USAID/TUNIS

VENTURE CAPITAL FEASIBILITY ASSESSMENT

Final Report

December 26, 1990

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Price Waterhouse

December 26, 1990

Ms. Sandra Frydman APRE/EM
Agency for International Development
U.S. State Department
320 21st Street, N.W.
Washington, D.C. 20523

Ms. Monica McKnight
USAID/Tunis
Tunisia

Dear Ms. Frydman and Ms. McKnight:

Re: Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
Venture Capital Feasibility Assessment
PIO/T 664-0328-3-00033
Activity No. 34

Attached please find copies of the Final Report entitled Venture Capital Feasibility Assessment-Tunisia. The report was prepared by the Financial Sector Development Project of Price Waterhouse and consultants, Mr. William Kostrewski, Mr. David Brunell, Mr. Nabil Moelhi and Ms. Deborah Dungan. Please note that this Final Report incorporates comments of the USAID mission in Tunis, officially transmitted to us.

It has been a pleasure to work with USAID/Tunis on this activity. We look forward to working with you on other projects in the future.

Sincerely,

Mr. J. Richard Breen
Project Director, FSDP

Attachments

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I. EXECUTIVE SUMMARY

A. Background

USAID/Tunis, through its financial markets development initiative, contracted a team of consultants from PRE's Financial Sector Development Project (FSDP) to study the feasibility of venture capital in Tunisia, and to analyze whether and how the Mission should become involved in venture capital development. If the PRE consultants determined that creation of a USAID-sponsored venture capital mechanism would not be effective, they were to briefly examine other mechanisms through which USAID could stimulate the private sector, strengthen financial markets, and promote Tunisian-American joint ventures.

The findings and analysis section of this report contains a detailed analysis of the feasibility of venture capital in Tunisia as well as conclusions on how USAID could become involved in the process of developing a Tunisian venture capital sector. The recommendations section contains a menu of options for USAID interventions that would promote joint ventures, strengthen financial markets, and stimulate the private sector.

B. Principle Findings and Analysis

In assessing the feasibility and relevance of venture capital in Tunisia, the PRE consultants looked at four basic factors: 1) the demand for venture capital, 2) the supply or potential supply of investors (venture capital funds), 3) the human resources needed for venture capital (experienced venture capital managers and willing and capable entrepreneurs), and 4) the readiness of the financial and business environment to support venture capital.

The team found that the risk capital sector, and venture capital in particular, are in the earliest and formative stages of development in Tunisia. There is a need (demand) for more risk capital in Tunisia, and there is substantial interest in venture capital as a means of filling that demand, despite a lack of understanding about what venture capital is and how it works.

Several groups in Tunisia - including the government, the international donor community, the banking sector, and the private sector - are carefully exploring ways to put money into venture capital, but at this time no ready source of funds exists. One limited venture capital facility is currently in the early stages of development.

With regard to human resources, there are presently no experienced venture capital managers in Tunisia, but there is a significant number of capable entrepreneurs who are interested in venture capital financing. The financial and business environment contains a number of positive elements, such as significant economic, financial, and fiscal reforms and very attractive investment incentives. Due to business practices and cultural constraints[1] that inhibit the use of formal risk financing, however, the team felt that full-scale operation of venture capital in Tunisia is premature. This does not mean that the current initiatives toward venture capital are doomed to fail, and it does not mean that it is too early to begin the process of developing the skills and technology needed for venture capital.

In assessing possibilities for USAID to profitably and efficiently establish a new venture capital fund in Tunisia in the near term, the consultants concluded that the environment is not ready and the circumstances are not appropriate at this time. They also concluded, however, that some well-placed assistance to indigenous venture capital initiatives could be very effective. The consulting team recommended that USAID consider providing a substantial amount of technical assistance, perhaps backed by a modest level of funds, to the VC facility currently being established in Tunisia and to other groups interested in venture capital.

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[1] Such business practices and cultural constraints include: a lack of confidence in the existing financial environment; a lack of confidence in the effects of recent reforms; a pervasive practice of financing companies with excessively high debt-equity ratios; a cultural and historical reluctance to trust equity partners who are not family members or close friends; a desire to keep a company's books closed and secret; a short-term rather than long-term orientation toward business planning, growth strategies, and financing; and an unwillingness to allow outsiders to participate in the management and control of an enterprise.

C. Recommendations

The consultants' recommendations are based on their findings and analysis as described above, and on the Mission's request that they provide a broad menu of possible options for promoting joint ventures and strengthening the financial sector and the private sector. With these factors in mind, the team designed a set of recommendations from which the Mission can select programs or projects it feels are most consistent with its priorities and available resources. The recommendations are as specific and practical as possible, given the Mission's desire for targeted action in the short and medium term. Recommendations focus on four broad areas:

- Strengthening the overall financial sector
- Direct promotion of joint ventures
- USAID-sponsored seminars
- Venture capital assistance as a means of promoting joint ventures

II. INTRODUCTION AND BACKGROUND

A. Background and Origins of Project

After an economic crisis in 1986, the Government of Tunisia (GOT) undertook a structural adjustment program with the backing of the IMF and the World Bank. Following this program, the government investment budget has been steadily cut, and Tunisia is looking to the private sector to increase its share of investment. The VIIth Economic and Social Development Plan (1986-1991) emphasizes the need for increased private sector investment, calling for a real increase from 24% of total investment in 1986 to 38% of total investment in 1991.

Given the interest of the GOT in increasing the private sector's role in the economy, USAID/Tunis has since 1988 been developing a private sector strategy aimed at assisting Tunisia in increasing the private sector's share of GDP through changes in the legal, fiscal, regulatory, and institutional environments. USAID's private sector strategy has three major components: 1) privatization, 2) financial markets development, and 3) trade and investment promotion. The Mission's primary focus so far has been on privatization and stock market development; it has provided two long-term technical advisors to the GOT to assist in its privatization and stock exchange development programs.

1. USAID's Financial Markets Development Program

USAID/Tunis has begun implementing the financial markets component of its private sector strategy. It is currently providing the Tunisian stock exchange with the services of a long-term consultant, who has been working on the development of new regulations and new instruments to encourage savings mobilization. In May 1989, the Mission financed a series of studies and a conference on savings mobilization and financial markets development in the Maghreb. A PL 480/Section 108 local currency loan agreement has been negotiated with the Government of Tunisia and with two private sector banks, and PRE/I's Loan Portfolio Guarantee Program is currently being marketed to private sector banks.

USAID/Tunis is currently working to expand its financial markets development program. To this end, a major financial sector assessment, which will help the Mission define its strategy and target specific areas for intervention, is planned for September 1990.

2. Promotion of Tunisian-American Joint Ventures

President Ben Ali's visit to Washington in May 1990 led to an active dialogue between the Government of Tunisia, USAID/Tunis, and the current administration in Washington on ways to increase linkages between the American and Tunisian private sectors. USAID/Tunis is seeking ways to assist in the promotion of Tunisian-American commercial and investment ties. This objective will be an important factor underlying the Mission's approach to its private sector strategy.

3. Project Description and Scope

Due to substantial interest in and movement toward venture capital in Tunisia, both by the government and by the private sector, the Mission decided to conduct an immediate assessment of the feasibility of USAID support for venture capital. The Mission identified venture capital as a potential means of accomplishing several of its major objectives: stimulating private sector growth, developing new instruments to diversify and strengthen financial markets, and identifying creative mechanisms to increase US-Tunisian commercial and investment ties.

USAID/Tunis contracted PRE/PD's Financial Sector Development Project (FSDP) to carry out the venture capital study. An FSDP team was asked to assess the feasibility of venture capital as a means of accomplishing the Mission's objectives as described above. If the team determined that venture capital assistance would not be an effective way to do this, it was to briefly examine other mechanisms and options for USAID interventions that could stimulate the private sector, strengthen financial markets, and increase Tunisian-American joint ventures.

4. Project Staffing and Methodology

This study was conducted by a team of consultants consisting of: William Kostrewski, Chief of Party, Banking Specialist and Financial Sector Analyst; David Brunell, Venture Capital Expert; Nabil Mouelhi, Tunisian Business and Financial Sector Specialist; and Deborah Dungan, Technical Support and Financial Markets Analyst. The information in the study was compiled from a broad range of sources, including official reports of the World Bank, the IMF, the U.S. government, and the Tunisian government, academic papers and private studies, and journal articles (see Appendix B for a list of sources). Interviews were conducted in Washington D.C. and Tunisia with both public and private sector representatives (see Appendix C for a list of interviews). The study took place over a four week period from June 14, 1990 to July 12, 1990. The consulting team was in Tunisia from June 18 to July 9.

B. The Economic and Financial Environment

The GOT has taken significant steps to create an environment and mechanisms supportive of financial sector liberalization. As this process continues, and as recently enacted policies have time to take effect, the financial sector should become increasingly driven by market forces. Removal of interest rate ceilings, for example, as well as standardization of accounting procedures and establishment of procedural norms to maintain the transparency of financial statements are important steps in the reform process that have not yet been completed. Tunisia is moving in a positive direction in its economic and financial reform programs; the pace at which these reforms take place will determine the environment in which USAID will be designing its policies.

C. Venture Capital - Concepts and Overview

1. Definitions

For the purposes of this report, venture capital is defined as a formal but flexible mechanism that provides long-term risk capital to growth-oriented companies. This risk capital is usually in the form of equity, but can also include certain types of unsecured convertible debt. By providing this type of financing, venture capital companies allow investors to share in the rewards and risks of starting a new company or expanding an existing company. The primary objective of a venture capital firm is to assist a company in its growth over a 4-7 year period and then to divest itself of its shares in that company in a way that maximizes financial return, as well as any non-financial objectives included in the venture capital firm's mission. Venture capital is almost always accompanied by extensive and continuous financial, management, and technical assistance from the venture capital management group.

Formal venture capital, as described above, typically finances a relatively small percentage of growth companies in an economy. Informal venture capital financing, which comes from private investors such as friends, family, and other wealthy individuals, is a significant source of funds. In more developed economies, "deal-by-deal" financing is the predominant source of funds. The term "deal-by-deal" financing refers to the formalized process of matching corporations seeking financing with appropriate investors--both individual and institutional. This "middle-man" function is performed by entities such as stock markets, investment banks, and corporate finance companies: investment banks and corporate finance companies seek sources of financing for companies in need of capital, and stock markets match investment opportunities and individual investors. The more developed the financial sector, the more formalized this "deal-by-deal" financing process is, offering both investors and corporations in need of capital more choice.

2. Venture Capital Technology: Skills, Services, and Operations

Formal venture capital companies are not homogenous; there are a variety of types, strategies, and investment agendas. Out of this diversity have emerged common disciplines and approaches that can apply to widely varying business situations and environments. These common disciplines and approaches are the "technology of venture capital."

Venture capital operations are highly people and skill intensive. The technology of venture capital consists primarily of a set of skills, which equate to a set of services that must be provided if venture capital is to be successful. All of these services must be comprehensively and continually provided over a 5-10 year period.

In managing a venture capital entity, the whole is greater than the sum of the parts. While the various skills and services can be easily segmented on paper, they are all interrelated and interdependent in practice, especially in the minds of the entrepreneur, the venture capital managers, and the investors. The players in a venture capital group - the managers, the entrepreneurs, and the investors - are intimate partners in the life cycle of the company. Their ability to learn from each other and from their common experiences is crucial to the success of the investment and of the company.

Listed below are some of the primary skills and services necessary for successful venture capital. The presence and level of development of these services is one objective gauge of the feasibility of venture capital. A venture capital group must be able to:

- raise and organize capital from like-minded investors
- create well-focused investment policies, priorities, and criteria
- cultivate multiple networks to find quality deals and first-class entrepreneurs with promising situations
- evaluate entrepreneurs, companies, technologies, and markets and select the best possibilities
- allocate resources, both financial and human
- structure investments and transactions in a way that works for the venture capital company, the entrepreneur, and the investors
- participate regularly as an active shareholder partner
- organize and manage relationships, and maintain commitments over long periods (4-10 years)
- add value consistently through provision of multi-

faceted technical, management, and financial assistance

- o manage risks and crises of all kinds
- o manage aggressive, long-term growth and financing strategies - this includes helping attract (and participating in) subsequent rounds of expansion financing
- o manage the financial growth of the company, including the relationship of equity and debt
- o develop and execute "exit strategies" - ways to cash out of the investment to create rewards commensurate with risks
- o manage in the larger environment; this includes being aware of legal, fiscal, ethical, cultural, regulatory, banking, reporting, and disclosure practices

Another necessary component of venture capital is volume. Because venture capital requires intensive and sustained application of technical, financial, and managerial assistance, a VC fund cannot finance too many ventures at one time. Despite these limits, however, a venture capital fund must invest a high enough level of funds in at least 10 or 15 ventures that losses sustained in one-quarter to one-half of the ventures can be offset by a smaller number of successful ventures with higher rewards. A threshold level of at least $5 million to $10 million (and preferably $10 million to $15 million) is required to achieve an average compounded return in the 15 to 30 percent range.

In a developing economy such as Tunisia, the need for higher rewards as discussed above may change. It may serve a larger purpose in this case to lower the goal of financial returns (to, for instance, the 15 to 20 percent range) if other, non-financial development benefits are desired. This is particularly true when financial sector and venture capital development are in the early stages. Venture capital could be designed to achieve non-financial development objectives such as: development of entrepreneurs who can compete in the international marketplace; stimulation and mobilization of the equity and risk capital system; development of equity and venture capital management capabilities; mobilization of pools of private capital; creation of joint ventures; and creation of jobs. Because of the need to combine financial objectives with any non-financial objectives that exist, it is very important that the investors and the managers of a venture capital fund formulate a clear mission, purpose, and agenda for the fund so that expectations, investment criteria and a VC management focus can be defined.

Every aspect of a venture capital entity--its services, operations, management, and investment strategies--must be adapted within a specific environment and culture. With this in mind, all of the considerations enumerated above must be taken into account in formulating the mission and focus of a particular fund. The reverse is equally true: the mission and focus of a venture capital fund will influence the fund's activities and operations. (Appendix D contains more details on venture capital technology, as well as points of practical venture capital experience which should be prime considerations in designing and managing any venture capital fund.)

3. Human Resources: The Players

As mentioned above, venture capital is highly dependent on people. Any successful venture capital endeavor requires three groups of people: investors (sources of capital), venture capital managers, and entrepreneurs. When looking at the feasibility of venture capital, the following considerations about each group of players must be taken into account.

Investors and Sources of Capital

- The investors' expectations, goals, capabilities, desires for communication and participation, desired risk/reward levels, and investment agendas are crucial in defining the agenda and strategies of a venture capital fund.
- They must be willing to accept the fundamental premises of venture capital - including long-term paybacks and higher risks.
- They must be compatible with fund managers, and be willing to work with the managers to define the investment strategy.

Venture Capital Managers

- They must be exceptional business generalists who are able to manage technical specialists in many areas.
- They must have abundant real-world business experience, particularly the wisdom that is learned by making mistakes.
- They must be astute judges of people, management and entrepreneurs, because human behavior underlies all financial, marketing, and business judgements.
- They need a high level of disciplined commitment over 6-10 years.
- They must have tested, enduring, and positive relationships with others on the team.
- They should share, along with the investors and entrepreneurs, in the rewards and risks of client companies (experience has shown that venture capital companies' performance and accountability are higher when the management's compensation is linked significantly to the long-run financial performance of its clients).

Entrepreneurs

- They, along with the company's management, are the single most important factor in determining the level of a company's success.
- They must possess high levels of vision, perseverance, single-mindedness and commitment.
- They must have the ability to build a team and work with other people.
- They must have positive energy, drive, and a sense of mission.
- They must have strong decision-making capabilities and be able to learn from experience, problems, and mistakes.
- They must be able to translate ideas into practical action in the marketplace.

4. The Financial Sector Environment

Venture capital is only one investment tool within the business financing market, and must be looked at in the context of the broader financial sector. A supportive financial environment is crucial to the success of venture capital companies. A stable political and economic base, supportive of long-term financial relationships and management of business risks, must exist. The three groups of players mentioned above are vital: there must be significant numbers of 1) high-quality, growth-oriented entrepreneurs and companies, 2) willing investors, and 3) experienced financial managers. These players must be available and interested in the levels and types of commitment involved in venture capital.

The financial sector must have banking and debt financing practices compatible with and complementary to the risk capital financing needs of companies, and must have an orientation toward long-term, aggressive growth strategies and financing. Capital markets that provide attractive exit strategy alternatives are also important, as are reporting and disclosure practices that give investors confidence. **There must be either fiscal incentives for, or at least a lack of discrimination against, capital accumulation and investment.** Legal and regulatory structures that promote clear and predictable business relationships must also exist. An examination of venture capital feasibility must take into account all of these factors.

5. Venture Capital in the Tunisian Context

To assess the feasibility and relevance of venture capital in Tunisia, the team looked at the key aspects of venture capital technology as described above, and at the conditions necessary for its successful execution. The consultants carefully considered the uniqueness of the Tunisian business environment and culture, and recognized that there are important differences between the way venture capital works in the United States and other developed countries, and the way it would have to work to be successful in Tunisia. When looking at who could manage a venture capital facility, the team accepted the advice of one local businessman that "it would be far better for a less experienced Tunisian to learn venture capital with advice from outside experts than for an outside expert to try managing venture capital in Tunisia with advice from Tunisians."

Finally, in addition to the above perspectives, the consultants viewed the rewards of venture capital in the Tunisian context as broader than financial performance, as discussed on page 6. They examined other benefits that venture capital might bring to Tunisia, including broader financial sector development, strengthening of priority economic sectors, financial and management skill development, and the promotion of more Tunisian-American business ventures. A number of key players in Tunisia regarded these non-financial benefits of venture capital as being at least as important to Tunisia as financial rewards.

III. FINDINGS AND ANALYSIS: VENTURE CAPITAL FEASIBILITY

The following assessment of the feasibility of venture capital in Tunisia is based on a systematic appraisal of all the factors mentioned in the above section on venture capital definitions and context. The consultants looked at: 1) the demand for venture capital (the sources of and need for equity financing, and the attitudes of the public, financial, and private sectors), 2) the supply of funds for venture capital, 3) the availability of the human resources, or players, needed to make venture capital work, and 4) the existence of a financial and business environment conducive to venture capital development.

A. Demand for Venture Capital

1. Findings and Conclusions

There is a general consensus in Tunisia that there is a need for more equity financing. The consultants found partial support for venture capital as a way to fill this need. There is substantial interest in venture capital in the public and private sectors and in the financial community. Despite this interest, however, the consultants also found a wide range of misconceptions and misunderstandings about what venture capital is, what it does, and how it might work in Tunisia.

2. Sources of Equity in Tunisia

Equity is available in Tunisia from various sources: 1) the informal system (self, family, friends, etc.), 2) internal company financing (self-financing), 3) foreign direct investment, 4) development banks, 5) commercial banks, 6) FOPRODI (a public equity finance facility), and 7) investment companies. In addition to these established sources of funds, there are currently venture capital facilities being set up in Tunisia that could also provide equity financing.

The problem is one of accessibility rather than availability of funds. Those who are already "inside the system," who already have successful businesses and established relationships with banks, and who have perhaps set up their own investment companies, have very few problems getting capital. Those, however, who are "outside the system", and who do not have assets of their own, are seen as risky, and have difficulties getting the capital they need.

The Informal System The informal system is the one source of equity finance in Tunisia which is virtually always present. Most entrepreneurs trying to start a new company or expand an existing company turn first to the informal system, looking to their families, friends, or other private investors to provide needed equity. This is due to several factors, including a lack of accessibility of other types of equity and long-held customs and business practices. This reliance on informal financing helps perpetuate the preponderance of closely and privately held companies in Tunisia. Moreover, informal equity financing is insufficient for many entrepreneurs to start specific types of businesses that require heavier equity financing. The result is 1) less investment, less company creation, and less expansion, and 2) distortion of economic activities toward businesses with low equity requirements. There is a perception in Tunisia that some vital activities in the Tunisian economy are underdeveloped for this reason, causing unbalanced economic growth.

The majority of equity-seeking entrepreneurs and growing companies in Tunisia seek to retain a majority position, and thus management control, of their businesses. This behavior often prevents them from seeking outside equity, and thus contributes to the heavy reliance on the informal system, and the preference for self-financing when possible.

Internal Company (Self-) Financing The recession period in the mid 1980s as well as falling internal demand have led to decreased profits (or increased losses). This meant that companies were facing smaller and smaller cash flows available for self-financing. For this reason, self-financing has been on the decline in Tunisia in some companies and some sectors. It remains, however, one of the most important sources of equity in the country.

