ISN 82962

PDABG141

TUNISIA

Societe Tunisienne de Banque
(S.T.B.)

AIRGRAM DEPARTMENT OF STATE

ACTION COPY

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For each address check one ACTION | INFO | DATE REC'D.

TO - AID/W TOAID A- 100 X

DATE SENT 2/19/69

FROM - Tunis

SUBJECT - Spring Review on Intermediate Credit Institutions

REFERENCE - AIDTO CIRC A-25

A. Description of Project

1. Country - Tunisia

2. Name of I.C.I. - Societe Tunisienne de Banque (S.T.B.)

3. Class of I.C.I. - mixed - 51% State owned, 49% other

4. Date established - January 18, 1957

5. Initial assistance from AID

Date	Amount	Kind
1958	D840,000 ($1,260,000)	Local currency grant

6. Does it take equity participation? X Yes ___ No

7. S.T.B.'s capital structure as of 12/31/58

Capital Stock (80,000 shares @ D5. each)	D400,000	
Surplus	24,000	
Reserves for contingencies	36,000	
Undivided profits	10,000	
Total Capital Funds		D470,000

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY
WRizk and WBollinger/amg	IND PRM		2/18/69	STBaron/DIR

AID AND OTHER CLEARANCES

PRM/GSchwab
PRM/NLSweet

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ACTION OFFICE - When ACTION completed, return this copy to OFFICIAL FILE STATION or appropriate OFFICIAL FILE.

NO ACTION NECESSARY

DATE	SIGNATURE

8. Subsequent Assistance from AID

a. Special Revolving Loan Fund (SRLF)

Date	Dollars*	Dinars	Kind
1958	2,000,000	840,000	Local currency counterpart grant
1959	1,714,300	720,000	" " " "
1960	1,785,700	750,000	" " " "
1962	261,904	110,000	" " 104(f) loan
1966	1,920,000	1,000,000	" " " "
1967	1,904,761	1,000,000	" " program loan countervalue
1968	952,380	500,000	" " " " "
	10,539,045	4,920,000	

b. Development Loan Fund

1961	5,000,000	U.S. Dollars

9. S.T.B.'s capital structure as of 12/31/68

Capital Stock	D2,000,000
Surplus	3,214,000
Reserves for contingencies	2,850,000
Undivided profits	920,000
Total Capital Funds	D8,984,000

10. Status of D.L.F. Loan No. 664-A-008 as of July 1, 1968

Committed- $4,674,767.24 Disbursed - $4,674,767.24

11. Interest Rates

	SRLF	DLF	OTHER
Average rate paid by S.T.B.	0	4%	
Average rate charged by S.T.B.	6-1/2%	6%	

Interest on 104(f) loans is paid by the Tunisian Government. The STB receives for management services the first two percent of interest earned. The balance is credited to the FSR for new lending. The rate of interest charged by the STB under these funds applies to all borrowers alike.

*Dollar equivalent provided in dinars: exchange rate used: 0^{d}420 for 1958, 59, 60, 62; 0^{d}521 for 1966, and 0^{d}525 for 1967 and 68.

The Societe Tunisienne de Banque was established by Government proclamation in 1957 to perform commercial banking functions and to provide equity and loan capital for new and expanding enterprises. It is a joint stock company in which the Government of Tunisia holds 51% of the stock. The remainder of the stock is held by various local companies and individuals. By statute the STB is empowered to receive deposits, negotiate commercial paper, handle discount operations, and to make medium- to long-term loans. It also by statute is authorized to administe the USAID financed Special Revolving Loan Fund and DLF Loan 664-A-008; to operate the Tunisian Government Building and Loan Program; to acquire shares, with its own resources, in enterprises that contribute to "the development of the economy"; and to borrow on foreign money markets.

