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PRIVATE SECTOR DEVELOPMENT: POLICIES, PAST ACTIVITIES, AND FUTURE STRATEGY

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Overview of Major Features of the Economy

Tunisia is engaged in a gradual, long-term process of liberalizing its economy. This process is threatened by the country's current balance of payments shortfall. The Government of Tunisia (GOT) can respond to the balance of payments pressures in either of two ways. It can revert to increased regulations and controls, attempting to mandate increased exports and seriously restrict imported inputs. Or it may seek to alleviate the institutional, financial, and policy constraints on the efficient production of domestic as well as export goods. Some evidence suggests that the GOT is leaning toward the first option. This is a particularly critical time, therefore, for the U.S. Agency for International Development and other donors to provide support to the second approach, which many believe offers brighter prospects for long-term growth of the economy.

Private sector activities in Tunisia are subject to a wide variety of controls and regulations affecting virtually all dimensions of the production process. The most important of these are investment controls, price regulations, labor legislation, and foreign trade controls. In principle, all industrial investments in Tunisia require authorization from the Agency for the Promotion of Investment (API) or the Small Enterprise Division of the Ministry of National Economy. Although the mandate of API is to promote profitable investments, its approval procedures are a major hindrance to the development of a more flexible and dynamic private sector.

Price controls touch all but a limited range of manufactured goods. These controls make it difficult for business people to adjust their price upward in response to cost increases, are time consuming, and do not allow for returns to investment in product development. Highly favorable labor regulations have created concerns among foreign companies considering investing in Tunisia and reduced the efficiency of domestic firms. It is virtually impossible to fire workers after they have been employed for more than three months. And, in the past, wage increases were not tied to productivity gains, leading to relatively high wages. The GOT recently has taken steps to reverse this trend, as evidenced by the fact that no wage increases have occurred during 1985.

The Central Bank exerts a strong influence on Tunisia's financial system, leading to some inefficiencies in the allocation of resources. Although the development of the private sector is now being promoted, during the 1970s public institutions received a large share of financial resources to the detriment of the private sector. Virtually every bank loan, in practice, still must be approved by the Central Bank. It exerts control over financial institutions through carefully controlled access to rediscount facilities, the imposition of credit ratios, the determination of priority sectors that must receive a minimum proportion of loans, and a comprehensive and detailed system of interest rate floors and ceilings on deposits and loans. Commercial banks are the major source of loans to small and medium enterprises. Development banks were created to provide medium- and long-term loans and equity to large industrial projects; in general, their investments rarely fall below Tunisian dinars (TD) 1 million per borrower.

Savings levels have declined in recent years. The Central Bank is trying to encourage savings by raising interest rates and creating new savings instruments with tax benefits. If inflation continues at its approximate 1984 rate of 8 percent, however, most savings interest rates will remain negative in real terms.

The deterioration of Tunisia's balance of payments and foreign exchange position has led to the creation of numerous institutions and programs to promote exports. Some hold promise for the future whereas others are less certain. Perhaps the institution with the most potential is the Federation of Exporters (FEDEX). Formed in July 1985, it is the first private export association representing Tunisian exporters.

One main problem Tunisia faces in its determination to export is that Tunisian business and government officials understand little of how different markets function and what they require in the way of products, qualities, quantities, timeliness, and labeling. There is little appreciation that the very size, complexity, and dynamics of large markets (especially the U.S. market) are what offer opportunities.

The principal financial constraint particularly affecting small- and medium-scale resident exporters is the problem of securing foreign exchange and import licenses for raw materials and equipment to produce exports. As of April 1985, the GOT stopped issuing import certificates that guaranteed access to foreign exchange on an annual basis. Each request is now carefully scrutinized on an individual basis, requiring much documentation and causing lengthy delays. Although most large exporters interviewed by the team claimed that they had no difficulty getting needed imports, small- and medium-scale producers were suffering greatly as a result of cutbacks or refusals to authorize imports. This situation is not expected to improve in the near future.

Private Sector Development Project

To date, the Private Sector Development Project has financed a variety of activities ranging in size from $8,500 to $350,000. This has involved funding seminars in Tunisia and abroad; trips to promote joint ventures between American and Tunisian businesses; and technical assistance provided through Catholic

Relief Services, the Institut Superieur de Gestion, and the International Executive Service Corps. A review of funded activities indicates that they have made a useful contribution to relieving specific constraints faced by private sector producers.

However, the lack of coherent focus of subproject activities is a key constraint to achieving the overall project goal and purposes. These discrete activities have been scattered in a variety of directions rather than focused on one or two issues. In addition, managing these small efforts and gaining separate approval for each component from the GOT have imposed a high administrative burden on those managing the project. It is therefore recommended that the project be redesigned to focus on issues relating to export promotion. Given the limited funds available to USAID/Tunis, we suggest that remaining funds be reprogrammed to help finance the activities proposed. By concentrating the limited resources of USAID on a particular, more focused set of issues, it can be expected to make a greater contribution to the development of the Tunisian private sector.

Future USAID Strategy

During the past five years, the GOT has begun a variety of programs to promote small and medium enterprises. These programs were examined closely to determine whether there is a need for USAID assistance. On balance, the sector is generally well served by existing programs. Since some of them are new, it is unclear whether they will function efficiently and achieve their objectives. This is true for financial assistance programs as well as technical assistance activities. It is suggested that all of these be kept under review for possible further support in the future.

Given the critical balance of payments problems facing the country and USAID's limited funding, we recommend that the mission focus on private sector export promotion. This is an area seriously constraining the growth of the private sector; it is also of prime concern to Tunisian officials. A well-targeted assistance program will help moderate existing restraints and contribute to a return to a longer-term movement toward liberalization. Since past studies have shown that manufacturing export activities create many more jobs per dinar of value added than import substitution efforts, an expansion of export production will also be highly beneficial in helping the country to solve its serious unemployment problem.

An integrated effort is suggested involving several different project components, each focused on key constraints. The constraints on export development and proposals for a comprehensive USAID strategy are summarized in Table Ex-1. Taken individually, each is a useful activity; together, they constitute a coherent program through which USAID can make an important contribution to the growth of the private sector and the economy as a whole.

TABLE EX-1

FINDINGS AND PROPOSED PROJECT RECOMMENDATIONS

Finding	Recommendation
Financial Sector	
1. Critical lack of foreign exchange to purchase equipment, spare parts, and raw materials needed to produce export goods.	1. Establish a loan fund to finance imported goods and equipment needed by small and medium enterprise exporters.
2. Lack of collateral or investment funds required for equipment loans; inability of Tunisie Leasing to provide services as a result of import restrictions.	2. Establish a fund in hard currency for exclusive use by Tunisie Leasing clients.
3. Extremely deficient capital markets.	3. Tap into the AID/Bureau for Private Enterprise Financial Markets project to fund a study analyzing constraints and providing long-term technical assistance, if appropriate.
4. Weak bank operational capacity in trade financing.	4. Fund series of seminars for mid-level commercial and development bank staff.
Market Information and Product Development	
5. Lack of information about domestic producers and export markets; need for product design modifications in response to trends; need for private sector institutional link between exporters and importers.	5. Strengthen the capacity of FEDEX to provide these services to member exporters by financing its start-up activities, providing technical assistance in product and market development, and providing commodities to permit efficient data collection and analysis.
Policy Analysis Dialogue and Change	
6. Regulatory nature of policy environment inhibits export development; private entrepreneurs can present only anecdotal evidence in discussions with the GOT.	6. Create an institutional context for continuing analysis and discussion of policies affecting exports between the GOT and the private sector by strengthening UTICA's capacity to analyze policy issues, with the assistance of forein and domestic economists.

CHAPTER ONE

INTRODUCTION

This consultancy had three goals:

- To examine the private sector in Tunisia, exploring with business people that sector's strengths, current problems, and needs in terms of project assistance and policy change;
- To assess the U.S. Agency for International Development's Private Sector Development and Technology Transfer Project and its components, and determine whether it uses its limited resources effectively to encourage the growth of the private sector; and
- On the basis of the first two activities, to make suggestions concerning future AID activities for private sector development in Tunisia.

The primary focus of the work was on the third goal.

To speak of the whole private sector is to encompass major segments of the entire economy. At the start of the consultancy, it was agreed that our focus would be on manufacturing activities, along with other segments of the economy that are directly linked to manufacturing. Thus, the focus included finance, marketing, and other similar services, as well as those aspects of agriculture that are linked directly to manufacturing (for example, agro-industries). Other private sector activities (in particular, other aspects of agriculture and tourism) were excluded from our exploration. This is consistent with the focus of the Sixth Five Year Plan, which gave a central importance to the encouragement of private sector manufacturing activities.

At the start of the consultancy, the team reviewed a variety of written materials produced by and for the USAID mission as well as by others. Thereafter, most of the team's time was spent in interviews with Government of Tunisia agencies and institutions, financial institutions, and about 60 private producers of all sizes and types. The three team members generally separated for these interviews, thereby making it possible to talk to more people in the limited time available. Although most of our interviews were in the Tunis area, the team also spent three days in Sfax, and one person spent one day talking to producers in Kasserine. A list of those with whom we met is included as Annex 1 to this report. The team was in Tunisia from October 21-November 23, 1985. Team members also worked in Washington, D.C., December 4-7, 1985, to revise the report and discuss findings with AID/Washington officials.

This consultancy was arranged through the Employment and Enterprise Policy Analysis (EEPA) Project, with a mission-funded add-on to a contract between Office of Rural and Institutional Development of the Bureau for Science and Technology (S&T/RD) in AID/Washington and the Harvard Institute for International Development, Michigan State University (MSU), and Development Alternatives, Inc. (DAI). Several themes of our work reflect the interests of both USAID/Tunis and the EEPA project: an interest in issues relating to small and medium enterprises; a concern for employment aspects of development; and perhaps most important, the central importance of policy as a determinant of development patterns and potentials.

We would like to express our thanks to people who shared with us their understanding of the Tunisian private sector and who helped set up our interviews: to Oren Whyche, the Private Sector Policy Advisor at USAID/Tunis, for all of her help and advice and for accompanying us on several interviews; to Chedli Zarg el Ayoun, also of USAID/Tunis; to Ahmed Gdoura and his staff at the Small Business Development Project; to the officials of the Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA), both in Tunis and in Sfax; to officials of the Agence de Promotion des Investissements (API), particularly in Sfax, who set up useful interviews and accompanied us for a full day of visits. Our biggest debt is to the business people who welcomed us and shared their perceptions of their problems and needs. Discussions with these enthusiastic and capable entrepreneurs leave us optimistic about the future of the private sector in Tunisia.

CHAPTER TWO

OVERVIEW OF MAJOR FEATURES OF THE ECONOMY

A. Historical Background

In discussing the growth of the private sector in Tunisia, it is useful to start with a historical perspective. In the years immediately following independence in 1956, the country followed economic policies that have been characterized as laissez-faire and non-interventionist (M. K. Nabli, "Alternative Trade Policies and Employment in Tunisia," in Krueger et al., Trade and Employment in Developing Countries, vol I, 1981, p. 436). In 1961, policy was reoriented toward centralized economic planning. From 1961 to 1969, the government was actively involved in all aspects of the economy. Public sector investment was heavy during this period in social overhead activities (roads, schools, and housing) as well as in directly productive investments in agriculture, transport, and public enterprises in the manufacturing sector. In the peak year of 1965, over 80 percent of all investment in the country was either in the public sector or in publicly owned enterprises.

Since 1970, the Government of Tunisia (GOT) has talked considerably about a reversal in focus of economic policy. At least in terms of rhetoric, the primary focus has shifted toward increasing emphasis on liberalization of the economy. There has been a continuing tension between this rhetoric and the underlying reality, which has often lagged behind the public pronouncements. It is important to recognize, however, that the changes that have taken place over the last 15 years have been striking. Exports have been virtually freed from licensing, and several new initiatives have been started for the encouragement of exports; price controls are less extensive than they were 10 years earlier; serious attention is being given to the sale of parastatals; investment approval procedures have been centralized and streamlined; tax laws on expatriates have been modified; and new and more liberal laws for off-shore banks are under consideration. It is true that the crisis in the current balance of payments has resulted in some actual or proposed movements in the direction of greater state control (such as the elimination of the import certificate system and the proposed system of "group purchases"). In many ways, however, these may be seen as short-term aberrations from a long-term trend. One central goal for AID should be to help the country deal with its short-term problems in ways that are least detrimental to the resumption of that longer-term movement toward liberalization.

B. Macro Developments in the Economy

After growing at a high rate of 6.3 percent per year during the period 1971-1981, the gross domestic product (GDP) growth rate has slowed during the 1980s. From 1981 to 1985 (projected), GDP in constant (dinar) prices increased by an average of 3.6 percent per year, clearly above the country's population growth rate (about 2.5 percent per annum) but well below rates achieved during the 1970s, when the expanding petroleum sector was fueling a rapid overall expansion of the economy. The sector with the highest growth rate in the 1980s has been manufacturing, which increased at an average of 8.3 percent per year. Other sectors growing rapidly during this period include public administration (5.8 percent per annum) and other services (5.7 percent per annum).

This respectable overall growth record needs to be qualified in three different ways. First, it is measured in dinars. The dinar itself appreciated by about 5 percent relative to Tunisia's major trading partners, so GDP per capita measured in some average foreign currency would show a somewhat higher growth than that measured in dinars. Relative to the U.S. dollar, however, the dinar lost in value over this period; as a result, constant price GDP per capita measured in dollars actually declined. In 1983, for example, when the exchange rate was Tunisian dinars (TD) 1 = US $1.49, GDP per capita was $1,190; by 1984, when the exchange rate had devalued to TD 1 = US $1.30, GDP per capita declined to $1,166.

A second characteristic of the macro growth pattern over this period concerns the growing balance of payments deficit of the country. This is discussed further in section II E below; suffice it to note here that this growing deficit made it possible for private consumption, public expenditures, and gross capital formation each to increase faster than total production in the economy during the years 1980-1984, with public sector current expenditures growing most quickly and private consumption growing the least rapidly.

A third feature of the overall growth picture during this period concerns the slow rate of employment growth. The earlier pattern of import-substituting industrialization based on public enterprises had been particularly unsatsifactory from the point of view of employment creation. Table II-1 below gives estimates of the labor-intensity of various categories of export production, compared to import substitute activities.

TABLE II-1

LABOR INTENSITY OF EXPORT PRODUCTION,
RELATIVE TO IMPORT SUBSTITUTE ACTIVITIES
(index base: average of import-competing sectors = 1.00)

	L/DVA	UL/DVA
All exports	0.53	0.63
HOS exports (excluding refined oil)		
1. Natural resource based-exports	0.64	0.63
2. Traditional exports	1.94	2.98
3. Manufactured exports	1.68	2.24
Other natural resource-based exports		
1. Excluding crude oil	2.67	3.18
2. Including crude oil	0.45	0.52

Note: This table measures person/years of skilled (L) and unskilled (UL) labor used in the production of one dinar of domestic value added (DVA), relative to the average of this labor intensity ratio for all import substitute production in Heckscher/Ohlin/Samuelson (HOS) type production activities in Tunisia. HOS activities are those whose production is not determined by the location of natural resources supplies; for these sectors, location is primarily a function of relative prices of labor and capital. The figures are for 1972. Source: Nabli, op. cit., p. 455.

The figures make clear that several major categories of exports are substantially more labor intensive than import substitution production. Taken as a whole, exports were <u>less</u> labor intensive than the average for all import substitutes; but in large part, this finding may be explained by the low labor intensity in crude oil and other selected natural resource-based exports, which require only limited labor inputs. For traditional and manufactured exports, as well as for selected natural resource-based exports other than crude oil, production involves from 68 percent up to 167 percent more labor per dinar of value added, compared with average import substitute activities. This difference becomes even more striking when one looks (in the second column) at unskilled labor; those same product categories use two to three times as many unskilled workers as import substitutes.

During the first three years (1982-1984) of the Sixth Five Year Plan, government figures suggest that only about 124,000 new jobs were created outside of agriculture, providing jobs for only about two-thirds of the new entrants to the labor force. With declining opportunities for workers to find employment overseas, the country faces increasingly severe problems of unemployment.

C. The Private Sector

1. Introduction

As suggested above, one major feature of the Tunisian economy during the 1960s was a sharp increase in the level of public sector investment, with a corresponding decline in investment in the private sector. A major share of that public sector investment was in large, heavily protected, capital-intensive, import-substitute industries.

The reorientation that has taken place since the early 1970s has had several dimensions. There has been considerably less emphasis on import substitution, and more attention to the encouragement of exports; there have been efforts to permit a freer operation of market forces, through a reduction and streamlining of government controls and regulations; and the extent of government investment in directly productive investments has declined. Table II-2 shows the pattern of investment in Tunisia over the past decade.

TABLE II-2

GROSS FIXED CAPITAL FORMATION

millions of current dinars
(figures in parentheses are percent of total GDP)

	1974	1979	1984
Administration	65.4	131.5	329.0
	(4.3)	(4.5)	(5.3)
Public enterprises	96.0	397.7	812.0
	(6.3)	(13.5)	(13.0)
Private enterprises	109.0	210.5	464.0
	(7.1)	(7.2)	(7.4)
Households	45.0	155.0	295.0
	(2.9)	(5.3)	(4.7)
Total	315.4	894.0	1,900.0

These figures show that the share of total GDP used for investment in private enterprises has been stable over the past decade. There has been some increase in investments through households, but the biggest change has been the sharp increase in investments in public enterprises. The sharp increase in this item from 1974 to 1979 and its sustained high level since then make clear the government's continuing involvement through public enterprises in productive sectors of the economy.

2. Government Controls and Regulations of the Private Sector

Private sector activities in Tunisia are subject to a wide array of controls and regulations affecting virtually all dimensions of the production process. The most important of these relate to investment controls, price regulations, labor legislation, and foreign trade controls. These are discussed in this and subsequent sections of this report.

a. Investment Controls

The system of investment controls in Tunisia is administered by the Agence de Promotion des Investissements (Agency for the Promotion of Investment, or API). This organization has two functions: the control and regulation of investments to prevent the establishment or expansion of enterprises in activities judged to be undesirable for the country, and the promotion of investment in favored activities. Our discussion focuses primarily on the control and regulatory functions of API.

In principle, all industrial investments in Tunisia require authorization from one of two sources. For very small enterprises (less than TD 20,000 of investment) in selected (primarily traditional) industries, the entrepreneur has a choice of registering either with API or with the Small Enterprise Division of the Ministry of National Economy. Since the latter provides highly subsidized loan opportunities (through FONAPRAM) as well as considerable tax benefits, small producers generally take that option if they can. All other enterprises -- those with more than TD 20,000 of investments, or smaller ones in sectors of the economy other than those designated as artisanal -- must obtain approval from API before starting their project.

API approval comes in two forms. For enterprises with investments of less than TD 200,000, in designated industries, the approval comes in the form of a "lettre d'approbation" (letter of approval). These letters are now issued by API's regional offices, as part of an effort to decentralize the work of the organization. For larger enterprises, or smaller ones in more technical industries, the approval continues to come in the form of a "certificat d'agrement" (certificate of agreement), issued only by the API head office in Tunis.

The approval process normally involves four steps, each of which is significant, each of which can lead to defeat. The first is the approval by API itself; as described by the director of the office (Directeur de l'Agrement Industriel), this approval simply provides the entrepreneur with an opportunity; it does not commit other approving entities to support the project. After receiving the agreement, the business person must obtain support from a bank for any required finance. Thereafter, he or she will need to approach Finance Exterieur (FINEX), the office of the Ministry of National Economy responsible for trade licenses, to obtain any necessary import licenses for machinery, equipment, or other imported inputs. Finally, he needs to get approval from the Banque Centrale de Tunisie (Central Bank) to obtain the necessary foreign exchange for any required imports.

