. However, trade is still protected, and Tunisia is lagging behind on regulatory reforms designed to open up services to competition. So as to facilitate gradual access to the **single market**, harmonisation of legislation and the development of the associated infrastructure (standardisation, etc.) are key components of the ENP. Trade facilitation through modern customs procedures which meet international standards and taking account of security aspects of the international supply chain is also essential. A new stage will be reached in trade liberalisation with the EU with negotiations, as of 2006, on liberalisation of services and most agricultural products, including fisheries products. This liberalisation will consolidate the process of integration with the European market and create new openings but it will also require major adjustments in terms of reallocating inputs. Lastly, this process will entail speeding up related reforms which have already been started, e.g. liberalising capital accounts and the right of establishment and increasing competition. As part of future negotiations on services and the right of establishment, a Trade Need Assessment (TNA) could be launched if necessary to determine needs for technical assistance.

(8) DEVELOPING TRANSPORT, ENERGY AND THE INFORMATION SOCIETY, REINFORCING NATIONAL AND REGIONAL INFRASTRUCTURES AND THEIR INTER-CONNECTION WITH THE TRANS-EUROPEAN TRANSPORT NETWORK AND DEVELOPING THE ENERGY AND INFORMATION SOCIETY SECTORS.

The national **transport** strategy focuses on the sector's contribution to the external competitiveness of the economy. Policy in the sector is geared to increased containerisation and multimodal management of transport and to the development of logistical services. The deregulation and privatisation of **road** transport has been completed and a national upgrading programme is currently under way. Urban and interurban transport is still partly subsidised and largely operated as a public monopoly. The Tunisian national **rail company** has undergone a reform of its institutional framework and is in the process of extensive financial restructuring. The Government may take the opportunity to open up the operation of some rail services to private investment. The **aeronautics** code allows for a range of aviation-related services to be opened up to the private sector. The administration of **ports** is entrusted to the *Office de la marine marchande et des ports*, which is not only the maritime authority and port authority but is also responsible for port infrastructure maintenance and development. Tunisia has a limited supply of **energy resources** (gas, oil). Algerian gas transits via Tunisian territory to the EU. Demand for energy, notably electricity, is rising sharply. As regards the **information society**, there are two mobile telephone operators, but there are no plans as yet to liberalise the fixed-line market. Further powers should be vested in the regulatory authority to ensure fair competition on these markets. Measures could be taken

to promote the development of companies in the cultural and audiovisual sector and of companies which provide content for the information society.

### **5.3. Complementarity and consistency with the regional strategy paper and other ENP instruments**

From 2007 Community assistance will be provided via a range of new instruments. The European Neighbourhood and Partnership Instrument (ENPI), which has national, regional, cross border and thematic components, will be the main financial instrument available to Tunisia. The introduction of these new external assistance instruments will substantially increase flexibility. New forms of cooperation, such as TAIEX, study-grant programmes and twinning schemes should play an essential role in implementing NAP priorities.

*The ENPI regional programme* for the southern partners will help achieve the objectives described in this strategy since some of the regional or subregional activities may offer value-added or be complementary to bilateral operations.

Political reform will be supported by bilateral aid, while regional activities will include aid for the creation of regional networks, platforms for civil-society organisations and media networks. The cultural dialogue will be conducted at regional level, led by the Anna Lindh Foundation.

Cooperation on justice and security is a shared priority of the EU and a number of southern partners. Regional activities will include judicial cooperation on cross-border issues, organised crime networks, trafficking in human beings, and exchanges of best practice.

Regional measures in the transport and energy sectors will focus on transnational activities (South-South and North-North connections), while bilateral aid can focus on promoting energy management and technical assistance to the national structures concerned. Regional cooperation on the environment will include collaboration with the European Environment Agency. Regional activities, e.g. as part of MEDSTAT II, will make an effective contribution to the statistical component of P3A.

Tunisian border regions will be eligible to take part in *ENPI cross-border cooperation*. Cross-border cooperation will complement Action Plan priorities and involve regional and local authorities. It will tackle common problems identified by EU Member States and partner countries sharing a land border or a short sea crossing or bordering the same sea.

In addition to bilateral, cross-border and regional allocations, two new instruments may be available. *The ENPI cross-cutting programme* will embrace activities that are implemented in uniform manner for all the neighbouring countries. This programme will finance TEMPUS activities and the new study-grant programme, as well as TAIEX activities.