The Special Revolving Loan Fund (SRLF)

In 1958 the USAID Mission entered into an agreement with the Tunisian Government for the establishment of a Special Revolving Loan Fund. Under the terms of this agreement, as amended, the STB administers the SRLF which has as its objectives 1) provision of medium- and long-term development credits to private industrial enterprises (including tourism) and 2) local currency financing on a mediu[illegible]rm basis of the procurement, installation, and/or assembly costs of U.S.-source commodities through a sub-account called the "United States Import Fund." Total contributions to the SRLF as of December 31, 1968, came to D4,920,000 ($10,539,045) of which D1 million was earmarked for the United States Import Fund.

The agreement between the USAID and the Tunisian Government further provides for the STB to determine the suitability of all loan applications for both the SRLF and the U.S. Import Fund, based on accepted banking standards. These include adequacy and quality of the applicant's financial structure, technical feasibility of the proposed project, and marketing considerations. At least 25 percent of the total funds available to the SRLF (excluding the U.S. Import Fund) are to be utilized for loans to private industrial enterprises other than tourism. All resources available to the SRLF may be used for medium-term loans not exceeding ten years wh[illegible] up to 50 percent of that portion of the Fund available for tourist activities may be made repayable within the maximum period of 15 years. The accord also provides for the STB to determine the rate of interest on loans based on the going rat[illegible] on the Tunisian financial market. The first two percent of interest earned is retained by the STB for management services; remaining interest and loan repayments are to be restored to the SRLF for relending. Losses are shared 25 percent by the STB and 75 percent by the SRLF.

In 1967 the SRLF agreement was amended to provide for the "United States Import Fund" sub-account which makes financing available for up to 75 percent of the total procurement costs of U.S. products, as well as costs relating to their final utilization. Repayment of the loans under the sub-account may be made over two to five years with a grace period of one to two years, as appropriate. The purpose of the account is to make U.S. commodities available to Tunisian importers on terms which are competitive with European supplier credits.

There are no limits on the size of loans, either under the SRLF or the U.S. Import Fund.

Since the organization of the SRLF, 180 loans for a total of D8,078,089 have been approved by the STB. The classification of loans by industry is as follows:

SPECIAL REVOLVING LOAN FUND
Loans Classified by Industry
January 1958 through December 1968

Type of Industry	No. of Loans	Dinar Amount	%
Hotel	30	3,859,700	47.8
Transportation	13	888,083	11.1
Food & Beverages	31	554,255	6.9
Olive Oil	9	519,935	6.4
Construction & Building Materials	13	714,369	8.8
Metal Fabrication	5	220,729	2
Clothing & Textiles	13	181,719	2..
Fertilizer	1	224,000	2.9
Footwear and Tanning	3	144,000	1.8
Sugar	1	100,000	1.2
Other	61	662,799	8.2
Total	180	8,078,089	100.0

The United States Import Fund has been used to finance the following activities:

Type of Industry	No. of Loans	Dinar Amount
Metal Fabrication	1	170,000
Tourism	3	207,200
Total	4	377,200

DLF Loan A-008

The DLF loan required the prior approval of AID/W for any sub-loan authorizing the use of $100,000 or more. The STB also was required to ensure that at least 50% of gross tonnage of all commodities financed under the loan was transported by U.S. flag commercial vessels. Disbursements were obtained by means of Letters of Commitment which were issued by the DLF through U.S. banking institutions. All payments under the Letters of Commitment were effected upon presentation of specified documents to the U.S. bank.

The extension of loans under the DLF was subject to the terms and conditions, as well as the procedure, stipulated in the DLF loan agreement. These quite often were found to be rather cumbersome and time-consuming as compared with the regular import practice. As a result, the utilization of loan facilities under the DLF was considerably slower in comparison with the SRLF. The number and amount of loans extended under the DLF classified by industry are shown below.

DEVELOPMENT LOAN FUND
Loans Classified by Industry
February 1962 through May 1967

Type of Industry	No. of Loans	Dollar Amount	%
Construction & Building Materials	18	1,086,653	23
Food Processing	20	901,773	19
Fertilizer	3	602,997	13
Metal Fabrication	7	381,796	8
Clothing	7	266,665	5
Footwear and Leather	3	195,534	5
Furniture	7	180,350	4
Salt	1	91,765	2
Plastics	3	113,953	2
Razor Blades	1	42,840	1
Other	24	824,772	18
Total	94	4,689,098	100

Importance of STB in Tunisian Financial Community

At the time of Tunisia's independence in 1956, the country's banking system was entirely under the control of French financial institutions. Because of the uncertain position with regard to French holdings in Tunisia at that time, these banks were not willing to make the infusions of capital which the Tunisian Government thought necessary for economic development. As a result, the Tunisian Government decided in early 1957 to establish a fully Tunisian owned and operated development bank.