API's own approval procedure involves the work of a committee, on which several ministries and organizations are represented, including the Central Bank. The approval procedure involves an examination of the proposed production technology; the markets to be served; production costs, compared with those of other domestic producers of similar products; import requirements, particularly in relation to possible alternative sources of supply of inputs; and sources of finance, both internal and external.

There are valid reasons for the government to establish a system of controls for investments. Approved investments receive a variety of special benefits: tax holidays, subsidized credit, and in some cases, employment subsidies. It is appropriate that only investments that meet established criteria should qualify for these benefits. In practice, however, the approval procedure means extensive involvement of the government in decisions about who may start or expand production in which product lines. Among the considerations that are taken into account in API's decision are a desire to:

- Prevent overinvestment in particular product lines considered by the government to be saturated;

- Prevent the establishment of enterprises engaged only in simple transformation, with relatively little value added;

- Force firms to use local inputs rather than imports wherever officials judge this to be possible;

- Force new firms to make use of existing foreign credit lines wherever possible; and

- Avoid the establishment of excessively low-cost establishments, which might put existing firms out of business, thereby adding to the country's unemployment problems.

Although the first four considerations have some measure of validity if properly applied, each of them also provides a danger of misuse. We find no economic justification for the last function. Experience in other countries suggests that all of these arrangements frequently give rise to problems of corruption. Potential problems from this system of controls are particularly severe in the apparent absence of any coherent national policy toward industrial development. In practice, API's investment approval procedures have hindered the development of a more flexible and dynamic private sector and have resulted in substantial misallocation of resources.

b. Price Controls

In a situation in which the government regulates both the quantity of imports and the level of investment in a particular commodity group, one can easily see the potential need for some form of price control. Its absence could result in government-sanctioned monopolies facing little or no competition. Once either of these constraints is relaxed, however, through increased availability of imports or through the emergence of competition among domestic producers, the case for price controls becomes substantially less convincing.

There is a complex system of price controls in Tunisia that in one way or another touches all but a limited range of manufactured goods. Unregulated prices are limited to production undertaken on demand on a differentiated basis (for example repairs and special orders); all products for the export market; artisanal products, produced in artisanal enterprises (slippery terms subject to widely differing administrative interpretation, but referring most clearly to craft products, including carpets); and products for which there is ample competition among products not considered to be of basic significance (such as pastries). All other products are subject to price regulation. The controls are generally in the form of price ceilings, established by adding a fixed margin to estimates of production costs (including both variable and fixed costs, where the latter include interest as well as amortization of loans). Thus, the margin for cotton cloth is fixed at 21 percent; for knitwear, at 24 percent; for made-up garments at 23 percent. In principle, if the costs of a firm go down, its price must decline proportionately, since regulated prices are determined on the basis of costs plus a fixed markup. In practice, firms generally find a way of hiding cost decreases, so this mechanism does not work. If costs increase, however, firms must seek approval from the government before they can raise their prices. Although the controls are legally established as ceilings, leaving the firms free to sell at lower prices if they so wish, the margins are low and the tax authorities generally use the ceilings as a basis for taxation. Thus, prices are generally established at the maximum permissible level.

The price control system causes six sets of problems for business people:

- Controls make it difficult for business people to adjust prices upward in response to cost increases, except with erratic delays that are outside the business person's control. Firms using imported inputs find that increases in import prices cannot be compensated for by changing domestic market prices until this has been sanctioned by the government; this generally takes time. The ability to adjust prices without delay is particularly important for products subject to rapid style changes, such as garments, where a six-week delay in reaching the market can be disastrous.

- Established margins make no allowance for returns to investment in product development. A firm may develop three dress styles, of which only one will succeed; it must cover the costs of the two losers in the returns to the winner, but the price controls make no such allowance. Another firm may experiment for two years to develop a new type of brass faucet for sales in the domestic market; price regulations make it virtually impossible for the firm to recoup that investment cost.

- Entrepreneurs must spend an inordinate amount of time negotiating with price controllers. Larger firms producing a variety of products may need to fill out as many as 100 dossiers per year, often with subsequent negotiations about the details of each. This imposes a heavy burden on firms' limited management time. Small firms also suffer particularly here, because of the high opportunity cost of the manager's time in these enterprises. In view of the lower sales volumes among smaller producers, costs per unit sold of administering the price control system are also higher for smaller firms.

- There is another reason why the burden of price regulation falls particularly heavily on smaller enterprises. Many of these producers have a less fully developed grasp of accounting practices; their suggested price levels under "autohomologation" (a system whereby producers propose a price themselves and may apply it directly unless challenged by the government) are routinely rejected, so they must await the decision of the official concerned before making any change in prices.

- Since established prices are based on costs plus a margin, there is a built-in toleration of inefficiency and lower quality. Until competition from other domestic producers challenges entrepreneurs to reduce prices and improve quality, the system makes it easy for high-cost producers to continue operating and even to earn profits, based on government-sanctioned prices high enough to cover their costs.

- The ultimate result of the system of price controls is to leave the determination of the profitability of all economic activity, including that in the private sector, under the shadow of direct control by government bureaucrats. If one is seeking to foster an entrepreneurial mentality whose focus is on efficient production in response to market forces, a system of widespread price controls can be a serious diversion into dealings with bureaucracies rather than with markets.

c. Labor Regulations

Since its independence, Tunisia has been strongly oriented in a socialist direction. One of the many ways in which this orientation appears is in strong legislation favoring the labor force. All workers are guaranteed the right to join unions and to strike. All workers are entitled to extensive fringe benefits covering such things as paid holidays, work clothing, and travel allowances. Currently these benefits are estimated to add 42 percent to the wage cost (see Appendix II in API's "Social Legislation for Workers and Labor Costs in Tunisia").

There are two aspects of the labor legislation that are particularly troubling to employers. The first is that it is difficult, if not impossible, to dismiss a worker on the basis of incompetence. Once a worker has completed his probationary period (no longer than three months), he or she can be dismissed only for extraordinary reasons, or because the firm itself is forced to cut back its overall labor force. Even in this case, the priorities for dismissal are laid down in terms of family conditions: unmarried people first, then married people with no children, then married people with dependent children. A firm cannot close down without prior permission of the government, even if there is no business, if a machine is broken, or the firm is out of raw materials. Even in these cases, permission to close normally takes about a month.

Alongside this virtually permanent tenure of employment is another aspect that is perhaps even more troubling to employers; this concerns the determination of wage rates and wage increases in ways unrelated to patterns of change of labor productivity. It is true that the government seems to be taking a stronger stand on control wage increases; the World Bank reports that real wages fell by 7.5 percent in 1984, and the government is making greater efforts to tie wage increases to productivity changes. Yet that mechanism is still not working smoothly. One enterprise interviewed, for example, recently closed its doors as a result of forced wage increases in the face of declining labor productivity and competition from other firms. Strong government involvement in the wage contract in ways that separate increases in compensation from increases in productivity seriously concerns business people.

3. Private Sector and Semi-private Sector Organizations, and Technical Assistance Institutions

a. Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat

The Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA) is an organization made up of chambers; at present, it includes 40 industrial chambers (for example, for milling, for cattle feed, and for non-alcoholic bottled drinks) and 26 chambers for commercial and service activities (such as importers and exporters of fruits, vegetables, and dates; opticians; and wholesalers of wood and wood products). In addition to these 66 chambers, the organization has seven federations, which group together several related chambers either sectorally (such as textiles, or hotels and tourism) or functionally (such as exporters). UTICA also has 23 regional unions, one in each governorate in the country. Some of these have sectorally based regional chambers; others, not.

The main functions of the organization center on negotiations with the administration, defending the interests of their members in discussions with government agencies and ministries. This has been particularly clear in the context of the UTICA congress in early November 1985, during which four days of discussion centered on problems faced by producers seeking to operate in the Tunisian policy context. The debates reportedly were heated and productive. Participants now ask that the organization sponsor these congresses more frequently than the current pattern of every five years. We shall discuss a possible role for UTICA in our project proposals below.

Although legally the members of UTICA are the member chambers (it is officially a union of chambers of commerce and industry), behind those chambers lie the individual private and public sector productive enterprises, which in turn form the membership of the chambers. Yet UTICA's money -- for the salaries of its staff and for its building and expenses -- comes from the government. In some situations this may put UTICA in an awkward situation, representing private producers but with its expenses provided through public funds. So far this seems not to have been a problem. We have not heard any reports of government attempts to intervene in the functioning of the organization.

b. Technical Studies/Assistance Institutions

The government has established a number of different institutions to undertake more or less specialized studies of different industrial issues. The largest of these is the Centre National d'Etudes Industrielles (National Center for Industrial Studies, or CNEI). This institution does sectoral studies and prefeasibility studies in the industrial sector. Originally established in 1968 as a section of the Ministry of National Economy, it has since been given more independence. It now receives only 25 percent of its budget from the ministry; the rest must be raised by charging for the studies it carries out. These are done for the ministry, API, public sector enterprises (most frequently), and private firms. They have had support from the United Nations Industrial Development Organization (UNIDO) (substantial in their early years), and more recently from the United Nations Development Programme (UNDP). The studies are for sale -- at TD 50 per copy! The three that we examined seemed competently done, although they were general.

In addition to CNEI, there are a number of sectoral technical institutes: Centre Technique des Industries Mecaniques et Electriques (CETIME), and similar institutions for other sectors. Interviewed business people complained that these institutions were generally abstract and theoretical in their approach, and therefore were of little help in solving actual business problems.

4. Institutions and Programs to Encourage Small and Medium Enterprises

During the past five years, the Government of Tunisia has begun a variety of programs to promote small and medium enterprises (SMEs). During the course of our consultancy, we looked closely at these programs to see if there might be an opportunity for AID assistance either to strengthen existing activities or to fill in gaps. On balance, we found that the sector is generally well served by existing programs. Since some of these are new, it is unclear whether they will function efficiently and achieve their objectives. This is true of the financial assistance programs as well as the technical assistance activities offered through the Catholic Relief Services(CRS)/UTICA/USAID center. We would suggest that all of these programs be kept under review for possible further support in the future. In our own project proposals discussed in section IV below, we have suggested that assistance be targeted at exporting and efficient import substituting enterprises. Many of these will be SMEs, and this overlap of the two target groups is to be welcomed. On balance, however, it is preferable to focus the assistance as we have proposed, since the need seems more pressing for that group and less well served by existing organizations than for SMEs per se.

a. Fonds National de Promotion de l'Artisanat et des Petits Metiers

The Fonds National de Promotion de l'Artisanat et des Petits Metiers (FONAPRAM) was created in late 1981 to help create or expand small enterprises. Two tranches exist within the program: investments (including working capital needs) under TD 10,000, and those from TD 10,000 to TD 20,000. For the lower tranche, FONAPRAM provides an interest-free loan that covers 36 percent of the total investment (4 percent is provided by the entrepreneur), repayable within 11 years, with a grace period of 7 years. Commercial banks are then expected to provide the remaining 60 percent of financing through a seven-year loan at 6.25 percent interest. This loan is rediscountable through the Central Bank drawing on FONAPRAM funds. Entrepreneurs with larger investments of TD 10,000-20,000 are expected to provide 8 percent of the total investment cost, so FONAPRAM's contribution falls to 32 percent of the total; again, it is expected that the remaining 60 percent will come from intermediate-term (seven-year) bank loans.

During January 1, 1984, to June 30, 1985, FONAPRAM's lending results were as follows:

	Loan Size		
	Below TD 10,000	TD 10,000-20,000	Total
Number of projects	2,070	299	2,369
Government equity loans ("dotations," in TD 000)	5,298	1,936	7,234
Total investment, all sources (TD 000)	14,716	6,065	20,781
Employment	n.a.	n.a.	7,288

b. Fonds de Promotion et de Decentralization Industriel

The Fonds de Promotion et de Decentralization Industriel (FOPRODI) provides highly subsidized start-up loans (known as "dotations," given at 3 percent annual interest rates, with 12 years to repay, including a 5-year grace period). The entrepreneurs must ensure the provision of equity capital (including FOPRODI's contribution) equal to 30 percent of the total investment cost. For projects of less than TD 250,000, the entrepreneur must provide at least 10 percent of the equity from his own funds; FOPRODI will provide 70 percent of the equity, with the remaining 20 percent coming from other investors or additional funds available to the entrepreneur. Larger projects of TD 250,000-500,000 require a contribution by the entrepreneur equal to 20 percent of the equity in the enterprise, while FOPRODI will finance only 45 percent; again, the total equity must equal 30 percent of the total investment. In addition to this equity financing, FOPRODI also provides long-term loans to enterprises with new investments of less than TD 75,000; these loans can be for 70 percent of the investment (that is, the full remainder not covered by the 30 percent equity requirement), again on generous terms: 4 percent interest rate, 10-year repayment including a 3-year grace period.

The GOT contributed to FOPRODI about TD 40 million during 1976-September 1985. According to GOT statistics, the investment cost of each new job created by this loan program was about TD 8,250 in 1983. Of the loans outstanding, reportedly 80 percent are in arrears; there seems to be no incentive for anyone to supervise these loans after disbursement. Banks are fully protected against losses, so they ignore the follow-up. As discussed below, new World Bank regulations will tighten this in the future by making the interest rate at which the loan is rediscounted with the Central Bank vary with the level of arrears.

FOPRODI was started in 1974 in association with the law of 74-74. That law has since been replaced by the law 81-56, which is aimed specially at regional decentralization. In spite of this emphasis on decentralization, FOPRODI loans can be made in any region of the country, although some specific sectors in some zones are judged to be saturated, so no new investments are authorized. In 1984, 59 new projects were authorized for FOPRODI support, involving total investment of TD 10.8 million and 1,045 workers. Of that total, 78 percent of the projects were in zones III, IV, and V (that is, the less developed regions of the country). More than one-half the investments approved in 1984 were slated to be in electro-mechanical (31.3 percent) and agro-industrial (20.6 percent) industries.

c. Fonds National de Garantie

The Fonds National de Garantie is available for all loans to SMEs as well as to agriculture. Started in 1984, the fund has a maximum loan size of TD 500,000. Of this total, some part is guaranteed by the fund, the rest is the responsibility of the commercial bank that makes the loan. The percentage that is guaranteed depends on the project; a usual figure is 70-75 percent.

d. World Bank Loans for Small and Medium Enterprises

The first World Bank loan for SMEs (for $28 million) was negotiated in 1981 and is now almost entirely disbursed. The World Bank is currently in the initial stages of planning a SME 2 project for $35 million. A SME rediscount fund is deposited at the Central Bank and can be accessed by commercial banks. Up to 56 percent of the total cost of any project can be financed from this fund, which can be used to cover foreign exchange as well as local costs. FOPRODI loans can also draw on this credit line. Because of the bad repayment rates on the FOPRODI credits, the World Bank inserted a clause in SME 1, to be continued in SME 2, whereby the extent of reimbursement varies with the rate of repayment on loans issued. This will apply to future loans to FOPRODI as well. At the start of SME 1, there were problems starting the loan program, reportedly because of the low capital intensity cut-off point for qualified investment projects; the maximum permitted was TD 8,100 of investment per permanent employee. Since only a small amount could be lent below that ceiling, the level was raised on several occasions, with the last increase being in early November 1985, to a level of TD 18,500 per worker (the figure is now tied to the inflation rate). This is high relative to SME projects in other countries.

D. The Financial Sector

1. Overview

Tunisia has a diversity of financial institutions and programs to promote its industrial development goals. Its fairly well-developed financial system includes 10 commercial banks, 9 development banks, 7 off-shore banks, 6 representative offices of foreign banks, 2 savings institutions, 8 portfolio management companies, an equipment leasing company and a postal checking system. In 1984, commercial banks provided 80 percent of the credits (TD 2,727 million out of a total of TD 3,461 million) disbursed by financial institutions in Tunisia. Commercial banks provide both short- and medium-term loans and are the principal financial intermediaries for the GOT's small-enterprise lending program. Until 1980, Tunisia had only two development banks -- the Banque de Developpement Economique de Tunisie (BDET) and the Banque Nationale de Developpement Touristique (BNDT). During 1981-1984, the government formed seven new development banks of which five were joint ventures with other Arab governments to provide medium-term loans and equity to industry. Most development banks do not provide loans under $500,000; the Arab development banks rarely reach below TD 1 million. Development banks raise most of their resources beyond their initial equity on international capital markets (with the GOT covering the exchange risk) or rely on donor programs.

The Central Bank exerts a strong influence on Tunisia's financial institutions through a comprehensive and detailed system of interest rate floors and ceilings on bank deposits and loans. A high percentage of commercial bank deposits must be invested in government bonds, industrial projects, and medium-term loans to artisan and small enterprise projects, thereby reducing the availability of resources for commercial banks to finance their more traditional clientele. In addition, the Central Bank has imposed several required bank ratios, including a minimum liquidity ratio (liquid and other negotiable assets must be at least 60 percent of short-term liabilities), a minimum solvency ratio (capital and reserves must constitute at least 10 percent of all liabilities), a minimum reserve for bad debts (3 percent), and a non-liquid asset ratio (non-liquid assets must be a maximum of 75 percent of non-liquid liabilities). (Source: Banque Centrale de Tunisie, Rapport Annuel, 1984, page 181.)

In theory, both commercial and development banks have access to rediscount facilities at the Central Bank. But since access to rediscounting is in proportion to the financial institution's deposits, in reality, development banks receive few funds from the Central Bank at present. Development banks cannot hold short-term deposits under one year and have not aggressively sought longer-term deposits. Banks have access to rediscounts within a regular quota and to money market resources up to an amount equivalent to 17.5 percent of their deposits. Borrowings up to 15 percent of deposits are charged the general discount rate of 9.25 percent. Those between 15 percent and 17.5 percent are charged the overdraft rate of 12.625; and rediscounts above 17.5 percent are charged a higher penalty rate of 17.5 percent. Since the maximum nominal interest rate on subloans is 12.5 percent, little incentive exists to use the rediscount facility above the 15 percent quota.

However, special rediscount facilities exist for agricultural products, housing, and long-term credit. Rediscounts for export financing and some special programs lie outside the resdicount ceiling as well. About 90 percent of rediscounted funds are used for highly subsidized government-sponsored promotional programs for preferential sectors. Virtually every bank loan must be approved by the Central Bank. This occurs either through its participation on API's board, when new projects or expansions are involved, or by requiring explicit Central Bank approval for every other project (loans under TD 10,000 to agriculture are the only exception).

Tunisia has only one indigenous, completely privately owned bank -- the Credit Foncier et Commercial de Tunisie (CFCT). (See Annex 2 for information on bank ownership.) Nevertheless, in general Tunisian development and commercial banks are regarded to be well managed and staffed with competent professionals. The weakest area, according to interviewed bank officials and entrepreneurs, appears to be in project supervision and follow-up. Except for the small enterprise promotional programs, default rates are generally low, reflecting the banks' conservative lending practices.

The number of Tunisian bank branches per inhabitant is high in comparison with banks in similar developing countries, but the 330 branches are concentrated in the urban, coastal areas. To encourage the establishment of branches in less developed areas, the GOT requires that banks open one branch in a poorly served area for every five branches opened in more developed regions.