In addition, the new *ENPI thematic programmes* will comprise seven thematic actions, including “Democracy and Human Rights” (former EIDHR), “Non-state actors and Local Authorities”, “Migration and Asylum” (former Aeneas) or “Human and Social Development (Investing in People)”, which could be of interest to Tunisia and provide useful back-up to bilateral cooperation. Thematic activities will be launched only if they offer clear value-added.

## 6. NATIONAL INDICATIVE PROGRAMME 2007-2010

### 6.1 Programme contents and sequence

Various operations may contribute to the strategic objectives referred to in Section 5.2 and will receive financial assistance under ENPI during the initial period (2007-2010). Budgetary aid, either sector-specific or macroeconomic, is the appropriate form of support for reforms and twinning schemes. As in previous years, institutional support will be the crucial instrument used to promote governance by the State, civil society and the private sector. Interest-rate subsidies may increase investment by international financial institutions in the environmental, energy and transport sectors, as explained in the country strategy paper.

NIP operations essentially meet the following criteria:

- “Ten years of Barcelona” priorities;
- Neighbourhood Action Plan – important reference point;
- anchoring “the major challenges facing Tunisia”;
- agreement between stakeholders and partners.

#### 2007

<b>2PA</b>	<b>€30 million</b>
<i>The flanking programme for the European Neighbourhood Policy Action Plan seeks to consolidate the progress made by the current P3A, which is running as anticipated and is scheduled for completion in mid-2008. Provision has been made for a new stage, particularly since the crucial phase of implementation of the Policy Action Plan is approaching, which will require institutional support. A programme which functions "on demand" and promotes twinning arrangements and other adapted cooperation instruments, the 2PA will give priority to those areas of the Policy Action Plan which are not covered by the current NIP with specific projects in the fields of services, justice, freedom, security and migration.</i>	
<b>ENERGY AND THE ENVIRONMENT</b>	<b>€43 million</b>
<i>With a view to consolidating Tunisia's sustainable development policy, and as provided for in the European Neighbourhood Policy Action Plan, this programme could contribute to the following environmental objectives: (i) environmental upgrading of those firms which pollute most or which have a significant impact on the environment; this objective should also cover the hotel sector in view of its major impact on the environment and in particular on the coast and the sea (erosion, water pollution, protected areas); (ii) implementation of the water resources strategy; (iii) integrated solid waste management; (iv) environmental awareness-raising campaigns, including via NGOs; and, with regard to energy, (i) improvements to energy efficiency and promotion of renewable energy sources.</i>	

**2008**

<b>ECONOMIC GOVERNANCE / COMPETITIVENESS I</b>	<b>€50 million</b>
<i>Budgetary aid designed to make the economy more competitive. Although Tunisia has recorded high growth, it is characterised by low levels of private investment and job creation. The programme's components are as follows: (i) consolidating progress in macroeconomic and budgetary stabilisation and the reforms concerning governance, the public finances and administration, (ii) improving the business climate and enhancing private sector competitiveness to boost private investment and the number of business start-ups, particularly SMEs, which create the greatest number of jobs and (iii) restructuring and developing a competitive financial sector which is business-friendly (goods and services) and extends to microfinance so as to maximise the impact in terms of poverty reduction.</i>	
<b>MEASURES TO FACILITATE TRADE</b>	<b>€23 million</b>
<i>With a view to the creation of a Euro-Mediterranean Free Trade Area for industrial goods by 2010, the Tunisian authorities plan to conclude bilateral agreements known as ACAAs (Agreements on Conformity Assessment and Acceptance of Industrial Products) in the electrical, mechanical and electronic sectors. According to the available information, the project's specific objectives are (i) approximation with EU standards and rules (alignment of horizontal and sectoral legislation), (ii) putting the associated infrastructure in place (standardisation, accreditation, metrology, conformity assessment system and ex post market surveillance and (iii) support for signing an ACAA in priority sectors.</i>	

