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**TUNISIA ICT COMPETITIVENESS PROJECT**

# Quarterly Report

October - December 2012

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# USAID ICT Competitiveness Project

## Quarterly Report October – December 2012

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### **DISCLAIMER**

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## ACRONYMS

ACP	Alternative Capital Partners
ADSS	All Dielectric Self-Supporting
AfDB	African Development Bank
ANETI	National Employment Agency
ANF	National Spectrum Agency
APII	Agency for the Promotion of Investment and Innovation
APTBEF	Tunisian Professional Association of Bankers and Financiers
BFMPE	SME Finance Bank
BIAT	Banque Internationale Arabe de Tunis
BPA	Blanket purchase agreement
BPO	Business Process Outsourcing
CAT	Business and Technology Convention
CB	Central Bank
COMESA	Common Market for East and South Africa
DCA	Development Credit Authority
DGI	Direction Générale des Impôts
EDP	Executive Development Program
EFE	Education for Employment
EU	European Union
FIPA	Foreign Investment Promotion Agency
GBTI	Global Business, Trade, and Investment
GDP	Gross domestic product
GOT	Government of Tunisia
IACE	Institute of Arab Business Leaders
ICT	Information Communications Technology
IFC	International Finance Corporation
INT	National Telecommunications Authority
IO	Integration Objects
IPO	Initial Public Offering
IPR	Intellectual property rights
IT	Information Technology
ITO	Information Technology Outsourcing
ITU	International Telecommunication Union
KOICA	Korean International Cooperation Agency
LOB	Line of Business
MCC	Millennium Challenge Corporation

MF	Ministry of Finance
MFPE	Ministry of Vocational Training and Employment
MHESR	Ministry of Higher Education and Science Research
MICT	Ministry of Information and Communications Technology
MOU	Memorandum of Understanding
MS	Microsoft
MSA	Ministry of Social Affairs
MSME	Micro, small and medium enterprise
NCA	National Constituent Assembly
NITF	National Information Technology Federation
NTB	Non-tariff barriers
OTJ	On the job training
PIT	personal income tax
PPP	Public-private partnership
SEGIR	Support for Economic Growth and Institutional Reform
SME	Small and medium enterprise
SSM	Strategic Selling Methodology
STEG	Société Tunisienne de l'Electricité et du Gaz
STTA	Short-term technical assistance
TACC	Tunisian American Chamber of Commerce
UNCITRAL	United Nations Commission on International Trade Law
USAID	United States Agency for International Development
UTICA	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat
VAT	Value-added tax
VET	Vocational education and training
WAEMU	West Africa Economic and Monetary Union
WTO	World Trade Organization

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>PROGRESS .....</b>	<b>1</b>
<i>Component 1. Increasing and Developing ICT and ICT-enabled Entrepreneurship.</i>	<i>1</i>
<i>Component 2. Growing and Developing Tunisia's ICT Workforce.....</i>	<i>3</i>
<i>Component 3. Developing ICT Policy and Regulatory Reform.....</i>	<i>4</i>
<b>OPERATIONAL CHALLENGES AND SOLUTIONS .....</b>	<b>5</b>
<b>PLANNED ACTIVITIES FOR THE NEXT QUARTER .....</b>	<b>6</b>
<i>Component 1. Increasing and Developing ICT Entrepreneurship.....</i>	<i>6</i>
<i>Component 2. Growing and Developing Tunisia's ICT Workforce.....</i>	<i>7</i>
<i>Component 3. Developing ICT Policy and Regulatory Reform.....</i>	<i>7</i>
<b>INTRODUCTION .....</b>	<b>8</b>
<b>PROGRAM OBJECTIVES .....</b>	<b>8</b>
<b>PROGRESS BY COMPONENT .....</b>	<b>9</b>
<b>COMPONENT 1. INCREASING AND DEVELOPING ICT AND ICT-ENABLED ENTREPRENEURSHIP ....</b>	<b>9</b>
<i>1.1 Assess comparative and competitive advantage in ICT sector, select ICT market segments and support SMEs with employment and export potential.....</i>	<i>9</i>
<i>1.2 Assess comparative and competitive advantage in ICT-enabled sectors, select high-potential ICT-enabled market segments, design and implement support programs for ICT-enabled SMEs with employment potential.....</i>	<i>11</i>
<i>1.3 Stimulate the provision of sustainable financing for high-potential ICT and ICT-enabled companies and SMEs, enhance equity and quasi-equity financing, develop DCA partial guarantee.....</i>	<i>12</i>
<b>COMPONENT 2. GROWING AND DEVELOPING TUNISIA'S ICT WORKFORCE .....</b>	<b>13</b>
<i>2.1 Identify companies to partner with on training, internships, hiring and capacity building; and build public-sector partnerships .....</i>	<i>13</i>
<i>2.2 Identify private or public training institutions.....</i>	<i>14</i>
<i>2.3 Design and implement training programs .....</i>	<i>14</i>
<i>2.4 Map labor demand and supply in ICT sector .....</i>	<i>15</i>
<i>2.5 Assess and recommend improvements to ICT curriculum .....</i>	<i>15</i>
<i>2.6 Develop job-matching programs, including job fairs.....</i>	<i>15</i>
<b>COMPONENT 3. DEVELOPING ICT POLICY AND REGULATORY REFORM.....</b>	<b>16</b>
<i>3.1 Develop ICT technical support/outreach and consensus-building framework</i>	<i>16</i>
<i>3.2 Define enabling environment reform agenda .....</i>	<i>16</i>
<i>3.3 Propose enabling environment reforms .....</i>	<i>16</i>
<i>3.4 Comment on draft revisions to the Investment Code.....</i>	<i>16</i>
<i>3.5 Further develop e-governance and e-commerce.....</i>	<i>16</i>
<i>3.6 Establish ICT Task Force.....</i>	<i>18</i>
<i>3.7 Amend Telecommunications Code in accordance with international best practice.....</i>	<i>18</i>
<i>3.8 Fiscal policy and administration.....</i>	<i>23</i>
<i>3.9 Develop ICT-relevant financial sector reforms .....</i>	<i>24</i>

3.10 Review labor market issues to stimulate employment in ICT and ICT enabled sectors.....	24
3.11 Develop Policy Action Plan to reduce trade barriers.....	24
3.12 Initiate dialogue and coordination with relevant stakeholders and conduct public/private workshops .....	25
<b>OPERATIONAL CHALLENGES AND PROPOSED SOLUTIONS .....</b>	<b>26</b>
<b>PLANNED ACTIVITIES FOR THE NEXT QUARTER .....</b>	<b>27</b>
COMPONENT 1. INCREASING AND DEVELOPING ICT AND ICT-ENABLED ENTREPRENEURSHIP..	27
COMPONENT 2. GROWING AND DEVELOPING TUNISIA’S ICT WORKFORCE .....	28
COMPONENT 3. DEVELOPING ICT POLICY AND REGULATORY REFORM.....	28
STTA SCHEDULE .....	31
<b>TRIP REPORTS.....</b>	<b>32</b>
October:	
Firas BenAchour, ICT Sector Advisor	
Kelly Cameron, Telecommunications Code Reform Advisor	
Jim Defay, Senior Financial Advisor	
Neil MacKinnon, Security Advisor	
Deborah Porte, Business Enabling Environment Advisor	
Bernadette Wakim, Senior ICT Workforce Development Advisor	
November:	
Firas Ben Achour, ICT Sector Advisor	
Anna Kordunsky, Communications Specialist	
Nasser Lama, ICT-Enabled Sector Advisor	
Neil MacKinnon, Security Advisor	
Martin Morrell, ICT Policy and Infrastructure Advisor	
Karim Morsli, BPO Advisor	
David Townsend, ICT Policy Advisor	
Bernadette Wakim, Senior ICT Workforce Development Advisor	
Jim Wooster, Senior Fiscal Policy Specialist	
December:	
Kelly Cameron, Telecommunications Code Reform Advisor	
Alvaro Garcia, E-governance Specialist	
Janis Grover, US Specialty Food Market Advisor	
Nasser Lama, ICT Technical Support with Companies	
Tocher Mitchell, Financial Sector Outreach Support	
Karim Morsli, BPO Advisor	
Elly Preotle, Technical Manager	
Stephen Strauss, Credit Risk Analysis & Risk Management Expert	
David Townsend, ICT Policy Advisor	
<b>TECHNICAL REPORTS.....</b>	<b>162</b>
Tunisia e-Governance Strategy	
BIAT – SME Access to Credit	
Policies to Promote Employment of Graduates	
Enhancing the Loan Evaluation Process for the BFPME	

Access to Finance  
Analysis of Infrastructure and Broadband Access  
Analysis of BPO Sector  
Facilitating Private Equity Investment in the Tunisian ICT Sector  
Universal Service Policy  
Tax Policy, Administration and Intergovernmental Fiscal Reform

## EXECUTIVE SUMMARY

### Progress

#### ***Component 1. Increasing and Developing ICT and ICT-enabled Entrepreneurship***

##### **ICT Sector**

The Project made significant progress building relationships with ICT companies to provide technical assistance and training to increase employment. To date, the Project has identified the hiring, technical assistance and training requirements of 66 ICT companies including software developers, systems integrators, mobile applications developers, and outsourced business services providers. These companies plan to fill 1,018 new jobs by June 2013. The Project prioritized 34 client companies with the highest potential for revenue generation and job creation for intense business consulting assistance. These clients plan to hire 877 new employees by June 2013, and are partnering with the Project in a four-step consulting process aimed at training new staff and increasing their competitiveness. The Project formalized partnerships with 10 ICT companies including Digital Mania, Tunisia's leader in mass audience online games, Smart Host, the leading provider of off-shore cloud computing services, and Axe Finance, a leading exporter of financial software developer. These clients have signed engagement commitment letters with the Project, and will hire 100+ employees. The Project delivered business strategy and equity investment consulting services to key ICT client companies including Smart Host, Integration Objects, HLI Consulting, Zouz, Digital Mania, Cynapsys, and Axe Finance.