2. Savings Policy and Performance

a. Recent Savings Performance

An important function of the financial sector is to channel savings into investments that best contribute to economic development and growth. The main constraints on the efficient functioning of this system are the heavy government involvement in credit operations (including investment requirements and special programs), the drain on resources exerted by inefficient and unprofitable public enterprises, disparities between access to resources among different types of financial institutions, negative real interest rates on many types of savings accounts, and an extremely weak capital market. Internal savings fell from 24 percent to 20.5 percent of GDP between 1980 and 1983. Household savings increased from 5.9 to 7.2 percent, but both government savings and enterprise savings declined (11.3 to 9.0 percent and 7.4 to 4.3 percent, respectively). Foreign resources financed 30 percent of investment in 1984, compared with 25.6 percent in the previous year. Public savings declined primarily as a result of reduced petroleum receipts coupled with increased public spending.

The GOT has recognized these problems and is making efforts to decrease public sector spending and increase domestic savings. In 1984, public enterprises absorbed about one-third of bank credit; the cost of GOT budgetary support (through subsidies and grants) rose from 4.5 to 5.9 percent of GDP between 1981 and 1984. The government has announced that it intends to remove itself from these enterprises and increase their managerial autonomy. However, it is still unclear how this will be accomplished. Some fear that the GOT merely wishes to transfer deficits off its accounts and on to those of other parastatal institutions, such as the development banks, rather than encouraging a privatization process to improve the efficiency of state enterprises.

b. Current Savings Rates

To encourage savings, the GOT in 1984 raised interest rates between 1 percent and 1.5 percent on all savings accounts except sight deposits and introduced new savings instruments and tax benefits on savings. The two new savings instruments include one to promote the self-financing of small projects and another for investments to acquire title to enterprises. Interest paid on these accounts is subject to the same favorable treatment accorded to the reinvestment of profits. Non-resident accounts in foreign exchange also have tax benefits.

The current rates on savings accounts are shown in Table II-3.

TABLE II-3

INTEREST RATES ON SAVINGS ACCOUNTS (APRIL 22, 1985)

(1) Sight deposits		
(a) To enterprises	1	
(b) To individuals	2	
(2) Convertible dinar to foreign currency accounts for non-resident Tunisians	10.50	
(3) Special savings accounts		
(a) Under 12 months	6.75	
(b) 12-< 18 months	7.75	
(c) 18-< 24 months	8.75	
(d) 24 months and higher	9.75	
(4) Term accounts and certificates of deposit:	Firms	Individuals
(a) 3-< 6 months	4.50	5.50
(b) 6-< 12	6.00	7.00
(c) 12- 18	7.25	8.00
(d) 18- 24	8.50	9.00
(e) 24- 30	9.50	10.00
(f) 30- 60	10.00	10.50
(5) Other accounts		
(a) Savings accounts to promote projects	6.75	
(b) Savings account for investments	4.50	

Source: Banque Centrale de Tunisie, Rapport Annuel, 1984

If inflation continues at its 1984 rate of about 8 percent in 1985, this means that only accounts deposited for a minimum of a year earn positive interest rates in real terms. Given the existence of some income taxes on savings, real after-tax rates of return on even some longer-term deposits are still negative. The U.S. embassy in Tunisia estimates that the inflation rate in 1984 was actually 10.5 percent, using a differently weighted basket of goods, thereby making all savings interest rates negative or zero in real terms.

Sight deposits made up 83 percent of monetary deposits (60 percent of all deposits) in 1983; in 1984, sight deposits still made up 84 percent of monetary deposits but declined to only 47 per cent of all deposits. Since interest rates paid on sight deposits is very low (1-2 percent), this means that in the past there has been a large spread between commercial banks' cost of resources and lending rates. The average cost of funds for commercial banks in 1983 was about 6 percent, while interest rates on medium-term loans ranged between 11.5 percent and 12 percent. The GOT policy of offering greater inducements for longer-term savings should also increase the banks' average cost of resources during the next few years, as funds move into higher-yielding term deposits.

3. Monetary and Credit Performance and Policy

a. Recent Developments

During 1980-1983, internal credit (including that of development banks) grew at an average annual rate of 23 percent; in 1984 the rate of growth was reduced to 16 percent as a result of transfers stemming from the 1983 foreign exchange revaluation. M2 (money and quasi-money) grew at a rate of 18 percent per annum during 1980-1983, but was reduced substantially to 11.7 percent in 1984. Money (M1) was also reduced from 19.9 percent to 6.8 percent in 1983 and 1984, respectively. This rapid expansion has contributed to problems of inflation and balance of payments. In the past, the GOT did not have a strict policy of control of credit or the money supply. Control of credit has been based essentially on refinancing limits on deposit banks. In an attempt to gain greater control over credit expansion, the International Monetary Fund (IMF) has suggested introducing both a framework of internal credit to control the money supply and reserve requirements on deposits. These suggestions are part of a continuing dialogue between the multilateral institutions and the GOT to control monetary expansion and credit.

b. Interest Rates on Loans

Since inflation in 1985 is expected to be about 8 percent, Table II-3 shows that only interest rates on medium- and long-term loans to industries not participating in a variety of government programs are positive in real terms. The effective rate of these medium-term loans can reach 15-16 percent since interest is paid 6 months in advance and often involves a commitment fee and commissions.

The GOT's heavy involvement in setting interest rate charges discriminates against higher-risk private sector investments. As Table II-3 indicates, banks have little discretion to adjust interest rates to match the creditworthiness of the client. In most cases the maximum and minimum rates are the same. Thus, banks have little incentive to lend to higher-risk customers because the banks cannot be compensated by charging higher interest rates. Since loans to public enterprises are guaranteed by the GOT, in theory at least, these are the lowest risk and therefore most desirable loans.

c. Distribution of Credit

Short-term credit represents the bulk of credit disbursed through the financial system. During 1980-1984, short-term loans represented 70-73 percent of all credit; an average of 20 percent of all loans were medium term, and long-term credit accounted for only 8 percent of loans. Almost 52 percent of all credit in 1984 went to industrial activities (31.4 and 20.3 percent, respectively in short- and long-term loans) followed by 37 percent to services. About 20 percent of both short and medium/long term credit went to mechanical and electrical industries; other dominant sectors were construction materials, ceramics, and glass; chemicals and rubber; textiles and leather goods; and agro-industries. A distribution of credit between public and private industries or by scale is not available.

The Central Bank influences the composition of credit heavily through credit ratios and, in practice, by requiring prior approval of most subloans. These ratios are based on deposits and thus primarily affect the commercial and deposit banks, since development banks raise resources through other means. The Central Bank requires that banks invest 43 percent of deposits in government bonds (20 percent); National Home Savings and Loan Company (CNEL) bonds (5 percent); and medium-term loans and other financial instruments to public and private enterprise, including bonds issued by the BDET (18 percent). No penalties are applied if banks fail to invest 25 percent in government and CNEL bonds; however, if they do not manage to lend at least 18 percent of deposits to industry, the difference must be deposited in non-interest-bearing accounts in the Central Bank. If the banks exceed the 18 percent figure, any excess loans may be rediscounted at the Central Bank. Throughout 1984, medium-term loans to industries ranged between only 16 percent and 16.9 percent of deposits; in January-March 1985, this figure averaged only 15.7 percent of deposits, indicating either banks' unwillingness to lend or the lack of bankable projects. Their investments in low-risk government bonds always exceeded the 20 percent minimum (20.3-22.1 percent of deposits in 1984), while investments in CNEL were much lower than required (0.2-0.4 percent of deposits).

Central Bank officials stated that they had hoped that the GOT would need to borrow less over time, so that these ratios could be adjusted and the share of resources to enterprises could rise. At present, however, the GOT continues to want to sell its securities to the banks. And commercial banks in general have not met the current lending requirements to industry. Since many medium-term loans are used to import equipment, any future restrictions by the Central Bank on foreign exchange will further reduce banks' ability to extend medium-term loans.

Since about 80 percent of commercial banks' liabilities are in the form of deposits, the above requirements mean that 35 percent of their resources must be directed to government bonds (20 percent) and medium-term loans and other investments in industry (15 percent). This regulation was adopted to force commercial banks away from short-term lending and into longer-term loans -- before the creation of seven additional development banks in the 1980s. In the 1970s, medium-term loans were heavily directed to the public sector; reportedly, private sector industries are now benefiting to a greater extent.

In addition, 2 percent of commercial banks' deposits must be to artisans and small enterprises. (This figure was raised from 1.5 percent in 1984). Interviews with selected commercial bankers indicate that they find it difficult to reach this target. Lack of incentive may be part of the problem since the administrative costs of analyzing and supervising small credits are also significantly higher than those for larger loans.

The Central Bank has no reserve requirements on local currency deposits. Its only requirement is a 40 percent reserve requirement on foreign currency and dinar convertible accounts. The GOT is considering the adoption of a three-tiered system of reserve requirements to increase its control over credit supply and create incentives for banks to raise longer-term deposits. Under this plan, the highest reserve requirement would be on sight deposits, a lower one would be placed on special savings accounts and deposits up to 12 months, and even lower or no reserve requirements on longer term deposits and dinar convertible TTE accounts (deposits of overseas Tunisian workers).

4. Commercial Banks

Tunisian commercial banks are essentially deposit/retail banks that provide short- and medium-term loans for up to seven years. Credits over seven years must be matched by an equivalent amount of term resources of similar maturities. Loans to public enterprises, however, are an exception to this rule. They may be financed from regular deposits with the proviso that these loans may not exceed 3 percent of total deposits.

Tunisia's oldest and largest commercial bank, the Societe Tunisienne de Banque, has assets of TD 1 billion (1982 financial statements). In comparison, the combined assets of the other nine commercial banks were only TD 2.6 billion.

5. Development Banks

Tunisia currently has nine development banks. Seven new development banks were created since 1980 to attract foreign capital resources to finance larger, longer-term projects previously undertaken by the state. The development banks have been using a large share of their resources to make equity investments in private companies. For example, 44 percent and 23 percent of the Societe Tuniso-Seoudienne d'Investissement et de Developpement (STUSID) and the Banque Tuniso-Koweitienne de Developpement's (BTKD) respective portfolios were in the form of equity investments.

Development banks are in a much less favorable position than commercial banks with respect to the cost and ability to raise resources domestically. Except for the BDET (which has access to a special TD 8.6 million facility at 9.25 percent), in practice they do not have access to rediscount facilities or other credit from the Central Bank; cannot take short-term deposits (under one year); and have not aggressively pursued encouraging longer-term deposits as a result of a weak branch network and, until recently, low savings rates to depositors. Thus, development banks are dependent upon raising resources at much higher cost on the international market or on loans from donor agency projects. In the past, the GOT has guaranteed these loans and borne the foreign exchange risk of borrowings made by the older development banks (BDET and BNDT). The recently created development banks are not expected to receive a guarantee from the state, except in exceptional cases where the interest rate difference between a guaranteed and unguaranteed loan is found to be unusually high.

Until 1981, borrowing in certain foreign currencies was a profitable practice since the dinar appreciated when compared with the currencies of these loans. However, since 1981 this situation has been reversed. The GOT recently has established a small fund to cover foreign exchange risk, with funds derived from charges to sub-borrowers.

Although development banks may issue bonds, they must receive permission from the Ministry of Finance; this may constitute a difficult process. However, the enthusiastic response to bonds recently issued by STUSID does indicate that a potential exists to raise resources on the domestic market if innovative financial incentives are offered. BDET has also raised funds by issuing bonds of relatively modest amounts.

The recently created development banks have used their own equity capital as a source of funds and, in general, have not been obliged to borrow. Indeed, two of the Arab/Tunisian banks complained of the lack of bankable projects for them to fund. Partly, this is caused by their predilection not to lend amounts less than TD 1-2 million. However, as these institutions mature, they can be expected to require additional funds.

Suggestions have been made recently to increase the amount of competition between development and commercial banks. These recommendations include rationalizing the financial system so that commercial and development banks have the same access to resources. Specific ideas that are currently being studied by international organizations and the Central Bank include:

- Granting development banks access to rediscount facilities;
- Allowing development banks to issue bonds in the domestic market; and
- Allowing development banks to offer shares to the public and to search for other foreign partners.

The GOT also is considering transferring a part of its huge portfolio of investments in public sector enterprises to the development banks. If this is done, development banks will also have to increase their loan capital base to fund these enterprises. Presumably, they would be willing to take on these investments only if they are forced to by the GOT or if they see a reasonable prospect that these investments can be profitable.

6. Off-Shore Banks

Two offshore banks closed their offices in Tunisia recently as a result of the lack of an adequate volume of business. Off-shore banks are severely limited since they can deal only with non-residents in foreign currency deposits and credits. In reaction, the GOT is considering legislation to encourage off-shore banks to remain and expand their operations. It is premature to speculate upon the precise form of the final legislation, but the overall effect will be to allow off-shore banks to participate in some restricted form in the domestic market. It is speculated they will be allowed to offer foreign currency loans to local residents (repaid in foreign currency) and accept deposits in local currency (limited to a percentage of deposits held by domestic banks). However, these deposits may be in proportion to the off-shore bank's participation in local, approved projects.

7. Capital Markets

The types of instruments dominating Tunisian capital markets include bonds issued by the GOT, bearing an interest rate of 5.5 percent and bought primarily by banks, insurance companies, and social security institutions; bonds issued by the BDET, which have a GOT guarantee; and company stock, a large proportion of which is issued by banks and tourist companies.

Tunisia's stock market is poorly developed. It has 44 traded companies of which the GOT is shareholder in 39 and majority shareholder in 26. Nine of the traded companies are banks. Its capitalization is currently TD 300 million; with an annual traded volume of TD 34 million.

Only during the past few years has the GOT wished that the private sector and individuals become more involved in the stock market. However, major constraints on growth of the stock market include:

- Lack of public confidence in companies: most individuals are wary of the financial statements of traded companies, particularly those of public enterprises;
- Lack of sufficient return in comparison with risk: wealthy individuals often prefer to invest in real estate or deposit funds in savings accounts rather than speculating in the stock market. Although there is no capital gains tax, a 25-percent tax is applied to dividends;
- Capital gains are only tax free if shares have been held for a minimum of five years, discouraging turnover of shares;
- Lack of private traders; stock is sold exclusively through 15 banks and 2 financial companies;
- Prohibition on providing credit to purchase shares; and
- Prevalence of family-owned private sector enterprises (even for large-scale firms) that do not wish to be publicly traded.

Tunisia's capital markets have great potential for significant development. However, the GOT must provide greater incentives to encourage the participation of the private sector. If the GOT wishes to sell its shares in 200 companies to the private sector, reforms must be enacted both in the management of these enterprises and in the operations of the capital market itself.

8. Leasing Operations

a. Description of Operations

Tunisie Leasing (TL), the only leasing operation in Tunisia, was established in May 1984 with $20 million in capital. The capital breakdown is as follows (in millions):

TD 4 in equity (of which one-half was subscribed since creation)
TD 8 medium-term credit from commercial banks
TD 4 medium-term credit from development banks
TD 4 in additional resources to be raised from other sources

By 1987, one-half of the operation's resources must come from outside sources. The breakdown in equity is 51 percent Tunisian and 49 percent foreign, specifically:

Percentage	Source
Domestic	
20	STUSID
12.5	BTKD
10	Union Internationale des Banques
3	Union Financiere
2	Magreb Bank
3.5	private investors
51	
Foreign	
10	International Finance Corporation
15	Arabian Investment Corporation
20	BEST
4	Credit Lyonnais
49	

To date, TL has approved TD 6 million worth of equipment leases for medium-sized companies currently in business. TL does not finance equipment leases for new companies and works only with the private sector. Of the TD 6 million approved, one-third is in leases already active; one-third is in the "pipeline," that is, equipment in transit; and one-third of the approved amount is blocked at the Central Bank in that import licenses have not been granted. The leases vary in value between TD 20,000 and TD 1 million, with an occasional exception made for leases as low as TD 10,000 (usually for computer leasing).

The TD 6 million represent 100 projects, almost equally divided among electronic data processing , transportation/public works, and general manufacturing equipment. This distribution is not due to any policy but reflects the market demand. No preference is granted to any sector or to export-oriented firms. Most clients are in Tunis, and a substantial number are non-resident exporting firms that wish to limit their investments in Tunisia.

TL seeks a client that is solvent, that is, it can pay the equipment rental and is financially sound but whose financal structure would benefit financially from the leasing option. TL states that it can approve a leasing request in one to three weeks, depending on whether the business is a current client or a new one. The International Finance Corporation (IFC), one of TL's financial backers, requires that TL maintain a loss ratio lower than 1 percent of its outstanding leases. According to TL, the principal constraint to its current operations is the Central Bank's restriction on granting import licenses. TL fears that this restraint will become more severe in the near term as a function of Tunisia's belt tightening. Based on the business community's initial response to the establishment of TL as an alternative source of equipment financing, TL feels that if import license restrictions were to be lifted, its business would grow significantly. Response to its preliminary publicity campaign was extremely strong; it does not wish to publicize its services again until the problem of licenses to import equipment eases.

TL has three professional staff members; its manager believes that it could triple the number of leases (to 300) without requiring any additional staff. Central Bank approval is not required for leasing agreements; however, it is required for the license needed by the entrepreneur to import equipment. The client is responsible for choosing the equipment and the supplier, and for obtaining a license from the Central Bank. TL tries to facilitate this process when possible but has not had much success during the past five months.

Leasing offers many advantages to clients. The primary benefit is that no up-front investment by the client is required; unlike bank loans that require the entrepreneur to cover a portion of the investment, leasing provides 100 percent financing. Another advantage, particularly for larger companies, is that the leased equipment does not appear as a liability on the client's balance sheet; rather, rental charges appear as a line item expense on the income statement.

Clients bear the foreign exchange risk of imported leased equipment. Leasing terms range from three to seven years; the charges are 15 percent for a three-year contract; 16 percent for four years; 17 percent for five years; 17.5 percent for six years, and 18 percent for seven years. The client has the option to buy the equipment at the end of leasing period at a cost of 5 percent of original equipment cost. This scheme has the effect of accelerated depreciation of equipment, since TL is allowed to amortize the equipment completely over the leasing period. TL is the only company in Tunisia with this authority.

b. Future Plans

To alleviate the problem of import equipment licenses, TL has recently received a TD 2 million revolving loan in hard currency from the IFC. This loan will cover only its immediate needs, however, and not allow expansion.

In 1986, TL plans to include Sfax and Sousse in its operations. Branches of the Union Internationale de Banques (UIB) in these cities will act as its agents after an intensive training period. The UIB will be the only institution that TL will work with since it wishes to limit the risks engendered by bringing more players into the operation. UIB is one of TL's shareholders. If interest in leasing seems high in other regions, TL will expand further.

E. Trade and Balance of Payments

1. Overview

This section addresses the recent evolution of Tunisia's trade and balance of payments, and examines the institutions, programs, and practices established to encourage exports. The question of foreign exchange is becoming increasingly important as Tunisia faces upcoming debt repayment obligations, declining petroleum revenues, and a growing unfavorable trade balance.

The question of foreign exchange availability is also critical to much of Tunisian business activity. The problems manufacturers encounter in trying to obtain foreign exchange and in adjusting their business operations to foreign exchange availability are explored. Finally, the question of "export expertise" is examined from the standpoints of insufficient knowledge and experience, and the mentalities that must change if Tunisian manufacturers are to become successful exporters.

2. Recent Trade and Balance of Payments Patterns

Table II-4 depicts the recent deterioration of Tunisia's merchandise account. The growing deficit underlines the GOT's concern for the country's precarious financial situation.

