Feasibility study on
Capital Market and Financial System Development to boost private sector in Tunisia

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Final Version

Acknowledgment

This study was conducted by Wiki Start Up at the request of the BMF through GIZ office in Tunisia. It summarizes the status of Tunisian financial system, through a compilation of recent expert studies and financial institutions reports, as well as the perception of critical issues and challenges affecting the private sector development in Tunisia, by a selected panel of executives and professionals interviewed for this purpose (see list in the appendix). The opinions expressed hereafter do not necessarily reflect the BMF or the GIZ point of view.

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Executive Summary

In Tunisia, the economic growth is mainly depending on state policy and dominated by the public sector, despite an image of an open economy. Thus, this situation places the private sector through a complex network of cross-ownership and market access restrictions. The state is present in several areas such as telecommunications, energy, transportation, and banking. And even more, in the major strategic fields such as fertilizers, mining, and construction materials.

Moreover, the Tunisian Financial System is much entangled with the public sector, with a wide domination of banking sector on investment policy in Tunisia. Thus, Tunisian money supply suffers from many issues mostly the lack of governance, weak capacity for bankers to assess risk, and more recently a serious shortage of liquidities due to a drastic increase of public treasury needs, in conjunction with a relatively high proportion of non-performing loans and the decline of the public savings.

The Tunisian capital market, which has traditionally played a marginal role in allocating financial resources to the productive economy, and the small size of the market, has given a rise to series of forces tending to prolong this situation. As a consequence of a lack of liquidity, new operators are discouraged to enter the market, leading to poor investment growth rates.

Therefore, a vicious circle has been created between the size of the market and its liquidity. Here, we observe the appearance of a locked development market leading to a low equilibrium level and a cap of the capital market's size curbing the need of the productive economy's real need.

This report intends to identify the main issues and weaknesses affecting the private capital flows, and concrete scope of interventions to help the Tunisian economy to recover through a better access to finance for private sector in general and SMEs in particular.

In summary, the major issues in the financial system binding the access to capital for private sector are summed up below:

- As a direct consequence of a weaknesses in risk management Few banking loans are oriented to SMEs despite they are contributing with 75% in the GDP growth.

- A growing non circulating monetary stock (hidden money) generated by long terms of payment, and high rate of inflation are deeply harming the economy competitiveness and Tax collection, in parallel with an expanding informal economy which could represent after the revolution close to 50% of the productive economy.

- Under-developed local financial markets with low attractiveness for SMEs and sporadic bonds issuance with scarce refinancing instruments. Tunisia scores in the lower range of market development according to EBRD's government bond market index, with virtually no secondary market liquidity and limited overall market development.

- No emergence of Private Equity industry as a consequence of regulatory and tax constraints in addition to banks domination on the financing scheme of private investment needs.

- Unfair competition and too much market distortions involving low investments flows and low rates of return, with a consequence on corporate governance.

- Heavy bureaucracy and tax burden imposed to SMEs that are more in a rationale of subsistence rather than growth.

- Negligible contribution of remittance to finance economic growth

As a prelude to any new development plan, Tunisian financial system needs an emergency plan to recover its sustainability and soundness. This obviously requires focusing on the private sector growth through a better access to capital and fair competition market. A stimulus package with an estimated budget of € 12.5 billion over the next 2 - 3 years is prescribed and justified in the next chapters. This is just enough to restructure and upgrade the financial system, considering that induced reforms has to be covered by specific programs and technical assistance provided by IFIs in the frame of the Transition Fund. Remains afterwards, the challenge of crafting and implementing a new social and economic development model, which is not yet clear for stakeholders at this stage.

Acronyms & Glossary

AFD	Agence Française de Développement
AfDB	African Development Bank
AIB	Association des Intermédiaires en Bourse
AMF	Arab Monetary Fund
ATIC	Association Tunisienne des Investisseurs en Capital
BFPME	SME Bank: Banque de Financement des Petites et Moyennes Entreprises
BTA	Bonds Equivalent to Treasury Bonds
BTCT	Short Term Treasury Bonds
BVMT	The Tunisian Stock Exchange: Bourse des Valeurs Mobilières de Tunisie
CBT	Central Bank of Tunisia
CFT	Cercle des Financiers Tunisiens
CMF	Financial Market Authority: conseil du Marché Financier
EBRD	European Bank for Reconstruction & Development
EIB	European Investment Bank
FDI	Foreign Direct Investment
FSAP	Financial System Assesment Project
FTUSA	Trade Association of Insurers: Fédération Tunisienne des Sociétés d'Assurances
GDP	Gross Domestic Product
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPO	Initial Public Offering
KfW	German Development Bank
LBO	Leverage Buy Out
MDB	Mediterranean Development Bank
MSME	Micro, Small & Medium Entreprise
MTD	Million Tunisian Dinars
NPL	Non Performing Loans
OPCVM	operating Mutual Funds Investing in Securities
OTC	Over the Counter
PE	Private Equity
SEMED	Southern and Eastern Mediterranean
SICAF	Société d'Investissement à Capital Fixe
SICAR	Société d'Investissement en Capital Risque
SME	Small & Medium Entreprise
SOTUGAR	Loans Guarantee Fund: Société Tunisienne de Garantie
STICODEVAM	Société Interprofessionnelle de Compensation et de Dépôt des Valeurs Mobilières
TCD	Tunisian Central Depository
TND	Tunisian Dinars
TSE	Tunis Stock Exchange
TUNINDEX (TUSISE)	Index performance for Tunisia Stock Exchange
TUNISIE VALEURS	A Tunisian leading Securities Broker and Asset Manager
VC	Venture Capital

Table of content

1. INTRODUCTION

1.1.1. BACKGROUND OF THE FINANCIAL SECTOR IN TUNISIA

The Tunisian financial sector was born after independence in 1958 with the nationalization of colonial banks, the creation of the Central Bank of Tunisia, the Tunisian Dinar and a launch of the monetary market.

The evolution of the financial sector was then characterized by monetary policy focused on the banking sector. From the end of the 60s, every decade has been marked by a specific development strategy.

The period from 1967 to 1980, has been marked by the separation of deposit banks from investment banks, and the creation of offshore banks to support the industrialization strategy based on FDIs (the famous Law 72).

The period between 1981 and 1990, has been marked by a deep economic crisis and a heavy public deficit. This pushed the raise of private banks, and also joint venture banks with funds from the Gulf region. Economic development has been supported by the textile and the offshore industry, at that time.

The policy of economic liberalization that marked the 90s favored the activation of the capital market exchange, created in 1969. Meanwhile, it remained dominated by public sector until 1995 when it has been renamed BVMT and entrusted to the private sector management, the development of corporate banks, leasing companies and banking accreditation to La Poste de Tunisie (1998). Finally, the end of this decade witnessed the merger of state deposit banks and investments banks.

The 2000s began with the arrival of foreign banks in Tunisia, and were marked by the privatization of State-owned banks. During this period, the regime of universal banking is widespread and money market instruments have diversified. This is the time of the consecration of the Tunisian development model based on domestic consumption and exports growth. Since 2000, the consumer credit were multiplied by 4 and home mortgages by 5. In 2009, the first Tunisian Islamic bank was established in Tunisia (before there was only one offshore Islamic bank). However, public policies have also focused on developing instruments for financing SMEs, through dedicated State-owned operators, such as BFPME; a bank dedicated to SMEs, SOTUGAR; a guarantee fund for SMEs and a public VC; and SAGES Capital; an investment firm managing Early Stage public funds.

Banking reform 2001 abolished the distinction between deposit banks and development banks in favour of the principle of universal banking. The law organizes the banking system, on the principle that credit institutions are allowed to perform all banking operations. With the exception of development banks that operate under a specific agreement, as it does not apply to offshore Banks that are governed by the law 85-108 of 6 December 1985.

Conjuncture instability that revolution brought showed the structural weaknesses of the Tunisian financial system, in particular state owned banks. Serious liquidity problems are now affecting the banking sector. Low recourse to the bond market, high NPL level, gaps in risk management and failures in governance are the main characteristics of the banking sector in post revolutionary Tunisia, with an alarming impact on the economic competitiveness and growth.

1.1.2. Tunisia economic and financial and indicators

With around € 37 billion of GDP in 2012, Tunisian economy is gradually recovering from 2011 year's political turmoil but still faces many challenges as a result of the crisis in the euro zone, the main market for its exports and the source of a majority of its FDIs and tourist visitors. Tunisia aims to achieve 4.5 percent economic growth in 2013 from 3.5 percent realized in 2012[1] with an expected deficit of 7.1% of GDP of its current account –see table 1.

Evolution of macro economic indicators

	2007	2008	2009	2010	2011	2012e*	2013p**
GDP Growth at constant price (%)	6,3	4,5	3,1	3,1	-2	3,5	4,5
Investment Rate (% of GDP)	23	23,5	24,1	24,5	21,5	22	21
National Saving Rates (% of GNI)	21,5	22,2	22,1	21,7	16,8	17	16
Inflation Rate (%)	3,4	4,9	3,5	4,5	3,5	6	6
FDI (% of GDP)		5,7	3,3	3	0,9	2,5	2,8
Deficit Current Account/GDP (%)	2,4	3,8	2,8	4,7	7,3	8,1	7,1
State Debt (% of GDP)		43,3	42,9	40,5	44,4	45,7	50,5
Source: CBT report 2012 and Finance Act 2013 assumptions				*e*: estimate*		*p*: provisional*	

Table 1 : Main macroeconomic indicators evolution

[1] 2013, Finance Act, law n° 2012-27

Following the revolution, unemployment jumped to 19 percent in 2011, a 6 point increase over the previous year. The unemployment rate in 2012 has declined to 17.6 percent thanks to a deliberate policy of the State -with a heavy cost on productivity - but this is not enough to reduce the stock of largely unemployed young educated workforce.

The difficult short-term economic outlook therefore is expected to result in levels of unemployment rates to register approximately 16 percent in 2013-2014. Authorities are focused now on stimulating the economy and mitigating the effects of the revolution on the labor market. This claims deep and structural reforms to create a dynamic private sector capable of producing the quality and quantity of jobs needed by Tunisia's predominantly young population.

