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TUNISIA

MINISTRY OF INDUSTRY, ENERGY AND SMALL AND MEDIUM ENTERPRISES

POLICY NOTE ON SMEs ACCESS TO FINANCE IN TUNISIA

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REPUBLIC OF TUNISIA –FISCAL YEAR
January 1st - December 31st

MONETARY EQUIVALENT
(Exchange rate as of Nov. 30, 2009)
Currency Unit = Tunisian Dinar (TND)
1,00 US$ = 1.2815 DT

WEIGHTS AND MEASUREMENTS
Metric System

ABREVIATIONS AND ACRONYMS

AFI	Agence du Foncier Industriel (Industrial Land Agency)
API	Agence de Promotion de l'Industrie (Industrial Promotion Agency)
BCT	Banque Centrale de Tunisie (Central Bank of Tunisia)
BFPME	Banque de Financement des PME (SME Financing Bank)
BVMT	Bourse des Valeurs Mobilières de Tunisie (Stock Market)
CIBCT	Centrale d'Information de la Banque Centrale de Tunisie (Information Center of the Tunisian Central Bank)
CMF	Conseil du Marché Financier (Financial Market Council)
CS	Credit Scoring
EE	Enquêtes Entreprises (World Bank Enterprise Surveys)
EU	European Union
FNG	Fonds National de Garantie (National Guarantee Fund)
FOPRODI	Fonds de Promotion et de Décentralisation Industrielle (Industrial Promotion and Decentralization Fund)
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
IACE	Institut des Chefs d'Entreprise Arabes (Institute of Arab Business Leaders)
IMF	International Monetary Fund
INS	Institut National de la Statistique (National Institute of Statistics)
ITCEQ	Institut Tunisien de la Compétitivité et des Etudes Quantitatives (Tunisian Institute of Competitiveness and Quantitative Studies)
MENA	Middle East and North Africa
MFI	Micro-Finance Institution
MIEPME	Ministère de l'Industrie, de l'Energie et des Petites et Moyennes Entreprises (Ministry of Industry, Energy and Small and Medium-sized Enterprises)
OECD	Organization for Economic Cooperation and Development
Pct.	Percentage
PCB	Private Credit bureau
PE	Pépinières d'Entreprises (Business incubators)
PMI	Programme de Modernisation Industrielle (Industrial Modernization Program)
SICAR	Société d'Investissement en Capital Risque (Venture Capital Investment Company)
SME	Small and medium enterprises
SOTUGAR	Société Tunisienne de Garantie (Tunisian Guarantee Company)
UTICA	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (Tunisian Union for Industry, Trade and Handicrafts)

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EXECUTIVE SUMMARY

Tunisia has enjoyed strong growth over the last decade. Real GDP grew by an average of about 5 percent over 1997-2007, a rate higher than was has been observed for the Middle East and North Africa region as a whole. This strong growth performance owes a lot to sound macroeconomic management and the gradual implementation since the mid-1990s of reforms aimed at progressively integrating the country into the global economy. This policy stance has helped make Tunisia's one of the best-performing economies in the region. To strengthen this strong performance, Tunisia's 11th Plan of July 2007 sets out a medium-term growth strategy based on the development of a high value-added knowledge economy.

However, the US subprime mortgage crisis that broke out in 2007, and which by the end of September 2008 had become a global financial and economic crisis, has made it much more difficult than expected to reach the targets set out in the 11th Plan. Tunisia has also been adversely affected by this crisis, largely due to the spill-over effect of the recession in the country's main export destination markets, especially in Europe. In this difficult context, creating – or even merely preserving – private sector jobs and growth has become critical. Industry, particularly the manufacturing sector, and services, play a major role in this area in Tunisia. In order for these sectors to weather the current shocks and continue to grow in line with the Tunisian government's objectives, it is necessary for the economy, and therefore companies, to be adequately financed.

The Tunisian government has long been aware of the need to support companies in their search for financing. Over the last decade, the government has strengthened legal and regulatory frameworks in this area, created public financing systems, facilitated the development of financial markets and helped to expand the supply of financial products, especially those geared at SMEs.

SMEs play a vital role in Tunisia because at least 97.8 percent of Tunisian firms (across all sectors) fall into this category. The main consequence of the prevalence of SMEs in Tunisia's economic landscape is that all economic development strategies are de facto based on the performance of this category of companies. SMEs' ability to obtain financing for their business operations and investments is therefore crucial to Tunisia's future economic development.

SME financing in Tunisia: despite a favorable environment, private sector financing has reached a plateau.

SME access to financing is a product of both demand and supply constraints. Companies may be deprived of financial services either because of constraints that exist at their level (demand side factors) or because the formal financial system as a whole is not able to accommodate their needs (supply side factors). Supply side factors, i.e. making financial products and services available at a reasonable cost, depend not only on macroeconomic and microeconomic factors, but also on government initiatives.

Data available for Tunisia underscore a kind of paradox. Tunisian SMEs have operated in the last few years within a constantly improving macroeconomic framework and business environment. Most financing tools are available and the Tunisian government has put in place several support mechanisms. However, despite this fairly favorable environment that generates viable financing opportunities, private sector funding (as a percentage of GDP) has leveled off in the last decade. Recent growth in outstanding credit is mostly due to an increase in consumer credit. SME financing remains limited and largely short-term. In addition, the usual indicators of access to financial services are below what is predicted by Tunisia's GDP per capita level and the size of its financial sector. This can be explained by the fact that many constraints remain in this area, whether on the demand or supply side.

Enterprises' perception: significant and persistent problems of access to financing that stem from banks' stringent requirements.

Available survey data show that Tunisian companies consider access to and cost of bank financing to be two of the greatest barriers to their growth. In 2006-2007, 29.7 percent of them, irrespective of sector, considered access to bank financing to be a "major" obstacle to their growth, while 49.9 percent of firms saw the cost of bank financing in the same light. This perception is even more negative for small enterprises. It is therefore hardly surprising to observe that self-financing, mainly retained earnings, is the main source of funding for Tunisian companies.

The banking system's contribution remains moderate. Depending on the sector, bank credit provides for between 11 and 24 percent of long-term asset financing compared with 48 to 52 percent from retained earnings. Financing provided by SICARs (venture capital firms) and other non-banking financial institutions play a minor role, irrespective of sector. To some extent, the relatively limited use of bank financing by Tunisian SMEs reflects the negative perceptions referred to above.

Existing data also indicate that Tunisian SMEs consider banks' collateral requirements to be the chief obstacle blocking access to bank credit (on average, banks require collateral worth up to 167 percent of the loan granted). Though they are mentioned less often, administrative procedures and documents to be submitted are also significant obstacles. Conversely, according to the firms, SICARs' and leasing companies' small share in the financing of Tunisian companies appears to stem partly from the companies' inadequate grasp of these financing tools. Low recourse to financial markets is also mainly due to companies' lack of knowledge and to the perception that this type of financing is the preserve of large companies.

The data underscore the perception that the financing problems faced by Tunisian companies and SMEs are structural. They also indicate that firms do not appear to expect to see an improvement in the short term. Despite the existence of a fairly sophisticated financing system, it appears that companies' financing needs are not being fully met.

The supply of financial products and services

The main types of financing available to SMEs in Tunisia are: i) bank financing that can help SMEs in the operational phase (working capital requirements, investment), ii) factoring and leasing that help to fund operations (and, in the case of leasing, sometimes constitute an alternative to investment), iii) the stock market, which provides medium and long-term financing and iv) venture capital, which aims more specifically at companies in the start-up phase.

The banking system and bank lending. The Tunisian banking system has undergone profound changes in the last decade: the creation of SOTUGAR in 2003 (a guarantee fund set up to provide the collateral SMEs need to back their loan applications), and that of BFPME in 2005 (a public institution specialized in the financing of start-ups and existing SMEs), the change in status of development banks to universal banks, and the privatization of *Banque du Sud*. Despite these recent improvements, the sector still does not play the role it should and can play with respect to SMEs.

In effect, banks - which provide the bulk of firm's and SMEs external funds - indicate they face a serious opacity problem with SMEs, that most of them have already a high debt ratio and propose most of the time projects for mature market which are unlikely to have a high rate of return. The difficulty they face in dealing with SMEs is further increased by the fact that i) it is difficult to obtain proper credit history information on this type of firms, ii) they have not enough personal specializing in this area and iii) for most of them - recent advances in lending technologies (credit-scoring) are not used (and cannot be fully used now due to limitations of the current credit reporting system). As a result, banks rely mostly upon the ability of SMEs to provide collateral in order to provide a credit (asset-based lending technology) and their reputation. This creates de facto an upper limit to SME lending as many of them - especially the smallest ones - are unable to provide adequate collateral.

It must also be noted that some other characteristics of Tunisian banks are not in favor of a further increase in SME lending. In spite of an improvement in recent years, Tunisian banks are still burdened by the high level of non-performing loans on their balance sheets. In this context that is not conducive to risk taking, there is some concern that Tunisian banks will continue to remain on the sidelines of SME financing for a while longer and will continue to favor consumer credit as they have done in recent years, as the latter is considered as simpler and safer.

As of now, banks seem to be unwilling/unable to consider SMEs as an attractive and profitable market.

As a consequence, in recent years, the Tunisian government has taken two very important measures aimed at facilitating SME financing by offsetting banks' reluctance to lend to this sector: the creation of BFPME and SOTUGAR. Even though banks see these mechanisms as a step forward, they are still somewhat reluctant to use them and invoke reasons relating to cost and time delays (SOTUGAR) or to the duplication of procedures and contractual details (BFPME).

Leasing. The leasing business was introduced in 1984 in Tunisia. There are currently 10 leasing companies in operation. The three largest companies account for almost 60 percent of the market. On a comparative basis, leasing appears to be relatively developed in Tunisia; although lower than in Morocco the ratio of penetration to GDP (1.6) is above the value for Egypt and many other countries. Leasing has increased significantly in Tunisian SMEs in recent years as a source of funding for fixed asset investment. Leasing penetration in gross fixed capital formation reached 10.6 percent in 2008. Even though it is making steady strides, the sector still faces constraints such as i) the absence of a secured transaction registry, ii) the difficulty of obtaining financing for specialized equipment, which makes leasing less attractive to industrial SMEs and iii) a financing cost of financial leasing which remains relatively high.

Factoring. Factoring is a useful financing tool that accelerates SMEs' cash flow and enables them to meet their working capital requirements. Factoring is a technique whereby, under the terms of a contract, a specialized credit institution takes responsibility for collecting a company's debts while opting to bear any losses incurred as a result of debtor insolvency. The factoring sector is expanding and continuing to contribute to financing the Tunisian economy and to managing account receivables. The volume of invoices purchased amounted to a total of TND 451.1 million (352 USD million) at end 2008 (a 10.4 percent growth compared to 2007). 83.2 percent of this derived from domestic business. Two companies are involved in this market. The factoring business involved 511 firms and 24,156 buyers in 2008.

The sector nevertheless faces several challenges such as i) contract enforcement difficulties, ii) difficulty of obtaining information on companies' credit histories and payment records, and iii) the absence of a specific legal framework.

The Stock Market. In December 2007, an alternative market (*Marché alternatif*) was launched to facilitate SME access to financing. The hope is that this newly-created market will help to diversify financing sources (and therefore reduce the cost of capital) and be a vector for the transformation of SMEs, which are often family companies. Requirements for SMEs' entry into the alternative market have been adapted in accordance with international best practices, and they are less stringent than the conditions imposed on larger companies listed on the primary market. This market remains little developed because it faces a number of:

- Institutional constraints: the small size of the primary market is not an attractive example, low liquidity on the primary market increases the risk of low liquidity on the secondary market, the level of investor protection could be improved, disclosure/ reporting of financial information need to be improved and there are still obstacles to foreign investor's participation;
- Demand constraints: lack of information on/awareness of the fact that the alternative market could be a source of long-term financing for SMEs, strong reluctance to disclose the information required for market flotation and the perception that there is a high cost to enter this market, which acts as a strong deterrent to potential candidates.

SICARs. Venture capital is a type of private equity capital. It is a structured technique that provides capital to high-growth emerging companies. Venture capital enables enterprises to obtain private equity capital that is granted without any collateral (or tangible and intangible guarantees) and is paid back in the medium term by the enterprise itself once it has started to generate profits. SICARs provide funding to help to finalize the financing plan. Together with the project sponsors and FOPRODI (a fund promoting industrial SMEs and implementing measures for regional development.), SICARs provide between 35 and 40 percent of total investment. There are currently over 40 SICARs operating in Tunisia. At the end of 2007, in over 12 years of activity, venture capital had helped to finance 1,300 companies, with funds amounting to close to TND 600 million (468.2 USD million). While the Finance Law of 2009 made it possible to remove major hurdles to the development of SICARs, there are still two strong constraints that will take longer to address:

- Due to the limitations of BVMT (the primary stock market) and the alternative market, prospects of exit via the stock exchange remain slim;
- It appears that a number of SICARs lack expertise in the appraisal, approval and monitoring of technology projects. This inhibits their involvement in this sector.

Summary and recommendations.

This policy note underlines the fact that despite the government's substantial commitment to supporting the private sector and SMEs, financing granted in the last decade has plateaued at roughly 64 to 68 percent of GDP. This is because there are still a number of constraints on the smooth functioning of the SME financing system. These constraints are largely microeconomic in nature.

Recommendations provided in this policy note are at a strategic level and indicate the broad type of measures to be implemented in order to face the constraints underlined in this paper. First, it appears necessary to take measures aimed at improving the overall credit environment and therefore create adequate incentives for SME finance. The implementation of such measures is critical as they will allow banks to start considering SMEs as a profitable market and will improve their abilities to deal with SMEs. A second set of measures is specific to the banking sector and aims to improve its working and its relations with SMEs. Finally, some specific instruments (factoring, venture-capital, secondary market) - which are less important in the structure of financing of firms - will need to benefit nonetheless of some improvements as they can be beneficial to the large SMEs.

- **Structural measures aim at improving the credit environment** to create a framework allowing banks to deal with SMEs in a more confident manner. This entails policy measures aimed at i) promoting financial transparency for SMEs, ii) improving the availability and quality of information (creation of private credit bureaus, setting-up of a secured transaction registry for leasing operations,…) and iii) improving parts of existing guarantee mechanisms.

- Following these measures, **it is advisable that banks improve their ability to deal with SMEs**. This implies i) to continue and intensify current efforts aimed at reducing NPLs, ii) to simplify procedures when co-financing loans with BFPME and iii) use more appropriate SME lending technologies such as credit-scoring.

- Finally, it is also required to take **specific measures for other financing instruments** in order to make them more accessible and useful to SMEs. This includes measures aimed at i) developing the stock exchange and the secondary market, ii) improving the legal framework of factoring with a specific law and iii) alleviating some of the remaining weaknesses of the SICARs mechanism (venture-capital).

RESUME

Au cours de la dernière décennie, la Tunisie a réalisé de bonnes performances en termes de croissance. Le taux de croissance moyen du PIB réel est ainsi d'environ 5 pourcent sur la période 1997-2007, une valeur supérieure à ce qui a été observé pour la région Moyen-Orient et Afrique du Nord. Ces performances tiennent pour beaucoup à une bonne gestion macroéconomique et à la mise en place graduelle de réformes axées sur une intégration progressive à l'économie mondiale depuis le milieu des années quatre-vingt dix. Cette orientation de politique économique a ainsi contribué à placer les résultats de la Tunisie dans le peloton de tête de la région. En vue de raffermir ces bonnes performances, la stratégie de croissance à moyen terme de la Tunisie, telle qu'explicitée dans le XI^{ème} Plan de Juillet 2007, repose sur le développement d'une économie du savoir à forte valeur ajoutée.

Toutefois, la crise américaine des subprimes de 2007, qui s'est transformée à la fin septembre 2008 en crise financière et économique globale rends beaucoup plus difficile qu'anticipé le respect des cibles du XI^{ème} Plan. La Tunisie est elle aussi touchée par cette crise, très largement par un effet en retour de la récession dans les principaux marchés de destination du pays, notamment en Europe. Dans ce contexte difficile, la génération - voire le simple maintien - d'emploi et de croissance par le secteur privé devient critique. L'industrie, en particulier le secteur manufacturier, et les services ont un rôle majeur dans cette problématique. Pour que ces secteurs résistent aux chocs actuels et se développent plus avant, en conformité avec les objectifs du Gouvernement Tunisien, il est nécessaire d'assurer un financement adéquat de l'économie et donc des entreprises.

L'Etat Tunisien est conscient depuis longtemps de la nécessité d'accompagner les entreprises dans leur recherche de financements. Durant la dernière décennie en particulier, l'Etat a renforcé le cadre légal et réglementaire en la matière, a créé des systèmes de financement publics, a aidé au développement du marché des capitaux et a contribué à l'élargissement de l'offre de produits financiers, notamment en faveur des PME.

Celles-ci revêtent une importance particulière en Tunisie car au minimum 97,8 pourcent des firmes Tunisiennes (tous secteurs confondus) entrent dans cette catégorie. La principale conséquence de cette dominance des PME dans le paysage économique Tunisien est que toute stratégie de développement économique repose de facto sur les performances de cette catégorie d'entreprises. Ainsi, la capacité de ces entreprises à obtenir des financements pour leurs opérations et leurs investissements est critique pour le développement économique futur de la Tunisie.

Le financement des PME en Tunisie : malgré un environnement favorable, le financement du secteur privé atteints un seuil.

La problématique du financement des PME repose sur des aspects d'offre et de demande. Les entreprises peuvent en effet ne pas bénéficier de services financier de par l'existence de contraintes à leur niveau (aspect de demande) ou parce que le système financier formel dans son ensemble ne peut satisfaire leurs besoins (aspect d'offre). Les aspects d'offre, i.e. la disponibilité de produits et services financiers à un coût raisonnable, dépendent de

facteurs tant macroéconomiques que microéconomiques mais aussi d'interventions de l'Etat.