Table II-5 shows Tunisia's major trading partners. As is evident, Tunisia trades with relatively few countries. Seven countries account for more than two-thirds of Tunisia's trade. In fact, France, Italy, the United States, and West Germany alone account for over one-half of Tunisia's imports and 60-70 percent of Tunisia's exports.

In addition, Tunisia's exports are concentrated in relatively few products (see Table II-6). Tunisia's principal export products are basic ones: petroleum, phosphate, agricultural produce, and textiles. Some of these are strongly affected by world price movements beyond Tunisia's control; others are affected by larger countries' trade policies, for example, the admission of Portugal, Greece, and Spain into the European Economic Community. With undiversified export markets and a few basic products, Tunisia is, to a large degree, at the mercy of events and actions of others.

Tunisia is starting to promote the export of relatively unsophisticated electro-mechanical products. These range from high voltage transformers to oil and air filters for automobiles. Table II-7 depicts recent exports of these products to Tunisia's four major trading partners. In addition, Tunisia is looking for ways to open markets for these products in the Middle East and in higher-income countries of West and Central Africa.

Tables II-8 and II-9 demonstrate the growing balance of payments difficulties Tunisia is encountering. The overall balance has gone from slightly positive to negative, and external debt is accumulating, as is the debt service. With a slow growth in current receipts, Tunisia's ability to service its debt is declining, as is shown by its growing debt/service ratio.

Although there has been a fair amount of discussion of Tunisia's exchange rate, particularly in recent documents of the World Bank, this seems not to have been a seriously distorting factor in the country's trade picture. The exchange rate is set daily on the basis of a basket of curencies. Estimates by the World Bank of real effective exchange rates (based on relative rates of inflation in Tunisia compared with those of its 17 principal trading partners) indicate a 3.2 percent devaluation of the dinar from 1980 to 1984, measured in terms of consumer

TABLE II-4

MERCHANDISE BALANCE 1980-1984
(millions of dinars, unless otherwise specified)

	1980	1981	1982	1983	1984
Imports (M)	1428	1866	2008	2116	2473
Exports (X)	905	1234	1188	1281	1397
(Deficit)	(523)	(632)	(820)	(835)	(1076)
$\frac{x}{m}$	63%	66%	59%	61%	5%

Source: *Statistiques Financieres*, Banque Centrale de Tunisie, August 1985.

TABLE II-5

MAJOR TRADING PARTNERS (1980-1984)
(millions of dinars, unless otherwise specified)

	1980			1981			1982			1983			1984		
	M	X	+(-)	M	X	+(-)	M	X	+(-)	M	X	+(-)	M	X	+(-)
France	360	140	(220)	453	219	(234)	521	226	(295)	530	297	(233)	605	263	(342)
Italy	225	143	(82)	274	254	(20)	247	190	(107)	244	200	(44)	344	250	(94)
U.S.	84	131	47	141	215	74	157	269	112	196	249	53	173	214	41
W. Germany	135	117	(18)	172	101	(71)	231	122	(109)	242	145	(97)	260	132	(128)
Spain	47	4	(43)	61	5	(56)	82	14	(68)	94	10	(84)	149	10	(139)
Holland	36	40	4	49	24	(25)	102	28	(74)	44	29	(15)	53	39	(14)
U.K.	28	15	(13)	35	6	(29)	41	28	(13)	37	14	(23)	47	54	(7)
Total Major Trading Partners	915	590	(325)	1185	824	(361)	1431	877	(554)	1387	944	(443)	1631	962	(669)
Total-All Countries	1428	904	(524)	1866	1234	(632)	2008	1188	(820)	2116	1280	(836)	2473	1397	(1076)
Major Trading Partners / All Countries %	64	65	(62)	64	67	(57)	71	74	(68)	66	74	(53)	66	69	(62)
France, Italy U.S., W. Germany / All Countries %	56	59	(52)	56	64	(40)	60	68	(49)	57	70	(38)	56	61	(49)

Source: Statistiques Financieres, Banque Centrale de Tunisie, August 1985.

TABLE II-6

PRINCIPAL EXPORTS TO FOUR MAJOR TRADING PARTNERS
(millions of dinars, unless otherwise specified)

1984

France		United States		Italy		West Germany	
Petroleum & Petroleum Products	98.9	Petroleum & Petroleum Products	250.2	Petroleum & Petroleum Products	150.2	Textiles	90.2
Textiles	78.4	Olive Oil	1.6	Phosphates & By-Products	32.6	Electrical Products	14.4
Phosphates & By-Products	32.6	Optical Equipment	1.1	Olive Oil	30.1	Phosphates & By-Products	8.2
Dates & other fruits	17.8	Textiles	1.0	Textiles	18.0	Leather, leather goods & shoes	5.4
Leather, leather goods & shoes	12.0	Machinery, machined products	0.9	Fish/shellfish	10.4	Petroleum (crude oil)	4.5
Total Principal Exports (a)	239.7		254.8		241.3		122.7
Total Exports (b)	270.7		255.0		245.0		124.4
a/b	88.5%		99.9%		98.5%		98.6%

9 months 1985

France		United States		Italy		West Germany	
Petroleum & Petroleum Products	111.1	Petroleum & Petroleum Products	93.0	Petroleum & Petroleum Products	74.1	Textiles	63.6
Textiles	85.3	Optical Equipment	0.9	Phosphates & By-Products	18.8	Petroleum & Petroleum Products	35.7
Phosphates & By-Products	30.3	Textiles	0.8	Textiles	14.7	Electrical Equipment	13.1
Dates & other fruits	13.0	Olive Oil	0.8	Olive Oil	12.9	Leather, Leather goods & shoes	4.8
Leather, Leather goods & shoes	9.6	Dates	0.5	Fish/Shellfish	9.0	Machinery, machined products	0.2
Total Principal Exports (a)	249.3		96.0		129.5		117.4
Total Exports (b)	270.5		96.1		135.9		118.1
a/b	92.2%		99.9%		95.3%		99.4%

Source: FEDEX (Federation d'Exportateurs), UTICA, November 1985.

TABLE II-7

RECENT EXPORTS OF OPTICAL, ELECTRICAL, AND MECHANICAL MANUFACTURES TO
FOUR MAJOR TRADING PARTNERS
(millions of dinars)

	France		United States		Italy		West Germany	
	1984	9 months 1985	1984	9 months 1985	1984	9 months 1985	1984	9 months 1985
Optical	1.1	1.3	0.9	1.1	negligible	0.1	0.1	0.1
Electrical	4.1	5.7	negligible	0.2	0.3	0.3	13.1	14.4
Mechanical	2.3	3.4	0.2	0.9	0.8	0.3	0.2	0.9
Total	7.5	10.4	1.1	2.2	1.1	0.7	13.4	15.4

Source: FEDEX (Federation d'Exportateurs), UTICA, November 1985.

TABLE II-8

BALANCE OF PAYMENTS, 1980-1984
(millions of dinars)

	1980	1981	1982	1983	1984
Current Account	(179)	(240)	(408)	(414)	(589)
Capital Account	213	288	429	391	422
Adjustments	(4)	(2)	(5)	13	50
Balance	30	46	16	(10)	(117)

Source: Statistiques Financieres, Banque Central de Tunisie, August 1985.

TABLE II-9

EXTERNAL DEBT - 1980-1984
(millions of dinars, unless otherwise specified)

	1980	1981	1982	1983	1984
Debt (A)	1239	1593	2020	2515	3060
Debt/GNP	35.1%	37.9%	41.5%	45.0%	48.7%
Debt Service (B)	171	267	305	364	478
Current Receipts (C)	1497	1962	2074	2265	2439
Debt/Service Ratio (B/C)	11.4%	13.6%	14.7%	16.1%	19.6%

Source: *Statistiques Financieres*, Banque Centrale de Tunisie, August 1985.

prices, and a 3.6 percent appreciation of the currency over the same period measured in terms of wholesale prices. The latter measure reached a peak of 7.9 percent appreciation of the dinar in 1982 compared with 1980, but the rate has since declined somewhat. These figures suggest that Tunisia's balance of payments problems do not arise primarily from exchange rate misalignment, but from commodity-specific problems and more micro-focused trade policies discussed below.

3. Principal Institutions and Programs to Encourage Exports

a. Overview

Since Tunisia's shift from a strategy of import substitution in 1972 toward a policy of encouraging exports, certain institutions, laws, and practices have been established. In 1972, law 72-38 was promulgated to allow for the establishment of export (off-shore) companies. In that same year, the Center for Promotion of Exports (CEPEX) was set up. During the intervening years, many off-shore companies were established, but there was little contact between them and the internal economy.

Recently, with the deterioration of Tunisia's balance of payments position, there has been a spate of new institutions and programs. Some hold promise for the future while others are less certain. These are discussed in more detail below.

b. The Center for Promotion of Exports

CEPEX was established in 1973, under the Ministry of National Economy. Its primary activities include:

- Study of export markets;
- Promotion of Tunisian exports overseas through trade shows, fairs, etc;
- Assistance to exporters with foreign market information;
- "Mise en relation commerciales": establishing of contacts between exporters and potential importers;
- Simplification of export procedures, so exporters have a minimum of red tape; and
- Help to the GOT in formulating trade policies. One major activity is to administer the Export Promotion Fund (FOPRODEX) (see below).

Apparently this organization has not lived up to expectations. A World Bank-funded study is exploring ways to strengthen the organization so that it can carry out its mandate of wide-scale export promotion of products that will meet the requirements of the foreign market. One task of CEPEX was to make contacts between Tunisian exporters and foreign importers. That task, at least for Tunisian SMEs, appears to have been turned over to the newly created export trading companies.

c. The Export Promotion Fund

FOPRODEX, administered by CEPEX, is funded to the level of TD 1 million for its first year (1985), of which 50 percent was provided by the World Bank, and the balance funded by a 1 percent levy on selected imports. FOPRODEX expects funding to rise to TD 1.5 million in its second year. Activities in the first year include: a 50 percent subsidy for export products air-shipped by Tunis Air (this includes only sales to new markets, or new products to traditional markets); and funding of market research and studies for businessmen on new markets. FOPRODEX will cover 80 percent of the costs of these studies, one-half as a grant and one-half on a loan basis. Next year it hopes to extend its activities to subsidize ocean transport costs.

d. Law 72-38 and 81-56 Companies

As part of Tunisia's shift in policy to encourage export promotion, the 1972 law offered attractive incentives to draw investors to establish export (off-shore) companies, which could avail themselves of numerous tax advantages, Tunisia's relatively skilled and inexpensive labor, its proximity to Europe and its industrial infrastructure. Tunisia's objective was threefold: increase exports, create employment, and obtain a transfer of technology.

With respect to foreign exchange regulations, law 72-38 makes a distinction between "resident" and "non-resident" companies. The following table depicts the principal similiarities and differences between a resident and a non-resident company.

Resident Company	Non-Resident Company
1. Majority Tunisian capital.	1. 66% or more foreign capital.
2. Exemption from import duties on all goods required by the business for production of goods for export.	2. Same as resident company
3. Can import raw materials without limit.	3. Same as resident company.
4. Has to prove that raw materials were received to get foreign exchange.	4. Can get foreign exchange whenever they want and can spend foreign exchange whenever they want.
5. Can have a local dinar account and can get local credit.	5. Can not get local credit; have to use offshore banks or other foreign sources. All payments for Tunisian goods and services, taxes, and dividends to resident partners must be made through foreign accounts in convertible dinars.
6. Corporate tax exemption for 10 years; recently extended for another 10 years; 20 years exemption/reduction on other taxes fees, etc.	6. Same as resident company
7. GOT considering allowing law 72-38 companies to "export" to Tunisia.	7. Same as resident company

Although the major focus of law 72-38 was to encourage exports, law 74-74 (later replaced by law 81-56) was primarily concerned with the promotion of firms selling in the domestic market. One key feature of law 81-56 was to provide a system of special incentives for firms established in less developed regions of the country. An additional purpose of the law was to give incentives to domestic companies that export part of their production. The incentives given are a 20-percent reduction in corporate income tax on that portion of their production that is exported, exoneration from sales taxes on local goods and services used to produce export goods, and relaxation of import formalities for those imports to be used to produce exports. 81-56 companies also receive labor subsidies for new jobs created in less developed regions of the country.

e. Carte d'Exportation Priviligee

This is a card issued to small manufacturers who wish to export directly, rather than through an export trading company. In principle, the card accords preferential treatment in dealing with the bureaucratic requirements of exporting. Reportedly, more than 50 SMEs have been issued these cards.

f. Pre-export Financing

Pre-export financing is available through two methods:

- Resident 72-38 companies can apply for credit in local currency up to 20 percent of their annual import allocation. Central Bank approval is required for commercial banks to be able to grant credit for purchases in foreign exchange; and

- Individual firm orders: Export credit can be given automatically by commercial banks without Central Bank approval. Up to 80 percent of the amount of a firm's order can be discounted at a commercial bank at 6 percent annual interest. In turn, commercial banks can rediscount the entire credit granted at the Central Bank at an annual interest rate of 4 percent. Pre-export financing is now normally for six months, although it can be extended; on occasion it has been extended for as long as one year. There is no ceiling on the amount that can be discounted in this way.

g. Export Trading Companies

Six export trading companies (ETCs) currently exist with a seventh being formed, under law 84-20. The six were set up with the goal of facilitating exporting by SMEs. To date they are reported to deal with 70 SME firms, although discussion with these companies suggests that they work with large producers as much as (or perhaps more than) the SMEs. Companies registered under this law are to receive substantial tax and customs duty relief and foreign exchange facilities.

The GOT's lack of understanding of what it takes to export and the lack of cohesion in Tunisian policies are evident in the following commentary from export trading company officials. ETCs have four types of clients, each of which poses different problems:

- The SME: very small, scattered, low quality, low quantity, and high-priced goods;
- The 72-38 companies. If the export trading company can find them a new market, they will deal with the ETC, otherwise not;
- The 81-56 companies: they are interested in exporting, but if they work through an ETC, they will lose their tax advantages, that is:
  - -- Their foreign exchange account (EFAC) - up to 8 percent of their export sales on new products or to new markets;
  - -- The right to "drawbacks," and
  - -- Partial exemption from tax on export revenues; and
- The monopolies: for example, wine and olive oil. These "clients" would be happy to relieve the ETC of any foreign buyers the ETCs find, but will not deal through ETCs.

One principal task of an ETC is to promote products overseas. One principal means of product promotion is attendance at foreign trade shows. One ETC related the problem of being ready to attend a trade show with a range of products from different producers of one industry with a high chance of success. At the last minute it had to jettison its plans, because the Central Bank would not authorize the relatively small amount of foreign exchange requested for the trip and the booth at the fair.

Another ETC has been unsuccessful in getting the Central Bank's authorization to open "depots de ventes" overseas to distribute to boutiques. The "depot de vente" relieves the small, foreign boutique of the import tasks, and is a simple way of consolidating the demand of many small boutiques.

h. Federation of Exporters -- UTICA

The Federation of Exporters (FEDEX) was formed in July 1985, under the auspices of UTICA. It is the first private country- and sector-wide export association representing Tunisian exporters. Its objectives are:

- To be the information, training, market, and product development resource for current and future Tunisian exporters; and

- To become the voice of the private export sector vis-a-vis the GOT on policies, laws, and procedures.

FEDEX has started to compile Tunisian export statistics to identify those Tunisian sectors, businesses, or products with export potential. It has also begun its educational efforts for its members by offering a seminar/round table on export market penetration.

i. COTUNACE

This export-credit insurance company was established in September 1984 under a May 1984 law authorizing its creation. Its purpose is to offer export-credit insurance to cover most losses that could befall an exporter for commercial or political reasons. It is also seen as necessary to help stimulate the export of new products and the entry into new markets.

COTUNACE will insure exports against non-payment for commercial reasons for up to 80 percent of the value of the merchandise. COTUNACE insurance covers 90 percent of the value of the merchandise in the cases of catastrophe and political risk. Currently, COTUNACE makes no distinction in its rates between products, sectors, or countries of destination. One of its principal objectives is to get exporters to move toward new markets. It is insuring on a short-term basis only, that is, up to 360 days.

COTUNACE does not yet insure against foreign exchange risk, although this is being considered as an activity to undertake in 1986. COTUNACE covers only resident companies. Should a company wish pre-export credit, it must insure with COTUNACE. From the commercial bankers' viewpoint, the availability of this insurance makes those exporters with limited collateral more attractive as potential clients.

COTUNACE has publicized its activities widely and makes personal calls on businesses that should be interested in this facility.

4. Export Policies

In the early 1970s, Tunisia shifted its overall development philosophy away from import substitution to one that gives greater emphasis to exports. Today, with the growing foreign exchange shortage and the concomitant decline in petroleum earnings, Tunisia is emphasizing exports even more. The increased emphasis takes the form of recent additional financial incentives to exporting companies, whether under law 72-38 or law 81-56; the strengthening of existing institutions and creation of new institutions to promote exports; and the easing of bureaucratic procedures for exporters. Export licenses are no longer required for most exports; however, the Central Bank still requires the use of a formula for repatriation of foreign exchange as well as customs verification to see that the total value of goods imported is, in fact, exported.

A policy under consideration would require those companies that the GOT deemed capable of exporting (for example, textiles, shoes, and perfume) to export. Within approximately one year after the policy is operative, exports would have to reach 20-30 percent of total sales. Failure to attain these levels would result in denial of import licenses for raw materials for the export portion of their businesses. An adjunct to this proposed policy is an attempt to " lever" those Western countries that export to Tunisia into buying more Tunisian exports.

Problems inherent in this policy are once again the heavy hand of government and the lack of understanding of business realities. It is one thing to say "thou shalt export"; it is another to comprehend what it takes to be able to export. Finally, there is the somewhat ludicrous notion that Tunisia has enough clout to influence much larger, market-oriented countries to accommodate Tunisian exports. Tunisia is hardly in a monopsonistic position, as its exportables are those that most other Mediterranean countries have in quantity.

5. Export Expertise

One main problem Tunisia faces in its determination to export is that Tunisian business (and government) understands little of how different markets function, and what various markets require in the way of products, qualities, quantities, timeliness, labeling, consumer tastes, and regulations. Although Tunisia has no cohesive, comprehensive export strategy, the GOT asks the private sector to be agressive in exporting. The Tunisian businessman replies that it takes time to become an exporter, and he is right. There is also a certain mentality that will hinder Tunisia's export effort. There is little appreciation that the very size, complexity, and dynamics of a large market (especially the U.S. market) are what offer opportunities. There is little appreciation of the "niche" concept of marketing, something Tunisia, as a small country with only a few products to export, must learn to understand.

6. Policies and Problems Affecting Imports

a. Introduction

Although the policy of import substitution is giving way to one of export-led growth, many controls on imports are still in place. A modest amount of liberalization of controls has taken place; however, over time the administrative procedure and documentation burden for import licenses has grown. The import license process is particularly burdensome for the smaller manufacturer. Usually, he has neither the personnel to deal full-time with government requirements nor sufficient clout to cut through red tape and to have well-placed contacts to speed the process of obtaining import licenses. Moreover, quantitative restrictions on imports, as the GOT responds to the foreign exchange shortage, have become more arbitrary and discriminatory. Thus, manufacturers are forced into overstocking, inefficient production methods, and underuse of manufacturing capacity.

One principal complaint of manufacturers, especially the small and medium sized, is the problem of obtaining annual authorizations to import, as well as the associated foreign exchange quota authorizations. The foreign exchange authorizations are usually too small or too late in arriving to allow the businessman to plan and operate his business rationally.

