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TUNISIA ICT COMPETITIVENESS PROJECT

Quarterly Report

April - June 2013

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USAID ICT Competitiveness Project

Quarterly Report
April - June 2013

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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 (Tax Authority)
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
IRPP	Impôt sur le Revenu des Personnes Physiques (Personal Income Tax)
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

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TRIP REPORTS

April:

Janusz Szyrmer (1)
Karim Morsli (1)
David Townsend (1)
Deborah Porte (1)
Janis Grover (1)
Elly Preotle (1)
Maria Herbruger (1)

May:

Kelly Cameron (2)
James Wooster (2)
Anna Kordunsky (2)
Jane Daly (2)
Henri Stetter (2)

June:

Deborah Porte (3)
Leigh Knight (3)
Bernadette Wakim (3)
Karim Morsli (3)
James Wooster (3)
Firas Ben Achour (3)

TECHNICAL REPORTS

April:

- Tunisian Labor Force: An Analysis of Micro-data Generated by Labor Force Surveys – Janusz Szyrmer (1)
- Employment Support Programs in Tunisia: Descriptive Analysis and Recommendations – Janusz Szyrmer (1)
- Digital Communications Code – Kelly Cameron (1)

May:

- Creating More Formal Sector Employment: a Review of the Labor Code in Tunisia – Lena Zezulin (1)
- Tunisian BPO Sector: Remaining Competitive in the Years Ahead – Karim Morsli (2)
- Access Gap Analysis and Universal Service – David Townsend (3)

June:

- APII's One Stop Shop Review and Recommendations – Deborah Porte (3)
- The Reform of the Registration of Company Process – Deborah Porte (3)
- Facilitating Equity Investment in Tunisia - Two Case Studies – Nicole Reynolds (3)

(1) Submitted to USAID with April 2013 Monthly Progress Report dated 6/3/2013;

(2) Submitted to USAID with May 2013 Monthly Progress Report dated 6/25/2013;

(3) Attached to this Quarterly Report

EXECUTIVE SUMMARY

Since June 2012, the Project has supported the creation of approximately 1,200 new jobs in Tunisian private enterprises in the ICT and ICT-enabled sectors through technical assistance, training, and job matching services, namely job fairs and career centers. Support for another 800 new jobs is expected to be delivered by September 30, 2013.

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

During the past quarter, the Project focused its work with partner companies on strategy, marketing, and sales in both domestic and foreign markets. Over 100 representatives from close to thirty companies participated in individual and group sessions that were devoted to helping companies better understand and respond to the needs of customers.

ICT Service Providers: The Project provided advisory and training services to about 23 of its 45 ICT partner companies in both technical and non-technical areas.

Business Process Outsourcing (BPO): The Project's expatriate BPO advisor made two trips to Tunisia this past quarter and worked with several companies on business strategy and marketing issues.

ICT Equipment Manufacturers: The Project reached an agreement with Opterna, an international optical fiber company that has just established operations in Tunisia, to pay travel and per diem costs related to the in-house training of up to 80 new employees that are expected to be hired for their new Tunisia factory by September 30, 2013. The Project also collected baseline data and assessed training needs of TIS Circuits, an electronics manufacturer.

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 worked with apparel and light manufacturing companies on improving the productivity of existing operations through an approach known as 'lean manufacturing'. Such improvements are helping the partner companies to become more competitive in European markets, thereby expanding sales and employment. For specialty food companies, the Project focused mostly on helping partner companies penetrate new markets in the U.S., Europe, and the Middle East.

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

Support to Tunisian SME-focused Banks: The Project's banking advisors assisted BIAT in drafting a new policy and procedures manual based on cash flow lending. In addition, the project assisted BIAT in the product development process, by organizing six focus groups with existing SME customers in Tunis, Sousse and Sfax. A report was written on the results of the focus groups with recommendations on how to adapt and improve existing products and their delivery.

Equity: The Project's equity advisor assisted two local IT firms in their efforts to raise equity capital from strategic foreign investors. The Advisor updated financial models, determined valuations, drafted investor presentation materials, and developed lists of potential investors.

SME Finance Pilot Project: The Project secured the commitment of a core group of major local financial institutions (BIAT, BFPME, Tuninvest, and Carthage Angel Investors), plus Esprit University and Ernst and Young to host a local enterprise support and finance platform linked to Bidnet, a global network of entrepreneurs, mentors, and investors. This same group agreed to jointly finance as many as 20 SMEs on a pilot basis by September 30, 2103.