En Tunisie, les données disponibles soulignent une sorte de paradoxe. Les PME tunisiennes ont opérées ces dernières années au sein d'un cadre macroéconomique et d'un environnement des affaires en amélioration constante, en outre la plupart des outils de financement sont disponibles et l'Etat tunisien a mis en place de nombreux mécanismes de support. Cependant, en dépit d'un environnement assez favorable générateur d'opportunités de financement viables, le financement du secteur privé (en pourcentage du PIB) reste stable sur la dernière décennie, la croissance récente des en-cours de crédit est largement due à l'augmentation du crédit aux particuliers et le financement des PME reste limité, largement focalisé sur les financements de court terme. En outre, les indicateurs usuels d'accès aux services du secteur financier restent inférieurs à ce qui est prédit par le niveau de PIB per capita de la Tunisie et par la taille du secteur financier dans l'économie nationale. Ceci est explicable par le fait qu'il subsiste encore nombre de contraintes au bon fonctionnement du système d'appui aux firmes, tant du coté de la demande que de l'offre.

Le point de vue des entreprises : les problèmes d'accès aux financements sont significatifs, persistants et reposent sur de fortes exigences des banques.

Selon les données d'enquête disponibles, les entreprises tunisiennes perçoivent l'accès et le coût des financements bancaires comme deux des barrières les plus importantes à leur croissance. En 2006-2007, respectivement 29,7 pourcent et 49,9 pourcent des firmes, tous secteurs confondus, considèrent l'accès et le coût des financements bancaires comme un obstacle "majeur" à leur développement. En outre, l'aspect négatif de cette perception est accru pour les entreprises de petite taille. Dans ces conditions, il n'est guère surprenant de constater que l'autofinancement, essentiellement les bénéfices réinvestis, constitue la principale source de financement des entreprises tunisiennes.

L'apport du système bancaire reste modéré. Ainsi, selon les secteurs, le crédit bancaire assure entre 11 et 24 pourcent des besoins de financement d'actifs de long terme contre 48 à 52 pourcent provenant des bénéfices réinvestis. Les financements offerts par les SICAR (sociétés de capital risque) et d'autres institutions financières non bancaires ont un rôle mineur, quel que soit le secteur. Le recours relativement limité au financement bancaire par les PME tunisiennes reflète dans une certaine mesure les perceptions négatives évoquée précédemment.

Les données disponibles indiquent que les PME tunisiennes considèrent les exigences des banques en matière de garanties comme l'obstacle principal à l'accès au crédit bancaire (les banques exigent une garantie représentant en moyenne 167 pourcent de la valeur du crédit accordé). Les formalités administratives et les pièces à fournir - bien que citées moins souvent - constituent aussi des obstacles significatifs. Par contre, selon les firmes, la faible part des SICARs et du Leasing dans le schéma de financements des entreprises tunisiennes semble tenir en partie à la méconnaissance que les entreprises ont de ces outils de financement. En outre, la faible utilisation du marché financier provient largement d'un manque de connaissance des entreprises et d'une perception que ce type de financement est réservé aux grandes entreprises.

Ces données soulignent une perception d'un caractère structurel des problèmes de financement des entreprises et des PME en Tunisie et indiquent qu'en outre, dans le court terme, il ne semble pas que les firmes anticipent une amélioration. De fait, malgré un système de financement assez élaboré, il semble que les besoins des firmes ne soient satisfaits qu'en partie.

L'offre de produits et services financiers.

Les principaux types de financements disponibles pour les PME en Tunisie sont : i) les financements bancaires qui peuvent aider la PME dans la phase d'exploitation (financement du fonds de roulement, investissement), ii) les mécanismes d'affacturage et de leasing qui contribuent au financement de l'exploitation (et pour le leasing constituent parfois une alternative à l'investissement), iii) le marché boursier qui permet des financements de moyen/long terme et enfin iv) le capital risque qui se destine plus aux entreprises en phase de démarrage.

Le système bancaire et ses financements. Depuis une décennie, le système bancaire tunisien a connu de profondes transformations ; en 2003 avec la création de la SOTUGAR (un fonds de garantie destiné à fournir le collatéral nécessaire aux PME pour préparer leurs demandes de crédit) et depuis 2005 avec la création de la BFPME (une institution publique spécialisée dans le financement des start-up et PME existantes), la transformation du statut des anciennes banques de développement en banques universelles ainsi que la privatisation de la Banque du Sud. Cependant, malgré ces améliorations de ces dernières années, le secteur n'intervient pas autant en faveur des PME qu'il est souhaitable et faisable.

Les banques - qui fournissent l'essentiel du financement externe des firmes - indiquent faire face à une forte opacité des PME, considèrent que celles-ci sont souvent déjà trop endettées et soumettent des projets sur des segments de marché souvent matures augurant d'une faible rentabilité future. La difficulté à traiter des PME est encore accrue pour les banques par la difficulté qu'elles ont à obtenir de véritables historiques de crédit pour ce type d'entreprise, ne disposent ni de suffisamment de personnel spécialisé en la matière ni - pour la plupart - d'outils récents d'évaluation de ce type de clientèle (outils qui ne peuvent être utilisés pleinement de par les limitations actuelle du système d'information de crédit). En conséquence, les banques se basent pour l'essentiel sur la capacité d'une PME à fournir des garanties pour octroyer un éventuel crédit (*asset-based lending*) et sa réputation. Ceci limite de facto l'octroi de crédit aux PME car d'une part nombre d'entre elles - notamment parmi les plus petites - ne peuvent faire face à ce type de requête et d'autre part les banques ont une confiance encore limitée dans les mécanismes de garanties existants.

En outre, il faut aussi noter que certaines caractéristiques actuelles des banques tunisiennes ne sont pas propices à un intérêt accru envers les PMEs. En effet, malgré une amélioration ces dernières années, les banques tunisiennes sont encore pénalisées par l'ampleur des créances douteuses inscrites à leur bilan. Dans ce contexte, peu propice aux prises de risque, les banques tunisiennes tendent à rester à l'écart du financement des PME et se sont tournées ces dernières années vers le crédit à la consommation, considérés comme plus simple et plus sur.

De fait, en l'état, les banques semblent ne pas pouvoir/vouloir considérer les PME comme un segment attractif et rentable.

En conséquences, et en vue d'aider au financement des PME en palliant aux réticences des banques à prêter au segment, le Gouvernement tunisien a pris deux mesures très importantes ces dernières années avec la création de la BFPME et de la SOTUGAR. Bien que ces mécanismes soient considérés comme des avancées par les banques, celles-ci font encore preuve de certaines réticences à y recourir, que ce soit pour des raisons de coût et de délais (SOTUGAR) ou de duplication de procédures et de détails contractuels (BFPME).

Le leasing (crédit-bail). L'activité de leasing en Tunisie a été instaurée en 1984. Actuellement, le secteur comprend 10 sociétés opérationnelles. Les trois premières sociétés contrôlent presque 60 pourcent du marché. En termes comparatifs, le leasing apparait comme relativement développé en Tunisie ; bien qu'inférieur au Maroc, le ratio de pénétration dans le PIB (1,6) est supérieur à ce que l'on observe en Egypte et nombre d'autres pays. Ce type d'activité a connu une forte croissance ces dernières années et consiste pour l'essentiel, en Tunisie comme ailleurs, en la location d'équipements. Le taux de pénétration dans la formation brute du capital fixe privée atteint 10,6 pourcent en 2008. Bien qu'en progression constante, le secteur fait encore face à certaines contraintes qui devraient être prises en compte telles que i) l'absence d'un registre sécurisé des transactions, ii) la difficulté d'obtenir un financement pour des équipements spécialisés ce qui limite l'avantage du leasing pour les PME industrielles et iii) un prix de financement des baux financiers encore élevé.

Le factoring (l'affacturage). L'affacturage est un outil de financement utile qui accélère les disponibilités des PME et permet à celles-ci de faire face à leurs besoins en fonds de roulement. L'affacturage est une technique selon laquelle un établissement de crédit spécialisé prend en charge le recouvrement des créances d'une entreprise dans le cadre d'un contrat en supportant, de manière optionnelle, les pertes éventuelles sur les débiteurs insolvables. Le secteur du factoring se développe et poursuit sa contribution au financement de l'économie tunisienne ainsi qu'à la gestion des créances commerciales. Le volume des factures achetées totalisait 451,1 millions de dinars (352 millions de dollars US) à la fin de 2008 (en croissance de 10,4 pourcent par rapport à 2007) dont 83,2 pourcent imputable à l'activité domestique. Deux sociétés se partagent le marché en Tunisie. L'intervention du secteur a profité à 511 firmes pour 24156 acheteurs en 2008.

Malgré cela, l'industrie de l'affacturage fait face à plusieurs défis tels que i) des difficultés dans l'exécution des contrats, ii) des difficultés d'obtention de renseignements sur l'historique des crédits et le respect des paiements par les entreprises bénéficiaires, iii) et le manque de cadre juridique spécifique.

Le marché boursier. En Décembre 2007, a été lancé un "*Marché Alternatif*" pour faciliter l'accès aux financements des PME. Il est espéré que ce marché nouvellement créé encourage la diversification des sources de financement (et donc réduise le coût du capital) et soit un vecteur de transformation des entreprises souvent familiales que sont les PME. En conformité avec les meilleures pratiques internationales, les exigences pour l'admission des PME au marché alternatif ont été adaptées et les besoins sont moins stricts par rapport aux obligations faites aux sociétés de plus grande taille cotées sur le marché primaire. En l'état, ce marché est encore peu développé car il fait face à un certain nombre de :

- Contraintes institutionnelles : la faible dimension du marché primaire ne constitue pas un exemple incitatif, la faible liquidité du marché primaire renforce le risque de faible liquidité du marché secondaire, le niveau de protection des investisseurs peut faire l'objet d'améliorations, le système de reporting/dissémination des informations financières peut être amélioré et les obstacles à la participation d'investisseurs étrangers persistent ;

- Contraintes au niveau de la demande : un manque d'information/de prise de conscience du fait que le marché alternatif peut être une source de financement à long terme pour les PME, une forte réticence à révéler l'information exigée lors d'une introduction et la perception d'un coût élevé pour entrer sur ce marché qui dissuade fortement les candidats potentiels.

Les SICARs. Le capital-risque est une forme de capital-investissement, représentant une technique structurée pour fournir du capital aux entreprises émergentes à croissance élevée. Le capital risque permet de faire bénéficier les entrepreneurs de véritables fonds propres octroyés normalement sans garantie (ou hypothèque matérielle ou immatérielle) remboursables à moyen terme par le projet lui-même une fois qu'il commence à générer des bénéfices. L'intervention des SICARs se situe au niveau du bouclage du schéma du financement des projets. Les SICARs mobilisent, avec le promoteur et le FOPRODI (un fonds de promotion des PMEs industrielles et de mise en œuvre de mesures d'encouragement au développement régional), entre 35 et 40 pourcent de l'investissement global. Il y a actuellement environ 40 SICARS en activité en Tunisie. A la fin 2007, en 12 ans d'activité, le capital risque avait contribué au financement de 1300 entreprises, grâce à des fonds qui ont atteint près de 600 MD (468.2 millions de dollars US). La loi de Finance 2009 a permis de supprimer des contraintes majeures au développement des SICARs, cependant, il reste encore deux contraintes fortes qui prendront plus de temps à alléger :

- Du fait des limitations de la BVMT (le marché boursier primaire) et du marché alternatif, les perspectives de sortie à la bourse sont difficiles;
- Enfin, il semble que nombre de SICARs aient un manque d'expertise dans l'évaluation, la validation et le suivi des projets technologiques ce qui ne facilite pas leur intervention dans ce type d'activités.

Synthèse et recommandations.

Cette note souligne le fait qu'en dépit d'une forte implication de l'Etat dans l'appui au secteur privé et aux PME, les financements octroyés atteignent depuis une décennie une sorte de plateau aux environs de 64-68 pourcent du PIB. Ceci est explicable par le fait qu'il subsiste encore nombre de contraintes au bon fonctionnement du système de financement des PME. Celles-ci sont largement d'ordre microéconomique.

Les recommandations de cette note restent au niveau stratégique et fournissent les grands types de mesures à prendre pour pallier aux contraintes mises en évidence. Il s'agit tout d'abord de prendre des mesures devant améliorer l'environnement de crédit et créer les incitations adéquates au financement des PME. Ces mesures sont essentielles pour que les banques commencent à considérer les PME comme un marché rentable et améliorent leurs capacités à traiter avec les PMEs. En outre, il serait souhaitable de prendre certaines mesures propres au secteur bancaire en vue d'améliorer ses relations avec les PMEs. Enfin, certains instruments spécifiques (factoring, SICARs, marché alternatif), d'importance actuelle moindre dans le financement des PME doivent faire l'objet d'améliorations car ils peuvent bénéficier au segment supérieur des PMEs.

- **Les mesures structurelles** sont destinées à améliorer l'environnement de crédit pour créer un cadre où les banques peuvent se tourner avec une confiance accrue vers la clientèle PME. Ceci implique des mesures de promotion de la transparence financière des PME, une amélioration de l'information disponible sur les emprunteurs et les transactions (bureaux privés de crédit, système d'enregistrement des transactions sécurisé pour le leasing…) et une amélioration des mécanismes de prise de garanties.

- De manière concomitante avec les mesures précédentes, il est aussi souhaitable **que les banques soient incitées à améliorer leur capacité à traiter les dossiers des PME**. Ceci implique une poursuite et une intensification de l'effort d'assainissement du secteur bancaire (réduction du taux de créances classées et accroissement des provisions afférentes), une simplification de certaines procédures avec la BFPME ainsi qu'une une promotion et utilisation de technologies de prêt plus adaptées (credit scoring).

- Enfin, il est aussi **nécessaire de prendre des mesures concernant des instruments spécifiques** qui bien que moins important dans le financement externe des firmes présentent de nombreux avantages pour les PMEs du segment supérieur et sont donc à développer. Ces mesures incluent un développement accru de la bourse et du marché alternatif, du factoring (loi spécifique à développer) et des SICARs (spécialisation sectorielle accrue, développer le financement de l'*Early Stage)*.

INTRODUCTION

1. Tunisia has enjoyed strong economic growth over the last decade. Real GDP grew by an average of 5 percent over the 1997-2007 period, a rate that was higher than the 4.3 percent observed for the Middle East and North Africa region but still slightly below the average for middle income countries (5.4 percent) over the period. Tunisia's GDP growth stood at 6.3 percent in 2007 and 5.1 percent in 2008.[1] Set against the backdrop of the current international economic crisis, this is a good performance. In addition, although inflation increased in the first half of 2008, it has so far been capped at a level comparable to that of Tunisia's main economic partners: it went from 5 percent in 2008 to about 3 percent in mid-2009. Although the budget deficit and the current account remain within acceptable limits in 2007 and 2008[2], the stimulus package implemented in early 2009 will impact the budget balance which will have nonetheless to be closely monitored[3].

2. This good performance is mostly due to sound macroeconomic management and the gradual implementation since the mid-1990s of reforms aimed at progressively integrating the country into the global economy. This policy stance has helped make Tunisia's one of the best-performing economies in the region. To strengthen this strong performance, Tunisia's 11th Plan of July 2007 sets out a medium-term growth strategy that is founded on the development of a high value-added economy. The main objective of this plan is to increase average annual GDP growth to 6.1 percent over 2007-2011 so as to lower the unemployment rate from 13.9 percent in 2007 to 13.4 percent in 2011. The development strategy chosen is multi-directional and includes an emphasis on the promotion of private investment, especially in high value-added sectors.

3. However, in spite of the current beginning of a recovery, the size and the subsequent impact of the 2008-2009 financial crisis has made it unlikely that Tunisia will reach the targets set out in the 11th Plan. Advanced economies experienced a 7.5 decline in real GDP in the fourth quarter of 2008 and it is estimated that production continued to shrink at a similar rate over the first quarter of 2009. The most recent available data suggest that global production is expected to recede by 1.1 percent in 2009 before a rebound to 3 percent in 2010[4]. Consequently, despite the initiatives taken by the governments of various countries, tensions remain high on the financial markets and impose significant constraints on the real economy. Global output and trade[5] collapsed in the waning months of 2008. It is now expected that, in 2009, output in advanced economies will decline by 3.4 percent while growth in the emerging economies will slow considerably, down to 1.7 percent (compared to 6 percent in 2008). The Middle Eastern economies have not been spared from the effects of the recession: their growth rate is expected to decrease from 5.4 percent in 2008 to 2 percent in 2009.

[1] - Retrospective macroeconomic and financial data are from the World Bank's DDP database, updated in October 2009.

[2] - The budget deficit was at 3 percent of GDP in 2007 and at 1.2 percent of GDP in 2008.

[3] - According to the IMF, it may reach 3.8 percent of GDP by the end of 2009 (IMF 2009b).

[4] - IMF, October 2009 forecasts.

[5] - In December 2008, on a year to year basis, Taiwan's exports dropped by 42 percent, South Korea's by 17 percent and Japan's by 35 percent. In January 2009, China's exports also declined by a sizeable 17.5 percent, the sharpest decrease recorded in over a decade.

4. Tunisia has also been adversely affected by this crisis, largely due to spill-over effects of the recession in the country's main export destination markets, especially in Europe. GDP growth started to slow down by the end of 2008. Growth in export volumes fell sharply from 14 percent in 2007 to 1.5 percent in the second half of 2008 and the current account deficit increased substantially from 3 percent of GDP in 2007 to 4.6 percent in 2008. As a result, the 2009 growth rate is expected to hover at around 3 percent.

5. In this difficult context, the creation – or even the mere preservation – of jobs and growth by the private sector becomes critical. Industry, particularly the manufacturing sector, and services, play a major role in this area. In 2008, the manufacturing industry and the services sector in fact generated 23.3 percent and 67.9 percent of new non-agricultural jobs respectively.[6] **In order for these sectors to weather the current shocks and continue to grow in line with the Tunisian government's objectives, it is necessary for the economy, and therefore companies, to be adequately financed**.