As of April 1985, the GOT stopped issuing import certificates. Annual authorization requests are currently handled on a case basis, with most held up as a result of Tunisia's precarious foreign exchange position.

b. Delays and Complexity

Manufacturers in all manner of activities report six- to nine-month delays in obtaining import licenses and foreign exchange authorizations. In addition, they rarely receive the amount requested, with smaller manufacturers particularly cut back as much as 50-75 percent of the amount for which they applied. The import license application, with supporting documents, is detailed, requiring a great deal of time to prepare. Upon receipt of goods, customs inspectors focus on finding errors in the documentation (they receive a percentage of the fines levied as a result of the errors). Imports of spare parts have the additional problem that customs officials often do not understand the nature and uses of individual spare parts, and attempt to reclassify the part based on their incomplete knowledge and information.

c. Levels of Import Duties

Manufacturers state that duties are excessive and raise product costs to the point of non-competitiveness. Examples of excessive duties are those leved on spare parts for electronics -- 120 percent. Television sets may or may not be luxury items depending on their use, but items such as oscilloscopes and communications equipment definitely are not luxury goods. Some businessmen feel that electronics (exclusive of the very sophisticated products) could be an area in which Tunisia could excel, and that excessive import duties on electronic spare parts are preventing this.

d. Effects of Regulations and Controls

Delays, complexities, and insufficient foreign exchange have counterproductive and often perverse effects on both business and government:

- Planning. Since a manufacturer never knows when he will receive his import license nor the amount of foreign exchange actually to be allocated, he finds it difficult to plan both operations and expenditures. As a rule, the smaller the manufacturer, the more severe the foreign exchange problem is and the more difficult planning becomes. The duration of the license may be suddenly shortened by the government or foreign exchange availability may dry up; thus, the businessman imports all his annual needs as soon as he receives the authorizations. The manufacturer therefore carries excessive inventories for a good part of the year, and the manufacturer, the foreign supplier, and the GOT cannot plan as they should. The Tunisian manufacturer should be able to import in such a manner so as to ensure that his or her plant will operate efficiently.

- Counterproductivity and perverse effects. Businesses and the Tunisian economy suffer as a result of the complexities of the import license/foreign exchange system and related policy changes. Examples of some of the more serious effects of this system are:

  -- Manufacturers report that they apply for import licenses in September/October of a given year for anticipated receipt in May/June of the following year. Normally the smaller business person receives only a fraction of what the request, thus leading to inflated requests, or "import licensemanship."

  -- It is often more efficient to buy extra machines just to be able to cannibalize them for spare parts. This is not only costly for business, but also a needless loss of foreign exchange for the country.

  -- The protection offered the domestic Tunisian producer often has perverse effects. For example, in the case of brake linings there is one Tunisian producer, who produces only certain types and sizes of linings. Because of his existence as a domestic producer, however, for the business that needs an imported brake lining, it is simpler to import the entire brake shoe than to submit to all the probems and delays in getting an import license for the lining.

-- It is often more efficient for the manufacturer to fly to Europe to buy critically needed spare parts than to go through the import licensing process.

e. Proposed Policy

Driven by the current economic problems, and in an effort both to spin out scarce foreign exchange reserves and to increase future foreign exchange reserves, a new policy is under consideration by the GOT. It entails the proposed creation of a "commission" at the Ministry of National Economy that will establish purchasing groups ("groupements d'achats"). These groups will include like manufacturers in order to consolidate purchases of raw materials, equipment, and intermediate products. The rationale is that foreign exchange will be saved by the ability to purchase in quantity from suppliers.

Unfortunately, this proposed policy does not take into account certain business realities, and risks introducing further bureaucratic complications and delays. For example, manufacturers in a particular industry do not necessarily have similar raw material needs. For example, a company producing specialty paints for industrial applications will have different requirements from a company that produces house paints. Beyond this, the more active and competent managers are not interested in cooperating with their competitors in the procurement of inputs, which they view as a sensitive business decision. Another concern voiced by business people is the possibility of the commission becoming subject to corruption. On the whole, competent manufacturers are loath to have the GOT take over an area of business activity that is rightfully theirs and that they do most effectively themselves.

CHAPTER THREE

PRIVATE SECTOR DEVELOPMENT AND TECHNOLOGY TRANSFER PROJECT

A. General Project Description

The goal of USAID'S Private Sector Development and Technology Transfer Project is "to increase production and employment in the Tunisian economy, particularly in the private sector." Its purposes are "(1) (Private Sector) to encourage the Tunisian private sector to play a more dynamic role in achieving national economic targets; and (2) (Technology Transfer) to increase the returns to and/or the continued effectiveness of completed or nearly completed AID projects."

The project was initially authorized in September 1982 at a sum of $3.05 million ($2 million for private sector activities, $1.05 million for technology transfer). In March 1985, the project was amended to increase the AID economic support fund (ESF) grant of $4.05 million and increase the GOT counterpart funding obligation from $1 million to $1.33 million. Of the total AID funding, $3,033,334 is designated for private sector activities, and $1,016,666 is for technology transfer. The project description was also amended to include the statement that:

> The Project consists of the provision of technical advisory services, training and observation visits, funds for conferences, seminars, feasibility and pre-investment studies, project design and evaluation services and related commodities, which will complement existing or past, AID-assisted activities or which will constitute new initiatives for the Tunisian private sector.

This review will cover only the activities undertaken by the Private Sector component of the Private Sector Development and Technology Transfer Project, in accordance with the scope of work for the consultancy. The specific focuses of the private sector component are:

- Encouraging a policy environment receptive to private enterprise. This includes continuing a policy dialogue at all levels of government;
- Developing institutional skills to strengthen competitive markets. This includes working with development banks and a financial leasing company;
- Promoting investment. Conferences and seminars are to be the primary means to encourage joint ventures between U.S. and Tunisian firms; and

- Increasing entrepreneurial skills. This is to be accomplished by funding business schools, management training organizations, and technical assistance institutions.

To date, the Private Sector component has funded a variety of activities ranging in size from $8,500 to $350,000. This has involved funding seminars in Tunisia and abroad; trips to promote joint ventures between Tunisian and U.S. businesses; and technical assistance provided through CRS, the Institut Superieur de Gestion (ISG), and the International Executive Service Corps (IESC). The following review of subprojects is not meant to be a comprehensive evaluation; rather, it is an analysis of individual activities based upon written file materials, discussions with the funded institutions, and interviews with selected participating entrepreneurs.

B. Societe Marja du Developpement de l'Elevage et de l'Agriculture

USAID's role in the development of the Societe Marja du Developpement de l'Elevage et de l'Agriculture (SMADEA) dairy project entailed the financing ($320,000) of technical assistance and training. U.S. technical assistance in dairy farm management, animal nutrition, and dairy production is still continuing. Training of Tunisians in the United States in dairy operations has been completed.

SMADEA, through financing from STUSID, imported 1,000 Holstein-Friesian cows from the United States in 1983. The first calving of these cows has already taken place. One objective of the project is to increase the SMADEA herd to approximately 2,800 head, after which time excess female calves will be sold to private dairy farmers in the Marja region.

The future impact of the SMADEA dairy project on the private sector should be:

- A genetically upgraded regional dairy herd in the hands of small- and medium-sized private dairy farmers;

- Improved dairy management techniques locally through SMADEA-sponsored field days, workshops, and demonstrations for small- and medium-sized dairy farmers;

- Increased demand for compound feeds -- a potential area for private sector involvement;

- Marketing of milk from the region to the planned milk plant -- feasible only given the scale of SMADEA -- and subsequent local milk production; and

- Demand for increased capacity in the "cold chain" (storage, distribution, and holding at the retail level) from the producing region to urban consumers -- especially toward the retail end of the cold chain.

It is too early to gauge the impact of the SMADEA herd expansion and ultimate sell-off of excess calves on the dairy and dairy-related activities. Within the next two years, SMADEA calves should start to come on the market in quantity, after which time effects on the private sector should become evident.

C. Institut Superieur de Gestion

USAID has put a large amount of money into the ISG since its start-up in 1970; total AID contributions have amounted to nearly $2 million. Much of this ($1.3 million) was channeled through a competitively bid contract with the Academy for Educational Development under a different project (Technology Transfer, Project No. 0315).

Support through the Private Sector Development Project (0328) has been under two headings. The first (0328.2) was for general developmental support of the ISG. It was voted in two stages: first a grant of $200,000, followed by an amendment increasing this total by a further $50,000. The first of these, signed in January 1984, provided a fund for U.S. faculty members to come to ISG for seminars, research, and general curriculum development, as well as for Tunisian ISG faculty members to go to the United States for short-term study and research. The USAID contribution had as its counterpart a GOT contribution of $800,000, most of which was to provide scholarships for 15 Tunisians to go to the United States to study for doctorates. Another smaller component here involved the GOT purchase of 15 microcomputers for the ISG, an item that has caused some minor problems since the government has apparently not yet fulfilled its end of this bargain.

In February 1985, this Memorandum of Understanding was modified to increase the funding by an additional $50,000, of which $39,855 was to be used for library materials for ISG (the rest was added to the project's contingency fund).

Discussions with the ISG Director and other faculty members indicate that these funds have been well used. The institute is a lively organization that seems to have a good curriculum, a good program of research, and an active involvement in the development of improved management techniques in Tunisia.

USAID's second involvement in ISG through the Private Sector Development Project involved the funding of three two-day seminars designed for SMEs. These seminars were funded by a small grant (TD 4,000 per seminar, or $17,150 in all) drawn from the Private Sector umbrella fund under project no. 0328.5.6. The conferences focused on management and procedures for exporting (October 1984), establishment and development of SMEs (February 1985), and financing of small enterprises (May 1985). They were attended by 30-45 managers of small enterprises, officials of variety of relevant government agencies, and faculty and advanced students of the ISG.

In the eyes of participants and observers, the seminars were a success. A review of the papers presented suggests some unevenness in quality and focus, with several aimed at what would seem to be substantially too high a level of abstraction for managers of small enterprises. The large number of administrators and academics among the participants probably means that the people who benefited most from the seminars were:

- Administrators who were asked to explain their programs to interested and sometimes not well-informed outsiders; and

- Academics who previously may have paid little attention to special needs of SMEs, but who were challenged to adapt their thinking to take account of the realities of this group of producers.

The seminars must be seen as one step in a continuing process whereby faculty members learn enough about the special needs of SMEs to teach about them in their classes and give advice to them in the field; administrators and policy makers learn more about these same special needs, so they can adapt their projects and policies better to serve them; and business persons themselves learn more modern management skills, and are able to operate in a more supportive policy and project environment. Although we feel the seminars were worthwhile and contributed to that long-term process, it is clear that three two-day seminars only scratch the surface.

As outlined further below, we suggest that future activities of this type be placed in a somewhat different context. More explicit attention should be given to i) learning more about the needs and problems of SMEs, and ii) working with administrators and officials to develop a more supportive project and policy environment, with the third goal of providing immediate advice and assistance to SMEs falling to a subsidiary place until a larger cadre of experts skilled in providing assistance to small enterprises has developed.

D. International Executive Service Corps

IESC received a $350,000 grant in 1983 to fund short-term experts to provide technical assistance to private sector firms. Approximately $125,000 remains in this fund.

The fund has helped to finance 19 assignments to 11 firms and 1 ministry, and has covered the per diem expenses of the IESC country director and his wife. It is unclear whether the fund was originally intended to finance the in-country director's expenses or only the short-term assignments. This matter is currently being reviewed by responsible AID contracting officers.

Assignments range from one to three months. Since the retired experts volunteer their time, the only costs are international travel expenses and expenses for the expert and his or her spouse. Daily expenses are usually around $100. A consultancy costs about $19,000, on average, throughout the world. Domestic firms seeking assistance must cover part of the IESC volunteer's expenses. On average, domestic firms have paid $5,000-6,000 per consultancy; in some cases, USAID only pays for airfare. The minimum contribution of a firm was $3,200 for a consultant who stayed for six months. Also, entrepreneurs have a guarantee that if they are not satisfied with the services offered, their contribution will be refunded. This has occurred in one case.

Assignments have included:

- Five consultants to help establish the Industrie Mecanique Maghrebines (a Tunisian/General Motors joint venture project to assemble cars);

- One consultant to help set up an investment bank for export financing (TACTIC). A decision was made subsequently not to establish the bank (following an IMF recommendation);

- Two consultants to provide technical assistance to a chicken farm in Tabarka. It is reported that the firm subsequently went bankrupt despite the technical assistance;

- Two individuals to experiment with syrups and fruit essences for the Societe d'Aromatique Tunisienne;

- One individual to advise on inputs for the Mecaforge foundry;

- One individual to set up a computer system for a hotel (Al Mehni) in Monastir;

- One individual to provide advice in hotel management for the Icuria Palace hotel;

- One individual to teach computer programming to CIGOS, a local computer company that trains Tunisians in computer use;

- Two individuals to discuss with the Ministry of Agriculture the financial viability and efficiency of a private sector approach to chicken-raising operations;

- One individual to advise the Comptoir Nationale de Plastique on plastic molding techniques;

- One shoe production expert to advise UTIQUE Chaussures on training personnel, checking quality control, inventory control, and export markets; and

- One rubber expert to advise the Societe Industrielle d'Ouvrage en Caoutchouc in tire production methods.

USAID and the Ministry of Planning must approve each activity; however, approval generally requires only about three weeks and has never posed any problems.

In general, IESC can provide a highly effective mechanism to leverage USAID resources and build contacts between domestic firms and experienced American technicians. Several problems, however, have constrained IESC activities:

- Difficulty in securing local financing to cover IESC consultant costs (including the reluctance of some entrepreneurs to meet their obliged payments after the completion of assignments). Partially this is due to the requirement that IESC work primarily with smaller firms, which often cannot afford the minimum costs of a consultancy;

- Difficulty in finding qualified technicians who also speak French. Smaller firms are less likely to have managers who speak English, and translators have not proved to be an effective solution;

- High luxury profile of IESC consultants and previous country directors. Consultants usually stay at luxurious hotels; until recently the IESC office (and home for the director and spouse) was the Hilton Hotel. They have recently established an office and home in an apartment -- a desirable precedent for IESC/Tunis; and

- High turnover of IESC country directors. The IESC has had seven directors in two years. This has occurred for a variety of reasons; the current director has a contract of indefinite length.

The MSU/DAI team was not able to determine the distribution of funding of IESC activities: what percentage has been financed by entrepreneurs versus that funded by AID. If it is indeed difficult to have smaller entrepreneurs cover the cost of IESC consultants, it may be worthwhile to focus the activities more narrowly (for example, on export promotion) and then have USAID fund a higher percentage of each consultant's costs. One way to overcome the inability of smaller-scale businesses to cover IESC costs might be to provide consultants to groups of businesses producing similar items (for example, ceramic tiles) rather than to individual businesses. USAID/Tunis has indicated a willingness to fund a higher proportion of the cost of IESC consultancies if their cost-effectiveness could be improved in such a manner.

E. Design and Implementation Resource Fund

1. Overview

The purpose of the Design and Implementation Resource Fund (Umbrella Fund) is to provide a quick response mechanism to implement activities costing under $20,000. The total amount of the fund is $300,000, of which $200,000 is designated for private sector activities and $100,000 is for technology transfer subprojects. This review only covers the private sector activities.

The fund has financed a variety of activities during its two years of existence. These are:

Activity	Amount in Dollars
IDLI Leasing Seminar	12,000
API Investment Seminar	15,900
Investment Seminar	20,000
IDLI-International Contracts	8,520
Entrepot Mission	17,000
Total	73,420

Thus, $126,580 remains in the fund for additional activities. Another potential future activity is funding a seminar explaining ways in which other countries have privatized their publicly owned companies. Although a PIO/T has been written and approved by AID and the Ministry of Planning, USAID has been unable to find a Tunisian institutional counterpart to sponsor the conference because of its controversial subject matter.

2. Brief Review of Umbrella Subprojects

a. International Development Law Institute Conference

The International Development Law Institute (IDLI) Seminar on Financial Leasing, held in February 1984, served as a successful means of convincing the GOT that financial leasing was a desirable and viable activity for Tunisia. The seminar ended a two-year impasse between proponents of leasing and GOT regulators who were reluctant to grant approval.

Since the seminar, the private firm, Tunisie Leasing, was establshed and is operating. To date, TL has approved some TD 6 million worth of equipment leases for medium-sized private companies currently in business. (For more description of TL, see discussion in section II-D-7 above.) Thus, the IDLI seminar is an example of how the private sector project successfully brought about policy dialogue and change, resulting in the creation of a needed financial alternative for the business community.

b. Investment Seminar, API Pre-Investment Conference (Hammamet, May 24-25, 1984) and API/General Motors/USAID Investment Conference (Detroit, May 7, 1985)

The $20,000 allocated for the Investment Seminar funded a U.S. consultant to help organize the participation of American firms at the Hammamet conference. The Umbrella Fund then covered most of the costs of that conference, plus a subsequent one in Detroit. The results of these two short conferences were mixed. On the accomplishments side, the concern of U.S. executives with regard to Tunisian taxation of income of U.S. expatriates working in Tunisia was extensively discussed at the Hammamet conference. API, in conjunction with the development banks, used the conference to make the Ministry of Finance understand the seriousness of this taxation problem, which has since been resolved.

The conferences served to expose Tunisian officials and business persons to many of the concerns of the foreign private investor. The conferences also introduced Tunisian and American business persons with similar interests to each other for the first time.

As is so often the case with introductory conferences of this sort, however, expectations are raised on the part of business persons in developing countries that positive results will ensue rapidly. Tunisian business persons and GOT officials were disappointed in that little has come of these conferences. There are several reasons why the results were slim:

- A general presumption on the part of Tunisians that investors, including Americans, want to do things in Tunisia. They see the U.S. investor's role as providing the financial wherewithal and the marketing expertise, while they produce products. They fail to understand the scale and complex nature of the U.S. industrial sector, the complex and changing nature of developed countries' market requirements, and the relative unfamiliarity (and thus unease) of American business persons with the overseas business environment.

- At the Detroit conference, not one Tunisian participant had a firm business proposal of the quality that an American business person requires. There was little understanding on the Tunisian side that it behooves one to be completely prepared when dealing with the American business persons; otherwise, it is a waste of his or her time. The effects of this lack of preparation was evident in the small number of U.S. business persons who appeared on the day following the Detroit conference, which was set aside for intercompany contacts.

- Examination of the list of U.S. participants at the Detroit conference shows that there were few non-automotive companies present, although General Motors (GM) reportedly extended itself to reach a large number of approprate companies from different industries -- companies that could well have been interested in opportunities in Tunisia. Even with the imprimatur of GM and the fact that it will be operating in Tunisia, U.S. non-automotive company representation was sparse.

- It is important to recognize the strictures that high-volume technology imposes on a U.S. company in terms of the size of the market that is profitably exploitable. As a result, one must tailor the matching of U.S. and Tunisian companies according to the size of Tunisia's specfic industrial subsector, the Tunisian market, and the U.S. company's interest and expertise in export markets. Also, special cases may apply, such as U.S. companies that may want to use Tunisia as a base (if the Tunisian market proves successful) for future, expanded operations, as in the case of the CPC/G Bougerolle joint venture for Knorr soups.

- The responses of the foreign company participants at the Hammamet conference to the questionnaire sent out were generally polite but bland. Words and phrases such as "useful," "a quite favorable impression of Tunisia," and "informative," were used to describe the participants' reactions to the conference.