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

In collaboration with the Small Business Development Center in Sfax, the Project organized a jobs event in Sfax to promote its training services for newly recruited staff; over 50 companies attended.

2.2 Identify private or public training institutions

Earlier this year the Project identified and contracted with 10 local private companies which are now providing training services to local partner companies.

2.3 Design and implement training programs

Thirteen co-financed trainings were either started or completed in the last quarter for recently recruited or newly hired staff of partner enterprises.

2.4 Map labor demand and supply in ICT sector

The project completed an analysis of employment support programs in Tunisia.

2.5 Assess and recommend improvements to ICT curriculum

This activity has been dropped due to lack of interest on the part of Tunisian counterparts.

2.6 Develop job-matching programs, including job fairs

Career Centers: All six planned career centers were officially launched during this past quarter at the Universities of Sousse, Kairouan, Jendouba, Gafsa, and Tunis El Manar, plus the Higher Institute for Technological Studies (ISET) in Zaghuan. The Project also organized two networking meetings in Sousse that were attended by the staff of five of the six career centers.

Job Fairs: Agreement was tentatively reached with CONECT, a new business organization with over 1,000 member companies that was created after the January 2011 ouster of President Ben Ali, to jointly organize a job fair in early September 2013 in Tunis.

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 defined an agenda in previous quarters.

3.3 Propose enabling environment reforms

The Project completed an assessment of Tunisia's One Stop Shop (OSS) for business registration maintained by the Agency for the Promotion of Industry and Innovation (APII).

3.4 Comment on draft revisions to the Investment Code

The Ministry of Development and International Cooperation finally provided the Project with a copy of the new draft investment code on June 5, 2013. In general, it falls far short of the Project's expectations and those of many donors regarding the elimination of discriminatory treatment of foreign versus local investment (off-shore versus on-shore) and the phasing out of expensive tax breaks and subsidies that have a questionable impact on investment and a deleterious effect on fiscal balance. A more detailed analysis will be completed by the Project in the next quarter.

3.5 Analyze e-governance and e-commerce laws and procedures

An analysis was conducted in previous quarters.

3.6 Establish ICT Task Force

Established in previous quarters, but no longer active.

3.7 Amend Telecommunications Code in accordance with international best practice

The Project drafted a series of regulatory and legal reforms that would bring Tunisia into compliance with international best practice. Meetings were held with the Working Group to discuss proposed "urgent action" items concerning dominant carrier regulation, universal service, and rules of procedure for INT. These meetings laid the groundwork for a follow-on meeting of the higher level Telecom Code Reform Steering Committee, chaired by the Minister of Information, Communications and Technology (MICT). The Project also presented the results of the Universal Service Gap analysis of the Kef Governorate to the MICT.

3.8 Fiscal policy and administration

The Project completed a draft policy options paper on Tunisia's Value Added Tax (VAT) that demonstrates how the removal of the current exemption of major food items from the VAT would increase revenues by as much as TND 580 million (15% of current collections). The Tax Advisor also prepared a micro simulation model that analyzes the impact of rate changes and modifications to the current system of exemptions and deductions. It demonstrates that a

removal of the deduction for re-invested profits and the exemption of dividends would significantly enhance revenues, and allow reductions in corporate and personal income tax rate.

3.9 Enhance Financial Access

See discussion under 1.3.

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

The Project completed three analyses of labor market issues: 1) an analysis of micro-data generated by labor force surveys, "The labor force: An Analysis of Micro-data Generated by Labor Force Surveys"; 2) an assessment of the current labor code, including suggested changes to bring it into compliance with international norms; and 3) a summary of existing workforce development programs.

3.11 Initiate dialogue and coordination with relevant stakeholders and conduct public/private workshops

The Project organized two roundtables in collaboration with the Tunisian American Chamber of Commerce (TACC), the first on the characteristics and shortcomings of SME financing in Tunisia, and the second on policy reform issues, including finance, enabling environment, labor markets; and tax reforms. A two-day Tunisian Investment Forum was sponsored by the Foreign Investment Promotion Agency and presided over by the Prime Minister.

OPERATIONAL CHALLENGES AND PROPOSED SOLUTIONS

The Project operates within the very challenging political, economic, and security environment that has prevailed since the fall of the Ben Ali regime in January 2011. However, the last quarter saw some improvements in all three areas.