**2009**

<b>ENSURING THAT EDUCATION IS RELEVANT TO EMPLOYMENT / HIGHER EDUCATION</b>	<b>€65 million</b>
<i>Cohesion between various components of the education system, i.e. secondary schools, vocational training and higher education, needs to be improved in ways which reflect the labour market's requirements. The realities of the sector, including the mechanisms whereby students move from one component to another and labour market requirements are identified, do not allow pupils and graduates to change from one sub-system to another without facing regulatory and pedagogical barriers. The vocational training system is not achievement-oriented and higher education fails to match private-sector requirements. It is vital to improve cohesion (gateways between different system components, monitoring and observation) in view of the huge numbers of graduates coming onto the labour market in 2009.</i>	
<b>RESEARCH – INNOVATION</b>	<b>€12 million</b>
<i>The specific agreement for scientific cooperation concluded between Tunisia and the EU in June 2003 provides an appropriate framework for reinforcing scientific and technological cooperation between the two parties. This programme will take the form of technical assistance and twinning activities and will basically (i) provide back-up to the contact point for Community R&amp;D programmes, (ii) support activities designed to modernise research administration, (iii) consolidate development of the mobility policy for researchers and (iv) promote technological innovation. Part of the budget could be earmarked for a comparative evaluation (international cooperation and technological innovation indicators).</i>	

2010

**ECONOMIC GOVERNANCE / COMPETITIVENESS II**

**€77 million**

*Sectoral operation, private-sector support to increase competitiveness Although Tunisia has recorded high growth, it is characterised by low levels of private investment and job creation. The programme's components are as follows: (i) consolidating progress in macroeconomic and budgetary stabilisation and the reforms concerning governance, the public finances and administration, (ii) improving the business climate and enhancing private sector competitiveness to boost private investment and the number of business start-ups, particularly SMEs, which create the greatest number of jobs and (iii) restructuring and developing a competitive financial sector which is business-friendly (goods and services) and extends to microfinance so as to maximise the impact in terms of poverty reduction.*

The current NIP is to be subjected to a mid-term evaluation, scheduled to take place in 2008, which may result in new programmes being introduced and budget reallocation within the NIP in the light of recent experience and developments in Tunisia. The two parties are planning new private-sector support activities which would reflect the findings of the evaluation of the industrial modernisation project, developments in ENP/NAP and the new context of the Free Trade Area. This support operation for the private sector could be programmed in 2009 instead of 2010 as planned and, accordingly, the operation to ensure that education is relevant to the labour market would be postponed until 2010.

As is usual, as part of the appraisal work for the programmes, provision should be made for appropriate coordination with the Member States and the main donors. This coordination will also be reinforced by thematic sectoral working groups set up in Tunis with a view to enhancing complementarities and drawing on experience of previous cooperation.

**Operations are presented individually with reference to the NIP's priority areas:**

- **Economic governance, competitiveness and convergence with the EU:**  
ECONOMIC GOVERNANCE / COMPETITIVENESS, 2PA, MEASURES TO FACILITATE TRADE
- **Improved graduate employability:**  
ENSURING THAT EDUCATION IS RELEVANT TO EMPLOYMENT / HIGHER EDUCATION
- **Sustainable development:**  
ENVIRONMENT – ENERGY, RESEARCH – INNOVATION

## **6.2 Economic governance, competitiveness and convergence with the EU**

### **A) ECONOMIC GOVERNANCE, COMPETITIVENESS**

#### **Background and rationale**

Tunisia is strongly committed to modernising and liberalising its economy and to integration with the EU, as laid down in the AA and the NAP approved in July 2005. New reforms involving the administration and public finances and the more specific reforms associated with implementation of the NAP have complemented the structural reforms launched by the State (business environment and financial sector).

Tunisia's macroeconomic performance is good, notwithstanding an unfavourable international environment (rapidly rising oil prices and low demand on the EU market). Thanks to appropriate macroeconomic policies, in 2005 Tunisia managed to keep inflation at around 2% and to bring down the current account deficit to 1.8% of GDP and the budget deficit to 3%. However, in spite of this fiscal restraint, the IMF estimated the Tunisian State's borrowing requirement at some €1.2 billion per annum between 2007 and 2009. This suggests that the pace of reform should be speeded up and adjustment costs incurred to reduce the public debt burden, which continues to give cause for concern and is significantly larger to that of comparable countries (BBB rating)

Although Tunisia has recorded fairly high growth (in excess of 5% of GDP since 2003), this is not enough to absorb new entrants into the labour market (to do so, it would have to exceed 6.5% of GDP) and it is characterised by low levels of private investment (14% of GDP). The competitiveness of the economy should therefore be increased by improving the business environment and deepening liberalisation so as to promote private and foreign investment, business start-ups and job creation.