6. The Tunisian government has long been aware of the need to support companies in their search for financing. Over the last decade, the government has strengthened legal and regulatory frameworks in this area, created public financing systems, facilitated the development of financial markets and helped to expand the supply of financial products, (EU-OECD 2008). Despite these efforts, business leaders' outlook remains quite subdued. Various surveys of companies, in particular those carried out by ITCEQ, emphasize that firms, especially SMEs, still perceive access to financing to be problematic. In addition, private sector representative organizations continue to regularly underscore the persistence of the problem.

7. **The aim of this policy note is to analyze the problems of SME access to financing in Tunisia.** The report must be read with three points in mind. Firstly, **depending on the data available, comparisons have been drawn with a number of emerging economies** (Algeria, Brazil, Bulgaria, Egypt, Jordan, Morocco and China) or developed economies (France, USA, UK…) and regional groupings (OECD, Middle East and North Africa…) that are relevant to Tunisia. Secondly, **this study focuses on SMEs in the formal sector** and does not deal with microfinance issues, which were looked at in a recent joint report by the Ministry of Employment and Professional Integration of Youth and the World Bank (2008). Finally, **this note does not address the issue of Islamic Finance** which still relatively underdeveloped in Tunisia[7].

8. This report is organized as follows. The first section highlights the importance and the role of SMEs in Tunisia's economic fabric and then briefly presents existing SME financing mechanisms. The second section deals with demand side factors and presents the Tunisian private sector's perception of financing problems, based on data from the ITCEQ and IACE surveys. The third section analyzes financing available, going into particular detail on the main sources of financing available for SMEs (banks, leasing and factoring, SICARs, stock market and alternative market). The final section provides a synthesis and presents selected strategic recommendations to improve SME access to financing.

[6] - Data provided by the Central Bank of Tunisia (BCT 2009, p 113) indicate that 79,800 jobs were created in 2008; 18,600 of these jobs were in the manufacturing industry, 54,200 in services and 7000 in the administration.

[7] - Currently, Islamic Finance is relatively underdevelopped in Tunisia, only one Tuniso-Saoudi bank (formerly « Best Bank » and now « Albaraka Tunisia ») is active in this area. Hover, supply in this area will grow soon with the arrival in March 2010 of Zitouna Bank with a capital of TD 30 million (23.4 USD million).

1 SME FINANCE IN TUNISIA

9. Small and medium-size enterprises (SMEs) are the corner stone of all economies and an essential driver of economic growth, dynamism and flexibility in industrialized as well as emerging and developing economies. Whether as components of productive networks built around large companies or as independent companies specialized in specific technical or commercial niches, SMEs are also the engine powering the constant renewal of the economy. SMEs are therefore a dominant form of organization for firms in any economy. Tunisia is no exception in this regard.

1.1. The importance of SMEs in the Tunisian private sector.

10. The definition of SMEs in Tunisia has evolved over time.[8] It is most often based on the definition of a maximum investment and employment threshold. In 2006, a CMF[9] note laid down various criteria defining SMEs, including a size threshold. It defined SMEs as enterprises with a maximum of 300 employees. In 2008, a decree[10] clarified the definition of this type of firm and specified that all enterprises with investments of TND 5 million or less (3.9 USD million, working capital included) in the manufacturing industries, handicrafts and certain services are considered to be SMEs.

11. Available data show that SMEs reign supreme in the Tunisian entrepreneurial landscape. INS figures show that enterprises employing less than 10 people account for almost 87 percent of all Tunisian companies. Firms employing between 10 and 99 people account for roughly 11 percent of all firms and companies that are larger in size are in the minority (Chart 1). Consequently, based on CMF's size criterion, at least 97.8 percent of Tunisian firms (in all sectors) fall within the SME category.

12. Based on CMF's size criterion, SMEs account for at least 95.2 percent of industrial companies. Manufacturing, which, historically, has been at the core of Tunisia's development, dominates the industrial sector. It accounted on average for 17.9 percent of GDP for the 1997-2007 period and 79.2 percent of exports of goods from Tunisia over the 1997-2005[11] period. The textile/clothing sector, followed by agro-industry, currently leads the formal manufacturing sector with regard to number of enterprises and jobs (Chart A. 1). While the electrical, electronic and electrical appliance industries as well as the

[8] - A few years ago Decree 94-814 defining criteria for eligibility to FONAPRAM financing defined small enterprises as those with a total investment cost (including working capital) of no more than TND 50,000 and Decree 99-484 on the promotion of SMEs by FOPRODI defined small and medium-sized enterprises in the industrial and services sectors as those with a total investment of less than TND 3 million (2.3 USD million, ONUDI 2001).

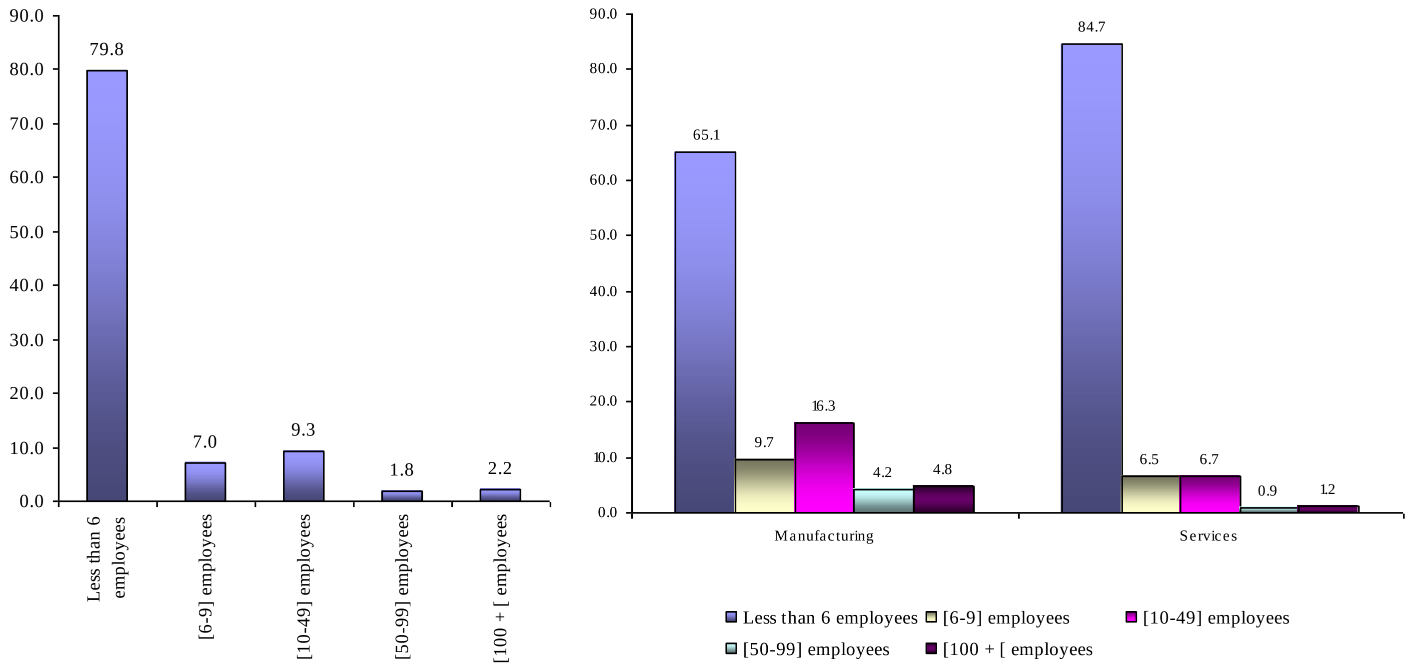
[9] - More recently, (*Conseil du Marché Financier*, CMF Bulletin 2588 of Wednesday May 3, 2006), SMEs have been considered to be enterprises whose net fixed assets do not exceed TND 4 million (3.1 USD million) and that employ up to 300 people.

[10] - Article 2 of Decree 2008-388 of 11 February 2008 published in JORT n°15 of 19 February 2008.

[11] - World Bank data, DDP database (updated October 2009).

textile/clothing sectors have the highest export rates, it must be noted that, in dynamic terms, the growth rate of exports in textile/clothing remains low (Table A. 1)[12].

Chart 1. Size and sector distribution of firms in Tunisia (Pct.).



Source: INS/ Repertoire National d'Entreprises 2005.

13. On the basis of CMF's size criteria, SMEs account for at least 99 percent of firms in the services sector. Within services, small and medium-sized companies are most highly represented in trade and services to firms subsectors (Chart A. 2). Services, which make up roughly 59 percent of GDP, have been one of the main drivers of recent growth in Tunisia due to thriving sectors such as telecommunications, transport and trade, and to a lesser extent, tourism.

14. The main consequence of the prevalence of SMEs/SMIs in Tunisia's economic landscape is that **all economic development strategies are de facto based on the performance of this category of companies**. **SMEs' ability to obtain financing for their business operations and investments is therefore crucial to Tunisia's future economic development**. This is particularly true for the industrial sector, which was the foundation of Tunisia's economic development and the services sector which, according to the strategic approach defined by the government, will be the basis of this development in the future.

1.2. Financing environment for SMEs in Tunisia.

15. SME access to financing is determined both by demand and supply constraints. Companies may be deprived of financial services either because of constraints that exist at their level (demand side factors) or because the formal financial system as a whole is not

[12] - Though the textile sector has, to some extent, been able to weather the shock resulting from the phasing out of the Multifiber Agreement since 2005, it is nonetheless not certain that – in its current productive structure – it can face successfully the removal by the EU and the USA of the final quotas on Chinese exports planned in 2008 (World Bank 2009).

able to meet their needs (supply side factors). Supply side factors, i.e. making financial products and services available at a reasonable cost, depend not only on macroeconomic and microeconomic factors, but also on government initiatives.

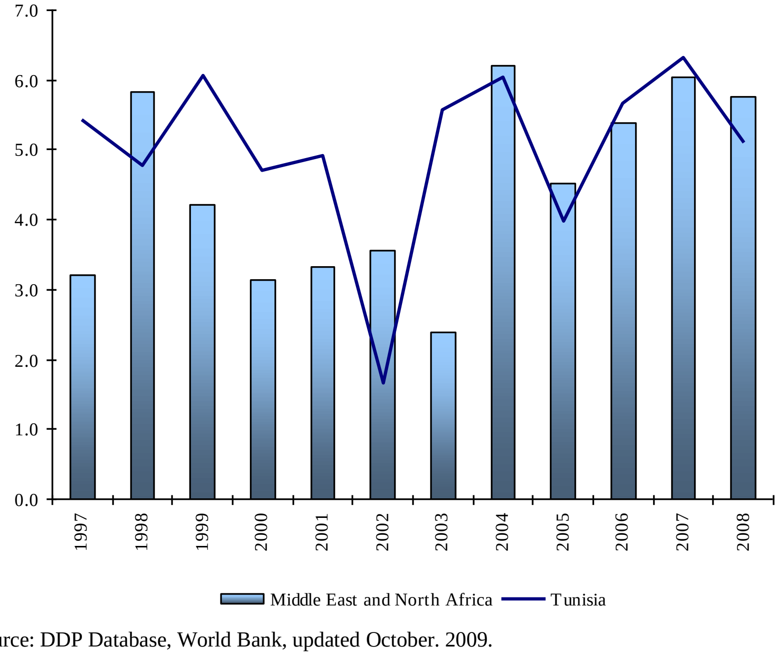
16. The macroeconomic environment and its stability determine companies' potential profitability and therefore viable financing opportunities from financial institutions. In addition, in a given macroeconomic environment, firms' profitability prospects also depend on microeconomic factors linked to the quality of the business environment. Similarly, the regulatory environment in which economic agents do business, as well as the range of available financial products have an impact on financing options for firms. In addition to these factors, by setting up mechanisms or institutions specifically geared to SMEs, the government directly affects the supply-side. These items are now briefly described from a comparative perspective.

17. In the case of Tunisia, there have been fairly positive changes in the macroeconomic and microeconomic environment in recent years. Further, as shown by recent data available, Tunisia is facing relatively well the current worldwide economic crisis. In addition, as a result of their large numbers, SMEs have for a long time attracted special attention from the Tunisian government. Over the years, the government has promoted the development of financial products geared towards SMEs by setting up specific institutions to channel the supply of financing to the private sector. On the demand side, the government has set up a number of mechanisms aimed at assisting companies in their business and their dealings with the financial system.

Supply side factors which impact financing.

18. **Macroeconomic level**. Average real GDP grew at about 5 percent over 1997-2007, a rate higher than the rate observed in the Middle East and North Africa region over the period (4.3 percent). Tunisian GDP growth stood at 6.3 percent in 2007 and 5.1 percent in 2008 (Chart 2). This growth was partly fuelled by robust export growth, which climbed by an annual average of 5.1 percent between 1998 and 2008.

Chart 2. Real GDP growth rate. (Pct)



Source: DDP Database, World Bank, updated October. 2009.

19. **Overall business environment.** Over time, the Tunisian government has put in place a legal framework that is gradually becoming increasingly favorable to the development of companies and the private sector as a whole. Tunisia improved its ranking in the Ease of Doing Business Index (a composite index of the 10 Doing Business

indicators that summarizes the formal legal framework in which companies do business) from 139th place (out of 175 countries) in 2006 to 69nth (out of 183 countries) in 2009[13]. Tunisia ranks well in several indicators (starting and closing a business, trading across borders for example) but could still make significant progress, particularly in the Getting Credit indicator (which assesses the availability of credit information and the effectiveness of collateral and bankruptcy laws) (cf. Chart A.3).

20. **Specific credit environment.** Overall, although Tunisia is rather advanced for the region with regard to the legal credit environment (Table 1), there is still room for significant improvement in collateral mechanisms, credit information systems and movable asset registration systems.

Table 1. Credit environment in 2008.

	Collateral and provisioning requirements	Land Registry	Laws on distressed companies and bankruptcy	Registration systems for movable assets	Credit information services	Average
Egypt	2.0	3.0	3.5	3.0	3.5	3.0
Tunisia	**2.0**	**4.0**	**4.0**	**1.0**	**3.5**	**2.9**
Jordan	2.0	4.0	4.0	1.0	2.5	2.7
Morocco	2.0	4.0	3.0	1.0	2.5	2.5
Lebanon	3.0	3.0	1.5	1.5	3.0	2.4
Algeria	1.0	3.0	3.0	1.0	2.0	2.0
Palestinian Authority	1.5	2.0	2.0	2.0	2.0	1.9
Syria	1.0	3.5	3.0	1.0	1.0	1.9

Nb. From 1 (min.) to 5 (max.)

Source: EU-OCDE (2008).

Financing tools and supply side support.

21. **Financing mechanisms.** In addition to traditional bank lending, the basic types of financing are on offer in Tunisia as shown in the table below. Unlike in many countries in the sub-region, Tunisian firms and SMEs can have access to various credit guarantee schemes, venture capital and leasing facilities. For instance, the establishment of guarantee institutions such as the FNG[14] in 1982 to leverage bank financing for SMEs, SOTUGAR[15] in 2003 and BFPME[16] in 2005 aimed overall at encouraging credit institutions, banks and venture capitalists to finance SME projects in manufacturing and sectors. These institutions are de facto supply support mechanisms.

[13] - "Doing Business 2010" data at: http://www.doingbusiness.org/ExploreEconomies/?economyid=190

[14] - The National Guarantee Fund (FNG) was set up by Article 73 of the Finance Law of 1982 as amended and completed by Act 99-8 of February 1st, 1999 relative to the National Guarantee Fund and by Act 2000-72 of July 17, 2000. The initial aim of the FNG was to guarantee the settlement of certain types of loans granted by banks to SMEs and credits granted to all farmers against the risk of drought. The Fund's guarantee was extended by Act 99-8 of February 1st, 1999 to cover certain categories of SICAR equity investments in SMEs and by Act 2000-72 of July 17, 2000, to cover microcredit granted by associations.

[15] - SOTUGAR is a public company set up in 2003 to strengthen all the mechanisms implemented to develop and promote SMEs at the different stages of their lifecycle (start-up, expansion, restructuring). Established by Article 24 of Act 2002-101 of 17 of December 2002 relative to the Finance Law of 2003, the system aims to guarantee certain types of loans granted by credit institutions to SMEs in industry and services and certain categories of equity investments by Venture Capital Investment Companies, Venture Mutual Funds and Seed Funds in the capital of these enterprises.

[16] - BFPME is a public bank that covers all consulting, monitoring and financing activities geared towards SMEs. It was established on March 1st, 2005 within the framework of Act 65-2001. Its capital has been increased to TND 100 million (78 USD million) in February 2009 (against TND 50 million before – 39 USD million). Its aim is to facilitate access to financing for the creation and expansion of SMEs by i) granting co-financing with credit institutions (banks and leasing companies), in the form of medium and long-term credit, ii) facilitating SMEs' access to public procurement by providing short-term financing to bidding companies, iii) taking up stakes in start-up companies and iv) risk sharing with financial institutions by co-financing projects.

Table 2. Financing instruments available in Tunisia in 2008.

	Credit guarantee schemes/ facilities	Availability of risk capital	Access to capital markets	Leasing	Microfinance facilities	Average
Morocco	4.0	4.0	4.0	4.5	5.0	4.3
Egypte	4.0	4.0	4.0	4.0	4.0	4.0
Tunisia	**3.5**	**4.0**	**3.5**	**5.0**	**3.0**	**3.8**
Lebanon	4.0	3.5	3.0	4.0	4.0	3.7
Jordan	4.5	1.5	3.0	3.5	3.0	3.1
Algeria	3.0	2.5	1.5	3.0	2.5	2.5
Palestinian Authority	3.5	1.5	2.0	1.5	3.0	2.3
Syria	2.0	1.0	1.5	2.0	2.0	1.7

Nb.

From 1 (min.) to 5 (max.)

Source: EU-OCDE (2008).

Demand side support.