1) Political: There have been no major changes in the leadership of government ministries and organizations during the quarter. At this point it seems unlikely that elections will be held prior to 2014 since it will take several months to set up the authorities needed to oversee the process.

2) Economic: During the last quarter, Tunisia reached agreement with the International Monetary Fund on the terms of a 24-month, \$1.74 billion Stand-by Arrangement that will support the country's economic reform program from 2013-2015. The draft investment code that was released publicly by the Government in early June just prior to the FIPA-sponsored Investment Forum was disappointing in that it contained few significant changes. After the close of the quarter, a new version of the code was being circulated for comment.

3) Security: The security situation improved this quarter, although the U.S. Embassy has not yet authorized the return of non-essential personnel and families to Tunisia.

Planned Activities for the Next Quarter

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

1) ICT Partners: Project assistance includes the three week mission of a U.S. software expert who will advise senior managers and train staff at Arabsoft in Oracle ADF. It is expected that up to 60 new positions will be created as the company upgrades and diversifies its services to local and foreign customers.

2) ICT-Enabled Partners: The Project will follow up with the eleven partner companies who participated in the Fancy Food Trade Show in New York that took place from June 30 to July 2. Consulting services in lean manufacturing techniques will be completed at apparel manufacturers Desi and Denim.

3) Finance: Project Advisor is currently providing support to three selected BIAT branches and train loan officers of these branches in cash flow based lending techniques. In addition, 10 to 15 SME customers of each of the branches will be evaluated based on their cash flows and offered working capital loans based on their needs and financial conditions..

The Project will also continue to support the SME Finance Pilot Core Group (BIAT, the Bank for Financing Small Business (BFPME), Tuninvest, SOTUGAR (the Tunisian Company for Guaranties) and Esprit University). In addition to launching the Tunisian version of Bidnetwork with project assistance, the Group plans to approve co-financing for up to 20 SMEs by September 30.

Component 2. Growing and Developing Tunisia's ICT Workforce

Planned activities fall into three major areas: 1) cost-shared training by local subcontractors of newly recruited staff; 2) local staff support for the six career centers funded by the Project, including small job fairs planned at the University of Tunis, the University of Sousse, and the University of Gafsa in early September; and 3) a major job fair planned in Tunis on September 10, 2013.

Component 3. Developing ICT Policy and Regulatory Reform

The Project will finalize and disseminate the extensive analytical work that has been conducted to date in four major areas: 1) enabling environment; 2) telecommunications; 3) labor markets; and 4) fiscal policy.

INTRODUCTION

This document presents the Quarterly Report for April to June 2013 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 will continue through September 30, 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 July - September 2013.
- **Trip Reports** includes summaries of technical assistance trips taken during the quarter.
- **Technical Reports** includes deliverables produced during the quarter.

Summary Progress

Since its inception in June 2012 through June 2013, the Project has supported the creation of approximately 1,200 new jobs in Tunisian private enterprises in the ICT and ICT-enabled sectors through technical assistance, training, and job matching services, namely job fairs and career centers. Support for another 800 new jobs is expected to be delivered by September 30, 2013.

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

During the past quarter, the Project focused its work with partner companies on strategy, marketing, and sales in both domestic and foreign markets. Over 100 representatives from close to thirty companies participated in individual and group sessions that were devoted to helping companies better understand and respond to the needs of customers.

ICT Service Providers: Of the 68 partner companies for whom the Project has provided support, the majority (45) provide a broad range of ICT support services in both international and local markets. During the past quarter the Project advised and/or trained 23 of those partners:

- Arabsoft in adopting a more advanced version of Oracle database software
- 15 sales/marketing managers in strategic sales for Vermeg, a leading Tunisian company that provides specialized IT services to multinational financial institutions;
- Tunisie Eléctronique on business strategy;
- Business & Decision, a systems integrator, on management consulting activities;
- Five companies working in the areas of IT support services, application development and software engineering on strategic sales;
- Eight startup companies in the Microsoft business park program;
- Four IT companies in strategic marketing;
- Two IT start-ups (Linkao and Disrupt CK) on business strategy;

- DOTIT, an IT services firm, on business strategy.

Business Process Outsourcing (BPO): The Project's expatriate BPO advisor made two trips to Tunisia this past quarter and worked with several companies on business strategy and marketing issues.