Direct Foreign Investment Foreign investors also provide equity for some Tunisian entrepreneurs and businesses, but this is not a widely available source of funds. Foreign direct investment only comprises 7 percent of total investment, and investment in the petroleum industry accounts for 53 percent of that figure. This means that non-petroleum foreign direct investment is only 3 percent of total investment.

Exact data on U.S. investment in Tunisia in not available, but the overall value of U.S. direct investment, excluding oil exploration, is estimated at $25 million, or 0.009 percent of total (domestic and foreign) investment in Tunisia.

Some equity is available to Tunisian entrepreneurs through foreign donor funds that have been set up to finance joint ventures. The European Community's Cheysson Fund, for instance, has established a fund which provided capital, in addition to loans, to Tunisian-EC joint ventures. France also provides financing for the capital needs of Tunisian-French business partnerships. The French facility, however, does not actually provide equity - it makes long-term loans to entrepreneurs and business to finance their equity participation.

Development Banks The Tunisian government has half ownership in most of the country's eight development banks, the majority of which are Tunisian/foreign partnerships, with the Arab world being well represented. Development banks differ from commercial banks in that they specialize in medium and long term credit and in financing joint ventures. There is no provision for them to lend short term, nor may they normally take short term demand deposits Development banks have the following expressed roles in Tunisia:

- to facilitate the financing of viable projects regardless of the business sector, either through their own funds or through mobilization of other sources of funds
- to identify and promote domestic and international partnerships
- to participate, directly and indirectly, with the Tunisian government in the country's development

Development banks are an important source of financing in the Tunisian business community. The GOT has been encouraging them to finance equity to help capitalize new businesses. While this type of financing by development banks has helped many companies start and expand, it carries some very real constraints. Development banks' are often ill-equipped to follow-up and positively influence the operations of the growing number of ventures in which they are involved.

Capital participation by development banks normally takes the form of quasi-debt or "non-risk" equity. **Development banks will take an equity position in a company, but they require the entrepreneur or businessman to provide personal guarantees. When a development bank provides equity, it often asks the entrepreneur to sign an contract agreeing to buy back its shares.** This agreement places the buy-back on a schedule with interest, similar to a loan agreement. Development banks are sometimes willing to defer both the principal and the interest on these buy-back agreements to allow a company to start up or expand without the burden of bank payments. Capital participation by development banks also sometimes takes the form of a loan made directly to the entrepreneur or businessman, again backed by collateral and personal guarantees, that is used to capitalize the company.

Commercial Banks There are currently twelve commercial, or deposit, banks in Tunisia. They specialize in short and medium term financing and in joint ventures. Many commercial banks provide, among other things, working capital financing at short-term rates, backed by secured collateral, but some are unwilling to do so. They do not use their own funds for equity financing, but many commercial banks in Tunisia indirectly provide financing for the equity needs of new and growing companies through their management of a special government fund (FOPRODI) for small and medium enterprises (SMEs). FOPRODI has traditionally been the major and almost unique public source of equity financing. As such it is important to describe its function, its performance, and its weaknesses.

FOPRODI (Le Fonds de Promotion et de Decentralization Industrielle) FOPRODI was established by the Industrial Promotion Agency (API, which is a government agency) to assist SMEs (under TD 1 million) in meeting their equity needs. FOPRODI does not take an equity position in a company, but provides a "reimbursable grant," which is essentially a long-term loan made to the firm (or to the entrepreneur) to allow it to complete its equity requirements. FOPRODI funds carry a 3 percent interest rate, and are payable over 12 years with a 5 year grace period.

For a project under TD 500,000, it will provide a "grant" for up to 21 percent of the cost of the project, and it requires the entrepreneur to provide at least 10 percent of the equity. For a project between TD 500,000 and TD 1 million, FOPRODI will provide a "grant" for up to 13.5 percent of the cost of the project, and it requires the entrepreneur to provide at least 20 percent of total equity.

FOPRODI also makes loans to projects under TD 150,000 to help companies or entrepreneurs meet their debt requirements. The interest rate on these loans is between 4 percent and 6.25 percent. For projects under TD 45,000, the loans are payable over a 7 year period with no grace period, and for projects between TD 45,000 and TD 150,000, FOPRODI loans are payable over 10 years with a 3 year grace period. Projects under TD 150,000 can access either these FOPRODI "debt" loans, or FOPRODI "equity" (reimbursable grant) loans, or both. Projects between TD 150,000 and TD 1 million can only access "reimbursable grants" (equity loans).

FOPRODI funds are administered by Tunisia's twelve commercial banks and by one development bank (BDET). An entrepreneur or business interested in FOPRODI financing must submit an application to a bank from which it is seeking a loan (short-term or working capital loans in the case of commercial banks, and medium or long-term loans in the case of the development bank). Banks require extensive collateral before they are willing to make a loan, and only if they decide to finance a project do they agree to evaluate a company's FOPRODI application. The bank can either reject the application or submit it to API, who is then charged with reviewing the application. In principle, API reviews the application and makes the final decision on whether to fund the project, but in practice, API approval is virtually automatic once a company's application is submitted by a bank.

This procedure means that it is the banks who are making final decisions on the allocation of FOPRODI funds, rather than API. This is one of many complaints made about the operations of FOPRODI. The fund was designed to help entrepreneurs and businesses who are "outside the system" complete their capital requirements, but in practice FOPRODI funds are only accessible to entrepreneurs who have enough assets to obtain heavily-collateralized loans from the banking system.

A 1988 analysis of FOPRODI prepared by API outlined a number of problems and weaknesses that inhibit realization of its goals:

- <u>Legal problems with the basic text</u> The basic text of FOPRODI is structurally inflexible to economic change and imprecise on the subject of eligibility requirements. The text is sufficiently vague that banks are free to interpret it as they wish.

- <u>Procedural obstacles</u> Entrepreneurs often experience prolonged delays and follow-up studies by banks before funds are distributed. Procedures are too complex and there is often duplication of requirements and documentation.

- <u>Financial problems</u> Banks often require excessively high collateral before distributing FOPRODI funds. There is also no mechanism to ensure that entrepreneurs do not duplicate collateral provisions (i.e. provide the same collateral to several banks).

- <u>Additional problem areas</u> There is a lack of follow-up from financial institutions, and a relative scarcity of financial and technical assistance to companies receiving FOPRODI funds. Timely information about markets, production costs, and opportunity costs is scarce, as is experienced and professional preparation of projects.

FOPRODI is clearly not functioning the way it was intended to function. Complaints about its operations are widespread in Tunisia, and there is some discussion about completely changing the way it works. One option that was mentioned to this team is giving responsibility for the management and administration of FOPRODI to the venture capital fund which is being established by the banks, SPPI (see pages 18-20).

Despite these difficulties, however, FOPRODI is widely used. Since its establishment, 1114 projects have been approved for FOPRODI funding; 956 (86%) of those projects have been undertaken. Use of this mechanism has been increasing. FOPRODI has been directly involved in 48 projects in the first four months of 1990 compared with only 20 in 1989, and the amount of funds involved is TD 4.4 million compared with TD 2.2 million for the same period in 1989.

Other guarantee and funding mechanisms have also been established by the GOT. These funds are: FONAPRA, Le Fonds de Promotion de l'Artisanat et des Petits Metiers (with loans limited to TD 25,000); FOSDA, Le Fonds Special de Developpement de l'Agriculture; FOSEP, Le Fonds Special de Promotion de la Peche; SCMA, La Societe de Caution Mutuelle Agricole; and FNG, Le Fonds National de Garantie.

Investment Companies There is a paucity of institutional investment companies that mobilize and place capital on behalf of others in the financial marketplace. There are virtually no U.S.-style investment banking companies or brokerage firms in Tunisia who raise and organize capital for clients on a deal-by-deal basis.

What does exist in Tunisia are about a dozen investment companies that have been created since law 69-29 was passed in 1969, and particularly since law 88.92 was passed in 1988. Most of these investment companies have been created by individuals, large corporations or banks to take advantage of the financial and fiscal incentives that were offered to foster reinvestment. The nature of the incentives, coupled with long-standing business practices, leads these investment companies to invest in new ventures of their own or in other very closely held companies. Investment companies are often no more than a mechanism for the dominant shareholder (either institutional or individual) to lower taxes while investing in its or his own companies. As a consequence, the funds of these investment companies do not really enter the larger system. The exact amount of funds provided by investment companies is unknown or unpublished, but there is evidence indicating that some of these independent funds could reach as high as TD 25 million.

These investment companies are different from venture capital companies because they invest with an intent to own a company, not with a venture capital firm's intent help a company grow and then exit in a way that will maximize returns. Some investment companies are exploring the idea of becoming venture capital firms; they are looking for outside companies in which to invest, although they have not yet developed outside portfolios. Some investment companies expressed to this team a desire to obtain technical assistance that could help them develop the management skills needed to become venture capital funds.

The existence of investment companies indicates that formal demand for venture capital is beginning to develop in Tunisia. The fact that there are no formal brokerage firms or investment banks, however, provides evidence that the process of capital mobilization is in its earliest stages. Most investing, including that of Tunisian investment companies, still takes place informally between people who know and trust each other and whose relationships are clear. There is a general consensus that this will take time to change, as both potential investors and potential users of capital grow accustomed to third party investment vehicles, such as venture capital funds. There is at present no institutional track record.

Current Venture Capital Activity There is an embryonic venture capital business in Tunisia, including a formal venture capital group, **Societe de Participation et de Promotion des Investissements (SPPI)**. SPPI is the only formalized venture capital fund in Tunisia with a range of different institutional corporate investors. SPPI grew out of discussions between leaders in the financial community (primarily banking) and the government, who were looking for a way that banks could address a widely perceived need for true risk financing while sharing these risks among many investors. Seventeen banks, both development and commercial, have contributed a total of TD 5 million to the fund with the intention of building the fund to TD 20 million over the next year or two.

There are hopes that SPPI will soon be able to include non-bank and foreign investors. The fund's management has been approached by investment sources in Africa and Europe to discuss additional funding, which, under certain conditions and terms, could be invested "side-by-side" with SPPI funds.

The investment objectives of SPPI are fairly general at this point, and include financial returns that are higher than usual in Tunisia in exchange for somewhat higher risks. Non-financial objectives include: developing new and strategic business sectors in Tunisia (such as technology and software); stimulating exports; promoting joint ventures with foreign partners (including U.S. partners); and providing opportunities for a new generation of entrepreneurs to build companies. SPPI's management team and board members acknowledge they are at an early stage of development; they plan to develop slowly, learn from experience, and formulate their agenda, investment policies, and venture capital management strategies as they evolve.

SPPI is in the process of making two investments - one in a shoe manufacturing company with an Italian partner and one in a software company with a French partner. It expects to invest in approximately 20 small and medium-sized companies in two or three years, with a significant percentage of its investment in start-ups. At this point, SPPI intends to limit its participation to TD 250,000 in any one company, and to invest only in projects under TD 3 million.

The board of SPPI is composed of 12 members, each from a particular participating bank. The SPPI chairman in Mr. Ezzedine Chelbi, head of APB (Association of Professional Bankers). Management is a two-man team headed by Mr. Samir Marrakchi and complemented by Mr. Fouad Mzoughi.

Both the management team and the board members of SPPI have strong project evaluation and bank finance experience. Management in particular has made a strong effort to learn the terminology, ideas, and approaches of venture capital. The management team has not, however, had much experience in actual venture capital operations, including the realities, problems, consequences, and challenges of each investment decision. Because there is no formal training program for venture capitalists, they will have to learn from time and experience. The personal talents and the commitment level of the venture capital managers will determine their level of growth and long-term performance. SPPI's management is very clear and specific about its desire for extensive technical assistance in venture capital management, as well as in project, technology, and market opportunity ana.ysis.

As SPPI evolves into a true venture capital vehicle, it will face a number of difficult issues. The manner in which these issues are clarified and defined will affect the long-term performance of the fund. SPPI will have to:

- streamline the process of governing, leading, and making decisions for the fund through a 12 person board
- formulate more focused investment policies, priorities, and strategies
- define in practice the various roles and responsibilities of the board and the management team

- expand the management team effectively, and develop the capabilities of that team
- serve its investors (who are banks) while operating very differently from banks
- develop long-term growth strategies and a high risk, high return orientation
- explore whether and how to link the performance and the compensation of members of the management team
- deal with the challenges of managing investments after making an initial decision to invest

There is some understandable concern about whether SPPI, as an offspring of the banking and indirectly the government establishment, will be able to function differently enough and independently enough from traditional banks to make the decisions and judgements required in venture capital. There is a corollary question about whether the governance mechanism (a board composed of 12 bank representatives) and the multiple agendas and interests (of 17 bank investors) might hinder the sharpness of focus and timeliness of action needed for success.

There are some indications that one or two other formal venture capital groups are in the formative stages of development.

There is a piece of venture capital history in Tunisia that is relevant to this feasibility study. Mr. Tahar Enneifar, acting in a private capacity, tried two years ago to establish a venture fund which ultimately failed to get off the ground. The objective of this fund was to capitalize on 1) new technologies from the United States, 2) Tunisian skills in R&D, engineering, production, and entrepreneurship, and 3) European market opportunities.

Although this venture capital fund generated substantial interest and made some progress, there were a number of factors which ultimately kept it from getting off the ground. Tunisian investors were reluctant to provide venture capital funds for an uncertain, long-term return; the financial and business environment was not ready; and insufficient resources (money, time, and people) were available to put it together properly.

Despite the fact that this fund did not succeed, the experience could provide valuable input for current and future attempts at venture capital. Many of the lessons learned, some of the ideas generated for investment strategies, some of the contacts made, and many of the people involved could be very helpful to those currently trying to develop venture capital in Tunisia. In addition, Mr. Enneifar's mindset, motivation, vision, experience, and capabilities could contribute to venture capital development in Tunisia.

Conclusions on the Supply of Equity There is a substantial shortage of risk financing in Tunisia. Very little true risk capital is available, in contrast to many sources of equity financing which are structured as non-risky quasi-debt by the providers. Most real risk capital available in Tunisia today comes from entrepreneurs, family, close friends, or internally generated funds. This lack of formal risk financing, coupled with a large number of capable and motivated entrepreneurs who are interested in accessing more risk financing, is perhaps the most practical and direct indicator of an unmet need for venture capital in Tunisia.

3. Public Sector Attitudes

The GOT's primary interest in venture capital is as a means of promoting and developing small and medium enterprises (SMEs). Because the Ministry of Economy and Finance is responsible for shaping GOT policy toward the promotion of SMEs, it has been given primary responsibility for advising the government on venture capital.

The Agency for Promotion of Industry (API) is an arm of the Ministry of Economy and Finance. It conducted the study previously mentioned on the performance of FOPRODI in early 1988; this study recommended either the modification of FOPRODI, or the creation of a new mechanism for FOPRODI through either: a) the creation of an industrial savings fund, or b) the creation of a venture capital (VC) fund. Funds for this venture capital facility would come from FOPRODI, the FNG (Le Fonds National de Garantie), and venture capital shareholders' money. The objective of the VC fund would be to finance risky industrial projects, while both assisting the entrepreneur and ensuring the VC fund's profitability. This same API study recommended that further study be made on the feasibility of a VC fund.

Since this study was conducted, the GOT expressed a need for further analysis on a more advanced and more appropriate financing scheme for SMEs (see: Note d'actualisation de l'etude sur le fonds de promotion et de decentralisation, Feb. 1990). As a follow-up on this note, high level GOT officials were instrumental in creating SPPI, the venture capital fund discussed above, whose objective is to provide risk financing to SMEs (investment or extensions below TD 3 million).

The aforementioned study of the feasibility of a VC fund is currently under way at the CEII (Centre d'Etudes d'Investissements Industriels). An API delegation recently visited several French venture capital funds linked to large French organizations (probably France Telecom, Credit Lyonnais, Credit Agricole, etc). The GOT is contemplating the idea of creating a company similar to SOFARIS, France, which would guarantee loans and even venture capital funds.

A parallel proposal of the GOT is the possible inclusion of the FOPRODI management in SPPI, thereby removing FOPRODI from the banking sector. Still another proposal has been made to replace the government guarantee of debt and equity (FNG) with a shared-risk mechanism set up between entrepreneurs and a government-financed loan guarantee facility.

<u>Conclusions on Public Sector Attitudes:</u> The government of Tunisia is aware of a need for more risk financing, and has been actively studying venture capital possibilities. The GOT's response has been the creation of SPPI; it hopes to use this venture capital mechanism not only to provide financing for risky projects, but also to relieve tension on the banking sector and satisfy frustrated entrepreneurs.

4. Financial Sector Attitudes Toward Venture Capital

The success of a venture capital fund is more dependent on the financial environment in which it is created and on the attitudes of the players involved than on the amount of funds available. This section contains an examination of the attitudes of the financial sector toward the creation of venture capital facilities in Tunisia.

The Central Bank The Central Bank has been instrumental in the development and implementation of a financial structural adjustment program since 1986. Prior to that date, it controlled financial markets in Tunisia through imposition of interest rate caps and requirements for Central Bank approval of all commercial and development bank loans. This is no longer the case - the Central Bank is now willing to allow banks to set their own lending policies and to allow free market forces to determine the direction and pace of financial sector growth.

The Central Bank has no direct role in equity markets, or in the establishment of a venture capital system in Tunisia. Its financial market liberalization policies will, however, have an indirect effect on venture capital creation, and it has shown tacit support for VC, because Central Bank approval was required before the GOT could establish SPPI.

Development Banks Development banks appear to be the most forward thinking component of the financial sector. Their management is generally sophisticated and cognizant of market needs. Also, as development banks do not normally take demand deposits, relying more heavily upon initial capital investment, they have greater lending flexibility.

This group of banks is supportive of venture capital. They have participated in the formation of SPPI, although at the behest of the GOT, for the purpose of addressing the venture capital needs of SMEs, and in particular the needs of ventures too large to avail themselves of the FOPRODI mechanism. SPPI is viewed by development banks as an important risk sharing mechanism. Development banks also feel that the creation of independent, private investment funds would be an excellent idea in that it would allow them the option of participating on the debt side only of new ventures.

Commercial Banks Commercial banks' participation in SPPI indicates a certain degree of support for venture capital. The nature of their funding and their French management style make these institutions in general far more conservative and overtly risk adverse than development banks, and it is unclear whether they would have been willing to fund venture capital in the absence of a government directive. The commercial banking community appears to be content for the present with following traditional banking practices, such as working with the same customer base and introducing relatively safe, low-risk innovations.

A venture capital fund is not of paramount importance to this sector, but it is attractive in the sense that it allows more projects to come to the market, thereby increasing general bank marketing opportunities.

Conclusions on Financial Sector Attitudes The financial sector in general is supportive of the need for and the idea of venture capital; it is the banks who have actually begun the process of developing a venture capital system in Tunisia. The creation of SPPI is the first step in this process, but the objective is the establishment of a range of VC facilities. Samir Marrakchi stated that if the experience of SPPI leads to the creation of other venture capital firms, its founders will feel that their mission has succeeded. If, however, SPPI remains the only venture capital fund in Tunisia (even if it is financially profitable), they will consider their objectives unmet and their mission to have failed.

There are varying degrees of understanding about what venture capital is, how it works, how it fits into the rest of the financing system, and who should undertake it. There is a vague understanding that venture capital is not one monolithic fund or mechanism, but rather a variety and range of equity financing vehicles with higher risks and higher rewards. This pluralism is a function of the different objectives and agendas of different types or groups of investors.

5. Private Sector Attitudes

The team talked with a wide array of private business leaders as well as entrepreneurs of small and medium sized enterprises and found a strong consensus on most points relating to venture capital.

Financial incentives encourage most entrepreneurs to keep ownership and control closed (open only to themselves or their close family and friends), to reap long-term financial rewards through cash flows, and then to multiply the number of companies owned. In the past there has been little incentive to share ownership or to invest funds in someone else's company; in fact, there have been disincentives on both counts. There is, however, a new generation of business owners and entrepreneurs who are willing to share ownership and invest in other people's companies if they can see the benefits outweighing the costs. This willingness to share ownership and participate as minority shareholders is vital to the success of venture capital.