22. **Support to demand.** The Tunisian government has developed a number of demand side mechanisms, which aim to increase project sponsors' and enterprises' ability to comply with the formal requirements set out by banks and other financing institutions. The main institutions in this area include:

- API[17] which is a public institution established in 1972. Its aim is to promote the industrial sector, notably by helping SMEs to manage the financial assistance granted by FOPRODI[18] (repayable funding or equity investments);
- The *Pépinières d'Entreprises*[19] (business incubators), which were established in 1999. The incubators assist developers of innovative projects, help them to assess their projects and support them in all the phases of business formation, right up to the launch of the project. The services provided include training, accommodation, counseling, technical and economic expertise and assistance in dealings with administrations and financial institutions to finalize the project ;
- The *Centres d'Affaire*[20] (business centers) set up in 2005 to i) provide information to individuals with project ideas, project sponsors and investors, ii) help them to start and develop their projects (help with writing business plans and project studies, finalizing financing plans) and iii) organize seminars for project sponsors and investors to inform them of the comparative advantages of different regions.

23. De facto, Tunisian SMEs have operated in the last few years within a constantly improving macroeconomic framework and business environment, in addition most of the usual financing tools are available and the Tunisian government has put in place several

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[17] - API is a public institution set up in 1972 to promote the industrial sector. Services provided by API include i) new company creation and helping new sponsors and SMEs to manage FOPRODI financial assistance, ii) training new business owners with the support of the *Centre de Soutien à la Création d'Entreprises*, iii) a Task Force to help upgrade companies, iv) carrying out studies and disseminating industrial information and v) the "API / TIC Package" which provides a number of on-line services.

[18] - FOPRODI, the *Industrial Promotion and Decentralization Fund*, established by Article 45 of Act 73-82 of 31 December 1973 relative to Finance Bill of 1974, aims to i) promote the creation and development of small and medium-sized industrial enterprises, and ii) implement measures encouraging regional development.

[19] - The *Pépinières d'Entreprises* (business incubators) were established by a framework agreement in 1999. There were 29 incubators at the end of 2008, 24 of which were managed by API. They operate within the *Instituts Supérieurs de Technologie* and the *Ecoles d'Ingénieurs et de Gestion* in all of Tunisia's governorates.

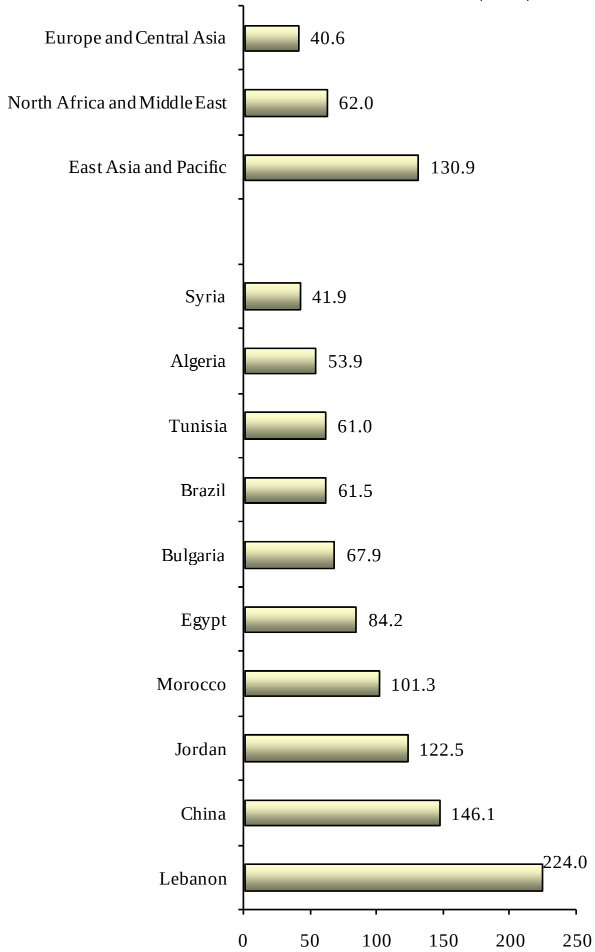
[20] - The *Centres d'Affaires*, established in 2005, work to facilitate the execution of projects and provide necessary services to sponsors and investors seeking to launch and develop their projects.

support mechanisms. The next section analyses, on a comparative basis the impact of this environment in term of access to financial services.

1.3. Financial system and access to financial services.

24. As in most emerging economies from the MENA region, the financial sector is important within the Tunisian economy. With a ratio of money and quasi-money to GDP of 61 percent in 2008, the Tunisian financial system is relatively developed (Chart 3). With such a ratio, Tunisia is close to the average for the MENA region (about 62 percent) and above what is observed in Europe and Central Asia (40.6 percent). However, the country is still far below the level of financial intermediation observed in countries such as Egypt, Morocco, Jordan, China or even Lebanon.

Chart 3. M2 to GDP ratio in 2008 (Pct.)



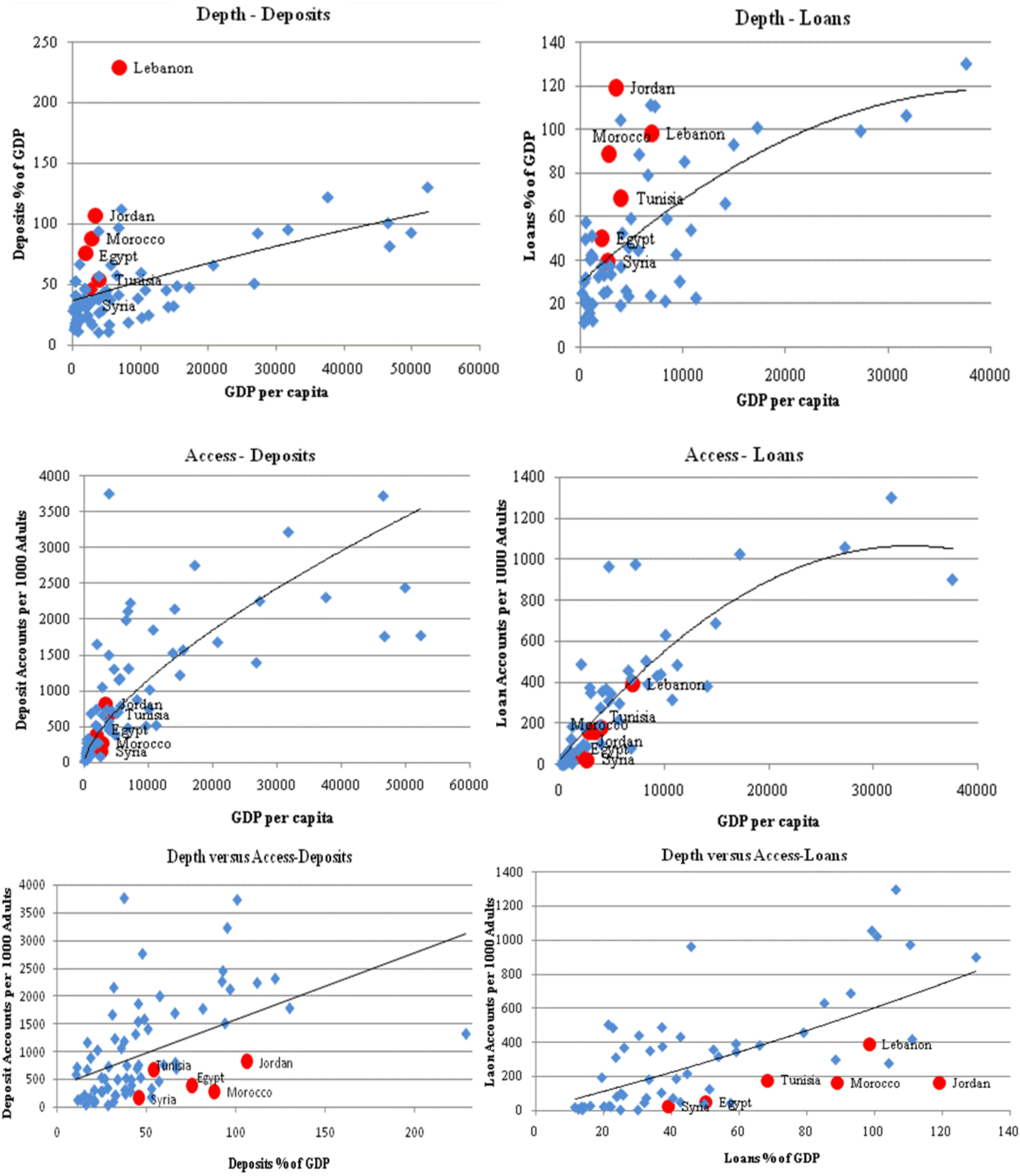
Source: DDP Database, World Bank, updated October. 2009.

25. The importance, the depth, of the financial system also appears in terms of share of deposits and loans in the GDP. As show in the top two graphs of Chart 4, the ratio of deposit and loans to GDP is respectively at around 55 et 70 percent, a level which is higher than what is predicted by its GDP per capita. However and again, when compared to countries like Lebanon, Jordan, Morocco or Egypt, the financial sector is of a smaller size[21].

26. Although the financial sector holds an important position in the Tunisian economy, this does not truly translate into an important access to the services offered by the sector. In effect, ratios of deposits and loans per thousands of adults are relatively low, and slightly below what is expected from the level of GDP per capita of the country (middle graphs in Chart 4). Similarly, although the situation in Tunisia appears less difficult than in many other countries of the region, access to financial services is again lower than what is predicted by the size of the financial sector (bottom two graphs of Chart 4). This suggests that there is the scope for further gains in access to larger segments of the population and of enterprises.

[21] - In the case of Jordan, Lebanon and Morocco, the difference with Tunisia can be explained by the size of remittances which respectively reach 19, 25 and 8 percent of GDP against only 5.3 percent in Egypt and 4.7 percent of GDP in Tunisia (Migration and Remittances Factbook 2008, World Bank 2009).

Chart 4. Access and depth of the financial sector in Tunisia (2008).



Source: CGAP (2009) and DDP Database, World Bank, updated October. 2009.

1.4. Firm's financing: the distribution of credit.

27. Even though credit to the private sector is on average higher in Tunisia than it is in the Middle East and North Africa region as a whole, it remains much lower than in other areas, such as the advanced economies from OECD. **It has remained stable, at roughly 64-66 percent of GDP since the mid-1990s, despite the implementation by the Tunisian government of various mechanisms aimed at promoting financing of this sector** (Chart 5). In addition, it must be noted that since 2007, this indicator is higher in Morocco than in Tunisia, it is respectively at 79.5 and 66.6 percent in 2008.

28. Outstanding credits granted by financial institutions to the economy amounted to TND 32.8 billion in 2008 (25.6 USD billion), a 12.3 percent jump from 2007 (BCT 2009). An analysis of the distribution of these credits underlines the following facts:

- **Recent growth in outstanding credit is mainly a result of an increase in consumer credit**. Though the lion's share of outstanding credit (almost 78 percent in 2008) goes to productive sectors, outstanding consumer credit nevertheless increased more sharply than business credit. Outstanding consumer loans thus rose by an average of 19.1 percent[22] between 2005 and 2008, while loans to the productive sector only climbed by an average of 7.6 percent (Chart 6);
- **Most of the credit to the productive sectors goes to the services sector** (57.5 percent of outstanding credit in 2008) **then to industry** (roughly 37.5 percent of outstanding credit in 2008, Chart 7). Within services, the main recipients are trade, hotels and restaurants; in industry, the main beneficiaries are the agro industry and construction industries (Chart 8 and Chart 9);
- **Most of the credit to productive sectors goes to the private sector** (about 92-93 percent in industry and services in 2008);
- **Most of the credit to industry is short-term** (about 65.9 percent in industry in 2008) whereas in services, there is an almost equal balance between short and medium/Long term credit (Chart 10 and Chart A. 4);
- It is not easy to estimate the amount of financing granted to SMEs because there are no official statistical series in this area and definitions of this category have varied over time. It has generally been accepted in recent years that SME financing amounts to **roughly 5 percent of credit granted to the productive sectors**. In addition, SMEs' share in banks' portfolios tend to remains small: fewer than 4,000 customers for the country's foremost public bank and fewer than 1,500 customers for the second (FSAP update 2007).

[22] - Consumer credit is made up mostly of short-term credit and real estate loans – i.e. 40 and 56 percent of outstanding credit in 2007 respectively.

Chart 5. Credit to the Private Sector (Pct. of GDP).

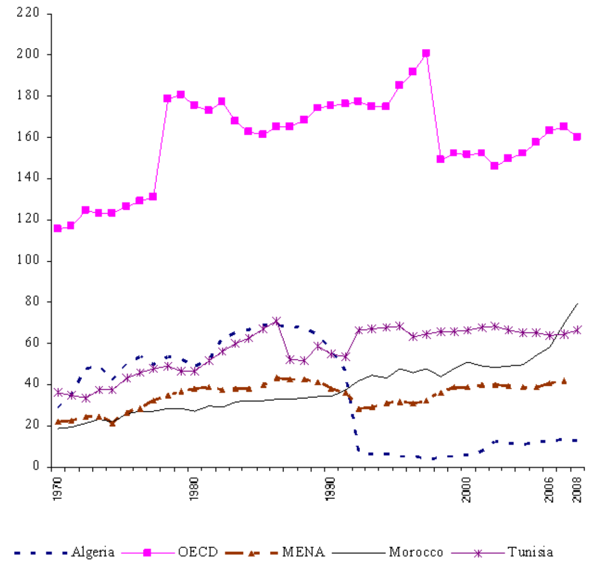


Chart 6. Yearly growth rate of credit by beneficiary type (Pct).

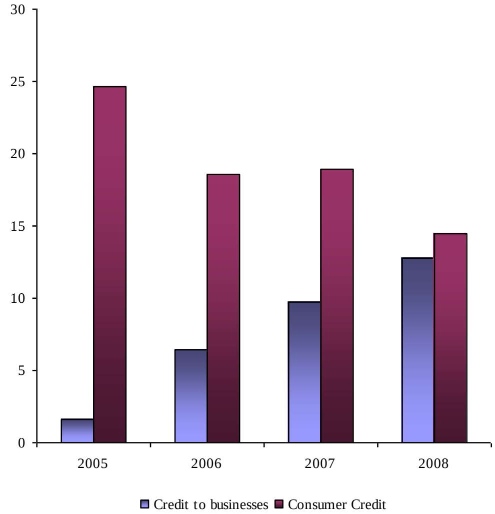


Chart 7. Structure of credit to businesses (Pct.)

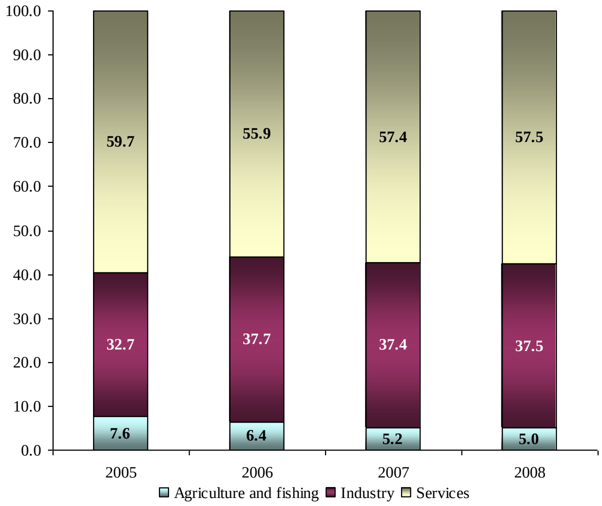


Chart 8. Credit to services in 2008 (Pct).

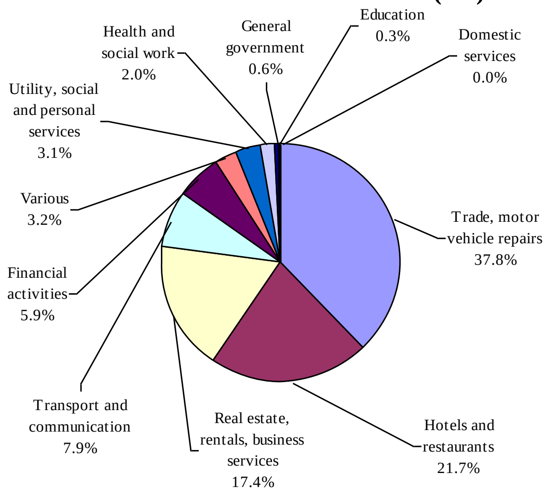


Chart 9. Credit to industry in 2008 (Pct).

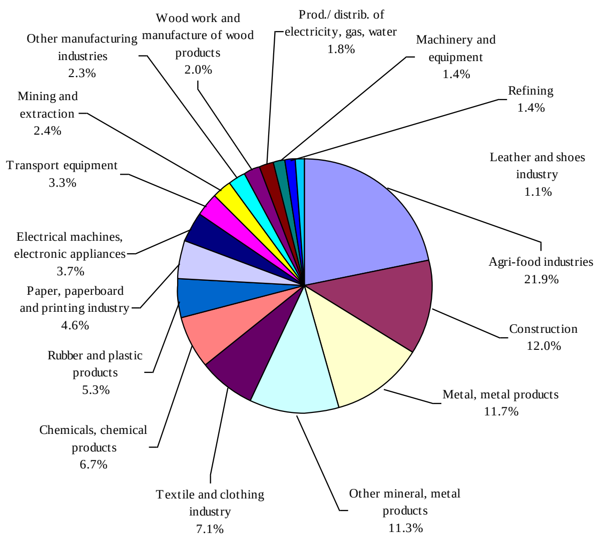
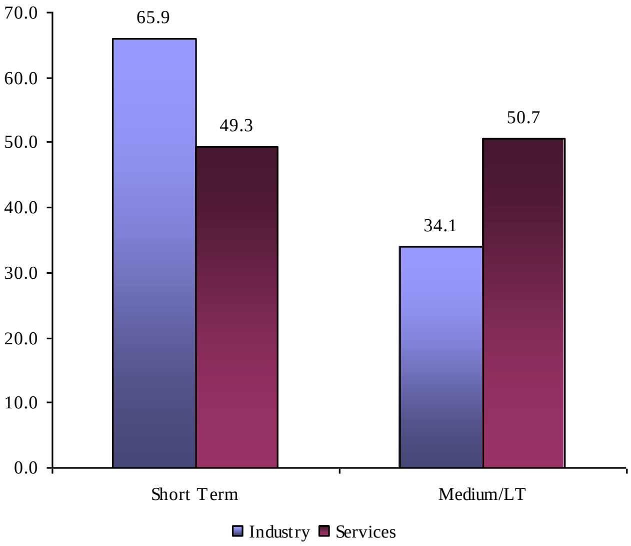


Chart 10. Term structure of credit in 2008.