Growth and competitiveness of businesses are also constrained by the fragility and low productivity of the banking sector, which is characterised by a significant public-sector presence, a large portfolio of non-performing loans and low profitability levels resulting from reduced productivity and a focus on a few large (public-sector, export) companies to the detriment of SMEs, which are regarded as non-viable.

The Commission intends to support (i) extension of the State's reform programme to include governance, public finances and administrative reform and (ii) deepening of structural reforms (private-sector and financial-sector environment).

#### **Objective**

Improving governance and making the public administration more efficient and the economy more competitive.

#### **Expected results**

In the light of the appraisal's results, the programme will aim to achieve a coherent and limited number of the following objectives:

- A balanced macroeconomic framework which is conducive to growth and economic integration with the EU;
- Modern, transparent, efficient target-based planning and management of public finances and consolidation of the regulatory framework for auditing;
- An increase in private, domestic and foreign investment (in value terms and as a percentage of total investment);<sup>7</sup>
- A simplified, transparent and incentive-based institutional, legal and regulatory system for private-sector development which promotes alignment with the EU;
- A sound, efficient and effective financial sector which meets the needs of business operators, including SMEs and micro-enterprises.

### **Performance indicators**

- Main macroeconomic and public-finance variables (growth rate, inflation, current account balance, public finances and the public debt, etc.);
- Number of new jobs created, trends in the number of persons seeking work and unemployment;
- Ratio of private investments to GDP, growth (in absolute terms and as a percentage of FDI and business start-ups); Remaining barriers to investments (administrative authorisations, licences, legal monopolies);
- Implementation of goal-oriented budget management and alignment of inspection and internal/external audit standards and methods applicable to public finances;
- Number and value of public/private partnerships implemented, concessions included, and number of State enterprises which have been restructured and/or privatised;
- Number and value of restructured or privatised companies and bank consolidations.

### **Short description of programme**

The choice of instruments and the specific reforms which should be aided will be made with reference to the guidelines and joint priorities laid down in the NAP. Dialogue with the Tunisian side should be continued and intensified. The conditions associated with disbursement and the related practical arrangements will reflect the Commission's methodology for budgetary aid, the lessons learnt from evaluations of previous programmes and, in particular, the requirement for a sectoral focus so as to ensure that aid is more effective.

As in the past, support activities for reforms to improve economic governance and competitiveness will be tightly coordinated with the World Bank and ADB.

The two parties are also planning new private-sector support activities which would reflect the findings of the evaluation of the industrial modernisation project, developments in ENP/NAP and the new context of the Free Trade Area.

### **Indicative budget: €127 million**

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<sup>7</sup> Implementing the Euro-Mediterranean Enterprise Charter in Tunisia and developing a regional dialogue based on exchanges of good practice is a medium-term priority.

## **B) NEIGHBOURHOOD ACTION PLAN SUPPORT PROGRAMME (2PA)**

### **Background and rationale**

The support programme for the implementation of the Association Agreement (P3A) between the EU and Tunisia is due to end at the beginning of August 2008; the abolition of customs barriers will not have been completed by that time. Tunisia will have to make further efforts to continue modernising and adapting its administration so as to implement the NAP and benefit from it, a decision having been taken to make this an additional stage of integration into the Euro-Mediterranean area.

In regional terms, the main features of the current period are the launch of the Agadir Agreement, which benefits from an EU aid programme of €4 million, and the end of the transition period, at the start of 2005, for the total dismantling of customs duty for all goods between the 17 countries of the Greater Arab Free Trade Area. These two developments give grounds to hope for a significant upturn in South-South trade. More open markets are a factor which stimulates FDI. Approximation of Euro-Med regulations and EU common standards should also facilitate economic and trade integration between the Mediterranean partners.

Tunisia is continuing to modernise its private sector and public administrations: insurance, banking, road, sea and air links, and the social sector on the one hand, and customs, foreign trade, phytosanitary and veterinary control, the land system, statistics etc. on the other.

In the space of two years (2005 and 2006) the full amount of the P3A operational fund was committed, and 75% of the twinning schemes planned for 2005 have already received funding. The progress made with the P3A demonstrates that there is a strong political will to ensure that Tunisia is well placed to benefit from increasing economic integration with the EU and suggests that a very high utilisation rate of funds should be achieved in future.