The consultants asked business people and entrepreneurs how they felt about the bank and government programs (discussed previously) that are intended to provide equity capital. There was a general feeling that these programs require excessive guarantees and personal collateral, and involve too much time, hassle, and administrative negotiation to be very attractive. Such programs are seen as too little, too late, and too short-term. They are not oriented toward long-term growth needs, do not really share in the risks or the rewards of the venture, and add to already excessive cost burdens of companies. **In addition, these equity funds are perceived as going to those businessmen who already have connections, and thus perpetuating the gap between the "insiders" and the "outsiders," or the "haves" and the "have-nots."**

The need for risk financing and venture capital as expressed by business people and entrepreneurs is likely to become even larger than currently anticipated. The following factors will increase the need for risk capital (i.e. equity):

- a need for working capital as growth capital
- expansion opportunities in domestic and export markets

- o development of technology and services
- o more aggressive growth on a long-term, planned basis
- o removal of government subsidies and safety nets
- o talented entrepreneurs without major assets or connections
- o less restricted, more flexible business development
- o management buy-outs
- o turnaround and workout situations
- o decreased dependence on banks

Conclusions on the Attitudes of the Private Sector: There is a strong consensus in the private sector that more risk capital is needed, and that venture capital could be an effective way to provide that capital. While highlighting the need for more risk capital, most people in the private sector are looking beyond money toward the need for new technologies, methods, and ways of managing businesses as essential to competing in the new open marketplace. Because it usually includes a strong technical assistance component, venture capital is seen as a mechanism that could help meet the private sector's needs for both more equity and technical assistance.

B. Supply of Venture Capital - Sources of Investment

1. Findings and Conclusions

There is a shared movement in Tunisia - in the government, the international donor community, the banking sector, and the private sector - toward some type of investment in venture capital. There does not appear to be a clear sense of how or where to invest, or even of what venture capital is and how it works. There are several groups in Tunisia carefully exploring ways to put money into venture capital, or even putting limited funds into a limited VC facility (SPPI). At this time, however, no ready source of venture capital funds exists.

2. International Donors

The scope of work for this report mentions a possible interest on the part of US and Japanese investment companies whose corporate strategies might include the placement of some funds in developing countries where the potential gains are commensurate with the risks. The existence of neither this interest vis-a-vis Tunisia nor any funds were established by this team. There is some interest among international donor agencies, however, in placing some funds into a Tunisian venture capital facility.

Tunisia is among ten countries selected by the U.N. Development Program's Fonds Africaines d'Investissement (FAI) for investment. FAI is planning to use SPPI as its "manager" in Tunisia, placing money "side-by-side" with SPPI's funds. When SPPI enters a project, FAI will put money in at an equivalent level. This side-by-side relationship with SPPI will give FAI a type of guarantee for its investments in Tunisia, in that any project financed by FAI will have been evaluated and approved by the Tunisian fund.

In addition, the European Investment Bank (EIB) has decided to participate in the funding of SPPI, and is planning to enter in 1991. SPPI management has approached the French government to put money into the fund geared toward French-Tunisian joint ventures, and expressed to this team a strong interest in USAID money that would be used to help finance Tunisian-American joint ventures. A representative of the Tunisian government and some members of the development banking community have expressed their belief that additional Tunisian private sector financing and additional Arab financing might be attracted to Tunisia to support a venture capital mechanism if American funds and technical assistance were also provided.

3. The Government of Tunisia

The Government of Tunisia, in response to a perceived need for additional financing for SMEs outside standard commercial banking vehicles, exercised its position both as policy maker and as a major stockholder in the commercial and development banking communities to appropriate funds for the newly created SPPI. It is important to note that, despite the banks' interest in venture capital, this fund was an initiative of the government rather than the banking community. The creation of SPPI appears to have been a response by the government to a recognition that more risk capital is needed, and that it will have to originate outside the normal banking system.

Government interest in venture capital, in addition to government fiscal incentives for investment, seems to be one of the motivating factors behind the current movement toward venture capital in Tunisia. Although the GOT is not directly investing in VC, it is doing so indirectly, because the government partially controls most of the banks which provide SPPI's pool of funds. While the government's attitude toward venture capital is important, it must also be stated that a very strong interest in VC exists in other sectors, and in the private sector in particular.

4. The Banking Sector

As cited above, seventeen commercial and development banks have supplied relatively small amounts of money (TD 250,000-TD 300,000 apiece) to capitalize SPPI. The low level of funds provided by each institution allows individual banks to share in the potentially high rewards of venture capital while minimizing their exposure to the risks. Commercial and development banks are the only institutions which have as of yet put money directly into a Tunisian venture capital fund (SPPI). This indicates support for venture capital by the banking sector, even though this support could be characterized as less than whole-hearted because it came about through a government directive.

5. The Private Sector

The most promising source of future support and funding for venture capital is the private sector. There are significant accumulations of capital in the Tunisian private sector which today are withheld from formal risk capital investing for a variety of reasons. This reinforces our previously stated finding that the lack of capital in the Tunisian system is not as big a problem as the inaccessibility of existing capital.

The reasons for the private sector's disinclination to provide risk capital have been alluded to throughout this report and include:

- o wide availability of low-risk, moderate return investments, partly as a function of past government fiscal policies
- o an absence of people or institutions with proven skills, strategies, or track record to provide higher returns
- o a lack of confidence in the existing financial environment to support higher return and higher risk investments
- o a very cautious and uncertain attitude toward the future of the financial sector and government's role in supporting private business and competitive financial institutions
- o no real capital markets to attract private capital
- o a low comfort level when investing in someone else's business as compared to a high comfort level when investing with family and friends

This team believes that some private capital reserves could be attracted into the venture/risk capital marketplace if the right conditions were developed in the financial sector with concerted public and private initiative over the next few years. (See pages 31-40 on the financial and business environment.)

The current formation of active private investment groups is an indication of great potential for private sector mobilization of risk capital if confidence levels grow, if venture financing capabilities develop, and if real investment success stories emerge involving small groups of investors, deals, and financial managers.

The real future of venture capital in Tunisia will depend more on the Tunisian private sector - both in terms of financial management skills, capital, and ultimately the profitability of investment alternatives - than on public sector funds, which are severely limited, or bilateral funds, which inevitably have many strings attached.

C. Human Resources (Players) Needed for Venture Capital

1. Findings and Conclusions

As discussed in pages 7-8 of this report, there are three groups of people, or players, needed for venture capital to succeed: 1) investors (sources of funds), 2) willing and capable entrepreneurs, and 3) experienced venture capital managers. The first group of players was addressed in the section above on sources of funds. Of the second two groups, the team found that while there are presently no experienced venture capital managers in Tunisia, there is a significant number of capable entrepreneurs who are interested in venture capital financing.

2. Venture Capital Managers

The particular mix of skills, experiences, and judgements required of venture capital managers has not yet had the opportunity to develop in Tunisia. There are currently, however, a sizeable number of people who are highly competent, sophisticated, and shrewd in banking, business, or private investment. Some of these people have the inclination and capabilities to become venture capitalists, given time, experience, and assistance. The people who have in the past or are currently trying to establish venture capital funds in Tunisia, such as Mr. Enneifar and Mr. Marrakchi, are among this group of people who seem to have many of the raw skills and experiences needed to become successful venture capital managers. Almost all of these people expressed a strong desire for high quality technical assistance to help them develop their professional capabilities in venture capital technology and management.

This base of potential managers, combined with the interest level and the momentum toward new forms of investment that currently exist in Tunisia, create a timely opportunity for USAID or other donor agencies to assist in the development of the skills, systems, and infrastructure needed for venture capital.

3. Venture Capital Entrepreneurs

There is ample evidence of a significant number of highly motivated and capable entrepreneurs who want to build companies in the new competitive international environment. Entrepreneurs and business owners and managers met by the team seemed to be sophisticated, well-educated, and "street-smart." Despite the fact that they had relatively little familiarity, experience, or skills in long-term planning, growth, or financing strategies, they seemed to have a vision of possibilities to grow bigger and faster, to exploit opportunities, to go international, to take advantage of new technologies, and to develop joint ventures. They seem to want more money, as well as technical, financial, management, and company building assistance in various forms, in order to cope with the new business arena. These entrepreneurs and business people are open to risk capital and venture capital as a new alternative; they had many questions about venture capital, how it works, what it is and is not, and how it affects their role as company leader.

Quality entrepreneurs seem to be Tunisia's strongest asset around which to begin the development of a venture capital sector. The need for selectivity and focus will be high, and, as in the case of potential managers, technical assistance for these people will be more important than venture capital funding.

D. The Financial and Business Environment

1. Findings & Conclusions

There are both positive and negative factors in the Tunisian financial and business environment as it relates to venture capital. On the positive side is the fact that the basic elements necessary for venture capital to operate, such as legal, fiscal, and investment incentives and divestiture possibilities, do exist. There are very few restrictions on investment in Tunisia; in fact, the government has enacted very liberal, very attractive investment incentive packages. There are no legal or fiscal restrictions on the operation of venture capital firms. There are also a number of ways a venture capital company could divest, or cash out, to receive rewards roughly commensurate with its risks; (please refer to the discussion on pages 36 and 37 for examples).

The financial and business environment also contains negative factors. A number of practices and constraints exist that inhibit the use of formal risk financing, and that could make venture capital operations difficult. A cultural and traditional bias against risky investments and against sharing control of companies with outside partners will have to be overcome if venture capital is to succeed in Tunisia. Another important problem is the fact that options for divestiture, while they do exist, are limited, particularly by the embryonic condition of the stock market.

The negative factors listed above lead to the conclusion that full-blown operation of venture capital funds in Tunisia is somewhat premature. This does not mean, however, that the process of working toward venture capital should not begin. To illustrate this point, one can look at the case of SPPI: it would be premature for the fund for to begin investing large amounts of money in a variety of projects right now, but it is not too early for SPPI to begin developing a management team and strategy and evaluating projects.

The current movement toward venture capital in Tunisia is not incongruous, and is not necessarily doomed to failure. It is important to recognize, however, that the existence of positive elements in the financial sector does not mean that venture capital is feasible in the short term, or that it could succeed right away. Development of venture capital in Tunisia is a long-term prospect, but it could be useful to begin the process now, concurrent with financial sector reforms, so that when the financial sector is ready for venture capital, venture capital will be ready to operate in Tunisia.

2. The Legal and Fiscal Environment For Investment

A legal and fiscal environment conducive to investment in general, and to venture capital in particular, must be free of major constraints. Several important points about the Tunisian environment that were mentioned to the consultants are: labor laws, convertibility of the dinar, and accounting procedures. The first two issues are not a real hindrance to investment in

Tunisia, but the latter issue (accounting procedures) is likely to increase in importance as the economy, financial sector, and investment climate continue to be liberalized.

There is a very strict labor code in Tunisia which has been cited as a disincentive by some foreign investors. This labor code does not apply to off-shore companies, however, and many European businesses operating in Tunisia, as well as most Tunisian firms, argue that this labor code can be circumvented with creative and flexible policies.

The dinar is not fully convertible and all foreign exchange transactions are subject to control by the Central Bank. A 1987 stabilization plan, however, called for a gradual easing of restrictions, and it is expected that the policies currently being implemented will lead to free convertibility. Repatriation is not a significant problem, because approval for repatriation and transfer of foreign paid-in capital and of profits is given automatically and in advance when the Central Bank authorizes a foreign investor to operate in Tunisia.

Tunisia is not governed by any set of generally accepted accounting principles or generally accepted auditing standards. Small and medium sized enterprises (under TD 3 million) are legally free to choose any accountant and auditor they wish, even a person who has no training in the field. A company over TD 3 million must have a registered accountant, but that accountant can select any method or procedures he or she wishes to use. Investor confidence, particularly foreign investor confidence, is constrained by this lack of consistency and transparency in accounting and auditing procedures.

<u>Investment Institutions:</u> On June 12, 1969, law No. 69-29 on creation of investment companies was promulgated. Another law, No. 88.92 of August 2, 1988, provided more incentives for the creation of investment companies. This law was aimed in particular toward individual and institutional savings, by offering better guarantees and by providing fiscal and financial incentives for the establishment of investment companies. Investment companies created by these laws are classified into two categories: SICAV and SICAF (variable and fixed capital investment companies).

SICAFs (Societes d'investissement a capital fixe) require the approval of the Central Bank and the Stock Exchange Board. They should be legally constituted as incorporated companies (S.A.), and they should limit their activities to managing their own equity placed in a stock portfolio. The paid-in capital should be at least TD 100,000.

Several requirements for SICAFs are mentioned in the law: when a SICAF's capital is less than TD 5 million, it cannot acquire more than 30% of stock in another company or in a bank. This precludes SICAFs from gaining management control. This is true except for investment in public enterprises or GOT guaranteed stocks. Many fiscal incentives were provided for SICAFs, among which the most important is tax exemption for reinvestment of up to 50% of a SICAF's profits. One should also mention that this tax exemption covered up to 100% of SICAF profits until 1989 when the law was restructured.

SICAVs (Societes d'investissement a capital variable) have the same requirements and objectives as SICAFs, but the paid-in capital must be at least TD 300,000. Several requirements for SICAVs are mentioned in the law: SICAVs cannot acquire more than 10% of stock in another company or in a bank, again denying management control. As with SICAFs, investments in public enterprises or GOT guaranteed stocks are exempt from this law.

<u>Venture Capital Institutions</u> There is no specific legislation in Tunisia regarding venture capital. For this reason, the only existing venture capital fund in Tunisia (SPPI) is legally classified as a SICAF. Because SICAF legislation is too restrictive to apply to venture capital, and because SPPI has been established to operate as a true venture capital firm, it is not really a SICAF. A SICAF cannot manage funds other than its own capital and can only take equity positions by holding common stock, whereas a venture capital company must be able to manage funds other than its own, and needs the options of investing through equity loans, convertible debentures, and preferred stocks. **The management team of SPPI is actively seeking to modify the present legislation and regulations in order to accommodate the needs of venture capital firms. It is also attempting to convince legal authorities to provide fiscal and financial incentives specifically for venture capital formation.**

Investment Incentives The environment for foreign investment, including venture capital investment, should be of considerable interest to any potential American (or other foreign) investor. Very advantageous benefits are granted under Tunisian law insofar as these investments are export oriented. Though these regulations are new (many taking effect in 1990) and therefore untested, it is believed that they will all be functional barring minor adjustments. Assuming this to be the case, benefits accruing to potential investors are:

- full income tax exemption on profits from exports
- income tax exemption on profits from local sales up to 20% of total sales
- a flat 20% personal income tax for foreign nationals
- government approval not required for up to four expatriates

For those investing in tourism, there are additional incentives:

- government supplied infrastructure for new projects
- exemption from income taxes for a period of up to seven years
- preferential interest rates on government loans
- income tax exemptions for reinvestment of profits earned in Tunisia

And for investments in selected "priority" areas:

- large investment subsidies depending on the project
- subsidized feasibility studies
- more favorable interest rates
- government assumption of social security contributions

In addition, for those considering investing in agriculture and fish exporting, attractive incentives also exist:

- subsidies for feasibility studies up to TD 5,000
- preferential interest rates
- subsidies for equipment (up to 10% of total cost)
- exemption from income tax for the first 10 to 20 years depending on the project
- exemption from income tax on all reinvested profits up to 70% of total profits.
- more favorable interest rates are offered for projects in under-exploited areas

Finally, for those interested in setting up an off-shore company exclusively for exporting from Tunisia, there are additional benefits:

- exemption from all taxes except local taxes on cars and housing, and social security contributions
- no obligation to repatriate export profits to Tunisia, providing that resident suppliers have been paid in foreign currency or convertible dinars

Incentives for investment in Tunisia are among the most attractive in the developing world. There do not appear to be any significant bottlenecks or hindrances to investment. This is an extremely important part of a climate conducive to venture capital.

3. The Legal and Fiscal Environment For Divestiture

The Stock Market The stock market in Tunisia has existed since 1969, but has been fairly inactive for the past 20 years. A restructuring program was undertaken by the Ministry of Planning and Finance in March 1989 that created substantial changes in the rules and operations of the Exchange. Reform of the regulatory framework has been comprehensive, covering procedures for listing companies, and disclosure/financial information rules. Attractive fiscal incentives for listed companies have also been developed: there is no tax on dividends distributed to stockholders, for example, and the tax rate on profits is half of the rate for unlisted companies (17.5% rather than 35%).

Stock Exchange transactions are conducted on three separate markets: 1) the permanent market, which is composed of a first and a second board, 2) the occasional market, and 3) the registrar market. The sale of shares in any Tunisian corporation (Société Anonyme) must be conducted on the Tunis Stock Exchange: if the company is listed, its shares are traded on the permanent market; if it is unlisted, its shares are traded on the occasional market through an open auction or on the registrar market through a closed and private transaction. The exchange also includes a board for trading listed debt securities, called the "obligation" board.

Trading on the Tunis Stock Exchange is very light. Only thirteen companies (nine of which are financial institutions) are currently listed on the permanent market. Trading is almost exclusively in securities - the bond market is extremely thin, comprising only about one percent of total transactions. The stock market is currently viewed more as a vehicle for the formal transfer of shares than as an open market for unsolicited takeovers.

The stock exchange would not at this time provide a viable exit strategy for a venture capital company. With the current reform program, however, it is possible that it could become, over the next few years, a legitimate vehicle for companies trying to raise money. When and if the stock market becomes fully functioning, it will make venture capital much more attractive to investors.

Other Divestiture Options Beyond the embryonic stock market, there is almost no formalized or institutionalized capital market in which companies and capital can change hands, share rewards and risks, distribute ownership, or provide ways to finance the future of companies. There are no brokerage firms or investment banks in Tunisia - trading is done by designated departments in banks, whose trading staff is risk averse. Capital markets, to the extent they exist, are private, personal, and negotiated between providers and users of capital on a deal-by deal basis with no intermediary.

For venture capital investors, this means fewer exit possibilities, but it does not preclude being able to divest in a way that provides rewards commensurate with risks. Venture capital investors could seek rewards through dividends, although this could slow down the growth or competitiveness of the company. There are ways to cash out and make a profit; alternative exit strategies include finding a larger company to buy the company, or buy-back by the entrepreneur. A market for selling companies is beginning to grow in Tunisia, spurred in part by the government's privatization program. The divestiture market is primitive in Tunisia, but it does exist and it is growing.

Divestiture Procedures To date, the only type of venture capital company in Tunisia (SPPI) is an incorporated company (S.A.). In the case of the S.A., stocks can be bought and sold, that is, negotiated freely. Registered stocks require some paperwork to be negotiated. Common stocks, which are simply identified by a number, are negotiated with much less paperwork. Stocks may be negotiated after 25% of their value is paid-in. Stocks are considered registered stocks until they are fully paid-in. However, some stocks are not negotiable: sweat equity only becomes negotiable two years after creation of the company or the capital increase, and administrators' guaranty stocks are not negotiable. Finally, in the by-laws of some S.A.s there are agreement or preemption clauses that could inhibit divestment procedures. However, no clauses appear to be so binding as to prevent shareholders from exiting the company if they can find buyers.

Some other types of companies are more binding in terms of divesture possibilities. Since, however, venture capital companies in Tunisia are currently allowed only to take the form of S.A.s, the above procedures are most relevant. Divestiture possibilities for other types of companies should be considered only if venture capital funds become legally allowed to take a different forms.

With respect to taxes on capital gains, when a company sells stocks, it is taxed at the corporate tax rate (35%) for the gain above the price at which it was acquired. Equally, the company can account for losses in a stock sale in its taxable profit. When an individual sells stocks, there is no personal income tax on capital gain.

4. Business Practices and Attitudes

Tunisian business people have a strong historical skepticism about government involvement in the private sector. There is a lack of confidence in the existing financial environment, and despite the government's attractive adjustment and reform packages, Tunisians are taking a very slow wait-and-see attitude toward those reforms. The attitudes and behavioral changes essential for a more open, dynamic financial environment may take several years and will depend in part on unwavering public sector commitment. Confidence building, trust, and consistency are seen as key, as is an absence of government interference in financial markets.

Many companies in Tunisia carry too much debt with too little equity. There is a pervasive practice or convention of financing companies with 70% debt and 30% equity; this debt/equity ratio is artificial and has little to do with the real capital needs of the company. It is not a codified structure, and is not a legal requirement, but the practice is so widespread in Tunisia that there are very few departures from it. Both the causes and the consequences of this fact create serious constraints on individual companies and on the economy as a whole.

These excessively high debt/equity ratios result from a number of factors, including: lenders who would rather provide excessive debt than take the risks associated with equity, convertible debt, or subordinated debt; the unavailability of risk capital; insufficient practice and experience with risk capital; a lack of understanding of "working capital" as a fully justified risk capital need; a historical and cultural reluctance to have or trust real equity partners other than close family and friends; and a desire keep the company's books closed to minimize taxes. There is also a short-term rather than a long-term orientation toward business planning, growth strategies, and financing.