As a consequence of the sensitive political transitional period and economic uncertainty, the three main factors of growth in Tunisia are turning red; Consumption, Exports and private investment. This will make it very challenging to achieve the provisional growth planned in 2013 Finance Act, which shows an inadequate fiscal stimulus package to private sector, with an increase of the tax pressure on the productive economy and a rise of the state debt expected to reach to a record level of 50.5% of GDP

In a recent declaration, the Governor of the Central Bank announced that the national economy has managed to exceed in 2012 the phase of the recession of the previous year and thanks to good directions for most sectors, including agriculture, services and non-manufacturing industries. Thus, it’s understandable that Tunisia had to increase its indebtedness;

Indebtedness is not a source of concern as long as the money raised is used to finance long term projects that create sustainable wealth for the country. However, we think that this is not possible without a preliminary recovery plan to exit from the crisis.

In the following chapters, we’ll explore ways and means required at the financial system level to enable the access to capital to SMEs, the main source of sustainable economic growth in Tunisia.

2. TUNISIAN FINANCIAL SYSTEM ASSESSMENT

According to IMF[2], the Tunisian financial system is small and fragmented. It remains mainly dominated by banks, with assets equal to about 115 percent of GDP. This figure is somewhat lower than its regional peers such as Egypt, Jordan, Lebanon, and Morocco. To date, there are 21 onshore banks, including three large State-owned banks with 37 percent of banking sector assets; three large private domestic banks with 28 percent of total assets; and six foreign-owned private banks with a 28 percent share. Of these, four large foreign banks (from France, Jordan, and Morocco), three are former State-owned banks, only one of which appears to have completed its restructuring, There are five small development banks, established partially with funds from the Gulf States, and enjoying universal banking licenses.

Most of these mentioned above banks provide bank credit to the industrial, trade, and tourism sectors. A large part of the remaining credit appears to be provided to the public sector, although data were not available to confirm this. The composition of deposits did not change significantly in recent years, with households and private companies accounting for about half and one-quarter of total deposits, respectively.

The nonbank financial sector is relatively limited. It accounts for about 20% of all financial system assets in 2011. Tunisia has a small insurance sector, with 19 companies primarily focused on nonlife activities (85% of premiums) and annual premiums to GDP of about 2 percent. The equity and fixed-income markets are still small, with a market capitalization equal to 24% of GDP, lower than in regional peer countries such as Jordan (112%) and Morocco (76%). Private equity industry remains marginal and the leasing sector, with nine institutions, accounted for 15½% of private gross fixed capital formation in 2010.

[2] Country Report n° 12/241 , August 2012

2.1.1. THE BANKING SECTOR

The Tunisian banking sector is characterized by a high number of banks in relation to its population of 10.6 million. Of the 21 banks that count the Tunisian banking system, 11 banks are listed on the Tunisia Stock Exchange. The banking sector is mainly composed of private banks and mixed capital banks (70%), but the State-owned banks play a dominant role in financing the economy.

(In percent)

	2006	2007	2008	2009	2010	2011
Capital adequacy ratio, of which:	11.8	11.6	11.7	12.2	11.6	11.5
Private	12.1	9.7	11.0	11.6	11.7	11.7
Public	9.3	9.9	9.6	10.5	10.0	9.8
Gross nonperforming loans	19.3	17.6	15.5	13.2	13.0	13.0
(percent of gross assets) of which:						
Private commercial banks	19.0	18.1	15.3	12.5	10.4	10.2
Public commercial banks	19.7	17.3	15.9	14.1	16.3	16.4
Provisions	49.0	53.2	56.8	58.3	58.5	59.6
(percent of nonperforming loans) of which)						
Private	48.4	52.0	55.0	59.2	67.7	67.9
Public	50.2	55.0	58.1	57.0	50.1	49.2
Liquid assets to total assets	34.2	37.5	37.1	37.2	34.7	30.5
Liquid assets to liquid liabilities	120.8	121.9	124.0	119.1	104.1	89.4
Deposits to loans	99.1	104.8	104.5	106.9	100.7	92.9
Net open position in foreign exchange	1.0	1.0	1.4	1.5	1.3	1.9
Return on assets	0.7	0.9	1.0	1.0	0.9	0.7
Return on equity	7.0	10.1	11.2	11.7	10.2	7.9

Source: Central Bank of Tunisia.

Table 2 : Tunisia Financial Soundness Indicators, 2006-2011

Many indicators are showing that the soundness of the Tunisian financial sector is depreciating since the revolution –see table 2. In chart 1, although the NPL rate is decreasing, the return on Asset and Return on Equity is decreasing. This means that banks are accepting lower returns against lower risk.

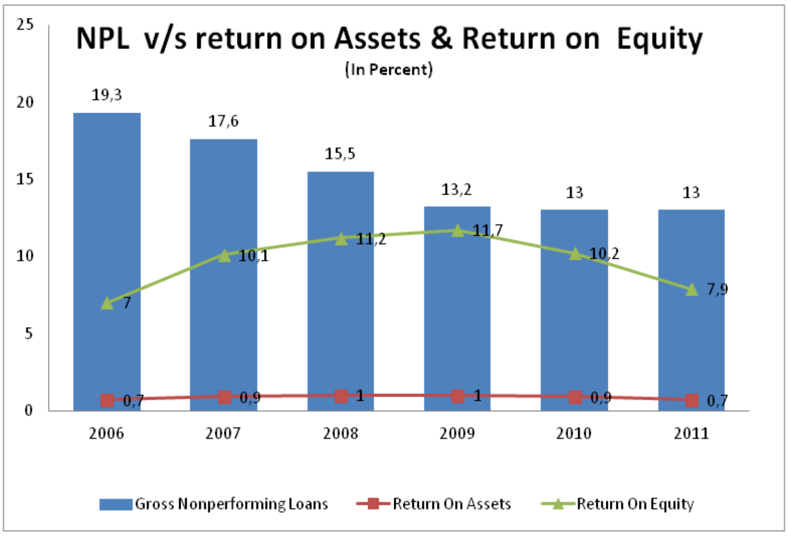


Chart 1

As stated in the previous paragraph, NPL is decreasing and considering that this ratio represents both the private and public commercial banks , a focus on each of those 2 types of bank NPLs percentage is crucial. Two facts are highlighted in chart 2; first, the public commercial banks NPL have a higher percentage than private commerical banks NPL since Public commercial bank NPL went from 14.1% in 2009 to 16.3% in 2010, and reached finally 16.4% in 2011. On the other hand, the private commercial bank NPL went from 12.5% in 2009, to 10.4% in 2010, and finally 10.2% in 2011 (See chart 1). Second, Provision in the public commercial banks is decreasing while provision on private commercial banks is increasing. This means that public banks are not observing the same prudential rules followed by the private banks.

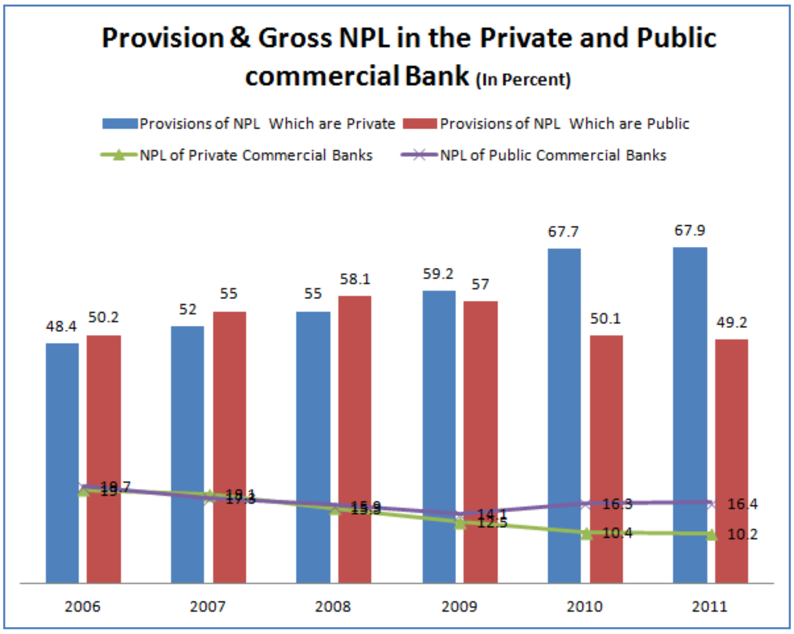


Chart 2

A conclusion from chart 2 could be drawn; Defaults on loans given by public/state owened banks are higher than private banks. In addition to that, we don't know the extent to which State owned banks are providing and reporting State owned companies NPLs, as the later are not considered subject to default since they are backed by the governement (as a collatoral) according to the IMF last report. Usually, State banks do not estimate those given loans to state owned companies/public entreprises in their NPLs. Moreover, there is a weak risk management assessement in particular in the public commercial banks.

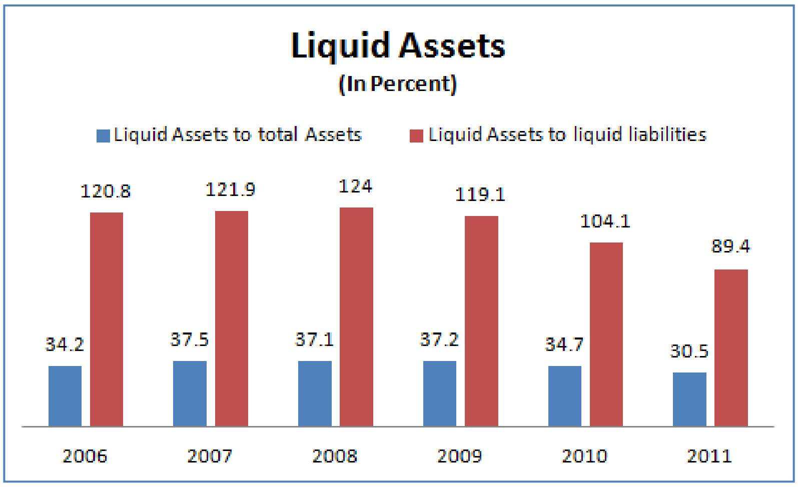


Chart 3

By an other hand, the liquid asset to total assets decreased to 30% at the end of 2011. In addition, liquid asset to liquid liabilities has decreased going 120.8% in 2006 to 89.4% in 2011. This means that liquid liabilities surpassed the liquid asset in 2011. In other words, there is a shortage in liquidity since there is no enough cash that could cover liabilities.