The lesson learned from the two conferences should be that introductory-type conferences rarely bear fruit. Initial contacts made are not followed up by either side because the reasons bringing the two parties together were not strong enough to justify time and effort to maintain the contact, especially from the standpoint of the busy American businessman. As noted above, the focus of such a meeting must be very specific and the participants chosen with care. It is not enough to put two groups of business persons in the same room and think that synergy will take place.

c. Entrepot Mission

The Entrepot Mission funded seven private entrepreneurs and development bank staff members to follow-up on the more promising leads generated by a Trade and Development Program "entrepot" conference between American and Tunisian firms held in Tunisia. Approximately eight U.S. companies were visited; a joint venture project to assemble telephones reportedly has been agreed upon as a result of these activities. Other opportunities are still being pursued.

d. IDLI International Contracts

USAID/Tunis funded five API and development bank staff members to attend a three-week conference on international contracts in the first half of 1985.

F. CRS/UTICA/USAID Centre d'Assistance et de Conseil aux P.M.E.

This activity, which was started in January 1985 with direct support from UTICA, CRS, and $190,000 grant from USAID, is designed as a pilot project to provide management assistance to SMEs in the greater Tunis area. This assistance is to be offered by the project supervisor (a senior official, with several years of experience working with small enterprises); by three young diagnosticians, hired by the project on completion of their management studies at ISG or the school of business at Sfax; by four consultants from UTICA, who each spend six hours per week at the center or visiting firms being helped by the center; and by one advisor from CFCT (a private commercial bank), who also spends three hours per week working with the target firms. The link with CFCT is designed to provide that local bank with increased information and understanding, leading, it is hoped, to increased financing of SMEs.

The project has set itself a difficult task; while the goal is a worthy one, the provision of management assistance to small enterprises has proved to be a major challenge wherever it has been tried. We commend the organizers for their decision to concentrate the assistance only in a few sectors of the economy, developing over time a sector specialization and expertise among the diagnosticians. We were impressed by the enthusiasm for the project among UTICA staff, who are already pressing for its expansion. We do have some reservations, however, about several aspects of the project's design:

- The selection of diagnosticians who are immediate graduates of the university means that, for a while, these people will necessarily be learners rather than teachers. Small business persons, often with years of experience, generally need help from people who know the business, not from people who have studied the texts. Perhaps by the end of the pilot project the diagnosticians will have reached the level where they will be able to help the target firms. This is no reflection on their training or intelligence (they seem to have plenty of both); it is the nature of the situation.

- Several things follow from this start. Working with relatively inexperienced staff, the center itself needed to consider itself as being in a learning rather than a teaching phase. That it felt called upon to show immediate results (we do not know whether this originated from USAID or CRS pressures) led to the unfortunate decision of offering all services free. In general, we feel that beneficiaries should be asked to pay something for assistance they receive.

- In fact, not only is the assistance offered free, but an incentive payment is also offered for those who are most successful in meeting the established targets. In addition to the objection in principle of offering incentive payments to those who participate (the opportunity for improved profit should be reward enough), the details of the incentive system seem flawed. To make rewards for the best performers every six months implies considerable expenditure of resources in checking on such things; and that short a horizon hardly leaves time for basic changes to show results.

- The selection of sectors for detailed work seems inappropriate. In particular, the construction industry is reported to be in a crisis due to a general cut-back in the level of construction activity in the country; this is hardly the dynamic sector with high growth potential sought in the sector selection criteria.

- The decision to have each diagnostician sign up a portfolio of 20 firms, establishing specific targets for each during the first few months of operation of the Center, has meant moving unrealistically rapidly. Again, it would have been more reasonable to approach these goals more gradually.

It is not clear what plans are for institutionalization of the experience gained. The two years funded so far are rightly viewed as a pilot project; it is important that the experience be carefully analyzed, drawing more thoroughly on lessons learned in similar projects in other countries and, on that basis, looking for ways of reformulating and perhaps expanding the activity to cover more producers and other regions of the country. If an end-of-project evaluation finds the CRS activity to have been useful, institutionalization becomes a prime concern. CRS staff and UTICA have begun discussing whether the latter might serve as an institutional base when the current USAID funding comes to an end. This solution appears to have much merit.

G. Market Technology Access Project

A recent activity partially funded under the Private Sector Development Project is AID/Washington's Market Technology Access Project (MTAP). MTAP is an experimental program to test the feasibility and cost-effectiveness of using "intermediary firms" (trading and investment promotion middlemen) to help developing country firms gain better access to new markets and new technologies via collaborative ventures (ranging from trading to foreign direct investment relationships) with SMEs in industrialized countries.

In the Near East, the MTAP program will be field tested in Tunisia, Turkey, and Yemen. MTAP started on October 1, 1985, and its duration in Tunisia is three years. The total program funding amounts to approximately $1 million, of which Tunisia accounts for $200,000. A consortium of two trading and market development firms, Business Development and International Marketing, Inc. (BDIM) and Georgetown Venture Trading Company, Inc. (GVT), has been chosen as the U.S. intermediary firm. This firm will be engaged in joining developing country SMEs with U.S. and foreign SMEs through its own activities and those of intermediary firms. BDIM/GVT will seek out suitable local intermediary firms, and will manage the liaison between it and the local intermediaries.

Project activities will range from assessing developing country economic and market conditions to putting together individual ventures. For trade-related ventures, BDIM/GVT will offer assistance in arranging market analyses and financing. For ventures entailing foreign direct investment, BDIM/GVT will assist in arranging an array of services, including project feasibility studies, financing arangements and sources, legal services, and identification of training resources. Since the project has just begun, it is too early to comment on its progress. To a limited degree the MTAP project does tie in with the Market Information and Product Development recommendation outlined in section IV. See section IV-C for details.

H. Potential Future Subprojects

1. Investment Coordination Seminar

As a result in part of the success of the IDLI seminar, USAID is organizing an investment coordination seminar of three weeks length to take place in the United States in 1986. The seminar will be for 20 middle- and senior-level GOT and development bank officials.

The purpose of the seminar is three-fold: first, to address the principal Tunisian legal and policy matters, as well as government and bank practices and procedures, which inhibit the growth of private sector investment; second, to determine the requirements (including policy, economic and political environment, infrastructure, legal, and financial) of private investment; and third, to find ways in which relevant government agencies can coordinate their activities to facilitate and attract private investment in Tunisia.

2. Employment Generation, Performance, and Needs of the Tunisian Informal Sector Subproject

USAID has received a proposal from Ridha Ferchiou of the Institut des Hautes Etudes Commerciales (HEC) and Paul Strassman of Michigan State University to collect data on small and informal private enterprises in Sfax and two towns in central Tunisia. Study findings are to be used to develop a medium-term strategy for the GOT and USAID to address the development and constraints of small firms, particularly home-based and informal sector producers. This study is expected to cost $142,649.

I. Recommendations on Future Private Sector Project Strategy

A review of funded activities indicates that this project has made useful contributions to relieving specific constraints faced by private sector producers. Notable successes include:

- Helping to convince GOT officials of the merits of introducing a leasing scheme in Tunisia, leading to the establishment of Tunisie Leasing;
- Promoting a few joint ventures between American and Tunisian firms;
- Revising the tax schedule for non-residents working in private sector firms in Tunisia;
- Establishing a potentially significant pilot activity that provides management technical assistance to SMEs; and
- Providing high-quality managerial and production technology assistance to medium-scale firms.

However, the lack of coherent focus of subproject activities is a key constraint to achieving the overall project goal and purposes. These discrete activities have been scattered in a variety of directions rather than focused on one or a few issues. In addition, these small activities have imposed a high administrative burden on those managing the project. That each individual activity required separate approval from the GOT meant heavy involvement by USAID staff in discussion, approval, and monitoring of a large number of small activities.

It is therefore recommended that the project be redesigned to focus on issues relating to export promotion. Given the limited funds available to USAID/Tunis, we suggest that remaining funds be reprogrammed to help finance the activities proposed in Chapter Four. The only exceptions to this recommendation might be the Investment Seminar and Informal and Small Enterprise Study that have already been discussed in some detail with the GOT. However, if commitment on these projects is not too far advanced, we would suggest discarding them. By concentrating USAID's limited resources on a particular set of issues, those resources can be expected to make a greater contribution to the development of the Tunisian private sector.

CHAPTER FOUR

RECOMMENDATIONS FOR FUTURE AID PRIVATE SECTOR DEVELOPMENT STRATEGY AND PROGRAM

A. Overview

The GOT's balance of payments crisis offers a unique opportunity for USAID/Tunis to provide critical resources to strengthen the private sector and stimulate policy change. The goals of the GOT and USAID are more similar today than in the past: promoting private sector development, particularly in the export sector. However, the means that each favors to work toward this growth differ. The GOT still favors private sector promotion through public sector institutions such as CEPEX and API. Experience from other countries has led AID policy makers to believe that private sector institutions are more efficient mechanisms. The GOT has not yet been convinced of the need to reform the complex set of regulations, investment approvals, licensing, and price controls that were used to nurture its domestic industries. Much of this infrastructure, however, will hinder export growth. Thus, if exports are critical to maintaining economic growth, the GOT will have to make some major policy changes. Armed with appropriate information about more efficient means to achieve GOT goals, AID and other donors can affect the nature of this policy change.

Given the critical balance of payments problems facing the country and USAID's limited funding, we recommend that the mission focus on private sector export promotion. Since export promotion will be a priority under the GOT's Seventh Plan, USAID/Tunis' provision of critically needed resources should enable it to leverage needed policy changes as well as assist this important sector through financial and technical assistance. The potential for expanding the industrial sector for domestic consumption is severely limited, given the small size of the market. Tunisia has been developing its exports since 1972; with World Bank assistance, it has increased its volume of exports of light manufactured goods. Thus, this is not an entirely new activity; rather the USAID activity would capitalize on past efforts and encourage new further development.

Export-oriented industries are expected not only to serve as generators of foreign exchange to ease the balance of payments crisis, but just as importantly, to serve as a major source of future employment opportunities. Past studies make clear that Tunisian manufactured exports create many more jobs per dinar of value added than import substitution activities; thus, an expansion of export production will also be highly beneficial in helping the country meet its serious unemployment problem.

The focus of USAID activities should be on small and medium private enterprises with strong export potential. This would help to fill a gap since the World Bank export promotion program will benefit primarily larger firms. Since evidence from other countries indicates that SMEs create new jobs at lower investment costs than large businesses, this approach will also reinforce the GOT's emphasis on reducing unemployment.

However, the provision of one input or a limited range of small activities will not go far toward solving the problems restricting export growth. Instead, an integrated effort involving several different project components, each focused on key constraints, is necessary. If Tunisia is to expand its participation in the international market, several links in the chain from the producer to the foreign importer must be strengthened. A policy environment conducive to export promotion, available financing, high product quality at competitive prices, marketing linkages and information, and a variety of other factors are all prerequisites for success.

Our review of the constraints on export development and suggestions for a comprehensive USAID strategy are shown in Table IV-1. An estimate of the cost of all project components combined is about $14.7 million over five years. Further analysis is needed to specify project activities and appropriate funding levels. However, this is seen as the minimum required to have some measurable impact and induce policy change. Financial assistance is needed to alleviate the immediate problem of enabling SMEs to import materials and equipment needed to produce exports. The market information and product development activity is required to improve the competitive position of Tunisian exporters in the medium term. Finally, a change in the policy environment is a prerequisite for the growth of export industries in the long run. Taken individually, each is a useful activity; together they constitute a coherent program through which USAID can make an important contribution to the growth of the private sector and the economy as a whole.

B. Redirecting the Financial System toward Export Promotion

1. Overview

Discussions with private sector exporters, commercial banks, development banks, Tunisie Leasing, and the Central Bank indicate that serious problems in the financial sector inhibit export growth. These include:

- Inability among resident exporters to obtain loans and licenses to purchase imported raw materials, spare parts, and equipment;

TABLE IV-1

FINDINGS AND PROPOSED PROJECT RECOMMENDATIONS

Finding	Recommendation
Financial Sector	
1. Critical lack of foreign exchange to purchase equipment, spare parts, and raw materials needed to produce export goods.	1. Establish a loan fund to finance imported goods and equipment needed by small and medium enterprise exporters.
2. Lack of collateral or investment funds required for equipment loans; inability of Tunisie Leasing to provide services as a result of import restrictions.	2. Establish a fund in hard currency for exclusive use by Tunisie Leasing clients.
3. Extremely deficient capital markets.	3. Tap into the AID/Bureau for Private Enterprise Financial Markets project to fund a study analyzing constraints and providing long-term technical assistance, if appropriate.
4. Weak bank operational capacity in trade financing.	4. Fund series of seminars for mid-level commercial and development bank staff.
Market Information and Product Development	
5. Lack of information about domestic producers and export markets; need for product design modifications in response to trends; need for private sector institutional link between exporters and importers.	5. Strengthen the capacity of FEDEX to provide these services to member exporters by financing its start-up activities, providing technical assistance in product and market development, and providing commodities to permit efficient data collection and analysis.
Policy Analysis Dialogue and Change	
6. Regulatory nature of policy environment inhibits export development; private entrepreneurs can present only anecdotal evidence in discussions with the GOT.	6. Create an institutional context for continuing analysis and discussion of policies affecting exports between the GOT and the private sector by strengthening UTICA's capacity to analyze policy issues, with the assistance of forein and domestic economists.

- Inability to receive export licenses to purchase equipment for leasing operations as a result of balance of payments crisis;
- Weak domestic capital markets; and
- Weak bank operational capacity in trade financing.

The first two problems are most keenly felt by small and medium producers who have less access to foreign exchange resources than their larger counterparts. Strengthening capital markets would directly benefit the export sector, particularly larger firms, by increasing the amount of capital investment available for creating new firms and transforming domestic producers into exporters. The limited capacity of mid-level bank staff members to conduct the procedures involved in trade financing will grow in importance as Tunisia attempts to broaden its markets and substantially increase the volume of non-traditional exports.

In response to these problems, we suggest four potential activities for USAID/Tunis' consideration:

- Establishing a loan fund to finance imported raw materials, spare parts, and equipment for small- and medium-scale exporters;
- Establishing a hard currency fund designated for Tunisie Leasing's exporting, resident company clients;
- Conducting a study that proposes a strategy to promote Tunisian capital markets and, if appropriate, long-term follow-up assistance; and
- Funding a seminar on trade financing for appropriate bank personnel.

2. Loan Fund to Import Equipment and Raw Materials

a. Statement of the Problem

Since March 1985, the Central Bank has placed severe restrictions on imported equipment and goods as a result of Tunisia's balance of payments problems. This situation is expected to continue or worsen during the next few years. While non-resident 72-38 companies have free access to foreign exchange, almost all resident small- and medium-scale exporters interviewed by the MSU/DAI team complained bitterly about problems they were facing in trying to import raw materials, spare parts, and equipment. Many had secure markets and approved short- and medium-term loans from financial intermediaries, but could not obtain Central Bank approval to import needed equipment and materials. Even though pre-export financing is easily available, these funds are in local currency; foreign exchange is difficult to obtain even in these cases. And, even before the balance of payments crisis, loans and licenses for spare parts were rarely granted. Thus, many firms with export potential operate below capacity.

Central Bank officials maintain that no foreign exchange problems exist for exporters; in theory, these producers have priority status and full access to foreign exchange. Any difficulties they may have experienced is attributed to administrative problems, particularly at the level of the financial intermediary. This view is not corroborated by small- and medium-scale exporters. However, most large-scale exporters interviewed by the team agreed that they had experienced few difficulties in gaining loans and licenses to import whatever they needed. Thus, the problem appears to be that, in times of scarcity, the larger exporters maintain access at the expense of smaller exporters, who lack the connections and clout to obtain import licenses.

b. Project Objectives

The chief objective of this project would be to help increase foreign exchange earnings by augmenting Tunisian exports. This objective would be achieved by promoting the efficient development of small and medium-scale export industries by financing their imported equipment, spare parts, and raw material needs. SMEs are defined by the GOT as enterprises with up to TD 500,000 in investment. The project would also aim at saving foreign exchange when firms could produce financially and economically competitive import substitutes. However, since few opportunities to develop efficient import subsitution industries exist, this discussion will focus on exports.

The World Bank is currently negotiating a $50 million Export Promotion Project through BDET ($20 million), the BTKD ($15 million), and STUSID ($15 million). However, these funds will be lent primarily to larger firms. The World Bank has set a $2 million maximum loan size for BDET and $1.5 million for the other two development banks. The World Bank estimates that about 60 percent of BDET's loans will be above $750,000; since BDKT and STUSID rarely provide loans below $1 million, almost all of their subloans are expected to be close to their ceiling.

Thus, the World Bank line of credit is not expected to alleviate the foreign exchange problems of SMEs. It will only improve the access of those that are already in a strong position to receive foreign exchange. USAID can make a significant contribution to promoting small and medium producers who already export or wish to enter the export market by establishing a line of credit that complements the World Bank project. This fund would be an integral part of the overall package of assistance suggested by the MSU/DAI team.

c. Project Description

i. Institutional Base

Only one Tunisian commercial bank, the CFCT, is entirely privately owned (see Annex 2 for analysis of banks' ownership). If this institution had a monopoly on project loan funds, they may be less efficiently allocated than if a number of institutions had to compete for resources. Thus, it is recommended that several financial intermediaries serve as implementing institutions. The key criteria for inclusion in the project would be that they must be efficient, profitable, and interested in providing relatively small loans (under $100,000) to exporters. This might include some commercial banks, the off-shore banks, and perhaps the BDET. Since development banks other than the BDET do not make loans of less than $1 million, they would not be an appropriate intermediary channel. Rather, the commercial banks that have specialized in SME projects would be more appropriate institutions. Further in-depth analysis is needed to determine each bank's financial performance and administrative capability. Off-shore banks, with their expertise in export financing, would be a welcome addition, provided that legislation is passed that allows them to enter the domestic market. However, it is unclear whether they would be interested in such small loans.

It is unlikely that private voluntary oranizations (PVOs) would be an appropriate vehicle for these loans. PVOs are more likely to serve micro and smaller enterprises that do not have a comparative advantage to enter the export arena. However, efficiently managed PVOs that currently have financially viable and self-sustaining loan programs, if there are any, that wish to participate in the project should also be included.

The project can be structured in two ways:

- By establishing a rediscount facility within the Central Bank to which eligible institutions would have automatic access. If this option is chosen, it should be clear that Central Bank approval should be automatic and not involve a re-analysis of subloans. Otherwise, the efficiency of the loan approval and disbursement process may be seriously impaired. This mechanism ensures that the most aggressive banks will gain access to the largest amounts of funds, thereby promoting competition among institutions; and

- By making direct loan agreements between USAID and each lending institution. The drawback of this mechanism is that it increases USAID's administrative burden and may result in a less efficient allocation of funds since it may be difficult to predict appropriate amounts for each institution. The possible advantage, however, is that it may induce more banks to participate in this type of activity.

ii. Activities

Project activities will involve providing short- and medium-term loans to small and medium resident firms that already have established export operations or wish to begin them. The project will be closely linked with the suggested technical assistance components described elsewhere. The project should finance the importation of raw materials, spare parts, and equipment by exporting firms throughout Tunisia. Given the current needs of existing exporters and the comparative advantage of European suppliers, the most efficient credit line would allow equipment, spare parts, and raw materials to be imported from Europe when their equivalent at a competitive price cannot be found in the United States. This feature would be especially important for spare parts and raw materials since existing exporters receive a large share of equipment and materials from Europe.