ICT Equipment Manufacturers: The Project reached an agreement with Opterna, an international optical fiber company that has just established operations in Tunisia, to pay travel and per diem costs related to the in-house training of up to 80 new employees that are expected to be hired for their new Tunisia factory by September 30, 2013. The Project also collected baseline data and assessed training needs of TIS Circuits, an electronics manufacturer.

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

Over the past three months the Project worked with apparel and light manufacturing companies on improving the productivity of existing operations through an approach known as 'lean manufacturing'. Such improvements are helping the partner companies to become more competitive in European markets, thereby expanding sales and employment. To implement these activities, the Project signed subcontracts with two local consultants (Zenith Consulting and Dr. Walid Zaramdani) to provide consulting services in lean manufacturing and supply chain management.

For specialty food companies, the Project focused mostly on helping partner companies penetrate new markets in the U.S., Europe, and the Middle East.

Specialty Parts Manufacturer: At PEC, a manufacturer of specialty parts for the European automotive, electrical, and medical devices sectors, Project consultants initially identified three priorities: 1) enterprise resource planning (information system); 2) lean manufacturing for steering wheels unit, and 3) lean manufacturing and gap analysis of an assembly line. As a result of the assistance, at least 197 employees were hired for a new assembly line for plastic medical devices.

Apparel: Project consultants worked with five companies: Aramys, Denim, Desi, Sartex, and TFCE/CN, all of which operate as 'offshore' companies that produce primarily for European markets.

Aramys: Consultants interviewed process leaders, identified lean manufacturing priorities, and laid out an implementation roadmap. About 95 new jobs are being supported.

Denim, Project consultants completed a diagnostic of production layout and organization at this jeans manufacturer.

Desi: The Project consultant audited production facility and layout, interviewed workers, and brainstormed on how to improve productivity indicators.

Sartex: The CEO and HR manager verified that the company will hire 300 new employees this year. The firm has its own training center targeting young people who have not graduated from secondary school. The lean manufacturing training provided by the Project's expert is being incorporated into the company's in-house activities.

TFCE/CN Fashion: The Project provided expertise on quality control and production planning.

Specialty Foods: During this quarter, the Project launched the second round of technical assistance to Tunisian olive oil producers to support companies in improving procedures, strengthening market linkages, and preparing for the July Summer Fancy Food Show (an international food show) in New York City. The Project completed onsite visits to production plants and sales offices of 12 olive oil producers and 12 confection, condiment and vegetable processors. Discussions included trade show participation, market labels and other regulatory issues, logistics, preparation of sales materials, market development funds, payment terms, broker contracts, and distributor agreements. Coaching on navigating the Summer Fancy Food Show – which took place on June 30th to July 2nd - was provided. The government trade agencies (CEPEX and PACKTECK) also received assistance as they sponsor companies to attend the Fancy Foods Show. Three U.S based advisors attended the fair and assisted in linking Tunisian companies with U.S. buyers.

The Project also delivered strategic marketing support to Masmoudi, a Sfax based specialty pastry producer that aims to strengthen its presence on European and Middle East markets. The company is hiring about 40 new workers.

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

Support to Tunisian SME-focused Banks: The Project's banking advisors assisted BIAT in drafting a new policy and procedures manual based on cash flow lending methodology. The advisors also concluded focus group sessions at BIAT Bank in Tunis, Sousse, and Sfax that provided useful insights for the bank's new SME lending strategy.

Project Advisor is currently providing support to three selected BIAT branches and training loan officers of these branches in cash flow based lending techniques. We expect at least 10 to 15 loans in each branch.

Equity: The Project's equity advisor assisted two local IT firms in their efforts to raise equity capital from strategic foreign investors. Integration Objects is a supplier of sophisticated process control systems to multinational petroleum sector companies, while Via Mobile is a start-up venture that is developing applications for mobile banking services. The Advisor updated financial models, determined valuations, drafted investor presentation materials, and developed lists of potential investors.

SME Finance Pilot Project: Based in part on the work already being done for BFPME and BIAT, the Project organized a series of meetings of major local financial institutions (BIAT, BFPME, Tuninvest, and Carthage Angel Investors), Esprit University, Ernst and Young, and the African Development Bank to discuss the formation of a Tunisian group that would host a local enterprise support and finance platform linked to Bidnet, a global network of entrepreneurs,

mentors, and investors. The Project secured the commitment of this core group to act as the Bidnet's local partner and to jointly finance as many as 20 SMEs by September 30, 2103.