Finally, BFPME and Banque Tunisienne de Solidarité, two public banks who are dedicated to financing MSMEs, are showing low capacity to deliver non financial services to value added projects in the domain of knowledge economy with high level of intangible investments, or other businesses that are related to the development of distribution or agricultural related activities.

As a direct result of the lackage of liquidity and few assistance with non financial services, access to finance is more challenging for SMEs. Total banking lending is estimated at only 15% to SMEs, despite they are contributing with 75% of the GDP and representing 85% of new jobs creation[3] in the private sector.

[3] Estimate from different sources

2.1.2. THE NON BANKING SECTOR

a) Leasing institutions

Activity in the leasing sector in 2011 decreased considerably, and dropped by 14.8% (206.3 MTD source) in disbursements, amounting to 1,185.6 MTD. This drop was caused by the combined effects of fallout from the economic situation downturn and tighter liquidity at companies in the sector. Slowing activity in this sector took place along with a drop of some 44 base points in exit conditions.

	2009	2010	2011*
Outstanding balance of leasing in MTD	**1,655.3**	**2,068.5**	**2,288.9**
Borrowed resources	**1,243.2**	**1,670,6**	**1,804.7**
Of which : Bank resources (share in %)	43.4	41.0	47.3
Non Bank resources (share in %)	40.8	45.0	38.2
Borrowed resources cost (in%)	**6.3**	**5.8**	**5.9**

**: provisionnal data*

Table 2: trends in the outstanding balance of Leasing and Borrowed resources from annual report of CBT 2012

The outstanding balance of leasing rose by 10.7% to 2,288.9 MTD, about 79% of which was financed by borrowed resources (of which 47.3% were bank borrowings and 38.2% debenture loans). In 2011 the sector mobilized just 127 MTD in bond resources, corresponding to 44.3% of the total raised on the market. Trends in the structure of resources in the sector favored bank loans, due to tighter liquidity on the bond market.

Activity in the leasing sector in 2011 generated income of 198 MTD, with slower growth pace (minus 4%) because of the combined effects of slowing activity, the drop in exit conditions and the deteriorating quality of the portfolio.

Description	2009	2010	2011*	Variation			
				2009/2010		2010/2011	
				In MTD	In %	In MTD	In %
Interest margin	82.4	94.3	98.8	11.9	14.4	4.5	4.8
Net preceed	88.2	102.6	106.2	14.4	16.3	3.6	3.5
Operating charges	30.5	33.6	36.6	3.3	10.8	2.8	8.3

Chart 4: Leasing operating indicators from CBT report 2012

b) Factoring companies

Based on the annual report of Tunisian Central Bank for the year 2011, activity in the factoring sector was considerably affected by the economic downturn, and dropped by 2.2% in the volume of purchased invoices, due to the overall situation of international factoring.

Borrowed resources were down by 6.2% in 2011, with a greater share for debenture loans compared to bank loans and treasury bills.

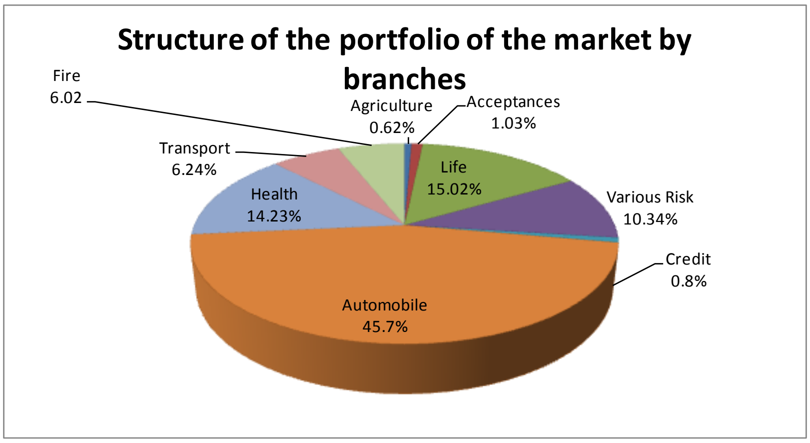
Factoring activity generated income in 2011 that was down by 2% to some 15.6 MTD because of activity slowdown and the drop in exit conditions tied to the money market rate. 37.3% of such income (5.8 MTD) came from factoring commissions and 62.7% (9.8 MTD) from financing commissions, with 46.9% serving to cover financial costs.

c) Insurance sector

In Tunisia, there are currently 22 insurance companies including 13 multi-line companies; five specialized companies – two are specialized in life insurance, one in export credit insurance, one in domestic credit insurance, one in reinsurance; and four offshore companies. The 18 on-shore companies are divided into 15 corporations, two mutual insurance companies and one agriculture mutual fund. Private companies dominate the market and had a total market share of 61.3% in 2010, while State-owned companies and mutual companies had respectively 19.65% and 19.09%. According to FTUSA, Tunisia's insurance premiums totaled one billion TND ($787.8 million) in 2010.

The insurance sector in Tunisia is not fully developed due to low penetration in the national economy and low domestic savings and remains paradoxically focusing on few non performing segments such as auto and health. The reforms that were undertaken in favor of the insurance sector in Tunisia are focused on improving the financial situation of insurance companies, updating the legal and regulatory framework, developing underdeveloped segments (life insurance, agriculture), upgrading insurance companies, opening the sector to competition, and improving the business environment.

Several institutions are engaged in the insurance sector in Tunisia as regulatory entities, but the most important institution is the General Insurance Committee, which is a central administration within the Ministry of Finance. Some experts in the sector point to oversight as an area for potential future reforms. Although the penetration rate of the Tunisian insurance sector is low, around 1.77%, the insurance production growth rate was 9.1% in 2010, far higher than the total population growth rate of 1%, indicative of an increase in insurance density.



Pie Chart Structure of the portfolio of the market by branches from FTUSA

- In 2011, the Tunisian insurance market recorded the following results (source FTUSA):
  - The premiums of the insurance sector totaled MTD 1 177 against 1 120 MTD in 2010, an increase of 5.14%.
  - Claims paid registered an increase of 18.21% from 602 MTD in 2010 to 712 MTD in 2011 and technical reserves recorded an increase of 15.58% in 2011 (from 2282 MTD in 2010 to 2638 MTD in 2011).
  - The investment amounts listed assets balances totaled 2771 MTD in 2011 against2 494 MTD in 2010, a growth rate of 11%.
  - The technical result for the year has deteriorated in 2011, a surplus of 47 MTD against 101 MTD profit in 2010, with consolidated balance sheets that were released in 2011 registering a profit of 44 MTD against a profit of 107 MTD in 2010

d) Pension Funds:

The pension fund in Tunisia is composed of two institutions; CNSS representing the private sector with 2.5 million workers affiliated (around 2 millions are working and 0.5 million retired), and CNRPS which is representing the public sector. According to the EBRD, the pension system is comprised of seven sub-categories according to the profession. As aging risk increasing, Tunisia has one of the highest coverage ratios in North Africa (37% of the labor force). These funds are under a public management and their financial statements and activity reports are not disclosed.

2.2. Capital Market in Tunisia

The capital market has remained largely below recommended expectations and financial potential of Tunisian economy. The small number of listed companies (57) means that there is plenty of scope for new securities to be listed. Simply introducing new financial instruments in the official Tunisian markets (the Stock Exchange and the wire market for government securities), even without increasing the number of underlying securities, would increase the opportunities open to investors, improve the allocation of investments and promote the dissemination of information. The introduction of instruments based on existing securities, such as futures and stock or bond index options, would be especially effective.

In capital market, there are three components on the Tunis Stock Exchange market, principal market, alternative market and bond market. According to EBRD, the capital market share in total financing to the private sector was only 12.1% in 2009. In addition to that, the alternative market was created in 2007 and only 5 companies are listed within this market of SMEs. Finally the bond market, public debt and Treasury bonds as well as some leasing companies that issue bonds are the main player in the bond market. In 2009, they represent respectively Euro 1,072 million, Euro 8,582 million and Euro 1,359 million.

a) Capital market organization

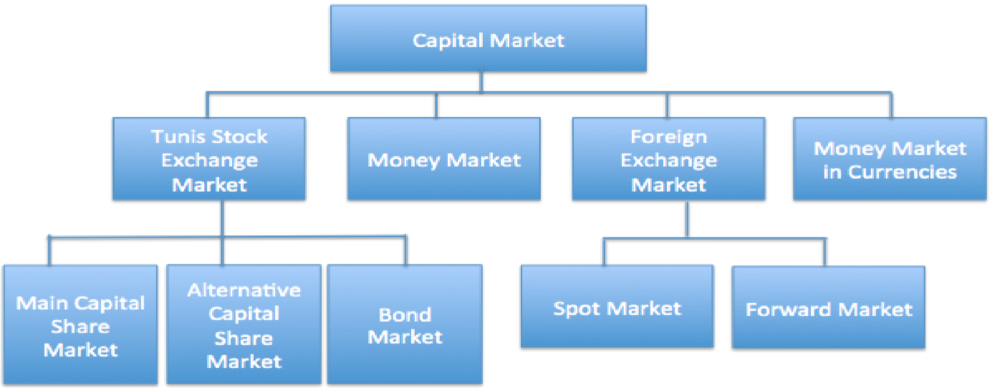


Chart 5: Tunisian Capital Market Organization (Source: Central Bank of Tunisia)

2.2.2. Liquidities of the financial institutions in Tunisia

a) *Monetary policy*

According to the last report of Tunisie Valeurs[4], rising inflation and downward growth give Tunisia's Central bank a headache. In fact, the Inflation is rising relentlessly while economic growth is far from consistent.