Eligible subloan projects are expected to consist primarily of export-oriented firms. However, if financial and economic analyses (in which all outputs and tradeable inputs including capital equipment are valued at border prices, and non-tradeables such as labor are valued according to their opportunity cost) show that currently imported products can be produced profitably and efficiently (from an economic point of view), these enterprises should also receive financing.

To ensure that loans are directed at SMEs, it is suggested that a ceiling of $100,000 be placed on each subloan. Since the banks will be assuming full risk for subloans and so as not to delay the loan authorization process, it is strongly suggested that they have full authority to approve loans. A midterm, comprehensive project evaluation should be responsible to determine that financial institutions are operating efficiently and that subloans meet project criteria and are achieving their objective.

To promote decentralization of export industries and generate employment opportunities outside of Tunis, it may be advisable to require that a certain percentage of each institution's subloans (by value) be made to industries with operations outside Tunis. Further study should be conducted to determine whether such quotas would be wise.

Although employment generation is an important concern, given the competitiveness of the export market and all the difficulties already faced by potential or existing exporters, it is recommended that subloan approval not include investment cost per new job requirements as a criterion. Available evidence makes clear that manufactured exports have been effective in creating new jobs, particularly for unskilled workers.

Interest rates to sub-borrowers should be sufficient to cover the bank's cost of resources, administrative expenses, and normal profits. The sub-borrower would be expected to bear the foreign exchange risk (either directly or by contributing to the recently established fund to guarantee against foreign exchange risk), but will be allowed to repay the loan in dinars. Since the GOT requires exporters to surrender almost all their export earnings, they will have no alternative but to repay in domestic currency. Precise limits on subloan terms and conditions need to be studied carefully. Given the current financial environment and regulations, medium-term subloans could be up to seven years and their effective cost to the sub-borrower could be about 15-16 percent per annum.

In addition to providing financing for subloans, USAID should also have a small grant component for short-term technical assistance to the mid-level staff of the financial intermediaries participating in the project. Two principal subjects should be covered:

- Methods to improve cost-effective supervision of subloans disbursed under the project; and
- Training in how to conduct an economic analysis of an import substitution project.

d. Suggested Funding Level

Demand for imported equipment, spare parts, and raw materials is extremely high if the loan fund imposes no restrictions on place of origin. If imports must come from the United States, demand is likely to be significantly lower, particularly for existing exporters. The amount of the loan fund, thus, is highly dependent upon what restrictions are applied. However, to interest the GOT and financial intermediaries in the project and to achieve any measurable results, a minimum of $10 million is needed.

e. Necessary Follow-up Activities or Studies

This potential project requires a great deal of additional examination before it can be implemented. Specifically, further analyses are required on:

- An appropriate institutional mechanism by which to channel resources;
- The financial and administrative performance of possible financial intermediaries, and their interest in participating in this activity;
- Potential AID funding mechanisms, including examining those by which equipment, spare parts, and raw materials may be procured from European suppliers;
- Appropriate terms and conditions of loans to financial intermediaries and subloans to sub-borrowers (including an explicit examination of what spread should be given to the Central Bank and financial intermediaries and other potential uses for the differential between the amount charged by the Central Bank (perhaps 0.5 percent) and interest charges on funds to financial intermediaries (perhaps 9 percent);
- Technical assistance needs of potential participating institutions;
- Demand for credit at expected sub-borrower interest rates and geographic restrictions on sources of equipment, spare parts, and raw materials; and
- Eligibility criteria for prospective sub-borrowers.

3. Strengthening Equipment Leasing Operations

a. Statement of the Problem

Small- and medium-scale entrepreneurs seeking to begin or expand export operations often are constrained by a shortage of equity investment funds. Equipment leasing provides a mechanism by which they can use equipment without an up-front investment of their own funds. Tunisie Leasing was created in 1984, with technical assistance provided through the Private Sector Development Project, as the first leasing operation in the country. (See Chapter Two for further description of TL.) Currently one-third of approved contracts (TD 2 million) are blocked as a result of an inability to secure import licenses. The IFC has agreed to provide TD 2 million in foreign exchange to help alleviate this problem. However, these funds are not necessarily directed to export producers and, according to TL staff, do not meet the demand for imported equipment. TL management has not publicized its services since the problem of obtaining an equipment import license means that approved projects cannot at present be realized. If additional foreign exchange were designated for leasing operations, demand among export-oriented firms would be extremely high.

b. Project Objectives

The objective of this project would be to help to strengthen the capacity of TL, a privately owned firm, to expand its operations and concentrate more heavily on small and medium export-oriented industries.

c. Project Description

i. Institutional Base

TL would be the primary target of this project. Since TL is planning to expand its operations to Sousse and Sfax through branches of the Union Internationale de Banques, the latter will indirectly benefit from the activity. The UIB helped to establish TL and, thus, is seen as a natural collaborator.

ii. Project Activities

The project would involve a grant to the GOT that would establish a fund in foreign exchange that would be available exclusively to TL export-oriented clients wishing to lease imported equipment. If this fund is located at the Central Bank, USAID must specify that approval for TL projects must be automatic. (A grant fund mechanism is suggested only because currently all USAID/Tunis funds are in grant form to the GOT. A more efficient method might be to provide loan funds directly to TL.)

Project funds would be used exclusively for leasing contracts with small and medium resident export companies or those domestic producers wishing to expand into exports. TL currently leases to existing private companies only to expand their production, with no emphasis placed on export operations.

Leasing contracts would conform to TL's current practices, with effective interest rates of 15-18 percent, depending on the term of the lease. If further study shows that decentralization of leasing operations is desirable, a certain percentage of funds would be designated to companies outside Tunis. The maximum amount per equipment leasing agreement would be $100,000, with limitations on the number of equipment leases per firm. Depending on AID regulations, either the entire line or a set percentage of funds would be used to import equipment from the United States.

A second project component might consist of technical assistance to strengthen TL staff capacity. Leasing is a high-risk operation under most circumstances; the new focus on export industries will only heighten these risks. Thus, the three professional staff members will probably require technical assistance on how to analyze the viability of small and medium export industries and the risks attached to leasing to such companies.

d. Funding Level

It is suggested that a $2 million grant be extended to the GOT to establish a fund for exclusive use by TL clients. Further study is needed to determine the appropriate institutional structure, funding mechanism, and loan terms and conditions to TL.

e. Necessary Follow-up Activities and Studies

Prior to pursuing this project idea any further, a complete analysis of TL's current operations should be made. Its risk management techniques, project appraisal capacity, and administrative operations (particularly its ability to expand operations at current staff levels) should be examined. In addition, a complete analysis of its financial statements should be conducted and interviews held with current clients.

AID should also study ways to facilitate equipment purchases from the United States, such as the option of awarding a procurement contract to a U.S. company specialized in such matters to serve as TL's contact to locate and purchase specified equipment and deal with all U.S. export requirements. An appropriate funding mechanism and institutional structure for the project also require further study.

Another issue requiring further analysis is an appropriate funding mechanism to assist TL. If a grant in foreign exchange is given to the Central Bank to establish a fund for the exclusive use of TL, the nature of loans to it from this fund must be carefully delineated.

4. Capital Markets Strengthening

a. Statement of the Problem

Capital markets are weak in Tunisia and dominated primarily by the government and parastatal institutional investors. (See Chapter II for a description of capital markets.) Strengthening the capital markets would enhance and diversify sources of medium and long-term financial resources available to finance activities that contribute to Tunisia's economic development. Tunisia's higher income status, political structure, and institutional base indicate that a strong potential exists for developing its capital markets.

b. Project Objective

The objective of this activity would be to identify constraints on the development of capital markets and, more important, to determine what actions might be taken by the GOT and USAID/Tunis to strengthen financial markets.

c. Project Description

AID/Bureau for Private Enterprise (PRE) recently awarded a contract to a group of private companies to provide assistance to USAID missions in developing strategies and projects to strengthen financial markets. Tunisia is listed as one country that is to receive this assistance.

It is suggested that a preliminary study on the strategy needed to develop Tunisia's capital markets (the stock exchange, issuing of bonds by financial institutions, etc.) be conducted over a three- to four-week period using the PRE contract mechanism. This study should build upon suggestions made by the IMF and World Bank. If possible, the focus should be on developing instruments to promote export industries.

d. Suggested Funding Level

Assistance under this project may be funded by AID/PRE resources. A total of $2 million has been allocated for all worldwide activities. No specific "USAID buy-in" is provided under the project. Thus, it is recommended that USAID/Tunis contact PRE as soon as possible to determine whether a preliminary investigation and follow-up activities, if appropriate, may be a priority in PRE's funding allocations.

e. Follow-up Studies

The introductory cable announcing the financial market development project asks USAIDs interested in using project services to provide a brief rationale for assistance and possible areas for future projects. USAIDs are supposed to include information on the political and macro-economic climate, the interest of the host country government in stimulating private sector growth, access to key government decision makers involved in policies affecting capital markets, the willingness of key government decision makers to discuss policy issues, and the availability of a core group of influential business leaders. Thus, USAID will be required to submit information on the above to encourage PRE participation.

5. Technical Assistance to Bankers Involved in Export and Import Financing

a. Statement of the Problem

Export financing is a complex activity that requires a sophisticated knowledge of foreign banks, suppliers and buyers, shipping documents, and foreign and domestic customs regulations. It has been suggested by high-ranking members of the Central Bank that Tunisian bankers involved in export and import financing could benefit greatly from a series of seminars on these subjects. If Tunisia wishes to expand its exports, capacity in the financial community must be strengthened.

b. Project Objective

The objective of this activity would be to strengthen the capacity of commercial and development banks in the field of international trade finance.

c. Project Description

i. Institutional Base

A series of seminars involving mid-level staff of development and commercial banks dealing in trade finance might be held under the auspices of USAID and the Central Bank. Under the Sixth Plan, the Central Bank hosted a series of seminars involving bankers and entrepreneurs on project feasibility analysis. The Seventh Plan reportedly suggests that the Central Bank organize seminars on export financing and development; it is currently seeking financial assistance.

ii. Activities

A minimum of two seminars should be held in Tunisia focusing upon actual cases and problems rather than theory. Trainers should include qualified staff from the Central Bank, Customs, the Ministry of National Economy, trading organizations, FEDEX, CEPEX, COTUNACE, Tunisie Leasing, international organizations involved in funding export promotion projects, and consultants with experience in export financing. USAID should contract out the organization, planning, and management of these seminars to a private firm with the appropriate qualifications.

The training program should include the following subjects:

Concerning Export Financing:

- GOT and/or international donor programs in export financing: explanation of procedures, restrictions, monitoring and evaluation requirements, etc.
- Discounting letters of credit, sight drafts and other documentation involved in export financing;
- Guarantee programs: eligibility, procedures, coverage, costs;
- Pre-export financing, risk analysis, rediscounting at the Central Bank.

Concerning Import Financing

- Foreign currency restrictions;
- Description of government programs available to finance imported equipment purchases: COFACE; Export-Import Bank, etc.;
- Description of donor projects to finance imports: World Bank, etc.; and
- Opening letters of credit and other import procedures, including review of bills of lading and other shipping documents, product specifications, dealing with the exporter's bank, etc.

d. Suggested Funding Level

More detailed study of the focus and length of the seminars is required prior to determing an appropriate funding level. The GOT should cover a percentage of costs; resource individuals from such institutions as the Central Bank and international organizations should have their time paid by their respective organizations. The main costs involved will be hotel accommodations, per diem, and the cost of consultants with a background in banking and expertise in trade finance who will teach most of the technical material.

e. Necessary Follow-up Activities and Studies

Additional research is needed to determine precisely what subject matter should be included in the seminars, their structure, and content. Appropriate staff in the Central Bank, development banks, and commercial banks should be interviewed to help delineate course materials and determine who should participate.

C. Market Information and Product Development: the Federation of Exporters

1. Statement of the Problem

Tunisia is embarking on a strategy to increase its exports and expand the number of export markets it serves. An export-led strategy requires a keen appreciation of what international markets require. This entails not only reaching forward to the market, but also backward to the producer. Among the prerequisites for success in this strategy are market information; products that meet the price, quality, and timing requirements of the market; and linkages from producers in Tunisia to buyers overseas. These market factors are conspicuously absent for most of Tunisia's exporting companies. In an effort to fill this gap, UTICA in July 1985 formed FEDEX, the first country- and sector-wide private association representing exporting companies.

FEDEX'S basic objective is to be an information base, a resource in training, product, and market development for current and potential exporters. It also aims at becoming the effective voice of the private export sector in dealing with the GOT on policy matters, laws, and procedures.

To operate effectively, FEDEX must have sufficient, capable staff; office space of its own; and the ability to collect and analyze Tunisian company, industry, and national data. It must have access to market, supplier, and regulatory information for eventual dissemination to its members, and the ability to forge links with appropriate organizations (such as chambers of commerce and trade associations) in export market countries for the various product groups it seeks to encourage. Finally, it will need staff and access to consultants to work with producers to help them develop their products to ensure that the products are suitable for export markets.

2. Project Objectives

The objectives of the proposed project are to help develop FEDEX as:

- A viable information base;
- An outlet for training and technical assistance for its members;

- An active link between Tunisian exporters and foreign business/trade organizations; and
- The voice of the Tunisian private export sector in conjunction with the proposed policy analysis unit in UTICA.

With USAID support, the institutional structure of FEDEX can develop so that at the end of five years it would be completely self-sufficient. The development of FEDEX as a viable institution would also be important in that it would wean Tunisian exporters away from their dependence on the government to do the job that they rightfully should do. The only other alternative organization at this point is CEPEX, the export promotion arm of the GOT. Many members of the Tunisian business community interviewed felt that CEPEX was not capable of serving them in the complex ways that export business requires, particularly not on a timely basis.

3. Project Description

Over the life of the project, USAID would provide financial support, technical assistance and training, and some commodities. The financial support would be used to help FEDEX with operating expenses. Technical assistance would be used to help identify, collect, and analyze relevant market, supplier, and regulatory data; identify and analyze foreign market oportunities; and open links between FEDEX and appropriate foreign trade and business service organizations. Training would be provided on topics such as market penetration, new product development, and product quality. Computerization (the commodities portion) will be necessary for data collection, analysis, and the ability to have an effective early warning system to identify exploitable market opportunities and detect problems (regulatory, procedural, product, and market) before they occur.

a. Institutional Base

FEDEX is a new federation based at UTICA. An important Tunisian textile manufacturer with interests in construction, metallurgy, and agriculture, was elected FEDEX's first president for a term of five years. He serves without pay. The current professional staff of three are UTICA employees as is the one assistant.

FEDEX has already begun work on manual compilation of Tunisian export statistics, and participates in UTICA's Business Days program -- seminars held for business in Tunisia's principal cities. As part of the program, FEDEX's president gave a roundtable on export market penetration in Sousse on November 15, 1985.

An institutional resource that is just getting under way is MTAP (described further in Chapter Three). Since MTAP's mandate is to help Tunisian firms gain better access to new markets and techniques by arranging collaborative ventures between Tunisian and foreign (principally U.S.) SMEs, whereas FEDEX's principal mandate is to help Tunisian member firms gain access to foreign markets, it appears that MTAP and proposed FEDEX projects could assist each other. From FEDEX's standpoint of promoting export sales of its member firms, penetrating foreign markets, and developing products and foreign markets, MTAP indirectly could be of assistance as it carries out certain aspects of its work. MTAP's mandate includes:

- Improving access to new markets and expanding existing markets for Tunisian firms;
- Searching out investment opportunities based on developing existing trade relationships;
- Identifying and evaluating Tunisian partners for collaborative ventures. MTAP proposes to use local business associations and industrial federations, for example, FEDEX, to develop possibilities. On the U.S. side, MTAP proposes searches via national manufacturers' associations, international banks, law firms, and other standard sources of information; and
- Putting together joint ventures between Tunisian and U.S. firms.

Another institutional resource for FEDEX will be the three private and three semi-private export trading companies that have recently been established to sell Tunisian products overseas, especially products of SMEs.

b. Activities

The project would have three phases over five years. The first phase would be a start-up/planning phase during which FEDEX would formalize itself as an organization (its own office space, etc.), recruit additional professional staff, procure needed commodities (office equipment, etc.), and complete planning of its activities for the next five years. In addition, FEDEX would continue its current collection and analysis of Tunisian export statistics, and the identification of Tunisian sectors and products with export potential. This work would, in part, determine the initial type of information resources (including foreign statistics, data bases, and publications) to be chosen for acquisition. Phase I would last three months.

Phase II would entail external market exploration for those Tunisian products currently being exported and those sectors and products with export potential. This exploration would cover the entire gamut (the mechanics of exporting from Tunisia, to product and market development) of activities, factors, and concerns that would be of vital interest to the Tunisian exporter. Concurrently, FEDEX's outreach to Tunisian exporters would grow through various vehicles: including publications, seminars, workshops, and personal contacts. For a limited number of product groups identified as having particular export potential, product development specialists will work with individual firms to help them develop and modify their products in such a way as to make them suitable for export sales. The companies that benefit from this assistance will be expected to bear a significant share of the cost of this help.

During this phase, FEDEX's data collection and analysis would start to become useful in industry/government discussions. Also, the organizational and personal linkages would be made between FEDEX and the appropriate foreign organization and individuals. Phase II will last two years.

The final two and three quarter years, Phase III, would be the time during which FEDEX will offer information and assistance to its members on a regular basis. In addition, it will be expanding its network of product development and foreign market specialists. During this period, it would become more proficient in dealing with the GOT. In short, it would have a variety of concrete services to offer its members. In return, the member companies would be required to begin to support FEDEX financially on a basis that would be more than symbolic.

By the end of the fifth year, FEDEX should be financially self-sufficient. FEDEX would be supported by a combination of the following sources:

- Annual membership dues - graduated according to size of company;
- Sales of publications;
- UTICA contribution;
- "Commissions" on the use of specialists provided by FEDEX for member companies; and
- Other donor agencies.

4. Suggested Funding Level

This activity is considered as a five-year project, after which time it should be fully self-supporting. Over the five years, total costs other than technical assistance might amount to approximately TD 1 million, including salaries of local staff, office rental, cost of equipment (computer, photocopier, etc.), travel, and overhead. For technical assistance, a suggested budget might include three long-term advisors for two years each (most likely needed particularly for the product development activities) plus 12 months of short-term consultancies, for a total cost of about $1.08 million. Of these costs, USAID might be asked to fund the following percentages over five years: 100 percent (in year 1), 90 percent, 80 percent, 60 percent, and in the final year, only 30 percent. Over the five years, this would imply a USAID contribution of about $700,000 plus TD 700,000, a total of about $1.6 million.

5. Necessary Follow-up Activities

The following steps may be appropriate as follow-up of this proposed project activity:

- Determine long- and short-term technical assistance needs; any training needs in United States, Europe, and/or in country; uses of short-term consultants by FEDEX for specific topics;
- Determine possible tie-in with MTAP;
- Delineate information needs; and
- Identify appropriate U.S. business organizations to which FEDEX should be linked (after FEDEX has selected the sectors on which to concentrate).

D. Policy Analysis, Dialogue, and Change

1. Statement of Problem

The most severe problems facing private sector development in Tunisia are those arising from a hostile policy environment. Business persons find themselves hemmed in at every step by policies aimed at controlling and regulating virtually everything they do. Policy reform must be recognized as a central concern for those interested in stimulating the growth of the private sector in Tunisia.