During October-December 2012, the Project sponsored four events aimed at promoting the growth of small and medium enterprises (SMEs):

- The Project and Microsoft co-sponsored 10 SMEs to attend the Business and Technology Convention (CAT) Trade Show, Tunisia's largest post-revolution international trade and investment show.
- The Project conducted an Open Forum on ICT Entrepreneurship at the WOWZAPP event sponsored by Microsoft, which was broadcast to 300+ WOWZAPP participants in Tunis and Gafsa, Tunisia.
- The Project sponsored HLI Consulting to attend the Microsoft Open Door trade show and conduct business development in Dakar, Senegal. HLI, a Microsoft partner, is actively developing its Francophone Africa market. The company generates 75% of its revenues from export sales. HLI has hired 20 new employees since September 2012.

**USAID ICT Competitiveness Project Receives Praise  
from Minister of Investment and International  
Cooperation**

Mr. Alaya Bettaieb, Secretary of State to the Minister of Investment and International Cooperation, praised the Project for stimulating ICT entrepreneurship, industry development and job creation at the 2012 Microsoft Annual Start-up Awards Program.

- The Project briefed Microsoft (MS) partners on project goals, training services, and value proposition, and conducted marketing outreach to MS distributors at the MS New Era event held in Tunis.

The Project implemented several training programs to build the capacity of managers at ICT companies:

- The Project provided a training workshop on sales and marketing for 11 mid-level managers anticipating promotion, at its anchor partner Telnet, Tunisia's largest publicly traded IT services company.
- The Project piloted a two day Strategic Selling Methodology (SSM) workshop in Sousse for client ICT companies.
- The Project and its anchor partner Telnet, Tunisia's largest publically traded IT services company, kicked-off the Telnet Executive Development Program with a technical sales and marketing workshop for Telnet Line of Business (LOB) Directors. The Project is training and consulting LOB Directors in sales and marketing, ICT human resources and technology management.

Additional activities during the quarter included continuing work with Tunisia's leading business process outsourcing (BPO) service providers, meeting with call centers that target Europe and the Middle East to discuss training and job creation, and establishing an agreement with the African Development Bank (AfDB) with implementation of the Souk At-tanmia (Investment Market) Program, an economic development program that encourages young entrepreneurs to develop new businesses and promote job creation. Details of the Project's business coaching proposal to Souk At-tanmia grantees are being developed.

### **ICT-Enabled Sector**

The Project made significant progress identifying companies in ICT-enabled sectors with hiring needs. The Project met with over 50 companies in the textile and food processing sectors to ascertain the technical assistance and training needs to improve the competitiveness of these companies. FENATEX, the textiles federation, hosted a meeting to present the Project to its member companies. Information on technical assistance and training requirements as well as potential employment was collected from 50 companies across Tunisia interested in working with the Project. The Project will provide a document to FENATEX that will give guidance for the entire industry on the key upgrading pathways available to them.

The Project provided technical assistance and training to several ICT-enabled companies. The Project provided technical assistance on lean manufacturing to two medium-sized ICT-enabled enterprises: a high-end jeans producer and a brand-name clothing manufacturer. The Project also held a full-day workshop for olive oil producers interested in reaching the US market, as the first step of company-specific technical assistance to boost competitiveness and employment, including through enhanced use of ICT tools. The Project and the companies' managers developed plans to improve marketing and expand sales and exports, including through coaching participation at key international trade fairs. CEPEX recently launched the Primo

Export Program aimed at assisting 200 ICT and ICT-enabled SMEs to build export capabilities during FY2012/2013. The Project will mentor and train selected Primo Export companies.

The Project also reached an agreement with the Tunisian American Chamber of Commerce-Sfax (TACC) to partner to stimulate employment and co-hosted a joint workshop in Sfax on November 9 to introduce the Project to companies in the region. 35 companies filled out questionnaires regarding technical assistance and training needs, which the Project then prioritized and synthesized for maximum job creation potential.

### **Access to Finance**

The Project provided technical assistance and training to two banks to increase lending to SMEs. The Project completed two months of technical assistance, including training in SME credit risk assessment at Banque Internationale Arabe de Tunisie (BIAT), the largest privately owned bank in Tunisia. The Project helped BIAT develop its SME strategy, reviewed BIAT's entire SME loan process and presented recommendations with a view to improving credit risk management and increasing loan volume in a prudent fashion using international best practice. The Project completed one month of technical assistance for Banque de Financement des Petites et Moyennes Entreprises (BFPME), the SME finance bank. BFPME is implementing the Project's recommendations on streamlining of its loan approval process. The Project also co-sponsored with BFPME a SME recruitment event for BFPME borrowers.

In addition to banks, the Project also worked with the following financial institutions:

- The Project provided technical assistance to three private equity firms, Abraaj Capital, Alternative Capital Partners and Tuninvest to improve access to finance for SMEs.
- The Project provided technical assistance in strategic sales for executives of AxeFinance, a company that provides solutions for credit process automation and IT consulting.
- The Project provided extensive advice to three ITC firms, Integration Objects, DigitalMania and Cynapsys, on preparing presentations to prospective investors.
- The Project commenced technical assistance to Hannibal Lease, Tunisia's fifth largest leasing company, to review and improve Hannibal Lease's SME leasing and underwriting process. Assistance is aimed at helping Hannibal to expand its leases for machinery and equipment in the SME segment.

### **Component 2. Growing and Developing Tunisia's ICT Workforce**

The Project organized its first job fair, Tunisi@Work on November 8<sup>th</sup> to promote job creation and matching between employers and job seekers in the ICT sector. The event was a success and brought together 84 ICT and ICT-enabled companies with more than 876 jobs for the 3,000 young professionals seeking jobs who visited the fair.

The Project met with the leadership of the National ICT Federation to discuss ongoing collaboration in the areas of public-private partnerships, ICT sector strategy, and labor market analysis.

The Project achieved the following under its training program:

- The Project reviewed and evaluated proposals from training organizations in response to its RFP to provide “soft skills” training for INFOTICA members including business workplace skills, sales skills, and business English skills. The proposal evaluation process resulted in the selection of AMIDEAST as the vendor for business English skills training, and Education for Employment-Tunisia (EFE) as the vendor for workplace skills and sales skills training.
- The Project released a Blanket Purchase Agreement (BPA) RFP to identify and select a pool of qualified training providers that can be tapped to provide training over the life of the Project, which resulted in 79 expressions of interest and 21 Tunisian training organizations submitting proposals by the first due date. Eleven Tunisian training organizations submitted proposals that met the minimum submission requirements.
- Two ICT companies in the city of Sousse launched skill-building courses in business English and workplace success for 26 young professionals, with support from the Project.
- Eleven job candidates from four companies in Tunis began taking English language classes at AMIDEAST Tunis.
- Logistics are being discussed with Transcom for the training of up to 200 people in Italian. PhoneWorld has asked for training in French and soft skills for up to 100 people. Both programs for these call centers serving Europe is expected to start in late January.

### ***Component 3. Developing ICT Policy and Regulatory Reform***

The Project’s accomplishments under Component 3 include:

- The Project drafted an ICT Task Force Agreement for consideration by the National ICT Federation as well as a Collaboration Proposal for the Project’s coordination with the National ICT Federation moving forward. Both government and private sector counterparts agreed that the Telecom Code should be replaced rather than amended and were also supportive of establishing a number of broadband pilot projects in to help stimulate build out of broadband networks and wider take-up of broadband services.
- The Project also conducted several meetings with stakeholders in telecommunications, including the Agence Tunisienne de l’Internet, Tunisie Telecom, the regulatory agency INT, and independent internet service providers.
- Project leaders met with senior advisors at the MICT to finalize a work plan for technical assistance to draft a new Telecom Code (Digital Communications Code) and prepare a Broadband Gap Analysis over the course of the next six months.
- Based on a review of Tunisia’s tax and labor regimes, the Project developed an Emergency Job Creation Plan to combat Tunisia’s high unemployment rate and address the need for an immediate response. The Project is working with the Ministry of Finance, Ministry of Regional Development and Planning, and private sector stakeholders to draft detailed tax policy reform proposals and build consensus within the GOT and the broader business community. In anticipation of further large data transfers related to tax policy analysis, work

has begun in programming a Tunisia micro-simulation model that will articulate with the GOT databases.

- The Project also undertook e-governance work and began mapping business enabling environment constraints. The Project presented to the e-Administration Unit an evaluation of the e-procurement system; proposed work on the organization, roles, and responsibilities of the e-Administration Unit; and discussed areas of future collaboration.
- The Project co-sponsored the IACE (Institut Arabe des Chefs d'Entreprises, Institute of Arab Business Leaders) Enterprise Days event in Sousse on December 7-8, 2012. The event provided a platform for the Project to present its work on tax policy reform, business enabling reform and sector development strategies.
- The Project is working with the Tunisian American Chamber of Commerce (TACC) on co-hosting public-private roundtables on tax reform, business-enabling environment and access to finance. The roundtables will be held in the next three months, drawing together representatives of both sectors to build consensus for key policy reforms.
- The Project met with the IMF tax policy team to coordinate fiscal policy advice, affirming agreement on priority reform areas needed to broaden the tax base and lower tax rates.
- The Project met with Mr. Ali Chebbi, economic advisor at the Prime Minister's office, and Mr. Nizar Alaya, advisor to the Minister of Investment and International Cooperation, to explore possible areas of cooperation, including in the areas of investments and macroeconomic reform that would improve the business enabling environment for ICT and other sectors.

## Operational Challenges and Solutions

The Project faced political, economic and security problems during October-December 2012:

- **Political.** The Project faces a number of challenges that are due to the political circumstances of Tunisia. The NCA is making very slow progress in drafting a new Constitution, which delays elections and weakens the mandate of the temporary government, hampering reform. Nonetheless many laws have been adopted new or modified. The Project will therefore continue to search for opportunities to make significant policy changes by law, regulations or improvement to practices.
- **Economic.** The continued poor performance of Europe, Tunisia's main trading partner, makes for a sluggish economy in which companies are slow to hire. Obtaining employer commitments to support skills training for job candidates, and then to hire those job candidates upon successful completion of training remains an on-going challenge. Many employers have expressed the need for training and capacity-building of existing employees rather than new hires. The Project has expanded its work into ICT-enabled sectors and is working with several employers who are interested in co-financed training and are can commit to hiring large numbers of job candidates.