Artificially high debt/equity ratios have manifold consequences in the private sector. Companies are starved for working and growth capital. Entrepreneurs create multiple small companies rather than dynamic larger companies. Many promising entrepreneurs and companies do not get financed at all, or are undercapitalized to grow and compete. Many technology and service firms requiring two or three years of working capital to "break-out" are handicapped from the beginning. Undercapitalization severely inhibits competition in the free market and the export economy. Companies may be financially too weak to be viable business partners, or to attract strong business partners. While these results point to a definite need for more equity, and specifically for more risk capital, they also point to a business climate and business practices that are not at time entirely ready for venture capital.

E. Summary of Findings and Conclusions on Venture Capital Feasibility

1. Primary Conclusions

In assessing possibilities for USAID to profitably and efficiently establish a new venture capital fund in Tunisia in the near term, the team has concluded, based on the findings and analysis as enumerated above, that the environment is not ready and the circumstances are not appropriate at this time. The team has also concluded, however, that some well-placed assistance to indigenous venture capital initiatives could be very effective and timely.

There are a number of reasons why creation of a USAID-sponsored venture capital mechanism would be premature. The entire risk capital sector, and venture capital in particular, are in the earliest and formative stages of development. This means that many of the preconditions and requirements for success are not yet near the "critical mass" level needed to support a major new venture capital effort. The problem is less one of capital shortage in Tunisia than one of mobilizing and attracting accumulations of private capital so that it becomes available for venture and risk capital. Too large a portion of USAID's limited resources would be required to lead a new venture capital initiative.

Formalized venture capital as a vehicle for risk capital investing is, however, beginning to develop in Tunisia, and is feasible over the longer term. The requisite conditions and factors for its success, such as people and skills, investor groups, deals, the technology and infrastructure of venture capital, and aspects of the financial environment, are in various early stages of development.

Because the venture capital development process is moving forward in Tunisia, with or without USAID assistance, the question and task facing USAID is how and whether to assist indigenous efforts. Such assistance could 1) help develop the skills, people, mechanisms, and conditions necessary for productive venture capital investment, 2) help progress toward VC be faster and more purposeful, and yield more positive results, and 3) help venture capital development become an effective means of promoting Tunisian-American business ventures.

In supporting Tunisian venture capital efforts, USAID should focus more heavily on technical assistance than on venture funding, without underestimating potential benefits of the latter, given 1) the need and opportunity to develop a productive venture capital system in Tunisia, 2) the existence of significant private capital that has not yet been mobilized for lack of attractive and viable high-risk, high-reward alternatives, and 3) a desire for technical assistance expressly stated by all venture capital players in Tunisia. The rationale behind this conclusion is as follows:

- There are Tunisian fund managers and investment mechanisms already in place (beginning with SPPI and private investment companies) who want, need, and would benefit from technical assistance as soon as practical. As the pioneers of today, they have the potential to become the Tunisian venture capitalists of tomorrow.

- There are existing Tunisian entrepreneurs, many who would like to explore Tunisian-American business relationships, and who also want, need, and would benefit from various kinds of technical assistance.

- USAID could use significantly fewer resources and create valuable long term benefits by leveraging Tunisian efforts, through technical assistance, with or without funds. Resources could be focused on investment and business situations which contribute to Tunisian-American Business development.

Keeping in mind that it is vital to focus primarily on technical assistance, USAID might also want to consider a modest allocation of funds (up to TD 1 million) to SPPI or another appropriate vehicle on a side-by-side basis (see page 62 for more details on this point). These funds would give USAID a "seat at the table" with those who have resources at risk, enhancing USAID's credibility, seriousness, and impact in the eyes of those who would be receiving technical assistance. Placing USAID funds in a venture capital facility to which it is providing technical assistance would create a more equal sense of partnership and enhance joint experiential learning. Such funds could also create a focus on Tunisian-American joint ventures within the venture capital firm, and might act as a multiplier by attracting private capital on a 5 to 10 matching basis, which could be earmarked for Tunisian-American business development.

2. Provision of Technical Assistance

The challenge of delivering effective venture capital technical assistance to fund managers, investors, and entrepreneurs is much more difficult in practice than it is in principle. Such assistance requires very experienced people who can combine the technology of venture capital with the realities of the local environment, and who can operate with sufficient continuity, level of effort, partnership, and latitude of action.

Any USAID initiatives targeted at venture capital need to be considered in relation to the Mission's strategies and priorities for developing the overall financial sector. More specifically, venture capital should be approached in the broader spectrum of capital mobilization and equity investing, along with investment banking, private placement, corporate finance, and stock market brokerage. Within this larger context, a few perspectives are offered here on the type, levels, and sequence of actions that USAID may wish to consider. More information about venture capital assistance is provided in the recommendations section (Section V) of this report, where the options of technical assistance with and without investment funds are focused on as a means of fostering more Tunisian-American joint ventures.

We recommend that USAID provide a team of two very experienced venture capital generalists who have access to quality legal, technological, marketing, and European specialists. It is crucial that both team members be senior-level experts who are knowledgeable about all facets of the venture capital process. This team would: 1) work with all key venture capital players in Tunisia, as well as key people in the U.S. and Europe, 2) assess specific needs, priorities, opportunities, problems, and resources for venture capital in Tunisia, 3) determine specific people and points through which to work, 4) develop strategies and action plans, 5) serve as a liaison between USAID and Tunisian venture capital players, 6) understand Tunisian realities and provide an understanding of venture capital in the larger context, and 7) provide extensive technical assistance, training, and counseling throughout their period of contact and work. All assistance provided by these experts should be coordinated, through USAID, with other relevant U.S. government and private sector organizations and with multilateral donors and agencies.

USAID assistance should continue over a three year period in stages of six to nine months. We feel that sustained, long-term involvement is crucial, and would be the most effective way to deliver venture capital assistance. We feel, however, that it would be virtually impossible to attract the kind of senior-level experts that are needed for this project to spend an extended period of time in Tunisia. The reason for this is that the type of very experienced venture capitalists that USAID needs for this assignment are typically involved in a variety of projects, and it is unlikely that they would be willing to remove themselves from all of their other projects for a long period. For that reason, the venture capital experts should be based in the United States, where a large part of the planning, as well as some training, could be done. The advisors should travel to Tunisia periodically for a minimum of 7 to 12 days at a time. Time in Tunisia would be spent working closely with Tunisian venture capital players -- entrepreneurs, venture capital managers, and investors. Time in the U.S. would be spent planning and organizing activities, synthesizing experience, and training Tunisians.

As noted above, training for Tunisian venture capital players would take place both in Tunisia and in the United States, with a time-in-Tunisia to time-in-the U.S. ratio of 3 to 1 or 2 to 1. It is particularly important for the managers of venture capital funds to spend some time training and working closely with the USAID venture capital advisors in the U.S. All U.S. activities would be planned and organized by the USAID advisors.

This assistance program would require a minimum resource level of approximately $120,000 to $150,000 per year. The program we have outlined here is designed to provide USAID with a great deal of flexibility, including financial flexibility. It can be tailored to fit the amount of USAID resources that are available: by increasing the amount of financial resources devoted to this program, USAID could increase the amount of technical assistance and the level of training provided by the advisors.

The first three months of the USAID assistance program should be spent analyzing needs and opportunities, while providing some technical assistance. The second three months should be spent developing strategies and action plans, and continuing to provide technical assistance. During the third three months, the consultants should determine the value, objectives, mechanisms and plans (if justified) for allocating some funds for investment, and continue to provide technical assistance.

The team believes that a program of technical assistance, as outlined above, would allow USAID to leverage its limited resources in a way that could assist venture capital in Tunisia to operate more efficiently and effectively. More details on venture capital assistance can be found in the recommendations sections which follows.

IV. PROMOTION OF U.S.-TUNISIAN JOINT VENTURES

A. Context and Definition

The findings and analysis as described above were presented to USAID/Tunis on June 28, 1990. The consultants were requested to recommend a wide range of options that could fulfill the objectives USAID had hoped to meet with a venture capital facility: stimulation of the private sector, strengthening of financial markets, and promotion of Tunisian-American joint ventures. In designing a menu of options, the team was asked to place a particular focus on the latter objective, increasing joint ventures between U.S. and Tunisian businesses.

The term joint venture is used here in its broadest sense - it refers to everything from supplier, distributor, or sales relationships to the classic shared ownership of a company. As USAID works to increase the level of ties between American and Tunisian businesses, it is important that all types of commercial relationships be considered.

There are two levels, or components, to any program to promote Tunisian-American joint ventures: 1) increasing awareness and knowledge between the two countries, and 2) helping establish an economic and financial base in Tunisia that will make this country attractive to American businesses. The first component includes raising awareness in both the United States and Tunisia of opportunities offered by the other country, and assisting in "match-making" (helping businesses in each country identify potential partners in the other country). The second component involves helping build a strong free market economy and financial sector in Tunisia that will make U.S. businesses willing to invest. The first component without the second will be ineffective; even if American investors and businesses become interested in Tunisia and identify desirable Tunisian partners, they will not invest if the economic and financial climate is not attractive and stable.

USAID/Tunis' efforts to promote joint ventures must address both of the above elements. This team's recommendations on stimulating U.S.-Tunisian business ventures focus primarily on short term measures which fall into the first category. It is vital, however, that any USAID program also work on the second category - strengthening the overall financial sector and business environment.

B. Other Bilateral Donor Programs

European countries currently dominate in the Tunisian market. Over seventy percent of Tunisia's trade last year was with Europe; more than fifty percent of total trade was with three countries (France, Italy, and West Germany). These same three countries supplied over eighty percent of total foreign investment.

Many European countries have substantial aid and credit programs in Tunisia that promote bilateral trade and joint ventures. Tunisia's government and private sector are asking why, if the United States is interested in increasing its commercial ties with Tunisia, it does not institute similar programs to help it "compete" more effectively.

Bilateral incentive packages to encourage joint ventures, investment, and trade fall into several categories. Many countries, such as France, Belgium, and West Germany, as well as the European Community (EC), have established funds to finance market and sectoral studies to determine where and how their firms might best penetrate the Tunisian market. Belgium, for example, established a BF 100 million grant in March 1988 to promote Belgian-Tunisian joint ventures. This fund is used to identify possible projects in specific niches of the Tunisian economy, such as electrical materials and automobile parts, and to conduct feasibility studies once projects are identified. The EC's Cheysson Fund also finances sectoral, market, and project identification and feasibility studies in an effort to create new joint ventures between Tunisian and EC companies and investors.

Several donors, such as France, Canada, and Italy, provide buyer credits for the purchase of goods from their countries. Canada, for example, provides $4.7 million in interest-free loans for the purchase of Canadian capital goods, raw materials, and semi-finished products by Tunisian-Canadian companies. France also finances the purchase of equipment and goods from France by Franco-Tunisian joint ventures.

Many donors also provide financing for bilateral joint ventures in Tunisia. France, for example, signed a $100 million loan agreement with Tunisia in October 1989, with the stipulation that it be used to finance French-Tunisian joint ventures. There are 46 projects currently being considered for financing from this fund, although only two have been approved. Italy offers a permanent fund to finance Italian-Tunisian joint ventures and provides a $500 million loan to finance advanced technology projects. Canada supplies $5 million in aid to finance joint ventures, and has established a $0.3 million grant to cover the cost of project follow-up and evaluation. The European Community provides capital to joint ventures between Tunisian and EC companies through its Cheysson fund. These funds supplement the bilateral funds provided by EC members such as France, Belgium, and Italy.

The bilateral aid programs discussed above have had varying degrees of success. The French, Italian, and Belgian packages, linked explicitly to Tunisian involvement with those countries' business communities, have been used extensively. This apparent success, however, is not unqualified. The consultants heard some comments by the Tunisian government that there has been a decline in French investment over the last two years, and that the Italian funds can be difficult to access because of cumbersome administrative procedures. There is also a general feeling that widespread usage of these aid packages might have as much to do with traditionally strong French, Italian, and Belgian commercial relations with Tunisia as with the actual merits of the packages.

The cases of West Germany and of Canada are of particular relevance to USAID efforts to promote Tunisian-American joint ventures. West Germany does not provide government-financed lines of credit for joint ventures or trade, but the country has been so successful in improving its commercial ties with Tunisia over the last 15 or 20 years that West Germany now has more investment in Tunisia than any other country, including France. German investment is made by private enterprises with encouragement but no financing from the government. The West German government has been active in providing information and holding seminars on investing in Tunisia, and has worked closely with API (the Industrial Promotion Agency) and with the German-Tunisian Chamber of Commerce.

The experience of the Canadians is very different from that of the West Germans. The Canadian government, as mentioned above, provides direct financing for bilateral joint ventures and has established a line of buyer credit. Despite these direct incentives, however, the country has met with little success in its efforts to attract more joint ventures and supplier agreements. There are several reasons for this. The consultants heard that Canada was encouraged by the United States to discontinue its bilateral investment incentive programs on the basis that they undercut the U.S.-Canadian free trade agreement. The Tunisian government, however, expressed the view that the real reason for under-utilization of Canadian financing packages has simply been a lack of interest on the part of Canadian investors. Tunisian investors in general were not enthusiastic about having Canadian partners. Those who were interested had problems finding and working with Canadian partners who were very demanding and who did not have a strong commitment to investing in Tunisia.

The experiences of West Germany and Canada should be of interest to USAID/Tunis. West Germany had great success through a promotion program based entirely on technical assistance - this experience should be considered by USAID, given its limited financial resources and its traditional strength in TA and training programs. The case of Canada is equally interesting - advantageous financing alone was apparently not able to overcome a lack of interest among Canadian investors. Given current low levels of knowledge and interest in Tunisia in the U.S. business community, the Canadian and German experiences imply that financial assistance will not be as important as technical assistance in promoting joint ventures.

C. United States Assistance

As it works to promote U.S.-Tunisian joint ventures, the United States will have to take into account the favorable assistance packages and levels of funding provided by many European countries. Because of the traditional American separation of the public and private sectors, however, it would be impossible to emulate many of these programs, such as buyer credits, which are often are based on a blurring of public and private sector roles. The United States could, however, finance sectoral and project feasibility studies to determine where and how its firms might best penetrate the Tunisian market and identify potential joint venture projects. Also possible would be the provision of financing, through mechanisms such as a venture capital facility, that gives priority to U.S.-Tunisian joint ventures. These and other suggestions are discussed in the recommendations section of this report.

It is important to realize that, because of unfamiliarity and distance, the United States will have to work harder and provide more incentives than European countries to reach the same level of bilateral commercial relations. It is also necessary, because of American separation of public and private sector roles, that U.S. programs be more creative and flexible than many other donor packages.

V. RECOMMENDATIONS

A. Context

The findings and analysis as described above were presented to USAID/Tunis on June 28, 1990. Based on that presentation, the Mission asked the team to spend the remainder of its time in Tunis broadening the scope of its assignment. The consultants were requested to recommend a wide range of options that could fulfill the objectives USAID had hoped to meet with a venture capital facility: stimulation of the private sector, strengthening of financial markets, and promotion of Tunisian-American joint ventures. In designing a menu of options, the team was asked to place a particular focus on the latter objective, increasing joint ventures between U.S. and Tunisian businesses. With this mandate, the team prepared the following series of recommendations for USAID consideration. It is a menu of options from which the Mission can select programs or projects it feels are most consistent with its priorities and available resources.

Most of the following recommendations are focused on promoting Tunisian-American joint ventures; some are geared primarily toward development of the greater financial sector, and all will stimulate the Tunisian private sector. These three objectives are entirely compatible; in working toward any one of them, USAID will be helping accomplish the others. The recommendations are as specific and practical as possible, as this team has taken seriously the Mission's desire for targeted action in the short and medium term.

B. Recommendations of the Team

USAID/Tunis' current initiatives toward financial and private sector development, and toward promotion of joint ventures, are well-conceived, as are the programs of other U.S. government agencies and the GOT. Tunisia's recent reforms have laid the groundwork for a stable, liberal, and efficient economy and financial sector, and its investment incentives should make this country attractive to American investors. A number of effective programs to promote financial sector development and

U.S.-Tunisian joint ventures are currently being implemented and supported by USAID and other U.S. government agencies. These programs include: USAID's private sector program; the Tunisian-American Chamber of Commerce; USAID's and the Embassy's efforts to provide information and assistance to Tunisian entrepreneurs interested in U.S. partners, goods, or technology; and USAID sponsorship of teams of Tunisian business people to visit the United States.

We recommend enhancement of current programs by USAID/Tunis. Steps are being taken in the right direction, but more resources (both financial and human) need to be applied to existing efforts, the level of mobilization and urgency need to be raised, and the range and number of specific activities designed to achieve USAID objectives should be increased. The Mission should work to foster more contact between Tunisian and American entrepreneurs and business people, and should continue to define, focus, and move forward with its financial markets and private sector programs.

It is extremely important that USAID coordinate, to the extent possible, with other U.S. government agencies - such as OPIC, the State Department, and the Commerce Department, with other donor agencies, and with the Tunisian American Chamber of Commerce and the U.S.-Tunisian Business Council in Atlanta. This will help eliminate duplication of effort, will allow each agency to share in the experience and expertise of the others, and will allow each agency focus on what it does best.

1. Strengthening the Overall Financial Sector

The Mission should continue its present emphasis on financial markets reform as part of its private sector program. The upcoming financial sector assessment, to take place in September 1990, will be a crucial part of USAID's process of refining and focusing this program. We believe that further development of financial markets is vital to efforts to strengthen the Tunisian private sector and promote U.S.-Tunisian joint ventures. USAID's financial markets development program is vital to all components of its private sector initiative, including privatization and trade and investment promotion.

The upcoming sector assessment should focus heavily on the Tunisian banking sector. Not only do banks play a pivotal role in the economy, but there is widespread agreement in Tunisia that without reform and modernization of the country's banks, financial sector development will be severely constrained. Banking reform will lay the base for advancement of other parts of the financial system. The sector assessment should also have a strong focus on the mobilization of investment and equity capital, covering topics such as investment banking, private placement, corporate finance, and stock market brokerage.

2. Direct Promotion of Joint Ventures

The following recommendations focus on direct promotion of Tunisian-American joint ventures. These steps, as well as any others undertaken by USAID, should capitalize on the assets of the Tunisian-American relationship, and work to overcome the liabilities. (See Appendix E for a "balance sheet" of these assets and liabilities.) The suggestions outlined below are designed either to promote joint ventures in the short term, or to serve as catalysts to foster contacts and partnerships between the Tunisian and American business communities, or both.

a. Identification of Joint Venture Opportunities We believe that the first step in a joint venture promotion program is to target specific market sectors, companies, and entrepreneurs that are interested in and ready for participation in Tunisian-American joint ventures in the short term (6 to 12 months). Longer term prospects (1 to 2 years) could also be targeted. There is substantial interest in bilateral joint ventures in Tunisia, and this team found a fairly broad consensus that creation of a "hot list" of likely partners, in both Tunisia and the United States, is a necessary starting point. Despite this consensus, however, there appears to be no direct effort to do so. USAID could make a valuable contribution to joint venture promotion by making such a hot list, systematically targeting market sectors, companies, and entrepreneurs for joint venture promotion.

The short-term list should be composed of no more than 10 to 15 businesses on each side (Tunisian and American), and should concentrate on firms and sectors where dialogue and exploratory stages are already underway. If not enough businesses are found to be in the exploratory phase of joint venture creation, USAID could seek well-prepared businesses ready for partners. Such firms or entrepreneurs should be clear about what kind of opportunities they are seeking, what they need and want from particular kinds of partners, and what they could contribute to a partnership.

For rapid progress in this area, we recommend that the resources and level of effort currently focused on identifying potential Tunisian and American market sectors, businesses, and entrepreneurs for joint ventures be doubled or tripled[1]. Resources should include: additional staffing for existing efforts, a coordination and tracking center, and professional specialists and dealmakers to serve prospective partners in the matchmaking process. These specialists would facilitate the process, counsel potential partners, and serve as expert resources for each sector and business. This method is typical in private industry, and we believe it could expedite the creation of more Tunisian-American business ventures. This approach would have an important residual effect in that it would create relationships and resources that could assist joint ventures after they are created, thus helping increase their long-run chances for success.

b. Human Resource Center This team feels that one of the most valuable steps USAID could take to promote U.S.-Tunisian joint ventures would be to establish, within 6 to 12 months, a human resource center in Tunisia. This center would provide business and financial assistance to Tunisian businesses and entrepreneurs on an as-needed basis. USAID could, in cooperation with the US Commerce Department, also turn the human resource

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OPIC (The Overseas Private Investment Corporation) has a computerized service called the "Opportunity Bank" which is a useful channel of investment information. It allows U.S. and overseas, including Tunisian, investors to register their respective investment interests and requirements. Project sponsors and investors can then gain rapid access to information about potential partners. This service should be more fully utilized by Tunisian businesses (there are currently only 4 Tunisian companies listed). Because it is a passive service, however, OPIC's Opportunity Bank needs to be supplemented with proactive joint venture promotion efforts by USAID and/or other agencies. (See Appendix G for more information about the Opportunity Bank.)

center into a resource library. Other interested U.S. agencies should be brought into the formation of this center.