### **Objective**

The **general objective** is to work for the success of the partnership entered into with the European Union by supporting the Tunisian authorities' efforts to implement all the components of the NAP. The **specific objective** is to support the Tunisian authorities and all public institutions involved in implementing the NAP by providing them with the expertise, technical assistance and instruments necessary to achieve the objectives associated with institutional support to the structures responsible for implementing the NAP.

### **Expected results**

An operational fund should be made available to Tunisian Government which can be used in a flexible way to achieve the objectives laid down in the different components of the NAP and the FTA.

The results could be as follows:

- consolidation of economic integration with the EU market;

- continuation of legislative and regulatory reform, in particular by adopting and implementing parts of the set of European measures, depending on the sectors concerned;
- modernisation of public institutions so that they can implement the provisions of the NAP relevant to them in an efficient manner which benefits Tunisia;
- checks on social adjustment and sustainable development associated with the entry into force of the FTA.

### **Performance indicators**

- amended or passed legislative and regulatory texts, and implementing texts published;
- number of modernised public institutions;
- variation in FDI between the start and end of a project;
- variation in persons seeking work in terms of numbers and by category;
- trends in trade, overall and broken down by sector.

### **Short description of programme**

The proposed instrument to achieve the desired objectives is a neighbourhood action plan support programme (2PA). It will function “on demand”, like its predecessor, P3A. The 2PA will give priority to areas of the Policy Action Plan, and particularly to those areas which are not covered by the current NIP, with specific projects on services, justice, freedom, security and migration. Use of public expertise will be promoted through twinning schemes, but also through all the cooperation instruments which can be mobilised in the light of requirements. The scope of twinning schemes may be extended beyond the guidelines for developing the FTA to cover all priorities featured in the programme.

**Indicative budget:** €30 million

## **c) TRADE FACILITATION**

### **Background and rationale**

In order to take advantage of the business openings resulting from the creation of a Euro-Mediterranean Free Trade Area for manufactured goods by 2010, it is vitally important to establish bilateral agreements on checks and conformity recognition or ACAAs (Agreements on Conformity Assessment and Acceptance of Industrial Products). To that end, it has been decided to implement an action plan in the Mediterranean countries concerned, the main features of which are:

- alignment of horizontal and sectoral legislation, and
- Institutional organisation and modernisation of the associated infrastructure (standardisation, accreditation, metrology, conformity assessment system and ex post market surveillance).

Several measures have been taken since:

- amendments to the Accreditation Act and its implementing decrees to make the National Accreditation Council financially and legally independent;
- preparation of a bill on standardisation which aims to make standards voluntary;
- first launch of harmonised standards covered by the low voltage, EMC and machinery Directives (pending adoption in 2005);
- draft bill on general product safety (being drafted by the Ministry of Trade);
- preparation of a draft action plan for implementation of the Palermo Action Plan (negotiations for an ACAA in the electrical and mechanical sectors to be launched before end-2007).

In addition, technical assistance is already being provided to the Ministry of Industry in the form of the industrial modernisation programme. The pilot sectors which the Tunisian authorities are considering for the ACAA are the electrical, mechanical and electronic sectors. The chemicals and construction industries may also be included.

### **Objective**

The project's specific objective is to facilitate access by Tunisian industrial goods to the European single market through:

- approximation with EU standards and rules (alignment of horizontal and sectoral legislation);
- institutional organisation and modernisation of the associated infrastructure (standardisation, accreditation, metrology, conformity assessment system and ex post market surveillance) on the basis of existing public and private structures with a view to developing synergies, clarifying respective mandates and eliminating potential conflicts of interest;
- negotiating and signing an ACAA in priority sectors.

### **Expected results**

The electrical, electronic, mechanical and chemical sectors should be prepared for the signing of bilateral agreements known as ACAAs.

### **Performance indicators**

- Transposal of standards in the selected sectors;
- Monitoring of standards;
- European and international recognition of an accreditation body in Tunisia;
- Organisation and modernisation of a metrology system which meets international standards;
- Approximation of horizontal and sectoral legislation in the selected sectors;
- Active involvement of Tunisia in international and European standardisation bodies;

- Modernisation of administrative departments with all the necessary resources to be nominated as notification authorities;
- Organisation and modernisation of public and private accredited laboratories with all the necessary resources to be nominated as notification authorities;
- Modernisation of market supervision system.