- **Security.** The security situation in Tunisia deteriorated during the previous quarter. The Project has moved to a more secure location, has added a security manager to its staff, and has undertaken a wholesale revision of all operations.

## Planned Activities for the Next Quarter

### *Component 1. Increasing and Developing ICT Entrepreneurship*

#### **ICT Sector**

The ICT sector team will focus on four key activities during the next quarter:

- **Client Service Delivery:** the ICT team will maximize client satisfaction and the probability of new job creation by concentrating team resources and STTA expertise to serve 34 high-potential client companies planning to hire 877 new employees by June 2013. STTA has been requested to build ICT team expertise and service delivery capability in four areas: ICT business and technology strategy, technical sales and marketing, equity investment analysis, and ICT human resources management.
- **Microsoft (MS) Partnership:** the Project will build on and deepen its successful strategic partnership with Microsoft Tunisia by planning and delivering workshops, road shows, and marketing events for MS partners in Tunis and key cities regionally. These activities will be coordinated with the Project's training team.
- **Telnet Partnership:** the Project and its anchor partner Telnet will fully implement the Telnet Pre-Hire Intern Program and Telnet Executive Development Program (EDP). The Project will train 100 Pre-Hire Program interns in technical and business English, workplace skills, and ICT technical skills. In addition, the Project will conduct workshops, and provide business consulting and mentoring services in sales and marketing, ICT human resources, and technology management for 12 Telnet Line of Business Managers and 20 Senior Project Managers Telnet participating in the Executive Development Program. These activities will be coordinated with the Project's training team.
- **Training for BPO clients:** The Project will also begin training for BPO clients, who have a readily identified need for hundreds of new call center employees to serve the European market.

#### **ICT-Enabled Sector**

The Project will continue to deliver technical assistance and training to key companies with the greatest potential for employment generation. The Project will also coach selected food producers in effective trade show participation, starting with the Winter Fancy Foods Show in San Francisco in late January 2013. Participants will then be debriefed about next steps and will have to commit to action plans in order for the Project to continue support to create new jobs.

### **Access to Finance**

The Project will continue its technical assistance to Hannibal Leasing, to help this dynamic company increase its leasing of productive equipment to Tunisian SMEs.

The Project will continue providing technical assistance to financial institutions to improve SME credit policy and administration

### **Component 2. Growing and Developing Tunisia's ICT Workforce**

Component 2 will undertake the following activities during the next quarter:

- The Project will finalize Blanket Purchase Agreement contracts with 11 training organizations and begin to issue task orders for business and technical skills training through these institutions. A second group of BPA proposals will be reviewed.
- The Project will work with education counterparts on specific steps to improve the ICT curriculum, based on questionnaires received last quarter.
- The Project will set up for at least one job fair next quarter, preferably outside the greater Tunis area, and build the capacity of ANETI and the Ministry to replicate these fairs.
- The Project will work to launch at least two career centers to better align job offerings and job seeker profiles and to increase the success rate of students' job searches.

### **Component 3. Developing ICT Policy and Regulatory Reform**

Component 3 will achieve the following next quarter:

- The Project will continue to pursue its aggressive policy reform agenda throughout the next quarter, building on strong counterpart development and mobilization.
- The Project will have its findings and recommendations on the business environment validated by both private and public sector representatives and support the development of a roadmap for streamlining business processes. Once the draft Investment Code is made available, the Project will make comments and recommendations and seek champions for improvements as required.
- The Project will work intensively on drafting the new Telecom Code with MICT and its designated drafting working group partners. This work will begin early in the quarter: the Project has proposed that a comprehensive draft be developed by end of March 2013.
- The Project will also support the MICT with a gap analysis to determine geographical broadband access. In the next quarter, work will begin on collating the data necessary and building the analytical framework for the gap analysis to match coverage to demand.
- Work will continue on collating and cleaning the tax data necessary for a rudimentary SOI analysis and a micro-simulation model to inform tax policy reform.
- The Project will prepare a report highlighting the principal Labor Code impediments to employment and propose limited reforms.

- The Project will prepare a report highlighting collateral restrictions as a limitation on access to bank financing and propose practical changes.
- The Project will prepare a report highlighting key trade barriers and propose steps likely to increase employment.
- The Project will co-host two roundtables with TACC, at which the Project will present findings and recommendations on tax reform and the business enabling environment.

## INTRODUCTION

This document presents the Quarterly Report for October - December 2012 for the USAID Tunisia Information Communications Technology (ICT) Competitiveness Project Task Order No. AID-OAA-TO-12-00017 under the Support for Economic Growth and Institutional Reform (SEGIR) Global Business, Trade, and Investment (GBTI) II Contract No. AID-EEM-I-00-07-00003. The Project commenced on May 22, 2012 with contract signature and is expected to continue through June 13, 2013.

The following sections present:

- Program Objectives
- Progress by Component
- Operational Challenges and Proposed Solutions
- Planned Activities for the Next Quarter.

## PROGRAM OBJECTIVES

Tunisia's ICT workforce deserves significant credit for the launch of the Arab Spring, having deployed cutting-edge ICT tools in the service of public information, revolution, and democracy. A compelling combination of strong engineering education, cultural and geographic proximity to Europe, language skills, and a positive business environment uniquely position the Tunisian workforce to serve as an ICT support hub for Europe and for North Africa, as well as providing to the domestic market. However, Tunisia still has an ICT industry comprised of local companies not yet fully experienced in the international arena, an ICT workforce whose skills do not fully meet employers' expectations, and an ICT legal and regulatory environment that is not as competitive as those in some other relevant countries. The expectations of the population of Tunisia are for gains in economic opportunity on par with what has been achieved over the last year with advances in democracy.

The Tunisia ICT Competitiveness Project will play a critical role in jumpstarting this process and driving dynamic growth in the ICT sector. The program will build upon the positive foundational elements for sustainable economic growth already in place in Tunisia, while working to remedy key deficiencies in the competitiveness and training-related institutional framework that inhibit the translation of macro-level economic growth into broad-based job growth.

The main objective of the Tunisia ICT Competitiveness Project is to provide assistance focused on ICT sector development to enhance its role as a catalyst for accelerated private sector growth and job creation. Program activities are organized into three components:

- Component 1: Increasing and Developing ICT and ICT-Enabled Entrepreneurship
- Component 2: Growing and Developing Tunisia's Workforce
- Component 3: Developing ICT Policy and Regulatory Reform.

The Quarterly Report includes the following sections:

- **Progress by Component** presents the progress made by each component against work plan activities.
- **Operational Challenges and Solutions** discusses the challenges that the Project faced during the quarter and the steps the Project took to overcome them.
- **Planned Activities for the Next Quarter** presents the key activities the Project will undertake in January - March 2013.
- **Trip Reports** includes summaries of technical assistance trips taken during the quarter.
- **Technical Reports** includes deliverables produced during the quarter.

## Progress by Component

### Component 1. Increasing and Developing ICT and ICT-Enabled Entrepreneurship

#### ***1.1 Assess comparative and competitive advantage in ICT sector, select ICT market segments and support SMEs with employment and export potential***

- The Project initiated consulting service outreach for 35 ICT companies, after identifying their hiring needs, technical assistance and training requirements. These companies, which include software developers, systems integrators, mobile applications developers, and outsourced business services providers, plan to fill 600+ new jobs by June 2013.
- The Project initiated consulting service delivery with 13 ICT companies in Tunis and Sousse: Axe Finance (financial industry software), Smart Host (cloud computing services), Proxym-IT (out-sourced IT services), Apptiva IT (mobile software developer), Integration Objects (out-sourced energy industry software and services), Via Mobile (mobile banking and electronic payments software developer), Dot IT (telecom and banking industry software), Cynapsys (IT systems integration and services), I-way (Sfax-based out-sourced IT manpower), RFC (IT systems integration and solutions), Zouz (On-line matchmaker), DigitalMania (mobile game developers), HLI Consulting (enterprise systems integration).
- The Sfax Chamber of Commerce & Industry (SCCI) agreed to partner with the Project to stimulate economic growth, job creation and entrepreneurship in the industry rich Sfax region of Tunisia. SCCI and the Project will work jointly to identify and recruit ICT and ICT-enabled companies to participate in cost-shared technical assistance and training in exchange for hiring Tunisian job seekers.

- Via Mobile, Tunisia's market leader in e-banking and e-payments products, signed an engagement commitment letter (ECL) with the Project to hire five new ICT employees and committed to cost-shared technical assistance and training.
- Proxym-IT, an IT services and solutions provider supporting customers in MENA and Europe, signed an ECL with the Project to hire 18 new ICT employees and cost-share the training and technical assistance.
- The Project conducted an Open Forum on ICT Entrepreneurship on November 9, 2012 at the WOWZAPP event sponsored by Microsoft. The Project's presentation was broadcast to 300+ WOWZAPP participants in Tunis and Gafsa, Tunisia.
- On November 26<sup>th</sup>, the US Ambassador to Tunisia, Jacob Walles, praised the Project for stimulating ICT entrepreneurship, industry development and job creation at the 2012 Microsoft Annual Start-Up Awards Program held at the Microsoft Innovation Center.
- The Project and Microsoft (MS) co-sponsored 10 SMEs at CAT, Tunisia's largest post-revolution international trade and investment show held in Tunis November 28-30, 2012. More than 600 Tunisian and international companies and potential investors attended the event. The exhibit space jointly supported by the USAID Project and Microsoft, gave the opportunity for the SMEs to meet potential investors, explore new business opportunities, and build international market linkages.
- The Project is working with Tunisia's leading BPO service providers and is deepening its work with ICT-enabled call centers that target Europe and the Middle East. The Project met with the following companies to assess industry competitive conditions and potential: Advancia Teleservices, Phone World, Open Vision, Stream, WIV, COSTUNISIE, CSN CAREC.

