

# ASSESSING DEVELOPMENT STRATEGIES TO ACHIEVE THE MDGS IN TUNISIA

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Tunisia has sustained a good economic and social performance since the late 1990s by maintaining a stable macroeconomic framework, with implementing, very gradually, a number of key structural reform measures.

To manage its integration in the global economy and realize its long term development goal, Tunisia faces social constraints. For example, pressures are emerging in the labour market : as some firms facing foreign competition try to reduce their employment and as young graduates are not finding jobs easily. As a result, unemployment is expected to remain high in the five coming years (11 -13%).

Faster economic growth is required to achieve the XIth economic development plan(2007-2011) goals as well as the MDG's. In the next period, efforts will be intensified to achieve the dual goal of increasing rapidly living standards and reducing unemployment.

However, the achievement of faster growth depends on the economy's ability to realize higher private investments. Thanks to the sound macroeconomic management and appropriate social policies

# **I. Growth performance and macroeconomic management**

Tunisia has been one of the fastest growing economies in (MENA) since the 1990s. Today with a per capita GDP of about 8371 \$ (PPP). Tunisians have more than three times the real income their parents had 30 years ago, and all indicators of their social and economic wellbeing have improved significantly.

Almost all Tunisian children attend school compared to only 80 per cent for the MENA region

female labour participation is high in a regional context 26%.

life expectancy is higher than the average for both lower-middle-income and MENA countries.

In 2005, less than 4 per cent of the population lived in poverty, and inequality has dropped steadily

As a result of these social and economic achievements, the Tunisian middle class has expanded. This middle class has contributed to Tunisia's stability.

# Economic performance

- Tunisia's economic adjustment efforts started in 1986 when a decline in oil exports earnings and excessive public investment causes a balance payments crisis.
- Since then, prudent macroeconomic management and cautious structural reforms have helped sustain positive per capita income growth; declining inflation and a stable real exchange rate.
- Tunisia reduced the ratio of foreign debt to GDP, and consolidated its foreign reserve to improve it to more than 3 months of imports.

# ***Economic growth, Factor accumulation and Productivity***

- Between 1990 and 2006, the Tunisian economy grew at an average rate of 5.3 %,
- Factor accumulation and a significant total factor productivity growth have jointly driven Tunisia's growth performance.
- Capital, labour and TFP generated respectively 27.3%, 23.9%, 48.8% in 2006 and an average of 34.4%, 34.1%, and 31.5% during the period 1990-2006.
- Overall, Tunisia's Total Factor Productivity growth compares well with other countries in the MENA region, and even with fast-growing countries such as Korea and Chile.

# ***Sectoral Contributions to Growth***

The decomposition of GDP growth during the period 1990-2006 by Sectoral origins reveals four major trends.

1- First, the services sector (about 50% of GDP) has provided the largest contribution.

2- Second, the contribution of manufacturing to growth has also been larger than its share of GDP, although the share of manufacturing in Tunisia's GDP remains smaller than in fast growing countries.

3- Third, the growth contribution of the export-oriented sectors is limited by their low value added, which is due to a weak integration with the rest of the economy (this is notably the case in the textile and electromechanical equipment industries).

4- The fourth major trend is the large fluctuations in agriculture's contribution to growth. The impact of agriculture sector on GDP has been asymmetric: it is stronger during years of agriculture contractions than during years of agriculture expansions.

A 1 % decrease in agriculture causes a 0.25 % decline in overall GDP, while a 1% increase in agriculture generates an additional GDP growth of only 0.17 %.

This asymmetry originates from significant indirect effects produced by fluctuations of agriculture output on manufacture and services linked to agriculture.

## **Future Growth Prospects: The XIth economic development plan (2007-2011)**

The XIth economic development plan forecasts rely on a growth pace acceleration which is expected to reach an average of 6.1%. Faster economic growth could be driven by capital accumulation and productivity gains. The contribution of total factor productivity is estimated to increase to about 46.9%, compared to 42% during the last development plan (2002-2006) and 31.5% during the period 1990-2006, while the contribution of labour is estimated to decline to around 21.9% on average from about 28% during the period 2002-2006.

The possibility of a high growth scenario in Tunisia, depends critically on strong total factor productivity growth. In particular, a strategy to maintain and increase total factor productivity growth should include improvements in the macroeconomic policy environment.

Such a strategy should also encompass measures to increase the contribution of public administration which can improve its own productivity and also facilitate productivity growth in the private sector. In turn, this involves improving the environment for business development and cutting the costs of doing business.

## II. Macroeconomic management

Starting in 1986, when a fall in oil prices precipitated a balance of payment crisis, the authorities have followed consistent stabilization policies and adopted gradual adjustment measures.

The fiscal deficit has been reduced through a combination of expenditure restraint and revenue measures.