We suggest that USAID work with the Tunisian-American Chamber of Commerce to establish this center, in particular using the Chamber to market the center's services, first in Tunis and later in other parts of the country. USAID should provide one full-time person to manage the center and coordinate its efforts. This person must have significant knowledge of both the Tunisian and American business communities. In providing technical advice and expertise to Tunisians, the resource center would draw on the pool of retired American business executives, perhaps through IESC (the International Executive Service Corps). The center could provide Tunisians with access to marketing, financial, and technical experts with specialized knowledge. Users of the service would participate in expenses incurred.

A human resource center would be a valuable use of USAID resources for a number of reasons. It would be a highly-visible, relatively low-cost initiative aimed at the private sector. It would create a mutually beneficial environment that would encourage and increase understanding and ties between the business communities in Tunisia and the United States. A human resource center would formally establish a forum where both sides could share knowledge about business opportunities, technology, and marketing. Valuable business contacts would be created, permitting potential joint venture deals to come to fruition. A resource center would lead to the development of procedures and conditions conducive to U.S. investment and joint ventures, and could assist in U.S.-Tunisian marketing ventures directed toward the Maghreb, the greater Arab world, North Africa, and Europe.

c. Expo Tunisia USAID, perhaps in conjunction with the Departments of State and Commerce, and particularly in cooperation with the Tunisian-American Chamber of Commerce, might consider sponsoring a sectoral Tunisian trade fair aimed at American markets. This expo would bring a wide array of U.S. investors and businesses to Tunisia to meet with and learn more about the capabilities of Tunisian businesses and entrepreneurs in certain industries and market sectors. The event should take place within the next 12 to 15 months.

The purpose of this expo would be to foster and develop specific interests and activities that would lead directly to

Tunisian-American joint ventures. The event should be very focused, including only those sectors of significant mutual interest. (Areas such as software development, computer assembly and design, and aquaculture should be explored.)

To carry out this project, USAID should contract, either directly or through a consulting firm, one or two young Tunisian business people with U.S. graduate school experience to organize, plan, and promote the event. These coordinators would immediately undertake a three to four week study to identify specific market sectors and people in Tunisia that would: 1) have a product or service of interest to a U.S. investor, 2) have the technological capacity to be a joint venture partner with a U.S. company, and 3) have production skills, knowledge, or other advantages that would make them attractive as joint venture partners. The expo organizers should, through USAID, coordinate their efforts with the U.S.-Tunisian Business Council, the State Department, and the Commerce Department to promote interest and participation in the U.S. If necessary, USAID should hire an American consulting firm to assist in the U.S. side of the project.

The first three months would be spent formalizing plans and determining a framework, setting a date and a place, writing and beginning to implement a plan, completing a market identification study, and coordinating with the U.S. business community. The next three months would be used to implement preparatory procedures, finalize participants, and arrange logistics. The last six to nine months would be spent following up on all levels, making detailed and final arrangements, and holding the expo.

The expo should be held in a resort community, such as Hammamet, where Americans attending could combine business with leisure. Tunisian hotel owners have expressed a willingness to provide free accommodations for events such as this. Attractive cost incentives would help make a trade fair/expo in Tunisia appealing to American business people because it would allow them inexpensive vacation time in a country with some business opportunities while working to expand their markets and their investment opportunities.

A Tunisian expo, or trade fair, as described above, would have a number of benefits. It would be an relatively low-cost expenditure of USAID resources with immediate, highly-visible results. It would create an atmosphere and direct contacts conducive to generation of new Tunisian-American business ventures. A USAID-sponsored trade fair would give greater weight and credibility to the U.S. commitment in Tunisia and could increase and provide recognition for the role of the Tunisian-American Chamber of Commerce.

d. Business to Business Internships and Exchanges Another method for USAID to increase ties between the U.S. and Tunisian business communities would be the encouragement, support, and sponsorship of exchanges and internships between business people in Tunisia and the U.S. Such exchanges would allow companies to explore joint venture opportunities and possibilities without making long run plans and commitments first.

This program would help match Tunisian and American business people, and would sponsor them to live and work in each other's companies for one week, one month, or several months. A Tunisian, for example, might wish to spend six months in the United States learning aquaculture technology, or an American might wish to spend a week with a Tunisian software developer studying possibilities for marketing in the Maghreb. Joint workshops or meetings could be held afterward to identify, synthesize, and follow through on opportunities. A business internship and exchange program should concentrate on companies that have something concrete to gain from participation (such as a market, a technology, a business strategy or method, export possibilities, or language or cultural credibility).

e. Business School to Business School Exchanges and Internships A more indirect, but longer-term, way to foster closer links between the U.S. and Tunisian business communities would be USAID assistance in creating and supporting exchanges and internships between Tunisian and American graduate business schools. An ongoing relationship between an American MBA program and a graduate business school in Tunisia could lead to exchanges of both professors and students on a regular basis. Such exchanges would promote interest in each country by future business leaders in the other, and would create contacts at a very personal level. Professors from each school could spend a semester or a year teaching at the other, students could obtain academic credit for spending a semester studying at their "sister" school, and groups of students could travel to the opposite country for a week-long seminar on economic and business practices and trends once every year or once every other year. A number of U.S. graduate schools have similar "sister school" relationships with foreign graduate programs; these relationships are very successful in increasing contacts between the countries.

The focus of a U.S.-Tunisian business school exchange program should be "real world" research, case studies, and course development. It should focus its methods and strategies in areas such as cross-cultural management and organizational behavior, exporting as a corporate strategy, international and cross-cultural marketing, joint venture development, and joint venture financing and financial management.

f. Meetings of Business Leaders USAID could also sponsor groups of business and financial leaders to hold their annual or semi-annual meetings in Tunisia. Examples of such groups include YPO (the Young Presidents' Organization), various CEO groups, functional organizations (such as managers of marketing, technology, human resources, finance), and trade associations (in export sectors, international business, etc).

These groups regularly plan meetings in interesting places where they can combine work and play, and get away from their daily business setting, sometimes with spouses and families. Tunisia has resort settings, a hotel environment, an exotic location, and cultural and natural attractions that could provide an ideal backdrop for these kinds of meetings. As in the case of the Tunisian expo, the consultants' conversations with some Tunisian hotel owners indicate that they would be glad to provide accommodations at little or no charge as an enticement to meet in Tunisia.

With aggressive efforts, these groups might be persuaded to plan some future gathering in Tunisia, perhaps with some vacation time Tunisia before or after the conference. Tunisian counterparts and hosts would be included in the experience, and portions of the agenda would focus on issues such as joint venture opportunities with Tunisian businesses, exporting, Tunisia's value-added assets, new technology and market opportunities, and accessing North African and Arab markets. These meetings would increase American business people's exposure to and awareness of opportunities in Tunisia, and could create new possibilities for joint ventures.

USAID support for such meetings should take several forms. The Mission should help with planning and organization, should provide assistance in identifying U.S. businesses for participation, and could perhaps help defray travel costs.

A variation on this suggestion would be for USAID to sponsor meetings between small groups (5 to 8 people) of high-powered Tunisian business leaders and similar groups of influential U.S. business leaders. These groups would be culled from specific sectors or industries that have been targeted as likely prospects for joint venture development. They would meet in working groups for up to a week, focusing on ways to foster links between Tunisian and American businesses in their sectors. The settings and incentives for these meetings would be as described above.

Another version of this recommendation, which was suggested to the consultants by Tunisians, is to invite a group of American travel agents to Tunisia for an all-expenses paid week, so that the country can demonstrate its tourist attractions and facilities. Tunisian hotel owners are interested in having tour packages, similar to those promoted by European travel agencies, made available in the United States as a means of increasing U.S. tourism in Tunisia. They are willing to work with U.S. travel agents to create and promote these packages. USAID and the Commerce Department could assist Tunisian promoters in identifying and attracting U.S. travel agents. It must be cautioned here that any increase in U.S. tourism in Tunisia will be contingent on direct air links between the two countries. The consultants heard that an American carrier is negotiating to establish direct flights; the U.S. government should encourage and assist this process.

3. USAID-Sponsored Seminars

Seminars are a highly-visible, low-cost, and effective utilization of USAID's human and financial resources. USAID, in sponsoring such seminars, could attract top U.S. experts to organize structured, results-oriented workshops on topics of interest and relevance to the Tunisian financial sector and Tunisian business community. The Tunisian university system and interested government offices could assist in the organization and preparation of these seminars, which would require very experienced professionals with a high degree of credibility. Also required would be a focus on very specific skills and issues, such as those listed below.

a. Standardization of Accounting Principles A USAID seminar on the standardization of accounting and auditing principles would be a valuable and very effective use of resources. Generally accepted accounting principles and generally accepted auditing standards are a vital element of a sound financial system, and are not yet being developed in Tunisia. A seminar on this topic would be the first step in the process of actually standardizing accounting and auditing norms in Tunisia. As such, it would allow USAID to participate in this process from the beginning. Interest in this topic was expressed to the team by several Tunisians.

An important reason for a highly-visible, USAID-sponsored seminar on this subject would be to draw all potential players into the process. It is important that the Ministry of Finance and Economy and the Comptroller of the Currency, as well as Tunisian private sector firms and professional accounting firms be involved in setting up standardized principles and procedures. By sponsoring a seminar on this subject and by becoming involved in the subsequent process of establishing standards, USAID could make a dramatic contribution to the process of financial sector development in Tunisia. In doing this, USAID would play a vital role in the process of creating a business and financial environment in Tunisia attractive to U.S. investors and potential joint venture partners.

A week-long seminar on this subject would have to cover a number of issues. It should begin with a discussion of the importance of accountability - looking both at infrastructural aspects (standards and norms) and at ethical and moral aspects (the government's responsibility to taxpayers and a business' responsibility to its shareholders). The seminar should outline the reasons why accountability is important to the Tunisian public and the private sectors, and should explore the policies, needs, and practices of the government and the private sector. It should also examine internationally accepted accounting principles and auditing standards, focusing on how these norms could be integrated with Tunisian realities to design a system that would work in Tunisia.

b. Bank Portfolio Restructuring A seminar on bank portfolio restructuring, aimed at the commercial banking sector, would complement the structural adjustment efforts of the Tunisian government. USAID could, with the concurrence of the Central

Bank, offer highly skilled technical advice to assist commercial banks in restructuring their individual portfolios. Such a seminar would address a very specific need within the financial community - renewed vitality of commercial banks and increased internal lending capacity. It would also support the efforts already undertaken by the GOT to create an improved economic environment in Tunisia.

A bank restructuring seminar should be held in the next 3 to 6 months, shortly after the upcoming financial sector assessment. To conduct this seminar, USAID would need to contract several U.S. bank restructuring experts with experience in developing countries. These USAID-sponsored experts should work closely with the Tunisian Bankers Association (APB) and the Central Bank to promote participation of the Tunisian banking community.

Bank restructuring could help strengthen the Tunisian private sector by making the banking community less encumbered by marginal or bad loans, less risk adverse, and more receptive to new credit requests. This would foster greater competition in the banking sector, and in doing so would help create healthier, stronger banks that could more actively participate in the new Tunisian financial environment. Healthy banks lead to a more active, upbeat domestic economy, and a robust economy with a prudent banking system is attractive to U.S. investors and joint venture partners.

c. Joint Venture Technology, Creation, and Management, and Venture Capital Technology and Process USAID could also design and sponsor seminars on topics such as joint venture technology, creation, and management, or venture capital technology and processes. These seminars would provide much-needed information on topics that are of interest both to the Tunisian public and private sectors and to USAID. They could serve as first steps in concerted and long-term USAID initiatives to provide technical assistance in these areas.

A USAID-sponsored seminar on venture capital technology and the venture capital process should identify individuals and groups among the players needed for venture capital (investors, managers, and entrepreneurs) who are interested in professional development and technical assistance. USAID would need to assess their needs and wants, and invite them to experiential workshops aimed at educating them about venture capital technology and requirements. These workshops would also be designed to facilitate progress in developing a risk capital sector and in promoting new equity investment mechanisms.

Similarly, a seminar or a series of workshops on joint venture creation and management would be designed for Tunisian business people and entrepreneurs who are interested in foreign, and particularly U.S., partners. It would provide a chance for them to learn about the creation, the operations, and the management of joint ventures. These workshops would be an early step in a program of direct USAID promotion of joint ventures, which could also include many of the suggestions previously described above.

4. Venture Capital Assistance as a Means of Promoting Joint Ventures

One effective way for USAID to use its resources would be to provide high-quality technical assistance to foster the development and management of venture capital in Tunisia. This TA could be applied specifically to venture capital vehicles and key players (VC managers, investors, and entrepreneurs), as well as to relevant people and institutions in the broader financial sector, who are interested in Tunisian-American business ventures. By focusing its technical assistance on people and projects that promote Tunisian-American business ventures, USAID could assist in developing viable venture capital vehicles while simultaneously assisting and accelerating the development of joint ventures.

Technical assistance could be combined with a modest level of USAID funding for a venture capital facility, or it could be used alone to achieve the Mission's objectives. Following are recommendations on how USAID could structure venture capital technical assistance, both alone and coupled with some funds.

a. Technical Assistance Alone USAID support of indigenous venture capital efforts should be provided in six month stages, beginning as soon as possible, with continuity and commitment over a three year period. After three years, the TA program should be re-evaluated to determine whether it should be continued. (See pages 42-44 for the type, level, and sequence of technical assistance recommended.) USAID technical assistance should be provided primarily in Tunisia, but the Mission should also sponsor key Tunisian players to come to the United States for on-the-job contact with U.S. venture capital managers and sector specialists.

A technical assistance program not supplemented by USAID funding for venture capital would cost the Mission $400,000 to $500,000 over a three year period. A USAID program of assistance for Tunisia's current venture capital process, in the immediate term, would contribute to USAID's and Tunisia's stated development objectives, and would carry a number of benefits. It would help proactively develop the venture capital sector in parallel with other vital parts of the financial and banking systems. Such a program would not lose valuable time waiting for necessary conditions to be in place, thus allowing the rewards of productive venture capital to be gained earlier in time. It would create valuable and self-perpetuating relationships within Tunisia, and between the United States and Tunisia. It could also give Tunisian venture capital funds an incentive to invest in U.S.-Tunisian joint ventures.

<u>b. Technical Assistance With Funding</u> A variation of the option outlined above would be for USAID/Tunis to provide technical assistance for venture capital coupled with a modest amount of funds (approximately TD 1 million). The design and goals of a program of technical assistance would be the same as described in the preceding recommendation. The money provided by USAID to supplement its technical assistance would placed in or alongside a venture capital fund for investment exclusively in Tunisian-American joint ventures.

USAID investments would be made through a side-by-side funding vehicle with investments from a Tunisian venture capital fund such as SPPI. This means that USAID would only invest in a company in which the Tunisian VC firm also invested, and that it would invest an amount of money equal to the amount invested by the Tunisian firm. This side-by-side investment vehicle would reduce USAID's risks somewhat, by ensuring that any project financed by USAID venture capital funds had been evaluated and approved by the Tunisian venture capital firm.

The specific placement, terms, investment strategy, design, and management of USAID venture capital funds, as a means of leveraging and augmenting TA, would be developed during the first 6 to 12 months of a technical assistance program. Investments should probably be made mostly in dinars, but perhaps some dollars could be placed - this would be determined in a detailed planning phase. The implementation phase of this program would require up to another 6 months, and the investment phase would take place over 18 to 60 months.

USAID funding for venture capital, as a supplement to technical assistance, would have three primary purposes: 1) to enhance the value of USAID technical assistance, 2) to attract funds for venture capital from other sources, and 3) to strengthen the incentives for a Tunisian venture capital firm to fund U.S.-Tunisian joint ventures.

By providing funds for venture capital, USAID would increase VC managers', investors', and entrepreneurs' perceptions of its seriousness, credibility, and commitment to the process. USAID would be a full and equal partner in the investors' group, rather than an outsider giving advice on how the investors should place their funds.

USAID funds could also be used as seed money that would attract additional capital from Tunisian and international sources. Some Tunisians expressed a belief that U.S. funds would have a multiplier effect, drawing capital on a 5 to 10 matching basis. By demonstrating a willingness to place funds in a VC facility, USAID and the U.S. government could help attract additional funds into a Tunisian venture capital system into the broader risk capital sector.

USAID funds, if they were earmarked for U.S.-Tunisian business ventures, would also increase the incentives for a venture capital fund to finance a number of promising Tunisian-American partnerships. This pool of money available to meet the risk capital needs of such joint ventures should also encourage the formation of new Tunisian-American partnerships. The role that USAID funds would play in a venture capital firm's decision to give priority to Tunisian-American business ventures is an important reason for the Mission to consider providing financing for venture capital in addition to technical assistance.

SCOPE OF WORK
VENTURE CAPITAL AND NON-ASSET BASED LENDING
RAPID APPRAISAL FOR TUNISIA

I. OBJECTIVES OF THE WORK

The key objectives of this consultancy are:

A. To provide a rapid appraisal of the potential for Tunisian venture capital or other non-asset based lending mechanisms to encourage the start-up or expansion of viable private sector enteprises in Tunisia.

B. To analyse the potential value of AID funding of the above option(s) and to provide some forecast of the potential value of such option(s) for attracting U.S. joint business partners.

It is intended that this report shall be an input into a broad-based Tunisian financial sector assessment that USAID/Tunis will carry out later this year.

II. SCHEDULE

The consultants shall commence work on/about June 25, 1990 and complete work on/about July 27, 1990.

III. LEVEL OF EFFORT

A. Two U.S. Consultants - Total of 48 person days

1. Chief of Party/Financial Analyst - 24 person days

- 3 work days in Washington D.C. prior to commencing work in Tunisia;
- 18 work days in Tunisia (6 work days per week)
- 3 work days in U.S. following work in Tunisia

2. Venture Capital Specialist - 24 person days

- 3 work days in Washington D.C. prior to work in Tunisia
- 18 work days in Tunisia (6 work days per week)
- 3 person days in U.S. following work in Tunisia.

B. One U.S. Business Professional/Technical Support - Total of 24 person days

- 3 work days in Washington D.C. prior to work in Tunisia
- 18 work days in Tunisia (6 work days per week)
- 3 person days in U.S. following work in Tunisia.

C. One Tunisian Executive Advisor/Trilingual Translator (PSC contract or Sub-contract with an institution) - Total of 26 person days

- 6 person days in Tunisian before the arrival of the U.S. consultants (6 work days per week);
- 18 person days in Tunisia (6 work days per week). with the team in Tunisia
- 2 person days in Tunisia after departure U.S. team

IV. BACKGROUND:

A. Financial Markets in Tunisia

Until the economic crisis of 1986 and the commencement of a Structural Adjustment Program, government revenues were the primary source of investment for the Tunisian economy. During the past four years, however, the government investment budget has been steadily cut in line with overall reductions in public revenues and expenditures. The public sector can no longer carry the burden of investment, and is increasingly looking to the private sector to increase its share of investment. Tunisia's VII Development Plan calls for a real increase in private sector investment from 24% of total investment in 1986 to 38% of total investment in 1991.

Such an increase in private investment is contingent, however, on the availability of long-term finance to meet the private sector's capital needs. Access to both medium and long term credit is extremely limited in Tunisia. More than 70% of commercial credit is in the form of short term lendings secured by collateral, and the level of collateral required by banks is beyond the reach of most firms, especially small and medium enterprises. In addition, public enterprises have tended to earn first priority in obtaining what little long term financing is available. In the absence of increased access to long-term finance, private sector investment and growth will be seriously impeded.

Efficient means of mobilizing and allocating credit are increasingly important to the success of Tunisia's plans for increased private sector investment. While the country has had a fairly high rate of savings over the past decade, averaging about 20% of GDP, these savings have tended to flow to static investments rather than more productive investments with higher returns. Furthermore, this high level of savings reflects in large part the government surplus generated before the economic squeeze of 1986. The overall savings rate has dropped sharply in recent years.

B. Venture Capital Scarcity

As described above, the Tunisian banking system is currently the main source for ongoing business lending. There are few or no Tunisian financial institutions to provide medium and long term capital to innovative entrepreneurs who do not meet the required collateral.

Tunisia's entrepreneurial sector is urging the Government and the financial community in general to develop a mechanism through which Tunisian entrepreneurs with a good product and viable business plan can access capital loans (without 100% or more collateral) or equity financing. The entrepreneurs, many of whom have advanced degrees from Europe or the United States as well as experience abroad (and who believe they have "bankable proposals"), are looking for financing mechanisms which will provide seed capital to start up a business operation.