***Information Technology Outsourcing (ITO) vs.  
Business Process Outsourcing (BPO)***

- **ITO** is a vendor-driven market with as its main objective the **reduction of the cost of IT systems or site/data centers**. It usually involves very well defined, mature and easy to source (domestically or offshore) processes.
- **BPO** is focused on improving a business' competitive edge, by focusing on **improving efficiencies, productivity and performance**.

While ITO is widely accepted as being a cost-cutting measure with very finite actions, BPO is similarly regarded as being an activity that helps a company generate more revenues and increase margins. An immediate consequence is that a BPO company establishes long-term relationships with its clients, relationships which grow in complexity over time with the client, establishing links that are more difficult to break as time passes. ITO is the opposite: its finite perspective forces ITO companies to constantly seek new clients to renew the finished activities from previous ones.

Businesses around the world have been at cost-cutting for the last 5-8 years: all the low hanging fruits are gone, and except for India, ITO destinations are finding such projects harder to come by. Tunisia is not immune to this trend which unfortunately has been hastened by the Revolution.

The challenge ahead for businesses is to start focusing on finding creative ways to generate new revenue streams. BPOs assist clients in this direction, with some sophisticated BPO groups able to provide out-of-the-box thinking to their client, enabling them to consider novel ways of generating revenues which they would not have otherwise seen.

Global growth of BPO is outpacing that of ITO business, in both percentage terms and dollar values. The sustainability of BPO companies is unquestioned. The challenge for BPO companies, just like for ITOs, is to climb the value chain.

In Tunisia, the ITO/BPO sector is directly responsible for some 25,000 jobs, of which 20,000 or 80% are BPO. Both BPO and ITO offer jobs that can be made into careers, allowing people to become productive economic participants.

- The Project agreed to assist the African Development Bank (AfDB) with implementation of the Souk At-tanmia (Investment Market) Program, an economic development program that encourages young entrepreneurs to develop new businesses and promote job creation. The Project will mentor and train selected ICT and ICT-enabled Souk At-tanmia enterprises.
- The Project piloted a two day Strategic Selling Methodology (SSM) workshop in Sousse for client ICT companies.
- Microsoft (MS) Tunisia introduced its latest technology products and solutions at the annual MS New Era event held in Tunis for its software and hardware distributors; the event that attracted 20 distributors from all regions of Tunisia. The Project briefed MS partners on project goals, training services, and value proposition, and conducted marketing outreach to MS distributors, at the invitation of Mohamed Bridaa, CEO, MS Tunisia.

### ***1.2 Assess comparative and competitive advantage in ICT-enabled sectors, select high-potential ICT-enabled market segments, design and implement support programs for ICT-enabled SMEs with employment potential***

- The Project and TACC-Sfax jointly hosted a workshop in Sfax on November 9 to introduce the Project to companies in the region. 35 companies filled out questionnaires regarding technical assistance and training requirements.
- The Project pursued partnerships with a number of companies and associations to promote ICT-enabled value chain development: Orbit International (textile manufacturer), Group Ben Romdhan (food processing), FENATEX (National Textile Association), Tiffany (textile company), Warda (pasta manufacturer), PGT (textile company), Bratex/Mylos (textile company), Seratex (textile factory), STID WORKMAN (textile company), and SGM (textile company). The Project is following up with these companies to design training and technical assistance plans.
- FENATEX hosted a meeting to present the Project to its member companies. Information on technical assistance and training requirements as well as potential employment was collected from 50 companies across Tunisia interested in working with the Project. The Project will provide a document to FENATEX that will provide guidance for the entire industry on the key upgrading pathways available to them.

- CEPEX, the Tunisian Center for Export Promotion, is reviewing a strategic partnership agreement with the Project and also recently launched the Primo Export Program aimed at assisting 200 ICT and ICT-enabled SMEs to build export capabilities during FY2012/2013. The Project will mentor and train selected Primo Export companies.
- The Project commenced work with two medium-sized enterprises: CRJ (jeans producer) and Aramys (brand-name fashion clothing producer), who jointly will hire approximately 1,200 new workers over the next six months based on improvements being initiated by the Project. The Project also carried out assessments of five other apparel manufacturers and will move forward with at least two of them with similar action plans.
- The Project met over 30 olive oil producers and conducted a ‘summit meeting’ with the top 7 olive oil exporters, where the Project persuaded the managers to agree on goals for joint cooperation on marketing development at several trade fairs coming up in the next five months. In exchange for their agreement to upgrade their marketing staff (in part with training), the Project will help penetrate or expand export markets. We estimate that this will yield approximately 300 direct jobs over the coming year, with many more indirect jobs stimulated in agricultural regions.

### ***1.3 Stimulate the provision of sustainable financing for high-potential ICT and ICT-enabled companies and SMEs, enhance equity and quasi-equity financing, develop DCA partial guarantee***

- The Project carried out two months of technical assistance for Banque Internationale Arabe de Tunisie (BIAT), the largest privately owned bank in Tunisia. The Project consultant working with BIAT analyzed the bank’s SME loan process and made recommendations on how to streamline and otherwise improve it. Equally important, he participated in initial efforts to develop the Bank’s SME strategy and planning for BIAT’s new Small Business Centers, which will focus on SME clients only. Lastly, he carried out a two-day training program for 12 middle level BIAT managers in SME credit risk assessment. Feedback regarding the training was positive; all the participants said they will utilize the concepts learned in their SME operations.
- The Project completed one month of technical assistance for Banque de Financement des Petites et Moyennes Entreprises (BFPME), the government-owned SME finance bank. The assistance is aimed at helping BFPME to streamline and otherwise improve its loan application evaluation process. During the end of assignment presentation, the reaction of BFPME’s senior management to the Project’s recommendations, which included a list of Minimum Acceptable Risk Criteria to screen out loan applications that are not worth pursuing with due diligence, was positive.
- A Project briefing (hosted by BFPME) was held on November 16<sup>th</sup> for the ICT company borrowers of BFPME. The purpose of this event was for the Project to explain the training and technical assistance that it can provide to the companies’ newly hired employees.
- Hannibal Lease, a fast growing, 10 year old leasing company soon to carry out an initial public offering (IPO), signed a letter of intent with the Project. The Project commenced one month of technical assistance, reviewing Hannibal’s SME leasing underwriting process and

internal procedures in preparation for specific recommendations to increase the leasing of machinery and equipment to Tunisian SMEs.

- The Project's cooperated with two large, international private equity firms that have a substantial presence in Tunisia: Tuninvest and Abraaj Capital. Both introduced several of their ICT enabled investee firms to the Project. The investee firms are in need of technical assistance that the Project can provide to enable them to grow and create several hundred new jobs. For example, the Project commenced providing PEC, an Abraaj investee company that manufactures extruded plastics products (including car steering wheels), with lean manufacturing technology. This will reportedly enable PEC to expand its production facilities and hire another 240 workers.
- The Project worked with a third private equity firm partner, locally based Alternative Capital Partners (ACP), which specializes in relatively small investments. The Project is providing TA to some of ACP's investee companies. As well, the Project developed training materials on due diligence.
- The Project's Equity Specialist provided extensive advice on preparing presentations to prospective investors for several IT firms that are planning to raise new equity capital, including: DigitalMania, a video game designer and publisher on Facebook; Cynapsys, a provider of wireless home automation systems; and NetSystem, an IT services and software engineering firm offering productivity solutions in enterprise content management, business process management and human resources productivity.
- A major obstacle to increasing SME access to finance in Tunisia is a Central Bank regulation that results in commercial banks requiring either real estate or financial assets as collateral for all loans, including short-term working capital loans. The vast majority of SMEs cannot offer such assets as collateral and therefore cannot get bank financing, even though they may be successful. The Project met with the Central Bank Supervision Department and its Governor to discuss this issue and will follow this issue up closely in the next quarters.

## **Component 2. Growing and Developing Tunisia's ICT Workforce**

### ***2.1 Identify companies to partner with on training, internships, hiring and capacity building; and build public-sector partnerships***

- The Project and its anchor partner Telnet, Tunisia's largest publically traded IT services company, kicked-off the Executive Development Program (EDP) on December 18, 2012 with a technical sales and marketing workshop for 11 Telnet Line of Business (LOB) Directors being groomed for promotion as Business Unit Executives. The Project will conduct workshops, business consulting and mentoring services in sales and marketing, ICT human resources, and technology management for Telnet EDP participants. In addition, 20 Senior Project Managers selected by Telnet for potential promotion to LOB Director positions will participate in EDP beginning early 2013.

## **2.2 Identify private or public training institutions**

- The Project reviewed and evaluated proposals from training organizations in response to its RFP to provide “soft skills” training for INFOTICA members including Business Workplace Skills, Sales Skills, and Business English Skills. The proposal evaluation process resulted in the selection of AMIDEAST as the vendor for Business English Skills training, and Education for Employment-Tunisia (EFE) as the vendor for Workplace Skills and Sales Skills training.
- The Project released the Blanket Purchase Agreement (BPA) RFP to identify and select a pool of qualified training providers that can be tapped to provide training over the life of the Project. The Project’s BPA RFP resulted in 79 expressions of interest and 21 Tunisian training organizations submitting proposals by the first due date. Eleven Tunisian training organizations submitted proposals that met the minimum submission requirements. All 11 proposals reviewed were determined by the committee to have met the requirements to be considered for the BPA mechanism, and USAID has provided its consent to award BPAs to those 11 training organizations. The BPAs are expected to be signed in early 2013.
- The Project also received several additional proposals, after the first round RFP deadline, from interested training organizations. The Project plans to review these proposals during January 2013 to determine if any of the additional organizations meet the minimum requirements to be added to the original group of BPA holders.