Source: BCT 2009.

1.5. Synthesis.

29. **Data available for Tunisia underscore a kind of paradox.** Tunisian SMEs have operated in the last few years within a constantly improving macroeconomic framework and business environment. Most financing tools are available and the Tunisian government has put in place several support mechanisms (e.g. BFPME and SOTUGAR). However, **despite this fairly favorable environment that generates viable financing opportunities, private sector funding (as a percentage of GDP) has leveled off in the last decade.** Recent growth in outstanding credit is mostly due to an increase in consumer credit. SME financing remains limited and largely short-term. In addition, **the usual indicators of access to financial services are below what is predicted by Tunisia's GDP per capita level and the size of its financial sector.**

30. **This raises questions about the real efficiency of the policies implemented, be they regulations or support mechanisms.** As Diagram A. 1 in the Appendices to this report shows, the overall SME financing system remains fairly complex, even though, in theory, it has a certain consistency because it brings together institutions and funds designed to respond to specific needs.

31. This draws attention to a fundamental problem of this system in its current design: it is essentially driven by the state. There is no guarantee that the initiatives proposed (regulations, setting up of institutions, support mechanisms) are always fully adequate and meet the real needs of the private sector because the state does not have perfect information and may not always take optimal decisions, even though external indicators and exchanges of views with enterprises do help to clarify its actions.

2 SME FINANCING: DEMAND SIDE ISSUES

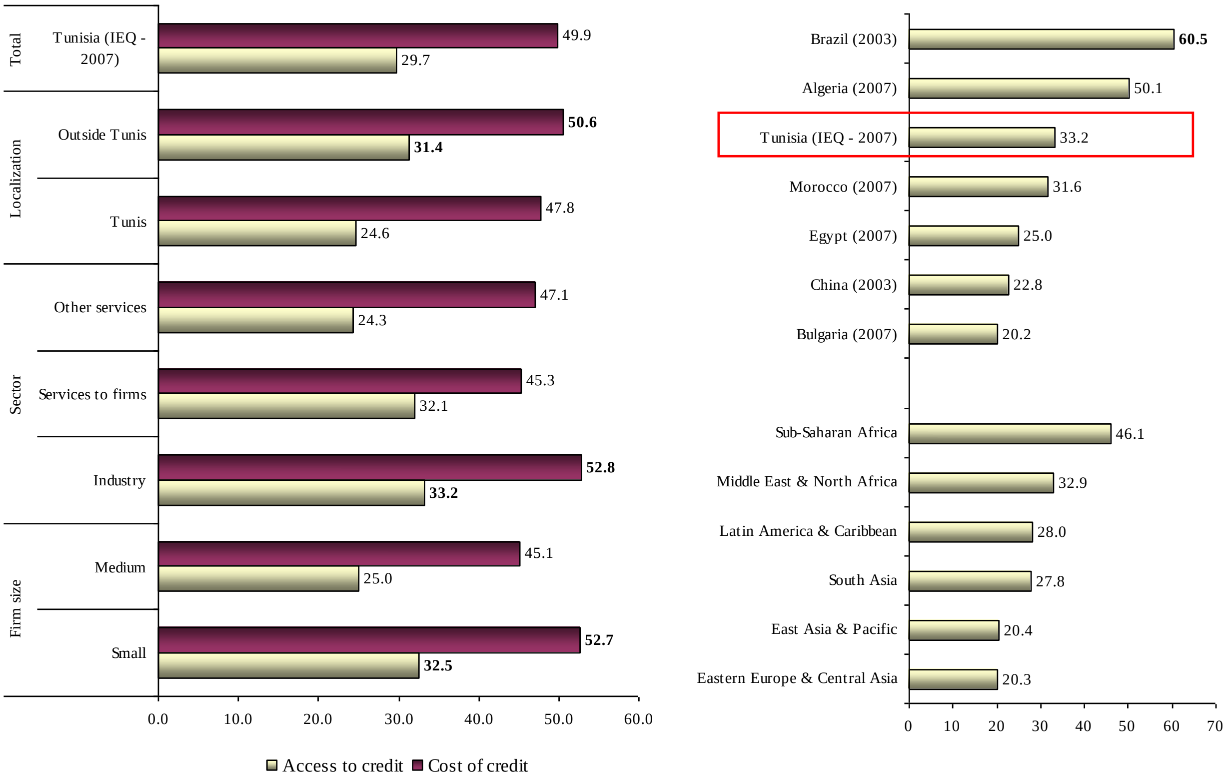
32. This section focuses on SMEs' perception of financing issues according to survey data from various sources (ITCEQ and IACE). These data show that financing remains a problem for Tunisian firms, which self finance for the most part and have little recourse to external funding sources like bank loans, the stock market and venture capital.

2.1. Access to and cost of financing are a significant concern for firms.

33. According to the data from the 2007 ITCEQ competitiveness survey, Tunisian companies perceive access to and cost of bank credit to be two of the most significant barriers to their growth (Chart A. 5). 29.7 percent of firms, irrespective of sector, consider access to bank financing to be a "major" obstacle to their growth, while 49.9 percent see the cost of bank financing in the same light. In addition, these perceptions are more negative for small-sized enterprises, industrial firms and companies outside Tunis (Chart 11).

Chart 11. SMEs' perception of financing problems.

(Pct. of firms that identify the item as a "major" constraint).



Note.

Industry only for the RHS chart which presents international comparisons.

Source: *Enquête sur la compétitivité*, IEQ 2007 and Enterprise Surveys - World Bank (www.enterprisesurveys.org).

34. Although there are methodological limitations to international comparisons of perceptions[23], it is nonetheless interesting to note that Tunisian industrial firms are among the firms with the most negative perceptions. They are surpassed in this only by Algerian and Brazilian companies (Chart 11).

35. The perception that cost of credit is high in Tunisia seems rather justified. At the time of the survey, Tunisian interest rates were higher than those observed elsewhere, notably in Morocco and in the European Union, two reference zones for Tunisia (Chart A. 6). Furthermore, it appears that the net interest margins of the main Tunisian banks are fairly high - in 2007 and 2008, among the highest of the comparator countries (see section 3.1).

2.2. Self-financing is the main source of funding for Tunisian companies.

36. Self financing, essentially through retained earnings, is the main source of funding for Tunisian firms. Bank financing remains relatively limited. Depending on the sector, bank lending provides for 11 to 24 percent of long-term asset financing, compared with 48 to 52 percent from retained earnings (Table 3). These figures are not unusual at the international level. In the industrial sector, for which there is comparable data, bank credit provides for about 20 percent of long-term asset financing in China, 19 percent in Morocco, 14.3 percent in Brazil and 12.6 percent in Algeria.[24]

Table 3. Financing of long term assets (Pct.)

Sector		**Industry**	**Services to firms**	**Other services**
Self financing of which		53.0	54.0	51.0
	• *Retained earnings*	*52.0*	*52.0*	*48.0*
	• *Financial market*	*1.0*	*2.0*	*3.0*
Bank loans		23.0	11.0	24.0
Leasing		11.0	15.0	13.0
SICAR (Venture capital)		1.0	2.0	1.0
Other		12.0	18.0	11.0
Firms age (years)		**[0 - 4]**	**[5 - 9]**	**10 +**
Self financing of which		59.0	53.0	51.0
	• *Retained earnings*	*58.0*	*52.0*	*49.0*
	• *Financial market*	*1.0*	*1.0*	*2.0*
Bank loans		16.0	18.0	24.0
Leasing		7.0	11.0	13.0
SICAR (Venture capital)		1.0	2.0	1.0
Other		17.0	16.0	11.0

Source: *Enquête sur la compétitivité*, IEQ 2007.

37. Financing provided by SICARs play a minor role, irrespective of sector. The relatively limited use of bank financing by Tunisian SMEs reflects to some extent the negative perceptions mentioned previously. It is also worth noting that the share of bank credit in SMEs' asset financing appears to be positively correlated with the age of the

[23] - As enterprise managers know more about their current problems than outsiders (such as government officials or other experts), it makes a lot of sense to ask their concerns about the business environment in a given country through a survey of firms. Although it is important to consider this information seriously, it is also needed to understand that such perceptions have limitations, especially in terms of international comparisons. In effect, cultural differences, or persistent differences in expectations about the investment climate, might affect perceptions and cross-country comparisons. Therefore, although comparisons are useful, their limits must be kept in mind.

[24] - Enterprise survey data: China and Brazil 2003 surveys, Morocco and Algeria 2007 surveys.

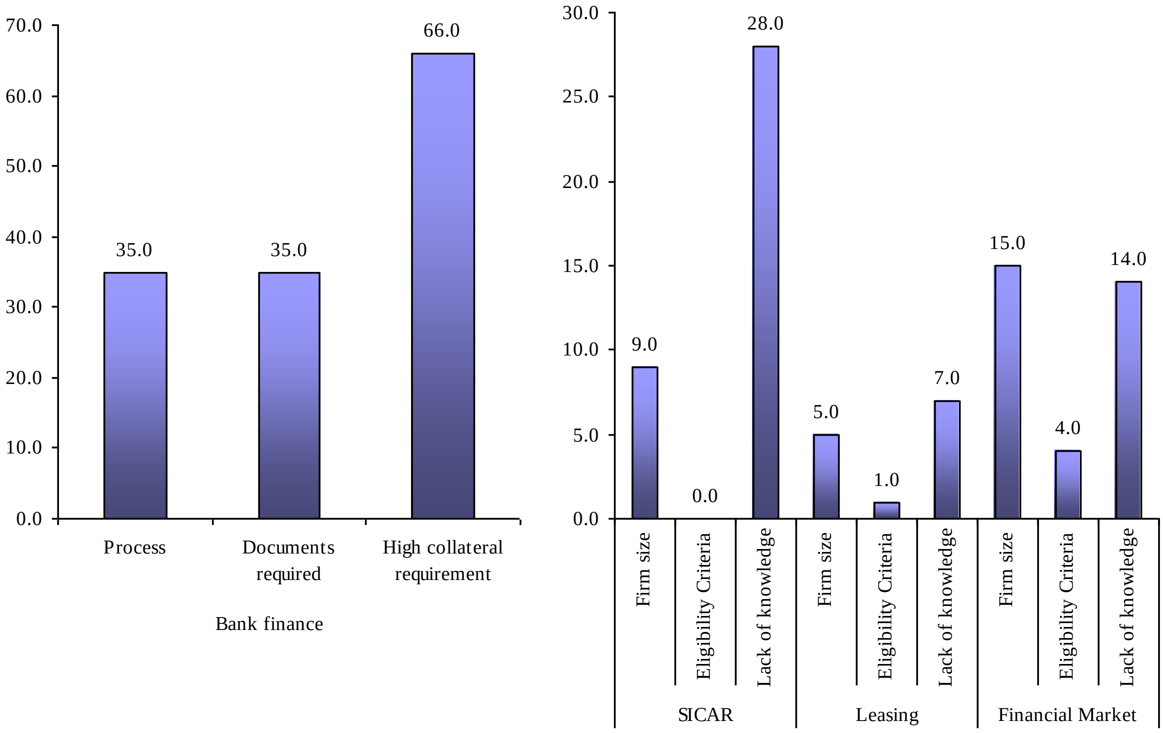
company. Companies aged 10 years or more report a greater share of bank credit in their asset financing (24 percent) than newly-created firms (16 percent). Similarly, the share of SICARs remains minimal even in the category of young companies that are less than five years old.

2.3. Constraints on access to finance according to SMEs.

38. For the most part (Chart 12), **Tunisian SMEs consider banks' collateral requirements as the main obstacle hindering their access to bank credit**. Even though they are mentioned less often, administrative procedures and the required supporting documents are also considered to be significant obstacles.

39. SICARs' and leasing companies' small share in the financing of Tunisian companies appears to be due in part to the companies' inadequate grasp of these financing tools. Low recourse to financial markets is also mainly due to companies' lack of knowledge and to the perception that this type of financing is the preserve of large enterprises.

Chart 12. Obstacles to the access to specific financing instruments.
(Pct. of firms which quote the item).

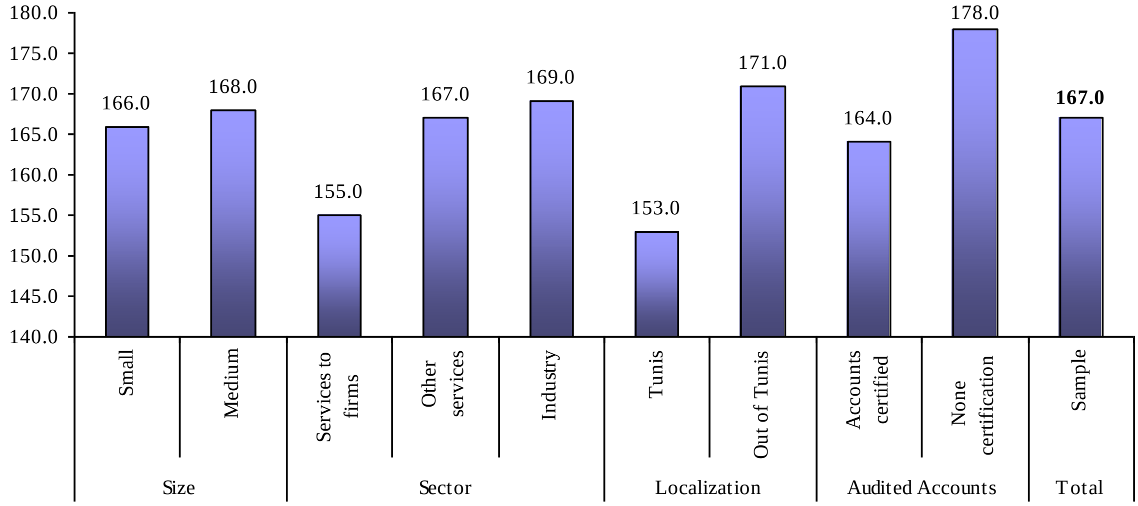


Source: *Enquête sur la compétitivité*, IEQ 2007.

40. In terms of bank finance, Tunisian companies report that banks require collateral worth up to an average of 167 percent of the loan provided (Chart 13). According to ITCEQ data, the level of collateral required follows a fairly classic pattern: it is higher for industries, for companies outside the capital city and firms that do not submit certified accounts. Available data show that these levels of collateral remain comparatively high: they are close to levels practiced in Morocco and Algeria but much higher than those observed in China or Brazil for example (Chart 14).

Chart 13. Average amount of collateral required by Tunisian banks.

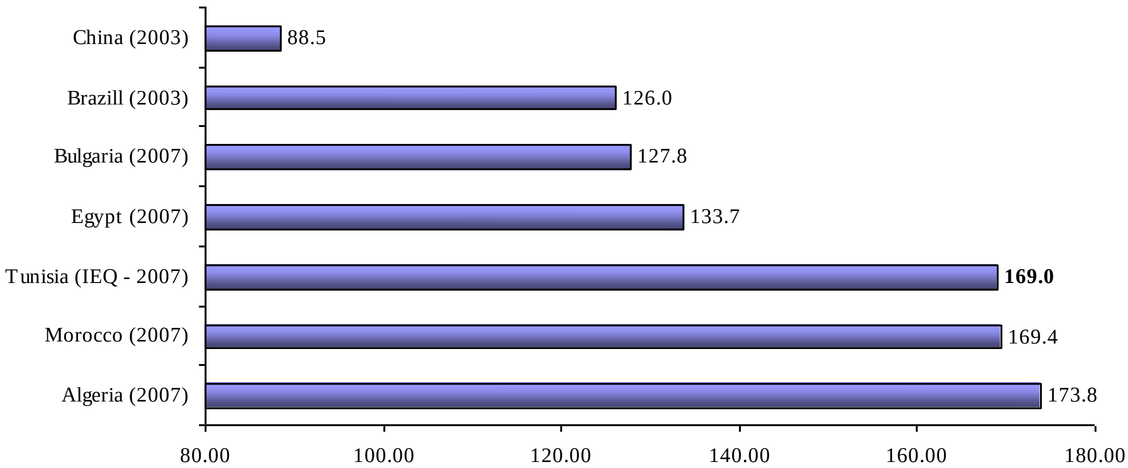
(Pct. of loan value).



Source: *Enquête sur la compétitivité*, IEQ 2007.

Chart 14. Amount of collateral required in selected countries

(Pct. of loan value).