[4] See appendix

In a period when food and raw material prices are sharply rising on the international front and the Tunisian central bank is massively injecting liquidity in the banking system at the national. Front, it is hard to see how the government is going to rein in inflation. The central bank has already felt the danger of the situation and has recently decided to increase the base rate 25 basis points (from 3.5% to 3.75%); a very difficult measure to take in such hard times of a bad investment climate.

b) *Bank liquidity*

The banking system's needs for liquidity were further boosted over the third quarter of 2012 and were marked by the restrictive effects that were simultaneously exerted by net assets abroad and banknotes and coins in circulation. The deterioration of structural liquidity could have been more accentuated had it not been for the expansive effect resulting from the increase in the net Balance of public administrations.[5]

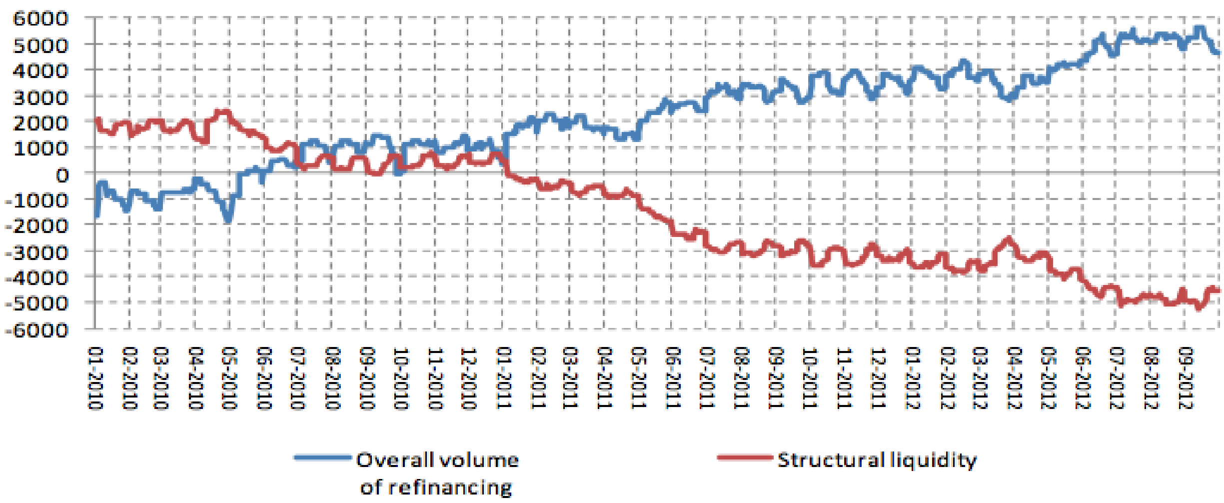


Chart 6: Trends in structural liquidity and the overall volume of refinancing (in MTD)

Posting 5,860 MTD, **net assets abroad** dropped by 668 MTD over the third quarter of 2012 compared to the previous quarter and exerted a restrictive effect on bank liquidity. Their trend was affected by:

- firmed up "Tunisian Government's special account in foreign currency" following encashment, in July 2012, of a debenture loan issued on the international financial market and guaranteed by the American Treasury totaling 485 M US Dollars.

- a 310 MTD increase in the "foreign currencies of authorized intermediaries" account.

On the other hand, net assets in foreign currency, although having posted a 156 MTD increase from one quarter to another, did not exert an expansive effect on bank liquidity. This is because

[5] source: The economic situation periodical N°97, October 2012

foreign currency resources raised over this period and emanating notably from the above-mentioned debenture loan in line with a loan granted, in September, by the Arab Monetary Fund (139 M US Dollars) and placed in the "Use of AMF resources" account did not affect bank liquidity as they were sterilized in foreign currency accounts upon their encashment. However, net assets in foreign currency felt the effect of a worsening current deficit in the wake of a wider trade deficit (6.4% of GDP at end of September against 4.7% in June) brought about by faster growth of imports, while exports posted a moderate pace.

2.2.3. Tunisian Stock Exchange Activity

Before presenting an overview of the Tunisian Stock Exchange and its main components, it is important to mention other entities that work closely hands in hands with the Tunisian Stock Exchange to protect investors as well as companies and provide a clear way of good functioning.
Only approved brokerage firms have access and are able to negotiate securities. While brokers represent clients, they also work closely with the Tunisian Central Depository (TCD). The TCD is in charge of clearing and settlement of securities, in addition to ensuring payments in cash and the delivery of securities. In addition to that, there is what is called the Market Guarantee Funds which intervenes between brokers to guarantee the settlement of the transaction. Finally and one of the most important entities in this procedure is the action taken by the Financial Market Council. This body oversees the protection of the investors and the good functioning of the stock Exchange Market.

According to the Tunisian Stock exchange[6], there are three components of the stock exchange markets:

1. The stock exchange official list
    - Principal Market
    - Alternative Market
    - The Bond market
2. The OTC market
3. The Securities of Private shareholdings

The stock exchange official list regroups all the companies that meet the requirement provided by the stock exchange regulations. In this list of companies there are three types of securities listed; principal market, alternative market and bond market. According to the stock exchange website, the principal market represents the high and large performing companies. The alternative market is reserved for SMEs that have promising prospects and finally the bond market is reserved for the debt securities.

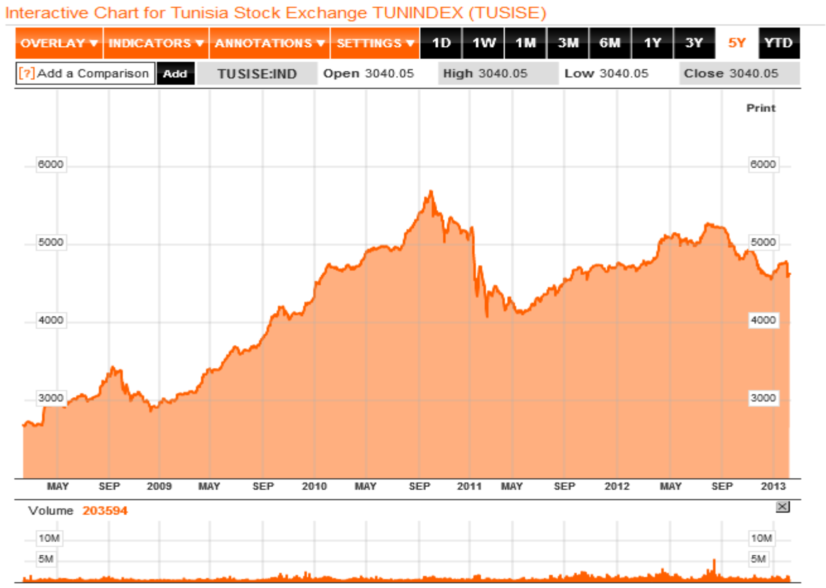
Second, the OTC market is reserved for companies who are publicly traded but are not admitted to the listing at the stock exchange.

[6] www.bvmt.com.tn

Finally, the transactions on the securities of private shareholding companies are subject to a formality of registration at the stock exchange.

There were 56 companies listed on the Tunisian stock exchange by the end of 2012 and representing less than 25% ot the GDP. The capital market share in total financing to the private sector was only 12.1% in 2009. In addition to that, the alternative market was created in 2007 and only welcome 5 companies to date.

According to the Chair of the Board of the BVMT, the Stock Exchange in Tunisia has the potential to incorporate 300 companies in a very short term, representing more than 100% of the GDP.



Snapshot for Tunisia Stock Exchange TUNINDEX (TUSISE)

High:	4,647.77	Low:	4,618.74
Day Range:	4,618.74 - 4,647.77	52-Week Range:	4,534.55 - 5,291.64
Year To Date:	+0.77%	1-Year:	+0.04%

Quotes delayed, except where indicated otherwise. All prices in local currency. Time is ET.

Chart 4

This chart is a snapshot from Bloomberg.com on February 13, 2013. The TSE has been increasing for the last 5 years but stalled on 2011 after the Revolution. The recovery is very gradual but the recent political crisis started in the last quarter of 2012 was correcting negatively the trend.

A conclusion can be drawn from this charts that the main cause of the decrease that we notice from previous chart is due to less number of transactions, and less liquidities. Those are the main two cause of the plunge of the Tunis Stock Exchange.

Finally the bond market, public debt and Treasury bonds as well as some leasing companies that issue bonds are the main player in the bond market. In 2009, they represent respectively € 1 072 million, € 8 582 million and € 1 359 million.

2.2.4. THE BOND MARKET ACTIVITY IN TUNISIA

The bond market is classified under two types: Government bonds (also called treasury bonds) and corporate bonds.

a) Government bonds:

Since the 14th of January event, there is a registered increase on the primary market:

- Government expenses have increased (increase in Salaries, compensation and debt service)
- Government investment expenses have increased (Infrastructure, Regional development, and agriculture...)

In 2013, Tunisian government is planning for the first time to introduce government bonds called SUKUK in foreign market, 1 000 MTD is the amount to be sold. This would require a broad regulatory reform.

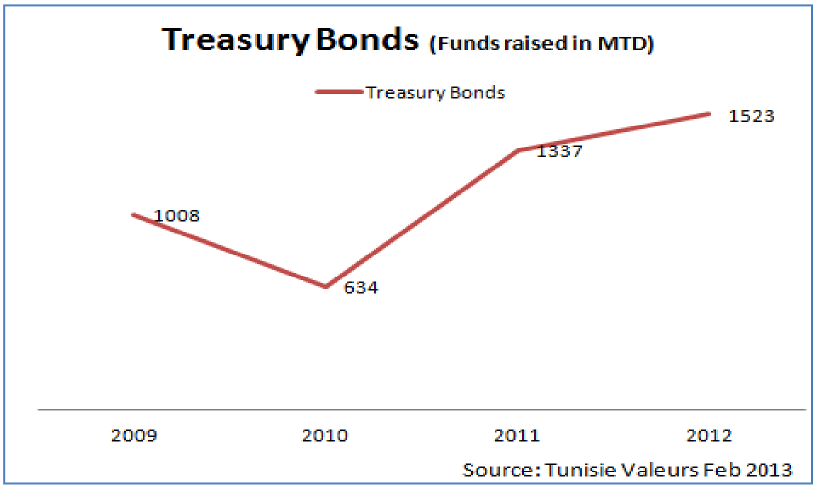


Chart 5

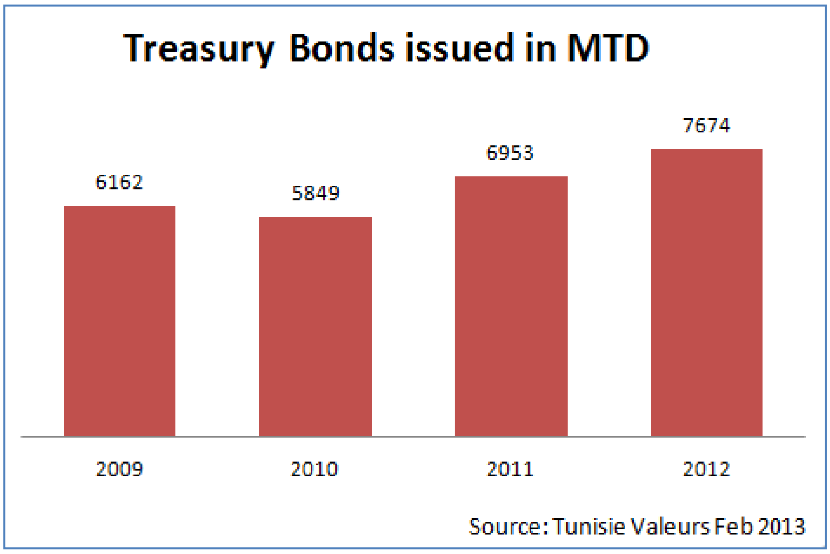


Chart 6

Bonds are held by banks, under their capital accounts (43%), VCs and public and private equity (33%), and finally people from the public and corporation and companies (23%).