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

Of the Project's 68 partner companies, approximately half have either participated in or plan to participate in the jointly financed training program for new hires. At the end of the quarter the Project was working with the Small Business Development Center in Sfax on organizing an event in Sfax that was intended to identify additional training opportunities for newly recruited staff.

2.2 Identify private or public training institutions

Earlier this year the Project identified and contracted with 10 local private companies which are now providing training services to local partner companies.

2.3 Design and implement training programs

Thirteen co-financed trainings were either started or completed in the last quarter for recently recruited or newly hired staff of partner enterprises. They included courses given specifically for the Project's partner companies as well as standard courses in which Partner company employees were enrolled. They included:

- Training of 110 persons for TIS circuits, a major electronic components manufacturer, in production, security, and environmental norms.
- An interactive training course focused on workforce skills for 14 new recruits of Enda Inter-Arabe, a pioneer NGO in micro-credit;
- English Language training for 13 employees at ST Microelectronics, a major Tunisian employer;
- Project Management and HTML for 11 job candidates from different companies; and
- Professional training of new recruits at four new companies, including Neolians (an IT near-shoring firm) in English language skills and Get Wireless (a firm focused on mobile networks) in IT service management skills.

2.4 Map labor demand and supply in ICT sector

The project completed an analysis of employment support programs in Tunisia.

2.5 Assess and recommend improvements to ICT curriculum

This activity has been dropped due to lack of interest on the part of Tunisian counterparts.

2.6 Develop job-matching programs, including job fairs

Career Centers: The Project officially launched all six planned career centers during this past quarter (University of Sousse on April 22nd, University of Kairouan on April 24th, University of Jendouba on May 2, Universities of Gafsa and Tunis El Manar on May 3, and the Higher Institute for Technological Studies (ISET) in Zaghouan on May 8). The latter is located about one hour south of Tunis, and is one of 25 such institutes in Tunisia that focus on preparation for

the job market through internships, a final project done in collaboration with a local company, and formal classes.

The Project also organized two networking meetings in Sousse that were attended by the staff of five of the six university career centers launched with Project support. Center staff shared ideas on outreach to businesses, services for students, and the immediate task of helping this year's graduates find jobs. Four of the centers have established relationships with local partners who are providing training and services. In May, Cameron Khorowshahi from USAID visited the Tunis El Manar Career Center and met with center staff and university officials overseeing the center. The Project explored options for ensuring the sustainability of the centers while maximizing the placement of graduating students this summer.

Job Fairs: The National Agency for Employment and Independent Work (ANETI) cancelled a job fair in Sfax that was scheduled for June 13, 2013 due to internal issues. As the Ministry has been non-committal about any future fairs, the Project initiated conversations with a number of private sector groups concerning the organization of a fair in Tunis. At the end of the quarter agreement was tentatively reached with CONECT, a new business organization with over 1,000 member companies that was created after the January 2011 ouster of President Ben Ali, to jointly organize a job fair in early September 2013 in Tunis.

It is now estimated that 327 candidates were placed in jobs as a result of the first fair last November.

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 defined an agenda in previous quarters.

3.3 Propose enabling environment reforms

The Project completed an assessment of Tunisia's One Stop Shop (OSS) for business registration maintained by the Agency for the Promotion of Industry and Innovation (APII). The report examines the OSS's services, process, procedures, application forms and information packages; the required documentation; staffing/training; online processing and the introduction of technology into the existing system; the fee structure; further legal, regulatory and institutional reform; and short, medium, and long-term planning for change.

3.4 Comment on draft revisions to the Investment Code

The Ministry of Development and International Cooperation finally provided the Project with a copy of the new draft investment code on June 5, 2013 (during the preceding months many unsuccessful attempts were made by the Project staff to obtain a copy of the code). The project COP and the ICT policy and Regulatory Advisor participated in a meeting organized by the Ministry and the 'Executive Committee for the Elaboration of the New Investment Code' on June 12 at which GOT representatives discussed the code with donors, multilateral finance organizations, and other interested parties. In general, the draft code falls far short of the

Project's expectations and those of many donors regarding the elimination of discriminatory treatment of foreign versus local investment (off-shore versus on-shore) and the phasing out of expensive tax breaks and subsidies that have a questionable impact on investment and a deleterious effect on fiscal balance. It is worth noting UTICA, the official representative of the Tunisian business sector, has not pronounced its views on the draft code. A more detailed analysis will be completed by the Project in the next quarter.

