

JBIC Signs ODA Loan Agreements with Tunisia

--Support for the Development and Management of Water Resources and the Strengthening of Industrial Competitiveness--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed ODA loan agreements on March 30 in the amount of 11,537 million yen to the Republic of Tunisia. The loans will fund the Water Saving Agriculture Project in Southern Oasis Area and the Private Investment Credit Project.
2. Tunisia is making the transition from being a middle-income country to an upper- middle-income country, and its 11th Five-Year Economic and Social Development Plan (2007 - 2011) is designed to bring further economic growth, higher per capita income, a lower unemployment rate, and better environmental protection. This plan gives the highest priority to strengthening industrial competitiveness, human resource development and employment creation, and names the development and management of limited water resources and the reinforcement of environmental protection as important issues. These ODA loans will contribute, in the first year of this Plan, to the attainment of the important goals of economic development and protection of water resources.
3. Main features of the loans
 - (1) Support for the development and management of limited water resources
Since the preservation of limited water resources is one of the most important issues in southern Tunisia, which is adjacent to the Sahara Desert, the government of Tunisia has been making preferential investments in this field until now. The largest use of water throughout Tunisia is for irrigation agriculture. The government is promoting the practice of water-saving irrigation agriculture in anticipation of future water shortages. JBIC is providing support for the Water Saving Agriculture Project in Southern Oasis Area in order to contribute to preservation of Tunisia's water resources and to increase in its agricultural production.
 - (2) Support for the strengthening of industrial competitiveness--a new field for JBIC
On the eve of the tariff dismantling with the European Union (EU), Tunisia is in need of strengthening its industrial competitiveness and maintaining sustainable economic growth by means of supporting small and medium-sized enterprises (SMEs).
As SMEs are expected to become the engine of Tunisia's economy, JBIC will assist to facilitate their access to financing. Through the Private Investment Credit Project, JBIC provides medium- and long-term financing, which will enhance the ability of Tunisia's financial institutions to provide funds to SMEs. The project aims at promoting financial activity in Tunisia, reinforcing the international competitiveness of Tunisia's SMEs, and creating new employment opportunities.

(Click here for details)

Reference

Loan Amounts and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment period / Grace period (Year)	Procurement
Water Saving Agriculture Project in Southern Oasis Area	5,260	1.5	25/7	General Untied
Private Investment Credit Project	6,277	0.9	15/5	General Untied
Total	11,537			

(1) Water Saving Agriculture Project in Southern Oasis Area

This project aims to secure stable irrigation water, by developing terminal irrigation and drainage channels in the oasis in South Tunisia, thereby contributing to increase in agricultural production and environmental protection through efficient exploitation of water resources.

Southern Tunisia is an arid region, and the oasis agriculture has been performed with fossil ground water which is pumped up from a depth of two to three kilometers. The primary agricultural product of this region is the date palm.

As the recharge of this fossil ground water is extremely difficult, periodical monitoring is conducted to watch over the volume of exploitation as an attempt to conserve water resources under joint management by Tunisia, Libya and Algeria. However, due to inadequate maintenance and repair of intake facilities and the irrigation network, the establishment of an efficient irrigation agriculture system has lagged behind. As the effective utilization of irrigation water is expected to increase agricultural productivity and conserve water resources, the construction of terminal irrigation and drainage channels in the region is an urgent issue.

JBIC implemented the project for "Improvement of Irrigation Perimeter in Oasis in the South," signed in 1996 to provide assistance in developing irrigation and drainage network in some parts of this irrigation area. The project consequently brought about the improvement of efficiency of irrigation water usage. However, to execute more effective, efficient water-saving irrigation, it is necessary to improve the irrigation efficiency by expanding the areas equipped with irrigation facilities.

The proceeds of the loan will be used for the construction of terminal irrigation and drainage channel facilities, procurement of the necessary equipment and materials and consulting services (detailed design, tender administration support, project supervision, etc.).

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(2) Private Investment Credit Project

This project aims to promote the creation and expansion of Tunisia's small- and medium-sized enterprises through provision of medium- and long-term finance at a low interest rate, thereby contributing to the development of SMEs' productive capacity, improving Tunisia's industrial competitiveness and promoting new employment opportunities.

More than 90% of the enterprises in Tunisia are SMEs. Those SMEs have only limited capacity in technical, financial and managerial domains, and their international competitiveness is still insufficient. In particular, the Tunisian textile and clothing industry is locked by fierce competition with emerging economies, such as China, following the expiration of the Multi-Fiber Agreement. Additionally, the establishment of free trade zone with EU, which is expected in 2008, will result into a more intense competition due to an influx of foreign products. In this context, Tunisian SMEs in manufacturing sectors need to invest more in new equipment and quality improvement in order to generate highly value-added products and reinforce their international competitiveness. Moreover, SMEs in service sectors are also expected to contribute to Tunisia's economic growth, as those in tourism and IT service industries have been newly created and rapidly expanded. On the other hand, regarding the financial sector, Tunisian banks have been struggling to resolve their non-performing loans. Due to weak credit administration, commercial banks are at present unable to respond adequately to SMEs' demands for finance.

Under such circumstances, the Government of Tunisia has been operating the "Upgrading Program" since 1995 with the objective of enhancing the international competitiveness of SMEs. The 11th Five-Year Development Plan also places the Government's focus on investment improvement, employment creation and reinforcement of international competitiveness for the period of 2007 and 2011. As a consequence, it is necessary, through the provision of financing, to strengthen the international competitiveness of SMEs, create new employment opportunities, and thus improve the employment situation.

The proceeds of the loan will be used to provide medium- and long-term financing of new investment to SMEs as well as consulting services (support for the execution and supervision of proposed projects by the executing agencies, etc.).

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