- Bank are mostly attracted to less risky investments.
- Crowding out: A reduction in private investment due to to an increase of governemnt borrowing.

According to Tunisie Valeurs, there is a limited use of secondary market, as:

- A huge portion of transactions is done Over the Counter (OTC).
- Over the last 4 years, only 3% of trades are done through the supervsion of an exchange.
- 4% of The treasury bonds at the secondary market are sold on the Tunis Stock Exchange while 40% are OTC.

b) Corporate Bonds:

The main actor of release remains banks and leasing companies, knowing that Rating Agencies discourage private corportations to issue bonds, and long waiting periods reqired to get a visa to access the bond market, which contribute to discourage private corporations to issue bonds.

The increase in the emission of corporate bonds on the primary market was hampered by the Revolution :

- 2009-2010: the decrease of rates helped the increase the launch of corporate bonds.
- Since 2011: the decrease on the bond market –see chart 7- despite a shortage of liquidity confirms the aversion of tunisian companies to recourse to the Bond market.

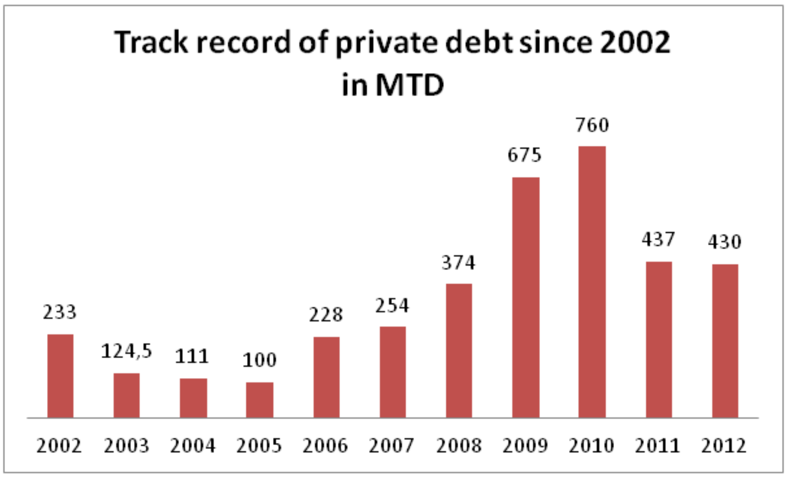


Chart 7

The underdevelopment of debt markets in Tunisia is also a consequence of the lack of development of money markets and a diversified institutional investors base, opportunistic primary issuance practices, and captive demand by banks, which dominate bonds markets. These problems have led to highly concentrated buy-and-hold portfolios by banks and state-owned institutions, and lack of liquidity in secondary markets. Tunisian bonds' are now considered "speculative grade." They have a higher risk of default.

As a direct result, the financing through bonds is marginal, and even decreasing to a level of 1.3% of bank loans in 2011. The corporate bonds issuance represented only 4.3% of the total private investment in 2011, confirming the domination of bank financing (see tables below).

In MTD	2009	2010	2011
Bank Loans for private companies	25 160	28 882	32 254
Financing through bond market	760	437	430
Financing through Bond Market/ Bank loans	3,0%	1,5%	1,3%

The private investment could be measured by the Gross Fixed Capital Formation –see next table- While the private investment is increasing, we notice that the private launch in the debt market (new corporate bonds issued) is declining from 9.5% in 2009 to 4.3% in 2011.

In MTD	2009	2010	2011
Private Investment (Gross Fixed Capital Formation)	8041	8771	9900
Private Launch in the market	760	437	430
Private launch in the market/Financing of private investments	9,5%	5,0%	4,3%

3. The private sector in Tunisia

Tunisia has some 600 000 private companies, only 12000 are employing 10 or more people. 2763 of them enjoy *offshore* incentives[7], 35% in the textile industry and 18% in foodstuffs. Of 3135 businesses with foreign investment, 2454 are in manufacturing, 380 in services, 158 in tourism, 81 in agriculture and 62 in energy, with a total of close to 325 000 jobs. This is the shiny side of the productive economy. The downside is the informal economy, which grown drastically since the Revolution, mainly because businessmen are encountering a lot of obstacles such as heavy bureaucracy, tax burden, lack of access to finance, bureaucracy, unjustified transaction costs…etc. In a last declaration of the Central Bank of Tunisia, the informal economy is now representing the same weight than the formal economy, which is damaging the competitiveness and the tax collection of the country.

3.1.1. Financial instruments and source of Capital for SMEs

a) DOMESTIC CREDIT TO PRIVATE SECTOR (% OF GDP) IN TUNISIA

The Domestic credit to private sector (% of GDP) in Tunisia was last reported at 76.42 in 2011, according to a World Bank report published in 2012. Domestic credit to private sector refers to financial resources provided to the productive sector, such as through loans, purchases of non equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For Tunisia, these claims include credit to public enterprises as far as they are partially incorporated. A recent article[8] reported that more than 10 000 MTD structural deficit concerns public enterprises, due to a lack of governance and low productivity. The risks related with this deficit are not hedged by banks as they suppose that loans to public enterprises are implicitly under the guarantee of the State.

[7] Offshore regime was created by the famous Law 72
[8] EcoJournal Magazine February 2013

From the side of SMEs, they have theoretically access to many financial instruments, such as private and public equity funds, usually in parallel with public funding and loans through public banks, primarily the State-owned BFPME, jointly with commercial banks when the amount is higher than 0.5 MTD. BFPME extends loans in conjunction with private banks to stimulate the involvement of commercial banks in this market segment. A public guarantee fund, SOTUGAR, may provide guarantee coverage for up to 75% of the debt financing portion, but has been scarcely utilized so far. Additionally, there are public funds established by the Government to further support enterprises, noticeably the public seed fund FOPRODI, also managed by a SICAR[9] and often intervenes in the same projects in parallel with other participation from different funds or SICARs. To date, FOPRODI participation represents about 31% of SICARs participation. Further, enterprises in specific geographic areas can benefit from special investment incentives and investment contributions that can reach as high as 25% of total capital.

Such generous support by the Government reaches levels that may sometimes obtain an undesirable effect, namely discouraging a real commitment by sponsors. Indeed, the combination of the above mentioned instruments allows an entrepreneur to excessively leverage his/her own equity contribution. An entrepreneur only contributing as low as 10% of share capital can attract another 90% of equity from SICARs, FOPRODI, plus an investment premium. Up to 60% of the total investment need is covered by BFPME, with eventually a syndicated loan of a commercial bank when the loan exceeds 0.5 MTD. Speculative temptations may not be excluded. In general, entrepreneurs do not have sufficient capital at the start. This is a typical situation in all economies. Therefore equity funds, private and public, have a role to play in strengthening the equity structure of enterprises and, through their participation, also induce transparency and good business practices.

3.1.2. The Venture Capital and Private Equity industry in Tunisia

Tunisia is the first country in the south of the Mediterranean who has showed interest to Venture Capital and Private Equity (VC & PE) industry. It introduced the first public Seed Fund FOPRODI[10] in 1973 and the concept of investment firm in 1988 according to the law 88-92 of 02/08/1988 which has been updated in 1992, 1995, 2001 and 2011. Referring to the Tunisian regulatory frame, several stakeholders are acting in the domain of private equity actors, but in reality, they are submitted to some strict legal and fiscal constraints in their decision making

[9] SICAR stands for "Société d'investissements à capital risque".

[10] Public Funds for Venture creation or development with strict rules on the financial scheme where bank loans should be dominant

process (for deals selection, for the amount invested, terms sheets, …) that make them behaving more as a marginal investor actors beside the banks rather that a true private equity.

In Tunisia, many texts govern the spin-off funds[11], the seed funds, venture capital investments or enterprises transmissions. All those texts suppose that it is possible to satisfy all kind of SME requests related to access to finance.

Unfortunately, the texts applied before the decree n°2011-99 of 21/10/2011 and the tax exemption given to the investment policies allowed the private equity investment actors to be directed to the regional development instead of high valued projects.

We can notice that private equity firms have continued investing and creating jobs despite the economic gloom during 2011. According to ATIC, we witness that the mobilized resources per private equity actors are still upswing according to a sustained rate of 19% (for the period 2009-2011) to reach 1.37 MTD for 2011. In order to boost, the private equity industry, a reform has already been introduced in 2011 but still not considerable to make this strategy strong enough for providing a great rate of employability.

According to the ATIC, a minimum of 1.2 MTD liquidities are still searching for investment opportunities within the investment firms. available Among the restrictive factors to the development of this industry we can cite, the focus of the Investment code (the new one is still in progress) on some specific industries excluding many services from the list of incentives, the gloom of the financial market, a heavy administration policy, weak potential for SMEs development,….