In response to this pressure from the business community, the financial community and the Government have begun discussions of both a credit guarantee fund and a venture capital mechanism aimed at meeting the financing needs of small and medium enter- prises, as well as those of entrepreneurs.

In Tunisia the traditional approach to getting seed capital is through family connections. For those for whom this is option is not available, or who are at a second stage of business development which requires increased capital, a venture capital mechanism could provide an important institutional source of funds. Improved credit guarantees might also be of assistance. The source for the venture capital funds could be a combination of Tunisian private and public sector funds, bilateral donor funds from such entities as AID or OPIC or the funds of a range of international investors. In terms of a credit guarantee, the Government currently provides one but it has not been effective in encouraging increased non-asset based lending to small and medium enterprises. The problems with the guarantee, as presently structured need to be further analyzed.

There are mutual funds in New York, London, and Tokyo that invest in developing country equities. The venture capital firm might also have a block of such funds available for investment upon permission of the various mutual funds. In addition, with the abundance of junk bonds and leveraged buy out debt on the U.S. market, investors such as pension funds and insurance companies are looking for new, more diversified places to put their money. It is safe to assume that little equity placement from these types of organizations has been drawn to Tunisia. The consultants should consider these options.

C. Role of USAID/Tunis in Supporting Financial Institutions

(Note: In developing their report, the consultants should take into account USAID/Tunis' current private sector strategy and financial markets initiatives. They should also consider carefully the financial sustainability of any AID-supported venture capital entity versus AID's development objectives in Tunisia.)

1. USAID's Private Sector Strategy

Goal of Strategy: Since 1988 the goal of USAID/Tunis' private sector strategy has been to assist Tunisia in increasing the private sector share of GDP through changes in legal, fiscal, regulatory and institutional environment. In pursuit of this goal the Mission identified three targets for its private sector efforts: privatization, financial markets development and trade and investment promotion.

The Mission's top priority has been assistance in Tunisia's privatization efforts. To this end the Government of Tunisia ("GOT") and USAID agreed in November 1988 to finance a buy-in contract with the Center for Privatization for the services of two long-term consultants. One of these consultants has been working since January 1989 as the GOT's technical advisor on privatization. He is officed at the Prime Ministry where he advises the Director General for Public Enterprises and the GOT's Committee for Privatization. Since January 1989 he has provided expert assistance concerning the privatization of 26 enterprises.

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2. USAID Assistance to the Tunisian Stock Exchange

As a corollary to privatization and trade and investment promotion, the Government of Tunisia and USAID/Tunis view the development of Tunisia's financial markets as essential. To assist in that effort the Center for Privatization buy-in has also provided the services of a consultant to the Tunisian Stock Exchange. He has been working on the development of new regulations and new instruments to encourage savings mobilization.

In relation to this work and the VII Plan of the Government of Tunisia, the Stock Exchange is now preparing to move into a second phase of development which will include requalifying firms for listing on the Exchange, reducing fees of the Stock Exchange itself, encouraging the development of independent brokerage firms and training both Stock Exchange personnel and brokers. While USAID currently plans to continue support to the Exchange the Mission also wants to consider assistance to the broader financial sector as a further component of financial markets development.

3. USAID Financed Studies and Conference on Savings Mobilization and Financial Markets Development in the Maghreb.

In addition to assistance to the Stock Exchange, USAID/Tunis has also financed a series of studies and a May 1989 conference on savings mobilization and financial markets development in the Maghreb. The proceedings from the Conference should be published in late February and the consultants should review the publication noting the key issues considered at the conference.

4. Section 108 Loans to CFTC and ATB

USAID/Tunis has also negotiated a PL 480/Section 108 local currency loan agreement with the Government of Tunisia and two private sector banks (CFCT and ATB). The Section 108 loans are provided to the banks in local currency at market interest rates. The banks in turn on-lends the dinars at commercial rates to private sector businesses. To date approximately TD 3.25 million has been provided for on-lending. Under the present agreement an additional TD.4.5 million shall be available for on-lending during 1990. Further agreements may be negotiated.

Only 100% privately owned banks are eligible for the Section 108 loans. Therefore, this program is currently limited to three Tunisian banks (CFCT, ATB and Citibank).

5. Loan Portfolio Guarantee Program

USAID is currently marketing to Tunisian private sector banks the AID/Washington (PRE Bureau) Loan Portfolio Guarantee Program. The Central Bank has, in principal, approved the agreement. Two private banks, CFCT and ATB, have expressed interest in applying for guarantee coverage of U.S.$ 3 million per bank. The "all in" utilization and facility fees to the banks will be 1.5% of the amount of coverage.

The LPG Program provides direct AID guarantees to local private sector financial institutions to cover 50% of risk of loss of principal on qualifying, non-subsidized local currency loans to private small businesses up to a selected guarantee limit per bank (no greater than $3 million). The guarantee limit, stated in U.S. dollars, is the maximum amount that AID will pay in local currency equivalent to the financial institution under a guarantee. The purpose of the LPG is to enable the financial institution to increase the amount of credit extended by it to small business enterprises in its country of operation. A qualifying loan is any type of net additional or new credit extended in local currency by the financial institution to a qualifying small business enterprise to finance, with certain exceptions, any productive or commercial activity in the country.

Only 100% private sector banks are eligible for this program -- which limits its scope at present to three Tunisian banks (CFCT, ATB and Citibank). In addition, under Tunsian law and regulation, loans for agricultural production, export enterprises and small and medium enterprise capital loans are subsidized. Therefore loans under LPG coverage will be limited to working capital loans for non-priority small and medium enterprises.

V. THE WORK OF THE CONSULTANTS

This Scope of Work primarily calls for a prefeasibility study for the establishment and support of a Venture Capital mechanism in Tunisia. Secondarily, it will offer alternate recommendations for increasing private sector financing (i.e. guarantee facilities). The study shall also generally discuss the potential utility of the mechanisms considered for attracting U.S. joint venture investors to Tunisia.

A. Venture Capital Prefeasibility Study

A three-person consulting team will perform a pre-feasibility study for creating and supporting a venture capital mechanism as a means of increasing the level and amount of financing available for small and medium businesses. Specifically, the team will (1) assess the demand for such a mechanism; (2) determine potential sources of support to the fund; (3) provide guidelines as to the most appropriate services it would provide; (4) offer general recommendations with regard to its structure; (5) discuss operational issues; (6) assess the potential sustainability of the fund; and (7) analyze briefly the potential utility of such a fund for attracting U.S. joint venture investors.

1. Demand Analysis

The team will assess demand for venture capital through interviews with public and private sector representatives. They will also review general financial, fiscal and legal issues that affect demand.

a. Public Sector

Assess the government's attitudes and plans regarding venture capital. Interviews will be conducted with officials of the Prime Ministry, Central Bank, Ministry of Economy and Finance and the Ministry of Plan and Regional Development.

The team will also interview several bilateral donors who have developed equity or credit mechanisms to encourage joint venture investments in Tunisia from their own countries (e.g., France, Italy, Canada).

b. Private Sector

Meet with leaders of the Private Sector to assess their perspectives on venture capital, including the position of the new entrepreneurs group. Assess the potential for divestment via management buy-out.

c. Financial Sector

Meet with leading bankers and members of the Tunis Stock Exchange to assess the level of stock market development especially with regard to venture capital divesting.

d. Fiscal Incentives/Disincentives

Provide a brief overview of the fiscal incentives and disincentives to Tunisian business, in general, that would be applicable to venture capitalists, in particular. This could include issues such as:

- tax deductions for capital subscribed in venture capital
- tax relief on dividend payments
- policies which favor short term investments over long term investments
- capital gains tax
- corporate taxes
- allowances for offsetting capital losses against capital gains

e. Legal Issues

The team will describe briefly the legal framework in Tunisia which affects:

- - venture capital institutions
- - business investments

2. Sources of Support

The team will identify potential sources of support for Venture Capital. These would include international donors, the Government of Tunisia and the Private Sector.

a. Donors

Assess that other donors are doing to improve access to equity and credit for Tunisian enterprises.

b. Government of Tunisia

Assess on-going initiatives of the GOT to improve access to equity and credit for private entrepreneurs (particularly small and medium enterprises).

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c. Private Sector

Assess feasibility of support to the fund by the Tunisian private sector or by international investors.

3. Services

The team will recommend the services that a venture capital entity would provide. For example, should it provide all or some of those related to:

a. selecting companies for investment;
b. monitoring the companies' performance; and
c. providing technical assistance to the companies.

4. Structure

The team will offer broad guidelines as to the Venture Capital Fund's financial and legal structures.

a. Financial Structure

Recommend if the Venture Capital Entity should own or borrow the funds it provides.

b. Legal Structure

Recommend if the entity be structured as a general partnership or a limited partnership under the jurisdiction of the Tunisian legal system.

5. Operational Issues:

The team will discuss key operational issues, such as:

a. What would be the optimum percentage of venture capital participation in any one business?

b. What would be the expected exit times for the venture capital?

c. What would be the anticipated divestment procedures for the venture capital?

d. Analyze and discuss the possible fee structure for the operations of a venture capital fund.

e. What levels and types of management skills would be needed to operate such a fund?

6. <u>Sustainability</u>

The team will assess the potential sustainability of the Venture Capital Fund. For example, it will:

Assess the value of various financial instruments in the Tunisian business setting, particularly the target sectors, and recommend what mix (if any) of these instruments would allow for financial sustainability of the venture capital institution.

B. ALTERNATIVE FINANCING MECHANISMS

1. <u>Demand Analysis</u>

If a venture capital fund does not appear feasible, the team will assess the demand for alternative financing mechanisms. For example, could an improved credit guarantee mechanism, or other instruments, achieve some of the same objectives?

a. Public Sector

Assess the government's attitudes and plans regarding equity investment instruments (other than venture capital) and/or credit guarantees.

b. Private Sector

Meet with leaders of the Private Sector to assess its perspective on alternative financing mechanisms.

c. Financial Sector

Meet with members of the Financial sector to obtain their views regarding alternative financing mechanisms.

(2) <u>Structure</u>

If the venture capital fund does not appear feasible, the team shall recommend how credit guarantee mechanisms should be structured in order to improve access to credit for small and medium enterprises and new enterprises.

C. ATTRACTING U.S. JOINT VENTURE PARTNERS

Based on their knowledge of the international business practices of U.S. companies, and on key interviews in Tunisia with selected bilateral donors (and Citibank), the consultants shall briefly analyze the potential utility of the more feasible financing option examined for attracting U.S/ joint venture investors to Tunisia -- particularly export-oriented investors.

VI. QUALIFICATIONS OF THE CONSULTANTS

A. Venture Capital Expert

1. Experience in venture capital development in a U.S. setting.

2. Familiarity with developing countries financial and business sectors.

3. Graduate degree or equivalent business experience in relevant business areas.

4. Fluency in written and spoken French (or Arabic) is useful but not required.

B. Financial Sector Analyst

1. Advanced degree in economics, business or finance.

2. In-depth experience (minimum 7 years) in analyzing developing countries economic, financial, business and trade sectors.

3. Familiarity with AID's and/or other donors' programs in supporting private and financial sector work.

4. Fluency in spoken and written French is useful but is not required.

C. U.S. Consultant for Technical Support and AID Procedures

1. Advanced degree from U.S. university in business or finance.

2. Experience working in analyzing developing country financial and/or business sectors.

3. Experience developing studies, programs and/or projects for international donors -- particularly USAID.

4. Familiarity with AID's private sector or financial markets development programs.

5. Fluent French (approximately FSI S3/R2) is required.

D. Tunisian Business/Financial Consultant (Trilingual)

1. University degree or equivalent experience in an area related to business or finance (business, commerce, finance, banking or economics).

2. Several years of experience working with the Tunisian business or financial sector (either public or private).

3. Familiarity with Tunisia's program of structural adjustment, private sector promotion and financial markets development.

4. Prior experience as a consultant working with an expatriate consulting team or foreign delegation -- particularly one which included members whose first language was English.

5. Excellent spoken and written English, French and Arabic is required. Fluency must be demonstrated by a mix of academic study of all three languages and either significant experience functioning as a translator for all three languages or studying or working for at least two years in the United States, England or another English-speaking country.

VII. GENERAL METHODOLOGY

A. Basic understandings: In carrying out this assignment, the consultants shall work as a team and shall keep in mind that the most important objectives of the work are those set forth in Section I of this Scope of Work, i.e.:

1. To provide a rapid appraisal of the potential for Tunisian venture capital or other non-asset based lending mechanisms to encourage the start-up or expansion of viable private sector enteprises in Tunisia.

2. To analyse the potential value of AID funding of the above option(s) and to provide some forecast of the potential value of such option(s) for attracting U.S. joint business partners.

B. During the first week of the assignment, the consultants shall:

1. The International Consultants

a. Prior to their work in Tunisia, the international consultants shall spend 3 days in Washington familiarizing themselves with the issues of the assignment and reading all relevant documentation.

b. During their time in Washington, the international consultants shall undertake interviews with key people in AID and other international donor organizations as well as commercial officials at the Tunisian Embassy.

c. The consultants shall develop, with Price Waterhouse (Washington), a draft Work Plan for the full consultancy and provide copies by FAX to the AID/W Project Manager, to USAID/Tunis and to the Tunisian consultant.

2. The Tunisian Consultant

The Tunisian consultant, in coordination with Price Waterhouse, shall:

a. Gather key documents and background material available in Tunisia and arrange interviews, work space in Tunisia, car etc.

(Key documents which may be relevant to the objectives of the study include, but are not limited to, Tunisia's new Tax Code, Tunisian Company Code, Financial Laws and Regulations, relevant studies by USAID/Tunis or other donors, etc.)

b. Set up an initial meeting or series of meetings of the full team with USAID/Tunis Director and staff.

c. In consultation with USAID/Tunis Private Sector officers and the international consultants, prepare a preliminary list of people to be interviewed in Tunis and arrange several initial interviews.

d. Develop a draft schedule based on the Draft Work Plan received from the international consultants and discussions with USAID/Tunis.

3. Weeks 2 and 3 of the Work

A. During <u>week two</u> of the work, the U.S. and Tunisian consultants shall together undertake appropriate interviews with: key private sector individuals, key representatives of the Tunisian government and of organizations supporting the private sector.

B. During <u>week three</u> of the work, the consultants shall continue with necessary interviews, shall seek any additional materials required for their anlysis and shall begin developing an outline and the first draft for the study.

C. During the entire period of the consultancy the U.S. Technical Support/AID Programs consultant shall provide analytical assiatance to the consultant team and shall serve as liaison with the U.S. Mission.

4. Meetings with Mission and the Government during the Consultancy:

A. A meeting with USAID/Tunis Managment and Private Sector officers during the team's first work day in Tunisia for initial briefings and discussion of the Work Plan;

b. Two to three additional team meetings with the Mission and or the Government:

(1) halfway through the work in Tunisia the team shall meet with the USAID Private Sector officers and Mission Management to assure that the assignment is on track;

(2) a final debriefing of USAID/Tunis shall take place three days prior to the departure from country of the U.S. consultants. The purpose of this meeting will be to discuss findings and conclusions of the work and to provide an overview of the first draft.

(3) If requested by USAID/Tunis, and following the above debriefing, the consultants shall provide an oral briefing of their findings and analysis to the Governor of the Central Bank, the Minister of Economy and Finance and, perhaps, one other Government of Tunisia official.

VII PRODUCT: Venture Capital Assessment Report

A. The Venture Capital Assessment Report shall be 25 to 30 pages in length, shall be written in both French and English, and shall contain the following sections:

1. Executive Summary
2. Findings and Analysis
3. Recommendations for USAID and the Government of Tunisia
4. Annexes to Include:

   a. Review of Key Documents
   b. List of Key Persons Interviewed (name, address, organization, phone and fax number.)
   c. Relevant Bibliography .
   d. Other Relevant Materials.

B. A draft report in ten (10) English copies and a French Executive Summary of the draft in ten copies shall be submitted to the USAID/Tunis Mission by the team prior to the departure of the U.S. consultants from Tunisia.

C. Within three calendar weeks of receipt of the Mission's comments on the draft report, the consultants shall provide twenty (20) English copies of the final, revised report to USAID/Tunis.

D. Within six calendar weeks of receipt of the Mission's comments on the draft strategy, the consultants shall also provide twenty (20) French language copies of the full final, revised report to USAID/Tunis.

IX. SPECIAL REQUIREMENTS

A. The consultants should plan to lease "office space" and "office equipment", including computer and printer, for the period of the services. The space and equipment may be in the Tunisian consultant's institution (if he/she is part of an institution) -- or be independent thereof. It must however be dedicated to the consultants' use during the period of the work.

B. The consultants should plan to lease a car with driver for the weeks when the consultants are working in Tunisia. The car should be available to all consultants for local travel related to the work of the contract.

C. A member of the USAID/Tunis Private Sector Office may be available on a part-time basis to assist the team in scheduling key interviews in Tunisia -- and in prioritizing interviews. This person may attend some, or all, interviews.

D. For translation of the final report the contractor <u>may</u> elect to use the services of a Tunis-based translator. However coordination and supervision of the work of translation must be managed by the contractor and <u>not</u> by USAID.

E. The Contractor <u>shall</u> obtain medical evacuation insurance, any necessary health insurance and shall insure that all required physicals, innoculations and medical clearances are obtained for the U.S. consultants prior to their departure from the U.S.

F. The Contractor shall fax to USAID/Tunis the level of security clearance of the U.S. consultants prior to their departure from the U.S.

APPENDIX B

Source List

LIST OF SOURCES/MATERIALS GATHERED

VENTURE CAPITAL

Investment Matrix Criteria (Aetna Insurance Corporation Venture Capital Group)

Pratt's Guide to Venture Capital, Eleventh Edition

Strategy vs. Tactics from a Venture Capitalist, Arthur Rock

TUNISIAN GOVERNMENT DEVELOPMENT AND INVESTMENT POLICIES

Budget Economique 1990 (Government of Tunisia)

Economist Intelligence Unit, Country Pròfile - Tunisia

Etude sur le Fonds de Promotion et de Decentralisation Industrielle (API)

Guide Economique de la Tunisie, 1989 (Information Economique Africaine)

Industrial Investment Code (API-Agence de Promotion de l'Industrie)

A Medium-Term Trade & Investment Strategy for USAID/Tunisia, 1990

Memorandum Economique: L'appui du systeme financier tunisien en faveur de l'investissement, 1990 (The World Bank)

Note d'Actualisation de l'Etude sur le Fonds de Promotion et de Decentralisation

Note Relative a l'Etude sur FOPRODI

Note relative au Fonds Nationale de Garantie (FNG), Ministere de l'Economie et des Finances

Perspectives de Developpement des Exportations Tunisiennes (UTICA, FEDEX)

Precis de la Taxe sur la Valeur Ajoutee (La Direction Generale des Impots)

Proces Verbal de la Reunion Relative a la Refonte du FOPRODI et du FNG

"La Restructuration de l'API," Courrier de l'Industrie, Janvier 1990

Seventh (VIIth) Social and Economic Development Plan of Tunisia

Technical Papers from the "Seminaire sur Strategies Industrielles et Developpement" organized by the Ministere de l'Economie et des Finances and the Secretariat d'Etat a l'Industrie et au Commerce

Tunisia: Country Economic Memorandum, Mid-Term Review of the Sixth Development Plan, 1985 (The World Bank)

Tunisia: Foreign Investment Incentives (Embassy of Tunisia/U.S.A.)

TUNISIAN COMMERCIAL AND INVESTMENT ENVIRONMENT

Commercial Activities Report, Tunisia (U.S. Department of Commerce)

Decret no. 78-578 du 9 join 1978, portant refonte de la reglementation relative au fonds de Promotion et de Decentralisation Industrielle

Decret Portant Modification de la Reglementation du Fonds de Promotion et de Decentralisation Industrielles (FOPRODI), API

A Guide to Investment in Tunisia (Citicorp/Citibank)

Investment Climate Statement, Tunisia, June 1990

Loi no. 89-9 du 1er fevrier 1989, relative aux participations et entreprises publiques

Loi no. 89-49 du 8 mars 1989 relative au marche financier

Modalites Pratiques d'Application de l'Article 1 de la loi no. 87-47 du 2 aout 1987, relative a la restructuration des entreprises publiques et de l'Article 4 de la loi no. 87-48 du 2 aout 1987, portant amenagements fiscaux en faveur des souscripteurs aux titres de participation

Organisation du Marche Financier (1ere et 2eme parties), Circ. Nos. 943 et 944 du 26 Aout 1989

Recueil des Textes Reglementant le Commerce en Tunisie

"La Strategie de Liberalisation Financiere Externe en Tunisie," M. El Karam, Directeur du Cabinet du Gouverneur de la Banque Centrale de Tunisie

Les Techniques Financieres au Service du Developpement (Epargne sans Frontiere)

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Tunisia: Foreign Trade Incentives (Embassy of Tunisia/U.S.A.)