3.5 Analyze e-governance and e-commerce laws and procedures

An analysis was conducted in previous quarters.

3.6 Establish ICT Task Force

Established in previous quarters, but no longer active.

3.7 Amend Telecommunications Code in accordance with international best practice

The Project's Telecommunications Legal Advisor and Tunisian Legal Advisor, working in close collaboration with the Telecom Code Reform Working Group (three telephony service providers, two major internet service companies, the regulator agency INT, and the Project), drafted a series of regulatory and legal reforms that would bring Tunisia into compliance with international best practice. Meetings were held with the Working Group to discuss proposed "urgent action" items concerning dominant carrier regulation, universal service, and rules of procedure for INT. These meetings laid the groundwork for a follow-on meeting of the higher level Telecom Code Reform Steering Committee, chaired by the Minister of Information, Communications and Technology (MICT), at which the Project Advisors presented draft amendments to the Telecom Code in addition to the 'urgent action items'. Since these meetings, the Project's Tunisian Legal Advisor has been following up with the Working Group to finalize the three regulatory actions and ensure their adoption by INT. Legal changes will probably take additional time and effort due to the transitory nature of the current Constituent Assembly.

The Project also presented the results of the Universal Service Gap analysis of the Kef Governorate to the MICT. The Gap analysis showed almost universal 2G access, market based plans by operators to provide 3G access, and extremely high cost of fixed Broadband access. The Project's expert recommended that the MICT focus its efforts on public and institutional access.

3.8 Fiscal policy and administration

VAT: The Project Fiscal Advisor completed a draft policy options paper on Tunisia's Value Added Tax (VAT) that demonstrates how the removal of the current exemption of major food items from the VAT would increase revenues by as much as TND 580 million (15% of current collections). Of this increase, the poorest 30% of Tunisia's households would pay TND 90 million, which could be offset by a targeted expenditure program. Under this scenario, net VAT revenue would still increase by TND 490 million – enough to significantly reduce labor taxes and VAT rates.

Corporate Income Tax: Tax Advisor also prepared a micro simulation model that analyzes the impact of rate changes and modifications to the current system of exemptions and deductions. It demonstrates that a removal of the deduction for re-invested profits and the exemption of

dividends would significantly enhance revenues, and allow reductions in corporate and personal income tax rate. These changes would simplify the income tax, making it easier to administer and harder to evade.

Policy Dialogue: The Project Fiscal Advisor participated in the first meeting of the National Tax Advisory Council on May 13, to discuss two recent IMF studies on tax policy and tax administration, and plan a program of tax reform. He also participated in the Arab Institute of Business Leaders (IACE) Tax Forum in Sfax where his presentation focused on policy and administrative changes needed to lower tax rates, broaden the tax base and raise compliance. In addition he worked closely with the Ministry of Finance leadership to refine the initial policy proposals to be put before Government in the autumn of 2013. For the Corporate Income Tax, this includes estimating the simultaneous net revenue impact of taxing net income from exports at 10%, removing the deduction for re-invested profits, reducing the basic tax rate from 30% to 25% and taxing dividends at 5%.

3.9 Enhance Financial Access

See discussion under 1.3.

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

The Project completed three analyses of labor market issues: 1) an analysis of micro-data generated by labor force surveys, "The labor force: An Analysis of Micro-data Generated by Labor Force Surveys"; 2) an assessment of the current labor code, including suggested changes to bring it into compliance with international norms; and 3) a summary of existing workforce development programs.

These analyses formed the bases for an informed discussion with representatives of the business community and labor unions. The surveys were discussed with the General Secretary of the General Union of Tunisian Workers (UGTT) in charge of international relations. The Project also hosted a focus group on labor market issues with representatives of labor and civil society organizations, academia, and the media. Discussion focused on the difficult task of raising national employment rates, particularly those of women, through employment support programs, changes in regulations, and other initiatives.

3.11 Initiate dialogue and coordination with relevant stakeholders and conduct public/private workshops

The Project presented its findings on the characteristics and shortcomings of SME financing in Tunisia to a roundtable organized by at the Tunisian American Chamber of Commerce (TACC). A vigorous debate followed where audience members, composed of SME owners and managers, journalists, lawyers, and bankers, emphasized the importance of establishing a private-public partnership to better solve the problems of SME access to finance.