Since 1988, several investment companies Venture Capital, public and private, to promote private investment (especially in SMEs) through an equity participation of Tunisian Businesses. SICARs represent the Conglomerate Private and Public equity industry in Tunisia and they are around 45 members according to ATIC, the Tunisian 3rd parties investors association.

SICAR manage their own funds but also special funds, such as those made available by other public funds (e.g. FOPRODI). The SICAR sign an agreement with the project founder that defines the conditions for the exit from the company. In theory, a SICAR is participating for 5 to 7 years in the equity of the company, and the exit is the capital market. Practically, it's not rare to remain in the capital more than 12 years, and the exit is not done through the Capital market, obliging the SICAR to negotiate with the founder, which is generating a stress on the liquidities of the investment firms.

The interventions of a SICAR are generally more oriented towards industry and services and cover at least three areas:

- Provide support before any program-related investments, upgrade or projects with high added value.
- Provide managerial support by assisting the project sponsors to develop internal organization, their marketing strategy and policy.

[11] See GIZ study http://wikistartup.files.wordpress.com/2012/12/essaimage-en-tunisie.pdf

- Provide a support service to facilitate further research of industrial and commercial partnerships by some SICAR.

Actually, there are three types of Equities in Tunisia:

- Syndicate of Public & Private Equity
  - Banking SICARs or Bank managed Funds: They are around 13 firms' subsidiaries of banks managing tax relief funds. They invest money under a strict regulatory and fiscal framework, and generally use funds as a complementary finance instrument to grant more loans. This type of SICARS represents 36% of the total capital of the private equity in Tunisia.
  - Regional SICARs or Public Inland Investment Funds: They represent only 13% of the total market and numbered at 6 SICARS in 2012. As its name states, this category focuses on the regional development. They have strong developmental role as they promote private sector and employment growth in underdeveloped area of the country. Like banking SICARs, they often impose a buy-back guarantee on the shareholders of the company receiving investment.
  - Private SICARs or Private Group Funds: These are funds raised within a private group by the mother company and usually invested in other subsidiaries of the group. The reason to set up such funds is usually to take advantage of the tax breaks given to SICARs. This category represents 36% of the total capital of private equity in Tunisia in 2012. They have no exit problems as they invest within the group, and do not serve any funding purposes.
  - Private Equity Funds: These funds are usually sponsored by different local and international investors and have a wide range of investments vehicles dedicated to on-shore and off-shore companies. They are generally managed by independent asset management firms and operate according to international standards. The main Private Equity in Tunisia are:
    - Alternative Capital Partners who has released Phenicia seed fund in 2007 with an estimate 10 MTD. This seed fund has been invested in startups in Tunisia. It benefited to 12 SME focusing on Technology innovation. Tunisian as well as European institution made this fund possible (European Investment Bank, CDC Entreprises, Arab Tunisian Bank, Amen Bank, Banque de l'Habitat, Arab Tunisian Lease, and finally the Groupe des Assurances de Tunisie).
    - Emerging Capital Partners is a US private equity group with more than 1.8 billion portfolio across the African continent, it started back in 2000, they have over 50 investments, 20 exits, and a strong portfolio of remaining transactions.
    - UGFS North Africa (CapitaLease Seed Funds, Theemar Funds,) United Gulf Financial Services has released CAPITALease seed fund in May 2012 with an amount of 1 MTD. This seed fund will encourage innovation through the issue of patents, the technical and economic studies of project selected, improve the technological process before sales and finally achieve the financial plan. Theemar Islamic Fund is a PPP fund associating IsDB and Caisse de Dépôts et Consignations. The fund is featured with 50 MTD and will invest in Tunisian SMEs across all economic sectors.

- MAXULA, a broker who launched recently an Islamic fund of 100 MDT.
- and finally Tuninvest, the only private equity fund listed on the Tunis Stock Exchange.

A special guarantee fund created in 1981 to support SMEs to overcome the classic problem of credit guarantee:

1. Secure term loans for the creation and expansion of SMEs and more generally small scale businesses and export credit,
2. Take over the debts and unpaid interest from the rescheduling of loans (debt service rescheduling).
3. Ensure the participation of a SICAR to the equity of a company
4. Support a percentage of costs of prosecution and litigation recovery of loans.

3.1.3. Issues faced by SMEs at different stages of investment:

	stage of investment				
Source of capital	Seed Funding	Launch	Development	IPO / LBO	restructuring
Entrepreneurs & Angel Investors	X	X			
Public Funds	X	X	X		
Sponsorship & Grants	X	X			
Venture Capital & Private Equity		X	X	X	X
Banks		X	X		X
Leasing companies		X	X		
Securities/Financial Instruments				X	

X decisive financing role

Impediments to access to finance

a) Seed Funding:

- Little liquidity with very restrictive conditions. Entrepreneurs have a few options to look for funding outside the public funds. Entrepreneurs need more angel investors and grants.
- Public Funds act rigidly like banks: Entrepreneurs are set as debtors and have to buy back injected capital according to a certain schedule.
- (Passive) Public Funds have no experience in PE&VC worlds: Public Funds do not have a structure where they are represented by general and limited partners to be active with the entrepreneurs with management decision and supervision incentives.

- Grants and sponsorship are more and more accessible through competitions
- Test participations of some offshore funds directly in local SMEs with international exposure.

b) Launch stage:

- Public funding (representing around 20 MTD are scarce over15 instruments, 10 public agencies and more than 20 references as application laws, decrees…etc. It's quite accessible but with constraints (many requirements): In fact, government uses it to promote underdeveloped areas, and job creation while it should be used for deals return. High requirements on how to spend that funds, location, number of employees, and constraints on financial scheme imposing a high level of bank debt ratio are conducting a lot of funded SMEs to capital shortage sooner or later.
- Banks and Public Funds with low level of expertise: General Partners and limited partners are non-existent tool to be part of the management team.

c) Development Stage:

- Private Equity is mostly the main actors at this stage. They have high success at this stage since the risk is lower than previous stages, but they are complaining about the weak deals flow. Very few opportunities are available because of the previous access to capital chain.
- Most liquid: There are many sources of where to look for funding and the involvement of Private Equity plays a major role during this stage. ATIC estimates the available funds for SMEs to more than 1200 MTD.

d) IPO/LBO

- Wrong exit strategy: Public funds do not have a clear strategy on when and how to exit: since the scheduled Time is longer than what it should be with the other stakeholders, which also result on slow growth and weak ROI.
- Rare LBO operations tracked on the market place but there is some Tunisian companies that succeeded over the counter through offshore funds such as Fuba and Altea Packaging.

e) Restructuring Stage

- Lack of regulatory or legal frame: there is no restructuring fund available for companies to rely on to allow an investor to enter in the company capital with a minimum of guaranty. Many companies are in economic hardship couldn't recover or grow and are maintained artificially alive.
- Bankruptcy preventions: there is a regulatory framework (extension of loan payments time or change of interest rate,…) that could prevent entrepreneurs to file for bankruptcy. But no mention on how the capital could change ownership, as most of the time, the state is indirectly stakeholder in the capital.
- No Refinancing market: Companies who are facing economic hardship to pay their loans do not have options for refinancing. They only have to postpone their payment terms.

4. DONORS MAPPING

4.1.1. SUMMARY OF IFIS ACTIVITIES IN TUNISIA SINCE 2011

Several IFIs and major regional and cooperation organizations are currently active in Tunisia. A coordination process has been strengthened under the aegis of the Deauville Partnership, announced in May 2011 by G8 leaders. A follow-up Ministerial meeting in Marseille on September 10, 2011 formalized the Partnership and involved actively the World Bank Group, the AfDB, the EIB, the IsDB, and the Arab regional Funds (Arab Fund for Social and Economic Development; Arab Monetary Fund; and the OPEC Fund), in addition to the EBRD.

IFI and major bilateral financing activities in Tunisia[12]

IFI annual business volume reached a high of €1.6 billion in 2010 for a total portfolio in the country estimated at €12.5 billion. World Bank, AfDB, EIB and AFESD traditionally account for the bulk of that financing. The EU is also active through the Neighborhood Investment Facility, which provided €23 million in grants for 3 projects co financed by KfW, AFD, and (for 2 of them) EIB. The volume of IFI financing in Tunisia as a proportion of GDP is in line with the regional average (2.2 %).

After the Revolution, IFI activities resumed rapidly as the administration felt empowered to take substantial policy decisions. Post-Revolution loans include:

- policy-based support for Tunisia underpinning government reforms of access to information, freedom of association, transparency in public procurement and application of regulations, with total financing of US$1.3 billion from AfDB, AFD, EU and the World Bank;
- a $550 million regional facility approved by AfDB, IBRD and IFC for access to finance by SMEs, along with first sub-loans to Tunisia of $50 million each from AfDB and IBRD;
- three new loans signed by EIB totaling € 307 million; and
- a $100 million rural water supply project expected to be signed by AfDB before the end of the year.
- In the *Jasmin Plan* presented in Marseille within the framework of the Deauville Partnership,

[12] Source : EBRD SEMED Partnership Assembly on 28 November 2011

Tunisia estimated its financing needs from IFIs at € 7 billion over the next 3 years, which exceeds past levels considerably. IFIs have announced a special effort for Tunisia. The IBRD is expecting $ 1.5 billion to be approved over the coming three years, the IFC approximately $ 1 billion and the EIB € 1.9 billion.