Note.
Manufacturing sector only

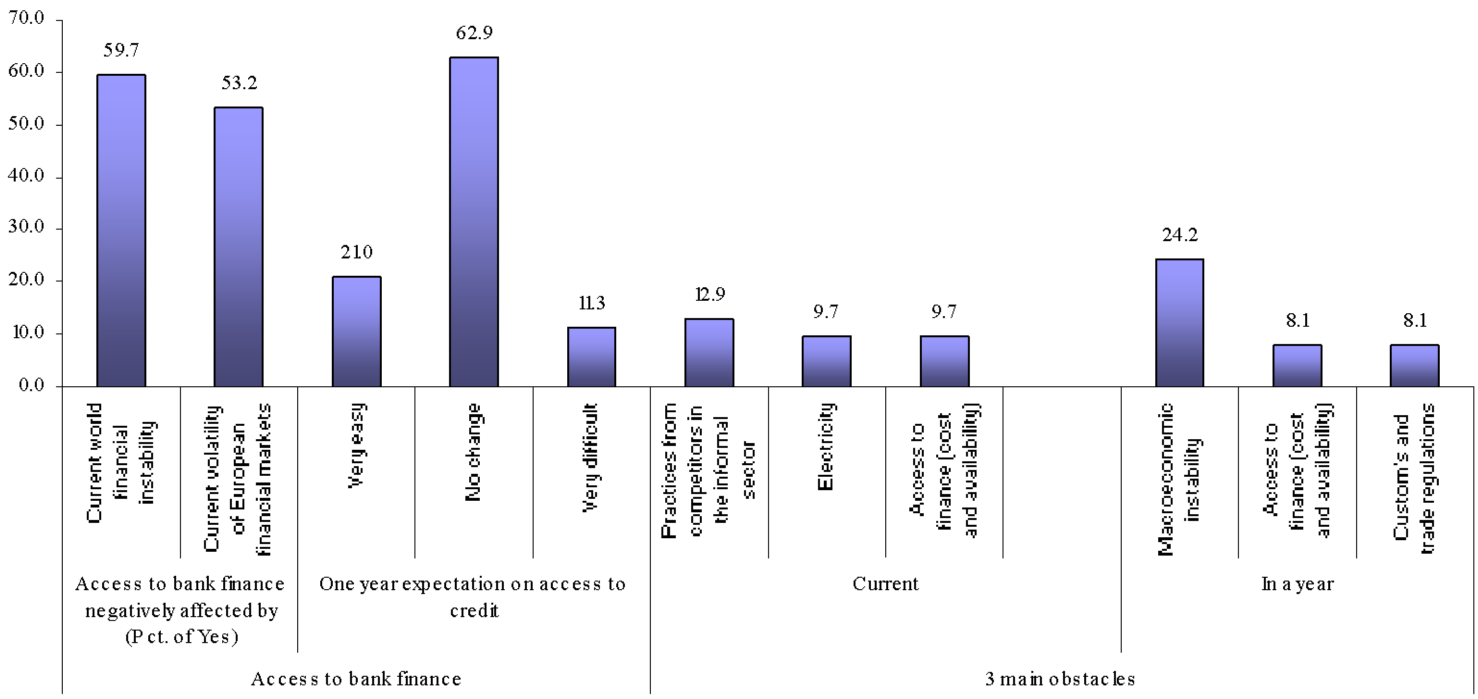
Source: *Enquête sur la compétitivité*, IEQ 2007 and World Bank enterprise surveys (www.enterprisesurveys.org).

2.4. Firms' recent opinion.

41. In April-May 2009, IACE carried out an opinion survey modeled on the World Bank's "quick reaction" surveys. These surveys focus on business leaders' perception of the crisis and touch upon several issues including corporate financing. The Tunisian data[25] provide a recent point of view on the issue and highlight the persistence of the problem.

[25] - IAECE data were collected between April and May 2009 from a random sample of 62 private enterprises operating in industry, services and NTIC. When they export, these companies export mostly to France and Libya. The sample includes 38.7 percent of SMEs.

Chart 15. Perception of financing problems in April-May 2009 (Pct.).



Source: IAECE, Quick Reaction Survey, April-May 2009.

42. The data show that 29 percent of enterprises considered that access to financing (availability and cost) was a major or even very severe problem. In addition, 53 to almost 60 percent of enterprises surveyed estimated that access to bank lending would be affected in the coming year by the current instability and volatility of European financial markets (Chart 15).

43. A large majority of enterprises (63 percent) do not expect any significant changes in conditions of access to bank lending in the coming year. Lastly, access to financing (availability and cost) is still considered as one of the main problems facing Tunisian companies and SMEs currently and in the coming year.

2.5. Synthesis.

44. These data i) underline the perception that the problems of financing of Tunisian companies and of SMEs are structural and ii) show, in addition, that in the short term, firms do not appear to be expecting any improvements. **Despite a fairly sophisticated financing system, it seems that firms' needs are not being fully met.** These needs may be grouped into two categories.

45. First, it is possible to use a binary classification such as operations vs. investments, which covers the distinction traditionally made between short/medium-term and long-term credits. Second, it is also possible to analyze the financing needs of firms according to

their lifecycle stage – start-up[26] or operation[27]. The various SME financing mechanisms studied in the next section fall under these two categories: bank financing (irrespective of term) may help SMEs in the operational phase (i.e. to fund working capital, investment), factoring and leasing help to finance operations - leasing can also be an alternative to investment -, venture capital is aimed more specifically at early-stage companies, and the stock market provides medium and long-term funding.

[26] - During this phase, financing needs are extremely varied and can be for:

- Investment in intangible assets (technical and economic studies, product/ prototype development, counseling, technical assistance, consulting services, patenting, search for partners, etc.);
- Investment in tangible assets (production machinery, equipment, buildings and installations, commercial premises, etc.);
- Working capital investment ;
- Investments to expand or develop means of production.

[27] - In the operational phase, SMEs' financing needs are linked to the firm's business and include:

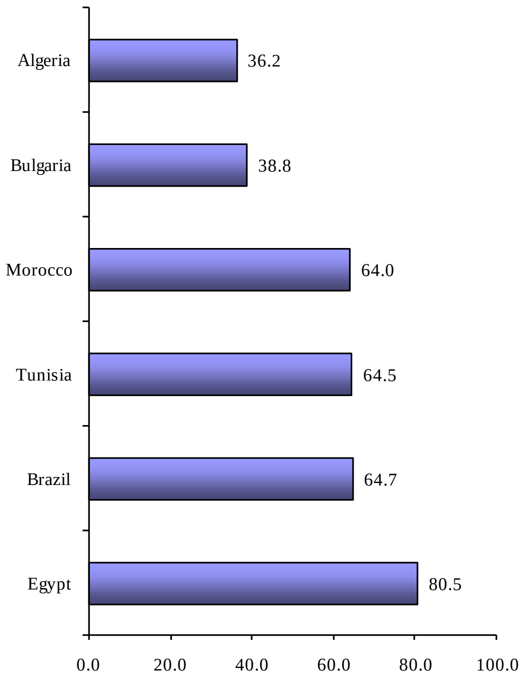
- Working capital requirements ;
- Financing export operations or export receivables ;
- Financing domestic receivables ;
- Financing specific or one-off activities (export promotion activities, skill enhancing activities).

3 SME FINANCING: SUPPLY SIDE ISSUES.

46. In 2008, the Tunisian financial system included 20 deposit banks, 14 other financial institutions (leasing and factoring companies and investment banks), 8 off-shore banks and 11 representative offices of foreign banks. All these institutions come under the jurisdiction of the Central Bank of Tunisia (BCT, Diagram A. 2). There is also a stock exchange (BVMT - *Bourse des Valeurs Mobilières de Tunis*), a newly established second market (*marché alternatif*), investment funds and other entities, all of which are regulated by the CMF.

47. As in most countries in the MENA region, the banking system is the most important component of the financial system. It is the most important source of external funding for firms. It provided about 73 percent of credits to the economy in 2007-2008. In that same period, banks collected a gross domestic saving estimated at roughly 22 percent of GDP and their assets amounted to roughly 64.5 percent of GDP (Chart 16).

Chart 16. Bank assets.
(Pct. of GDP, average 2003-2006)



Source: World Bank Database on Financial Structure.

48. Non-bank funding sources (leasing/ factoring, SICARs, stock market/ alternative market) are still a little undeveloped in Tunisia and contribute to a relatively small amount of firms external funding. In 2007, these sources accounted for about 8 per cent of GFCF (World Bank 2009a).

49. The main components of the financial system that play a role in SME financing are now being analyzed.

3.1. The banking system and bank financing.

Structural characteristics of the system.

50. In 1997, the Central Bank of Tunisia (BCT) launched a program to upgrade financial institutions and the banking sector. In particular, the 2001 enactment of a banking law on credit institutions created a more open environment by removing the distinction drawn between the former development banks and deposit banks. In 2006, a law on the establishment and organization of the BCT strengthened the sector by giving

the central bank new prerogatives, which included keeping a register on the risks and uncertainties of check, credit/debit card payments and other future means of payment. Lastly, in 2007, the Economic Initiative Bill authorized the BCT to require debt recovery companies to provide it with the statistics and information that make it possible to track changes in credit and the economic situation.

51. In addition to these legislative changes, the Tunisian banking system has evolved substantially since 2005 following the creation of the BFPME, the change in status of the former development banks[28] to universal banks, and the privatization of the Banque du Sud (renamed Attijari Bank). Also, in January 2008, as part of the banking sector restructuring program, the Banque Tuniso-Koweitienne was privatized by transferring 60 percent of its capital to the Caisse d'Epargne group (France). While the sector is made up primarily of private and mixed-ownership banks (70 percent), public banks still play an important role in financing the economy.

52. At a structural level, the sector has some specific characteristics (Chart 17).

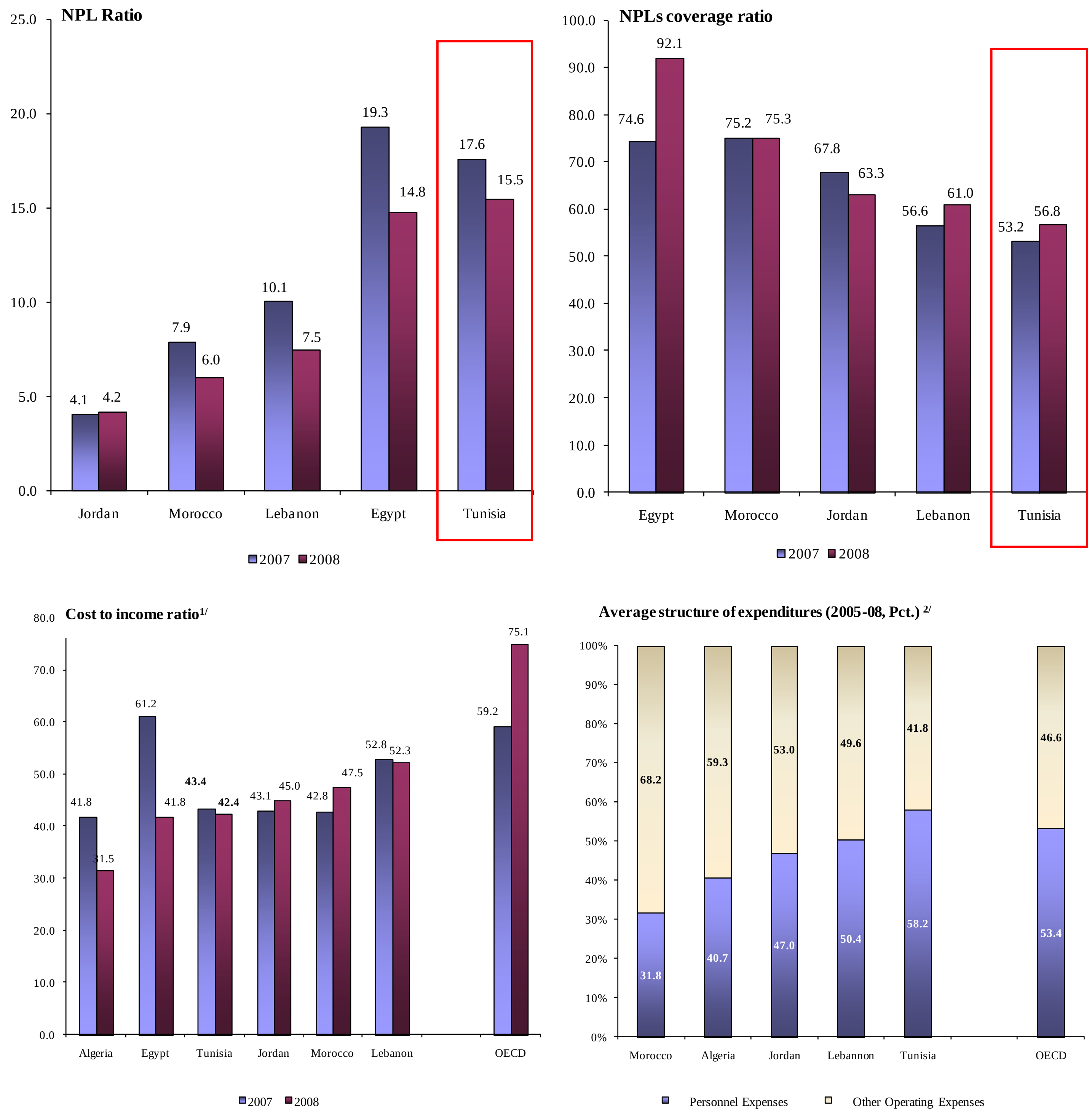
- **Although the situation is improving, Tunisian banks are still burdened by the level of non-performing loans on their balance sheets.** These non-performing loans decreased from 24.2 percent of total credits in 2003 to 15.5 percent in 2008 while loan-loss provisioning increased from 44.1 percent to 56.8 percent over the same period (Chart 17, first two diagrams). Compared to European levels of roughly 2 to 3 percent (about 6 percent in Morocco) for non-performing loans and 70 to 75 percent (75.3 percent in Morocco) for provisioning, Tunisia is still below international standards. The Tunisian government aims to bring the rate of non-performing loans down to 15 percent and loan-loss provisioning to 70 percent by end 2009. However, even if the non-performing loan rate is effectively brought down to 15 percent, the Tunisian banking system will remain vulnerable to possible shocks. **In this context that is not conducive to risk taking, there is some concern that Tunisian banks will continue to remain on the sidelines of SME financing for a while longer**, or even turn from it altogether in the current climate of economic slowdown and resurgent corporate default risk.

- **The level of operational costs[29] of Tunisian bank is however not excessive, either compared to regional competitors or OECD banks**. The cost to income ratio is around 43 percent in 2007 and 2008 (Chart 17, diagram 3). However, it must also be noted that the share of personal expenditures is the highest for the main Tunisian banks, whether compared to regional competitors or the OECD banks (Chart 17, diagram 4).

[28]- STUSID, BTL, TQB and BTK.

[29] - According to Bankscope classification, this includes personal expenditures and other operating costs.

Chart 17. Comparative data on the main banks.



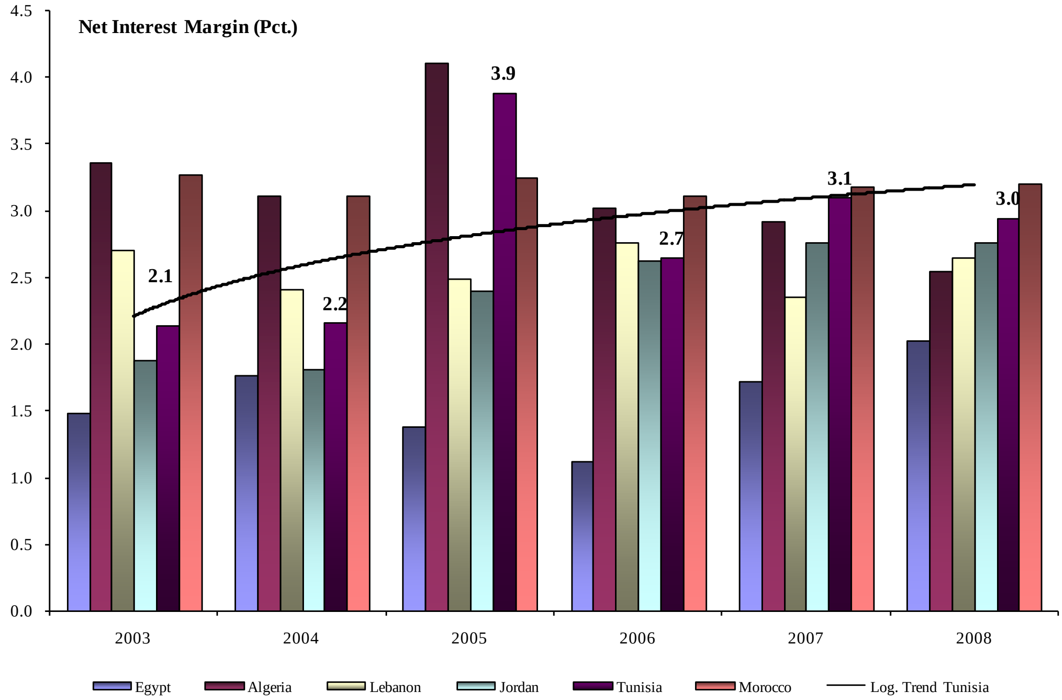
1/ Personal expenditures and other expenses divided by the sum of net interest revenues and other operating income.

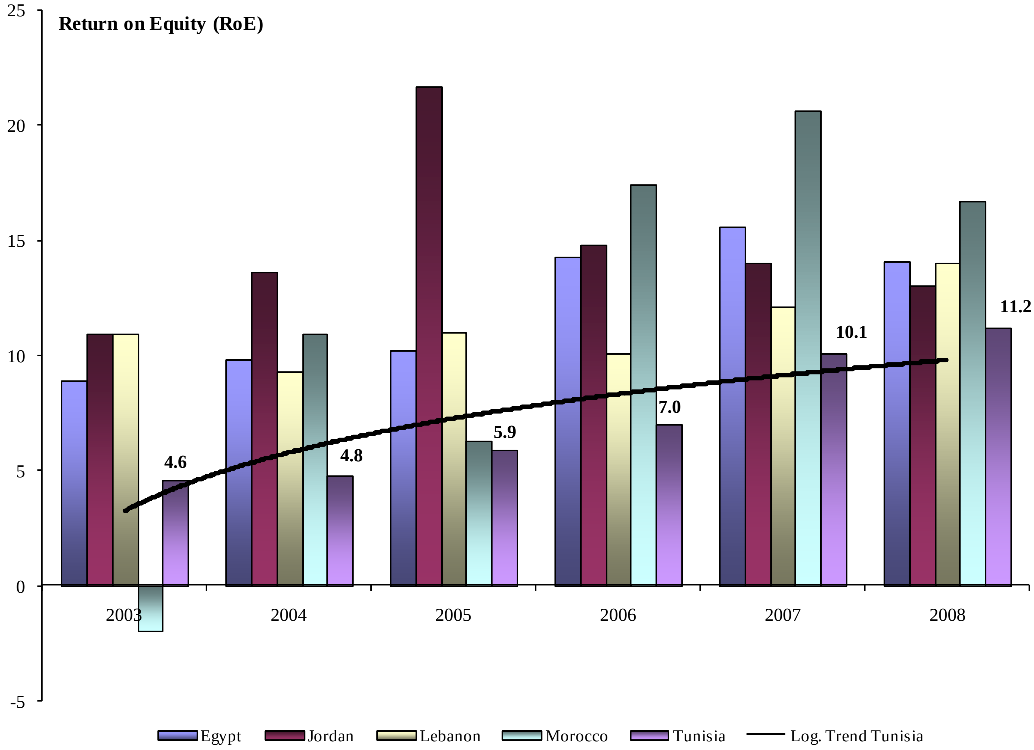
2/ Expenses include personnel costs and other expenses.