During the last ten years, the STB has witnessed a rapid growth of its assets which, at the end of 1968, amounted to D 128.7 million as compared with approximately D 18,000,000 in 1959. The bank initially was capitalized at D 400,000 ($950,000) divided into 80,000 shares held by some 1200 shareholders. As of December 31, 1968, the STB's capital amounted to D2 million. With the exception of the Government, no one shareholder owns more than 2-1/2 percent of the paid-in capital.

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With the constant expansion of its resources, the STB has been able to furnish a significant portion of the short-, medium-, and long-term credit utilized for non-agricultural activities. Today it accounts for almost 40 percent of the commercial banking operations in the country and its equity holdings include enterprises in the fields of insurance, navigation, tourism, commerce, industrial research, textiles, motion pictures and steel production.

B. Evaluation on Specific Points

1. Goals

The mobilization of additional capital for the STB (apart from periodic increases to the Mission supported SRLF and the U.S. Import Fund) has taken place within the context of the overall Tunisian investment program which, since 1964, has been developed in consultation with the IMF and the World Bank.

Increases in funds at the STB resulting from either Government subsidies, individual savings deposits, or deposits of semi-public organizations of over a year in duration have been used to finance activities endorsed by Government planners. Additionally, the STB has benefited more than any other Tunisian bank from Government deposits of counterpart funds generated under various foreign assistance programs.

Severe restrictions were put into effect by the Central Bank in order to limit the expansion of bank credit during 1967 (special lending funds were excluded). Notwithstanding the STB's close relationship with the Government, it is subject to the same controls laid down by the Central Bank as are private banks in Tunisia. As a result, new lending by the STB has been sharply curtailed.

Until 1966 an important source of foreign exchange for industrial investment was suppliers' credits. Since that date, the Central Bank, in cooperation with the IMF, has placed yearly ceilings on suppliers' credits and each loan must be approved by the Central Bank. The Societe National d'Investissements, with World Bank and IFC loans of $15,000,000, presently is the main institutional channel of long-term foreign exchange credit for the financing of new private investment in manufacturing and tourism.

With the exception of the $5 million AID Loan, the STB has never had foreign exchange resources at its disposition. In 1967, however, the STB increased its short-term indebtedness with its European correspondent banks by approximately $10 million, mainly to generate dinars for local short-term lending. The Government realized that such short-term borrowing posed a potential threat to monetary stability and, in their financial program for 1968, imposed a ceiling on short-term borrowing from abroad.

Although variable interest rates are not used to influence the pattern of investment in the industrial sector (this is not the case, however, when it comes to agriculture), highly sought after resources available to the STB are directed primarily in support of Government sponsored companies and offices. In 1967, for example, several of the most inefficient of the semi-public firms (e.g., El Fouladh Steel Mill, and SOGITEX (textile company)) were accorded overdrafts which subsequently had to be refinanced on a medium-term basis. Several private banks were forced by the Central Bank to assist the STB with the refinancing, thereby reducing the amount of credit which otherwise would have been available to the private sector.

Although our STB project was not designed to promote the establishment of a securities market, it should be noted that the Tunisian National Assembly recently approved a law establishing a stock exchange (bourse des valeurs mobilieres). The exchange will handle stocks of private as well as semi-public companies and all Tunisian citizens will be eligible to purchase or sell on the exchange.

Shortly after the establishment of the SRLF at the STB the Mission funded two U.S. technicians to provide the expertise necessary to evaluate loan applications -- one with banking and industrial development experience, and the other with an engineering and managerial background. The U.S. advisors worked both on loan investigations and loan servicing and in some cases actually worked up loan applications as a means of teaching the Bank staff how to perform this function. advisors finished their work and departed in 1961. Since this time the STB has satisfactorily performed the functions of loan evaluation and servicing.