a) Census of Access to Finance support initiatives –except Micro Finance

Support to Private sector mapping: intervention v/s donors matrix

done
on-going
potential

Bailleurs / Scope of intervention	AFD PROPARCO	UE	BEI	IFC	AfDB	World Bank	IsDB	KfW	JBIC/JICA Japan	USA
Macro level:										
Authority & supervision										
* Reform of the Investment Authority (Structure, regulatory, supervision)		Support to Administration & Public institutions (P3A II): €50 million		Grant 0.625 M€ New Investment Code		Regional development program /Tunisia compartment $ 6 million (WB+IFC)				
* Regulatory & legal reforms				Technical Assistance TA Regulatory simplification (Guillotine) Competition Law Bankruptcy Law						
* Competitiveness & Job creation										Millenium Challenge Corporation $ 200 million
* Modernizing Central Bank of Tunisia				TA Modernizing BCT Central Risks Registry		Banking Sector Gouvernance				
* Setting up a PPP policy and legal framework										
Meso level (infrastructure and marketplace):										
Horizontal level										
* Implementing a new Model for the social & economic Development						Support to Recovery and Inclusiive Dev Program (PARDI): €387 million co-financed by WB & UE				
* Boosting the Bonds and Capital market									Foreign currency Bonds ¥ 25 billion	
* Reforming the Public Fundings										
* Tax administration and transparency										
* Up grading the National Statistics IT system										
* Setting up a PPP inter-ministerial unit						potential technical assistance				
* Capacity Building program for the whole ecosystem		Twinning program with EU institutions: 5 projects € 6.3 million								
* Regional integration					Grant: commercial integration with sub-saharian Africa					
* Upgrading & Liberalization Services sector		Regional Integration support program: € 50 million								
* Private Equity Development Strategy			Technical Assistance for Venture Capital development with AFD							
Sectorial level										
* Banking industry				Participation to the capital of Amen Bank € 75 million	MENA Transition Fund a joint commitment among G-8 members, Gulf and Regional partners with International Financial institutions. $ 250 million as initial fund. $ 37 millions to sustain Governance and growth. Public entities and parliaments in transition countries can partner with the AfDB, Arab Fund for Economic and Social Development, Arab Monetary Fund, European Bank for Reconstruction and Development, EIB, IFC, IMF, IsDB, OECD, OPEC Fund for International Development, or the World Bank once all agreements are in place.					
* Infrastructure et transport	Loans for Enfidha Airport		Total Loans 834 M€	Loans & syndicated loans 271 M€						
* Energy, Water & environment		Energy & Environment program: € 33 million				Credit lines via banks to master Energy $ 35 million				
* Education & Employment						Quality Insurance Plan for Higher Education PAQ $ 14 million				USAID Grant $ 8million
* Innovation through Science & Technology		Grant PASRI € 12 million							Technology park dev project ¥8,21 billion	
* Hotels & Tourism	Subsidy for Ministry of Tourism to up grade the hotel industry									OPIC Franchise Facility $ 30 million
* Manufacturing Industry		Grant / PCAM € 23 million								
* Trade & Exportation		Grant / PMS € 20 million				FAMEX III Access to Export markets funds $ 60 million				
Indirect support to private sector										
* Loans & credit lines for SMEs via banks	Credit lines for SMEs for financial restructuring and hotels upgrading 150 M€		Credit lines for SMEs via banks 278 M€	Credit lines for SMEs via banks 64 M€		credit line through BCT WB+AFDB $ 50 million		Credit lines via banks to SMEs + TA to set up a risk management pilot unit $ 50 million	Credit lines via banks ¥6.153 billion	
* Guarantees funds for SMEs	ARIZ investment guarantee fund									
* Change Risk & Foreign trade Insurrance	Contribution to a Risk Change Fund TCX 50 M€									
* SMEs risk scoring agency										
* Mutualized Investment Funds shareholding	Mutual Fund FCPR with guarantee of capital and return 40 M€			SMEs Investment Funds $ 23 million	SME APEX Facility	SMEs Investment Funds $ 21 million	SMEs Investment THEEMAR islamic Mutual Fund with CDC € 25 million			MIGA Risk insurance to lenders
Direct support to operators (except micro finance)										
* Non financial services to Entrepreneurs	Grant : co-developement garanty for young promoters to create or take over a company									
* Seed Funds			Participation to Phenicia Seed Fund 2 M€			Early Stage Invetment Fund (InfoDev) $ 50 million + TA $ 30 million				Tunisia US Entreprise Fund $ 20 million
* Equity Funds	3 Direct investment operations € 13.5 million		Maghreb Equity Funds II $ 10 million	Equity Funds for SMEs $ 48 million				Participation to an Invetment Fund		
* Restructuring Funds	Training support to SAGES (Taa'hil Fund)		Maghreb Equity Funds III $ 15 million							

4.1.2. DONORS MAPPING ANALYSIS

Tunisia has bilateral support from several countries and international financial institutions. After the revolution, new donors such as USAID-or-EBRD decided to come and lend a hand to Tunisia, to ensure the success of its transition to democracy. Mapping initiatives that support the private sector development, shows a dense program for funding, lending and technical assistance at several levels, from an institutional support to legal and regulatory reforms to a direct support to businesses. Some initiatives are duplicated or jointly shared between multiple donors. This calls to an increase of coordination and implementation monitoring at the donors level.

Lines of credit through banks remain the most common way in supporting the private sector in Tunisia. The census of credit lines is worth more than € 500 million available to the private sector. However, it is not easy to measure the impact of these financial services as they don't appear clearly in the balance sheet of the banks, in particular checking the total amount involved in the business and available cash not yet used.

Among the areas that need attention, the scope of intervention on Public Private Partnership, which will play a decisive role in boosting investment in Tunisia, as the country is experiencing a significant public deficit, and will not be able to finance the crucial investment needs required by the economic recovery plan.

The other line of intervention that seems to concern donors is the private equity industry. Several investment funds have been supported by direct participation, including AFD and EIB. Likely, all donors are about to explore options for direct participation in VC & PE funds. These investment funds are totaling to date an envelope of around € 160 million. Incidentally, this calls for the intervention of guarantee funds of the same donors.

Finally, we didn't identify any bilateral support initiatives to develop the capital market or the restructuring fund which will certainly have to play a major role in the coming period. We can only assume that the EBRD works on the subject, by extrapolating from past experiences of this institution, about to open a representative bureau in Tunis, after accepting the membership of Tunisia and signing an MOU for bilateral cooperation in 2012.

5. Recommendations for intervention in Tunisia

a) Wrap up of potential initiatives & support programs

Main Issues	Potential Initiatives & Support programs
A very low level of investment (less than 25% of GDP) due to a structural lackage of liquidities	Encouraging PPP and easing the Foreign and private Capital Investment operations. Some IFIs are already working on this scope of intervention -see Donnors' mapping in the next section-
Very few financial and non financial services are provided to SMEs despite they are representing over 75% of the productive economy.	Promoting the alternative finance for SMEs and reforming the capital market in particular in order for small companies to issue different types of bonds and shares. Developing non financial services in banking sector.
Low investment rate of return in the segment of on-shore SMEs	Fostering entrepreneurship and innovation promote R & D in enterprises and accelerate technology integration within the administration in order to improve public services and to reduce transaction costs. This initiative could be complementary to GIZ technical assistance on Entrepreneurship & Innovation.
A growing money hidden and inflation deeply harming the economy competitiveness and Tax collection	Make an impact study about the cost induced by the delay in payment of public expenditures on the Tunisian economy.Economic reforms in particular to regulate payment terms and avoiding that SMEs finance the treasury gap of the public sector. It's also critical to reduce distortion in the market place by removing restrictions, privileges and interest collusion between public and private operators.
Very low attractiveness of the Capital Market for SMEs	Setting up a restructuring Fund with € 1 billion could bring 500 SMEs to the Stock Exchange within 5 to 7 years (to select from companies who have benefited from the Up-Grading program and didn't access neither to public funds nor to bank credits because of a shortage in their equity. This is also an occasion to set up the credit bureau within the Central Bank of Tunisia.
Very low bonds issuance and refinancing instruments	Supporting Tunisian operators/investors to issue Bonds and Sukuk (Islamic securities) to fund some infrastructure projects following a formal strategy.
Weak contribution of remittance to finance economic growth	Designing a specific program to attract highly qualified Diaspora to invest in Tunisia, in parallel with a contribution to build up a better Business Environment and practices. Reduce the transaction costs of money transfer. Make a study to identify the opportunity to attract transfers beyond the financial system by the mobilization of productive savings through the issuance of tax-exempt bonds in foreign currency at a guarantee rate of 3.5 percent which compete the performance of Real Estate. Possible interaction with GIZ / Migration, Entrepreneurship & Innovation initiative. Linking the AfDB remittance Fund with the OPIC (USA) and AFD initiatives.
Heavy bureaucracy and tax burden in particular the Tax withholding for SMEs.	Supporting the Governance program ignitied by Tunsian Governement, and assistance to set up an inclusive social and economic developement model in order to improve the equity and transparency of the tax system, to foster investments in high-value-added sectors, and to encourage job creation. This would include reducing tax benefits for exporting companies, rationalizing tax incentives in line with a revision of the investment code, enlarging the tax base, and strengthening tax administration

Tunisian economy cannot take off unless its financial sector and productive economy recover from structural deficit that has been aggravated by the post revolution instability. Taking into account the different gaps in the financial sector and the productive economy, we obtained a total budget of €12.5 billion to allocate to a broad recovery plan for Tunisia.

GDP 2012 in billion €	37	
	%GDP	billion €
Current account deficit (2012)	8,1%	3,0
Liquity gap of State owned companies*	14%	5,0
Money hidden (terms of payment reduction)*	5%	2,0
Restructuring funds for private sector	3%	1,0
Job creation emergency plan	4%	1,5
	34%	12,5
*: estimate		

6. APPENDIX

6.1.1. BIBLIOGRAPHY & BASELINE REPORTS

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6.1.2. INTERVIEWEES

Name	Position	Organization
Adel Grar	President	Association des Intermédiaires en Bourse
Akram Majaji	Executive Director	Association des Investisseurs en Capital
Benoit Lehanneur	Directeur adjoint	AFD Tunis
Douglas Barnett	Private Sector Operations	AfDB
Eileen Murray	Country Manager	World Bank
Fadhel Abdelkefi	President	Bourse de Tunis
Karim Ghenim	President	Association des Investisseurs en Capital
Kristina Laarmarn	Directrice	KfW Tunisie
Laurent Gonnet	Senior Financial Sector Specialist	World Bank
Maher Kallel	President	Carthage Business angels
Moez Dalloua	Regional Representative	Financial Services Volonteers Corp
Mohamed Malouche	President	Tunisian American Young Profesionnals
Nabil Chahdoura	President	Cercle des Financiers Tunisiens
Philippe Lotz	Chef de Programme PAEI	GIZ Tunisie
Pr Farouk Kriaa	President	Conseil National des Statistiques
Robert Feige	Directeur	BEI Tunis office