Note.
Data for the 10 largest banks (on an assets basis) active in each country.

Source: IMF (2009c) and Bankscope.

(Chart 17 - continued).





Source: Bankscope and IMF (2009c).

- Finally, net interest margins and RoEs follow a positive trend in recent years (diagrams above), since 2003. In 2008, net interest margins in Tunisia are therefore among the highest in the region. **This high level of NIM, although consistent with a financial system trying to reduce NPLs, implies however that the cost of financing is higher for firms. The latter is always mentioned by firms during recent surveys and by representatives of the private sector as an important constraint to access financing**.

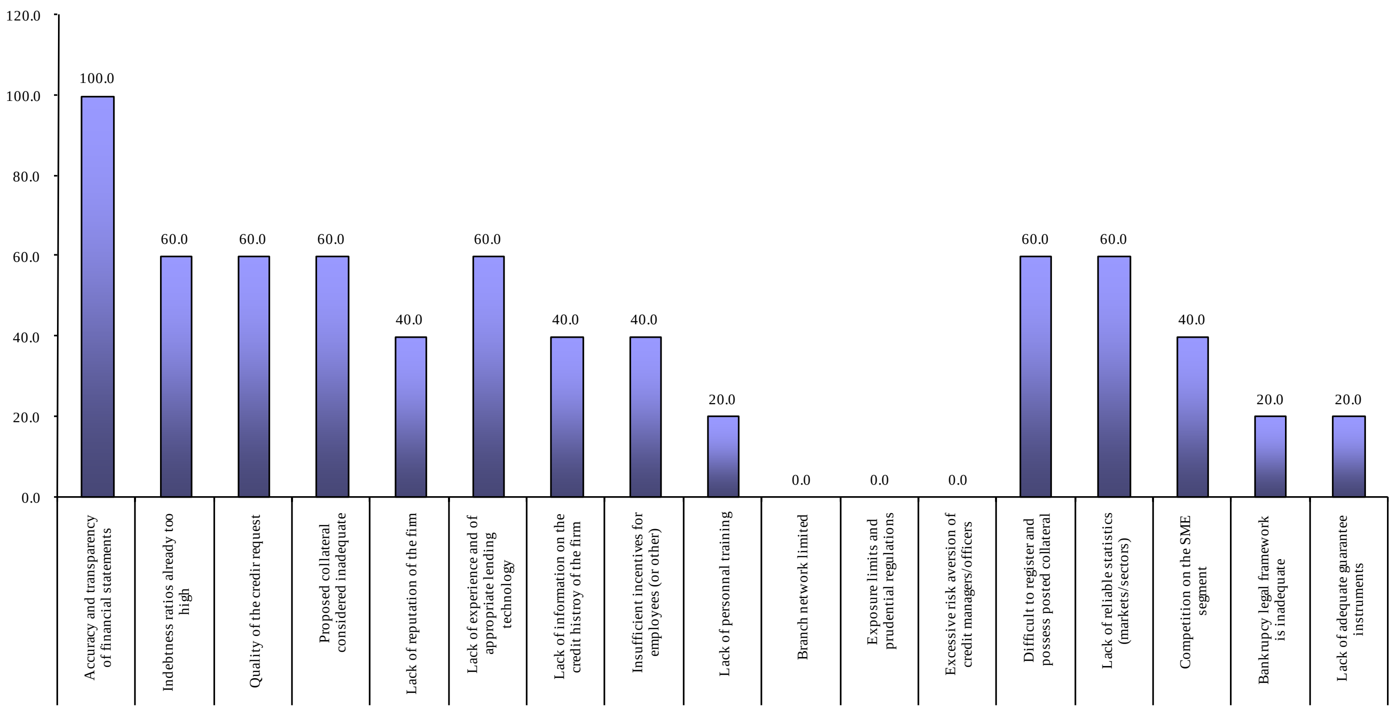
Obstacles to the growth of credit to SMEs: banks' point of view.

53. The following sections report on the findings of interviews held with Tunisian banks between May and October 2008. We spoke with five Tunisian banks: Attijari Bank, BH, BIAT, BNA and STB. These five banks accounted for roughly 51 percent of market share in 2007.

54. These banks identified several factors that they perceive to be obstacles to the growth of credit to Tunisian SMEs. These factors can essentially be divided into three categories: i) firm-specific factors, ii) banks' specific characteristics and iii) the external credit environment. More specifically:

Chart 18. Constraints to the growth of credit to firms.

(Pct of respondents who consider the following items as "major" or "very severe" constraints)



Source: Meetings with banks – May/October 2008.

55. **Company specific factors**. All the banks surveyed cited this category of factors. These include:

- **The opacity of Tunisian SMEs** is the characteristic that is of most concern to banks. All the banks cite the poor quality of the financial information submitted by SMEs requesting loans. As only enterprises with a turnover of TND 5 million or more (USD 3.9 million) are legally obliged to submit certified accounts, a large proportion of Tunisian SMEs do not submit certified and independently-audited accounts to the banks;
- **Excessively high debt ratios.** Banks consider Tunisian enterprises to be over-indebted and under-capitalized. On average, by the mid 2000s, it was usually estimated that the debt to equity ratio of Tunisian firms and SMEs was around 1.6. According to banks, this is mainly due to the frequently excessive use of the generous support system to firm's creation set up by the government. In fact, the financing structure often recommended by the Tunisian government (typically, 70 percent debt financing and 30

percent own funds) for setting up a business is often not adhered to. By using government assistance programs in a "wise" way and by "massaging" the investment requirements they submit to banks, entrepreneurs can easily bring down their own funds to 5-6 percent of the capital. This debt level is unsustainable and almost certainly a death sentence for a new company;

- **Quality of demand**. The banks acknowledge that companies have made significant efforts to improve the presentation of their loan request applications. Tunisian SMEs are turning increasingly towards specialized consultants or government-sponsored loan request support programs to help them draw up their business plans and prepare their loan request applications. Unfortunately, these well-presented applications are rarely for innovative projects. According to bank respondents, these projects are often in market segments that are mature and highly saturated, therefore – most likely - indicating low future profitability;

- **Lack of collateral and weak reputation.** Tunisian SMEs all too often do not have sufficient collateral to meet banks' requirements, nor have they gained the "notoriety/reputation" that would enable them to obtain loans without collateral. "Notoriety/reputation" supposes a financial size and a proven substantial repayment capacity that is out of reach of most Tunisian SMEs.

56. **Characteristics of the banks**. The banks surveyed cite:

- **Limited loan technology**. Banks consider loan technology, whether it relates to appraisal systems or financial products specific to SMEs, to be a constraint. The specific nature of SMEs (family enterprises that are highly dependent on managers, under-capitalized and very opaque) calls for appraisal tools or loan products that are different from those used for large enterprises. Four-fifths of the banks met maintain that current appraisal tools do not encourage the growth of lending to SMEs. The fact that the use of tools such as credit scoring – which rationalizes risk assessment – is very limited or even non-existent, highlights this technology gap (see below);

- **Absence of information or difficulty of obtaining information on SMEs' credit history.** By mid-2009, the unique source of information in terms of credit reporting is the Public Credit Registry of the BCT (CIBCT). Neither Private Credit Bureaus nor other private information providers of any type, active in the area of private credit reporting, are present and operating in Tunisia (Box 1). This acts also as an hindrance to the full adoption by banks of more sophisticated risk assessment tools;

- Tunisian banks cite **inexperience in certain sectors** and the related **lack of sufficiently qualified staff** in this market segment as internal constraints;

- **Staff motivation**. The banks also cite the fact that employees in Tunisian banks very rarely enjoy monetary incentives tied to loans granted to SMEs. Only one of the banks surveyed reports that it offers such advantages to its staff.

57. **The external environment**. Bank respondents cite primarily:

- **The legal framework: the difficulty of registering collateral is still a serious problem for banks**. They consider the time delays required to register collateral in land registries to be relatively long. These difficulties are intensified when a land certificate is issued by AFI;

- **Absence of sectoral information and studies**: four out of five banks consider that available sector studies remain limited and inadequate. According to the banks, where they are available, these sector studies are often outdated and too general. In addition, they rarely include financial aspects and information on sector profitability.

Box 1. Current credit reporting system in Tunisia

By mid-2009, the only source of information in terms of credit reporting is the Public Credit Registry of the BCT (CIBCT). Neither Private Credit Bureaus nor other private information providers of any type, active in the area of private credit reporting, are present and operating in Tunisia. Besides this public registry, lenders have no availability of information (positive or negative), and the only additional information usually exchanged by lenders is represented by the references on customers, informally disseminated among banks, on a case by case basis.

The CIBCT, renovated in 2006, is a modern system that integrates 8 different sources of information from unpaid checks, to credit information including firms and consumers. The CIBCT collects and disseminates information from regulated financial institutions (mostly banks) and allows on-line access for both the contribution of data and the inquiries from lenders. A major advance of the renovated system is the presence of a consumer credit database collecting information on all consumer loans. This information is provided by all the banks and supervised entities. It is also supposed to be provided by non-regulated commercial entities (egg. retailers) although - as of now - this is not the case.

However, even if the CIBCT can be considered as a good system from a technical point of view, there are areas of potential improvement. The main areas of concerns are i) the lack of some important data (credit cards, non-regulated entities, MFI); ii) the low awareness of consumers about their own rights on their personal information; iii) the historical data that is not returned to the lenders; iv) the non detailed format of the report returned to the lenders and v) the lack of an open consent to share data also with third party agencies (apart from the BCT).

The CIBCT is a step forward and proves an effective tool for supporting the supervisory needs of the BCT and for supplying regulated financial institutions (the banks) with basic information on large business firms and large customers. However, as it is now, it does not help in assessing the needs of smaller businesses, i.e. the formal SMEs, as it lacks some important data, and reports provided do not furnish complete historical data or a high degree of detail.

Other aspects.

58. **A still distant relationship with SMEs.** The December 2007 Economic Initiative Bill requires banks to have a specialized SME unit. By mid-2008, the banking sector had made significant headway in implementing the directives of this new law. Close to four out of five banks had already set up such units and the remaining banks were in the process of doing so. The main role of the units that have already been set up is to define bank strategy on the segment. They often fall under the bank head office. By mid-2009, most banks in Tunisia had such units. While this is a step in the right direction, a number of persisting limitations hamper Bank-SME dealings:

- **The system is still highly centralized.** These units rely essentially on their branch networks to provide services to the SME segment. Although the traditional branch network is the bedrock of the distribution of banking services in Tunisia[30], it must be noted the system is still very largely built around banks' head offices. In most of the banks visited, network branches are merely outlets, they have no staff dedicated solely to SMEs and no autonomy at all;[31]
- **There are very few SME customer service positions.** Though SME customer service positions are a vital link in the SME-bank relationship, they are still not common in the

[30] - According to BCT (2008), the banking sector's representation network totaled 1,060 branches at end 2007, i.e. one branch per 9,600 people (up from one per 10,300 people in 2006). Though it is expanding, this ratio remains relatively low when compared to Morocco (one per 7,300 people) and France (one per 2,300 people in 2007).

[31] - Though, in theory, a few banks give branches some autonomy to make decisions, in practice, credit decisions are still taken at the head office.

banks. Only one out of two banks reports that it has SME customer service agents on its payroll. The lack of SME customer service agents limits the transmission of qualitative information, which is crucial to project appraisal. It also significantly impacts banks' ability to properly monitor SMEs once funding has been granted.

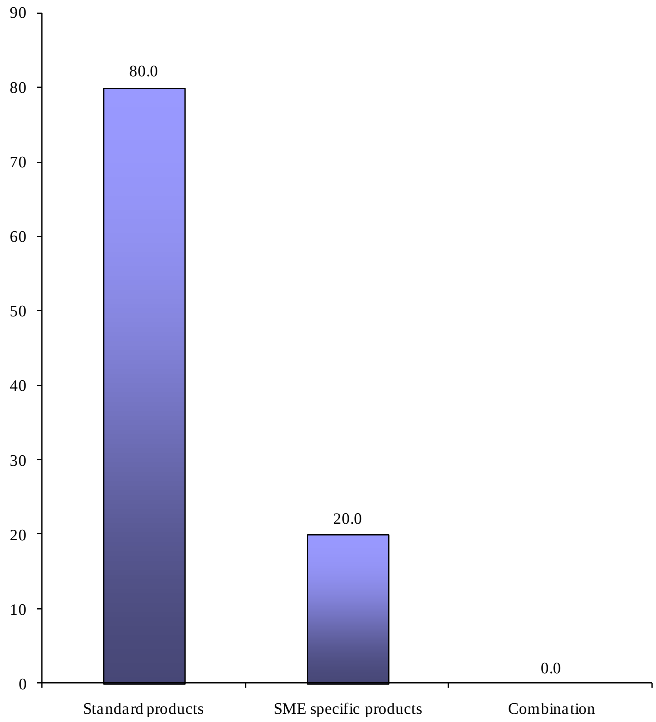
59. **The search for new SME customers.** Acquiring new customers is a priority for Tunisian banks: 80 percent of the banks surveyed say they undertake active search for new business customers, including SMEs. They generally rely on the following sources to identify or reach potential new customers:

- bank's customers' suppliers list (80 percent of banks);
- cross-selling to customers that hold only deposit accounts (80 percent of banks);
- and, to a lesser extent, database of registered companies (40 percent of banks).

60. Discussions with operators in the banking sector however indicate that such search for new SME business tends to be at the individual initiative of employees rather than a well thought-out strategy within the bank (with the obvious exception of BFPME).

61. **A limited supply of SME specific products.** Products offered to SMEs do not seem to be totally in line with the needs of this category of enterprises (Chart 19). Close to 80 percent of banks offer only "standard" products to SMEs: essentially checking or deposit accounts, operating or investment funds, whose terms and conditions are often adjusted on the basis of the incentives schemes set-up by the State. The provision of other fee-based value-added services (such as account management, treasury management, payroll management, insurance products…) of great interest for SMEs seems limited and when it exists, seems more designed for larger firms (Chart A. 7). In addition, the banks' sales associates do not have any leeway to determine the characteristics of loans that could be adapted to each specific SME. These are most of the time determined at head office level or by the credit committee.

Chart 19. Offering of SME specific products (Pct).



Source: Meetings with banks – May/October 2008.

62. **The use of credit scoring model is almost non-existent**. A credit scoring system is a set of decision-making models that help to assess potential borrowers' risk by automating and rationalizing credit application processing. Credit scoring is a statistical

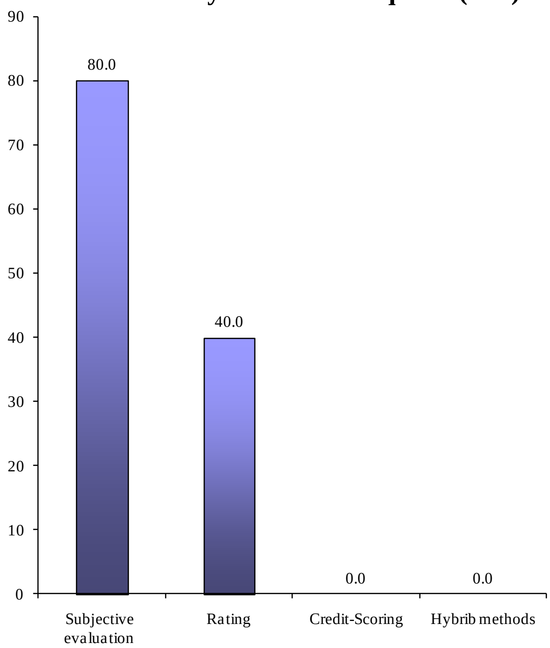
approach to predicting the probability that a credit applicant will default or become delinquent (Hand and Henley 1997, Berger and Frame, 2005). Credit scoring for SMEs is based primarily on “hard” quantitative information, i.e. primarily personal consumer data on the owner obtained from consumer credit bureaus, data on the business collected by the financial institution and in some cases information on the firm from commercial credit bureaus. While credit scores have been widely used for many years in consumer credit markets, they also proved themselves to be very useful tools in assessing SMEs credit risk (Berger and Frame, 2005).

63. One of the reasons for the increasing use of this tool in the SME credit market is that credit scoring has characteristics that offset one of the weaknesses of SMEs, i.e. their considerable financial opacity. Given that a substantial part of the score is based on the personal history of the company director/manager and not the SME itself, credit scoring facilitates the assessment of the risk attached to this category of companies. Berger and Udell (2002) show that adopting credit scoring as an assessment tool goes hand in hand with an increase in credit to opaque enterprises. Furthermore, CS models help to substantially reduce transaction costs and response times to credit requests, whether or not the firm is an SME.