## **2.3 Design and implement training programs**

- The Ministry of Vocational Training and Employment requested assistance on its national employment strategy as well as program support. As a result, the Ministry agreed to sign the outstanding partnership agreement between the Ministry, ANETI and the Project.
- Twenty-six job candidates from two companies in Sousse, Proxym-IT and Apptiv-IT, started skills training: 14 trainees in "Workplace Success", and 12 trainees in "Business English". The classes were held on-site at the Technopark facility in Sousse, where the Proxym-IT and Apptiv-IT offices are located. The Workplace Success training was conducted by Education for Employment-Tunisie, and the Business English training was conducted by AMIDEAST Sousse. Prior to starting the Business English classes, the participating job candidates were required to complete English language placement testing at AMIDEAST in Sousse.
- Twelve job candidates from four companies in Tunis began taking English language classes at AMIDEAST Tunis, after completing English language placement testing.
- Logistics are being discussed with Transcom for the training of up to 200 people in Italian. PhoneWorld has asked for training in French and soft skills for up to 100 people. Both programs are anticipated to start in late January or early February at the latest, and are expected to require intensive, total immersion-style language skills training, ranging from 60 hours for the Italian language skills training for Transcom, to 200 hundred hours for the French language skills training requested by PhoneWorld.
- Discussions are underway with Telnet regarding participation in the Business and Technical Skills Training and Job Placement Program for up to 100 interns that will start in Telnet’s

pre-hire program beginning in early 2013. Telnnet has initially expressed an interest in Technical English skills training for these interns, as well as skills training in Team Building, Teamwork, and Interpersonal Communication. Telnnet will need to determine however, whether or not it can commit to hiring at least 80% of those interns upon successful completion of the co-financed skills training program.

#### **2.4 Map labor demand and supply in ICT sector**

The Project finalized the preliminary version of the study on employment in the ICT sector (and more broadly the private sector), with notable results including:

- The overall high level of unemployment of ICT graduates (almost 24%) is unequally distributed among diplomas.
- Unemployment is higher in the south and western regions.
- The majority of enterprises are very small firms employing one or two employees, especially in the services sector.
- Between 2010 and 2011, the sector “Services to enterprises” experienced the highest level of employment decline: more than 32,000 of employment destruction.

#### **2.5 Assess and recommend improvements to ICT curriculum**

- The Ministry of Higher Education and Scientific Research (MHESR) has gathered the teacher surveys assessing ICT teacher skills to be implemented by the Project. The results will guide the design of Project recommendations on curriculum improvements in the next quarter.

#### **2.6 Develop job-matching programs, including job fairs**

- The Project implemented the “Tunisi@Work” job fair to promote job creation and matching between employers and job seekers in the ICT sector on November 8<sup>th</sup>, held at the Cité des Sciences in Tunis. The Minister of Employment and Vocational Training opened the Project’s job fair and 75 ICT student volunteers were recruited to assist during the fair. The fair was sponsored in collaboration with the Tunisian Ministry of Vocational Training and Employment (MFPE, Ministère de la Formation Professionnelle et de l'Emploi), the Tunisian Agency for Employment and Independent Work (ANETI, Agence Nationale pour l'Emploi et le Travail Indépendant), Elgazala Technopark, Education for Employment (EFE) Tunisia, and the Tunisian Ministry of Higher Education and Scientific Research (Ministère de l'Enseignement Supérieur et de la Recherche Scientifique). The USAID-sponsored event brought together 84 ICT and ICT-enabled companies with more than 876 jobs for the 3,000 young professionals seeking jobs. During the Fair, job seekers accessed employment counselors for advice on CV writing and interviewing, attended seminars on how to use IT to find a job, and received career tips aimed at addressing skills gaps. A five-minute Job Fair news report aired during the 6:00 pm news on the most watched TV channel. In the next quarter, actual job hires resulting from the job fair will be tallied and lessons learned finalized.

## **Component 3. Developing ICT Policy and Regulatory Reform**

### **3.1 Develop ICT technical support/outreach and consensus-building framework**

- The outreach frameworks were defined in previous quarters.

### **3.2 Define enabling environment reform agenda**

- The Project met with TACC leadership to finalize a work plan for public-private roundtable sessions to be held on February 13 (Tax Reform), March 13 (Business-Enabling Environment), and April 10, 2013 (Access to Finance). TACC will invite participants from the public and private sectors and civil society, provide roundtable facilitators, organize logistics, and review/discuss Project reports on the aforementioned subjects. The Project will provide financing, technical expertise, and presentations for the roundtable discussions.

### **3.3 Propose enabling environment reforms**

- The Business Registration, Licensing and Customs Advisor undertook four tasks during October and November: 1) mapping business procedures, 2) evaluating the business registration processes, 3) meetings with key public officials at APII and FIPA, and 4) identifying initial constraints and barriers in the enabling environment. This is required to develop a road map for improvements. The Advisor held meetings with many current and past stakeholders, including customs officials and business representatives. She also reviewed the status of the Bizerte Economic Zone. After extensive meetings with FIPA and others with regard to enabling environment issues (investment procedures, key barriers and hurdles), the Advisor prepared a draft report on the enabling environment that will be validated with counterparts in the next quarter.
- The Project attended the Carrefour d'Affaires et de Technologies (CAT) 2012 conference hosted by APII. The final day of the conference, November 30, consisted of a number of presentations concerning the future investment path of Tunisia and included 1) a need for foreign investment; 2) identification of obstacles; and 3) identification of growth sectors.
- The project co-sponsored the 27th Annual IACE Enterprise Days in Sousse on December 7-8, 2012 on the subject of the investment climate in Tunisia and a new investment strategy for the country. Three Project personnel spoke at the event, sharing insights based on project studies thus far related to access to finance, tax policy, innovative sector strategies, and budgetary planning and fiscal governance. The event hosted 50 speakers and over 1,000 participants and enabled the project team to have a dialogue with public and private sector counterparts on project policy initiatives.

### **3.4 Comment on draft revisions to the Investment Code**

- The Project met with the MOF and the IFC on the draft revised Investment Code. The document is not yet available for circulation. The IFC is assisting with drafting.

### **3.5 Further develop e-governance and e-commerce**

- The E-governance Specialist was in Tunis October through December. While he learned a great deal about e-governance, e-commerce and e-procurement functionality in Tunisia, there was not much progress made in developing relationships with counterparts to work on specific problems. There is significant crowding by other donors and reluctance by GOT to

undertake additional donor involvement. Project staff met repeatedly with the head of the e-Administration Unit within the Prime Minister's Office and with MICT staff responsible for technical operation of e-government services.

- The Project found that the Tunisian state provides 162 e-services through the e-Government Portal, accessible through Internet and mobile technology. Nonetheless, the e-Administration Unit, which is responsible for e-Governance, acknowledges that most of these 162 e-services lack an appropriate legal framework. Furthermore, the Unit lacks the authority and resources to define, monitor, and evaluate the legal framework once it is established. The lack of monitoring and evaluation functions in the Unit prevents the GOT from being able to assess the impact of e-services and their actual social and economic contributions. In addition, while e-governance is an instrument to promote transparency and fairness in government services, the GOT does not have established indicators and mechanisms to evaluate the compliance of e-services provided to citizens and business with these principles.
- The Project analyzed the current roles and responsibilities of the e-Administration Unit and their placement within the government organization. Using experiences from other countries and international standards, the project proposed new roles and responsibilities for the Unit to address the need for a centralized function to define, coordinate, and monitor the legal framework of all e-services based on an analysis of impact. In particular the Project proposed the development of indicators for monitoring the performance of government e-services. As a result of this analysis, the Unit could propose reforms to policies and procedures and manage the implementation of such policies and procedures as projects within the e-Administration Program.
- The Project team also learned that the GOT is currently implementing a new e-Procurement system with the support of KOICA, the Korean International Cooperation Agency. While information on this work is not available as of yet, the E-governance Specialist prepared a draft document including critical success factors that the implementer of the new system should consider to increase the probability of successful e-procurement implementation.
- During coordination meetings with the AfDB the Project also learned about forthcoming e-governance projects currently being developed by the Bank to be implemented for the e-Administration Unit. The head of the e-Administration Unit indicated that the proposals made by the project on the roles and responsibilities of the e-Administration Unit are important subjects that are under consideration, and that will be considered and addressed during the work to be supported by the AfDB. In light of these significant donor projects to support e-governance, e-administration and e-procurement, it is understandable that counterparts are deferring consideration of significant reorganization and reform issues, and plan to address them in the context of those projects.
- Also included in the e-Governance component is an assessment of functionality that supports the "smart card" for social benefits, social security payments, e-payments, customs, utilities, and tax payments. The E-governance Specialist met with ECOVIS to discuss e-payment of taxes by individuals and businesses and investigated the functionalities of a number of e-governance operations. There is a reluctance to use e-tax services because there is a lack of

trust for electronic payments, and because many government institutions and private businesses require a paper based receipt with a stamp as proof of payment of taxes. This is required, for instance, when applying for visas for international travel. Thus, while the functionalities exist for performing many tasks online, they are not being used. One exception is found in universities: enrollment for courses, payment and other functions are done solely through e-applications.

- In light of the significant donor work in e-governance and e-commerce, the Project will not be continuing activities in these areas.

### ***3.6 Establish ICT Task Force***

The organizational documents of the ICT taskforce were prepared and circulated to the MICT and the National ICT Federation (NICTF) in the previous quarter. Revisions were made based on counterpart feedback and presented to MICT and NICTF in October. The organizational documents prepared by the Project formed the basis for the GOT December decree forming the High-Level Public-Private ICT Taskforce. Project leadership regularly met with NICTF to continue discussions on partnership opportunities. NICTF requested Project assistance on the following items: (1) review of the draft PPP law and provision of comments for presentation to the relevant authorities, (2) review of the ICT Strategy the NICTF prepared for UTICA's 2020 Vision, (3) coordination on marketing strategies for entrance to the US market, (4) technical assistance on a market study for ICT sector dimensioning, and (5) technical assistance for an ICT labor market study.

### ***3.7 Amend Telecommunications Code in accordance with international best practice***

This task received the greatest amount of attention in the quarter. The long-term Project team was guided by short-term technical assistance including a Telecommunications Code Reform Advisor, an ICT Policy Advisor (focusing on universal service) and an ICT Policy and Infrastructure Specialist. Activities are summarized below.

#### ***Telecommunications Code:***

Several amendments to the Telecommunications Code (Telecom Code) related to the regulator's authority and several other matters have been pending in the NCA since the summer of 2012. While they are deemed important, they are by no means a comprehensive best practices overhaul of the law.