Monetary aggregates have been better controlled.

The exchange rate has been managed flexibly, while maintaining overall real stability.

As a result, inflation has been significantly reduced at around 3 percent. The external position (current account balance, foreign currency reserves and external debt) has also improved considerably.

# ***1. Financial balances and External sustainability***

- The safeguarding of financial balances benefited from detailed attention during the 1990-2006 period, taking into account the projections of continued deregulation of the economy, in particular, with the introduction of the free trade zone with the EU in 2008 which affected the State budget, and the balance of payments.
- promote exports which registered an average increase of 6% per annum in constant terms. This evolution allowed for the reduction of the current deficit which passed from 5.8% of GDP during the 8th Plan 1992-1996 to 3.5% of GDP during the 9th Plan and to 2.5% over the period of the 10th Plan.

By various indicators, Tunisia is a « moderately » indebted country. Total external debt was estimated at 19876 MD as of end 2006, equivalent to 46% of GDP and down from about 52% of GDP in the early 1990s. The debt service ratio payment of principal and interests as a share of exports of goods and services is about 19% at the end of 2006 versus an average of 25% in 1990s.

To ensure that external balances remain sustainable in the future

- It is encouraging export development (through the *mise à niveau* Program) and foreign direct investment (including through privatization).
- It is also trying to deepen the domestic financial markets to ensure adequate budgetary financing from domestic sources.
- Third, Tunisia is strategically managing its resort to international capital markets to consolidate its past record as a good credit risk able to borrow at the low of emerging market spreads.

In the medium term, the main risk to Tunisia's external outlook would come from a failure of this three-pronged strategy.

A serious deterioration of external balances as could be brought about by a concurrent surge in imports from the EU after 2007

A drop in exports because of weak international demand and domestic competitiveness, or

A drop in foreign direct investments.

## **2. Social Policy and MDG achievement**

### **2.1 Social policy in Tunisia since the 1990s**

Incomes benefited from continuous monitoring during the period 1997-2006 reflected through the continuation of social negotiations, the revision of collective agreements, the reform of the remuneration scales, the revision of the minimum wage in addition to the amendment of the labour code and the introduction of more flexibility into the industrial relationships in order to support a peaceful social climate.

- During this period, the purchasing power of minimum wage workers was preserved thanks to the many revaluations of this wage category (18 times since 1990).
- At the same time, the average purchasing power increases about 2 points annually over the period 1990-2006.

- particularly, welfare transfers which doubled between 1996 and 2005, to reach 7214 thousand Dinars versus 3377 thousand Dinars in 1996, which corresponds to welfare transfers for each household at 275 Dinars monthly in 2005 compared to only 173 Dinars in 1996.

- The results recorded in terms of wages, incomes and welfare transfers reflected positively on living conditions. As shown by the decrease of the poverty rate to around 3.8%, the fall of the rate of rudimentary houses from 2.7% in 1994 to 0.8% in 2004, and the improvement of the rate of households ownership which rose to 80%.

In parallel, the indicators inherent to the utility services clearly improved:

1-the rate of drinking water supply in the rural zones reached 89.9% in 2005 versus 68.3% in 1996,

2-the rate of electrification in rural zones was for its part in 98% versus 75.7%,

3- the rate of connection to the sewer system reached, on its side, 79.7% versus 62.6% during the same period.

4-In the same way, telephone density is passing from 6.4 lines per 100 inhabitants in 1996 to 68.2 lines in 2005. It has to be admitted that the noted evolution of the urbanization rate, which will probably reach 65.6% in 2006, contributed largely to the realization of these performances.

## 2.2 Progress towards MDGs achievement in Tunisia

- *Goal 1: Eradicate extreme poverty and hunger*

poverty is determined on the basis of surveys on budgets, consumption expenses and the living standard of households. On the basis of this indicator, poverty has considerably regressed in Tunisia since 1980. Different surveys indicate that, in absolute terms, the number of poor has gone down relatively quickly from 823 thousand in 1980 to 399 thousand in 2000.

- As for the situation in urban and rural areas up to 1980, the categories of poor populations were concentrated in rural areas, representing at that time 62.3% of the total population of the poor. In 1990 the trend started to change and to gain in amplitude. In urban areas the number of poor was 354 thousand, i.e. 65% of the total number. The proportion was about 69% in 1995 and 74% in 2000.
- The rate of poverty was 4.2% in 2000, against 6.7% in 1990 and 12.6% in 1980.

As for extreme poverty, the portion of the population with less than a Dollar a day to spend went down from 1.5% in 1990 to 0.5% in 2000.

As for the population with less than two Dollars a day to live on, the percentage stabilized at about 6.7% in 2000 against 11.1% in 1990.