Achievement of Goals

The Mission believes that assistance to the STB through 1966 adequately met the project objective of encouraging private sector investment. U.S.-owned and controlled local currency funds were provided to the STB within the general context of Tunisian development plans. Although AID generally has supported these plans, it now appears that, on an overall basis, insufficient resources are being made available for the financing of private sector activities outside the area of tourism. In this regard, the utilization of the SRLF during the past two years has been primarily for tourist activities, in line with the Government policy, notwithstanding efforts by the Mission to increase utilization of that portion of the fund reserved for manufacturing endeavors.

2. Selection of Borrowers

In Tunisia, any investment, including the establishment or expansion of any industrial project, requires the prior approval of the Government. The Ministry of the Plan and National Economy investigates each development project, including its technical and economic feasibility as well as the value of the project to the national economy. It also must approve the project's plan for financing which sets forth the amount of capital to be provided by the owners and the financing that may be obtained from other sources. The STB similarly examines the project, particularly its commercial profitability. It also conducts a thorough investigation and analysis of the financial standing of the borrower, processes the loan application, and determines the loan conditions. (With regard to loans for Government enterprises, the STB not infrequently finds itself in the position of having to overlook questions of economic and technical feasibility.) For the SRLF, USAID reviews each loan request and if, for any reason, finds the proposed loan to be unsound, may reject the application.

3. Management and Operational Policies

The STB as a development bank has a research and statistics department which conducts economic research and makes studies and surveys of various industrial projects. The management staff performs all of the various banking operations with competence and efficiency.

During the last ten years of SRLF administration by the STB, the record of loan repayments has been excellent with hardly any loan losses incurred. This, to a great extent, is due to the high calibre of the bank's lending officers and their ability to examine carefully and evaluate accurately each loan application. They also maintain a close follow-up on the progress of the project and the financial condition of all borrowers and lend them technical or managerial assistance as required.

During the early period of the SRLF operations, a considerable number of loans were made for the establishment of new projects; since then, the distribution of loans among established and new firms has been nearly equal.

Throughout our relations with the STB there has not been any conflict of interest problems pertaining to bank personnel.

Since the establishment of the STB, its operations have been profitable. The bank shareholders have always received a dividend and the remaining profits have helped to increase the bank's capital funds from D692,000 in 1959 to D8,984,000 in 1968.

C. Overall Evaluation and Conclusions

The Tunisian Government is the dominant interest in the ownership and control of most of the nation's major enterprises. Since independence the Government has formed many new companies for the purpose of establishing new industries, taken over control of existing enterprises, and in many ways engaged in activities designed to further the economic development of the country. The financing of the GOT investment program, as pointed out above, has been carried out to a significant extent by the STB.

The Government dominance of industrial investment in Tunisia has generated fear and a lack of confidence in the future of the private sector among Tunisian businessmen. U.S. assistance to the STB for private sector investment has not been adequate to counteract this feeling. Over 95 percent of the loans made in 1967 and 1968 under the SRLF were for activities in the tourist sector, the only area which, according to Government statements, is fully open to private entrepreneurs. Although the large number of loans for hotel construction may reflect the lack of

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interest by Tunisian businessmen in activities other than tourism, there also is the possibility that the management of the STB, in accordance with GOT policy, deliberately discouraged application for industrial activities. In this regard, we have found that AID can bring about only minor changes in the management of lending operations by dealing directly with bank officials, notwithstanding the large amount of financial resources made available to the STB by the U.S. Government. Since policy is established by the GOT, it is the Government planners responsible for the allocation of resources on a global scale with whom AID must reach agreement regarding policy changes affecting the STB's operations.

In addition to possible Government influence with regard to the SRLF's management, it is suspected that the provision of medium-term funds to the STB freed other resources to finance government projects. The establishment of the SRLF in a strictly private bank, removed from direct Government control, might, in the long run, have provided more credit for all-private sector activities.

RUSSELL