6.1.3. MAIN ISSUES AFFECTING THE PRIVATE SECTOR GROWTH

Main issues affecting the Private Sector Growth		Potential Initiatives & Support programs	pre-requisite	risk to consider
A very low level of investment rate due to a structural gap between Investments and savings	Tunisian economy is facing a structural gap of liquidities to finance its private and public investments plan (24% of GDP in 2012). Even worse, Investment budget decreased by 1.000 MTD in the 2013 Finance Act compared with 2012 Finance Act. Current account showed a deficit of 8.1% and public debt increased to reach 45% in 2012 and is called to exceed 50% in the coming few years.	Encouraging PPP and easing the Foreign and private Capital Investment operations.	Legal and regulatory reforms to set up a PPP management unit able to identify projects and promoters/investors able to engage on PPP with international partners. Updating accordingly the new Investment Code.	Restriction in foreign exchange regulation and the absence of a proper currency risk hedge. The role of offshore banks has to be considered as today they are largely penalized with local banks competition on their offshore lending and the foreign exchange operations.
Very few financial services are provided to SMEs despite they are representing over 85% of the productive economy in term of employment.	Usually, financial services are limited to loans against tangible collateral. Large and State owned companies have the status advantage. State owned banks have a kind of "duty" to finance state owned companies and large companies are large clients that banks compete to get their seasoned business. Serious financial gap in the segment of Large and State owned companies estimated to exceed € 5 billion mainly due to management weaknesses and low productivity.	Developing non financial services in banking sector (reactivating the Development Bank concept). Promoting the alternative finance for SMEs and reforming the capital market in particular in order for small companies to issue different types of bonds and shares.	Creating incentives for banks to finance SMEs, and developing their capacity to provide highly qualified financial and non financial services for SMEs.	Banks recapitalization will require an estimate of € 5 billion and may disturb the service quality during the restructuring plan. Also this may involve a "very unpopular" M&A and privatization plan in a post revolutionary country.

Low investment rate with a low rate of return in the segment of on-shore SMEs	Market and investments are dominated by public sector in Tunisia. Gross Investment is very low and represents around 24% of GDP versus 17% of public savings only. Private sector is only contributing with an estimate of 12% of GDP (including FDI). Public investment budget is mainly dedicated to infrastructure. Low added value ventures and high fiscal and regulatory costs on employed workers in the on-shore segment get most of SMEs into a logic of subsistence and not growth.	Fostering entrepreneurship and innovation promote R & D in enterprises and accelerate technology integration within the administration in order to improve public services and to reduce transaction costs. This initiative could be complementary to GIZ technical assistance on Entrepreneurship & Innovation.	Reviewing the way Administration is crafting the annual Finance Act and promoting private investment through incentives to channel resources toward selected high-value-added and knowledge-intensive sectors.	Implementing the recommendation of the GIZ study on Research Based Spin-off. Addressing Regional Disparities and pursuing social justice and an equitable sharing of the Tax burden
A growing money hidden and inflation deeply harming the economy competitiveness and Tax collection	Most of the SMEs are depending directly of indirectly on the Public procurement which allows payment terms of more than 9 months on average as estimated by economic actors (lack of official track record on effective payment terms of public expenditure by sector). This represents at least € 2 billion escaping to the banking short term operations. Excessive delays in the payment disrupt economic activity by damaging and destabilizing cash financing plans business creditors. Beyond the sole financial management, it is the competitiveness and profitability of companies, as well as the trust between economic agents, which are involved In addition, the risk of these adverse effects strongly increases in periods of economic downturn when access to financing is more difficult. Moreover, beyond its economic effects on the economic fabric suppliers and providers of public authorities, the evolution of the payment period is an indicator of the efficiency and modernization of the administration.	Make an impact study about the cost induced by the delay in payment of public expenditures on the Tunisian economy. Economic reforms in particular to regulate payment terms and avoiding that SMEs finance the treasury gap of the public sector. It's also critical to reduce distortion in the market place by removing restrictions, privileges and interest collusion between public and private operators.	Sustainable development calls for inclusive integration of economic operators and market liberalization (in particular in the distribution sector) with a better access to finance.	Broad up-Grading program covering supervision institutions to ensure public sector accountability, the rule of law and checks and balances on power, in order to better insure governance and avoiding the monopoly in the competition markets.

Very low attractiveness of the Capital Market for SMEs	Despite the fiscal incentives and the alleviate conditions to incorporate SMEs on the alternative market, very few IPO are registered per year (3 to 5 expected in 2013). The main reason is that banks are giving cheaper funding access to these companies, beside the fact that most of them are Family Businesses with a prevaricated corporate governance. Also, Tunisia do not have a proper credit bureau to assess the financial strength of each issuer and thus create the relative value between good and bad borrowers.	Setting up a restructuring Fund with € 1 billion could bring 500 SMEs to the Stock Exchange within 5 to 7 years (to select from companies who have benefited from the Up-Grading program and didn't access neither to public funds nor to bank credits because of a shortage in their equity. This is also an occasion to set up the credit bureau within the Central Bank of Tunisia.	Reforming the legal and tax regimes by liberalizing the private equity industry (SICAR and FCPR are tax discount driven investors and cannot be considered as Private Equity) and stimulating the capital market by pushing the public sector (pension funds) to inject liquidities.	Creating an simplified accounting system and fiscal regime for SMEs. In particular, the status of "Auto Entrepreneurs" and "Société Anonyme Simplifiée" should be added in the legal frame of Commercial Companies Code.
Very low bonds issuance and refinancing instruments	The structural reason is that the bond issuance is a heavy and costly process, also, the fact that many leasing companies belongs to banks, they have access to cheaper funds and lines of credit. At the same time, banks count on the Central bank to inject the daily liquidity (2 b€ per month in average) and cover their needs (why should they go for longer tenors and pay higher premium). There is also an economic reason, is that the intermediaries never been obliged to enhance their liquidity gap by regulators so they rather increase their net margins by counting on short term financing.	Supporting Tunisian operators/investors to issue Bonds and Sukuk (Islamic securities) to fund some infrastructure projects following a formal strategy.	Upgrading the supervision authority and reforming the legal and regulatory frame for Bonds market and intermediation industry. Well- developed government securities markets are a precondition for the sound development of private fixed-income markets, as they provide the benchmark yield curve for pricing private issues and the institutional infrastructure required for market development and the management of financial risks.	A bubble in the property asset justified by the lack of investment alternatives, as a hedge for a depreciating dinar and some invested black market money.

Weak contribution of remittance to finance economic growth	Tunisia didn't provide a proper conduit to bring Diaspora (10% of the population) to invest in other sector rather than real estate. If only one third of Tunisian expatriates contribute to the transfer of currency for $ 500 monthly we'll collect a total of $ 1,8 billion at the end of the year. A large amount of remittance does not go through the formal financial system and beyond the control of the regulator because of the high transaction costs. This would have been the role of TFB (Tunisian Foreign Bank) but until now, the bank did not expand its services and network in Europe (where are located the largest number of Tunisian immigrants).	Designing a specific program to attract highly qualified Diaspora to invest in Tunisia, in parallel with a contribution to build up a better Business Environment and practices. Reduce the transaction costs of money transfer. Make a study to identify the opportunity to attract transfers beyond the financial system by the mobilization of productive savings through the issuance of tax-exempt bonds in foreign currency at a guarantee rate of 3.5 percent which compete the performance of Real Estate Possible interaction with GIZ / Migration, Entrepreneurship & Innovation initiative. Linking the AfDB remittance Fund with the OPIC (USA) and AFD initiatives.	Policymakers in Tunisia need to design adequate incentives to Tunisian expatriates to channel resources toward selected high-value-added and knowledge-intensive sectors. There are real opportunities in agriculture, industry, and the services sector to promote an intensive use of human capital and to adapt education and training to meet demand. Including the Banking sector, in particular by expanding the scope and the network of Tunisian Foreign Bank in Europe and MENA region.	Capacity Building needed for the finance sector in general and bankers in particular to integrate the global financial market.
Heavy bureaucracy and tax burden in particular the Tax withholding for SMEs.	Although the tax system seems fairly well designed, with a progressive income tax and a corporate tax of 30 percent on profits, it hides three major distortions that make the country's income distribution even more unequal. First, the government collects more indirect taxes than direct taxes. On aver- age, only one-third of Tunisia's tax revenues are from direct taxes, compared with two-thirds from indirect taxes. The burden of indirect taxes falls much more on the poor, as they usually consume their entire income. The rich can escape indirect taxes and can benefit from tax favors by saving or investing part of their income. Second, individuals pay much more in taxes than companies do. The modest contribution of corporate taxes is largely due to the generous fiscal incentives granted to big companies under the	Tax reforms to mobilize larger revenues, improve the equity and transparency of the tax system, foster investments in high-value-added sectors, and encourage job creation. This would include reducing tax benefits for exporting companies, rationalizing tax incentives in line with a revision of the investment code, enlarging the tax base, and strengthening tax administration	Streamlining the tax policy and formal economy inclusion strategy. Need for monetary policy tightening to contain inflationary pressures	Reducing interferences of incentives and privileges management by the Administration.

	investment code. According to estimates of Tunisian tax administration, every year the government gave up between 50 percent and 60 percent of the corporate taxes that were due, in the form of tax incentives. Yet despite such generosity, these tax breaks and exemptions were ineffective in promoting private investment and creating jobs. Third, wage earners—who mostly belong to the middle class—pay three- quarters of income taxes, compared with one-quarter for nonwage earners. The lack of social justice in Tunisia is magnified by ineffective social spending policies. Tunisia spends between 4 percent and 5 percent of GDP in transfers and subsidies yearly. Fuel and food subsidies absorb between 2.5 percent and 4 percent of GDP (, depending on the international prices of oil and cereals, and benefit both rich and poor households. Subsidies tend to benefit the rich more than the poor, and thus have a perverse effect on inequality. Direct subsidy of the State (compensation for commodities, oil and transportation) keep a high rate of 4200 MTD (2013 finance Act) and the equivalent of 5.4% of GDP against 5.9% in 2012. Inadequate Finance Law 2013 and tax collection scheme with the generalization of the mechanisms of Tax withholding, which will generate more non returnable overpayments since the administration is flooded with requests for restitution. Applications that have not yet found the right answer for lack of cash flow and because the inability of regional centers to treat.			