"L'UTICA assiste et encourage l'Union des Jeunes Promoteurs"

TUNISIAN AND OTHER DEVELOPING COUNTRY ECONOMIES

Economic Adjustment in Algeria, Egypt, Jordan, Morocco, Pakistan, Tunisia, and Turkey (Economic Development Institute of The World Bank)

Epargne et Developpement dans les Pays du Maghreb, proceedings from seminar organized by I.F.I.D. and USAID

Politiques, Economiques, Croissance, et Equilibre Exterieur dans les Pays du Maghreb (IMF)

Trends in Developing Economies, 1989 (The World Bank)

SMALL AND MEDIUM ENTERPRISES

Credit Guarantee Schemes for Small and Medium Enterprises (World Bank Technical Paper Series)

L'Entreprise et le Financement, Institut Arabe des Chefs d'Entreprises

Expansion des PME en Tunisie: Propositions pour une Nouvelle Politique en Matiere de Garantie de Financement des PME

Guide du Petit Promoteur, Ministere de l'Economie Nationale

"Journees de l'Entreprise," presentation by M. Mansour Moalla, President de l'Institut Arabe des Chefs d'Entreprise

Petites et Moyennes Entreprises (API)

JOINT VENTURE PROMOTION

The Business of Development: Industrial Cooperation Program, CIDA

Circulaire aux Banques - Financement d'entreprises mixtes tuniso-francaises en application du protocole financier de FF 100 millions (Banque Centrale de Tunisie)

" Starthilfe," Ligne de credit Autrichienne d'aide aux projets joint-ventures avec les pays en voie de developpement

Support Fund for Small and Medium Size "Canado-Tunisian" Business Entreprises (FAPME), CIDA

APPENDIX C

List of Interviews

LIST OF PEOPLE CONTACTED

United States Government Agencies

Robert Pelletreau, Jr.	US Ambassador, Tunis
George Carner	USAID/Tunis
Nancy Tumavick	USAID/Tunis
Monica McKnight	USAID/Tunis
Richard Rousseau	USAID/Tunis
Rachid Nafti	USAID/Tunis
Steve Eastham	AID/PRE/I, Washington
Kathy Wilson	AID/PRE/I, Washington
Bill Riley	A.I.D. Tunisia Desk Officer
Elizabeth Dibble	U.S. Embassy/Tunis - Commercial Counselor
Samuel Hale, Jr.	International Resources Group

Government of Tunisia

Mouldi Zouaoui	Secretaire d'Etat au Commerce et a l'Industrie, Ministere de l'Economie et des Finances
Abdelhamid Bouhaouala	Directeur General de la Cooperation International, Ministere de Plan et du Developpement Regional
Salah Hannachi	API (Agence de Promotion de l'Industrie), Responsable de Division Statistiques et Etudes
Jaleleddine Berhima	Centre d'Etudes et d'Information Industrielle, API
Fatima Ghanmi	Centre d'Etudes et d'Information Industrielle, API
Magtouf Dallagi	Centre d'Etudes et

	d'Information Industrielle, API
Elyes Kasri	Tunisian Embassy/U.S.A., Commercial/Economic Counselor
Naceur Soudani	Ministere de l'Economie et des Finances

Venture Capital Firms and Investment Companies

Samir Marrakchi	Directeur General, SPPI (Tunisian Venture Capital Fund)
Fouad Mzoughi	Partner, SPPI
Said Kaddour	SORIK, Societe Prive d'Investissements, Tunis
Graham Williams	OPIC, Washington
Fares Zaki	IFC: Tunisia Country Officer, Investment Dept., Washington

Banking Sector

Ezzeddine Chelbi	President, Professional Bankers' Association
Sadok Bahroun	President of STUSID (Tunisian-Saudi Development Bank)
Slaheddine Mouelhi	President of Banque de l'Habitat
Chedly Ayari	Badea, Professor of Economics
Steve Dwyre	Citibank, N.A., Tunis, Resident Vice President
Mohammed Faji	Banque Nationale Agricole, Direction des Etudes
Kamel Ben Debba	Banque Tuniso-Koweitienne du Developpement (BTKD)
Mohamed Ben Hamadi	Banque Tuniso-Koweitienne du Developpement (BTKD)
Sami Moalla	Banque Tuniso-Koweitienne du Developpement (BTKD)

Sahbi Grira	Banque Tuniso-Koweitienne du Developpement (BTKD)

__Stock Exchange__

Tahar Adassy	Advisor to Tunisian Stock Exchange

__Chambers of Commerce__

Mohamed Moncef Barouni	Tunisian-American Chamber of Commerce
Bassem Loukil	U.S.-Tunisian Business Council

__Law and Accounting Firms__

Faouzi Snoussi, CPA	Cabinet Rached Fourati/KPMG Tunis
Robert Kolodny	U.S. Attorney

__Entrepreneurs and Businessmen__

Abdelhamid Khechine	Tunisie Porcelaine/Hotel les Orangers, Bel Azur
Mondher Ben Abdallah	Candyl
Mohamed Ali Mankai	Tunisie Porcelaine
Hedi Smail	Edichem/ImpLaPlume
Kamel Louhaichi	Apave, Cedoc
Abdelsalem Mankai	STOA
Chedly Belkhodja	Les Vergers de Tunisie
Sami Snoussi	Telemac
Sami Heddi	Textile Industry
Lazhar Mankai	Directeur de Projet d'Acquaculture
Mahjoub Mouelhi	Entrepreneur, Plastics Industry

APPENDIX D

Venture Capital Technology

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VENTURE CAPITAL TECHNOLOGY: ADDITIONAL INFORMATION ON SERVICES, OPERATIONS, SUSTAINABILITY

I. Raising the money and organizing the investors

- It typically takes one or two years to gain interest and commitment, negotiate agreements, and define roles and relationships.
- It is essential to have an alignment of expectations, investment agendas, goals, values, ways of operating, and approaches to returns as they relate to risk.
- There must be a clear understanding of what investors want to put in and get out of the venture capital fund.
- It is far better to have a small group of compatible investors with clear, well focused investment objectives and priorities and niches, than to have a larger unfocused group that becomes diffused over a variety of agendas. It is dangerous to risk becoming "all things to all people" and doing nothing well.

II. Venture capital management, and organization of the fund

- Whatever the interests of the investors, significant leadership must come from the full-time operating manager(s) of the fund, for it is their vision, commitment, skills, entrepreneurial spirit, judgment, and tolerance for risk and reward that will anchor the whole effort and be tested every day for several years.
- It is essential to clarify the different roles of management, investors and outside experts.
- Venture capital managers must be prepared to make a long-term commitment, maintain a single-minded focus, and establish a solid relationship with partners
- Venture capital managers should have varied and complementary skills: for example, generalist and specialist, entrepreneur and financial manager, company builder and crisis manager, long term strategist and cost controller, relationship manager and tough decision maker.
- Venture capital managers must be exceptional judges of character. This talent will be critical to the successful implementation of a technical, financial or marketing concept.

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- Experience has demonstrated that performance and accountability of the VC fund is higher when compensation is linked to the long term profitability of client companies and to ultimate capital gains. Venture capital management commonly gets up to 20 percent of this value.

III. Deal flow, evaluation and selection

- It is extremely difficult to find top quality deals and even more difficult to find entrepreneurs who can make it all happen.

- Creating and attracting a large flow of potential deals increases the fund's chances of finding one that is worth a long term investment.

- The "due diligence" process takes time, patience, discipline, numerous technical and general skills, and ultimately depends on the caliber of the entrepreneur.

- Sometimes a great business project will need more competent general management that can complement the entrepreneur, who may be more suited to a narrow or more specialized role. Handling this problem is a major responsibility of venture capitalists.

IV. Making investment decisions

- Investment decisions require the investment agenda, policies, criteria, objectives, and strategy to be clear, focused, and disciplined.

- These decision also require an honest understanding of the VC fund's competitive advantages, and special abilities to add value, such as leveraging financial capital with human capital.

- Initial financing of a company usually carries a responsibility to lead and participate in the future rounds of financing that will be require for further growth. This means that some funds should be reserved for follow-on needs.

V. Structuring transactions

There are many models and methods for structuring investments, and different kinds of control - managerial, financial, legal - with there are different ways to provide for each kind. Venture

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capitalists should do the following:

- o Empower the entrepreneur. No good venture capitalist wants to run a company on an every day basis. If a company gets into trouble, however, the venture capitalists should be able to choose managers.
- o Anticipate future possibilities for both periods of growth and periods of difficulties.
- o Assist in aligning and serving the objectives of the entrepreneurs, the venture capital managers, and the investors.
- o Share risks and rewards fairly.
- o Plan to make decisions that are in the interest of the company and the investors if the investment and the company does not develop as planned.
- o Promote a positive, long-term partnership.

VI. Monitoring performance and managing risk

- o Usually means that the venture capitalists have a seat on the board of the company, receive monthly reports, and have frequent dialogue and work sessions with the company's management (up to several days a month per company).
- o One general rule (although there are exceptions) is that things take twice as long and cost twice as much as planned.
- o Is a continuous, cumulative process requiring open and full financial disclosure, mutual confidence, and a partnership approach.
- o Start-ups are risky, and require an extraordinary amount and exceptional quality of assistance.
- o It is almost certain that reality will differ from plans. What is learned from this and how it is handled is crucial.

VII. Adding value with technical assistance

- o This capability separates good venture capitalists from average or poor ones.

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- Helping a company develop and providing the kinds of financial, management and technical assistance it needs is a ongoing challenge in the life of a company.

- There is a fine line between building a company's confidence and capabilities, and giving it a sense of dependency on outsiders.

- Venture capitalists must be excellent counselors and consultants in many areas, and must be able to access many other technical experts.

- The human factor involved in technical and management assistance process.

VIII. Long-term company building and growth

- Requires a special focus on expanding, becoming more efficient, and becoming more profitable.

- Involves familiarity with issues such as: strategies, resources, financing methods, market development and competition.

- May require the VC fund to participate in future rounds of financing and in attracting in other corporate or financial investors.

- Almost always involves evaluation of and changes in a company's management team and in the role of the entrepreneur.

- As the company grows, the requirements of management and leadership change; some entrepreneurs are able to adapt, others are not; everyone is different

- Working effectively to make transitions is one of the most challenging jobs of a good venture capitalist; it can be the difference between success and failures

IX. Managing exit strategies and generating rewards

- Many venture capitalists never get into an investment without first contemplating how they might get out years later.

- A company needs to be well prepared and structured, and all parties must agree on a way to create financial value in a certain time period, usually 4 - 7 years.

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- Large returns usually come from establishing a valuable company with a valuable future, one that will attract new capital from the stock market, other companies, wealthy individuals, or through a management buy-out.

- Planning an exit strategy, finding the right buyers or investment sources, and executing the deal are major tasks of venture capitalists.

- It helps to have fully functional capital markets which provide alternatives for the company and promote competition among investors, thereby raising the potential price/earnings multiple and creating higher rewards for the company and its original investors.

X. Managing venture capital within the larger environment

- The venture capital investment process takes place within the multifaceted financial environment.

- One role of venture capital managers is to be aware of the opportunities, the problems, and the issues posed by the fiscal, legal, regulatory, ethical and cultural environments.

XI. Valuation and control

- "Valuation" and "control" are two of the most controversial areas to negotiate, whether establishing an investment or liquidating it. This is a subjective process: great skill, judgement, sophistication and practical wisdom are required.

XII. Operational Issues

- The optimum percentage of venture capital participation in any one company would be in the 34 - 50 percent range. Present Tunisian law limits the participation of investors who hold less than 33 percent.

- There are many factors which influence the percentage of participation by venture capital investors, company management, and any third party investors who may become involved. Examples of such factors are:

  - valuation of the business prior to the VC investment (size, cash flow, etc.)

  - amount of out-of-pocket cash put in by the entrepreneur and early investors

- the amount of equity financing needed to expand the company for the next year or two, and the amount that may be needed later
- the level of debt the company can support
- the intended uses and potential accomplishments of VC financing
- the terms of the investment
- requirements for other investors (in addition to the venture capital fund)
- the trade-off (in the minds of the entrepreneur and the investor) between having a big piece of a small pie or a smaller piece of a bigger pie
- the long-term objectives of all parties

o Expected exit times are generally in the 4 - 7 year time frame, with the timing depending on many factors, including:

- stage of company growth
- stage of market development
- optimizing capital market opportunities
- availability of cash-out alternatives
- readiness of all parties
- objectives of all parties
- agreements negotiated up front

o Various divestment alternatives were mentioned in the report. The formulation of a divestment strategy should begin early in the investment, and should be taken into account throughout the company building process.

o The management fee is 2 - 3 percent of the committed capital - which is used to cover the salaries and overhead expenses of the fund.

o It is important that (as previously mentioned) a

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correlation exist between compensation and performance. A common approach is to pay 20 - 30 percent of the "carried interest" or ultimate capital value of the fund at the conclusion of its life (7 - 10 years).

o With regard to financial sustainability, a venture capital fund will be sustainable to the degree that it invests wisely and manages its investments over the long term.

o A venture capital fund could increase its financial sustainability through:

  - risk sharing with other investors

  - finding third parties who will insure or subsidize a percentage of the risk

  - structuring investments to get some shorter term returns (if the company's cash flow permits) using preferred stock or convertible debt

  - adding value through technical assistance

  - structuring the investment to be sure the entrepreneur and management team are sharing risks with the investor

  - working extra hard to create a few early success stories

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APPENDIX E

Assets and Liabilities in Tunisian-American Business/Commercial Relations

ASSETS AND LIABILITIES IN TUNISIAN-AMERICAN BUSINESS/COMMERCIAL RELATIONS

Following is a list of positive factors (assets) that should serve to stimulate U.S.-Tunisian business relations, and negative factors (liabilities) that constrain U.S.-Tunisian business relations:

ASSETS

- Tunisia is enacting fiscal reforms and attractive investment and trade incentive packages
- Tunisia has a base of capable and sophisticated entrepreneurs and business people
- Tunisia has a large base of skilled technical people and a well-educated, skilled work force
- Tunisia has very low relative costs (for example, a good engineer or manager is up to five times cheaper in Tunisia than in the U.S.)
- There is a noticeable reservoir in Tunisia of respect for and interest in American business methods, technologies and products
- There are specific companies in Tunisia that want to do business with Americans
- Tunisia can serve as a bridge (geographic and cultural) to Europe
- Tunisia can serve as a bridge (geographic, cultural, linguistic) to North Africa and the Arab world
- The Tunisian president has strong positive feelings toward the United States
- Tunisia is a friendly, stable, westernized Arab country, in contrast to the perception of many Americans that Arab countries are unfriendly, alien, unstable, and violent

LIABILITIES

- There are no direct travel links; the distance between the two countries is formidable
- Tunisian businesses are often undercapitalized

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- Tunisian culture is perceived as alien by many Americans
- There is a lack of understanding about Tunisian business assets
- There is a lack of U.S. familiarity, history, and experience with Tunisia
- There is a lack of regular and widespread contacts between the two countries
- Tunisia is low on American business priority lists
- The U.S. government and Commerce Department have fairly low profiles in Tunisia
- There is a lack of U.S. tourist trade in Tunisia with potential business spill-over
- There is a lack of promotion, marketing
- The French and Italians have a competitive advantage in Tunisia
- Tunisia is perceived as having a small market
- There are not many examples of successful U.S. commercial involvement in Tunisia
- Tunisia has an underdeveloped financial environment and a rigid and conservative banking system
- There is a lack of confidence in the stability of the political, buisness and financial environment

APPENDIX F

Case Study: PNG Venture Fund

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PNG VENTURE FUND
PTY LTD

Venture Capital
Facilities

CDC

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Who are we?

The Venture Fund aims to promote private business by funding companies in Papua New Guinea which have growth potential and demonstrated management capability.

We are a wholly-owned subsidiary of the Commonwealth Development Corporation (CDC), a UK statutory corporation investing in and managing projects in 56 developing countries. Within PNG, CDC is involved in large-scale agricultural and utility projects representing an investment in excess of K70m.

For most companies operating in PNG there is a shortage of venture capital. CDC has set up the Venture Fund as a commercial operation to provide between K100,000 and K550,000 to suitable companies, both start-up and expanding.

What is venture capital?

Venture capital is a flexible form of equity financing to help growth-oriented companies or entrepreneurs. Both equity and bank lending should be used to finance a company, the proportions depending on circumstances. Equity finance helps the company by:-

- Providing long term finance which shares the risk and rewards rather than imposing a fixed debt-serving commitment.
- Increasing the capacity to grow and to borrow.
- Accelerating the growth of company (and shareholder) value.

Venture capital provides equity finance (often a majority proportion) to a developing company in return for a minority stake and a share of the profits. The risks associated with this type of investment are acceptable only if:-

- The company has strong growth and profit potential.
- Management is competent and committed to success.
- The investment is structured to participate fully from growth in the company's profitability and capital value.
- The company agrees to consult with the investor on major decisions which may affect his investment.

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What can the Venture Fund provide?

We can invest between K100,000 and K550,000* in return for a minority interest. The actual amount will depend on the company's size, its needs, financing from other sources including banks and shareholders, and its profit prospects.

These factors will also influence both the shareholding and the type of equity finance proposed by the Venture Fund. Only a minority shareholding, typically 10-30% and where possible avoiding the need for NIDA registration, will be taken. The type of equity will be Ordinary Shares or, more usually, Preference Shares. Underwriting, and occasionally loans, can also be considered.

Preference Shares will carry a fixed and participating dividend, and often the right to convert into Ordinary Shares or be redeemed at a later date. The structure is flexible and adaptable to the company's circumstances and needs.

Investment by the Venture Fund may bring intangible benefits from national and international connections, as well as general business advice from ourselves or experienced local businessmen.

* the kina equivalent of £400,000

Which companies are eligible?

We will consider financing PNG-incorporated companies in most sectors which:-

- Seek to expand and have a credible business plan indicating how this will be achieved.
- Have management of demonstrated and relevant capability or will introduce this by recruitment or joint venture prior to investment.
- Will have effective financial and management controls.
- Further PNG's development through their activities.

New ventures have a high risk of failure. The Venture Fund can only consider helping to finance these if the management has clearly demonstrated and responsible experience in related businesses, and if the entrepreneur or management shows commitment by adequate investment alongside the Venture Fund. The appropriate amount will depend on circumstances and expected cash flows. In addition, bank lending will normally be expected to contribute to the funding needs of the new venture.

The buyout or refinancing of an existing business can be considered if the sum involved represents a smaller proportion of the total finance required. The degree to which profitability can be expected to improve will be taken into account in determining an acceptable proportion.

It is policy not to finance the preparation of feasibility studies or business plans.

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What procedures does the Venture Fund follow?

Normal steps leading to investment:-

- study of Business Plan (see below) prepared by the company, followed possibly by request for more information.
- discussions with managers and visit(s) to the company.
- business appraisal of the company, with particular attention on the product/market environment.
- preliminary negotiations followed by indication of interest by ourselves.
- if relevant, summary financial investigation by independent accountants (payable by company).
- investment after acceptance of offer by company and satisfaction of any remaining conditions.

Discussions may of course be halted by either party at any of the above stages without reasons necessarily being given.

This investment process can take from less than 2 weeks to more than 3 months. It basically depends on the availability of suitable information. We are structured to provide rapid response where necessary.

Do we impose any conditions?

Since we normally provide a significant element of funding without securing control of the company, some protection to our investment is sought. This protection is incorporated within the letter of offer which on signature becomes a legally binding agreement between the parties. The main features are:-

- Company agrees to maintain effective financial controls.
- We receive regular management information.
- We have right to appoint a director (who must be acceptable to the company).
- Prior consultation or consent for major decisions which may affect our investment including:- Change of business, borrowing, share transfers and issue, acquisitions and disposals, appointment of new directors.
- Annual audit.

Where judged appropriate, the company will, on investment, contribute towards the direct expenses of investigation (e.g. travel, accommodation) incurred by the Venture Fund.

How to apply?

In the first instance the company may wish to discuss an intended application with its bankers or financial advisers.