### **Short description of programme**

There are two possible forms of support:

- direct assistance with analysis of law, and
- indirect assistance in the form of funding for measures.

Specific measures should be based on any shortcomings detected.

EC budget: €23 million

## **6.3 Improved graduate employability**

### **D) ENSURING THAT EDUCATION IS RELEVANT TO EMPLOYMENT / HIGHER EDUCATION**

#### **Background and rationale**

For several years the education sector has been implementing major reforms to improve the quality and effectiveness of training and, accordingly, increase employability among graduates and the highly qualified. Clear, targeted development strategies were produced as part of the 10th Plan and the 2004-2009 Presidential Programme.

However, the educational system remains dysfunctional in terms of cohesion between the various components of the education system, i.e. secondary schools, vocational training and higher education are out of sync with the labour market's requirements. More specifically, the mechanisms whereby students move from one component to another and labour market requirements are identified do not yet allow secondary-school pupils and graduates to change from one subsystem to another without facing regulatory and pedagogical barriers; the lack of information on the labour market and intermediation are also a problem. While the MANFORM reform has refocused the vocational training system on economic requirements, gateways between higher education and private-sector demand are still at an embryonic stage. Shortcomings remain in monitoring systems for graduates in particular and in systems for assessing skills and qualification requirements for each activity, industry and business sector. It is urgent to improve cohesion between higher education, vocational training and the private sector and should be regarded as a strategic priority in view of the huge numbers of graduates of higher education and vocational training courses who will come onto the labour market in 2009.

## **Objective**

Ensuring better cohesion between the educational and training systems and the labour market, in particular by:

- improving the quality of higher education and making young graduates more employable;
- implementing the system of gateways provided for in the reform programme for education subsystems;
- preparing a regulatory and pedagogical system which can improve cohesion between the various components of the education system;
- identifying and putting in place mechanisms to consolidate and monitor gateways (accreditation, certification, monitoring bodies, etc.) which reflect labour market needs;
- consolidating systems for observing and monitoring graduates of higher education and vocational training courses and for sectoral coordination which reflect labour market needs.

## **Expected results**

- Number of graduates, reduction in numbers dropping out, cohesion between the choice of study disciplines available and market requirements;
- A specific, accessible regulatory and pedagogical system to consolidate gateways;
- Operational mechanisms to consolidate and monitor gateways, particularly between vocational training and public and private higher education;
- A more intensive process of decentralisation, autonomy and regional equity in the field of higher education and vocational training;
- Better governance in universities and in vocational training agencies, sector-specific centres and one-stop-shops;
- Adapted operational mechanisms to consolidate graduate employability;
- Better teaching in universities which meets international standards;
- Greater coordination between higher education, vocational training and the private sector;
- Contribution of companies and trade associations (particularly those working with SMEs) to developing and managing human resources, identifying needs and levels of skills and targeting growth sectors of the economy.

As part of the education component, provision may be made for joint financing with the EIB.

## **Performance indicators**

- Percentage of pupils guided toward vocational training and from vocational training toward higher education;

- Rate of insertion into the labour market of graduates using gateways between higher education and vocational training;
- Capacity of university observatories;
- Number of graduates of vocational training courses;
- Training capacity of the private sector and distance learning;
- Number of persons entering education subsystems via gateways.

### **Short description of programme**

The aim is to create synergies between the departments in charge of secondary education and vocational training within the Ministry of Education and Training, between those departments and the Ministry of Higher Education and Scientific Research and between those two ministries and the Ministry of Labour. Coordination between those bodies and trade associations (businesses) will be intensified and systematised. A further specific aim is to promote reform of the higher education system.

The most appropriate operational arrangements (in terms of the number and type of operations) to achieve the aforementioned objectives and results will be spelt out during the identification and appraisal phases, taking due account of the Commission's involvement in sectoral approaches to secondary and higher education and vocational training.

EC budget: €65 million

## **6.4 Sustainable development**

### **E) ENVIRONMENT-ENERGY**

#### **Background and rationale**

Notwithstanding the significant work carried out by Tunisia on environmental protection, the negative ecological effects caused by the intensified use of natural resources (water, soil, coast) associated with economic development remain the country's most serious environmental problem. The World Bank estimates that the costs of environmental deterioration are equivalent to around 2.1% of GDP.