In September, Telecommunications Code Reform Advisor extensively reviewed the Telecom Code. This analysis was presented to the Minister of ICT, the INT President, telecom operators, CEOs of independent ISPs and other private sector stakeholders; in which he concluded that the Telecom Code needs to be substantially overhauled or, preferably, replaced with a new law to bring Tunisia's ICT regulatory structure in line with international best practices. Modernizing the Telecom Code will improve the functioning of the regulator, INT, and promote competition and investment in the sector by increasing legal certainty. There are a number of structural problems with the current Telecom Code as well as substantive changes in policy that are needed. Among the structural issues are the following:

- The Telecom Code does not adequately ensure the independence of the regulator, a key means of facilitating effective regulation. Indeed, the regulator appears to be subordinate to the Ministry of Information and Communication Technologies (MICT), which can make work assignments to the INT. In addition, members of the INT are appointed by the Minister and can be dismissed by the Minister.
- The Telecom Code does not establish a transparent regulatory process, which requires the regulator to solicit the views of interested parties and explain the reasons for its actions.
- The Telecom Code does not establish a clear division of duties between the regulatory bodies and the Ministry. Numerous provisions state that issues are to be resolved by decree, without specifying who shall issue the decree or what factors should shape the decree.
- The INT has no authority over spectrum, which is critical to the development of the telecommunications industry. If it is politically or otherwise impossible to merge the spectrum agency ANF with INT, the revised law should at least give INT a greater role in managing and licensing spectrum.

In addition, there are a number of substantive policy matters that could be better addressed in a new or revised law.

- INT does not have authority over licensing of telecommunications operators. Licenses are very important documents in the regulatory process and it is essential that the regulator have clear authority to issue and enforce telecommunications licenses.
- The Telecom Code lacks clear provisions on interconnection, one of the most crucial issues affecting competition in telecommunications industry. Although the INT has been actively engaged in managing interconnection among competing operators, its legal authority to do so is not apparent.
- The INT shares jurisdiction over tariff regulation with the Ministry, but its powers are not clearly defined. The new law should give the regulator sole jurisdiction over tariff regulation, and should provide guidance for the INT's exercise of these powers.
- The Telecom Code does not establish a policy in favor of competition, although Tunisia introduced competition in both wireless and fixed telecommunications. The law should clearly establish that it is the policy of the GOT to allow and promote competition. The law also should give the INT, together with other competent bodies, such as the Conseil de la Concurrence (Competition Council), the power to regulate competition and prevent abuse of market power.
- The INT does not have jurisdiction over international telecommunications, which may be a factor in high international calling prices to Tunisia. The law should give INT clear jurisdiction over international telecommunications.

- Finally, the Telecom Code does not provide clear guidance on the development of universal service programs. As Tunisia works to expand access to broadband services, both in urban areas and rural areas, the development of sound universal service policies will be essential to promoting the availability of advanced services.

The process of drafting a new law for Tunisia should involve stakeholders from the government and the private sector. This in itself will be an important exercise in transparency and good governance that can serve as a model for reform of other sectors of the Tunisian economy as necessary. In addition, the drafting process should take advantage of work already done or in progress by other international donors, particularly the World Bank.

On November 19, Project staff met with several MICT officials (Mohamed Ben Amor, Special Advisor; Habib Dababi, MICT Advisor; Taoufik Rojbi, Director General for ICT; and Monia Khalfallah). The MICT asked the Project to take the lead in drafting the Telecom Code. The Project proposed the establishment of a high level Steering Committee and a technical working level Working Group, each composed of relevant government officials, as well as industry and private sector representatives, to draft and review a law to replace the Telecom Code. The new law would be broader in scope than the existing Telecom Code and would encompass broadcasting and internet services. In addition, the new law will satisfy international best practices by reflecting the key principles of independence, transparency, accountability, and clarity of roles.

The Telecommunications Code Reform Advisor returned in November and December and continued discussions concerning the revision of the Telecom Code with MICT and other stakeholders. MICT remains interested in working with the Project on the development of a revised Telecom Code and requested a plan of how to proceed, which the Project provided in December. The Project recommended that the Working Group, which would undertake the core drafting work entailed in developing the new code, hold its initial drafting sessions in mid to late January 2013 to review a detailed outline of the law and key initial sections of the draft law. The Project plan for this task also proposed a schedule for this work to develop a complete draft by end-March. MICT has accepted the proposal for the process of drafting the Code and work is expected in the next quarter.

### ***Broadband and Universal Service:***

The Project conducted stakeholder meetings to assess the status of ICT Infrastructure and Development of National Broadband and Universal Service Frameworks. In addressing this sector it is important to consider i) government regulators; ii) providers of services; and iii) consumers. Whereas the regulatory and legal efforts focus on appropriate regulation, these meetings focused more on the providers of services and public access. There were many productive and informative meetings including inter alia:

- Moez Chakchouk, the head of the Agence Tunisienne de l'Internet (ATI), the former Internet watchdog agency now seeking to “re-purpose” itself as an Internet exchange Provider (IXP), national domain name registrar, provider of hosting services, and other similar functions. Some sources, both inside and outside Tunisia, maintain that the ATI is tainted by its association with censorship under the former regime and have called for it to be abolished. The Project concurs with the opinion of Mr. Chakchouk, namely that

the agency performs useful technical functions, and indeed, strictly from a technical standpoint, embodies an approach which other countries have sought to emulate, with varying degrees of success.

- Senior staff of Tunisie Telecom (Mokhtar Mnakri, President/General Director; Mohamed Fadhel Kraiem, Assistant General Director responsible for commercial aspects; Nizar Bouguila, Chief Technical Officer). While Tunisie Telecom has been widely criticized for its monopolistic behavior, the company also faces significant challenges, particularly vis-à-vis the labor unions representing its 8,000 employees, and also in the area of tariff rebalancing. Furthermore, the fixed-line sector is no longer in a growth phase, and Tunisie Telecom is facing significant competition in mobile. At the same time, senior management seems to have a clear grasp of the company's situation and is attempting to address the company's short-term difficulties.
- Kamel Saadaoui, President of the regulatory agency INT.
- Nasr Chakroun, General Manager of GlobalNet, one of two independent ISPs (the other being Hexabyte, interviewed last week). GlobalNet is part of a larger group of companies (Standard Sharing Software, or 3S Group), which collectively are engaged in a wide range of ICT-related activities. These include enterprise voice/data/video services, cloud computing, systems integration, software development, network engineering and call center operations. An issue raised by Mr. Chakroun, which had not surfaced previously, concerned homologation, the process of certification that imported equipment or devices meet local technical and regulatory standards. In developed countries, and even in many less developed ones, this process has generally been streamlined and made efficient, so that importation of equipment is reduced to the logistics of customs inspection. According to Mr. Chakroun, in the area of homologation the structures of the former regime are still very much in place, and now present serious barriers to competitiveness. Regularization of Tunisian homologation procedures merits serious attention in the enabling environment portion of Component 3.

In addition to drafting the Telecom Code, the MICT requested that the Project take the lead in conducting a market gap analysis (“cartography” project) to evaluate the scope of current access and potential needs. This is an initial step in developing a universal service approach. On broadband planning, the MICT is at the “stage of reflection.” There is a committee within the Ministry working to develop a broadband plan with the support of World Bank-financed regional studies and - in consultation with other stakeholders - USAID can participate in this process.

***Alternative infrastructures:***

The ICT Policy and Infrastructure Specialist provided expertise in this area. The term “alternative infrastructure” broadly refers to infrastructures which were not originally intended to be used for telecommunications purposes but which can be adapted to do so with relative ease. The principal such infrastructures are electrical transmission facilities and railroad and highway rights-of-way, although other facilities, including petroleum and gas pipelines, water and wastewater systems, and even municipal heating systems can and have been utilized as well.

Regardless of the type of infrastructure, it is almost invariably true that fiber-optic cable provides the transmission medium of choice.

#### **Alternative Infrastructures: Electrical Transmission Infrastructure and Railroads**

Generally speaking, electrical transmission infrastructure is particularly well suited for deployment of networks based on fiber-optic cable. In the first place, in most countries the electrical infrastructure is widespread and, moreover, interconnects major cities and population centers. Second, it is substantially easier and cheaper to install fiber-optic cable on above-ground structures than to bury it (e.g., at roadside or trackside). Third, it is increasingly common practice, when new electrical transmission lines are constructed, to pre-equip the lines with a type of fiber-optic cable known as Optical Ground Wire (OPGW). OPGW, which features an outer steel cladding and an inner core of fiber-optic strands, performs a dual function: 1) the steel cladding acts as the traditional grounding wire that assures electrical neutrality of the towers while at the same time affording protection against lightning strikes; 2) the inner optical fiber provides the telecommunications transmission medium.<sup>1</sup>

A further advantage of electrical transmission infrastructure is that, regardless of whether or not OPGW has been installed, it is generally possible to deploy yet another type of fiber-optic cable, known as All Dielectric Self-Supporting (ADSS). ADSS, which is manufactured from lightweight, non-conducting materials, can generally be attached at any one of a number of sufficiently elevated points on electrical transmission towers, and can also be installed on medium- and low-voltage facilities (in contrast to OPGW, which is mostly used on high-voltage steel towers). It can also be installed on telephone poles, or, of course, on poles erected specifically for the purpose of supporting it. Other things being equal, ADSS probably represents the cheapest, quickest and most effective way of deploying fiber-optic-based networks on a large scale.

Railroads often represent a second attractive alternative for installation of fiber-optic cable, particularly if the railway line is electrified (thus allowing for the possibility of above-ground deployment along the electrical catenary infrastructure as well as for trackside burial). In the case of Tunisia, however, it appears that none of the major rail lines is electrified, leaving burial at trackside as the likely installation option.<sup>2</sup> Highways and roads generally offer similar prospects for installation of buried fiber-optic cable, although careful preliminary surveys are typically required in order to establish the feasibility of doing so, and to estimate the cost of the associated civil works. Reportedly, Tunisie Telecom has deployed some of its own fiber along highways and roads under the jurisdiction of the highway authority (Tunisie Autoroutes). However, apparently none of the possible alternative infrastructure providers who own their own fiber are currently making capacity available for commercial telecommunications purposes.