If unsure whether it is eligible, the company should write a brief letter or arrange a preliminary meeting with us. Information on the following key areas would help us determine whether an application may be worthwhile:-

- Current and intended business activities
- Current and intended turnover and profits
- Financing need, and proposed contribution from company or sponsor and bank (if any)
- Experience and background of key managers

Formal application is made by sending a Business Plan. Preparation of this may warrant involvement of financial advisers, and should include:-

- Current business and history
- Future strategy for growth
- Market environment for company's products
- Background of directors and key managers
- Shareholders and shareholdings
- Past trading results
- Current balance sheet
- Future trading and cash flow estimates.
- Financing need and proposed sources

This and any enquiries should be addressed to:-

Paul Cardwell
Manager
PNG Venture Fund Pty Ltd
P.O. Box 525
Port Moresby, PNG

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APPENDIX G

OPIC's Opportunity Bank

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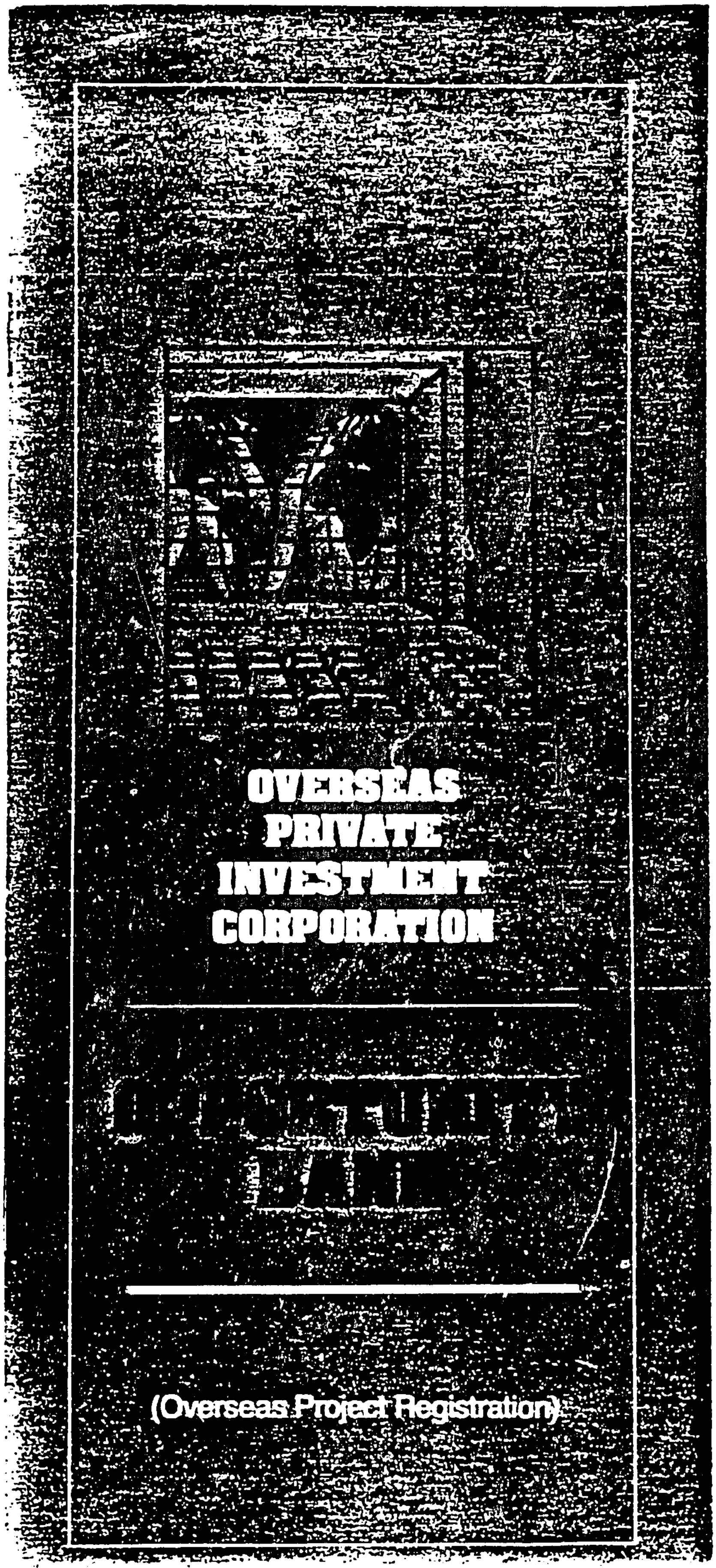
OVERSEAS PROJECT REGISTRATION PROCESS



INTRODUCTION

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. government agency whose purpose is to promote economic growth in developing countries by encouraging U.S. private investment in those nations.

OPIC assists U.S. investors in this effort through two principal programs: (1) the insurance of investment against certain political risks and (2) the financing of such enterprises through direct loans and/or loan guaranties. All of OPIC's insurance and guaranty obligations are backed by the full faith and credit of the United States of America, as well as OPIC's own substantial financial reserves.

To further foster private investment in the developing countries, OPIC offers several Pre-investment Services, including its Opportunity Bank, which is described in this booklet.

"THE OPPORTUNITY BANK"

A major stumbling block in the developing world's attempt to attract U.S. investment capital arises from the limited flow of information between potential U.S. equity investors and likely sponsors of investment projects in the developing countries.

In its continuing effort to promote U.S. direct investment in the developing nations, OPIC has sought to establish channels of investment information by developing a computerized data system called the Opportunity Bank.

The primary purpose of this data bank is to enable U.S. firms and overseas project sponsors to register their respective investment interests and requirements, thus permitting rapid access to this information by interested potential joint-venture partners in the United States and abroad.

Currently, the Opportunity Bank contains more than 2,000 investment project profiles on a broad cross-section of potential joint-venture enterprises in more than 100 countries in the developing world. The company file contains more than 1,800 potential U.S. investors.

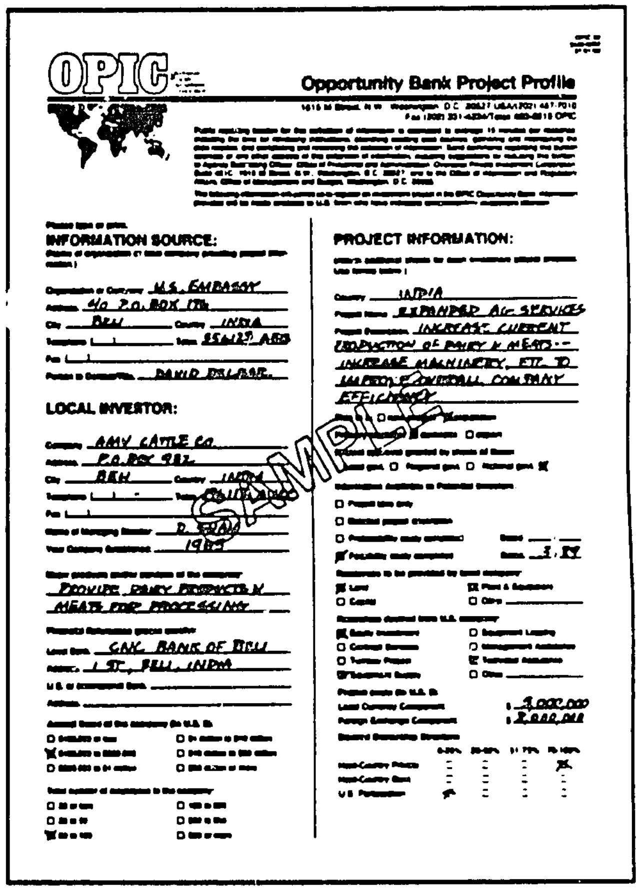
REGISTRATION & SEARCH REQUESTS

Overseas Project Registration

Overseas investors desiring to register their interests and to obtain information on potential U.S. joint-venture partners should follow the three-step procedure outlined below:

STEP 1: Project Registration

Overseas project sponsors register their interests with the Opportunity Bank by completing a "Project Profile" form (see example 1). Registration is at no cost to the overseas project sponsor. OPIC reserves the right to reject or return registrations which are incomplete or deemed inappropriate.



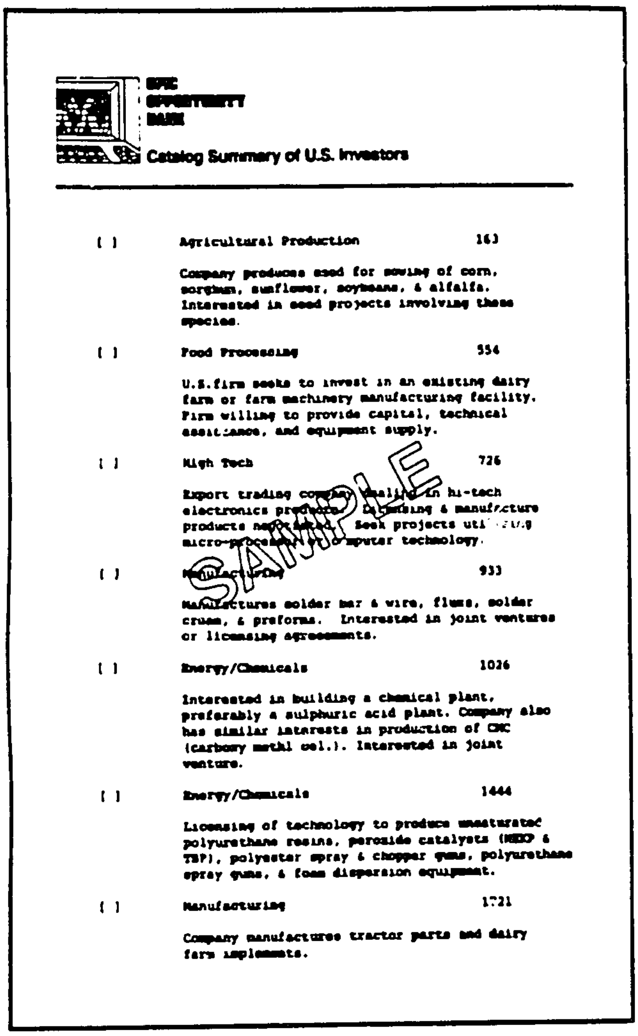
Example 1

STEP 2: Summary Listing

Once the overseas project profile is received by OPIC, it is entered into the Opportunity Bank and an acknowledgement letter is sent to the project sponsor—along with a Catalog Summary listing of U.S. companies (see example 2) that corresponds to the overseas investor's specific project interests.

STEP 3: Computer Search

If the registered overseas project sponsor wishes to obtain complete "printouts" of the U.S. companies described in the summary, a $50 fee in U.S. dollars (dollar draft, check, money order or credit card) should be remitted to the "OPIC Opportunity Bank". For each $50 search, an overseas project sponsor will receive up to 10 U.S. investor profiles (see example 3).



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BANK
Catalog Summary of U.S. Investors

[ ] Agricultural Production 163

Company produces seed for sowing of corn, sorghum, sunflower, soybeans, & alfalfa. Interested in seed projects involving these species.

[ ] Food Processing 554

U.S. firm seeks to invest in an existing dairy farm or farm machinery manufacturing facility. Firm willing to provide capital, technical assistance, and equipment supply.

[ ] High Tech 726

Export trading company dealing in hi-tech electronics products. Customizing & manufacture products negotiated. Seek projects utilizing micro-processor or computer technology.

[ ] Manufacturing 933

Manufactures solder bar & wire, flux, solder cream, & preforms. Interested in joint ventures or licensing agreements.

[ ] Energy/Chemicals 1026

Interested in building a chemical plant, preferably a sulphuric acid plant. Company also has similar interests in production of CMC (carboxy methl cel.). Interested in joint venture.

[ ] Energy/Chemicals 1444

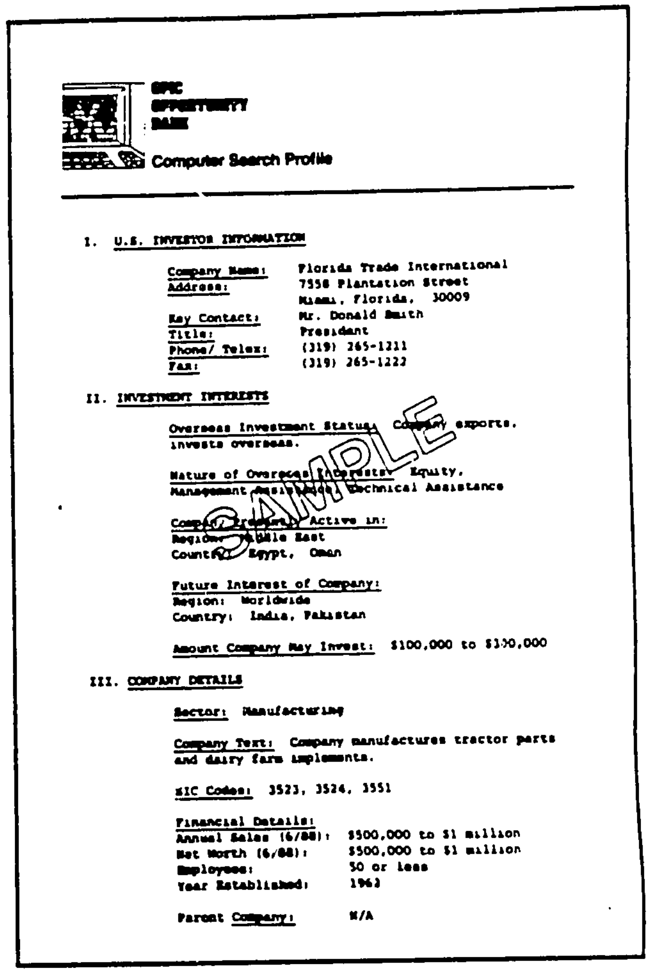
Licensing of technology to produce unsaturated polyurethane resins, peroxide catalysts (MEKP & TBP), polyester spray & chopper guns, polyurethane spray guns, & foam dispersion equipment.

[ ] Manufacturing 1721

Company manufactures tractor parts and dairy farm implements.

SAMPLE

Example 2



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Computer Search Profile

I. U.S. INVESTOR INFORMATION

Company Name: Florida Trade International
Address: 7558 Plantation Street
Miami, Florida, 30009
Key Contact: Mr. Donald Smith
Title: President
Phone/ Telex: (319) 265-1211
Fax: (319) 265-1222

II. INVESTMENT INTERESTS

Overseas Investment Status: Company exports, invests overseas.

Nature of Overseas Interests: Equity, Management Assistance, Technical Assistance

Company Presently Active in:
Region: Middle East
Country: Egypt, Oman

Future Interest of Company:
Region: Worldwide
Country: India, Pakistan

Amount Company May Invest: $100,000 to $1[illegible]0,000

III. COMPANY DETAILS

Sector: Manufacturing

Company Text: Company manufactures tractor parts and dairy farm implements.

SIC Codes: 3523, 3524, 3551

Financial Details:
Annual Sales (6/88): $500,000 to $1 million
Net Worth (6/88): $500,000 to $1 million
Employees: 50 or less
Year Established: 1963

Parent Company: N/A

SAMPLE

Example 3

U.S. COMPANY REGISTRATION PROCESS

OVERSEAS
PRIVATE
INVESTMENT
CORPORATION

OPPORTUNITY BANK

(U.S. Company Registration)

c-109

INTRODUCTION

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Currently, the Opportunity Bank contains more than 2,000 investment project profiles on a broad cross-section of potential joint-venture enterprises in more than 100 countries in the developing world. The company file contains more than 1,800 potential U.S. investors.

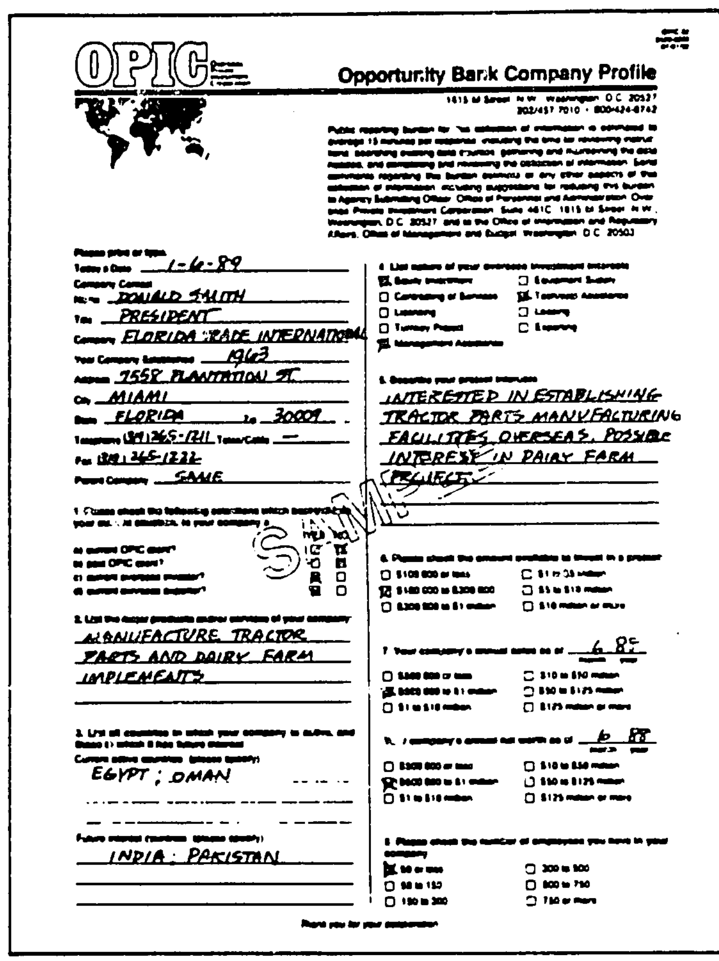
REGISTRATION & SEARCH REQUESTS

U.S. Company Registration

U.S. investors desiring to register their investment interests and obtain information on overseas project opportunities should follow the three-step procedure outlined below:

STEP 1: Company Registration

U.S. companies register by first completing the "Company Profile" form (see example 1). Registration is at no cost to the U.S. company. OPIC reserves the right to reject or return registrations which are incomplete or deemed inappropriate.



Example 1

STEP 2: Summary Listing

Once the U.S. company profile is received by OPIC, it is entered into the Opportunity Bank and an acknowledgement letter is sent to the company—along with a Catalog Summary of projects (see example 2) that corresponds to the company's interest areas.

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Catalog Summary of Investment Opportunities

[ ] INDIA — Ref. # B 301

Local firm seeks U.S. partner to expand existing dairy farm and improve output. Modern dairy farm implements sought.

[ ] PAKISTAN — Ref. # D 222

Project for the establishment of a dairy farm seeks U.S. partner to provide technical assistance, equipment supply, and equity investment.

[ ] PAKISTAN — Ref. # H 500

Assistance sought to manufacture and market computers and related software.

SAMPLE

[ ] PAKISTAN — Ref. # D 501

Joint venture sought with a brand name manufacturer to produce sports equipment (ie. soccer balls, tennis racquets and sporting gloves).

[ ] INDIA — Ref. # F 501

Joint venture sought to establish a facilities for the production of pharmaceuticals.

[ ] PAKISTAN — Ref. # A 507

Assistance sought to establish a concern to develop, process and market high quality/yield, disease resistant agricultural seed to the domestic market in Pakistan.

[ ] PAKISTAN — Ref. # B 513

Establishment of a processing plant to store, pack, and market meat and dairy products for export.

[X] INDIA — Ref. # B 202

To meet increased local demands and to promote efficiency, company seeks to increase current production of dairy and meat products.

Example 2

STEP 3: Computer Search

If the registered U.S. company wishes to obtain detailed, contact "printouts" of the projects described in the catalog summary, a $50 fee (check, money order or credit card) should be remitted to the "OPIC Opportunity Bank". For each $50 search, a U.S. investor will receive up to 10 project profiles (see example 3).

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Computer Search Profile

I. PROJECT INFORMATION

Country: India — REF #202
Project Name: Agricultural Services Expansion
Description: To meet increased local demands and to promote efficiency, company seeks to increase current production of dairy and meat products.

Status: Expansion of an existing project.
Market: Domestic
Government Approvals: National
Project Info: Feasibility study, dated 3/89

Local Resources Provided: Land, Plant
U.S. Resources Desired: Equity, Technical Assistance, Equipment Supply.

SAMPLE

Project Cost (US $): Host Company Portion $5 million
U.S. Company Portion $8 million

Desired Ownership: Local Private 76-100%
U.S. Investor 0-25%
Host Government N/A

II. PROJECT SPONSOR INFORMATION

Contact Name: D. Shah
Company Name: AMV Cattle Co.
Address: c/o P.O Box 932
Beli, India
Phone/Telex 196112 AVCC

Host Company Data:
Annual Sales: $100,000 to $500,000
Employees: 50 to 100
Year Est. 1963

Financial Reference:
Local: CNC Bank of Beli
1 Street, Beli, India
International: N/A

III. SOURCE OF PROJECT:
U.S. Embassy

Example 3