Gini's1 index calculated on the distribution of household's consumption expenditure remained at about 0.4 and the portion of expenditure of each of the two poorest deciles increased only marginally. Between 1990 and 1995, Gini's coefficient for the urban area deteriorated slightly but remained unchanged for the rural area. In contrast, between 1995 and 2000, Gini's coefficient deteriorated slightly in rural areas and remained unchanged in urban areas.

- Gini's index masks a disparity in the structure. The national survey on households budgets and consumption in 2000 shows that the richest 20% account for 47.3% of the total consumption, whilst the poorest 20% account for only 6.9% of the total, consumption.
- Furthermore, the average expenditure of the richest 10% represents 6 times more than the average expenditure of the poorest 10%.

*Goal 2: Achieve universal primary education Education for all*

- Tunisia in the last forty years has deployed efforts to progressively consolidate the goal of education for all. The State continued to devote an average of 6% of the GDP to education.

- A number of dysfunctions were noted which persisted until the beginning of the 1990s when a second reform was introduced.
- The reform of the education system, anchored by the July 1991 law, aimed to adapt the school to the great changes which had taken place in the country's economic and social structures, and also to guarantee 9 years basic education for all children from 6 to 16 years old.
- Better results were achieved as there was a lower dropout rate and a higher level of schooling of the children aged from 6 to 12 years. Regional results, however, still show disparities which need to be highlighted

- The number of illiterate persons was deemed to be too high in view of the efforts deployed in the sphere of education and this led to the adoption in 2000 of the National Adult Education Programme with more resources being allocated to this domain.
- According to the last results of the general census on population and housing published in 2005, 22.9 percent of the population aged 10 years and over is illiterate. The Literacy rate for young aged 15 to 24, estimated at 94.4% in 2000 on a national level dropped considerably in the last two decades.

- Goal 3: Promote gender equality and empower women

Since independence, Tunisian legislation has helped to promote women, and to ensure the durability and irreversibility of their acquired rights. Hence the different amendments, firstly, to the personal status code promulgated in 1956 and modified in 1993 and to the other codes deemed to be essential to the establishment and anchoring of equality between the genders, such as the nationality code, the labour code and the penal code. These revisions aimed to expurgate all forms of discrimination against women from the said codes.

### **Goal 4: Reduce Child Mortality**

- The significant drop in child mortality in Tunisia resulted not only from the means used to promote the health policy but also from the various changes in Tunisian society.
- Improvement in living standards was indeed a determinant factor in reducing infant mortality which dropped from 37.3 per thousand in 1990 and 30.5 per thousand in 1995 and finally 22.1 per thousand in 2002.
- These overall satisfactory results however, must not obscure the gap which separates Tunisia from the other developed countries (10 per thousand in the OECD countries in 2004) as well as the disparities between rural and urban areas. Child mortality in rural areas is double that of urban areas.

## ***Goal 5: Improve maternal health***

- The rate of maternal mortality was estimated at 120 per 100 thousand births in 2000 against a rate of 170 per 100 thousand in 1990. The evolution rate of maternal mortality does not, however, make it possible to attain the objective of reducing this rate by three quarters between 1990 and 2015. A national strategy to reduce maternal mortality had been set up since 1998. This strategy made it possible to set up a maternal deaths monitoring system.

## *Goal 7: Ensure environmental sustainability*

- Great efforts were deployed by adopting regional development strategies to improve the living conditions of the households through access to basic public services such as drinking water, electrification, health services, sanitation and education.

According to the general census of population, households who access to safe drinking water in 2004 attained 97.7% of the total households and 84.6% in rural areas. But regional statistics showed up notable disparities with 10% of the population in the North West and Centre West with no access to drinking water.

## Conclusion

Tunisia is going to attain, or even go beyond, the different Millennium Development Goals.

1. In 1990 the rate of poverty was 6.7% and is expected to be below 2% in 2015.

2. The objective of primary education for all children has been nearly attained. The reduction in the dropout rate will make it possible to resorb the 1.2% of pupils who do not complete their primary education.

3. The objective of eliminating gender disparities in primary and secondary education by 2005 and at all levels of education by 2015" has already been attained by Tunisia in 2000.

4. The efforts deployed to vaccinate children could result in a considerable reduction in child mortality and even go beyond the objective of reducing child mortality by two thirds between 1990 and 2015.

5. maternal mortality is the only indicator whose projections for 2015 are relatively pessimistic, with an achievement rate of 70%. Despite the progress made in reducing maternal mortality and despite all efforts to improve the indicators for perinatal care, the results still show some regional disparities.

6. Tunisia has for several years integrated the principles of sustainable development into its national policies and endeavored to inverse the depletion of environmental resources and to improve the environmental conditions of the populations so that 94% of the total population now has lasting access to drinking water.