Also in collaboration with TACC, the Project organized a lunchtime discussion of policy reform issues that was attended by the Deputy Chief of Mission of the U.S. Embassy in Tunisia. Topics covered: 1) Access to financing for SMEs; 2) Business enabling environment, including project's role in removal of minimum capital requirements for the registration of new companies; 3) An analysis of differences in labor force participation and unemployment rates by age, sex, education, and region; and 4) Tax reforms that would encourage greater employment, such as a broadening of the tax base through removal of VAT exemptions and a lowering of social contributions.

The Project also participated in a meeting organized by the Ministry of Investment and International Cooperation to review a draft of the new Investment Code, as well as the two-day Tunisian Investment Forum sponsored by the Foreign Investment Promotion Agency and presided over by the Prime Minister.

OPERATIONAL CHALLENGES AND PROPOSED SOLUTIONS

The Project operates within the very challenging political, economic, and security environment that has prevailed since the fall of the Ben Ali regime in January 2011. However, the last quarter saw some improvements in all three areas.

1) Political: There have been no major changes in the leadership of government ministries and organizations during the quarter. Much of the attention of political parties and civil society has been focused on the finalization of the new constitution, its adoption by the existing Constituent Assembly (which currently acts as the country's only legislative body), and speculation about whether parliamentary elections will take place this year or in 2014. At this point it seems unlikely that elections will be held prior to 2014 since it will take several months to set up the authorities needed to oversee the process.

2) Economic: During the last quarter, Tunisia reached agreement with the International Monetary Fund on the terms of a 24-month, \$1.74 billion Stand-by Arrangement that will support the country's economic reform program from 2013-2015. The IMF's June 7, 2013 press release praised actions being taken by the current government to tighten monetary policy, allow more flexibility in the exchange rate, reform government spending and taxation, address weaknesses in the banking system, and reduce red tape. While the release touted the promised new investment law, the draft code that was released publicly by the Government in early June just prior to the FIPA-sponsored Investment Forum was disappointing in that it contained few significant changes. For example, the draft did not eliminate expensive tax breaks for off-shore investment that many investments experts thought necessary to create a more level playing field between local and foreign investment and reduce the fiscal burden of incentives. Given political uncertainties and the focus on the new constitution, there appears to be no urgency on the part of the Government to adopt a new code quickly. After the close of the quarter, a new version of the code was being circulated for comment.

3) Security: The security situation significantly improved this quarter, especially following the Government's decision to deal more harshly with extremist Salifist groups, who had tried to hold unauthorized demonstrations in Kairoaun and Tunis. However, at the same time the Government released from detention several persons who were allegedly involved in last year's attack on the U.S. Embassy. The latter has not yet authorized the return of non-essential personnel and families to Tunisia.

There have been no incidents involving the Project's local or expatriate staff this past quarter. Prior Project restrictions on travel to Kairouan and the use of taxis by expatriate staff have been eliminated. At the conclusion of the quarter the Project's Security Advisor was making several improvements at the Project's Lac 2 office to better control access (installation of an automatic closing device on the front gate and interior steel bars on two office entrances).

Planned Activities for the Next Quarter

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

The Project will support: 1) ICT companies; 2) ICT-enabled companies; and 3) financial institutions.

1) ICT Partners: Project assistance includes the three week mission of a U.S. software expert who will advise senior managers and train staff at Arabsoft in Oracle ADF. It is expected that up to 60 new positions will be created as the company upgrades and diversifies its services to local and foreign customers. The expert will also advise and train at several smaller companies that provide Oracle-related services. The Project's local staff will provide additional sales and marketing training to selected companies using the materials provided by the expatriate marketing advisor. The balance of support to ICT companies will focus on staff training, as further described under Component Two.

2) ICT-Enabled Partners: The Project will follow up with the eleven partner companies who participated in the Fancy Food Trade Show in New York that took place from June 30 to July 2. Consulting services in lean manufacturing techniques will be completed at apparel manufacturers Desi and Denim.