Some have argued that explicit efforts to address the issue of policy reform is fruitless or unnecessary in this country. This idea arises from a belief that most people already know what needs to be done, but are unable to effect any change because of what is described as a political stalemate. We have also heard counterarguments that are convincing:

- Some high-level GOT officials (including cabinet ministers) are reported to be committed to real change, but are blocked by bureaucrats below them (a curious reversal of the argument made by others, that the bureaucrats really want change but are blocked by their ministers);

- In several important cases, the goals are accepted by all; the question is how best to reach them, so rational discussion of strengths and weaknesses of different approaches is feasible and desirable;

- Some people reported bad experiences when the bureaucracy had the only study available; entrepreneurs felt strongly that the study was incorrect or incomplete, but were handicapped by their lack of a well-reasoned alternative to offer in its place;

- Others report good experiences at the recent UTICA congress and at the ISG seminars, where real exchange of views and learning took place -- but only in the context of two-day seminars or a four-day congress; and

- The commissions established to work on the Seventh Development Plan might in principle provide a context for this type of dialogue; however, private sector individuals who have participated in these commissions to date find them generally to be dominated by inflexible bureaucrats not ready to enter into meaningful dialogue.

2. Project Objective

The objective of the proposed project activity is to provide a context for continuing study and discussion of selected policy issues of central importance to private sector development, as a means of working toward policy change in this area. In view of the pressing nature of the balance of payments problems facing the country at present, and in keeping with other proposed project activities, it is suggested that the study focus on policies relating to exports, efficient import substitution, and the balance of payments.

3. Project Description

a. Institutional Base

Although there are possible alternatives (ISG, or somewhere inside the government system), the institutional base with the best chance of success for this type of activity would be at

UTICA. The experience of its recent congress has made many people in that organization aware of the importance of and potential for fruitful policy-oriented dialogue.

b. Participants

There are three key sets of participants in the studies and discussions proposed: entrepreneurs, represented through UTICA; representatives of the GOT; and faculty members from the university, probably with some American involvement.

Since this question of participation is a crucial one, we have attempted to spell it out with some care. UTICA might be asked to supply three professionals, on a full-time basis. These would be mid-level people with business experience, but with broad enough vision and training to address economic policy issues. Of course the entrepreneurs who are members of UTICA provide an important additional resource both as sources of information for particular studies and as participants in discussions of study results.

There are puzzles with regard to GOT participation. In preliminary discussion of this proposal with Tunisians, some argued that government officials should not be invited to take part in the analyses; rather the studies should be presented to them when completed. Their main argument was that business persons might be reluctant to speak out openly in the presence of bureaucrats who might later be in a position to punish them for honest words. Although we understand that risk, we would also emphasize that, without the participation of those who make and enforce policy, the exercise loses much of its meaning, running the risk of becoming just another academic exercise.

UTICA is fortunate in this regard in having a good working relationship with the Minister of National Economy. It has been suggested that he would support the establishment of a mechanism to continue the discussion started at the UTICA Congress, in which he himself played an active role. Since many policy issues that need addressing fall within the purview of his ministry, it would seem appropriate to seek his counsel on the selection of individuals to participate in the studies from the side of the administration. Guidelines should be that people participate as individuals, not as official representatives; and that individuals should be selected to participate on the basis of their willingness to engage in open discussion.

The third group of participants involves people from the University of Tunis -- probably primarily faculty members from ISG, but perhaps also from the Faculty of Law and Economics, IHEC, and the business school at Sfax as well. This group could supply three faculty members to be actively involved in the studies. Three graduate students might also use this as a vehicle for field work, under the supervision of senior faculty members. Other staff and faculty members should be urged to participate, on a regular and long-term basis, in discussions of results of studies.

The primary participants in this proposed policy dialogue are not USAID and the GOT, but different groups of Tunisians both inside and outside the government. These are the people who know the problems most intimately, both from business and government points of view; they are the ones who will need to be involved in the process of policy reform. AID should seek to provide an effective context for them to study and explore these questions together, not to be an active participant itself in the debate. There does seem to be good reason, however, to involve in the project a limited number of American academics who are knowledgeable in this area: to help provide guidance in selection and direction of the studies, and to participate in the ensuing debates. USAID's centrally funded Employment and Enterprise Policy Analysis Project might be an appropriate vehicle for this type of participation.

c. Suggested Policy Studies to Be Undertaken

Final selection of policy issues to be examined should be left for decision by those who will participate in the studies. Although the suggested primary focus is on policies affecting exports, it should also be clear that there is a considerable overlap between this set of issues and a concern for employment and small enterprise development. Where possible, every effort should be made to pay attention to the employment implications of alternative patterns of export growth. The following are examples of policy issues that might be addressed.

i. Price Controls and Exports

Exports are themselves not subject to price controls, but the Tunisian price control system surely influences the ability of the country to enter export markets. This happens in several ways, including a) the issue of allocation of overhead costs between domestic and foreign markets (also expressed sometimes as a desire to follow marginal cost pricing for exports, currently severely constrained by internal price control regulations); and b) effects of the control system on the price of domestically produced non-labor inputs, which strongly affect the competitiveness of exports.

ii. Availability of Imported Intermediate Inputs in the Production of Exports

This is an area in which the GOT has made clear its intention to ensure that exporters have ready access to whatever imports they need to produce for export; but many business people have told us that things do not work out that way in practice. The exploration, then, would concern policies and procedures required to do the things that all seem agreed they want to do but in fact do not.

iii. Tax Incentives for Exporters

Here again, there is a decision on the part of the government to provide tax incentives to exporters; the question concerns the extent to which the current system works to provide the required incentives.

iv. Balanced Incentives for Exporting and for Import Substitution

In the past Tunisia had a strongly unbalanced set of incentives, favoring import substitute industries and discriminating against exports. The country seems now to have gone far to the opposite extreme, denying a variety of incentives even to valid import substitute activities. There is a need for improving procedures for evaluating proposed import substitute industries, and for extending to those found desirable the same incentives offered to exporters.

v. Investment Controls and Exporting

If a firm producing for the domestic market wishes to expand into exporting, the investment approval procedures are cumbersome and inefficient. An examination of these procedures could facilitate such a move for increasing numbers of enterprises.

vi. Exports, Employment, and Labor Legislation

Many of Tunisia's successful industrial export activities (such as textiles) have been based on extensive use of semi-skilled labor. In fact, exporting may be the most important aspect of a set of policies aimed at solving the country's growing unemployment problem. Studies have found manufactured export production to be far more labor intensive than import substitution industries. For this labor-intensive pattern of export development to take place, however, it may be necessary to re-examine the country's wage and employment legislation.

In these and other topics to be examined, it should be clear that the goal is not to beat up the government, but to explore together ways to make the system work better toward goals that are generally accepted by all. This will involve business persons coming to grips with customs and tax officials' real concerns to avoid fraud, and with issues of equitable sharing of necessary tax burdens, as much as tax officials' wrestling with problems of appropriate levels of rewards and incentives for innovative producers.

4. Required USAID Support

In view of the long-term nature of policy change, it is suggested that this project be considered as a five-year activity, with a midterm review after 24 months. Over that five-year period, we estimate that costs other than technical assistance (such as for UTICA staff members, local university participants including faculty as well as graduate students, equipment, local transport, and overhead) might amount to some TD 700,000. For U.S. participation, we suggest 30 person-months of involvement, or $450,000. None of these costs could be recovered by sales to beneficiaries, but UTICA would expect to contribute some of the costs of its own staff; USAID's contribution might be of the order of magnitude of $1 million over five years.

5. Suggested Follow-up

If this project meets with the USAID's objectives, an appropriate procedure for follow-up would be as follows:

- Preliminary discussions by AID's Private Sector Advisor with officials of UTICA, ISG, and the GOT to determine their interest in and willingness to participate in the activity; then

- Contracting either with an American economist, either directly or (more probably) through an academic institution, to:

  -- Come to Tunisia for four to six weeks to work out the details of the proposed project: physical infrastructure, personnel to participate and modes of participation, topics to be addressed etc., then

  -- Make frequent trips to Tunisia over the five-year life of the project, participating in both the analyses and the discussions of results, and

  -- Work with the Tunisian participants to select other American consultants needed to participate in particular studies, analyses, or discussions.

E. Integrating Project Components

1. Analytic Links

The three areas covered by this proposed project -- financing, market information and product development, and policy analysis and dialogue -- are complementary and closely linked. New products sold in new markets will open up opportunities for profitable lending. Both the financing and the marketing activities will identify and document policy impediments that will be explored in greater depth in the policy studies. Policy change, in turn, will facilitate the task of those working on product and market develoment. Without progress on each of these three fronts, advance on the other aspects would be hindered. We urge that these be seen as mutually reinforcing components of an integrated activity.

2. Institutional Coordination

That both the FEDEX product and market development activities and the policy analysis unit will be established within UTICA will be important in facilitating a close coordination between the two sets of activities. Although we see them as taking place within different administrative units within UTICA, it will be important to establish the closest possible links between these units. Every effort should be made to ensure a similar close liaison between two proposed credit and leasing activities on the one hand and the market development and policy aspects on the other. The precise nature of their institutional coordinating mechanism need to be given careful attention at the project design stage.

3. Administrative Operations

A key problem of the Private Sector Development Project was the heavy administrative burden imposed on USAID/Tunis staff. If properly implemented, this three-pronged program will also require strong management and administrative support.

To ensure that the three types of activities are complementary and well integrated, each building on the lessons learned by the others, and to reduce the administrative burden on USAID, the mission might consider contracting all administrative and technical assistance activities with an institution or consortium. This might be handled through the Employment and Enterprise Policy Analysis Project, or put out to competitive bid. Bidding contractors should demonstrate competence in the following specialities:

- Strong adminstrative and management skills of the proposed Chief of Party;
- Familiarity with AID procedures and regulations;
- Expertise in supervising and providing technical assistance to credit programs;
- Developing computerized market information systems;
- International marketing and product development; and
- Economic policy analysis.

4. Financial Mechanism

Since all USAID/Tunis funds to the GOT are in grant form while commercial interest rates to sub-borrowers will be around 12.5 percent, a wide spread exists for the $10 million rediscount fund. The use of this spread might be as follows:

- 0.5 percent to cover the Central Bank's administrative costs;
- 3.5 percent to participating financial intermediaries; and
- 8.5 percent to cover in part the cost of the seminars for financial institutions, market information and product development, and policy analysis activities.

Given Tunisie Leasing's higher interest charges (15-18 percent), and assuming that it merits the same 3.5 percent spread, an even higher percentage could be allocated to the other two export promotion activities.

If the loan funds established by USAID/Tunis under the financial sector activities are large enough, it is conceivable that all costs of the other two activities might be borne by the spread. Given the slow start-up of many financial projects, it would still be advisable to allocate sufficient funds to cover at least the first nine months of market development and policy analysis activities.

ANNEX 1

LIST OF INTERVIEWED PERSONS

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LIST OF INTERVIEWED PERSONS

U.S. Government

USAID/Tunis

J. Phippard
E. Leonard
O. Whyche
C. Zarq El Ayoun
S. Mahjoub
J. Edwards

AID/Washington

R. Venezia
I. Peters
R. Young
R. Pratt
P. Bloom
J. Roberts
R. Williams
J. Carroll
R. Beckman
M. Sinding
R. Misheloff
M. Norton

U.S. Embassy/Tunis

L. Cohen
D. Burnett

Tunisian Government

Ministry of Foreign Affairs

M. Hachana

Ministry of Plan

M. Bouahouala

Ministry of National Economy

N. Hofsia

Agence de Promotion des Investissement

M. Zalila
R. Bacha
A. Chelbi
F. M'Barek
L. Ben Arab
H. Frikha

Centre de Promotion des Exportations

H. Bouzid
K. Lamouchi

Central Bank

M. Bouaouaja
H. Nifar
R. El Hakum

Financial Institutions

STUSID (Societe Tuniso-Seoudienne d'Investissement (et de Developpement)

A. Ben Hamadou

R. Meddes

Citibank

H. A. Elgen

Banque Tuniso-Qatarie d'Investissement

K. Dachraoui

Banque de Developement Economique de Tunisie

H. Ben Saad

Credit Foncier et Commercial de Tunisie

M. Babbou

Societe Tunisienne de Banque

R. Bouhamed
F. Moncef

Bourse de Valeurs Mobilieres

A. Bouzidi

cM

Tunisian Companies

Societe de Commerce Internationale de Tunisie

M. Belaid

A. Majorel et Cie

S. Majoul

Socona

E.F. Nabil

Tiss-Coud

Entreprise Boutheina

Mlle. Boutheina

Cotunace

M. Bouaziz

BSB

B.S. Belkhiria

Nawar

M. Abdelmessiah

Entreprise Menchaoui

M. Menchaoui

Miqsa

M. Hamzaoui

Tuniscaone

A. Bouchiba

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International Trading Company

J. El Abed

Sotuonis

T. Ben Yahmed

Tunisie Leasing

A. Abdelkefi

SICERAM

M. Koubaa

Equipol

A. Henia
K. Kahre

Les Carrelages Africains

A. Ben Salan

SORETOL

M. Sellami

JEDUC Editions

A. Ben Chehida

SOCOMENIN

N. Fersi
H. Fersi
A. Souissi
A. Trigui

Sotion

M. Fakhfakh

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<u>Chaussures Aziz</u>

M. Cherif

<u>SIOC</u>

R. Mnif or Dr. Kamoum

<u>ZIDI</u>

H. Abdesslem

<u>Societe Chambi</u>

<u>Societe Tunisienne</u>

<u>Societe Sassi et Cie.</u>

M. S. Ben Armor
Ameur Borgi,
Industrial - Exportateur

<u>SOTUPLAST</u>

M. Fourati

<u>SIL</u>

H. Achich
Dr. Jamoussi

<u>STTAT</u>

M. Ben Abdallah

<u>SOPAL</u>

M. Regayeg

Societe Industrielle
Tunisienne de l'
Enveloppe et
<u>Cartonnage</u>

M. Abid

Ateliers Metallinoiques Mheni

K. Driss
V. Berrebi, industrialist

Carrelages de Kasserine

A Machine Shop in Kasserine

Societe Foudhina Brides

STUMEN

M. Ben Hamouda

M. I. E.

S. Abdessatar

Electric Motor

Entreprise Oudhini Aissa

M. Oudhini Aissa

Entreprise Osman et Tunis des

M. Ben Osman

Fonderie Ahmed Talfit

A. Talfit

S.A.Q.

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Other Organizations

UTICA

A. Aroua
S. Bahri
M. Fourati
F. Bel Hadj Ammar
A. Ben M'Barek

FEDEX

H. Djilani
M. Barhoimi

Catholic Relief Services

A. Gdovira
A. Thometg
S. Loegering
D. Holdridge

Jeune Chambre de Kasserine

H. Bacha

International Executive Service Corps

Mr. & Mrs. F. Henin

CONFAPI

E. Gotti

UNDP

K. Wijnen

Institut des Hautes Etudes Commerciales

R. Ferchiou

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<u>Centre National d'Etudes Industrielles</u>

A. Saddam
M. Boukhris, lawyer

<u>ISG</u>

S. B. Hanachi

<u>World Bank</u>

R. Leibenthal
B. Pottlser
B. de Vuyst
F. Ibanez
P. Queyrane

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ANNEX 2

COMPOSITION OF TUNISIAN BANK OWNERSHIP

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COMPOSITION OF TUNISIAN BANK OWNERSHIP

DEVELOPMENT BANKS

Banque Tuniso - Qatoarie d' Investissement (DIQI)	Government of Tunisia:	50%
	Government of Qatar:	50%
Consortium Tuniso - Koweitien de Developpement (CTKO)	Kuwait:	80.64%
	- Ministry of Finance	
	- KREIC	
	- Social Security	
	Tunisia:	19.36%
	- ONTT	
	- Societe Gamarth	
	- GAT	
	- BNDT	
	- BDET	
	- Sousse-Nord	
Banque Nationale de Developpement Touristique (BNDT)	- Tunisia:	51%
	- GOT	5.5%
	- Central Banks	13%
	- Development Bank -	17.5%
	- Commercial Banks -	3.5%
	- Insurance Companies	3.4%
	- Other	8.1%
	Foreign:	49%
	- Consortium Koweitien d' Investissement Simililier -	31.8%
	- CCCE France -	5.0%
	- Societe Financiere Internationale -	5.0%
	- Other	7.2%
Banque Tuniso - Koweitienne de Developpement (BTKD)	Government of Tunisia:	50%
	Government of Kuwait:	50%
Banque de Developpement Economique de Tunisie (BDET)	Tunisia:	59.53%
	- GOT -	21.49%
	- Central Bank -	14.03%
	- "Parastatal" Banks -	7.39%
	- "Private" Banks -	7.37%
	- Private Investors -	9.12%
	- Other -	0.13

<u>Foreign:</u>

- Sultanate of Oman	- no information
- SFI	- no information
- Libyan Arab Foreign Bank	- no information
- CCCE	- no information
- DEG	- no information
- Kuwait Investment Company	- no information
- Bearer Bonds	- 0.13%

Banque de Tunisie et des Emirats d'Investissement (BTEI)	Government of Tunisia:	50%
	Abu Dhabi Investment Authority:	50%
Societe Tuniso - Seouedienne d'Investissement et de Developpement (STUSID)	Government of Tunisia:	50%
	Government of Saudi Arabia:	50%
BCMA	no information	
BNDA	no information	
BATLDCE	no information	

COMMERCIAL BANKS

Societe Tunisienne de Banque (STB)	Government of Tunisia:	52%
	Private Interests:	48%
Banque Nationale de Tunisia (BNT)	State Organizations:	58.22%
	Parastatal Organization:	12.30%
	Private Firms:	1.73%
	Private Individuals:	27.75%
Banque du Sud (BS)	Government of Tunisia:	20.8%
	Parastatal Organization:	36.1%
	Private Interests:	28.4%
	Foreign Private Interests;	14.7%
Union Bancaire pour le Commerce et l'Industrie (UBCI)	BNP (Intercontinentale)SA:	50%
	Publicly Held Shares:	50%
Union Internationale des Banques (UIB)	Credit Lyonnais -	22.5%
	Societe Financiere de Gestion -	14.1%
	STB -	9.8%
	Banca Commerciale Italiana -	8.0%
	Union Financiere -	5.0%
	CAVIS -	3.5%

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	Office Nationale de l' Huile	-	9.8%
	Others	-	27.3%
Banque de Tunisie (BT)	Tunisian Public Interest	-	54%
	Banque Transatlantique	-	19.95%
	Societe Generale	-	10%
	Credit Industriel et Commercial SA	-	9.23%
	Lavoro Bank AG	-	1.77%
	Credit Suisse	-	1.77%
	Bankers Int. Corp.	-	1.28%
	Others	-	2%
Credit Foncier et Commerical de Tunisie (CFCT)	no information available		
Banque Internationale Arab de Tunisie (BIAT)			
	Tunisia:		58%
	BDET	-	4.49%
	COFIT	-	0.67%
	Private Interests	-	52.84%
	Foreign:		42%
	Qatar National Bank	-	6%
	National Commercial Bank of Feddah	-	16%
	Abu Dhabi Investment Authority	-	6%
	Al Ahly Bank of Kuwait, Bank of Kuwait and the Middle East	-	6%
	Caisse Centrale des Banque Populaires de France	-	2%
	Banque de Neuflize Schlumberger Wallet	-	1%
	Societe Marseillaise de Credit	-	1.78%
	Foreigners	-	3.22%
Banque Franco-Tunisienne (BFT)	no information available		
Arab Tunisian Bank (ATB)	Arab Bank Limited:		62.4%
	Private Interests:		37.6%

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