The NAP provides for a number of measures, such as:

- aid for the provisions on sustainable development contained in the Eleventh Plan;
- incorporating the environmental dimension into other sectoral policies in Tunisia;
- improving energy efficiency and promoting renewable energy sources;
- promoting good environmental governance;
- preventing and combating deterioration of the environment, protecting human health and encouraging the rational use of natural resources, in line with the Johannesburg Summit undertakings;
- enhancing and boosting cooperation on environmental issues.

## Objective

With a view to consolidating Tunisia's sustainable development policy and as provided for in the NAP, this technical and institutional support programme is designed to contribute:

- in the environmental field (i) to environmental upgrading of those firms (exporters) which pollute most or which have a significant impact on the environment; this objective should also cover the hotel sector in view of its major impact on the environment and in particular on the coast and the sea (erosion, water pollution, protected areas); (ii) to implementation of the national water resources plan; (iii) to integrated solid waste management; (iv) to environmental awareness-raising campaigns, including via NGOs;
- and, with regard to energy, to improvements to energy efficiency and promotion of renewable energy sources.

## Expected results

Environmental upgrading of companies;

- Reduction in the harmful environmental impact of industrial activities.
- Reducing consumption of energy, water and other raw materials in industrial plant by using new technology.
- Acquisition of know-how on management of the industrial environment.

Implementation of the water resources strategy

- Improved water quality.
- The needs of the different sectors (agriculture, local government, industry) will be covered in ways which take account of the country's actual resources.

Solid waste management

- Organisation of waste industries (taking account of the life cycle of waste).
- Increased private sector involvement in waste processing and recycling.
- Institutional support for the national waste management agency, particularly with a view to awareness-raising campaigns.
- Implementation of the landfill strategy.

The Commission is funding a study into the development of private sector involvement in waste management, the recommendations of which may receive support. Provision may be made for an interest-rate subsidy by the EIB<sup>8</sup> or other financial intermediaries under this component.

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<sup>8</sup> Annex 10 sets out the arrangements governing EIB assistance for implementation of financial cooperation with the Mediterranean partner countries.

#### Environmental awareness-raising campaigns

- Active involvement of environmental NGOs in awareness-raising campaigns.

When the environmental operation is identified and appraised, account will taken of the involvement of other donors in the various sub-sectors<sup>9</sup> and of the need to achieve the critical mass necessary to guarantee the operation's success.

#### Energy efficiency

- Contribution to energy management and efficiency.

### **Performance indicators**

#### Environmental upgrading of companies

- Indicators showing a reduction in pollution (air, water, soil) by the companies which pollute most.
- Reduced consumption of energy, water and other raw materials.
- More companies involved in acquiring know-how on management of the industrial environment.

#### Implementation of the water resources strategy

- Water quality indicators show a clear improvement in quality by comparison with 2006.
- Water utilisation percentages for the various sectors are more balanced.

#### Solid waste management

- Organised waste industries (taking account of the life cycle of the waste).
- Involvement of more private-sector companies in waste processing and recycling.
- Support for an increased number of information activities by the national waste management agency.
- Completion of preparatory work for an increased number of landfills.

#### Environmental awareness-raising campaigns

- Implementation of an increased number of awareness-raising campaigns with the involvement of environmental NGOs.

#### Energy efficiency

- Institutional support and TA to the main agencies and structures concerned.

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<sup>9</sup> Not all will necessarily be selected.

### **Short description of programme**

Among the actions which could be examined are:

Support for **environmental upgrading of the companies** which pollute most or which have a significant impact on the environment could target specific sectors (e.g. tourism, tanneries) and focus efforts on natural resources (water, air, soil).

Implementation of the water resources strategy could be supported by measures to consolidate the bodies responsible for water quality, including issuing permits and carrying out checks and inspections. Other measures could assist activities to promote optimal water management by the largest consumers.

**Integrated waste management** could receive support for the organisation of the waste industries and activities to promote private-sector involvement. Institutional support for the national waste management agency, particularly its awareness-raising campaigns, could also be envisaged. Assistance could also be given to preparatory work for the closure and rehabilitation of unauthorised landfill sites and the creation of landfills meeting environmental standards. Increased private-sector involvement could create 150 000 new jobs entailing more than €210 million of private investment.