The Project reviewed the major alternative infrastructure routes in Tunisia. While the geographic coverage provided by these routes is not greatly dissimilar from that of Tunisie Telecom's core infrastructure, their successful exploitation within a competitive framework could have a major impact on the cost of domestic bandwidth in Tunisia. Conceivably, also, if the alternative infrastructure providers could structure suitable agreements with their counterparts in Algeria and Libya, opportunities for competition in international bandwidth could be created.

Unfortunately, attempts to arrange a meeting with senior management of STEG were not successful. From the available information, however, it appears that STEG has framed the question rather narrowly – reportedly it is seeking to commercialize the optical ground wire fiber already installed, rather than to consider a broader and more comprehensive framework that

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<sup>1</sup> Fiber-optic media are immune to electrical interference effects, and can operate successfully even in the so-called “power zone” of electrical transmission towers.

<sup>2</sup> Specialized rail-mounted trench-digging equipment is available to expedite the process of installation of the necessary underground ductwork through which the fiber-optic cable is pulled.

might include deployment of another type of fiber, All Dielectric Self-Supporting, which probably represents the cheapest, quickest, and most effective way to deploy fiber-optic based networks on a wide-scale - ADSS deployment could be implemented through partnerships or joint ventures with telecom operators or other interested parties, investment strategies, etc. Also, it was reported that STEG is having difficulty formulating a business plan and market entry strategy and developing economic models for valuation of its rights-of-way. It is necessary for STEG to deal with these issues, since poorly planned market entry on its part could have a significant negative impact on the market for competitive wholesale domestic bandwidth. Allowing alternative infrastructure arrangements is one of the elements of the draft amendments to the Code pending before the NCA.

The Project also met with representatives of the independent ISP sector (Independent Service Provider) to understand their views. On December 6, Naceur Hidoussi, the head of HexaByte, stated that the Tunisia Telecom monopoly on international bandwidth results in a lack of effective competition in the provision of basic infrastructure and is a serious threat to his business. He considers the liberalization of alternative infrastructure (the utilities' networks, especially STEG) to be a critical step in significantly reducing costs. Legislation to specifically permit agreements between telecom providers and utilities is part of the package of amendments pending before the NCA since the summer of 2012.

### **3.8 Fiscal policy and administration**

The fiscal and budgetary team consisting of a Senior Fiscal Policy Specialist and Senior Economist, along with the Engagement Manager and Component Leader, continued contacts with the Ministry of Finance (MOF), Tunisian academics and scholars, the private sector, and other donors to discuss the need for evidence based review of fiscal and budgetary policy and the need for a reduction in tax rates. Meetings included:

- Ministry of Finance, Directorate General of Studies and Fiscal Legislation: Project staff held several meetings with Habiba Louati, Director General, and her staff to discuss the tax policy analysis that was prepared by a Fiscal Specialist, following the field-work the Specialist conducted during the last quarter. Ms. Louati and her team generally concurred with the findings contained in this analysis, that Tunisian tax policy and administration may limit the volume, efficiency, and job creation impact of private investment in Tunisia, including in the ICT sector. The high cost of labor for firms is one important factor that is having a critical impact on the level of employment in the economy. This, in turn, is largely driven by high labor taxation (personal income tax and mandated social contributions), and by inflexible labor code requirements. The resulting high labor costs sharply reduce competitiveness and curtail employment opportunities. Based on these findings and discussions with the MOF in this regard, the Project is working with the MOF to formulate proposals to reduce the overall tax burden and rationalize the payroll tax regime, encouraging a shift to a heavier focus on indirect taxes, which is important for encouraging higher rates of formal sector job creation in the ICT sector and in ancillary sectors that indirectly support ICT sales/employment growth
- SEFAC: Mr. Mohamed Salah Ayari, a former official at the MOF involved in the series of tax reforms from 1988 through 2000.

- ECOVIS: Staff met with Mohamed Walid Kilani, a partner in this tax and auditing consultancy, and the focus was on details of the operation of the major direct taxes and the nature of the information reporting by taxpayers and withholders to the tax administration. ECOVIS offered the view that among the most important reform agenda items were greater detail and clarity in secondary tax legislation and policies and procedures (tertiary legislation).
- The Senior Fiscal Policy Specialist and Senior Economist met with Mr. Mehdi Maazoun of the Society for Chartered Accountants, primarily on the Regime Forfaitaire. There are two distinct Regimes Forfaitaires: one for doctors, lawyers, engineers, and another for white collar free professions. The main characteristic of the regime for doctors and lawyers is that it permits users to deduct 30% of gross earnings as expenses and then be subject to tax under the normal regime of the PIT. There is no effective limit on the amount of income a person could earn. The effective "exit point" is when their actual expenses made the regime less advantageous than the normal CIT regime. This regime has considerable merit. Monitoring is needed with normal checks against fraud. The "other" Regime Forfaitaire is quite problematic.
- Project staff had several wide ranging discussions with Taoufik Rajhi, President of the Cercle des Economistes Tunisiens and consultant to the AfDB, to address the state budget and its macro constraints, as well as the need to address subsidies. Also discussed were economic and fiscal modeling in Tunisia; he noted that the MOF needs assistance in this area.

### ***3.9 Develop ICT-relevant financial sector reforms***

Project staff conducted initial consultations with financial sector experts to determine the reasons for lack of financial assets for new businesses. The project identified the collateral restriction as a significant issue.

### ***3.10 Review labor market issues to stimulate employment in ICT and ICT enabled sectors***

- Based on a review of Tunisia's tax and labor regimes, the Project developed an Employment Promotion Reform Plan to combat Tunisia's high unemployment rate and address the need for an immediate response. To this end, the Project is working with the Ministry of Finance, Ministry of Regional Development and Planning, and private sector stakeholders to draft detailed tax policy reform proposals and build consensus within the GOT and the broader business community.
- Interlocutors at many of the above meetings noted the restrictive nature of the Labor Code and its destructive impact on employment. This included the President of Tunisie Telecom, the representatives of the African Development Bank, the State Secretary of the MICT, and others. There is also universal concern that this is a politically sensitive issue.

### ***3.11 Develop Policy Action Plan to reduce trade barriers***

No activities this quarter.

### **3.12 Initiate dialogue and coordination with relevant stakeholders and conduct public/private workshops**

#### **Coordination meetings with MICT:**

The team (lead by COP) met with the Secretary of State of the Ministry of Investment and International Cooperation, who welcomed cooperation with the Project. He indicated that his greatest priority is completion of a plan called “Plan Tech” to provide investment in technology.

#### **Outreach to Stakeholders:**

As noted above, the project also sponsored the 27th Annual IACE Enterprise Days in Sousse on December 7-8.

#### **Coordination meetings with other donors:**

The team (lead by COP) met twice with Emanuele Santi, Economiste Principal of the African Development Bank. Mr. Santi informed the team about the details of the AfDB program “Souk at-Tanmia” which is an opportunity for innovative entrepreneurs, and expected to hold an event in December (ultimately postponed to January).

With respect to macroeconomic and fiscal policy analysis, Mr. Santi indicated that there is a need to coordinate donor advice, welcomed the participation of the ICT Competitiveness Project, and noted that the important decision making points are in the President’s Office and the MOF.

Project staff met separately with personnel in the AfDB working on e-governance to ascertain the extensive nature of the program currently being contracted for.

On November 20, Project experts attended a World Bank Roundtable to discuss alternative infrastructure providers « Les infrastructures alternatives de fibre optique: Comment renforcer l’accès à l’Internet haut débit dans toute la Tunisie ». In addition, there were repeated discussions with the World Bank to assure complementarity of assistance with respect to the development of the Telecom Code and the gap analysis.

In December, Project staff (Engagement Manager, Senior Fiscal Policy Specialist and Component Leader) met with the visiting IMF tax policy team (Mario Mansour, Gerard Chambas, and Alen Jousten) to coordinate fiscal policy advice. The Project team discussed the Project’s perspective on fiscal policy, the excessive burden on business formation, and the unfair regime for some offshore companies receiving tax preferences. IMF is in agreement that the Investment Code should be revised, as it is poor policy and violates WTO. IMF is also in agreement with the Project concerning overall fiscal policy issues and need for better capacity and analysis by the government. However, the IMF does not deem it likely that in the transitional period the GOT will undertake any significant reforms. The IMF is writing its report and recommendations for the next government that is expected to result from upcoming elections. There is no permanent IMF mission in Tunisia at present and aside from this short tax policy mission there will be no ongoing work. The IMF team therefore informed the Project team that the fiscal and macroeconomic projections which are being contemplated are both extremely necessary and not being supported by any other means.

## **OPERATIONAL CHALLENGES AND PROPOSED SOLUTIONS**

There are many operational challenges facing the Project. We can subdivide them into political, economic and security problems. Politically Tunisia is in the course of an unstable transition. The new draft Constitution has been delayed repeatedly and there is no certainty whatsoever as to when a Constitution will be adopted by the NCA, and whether and when it will be submitted to a national referendum. Accordingly, it is unclear when elections can be held to institute a legitimate elected GOT. In the transitional period many complex reforms (such as an overhaul of the Tax Code) cannot be undertaken. The economic challenge arises from the ongoing economic crisis in Tunisia's largest trading partner, in particular France. The Project's security challenges have increased since September 2012 when the U.S. Embassy was attacked.

The team has developed approaches to these challenges. With respect to the political conditions in Tunisia, the team recognizes that the NCA is reluctant to adopt wholesale revisions of many laws and is a temporary body. Nonetheless many laws have been adopted new or modified. The Project will therefore continue to search for opportunities to make significant policy changes by law, regulations or improvement to practices. This is most likely to happen in a defined technical area such as the Telecom Code, where a technical law can be adopted, or in an area that can be addressed through regulations or agency practices, such as with respect to the enabling environment. When it comes to areas of change that require wholesale revision, the most practical approach is to prepare the policy analysis and the underlying calculations to be ready for the next government.