3) Finance: In addition to Project training of loan officers and branch managers at BIAT, 10-15 clients will be selected in each branch, evaluated according to the new credit procedures, and offered credit based on a streamlined loan process. A workshop on best practices will be organized and monitoring tools presented as well. The Project will also continue to support the SME Finance Pilot Core Group (BIAT, the Bank for Financing Small Business (BFPME), Tuninvest, SOTUGAR (the Tunisian Company for Guaranties) and Esprit University), which has already agreed to be the local host for Bidnetwork, a global web-based platform linking entrepreneurs, mentors, and financial institutions. In addition to launching the Tunisian version of Bidnetwork with project assistance, the Group plans to approve co-financing for up to 20 SMEs by September 30.

Component 2. Growing and Developing Tunisia's ICT Workforce

Planned activities fall into three major areas: 1) cost-shared training by local subcontractors of newly recruited staff; 2) local staff support for the six career centers funded by the Project, including small job fairs planned at the University of Tunis, the University of Sousse, and the University of Gafsa in early September; and 3) a major job fair planned in Tunis on September 10, 2013.

1) Cost-Shared Training: The Project has already identified at least 21 separate training courses for its business partners in all sectors. Based on the jobs promotion event that was conducted in

Sfax on July 3, 2013, it is anticipated that additional training courses will be organized and delivered by the 10 training subcontractors.

2) Career Centers: Although the examination period ended in July and classes will not resume until mid-September, Project staff will continue to monitor the reduced level of training and placement activities of the centers. Support will be provided to Tunis, Sousse, and Gafsa for the organization of mini-job fairs in early September. Alternatively, several centers may participate in the larger Tunis fair that is being planned for September 10, 2013.

3) Job Fairs: The Project is organizing a major job fair in Tunis on September 10 in collaboration with CONECT (Confédération des Entreprises Citoyennes de Tunisie/Confederation of Tunisian Enterprises Citizens), a major new business organization that started up after the January 2011 revolution and that already has close to 1,000 member companies, and with two women's organizations, one that represents businesswomen and the other that represents unemployed women university graduates.

Component 3. Developing ICT Policy and Regulatory Reform

The Project will finalize and disseminate the extensive analytical work that has been conducted to date in four major areas: 1) enabling environment; 2) telecommunications; 3) labor markets; and 4) fiscal policy.

1) Enabling Environment: During the last quarter the Enabling Environment Advisor completed revisions to a number of forms and checklists that are needed for the registration of both local and foreign companies. These documents will be translated into French and Arabic and submitted to APII. A more detailed analysis of the draft of the new investment code will be undertaken.

2) Telecommunications: The Project will hold a series of meetings with the Telecommunications Working Group and Steering Committee to review and finalize the French and Arabic versions of three proposed regulations on dominant carrier, universal service, and regulatory agency (INT) procedures, as well as the draft amendments proposed to the Telecommunications Law. The objective is to have new regulations adopted by the Prime Minister by September 30, 2013. Adoption of the changes to the Code will probably not be effected until the seating of a new National Assembly sometime in 2014.

3) Labor Markets: The Project's Tunisian lawyer and Tunisian economist will continue to meet with representatives of the Government, labor, and the private sector to present and discuss Project-sponsored analyses of the labor market, employment support programs, and the labor code. Major changes are not anticipated before the election of a new National Assembly.

4) Fiscal Policy: The Project's Fiscal Advisor will finalize micro simulation models that allow analysis of the impact of tax rate changes and modifications to the current system of exemptions and deductions, turn the models over to the Ministry of Finance, and train Ministry staff on their use. He will also complete analysis and recommendations concerning changes to personal and corporate taxes and the value-added tax that would reduce the tax burden on labor and lower income groups.

STTA Schedule

Position	Proposed Candidate	Projected Units (days)			Total
		Jul	Aug	Sep	
Component 1. Increasing and Developing ICT and ICT-enabled Entrepreneurship					
Oracle Expert	Douglas Weers	15	0	0	15
Competitiveness Expert	Henri Stetter	15	24	10	49
US Specialty Food Market	Esther Psarakis	2			2
US Specialty Food Market	Barbara Maguire	2			2
Financial Sector Expert	Bernard Koissy	9	8		17
Credit Specialist	John Wasielewski	8			8
Component 2. Growing and Developing Tunisia's ICT Workforce					
Senior ICT Workforce Advisor	Bernadette Wakim		6		6
Component 3. Developing ICT Policy and Regulatory Reform					
Sr. Fiscal Policy Specialist	James Wooster	10	8	8	26
Total					125