As regards use of renewable energy sources and **energy efficiency**, there is significant potential in Tunisia for the development of wind and solar energy. Another priority is to improve the energy efficiency of electricity networks and companies.

Priority could be given to **environmental awareness-raising campaigns**, including via NGOs.

The programme would take the form of institutional support with technical assistance and/or twinning schemes, participation in an aid fund and, if appropriate, an interest-rate subsidy in the field of solid waste. The most appropriate operational arrangements (in terms of the number and type of operations) to meet this criterion and achieve the aforementioned objectives and results will be spelt out during the appraisal phase.

As part of the appraisal work for the programmes, provision should be made for appropriate coordination with the Member States and the main donors. In particular, the German aid agency has been working in the environmental and energy fields for several years and has acquired a wealth of technical and institutional experience. Coordination will also be ensured by the “Infrastructure, Environment and Natural Resources” thematic working party chaired by Germany and co-chaired by Spain.

**Indicative budget: €43 million**

## **F) RESEARCH AND INNOVATION**

### **Background and rationale**

Since 1996 Tunisia has had a national R&D system consisting essentially of laboratories and research units which are often dynamic and help to generate knowledge and a pool of advanced skills in the science field. However, international cooperation and technological innovation indicators are still below the strategically anticipated results.

Accordingly, a number of mechanisms and measures have been put in place to stimulate international cooperation, particularly with Europe, and technological innovation.

Commission support could lay the foundations for ongoing scientific and technological cooperation which will promote the setting-up of innovative businesses with wealth-generating potential and the capacity to create sustainable, well-paid jobs for young graduates. This would give a new dynamic to Euro-Mediterranean trade and go some way towards resolving delicate issues such as emigration and the movement of persons.

In addition, the specific agreement for scientific cooperation concluded between Tunisia and the EU in June 2003 represents an important stage in the development of scientific and technological cooperation between the two parties and constitutes an appropriate framework for reinforcing this cooperation as provided for in Article 47 of the AA.

### **Objectives**

- To increase participation by Tunisian researchers in European research and innovation programmes and projects, particularly as part of the 7th Framework Programme for R&D.
- To get Tunisian businesses involved in research and innovation through partnership projects with Tunisian and European research structures.
- To develop technical and management skills of relevance to international research and innovation programmes and projects involving business structures.
- To improve Tunisia's image abroad as a competitive location for the production of innovative, hi-tech goods.
- To encourage Tunisian researchers to return permanently to their country of origin.

### **Expected results**

The progress made as a result of the national research and innovation strategy, particularly as regards international cooperation and technological innovation, should be reinforced. The following results can be anticipated:

- Improvement in international scientific cooperation indicators.
- Improvement in technological innovation indicators.
- Intensification of scientific and technological cooperation with European countries in sectors of mutual interest.

- Increased Tunisian participation in Community R&D programmes and integration of the Tunisian scientific community into the European Research Area.
- Increased mobility of Tunisian researchers.

### **Performance indicators**

- Number of Tunisian researchers and research structures taking part in the 7th Framework Programme for R&D.
- Number of businesses taking part in the 7th Framework Programme for R&D.
- Number of twinning schemes between Tunisian and European institutions.
- Number of projects implemented in cooperation with research bodies and businesses.

### **Short description of programme**

The funds made available by the EC as part of this programme will take the form of technical assistance and twinning activities and will be used to carry out the activities indicated below for guidance purposes. Part of the budget could be earmarked for a comparative evaluation focusing on the creation of international cooperation and technological innovation indicators.

- Consolidation of the national contact point for Community R&D programmes; Appropriate awareness-raising, advisory and training measures tailor-made to the potential participants.
- Modernisation of research management, identification of key sectors and twinning recommendations for institutions. Support for the interconnection of research structures.
- Development of mobility policy for researchers: measures to encourage Tunisian researchers to integrate into European research networks.
- Development of technological innovation by training administrators, activity managers and a targeted group of experts. Identification of specific downstream needs in order to promote innovation in the private sector.

Indicative budget: €12 million

## **6.5 Cross-cutting issues**

As in the previous programming exercise, the need to reduce inequality between men and women is an issue which the Commission will focus on when appraising cooperation programmes. Special attention will be given to women's and children's rights. Good governance, human rights, sustainable development and environmental protection are other cross-cutting issues which feature in all programmes. Poverty variables are to be monitored.