With respect to the economic challenges the approach of the Project is to find opportunities that are outside the ordinary course of business for Tunisia which focused on the tourism sector and was highly dependent on trade with the EU, especially France. There is a need to support trade with other areas, to seek opportunities that might be otherwise neglected.

Obtaining employer commitments to support skills training for job candidates, and then to hire those job candidates upon successful completion of training remains an on-going challenge. Although many Tunisian employers (both in the ICT and ICT-enabled sectors) express strong interest in the co-financed skills training programs supported by the Project, those same employers have stated that they prefer to participate in the co-financed training for their existing employees, rather than co-financing skills training for job candidates. These employers almost unanimously express the need for training and capacity-building of existing employees first, as a path to business growth and expansion that can lead to recruitment of new employees. Some employers have mentioned the high risk of trainee flight when training a potential new hire as opposed to someone already committed to the company.

In other cases, employers that are willing to support co-financed skills training for new employees are often reluctant to commit to hiring the job participants upon successful completion of training. Since a prime objective of the Skills Training and Job Placement Program is to facilitate employment opportunities, the Project requires that participating employers commit prior to the training to hire at least 80% of the job candidates that are to be sponsored for the co-financed training. Given uncertainties over economic prospects, businesses prefer to delay hiring pending finalized new contracts.

In light of the current economic climate, it is anticipated that obtaining these employer commitments will remain a challenge. For the next quarter however, the Project has identified a few employers that are interested in co-financing skills training for large numbers of job candidates (ranging from between 50 to 100 job candidates each, and in the case of one employer, approximately 200 job candidates).

Finally, the security challenges have been met by examining the risks and mitigating them. The Project has moved to a more secure location, has added a security manager to its staff, and has undertaken a wholesale revision of all operations. While attending meetings in the ministries and other agencies located in the center remains a high priority, the Project has instructed staff to minimize such risks and to be extremely aware of current developments and their immediate surroundings.

## PLANNED ACTIVITIES FOR THE NEXT QUARTER

### Component 1. Increasing and Developing ICT and ICT-enabled Entrepreneurship

The ICT sector team will focus on three key activities during the next quarter:

- The ICT team will maximize client satisfaction and the probability of new job creation by concentrating team resources and STTA expertise to serve 34 high-potential client companies planning to hire 877 new employees by June 2013.
- The Project will build on and deepen its successful strategic partnership with Microsoft Tunisia by planning and delivering workshops, road shows, and marketing events for MS partners in Tunis and key cities regionally. These activities will be coordinated with the Project's training team.
- The Project and its anchor partner Telnet will fully implement the Telnet Pre-Hire Intern Program and Telnet Executive Development Program (EDP). The Project will train 100 Pre-Hire Program interns in technical and business English, workplace skills, and ICT technical skills. In addition, the Project will conduct workshops, and provide business consulting and mentoring services in sales and marketing, ICT human resources, and technology management for 12 Telnet Line of Business Managers and 20 Senior Project Managers Telnet participating in the Executive Development Program. These activities will be coordinated with the Project's training team.
- The Project will work aggressively with at least five textiles producers, seven food producers and three other ICT-enabled companies to realize job hiring through targeted technical assistance and cost-shared training. The Project will seek to qualify more ICT enabled candidates for Project assistance, based on best prospects for rapidly increased competitiveness and job creation.

- The Project will continue technical assistance to Hannibal Lease, to increase its SME lending portfolio. The Project will continue providing technical assistance to financial institutions to improve SME credit policy and administration including: (1) Promoting best practice consistent SME lending/administration policies and practices, (2) Developing systemic information regarding FI partners' SME client outreach and loan processes, (3) Training loan and credit officers in due diligence, sales and client management, and (4) Developing new or refining existing loan products.

## **Component 2. Growing and Developing Tunisia's ICT Workforce**

- Sign BPAs with 11 selected Tunisian training organizations.
- Begin to issue task orders to BPA holders to implement business and technical skills training, based on employer commitments to hire job candidates upon successful completion of training.
- Review a second group of proposals received from training organizations after the first round RFP deadline.
- Expand training course providers with an array of courses to increase numbers of trained job seekers who are hired by employers.
- Increase job seeker training to meet employer hiring needs.
- Draft recommendations for an ICT skills based curriculum circular for Tunisian universities.
- Implement job fairs in the regions; strengthen partnerships with ANETI, the Ministry of Vocational Training and Employment and EFE.
- Launch career centers in selected universities to guide students and graduates without jobs on how to job search. These centers will establish links with employers to increase job offerings and internships.

## **Component 3. Developing ICT Policy and Regulatory Reform**

- Work on enabling environment reforms will continue in January. The Business Registration, Licensing and Customs Advisor will meet with API and FIPA to validate key enabling environment findings. She will also conduct a roundtable meeting with key stakeholders to discuss key barriers and constraints within the enabling environment and recommendations. This will entail discussing the draft report and result in a roadmap with counterparts and validating findings. She will then issue a final report and roadmap.
- Once a draft of the Investment Code is available, the Project will comment.
- The Project is awaiting a decree for the creation of an ICT Task Force. Upon issuance of such decree, the Project will explore options for coordination on ICT Task Force efforts in accordance with the initial Task Force Agreement document, submitted by the Project to the

National ICT Federation and MICT, and which formed the basis for the decree to be issued by the GOT.

- The process of producing a new draft Telecom Code will begin with a series of meetings with key stakeholders in the Government, the private sector, and in the donor community to discuss and refine the recommendations provided by the Project. As proposed by the project in December, the MICT has established a Steering Committee and a Working Group, to draft and review a new law to replace the Telecom Code. The Steering Committee and the Working Group will each begin meeting in January 2013. The Working Group, which will undertake the core drafting work, will have for review a detailed outline of the law and key initial sections of the draft law. The Project proposes that a comprehensive draft will be developed by end-March and a final version fully reviewed and vetted by early June. The Telecommunications Code Reform Advisor will take the lead in guiding the legal drafting process and helping manage the work of the Working Group.
- In February, the Project will begin to assemble the data necessary for completion of the gap analysis for the Government's universal service program. This will be part of the development and application of an analytical framework to facilitate expanded, cost-effective installation and use of broadband networks and services. Key to progress in this area is the preparation of a technical and market gap analysis, which could include cartography, to determine geographical access coverage and to match this against service demand parameters. The ICT Policy Advisor will assist the MICT in developing and applying this analytical framework. This is an intensive process, and will require extensive collaboration with the staff of a number of entities, including the MICT, the INT, and other agencies that have necessary statistical information. It will also entail intensive collaboration over a period of several months with relevant private sector institutional actors, including telecom operators.
- The primary goals of this quarter will be to finalize work on an analytical database for the PIT, conduct rudimentary SOI analysis and prepare a functioning micro-simulation model for the tax that will permit allow us to prepare alternative policy options for that tax. The PIT database that will be established will be at the level of a strong and decisive first step rather than as a perfected finished product likely to take until the end of the project, but a first step version would sufficient to inform the tax policy reform process. The next steps would be to do similar analytical work on first the PIT and then the CIT. This would be followed shortly by the Regime Forfaitaire.
- The Project identified collateral restrictions as a significant issue and will be preparing a report in this regard to highlight areas that could be addressed.
- The Project will review labor market issues with a focus on stimulated employment in ICT and ICT-enabled sectors. While this is a politically sensitive issue, the Project will prepare a report describing the principal Labor Code impediments to employment and will propose limited reforms in this regard.

- A listing of relevant trade agreements was prepared as part of the enabling business environment review in the previous quarter and a report will be prepared to highlight areas that might be most likely to increase employment.
- The Project has met several times with TACC and developed a program of roundtables on policy issues for the next quarter. Tentatively, there will be three events, dealing with fiscal policy, the enabling environment and financial access; the events will be leading up to a conference. The tentative schedule developed is as follows: February 13th (Tax Reform), March 13th (Business-Enabling Environment), April 10th (Access to Finance), and April 25th/26th (a general policy wrap-up at a conference). TACC will provide contacts to the Project, organize logistics, and review/discuss Project reports on the aforementioned subjects. The Project will provide financing, technical expertise, and presentations for the roundtable discussions.

## STTA Schedule

Position	Proposed Candidate	Projected Units (days)			Total
		Jan	Feb	Mar	
<b>Component 1. Increasing and Developing ICT and ICT-enabled Entrepreneurship</b>					
BPO Advisor	Karim Morsli	12	17	16	<b>45</b>
ICT Technical Support with Companies	Firas Ben Achour		20	20	<b>40</b>
ICT Sector Advisor	Mohammed Kilidar	22	20	20	<b>62</b>
US Specialty Food Market	Janis Grover	14		8	<b>22</b>
Non-ICT Value Chain Expert	Tim Canedo	15	23		<b>38</b>
Non-ICT Value Chain Expert	TBD		10	20	<b>30</b>
TBD Sector Specialist	TBD			20	<b>20</b>
Lean Manufacturing Expert	Musa Rubin	2			<b>2</b>
Financial Sector Expert	Bernard Koissy		12	20	<b>32</b>
Credit Specialist	John Wasielewski		12	2	<b>14</b>
Credit Risk Analysis & Risk Mgmt Expert	Stephen Strauss	9	8		<b>17</b>
<b>Component 2. Growing and Developing Tunisia's ICT Workforce</b>					
Senior ICT Workforce Advisor	Jane Daly	10	22	17	<b>49</b>
Senior ICT Workforce Advisor	Bernadette Wakim	10	12		<b>22</b>
<b>Component 3. Developing ICT Policy and Regulatory Reform</b>					
Telecommunications Code Reform Advisor	Kelly Cameron	12	10	15	<b>37</b>
ICT Policy Advisor	David Townsend		10		<b>10</b>
Business Enabling Environ. Advisor	Deborah Porte	10	24	6	<b>40</b>
Senior Economist	Janusz Szyrmer	10	18	18	<b>46</b>
Sr. Fiscal Policy Specialist	Jim Wooster	20	20	20	<b>60</b>
<b>Total</b>		<b>146</b>	<b>238</b>	<b>202</b>	<b>586</b>