64. In spite of the clear advantages of credit scoring models, none of the banks met were using this assessment tool in mid- 2008, even though it is being developed in some banks[32]. The current low interest for credit scoring methods is due partly to:

- the relatively limited benefit that banks expect to derive from it given the low volume of loan applications they process;
- the distrust with which many of these institutions regard automated assessment models that do not call for any human judgment. Most of the banks say that they consider these scoring models not as decisive factors for the granting of credit but rather as tools that may facilitate the decision-making process.

Chart 20. Analysis of credit requests (Pct.)



Source: Meetings with banks – May/October 2008.

65. Lastly, it is worth pointing out that less than 30 percent of banks say that they analyze SME risk with the same rating tools they use for large companies. In this case, the weight attached to qualitative data on SMEs is much greater than in the risk analysis of large companies.

[32] - BFPME with the “ LoanCom-BFPME” software initially developed in India for SME customers of the Exam Bank of India.

Banks' point of view on supply side institutions.

66. In recent years, the Tunisian government has taken two very important measures aimed at facilitating SME financing by trying to offset banks' reluctance to lend to this sector: the creation of BFPME and SOTUGAR.

- SOTUGAR is a guarantee fund set up in 2003 to provide the collateral SMEs need to back their loan applications to banks. With 1,432 requests for guarantees since its inception, (i.e. TND 286 million worth of bank financing guaranteed or USD 223 million), SOTUGAR appears to be gaining momentum. However, the banks met still seem to have reservations with regard to this fund for the following reasons:
    - The fact that the guarantee proposed is relatively limited (50 to 75 percent of the loan) and only kicks in at the end of the judicial procedure (which can be long[33]) means that banks often continue to demand a collateral of at least 100 percent of the loan;
    - The banks also consider the subscription cost to be high, 2.6 percent of the total amount of the credit, i.e. much higher than rates applied in Morocco by example (about 1 percent), which makes them reluctant to use this mechanism;
    - It also seems that SOTUGAR's credibility has not yet been firmly established, particularly due to the fund's virtual lack of experience in the area of compensation.[34]
- BFPME is a public institution established in 2005 and specialized in the financing of SMEs (start-ups and existing SMEs). BFPME is in its early stages but has posted very encouraging initial results. Since it was set up, it has approved roughly 821 projects (472 in 2007), representing a total disbursed amount of TND 35.4 million in 2008 (USD 26.9 million) and TND 174 million of approved projects (USD 135.8 million). BFPME calls on SOTUGAR where needed and does not seek additional collateral to cover its exposure. Here too, the banks surveyed show some reluctance:
    - The banks bemoan the duplication of efforts and the relative inefficiencies stemming from the separate appraisal of requests co-financed with BFPME;
    - They find it difficult to reconcile BFPME's decision to systematically include a *Pari Passu*[35] clause in its financing contracts with the bank's *raison d'être*.

3.2. Leasing.

67. Several studies have underlined leasing's usefulness to companies, for it can improve SMEs' access to financing. Leasing is a contractual agreement whereby, at the request of a customer (lessee), a financial leasing company (lessor) acquires the ownership of tangible or intangible capital assets for professional use, in order to lease them to said customer for a specified period of time against the payment of periodic leasing or rental installments. Leasing enables enterprises to invest in equipment without substantially

[33] - According to the Enforcing Contracts indicator in the 2010 Doing Business index, in 2009, it took approximately 565 days to resolve a commercial dispute in Tunisia, compared to 462 days in the OECD economies.

[34] - In addition, the FNG experience (former guarantee fund replaced by SOTUGAR) remains fresh in bankers' minds and provokes some distrust towards SOTUGAR.

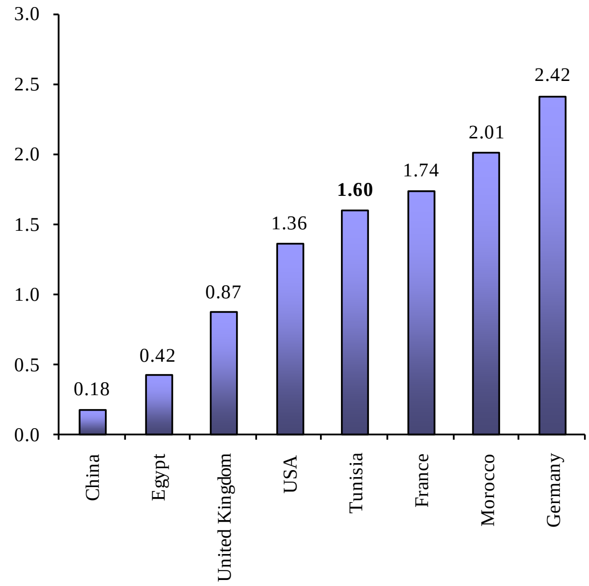
[35] - This clause ensures the fair distribution of the assets of a failing company among holders of debt of the same class.

worsening their financial situation because the lessee may record the rental installments in its accounts under operating costs. Leasing is often used to acquire vehicles, computer hardware and industrial equipment because maintenance guarantees may be included in the lease contract.

Leasing in Tunisia.

68. Leasing was introduced in 1984 with the creation of Tunisia's first leasing company, Tunisie Leasing. The sector currently boasts 11 companies, 10 of which are actually operational. Seven leasing companies are owned by banks and five are listed on the stock exchange. The first three companies account for nearly 60 percent of the market (Table A. 5**Error! Reference source not found.**). On a comparative basis (Chart 21), leasing appears to be relatively developed in Tunisia; although lower than in Morocco, the White Clarke ratio (1.6) in Tunisia is higher than in Egypt and many other countries. This type of activity enjoyed strong growth in recent years and consist mainly, in Tunisia like elsewhere, in equipment rental (Table 4)

Chart 21. Leasing - White Clarke 2007 GDP penetration ratio.



Source: Euromoney yearbook (2009).

Table 4. Leasing in Egypt, Morocco and Tunisia (2007).

	Egypt	Morocco	Tunisia
Creation	1995	1965	1984
Nber of firms	40	7	10
2006-2007 Growth rate (Pct.)	41.0	14.8	37.3
White Clarke 2007 GDP penetration ratio	0.4	2.0	1.6
Structure 2007 (Pct.)			
Real estate	25	18	13
Equipement	75	82	87

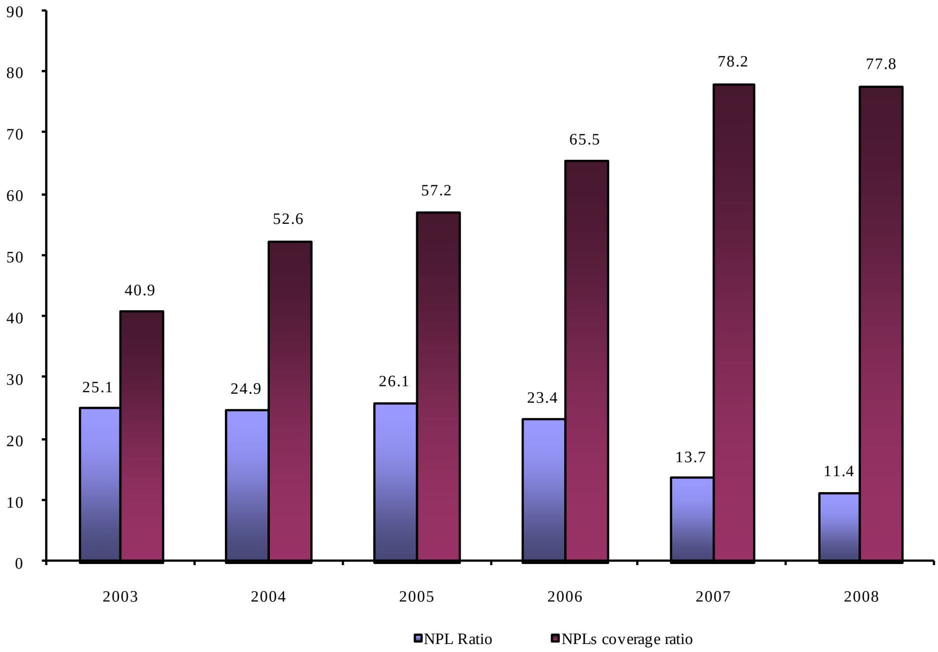
Note.
For Egypt, number of firms with more 20 million of Egyptian pounds in capital.

Source: Euromoney yearbook (2009).

69. In recent years, leasing has gained significant ground in Tunisian SMEs as a source of funding for fixed asset investment. The leasing sector has seen a steady growth of contracts of about 22 percent between 2006 and 2008, bringing the volume of leasing business to TND 822.7 million in 2008 (USD 641.9 million). Leasing penetration in gross fixed capital formation reached 10.6 percent in 2008, against 11.4 percent in 2007. This growth is a result of the renewal of the transport fleet in some sectors, fostered by the falling cost of financing and by the synergies developed between some companies in the sector and parent banks' branch network in searching for new customers (BCT 2009).

70. The sector's portfolio quality has improved substantially, with the share of classified receivables shrinking from 25.1 percent in 2003 to 11.4 percent in 2008, even as the coverage ratio posted a sharp increase from 40.9 percent in 2003 to 77.8 percent in 2008 (Chart 22). These results were achieved by most leasing companies thanks to a more rigorous management and some of these companies' use of scoring tools in the loan approval process.

Chart 22. Leasing – Assets quality.



Source: BCT.

71. The combined effect of the growth in new leasing contracts and the improvement in the quality of the credit portfolio led to a significant 8.9 percent increase in outstanding leases between 2007 and 2008 (bringing them to TND 1380.3 million at end 2008, or USD 1077 million). This was financed mainly through borrowing (bank resources – 41.3 percent and bonds – 38.7 percent).

Typology of leases granted.

72. The type of assets that can be leased and the type of leasing beneficiary (lessee) is relatively varied and depends largely on the policies and strategies implemented by each leasing company. The indications below show recent trends in assets leased, sectors and type of lessees:

Lessees	Private enterprises (including sole proprietorships), mainly SMEs, though since 2008, there have been a few large companies.
Beneficiary sectors	1 – Trade and distribution; 2 - Industry; 3 - Construction and public works.
Assets leased	1 - Transport equipment; 2 - Construction equipment; 3 – Real estate; 4 – Machinery and equipment.

The advantages of leasing for Tunisian SMEs.

73. The leasing industry has expanded considerably in Tunisia in recent years because it meets some of the needs of Tunisian SMEs:

A company applying for leasing finance does not need to provide collateral or present its financial history;

- The fact that legal ownership of the leased assets remains with the lessor (at least until the expiry of the lease contract) minimizes the implicit risks and makes leasing approval easier than traditional credit approval;
- From the leasing request to the implementation of the transaction, transaction execution time is significantly shorter than for a bank loan.

Current limitations of leasing in Tunisia.

- **Institutional constraints**. The absence of a secured transaction registry may be an obstacle to the development of a more robust financial leasing industry in Tunisia. A secured transaction registry, in which lessors and lessees officially register their contracts and the assets they cover, provides comfort and security to both parties.
- **Demand side constraints:**

  - *The difficulty of obtaining funding for specialized equipment*. Given the need to reduce the potential losses stemming from a potential inability to resell equipment, leasing companies have a very high tendency to finance standardized equipment and materials (for instance, transport vehicles and construction machines). The proportion of credit assigned to these assets is around 70 percent of total assets, followed by real estate, which accounts for 12-18 percent depending on the company. The proportion of credits allocated to SMEs' production equipment (machinery and equipment) is only around 10-12 percent. Leasing companies are reluctant to grant leases for specialized equipment because there is no secondary market for them. This makes leasing considerably less attractive to industrial SMEs;

  - *The cost of financing financial leases is still a significant constraint for SMEs*. Leasing interest rates and repayments are generally higher than those for traditional bank loans. This is mainly due to the higher refinancing costs in the leasing industry[36] (this refinancing is usually carried out by issuing bonds on the stock market at interest rates that are higher than money market rates or by borrowing money from Banks).

[36] - This tool is still considered as expensive by firms in spite of a 0.3 percent decline in borrowing costs in 2008.

- **Supply side constraints.** In spite of the use of specialized models, it is still difficult to assess SME's ability to pay leasing installments in accordance with the terms of the leasing contract. This limits the amounts of leasing transactions.

3.3. Factoring.

74. Factoring is a very useful financing tool that accelerates SMEs' cash flow and enables them to meet their working capital requirements. Factoring is a technique in which, under the terms of a contract, a specialized credit institution (the factor) takes responsibility for collecting a company's debts by opting to bear any losses incurred as a result of debtors' insolvency. In principle, factoring covers three main types of services that the company may or may not choose to subscribe to: i) debt recovery and sales ledger administration[37], ii) cash financing[38] and iii) credit insurance.[39] In Tunisia, in addition to taking responsibility for the debt, factoring companies provide other services to their clients such as: consulting services, protection from non-payment of invoices and debt recovery litigation services, appraisal of customers' creditworthiness and risk prevention, simplification of debt collection services, etc.

75. Factoring grew rapidly in the United States from the mid-1960s and developed in Western Europe in the 1970s. In the 1980s, factoring gained further in popularity thanks to the new approach developed by the main factors: multiple and dynamic sales initiatives, the emergence of the first international networks, an adaptable and personalized offer and new customer services. Factoring is currently most developed in the United Kingdom. Italy's factoring market comes in second and France's third. Factoring is currently booming in Tunisia.

Factoring in Tunisia.

76. SMEs' interest in factoring is largely based on the fact that the factoring company's decision is determined by the solvency and creditworthiness of the SME's customers and not of the SME itself. Over recent years, the factoring industry continued to contribute to financing the Tunisian economy and to managing receivables. The volume of invoices purchased amounted to TND 451.1 million (USD 352 million) at end 2008 (a 10.4 percent growth compared to 2007), 83.2 percent of which derived from domestic business. Two companies (Tunisie Factoring and Unifactor) control the market in Tunisia.

77. The factoring business benefited 511 firms and 24,156 buyers in 2008 (compared to 366 and 19,617 respectively in 2005). This reflects, firstly, economic agents' increasing participation in this financing system, and, secondly, better risk sharing. The factoring industry nevertheless still faces several challenges.

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[37] - On behalf of its customers, the factor registers invoices, follows up overdue invoices, and is responsible for collection and also for litigation in the event of non-payment.

[38] - The factor pays an advance to the seller upon submission of accounts receivable. This is a credit. The amount paid upfront is between 85 to 95 percent of the value of the receivables purchased depending on the factor's perception of the debtors' creditworthiness.

[39] - The factor guarantees the payment of the debt, therefore the factor, and not the seller, bears the risk in the event of non-payment by the debtor.

Institutional constraints.

- Contract enforcement difficulties can be a strain on factoring. The 2010 Doing Business report indicates that the enforcement of debtors' and creditors' rights in Tunisia, as measured by the legal rights index, is relatively limited. Tunisia has a score of 3 (out of 10), which compares to a regional average of 3.3 and an OECD average of 6.8. In addition, the difficulty of enforcing contracts in Tunisia (measured by the number, cost and time of procedures) is greater than the OECD average;
- Factoring requires good quality information on beneficiary enterprises' credit and payment history. Where there is a lack of such information, factoring companies incur significantly higher risks. Corporate debt rating remains limited to just one rating agency, *Maghreb Rating*, which compiles ratings only for companies listed on the stock exchange. This places the burden of information collection and credit risk appraisal on the factor. The ensuing costs can be prohibitive in the case of export factoring;
- Unlike in most developed economies, Tunisia does not have yet a specific legal framework or law on factoring that governs the sector[40]. Besides legitimizing the industry and clarifying transaction structure, a legal framework would stipulate what should be done in the event of payment default. The factoring experience in Eastern Europe suggests that factoring business increases as a proportion of GDP following the enactment of such laws (Klapper 2006b).

***Demand side constraints*.**

- Many SMEs in Tunisia cannot verify their customers' creditworthiness, which reduces their ability to sell on credit. Access to factoring requires an SME to be profitable, accept payments on credit, implement a good credit control system, and have customers with a good payment history. These criteria automatically exclude from factoring a large number of SMEs that accept only payments in cash;
- The high cost of factoring to SMEs. By the end of 2008, factoring cost ranged between 1 and 2 percent of the amount of receivables transferred, with a fee based on the money market rate plus a 2.5 to 4 percent margin depending on the factoring company. Therefore, the amounts factoring companies charge (invoice discounts and fees) are often too high for many SMEs. The fixed costs associated with factoring can make it unsuited to smaller enterprises. This high cost is a result of the lack of competition in the industry and the high credit risk that factoring companies incur.

Supply constraints.

- Credit risk is high in Factoring. Non-payment rates for invoices are usually higher for SMEs than they are for large companies. Factors must meet the high cost of assessing creditworthiness;
- Fraud (false customers, false invoices) is a serious problem in the sector, irrespective of country. There is a high risk of collusion among factoring companies' customers. This risk is worsened in Tunisia by the weak legal environment and the non-existence of credit bureaus and rating agencies.

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[40] - The legal framework covering factoring in Tunisia is based on article 223 to 225 of the Code of Obligations and Contracts and is not based on a specific law.

3.4. SME financing through the stock market.

78. In December 2007, an alternative market (Marché Alternatif) was launched to facilitate SMEs' access to financing. The alternative market is in keeping with the rationale underlying similar markets in other countries, e.g. Alternext in France and Nilex in Egypt. In the first quarter of 2009, only two industrial[41] enterprises were listed on the alternative market. The hope is that once this newly-created market is fully up and running, it will help to diversify financing sources (and therefore reduce the cost of capital), be a vector for the transformation of SMEs, which are often family enterprises, and increase the notoriety of firms that participate in the market. In line with international best practices, the requirements for SMEs' entry into the alternative market have been adjusted to their size and are less stringent than those applied to larger companies listed on the primary market. Table 5 summarizes the key differences in this area.

Table 5. Specific conditions governing entry to the primary and alternative markets.

Primary Market	Alternative Market
• The company's business must be profitable in the two financial years preceding its entry.	• The profitability condition is not imposed.
• Securities held by the public must be distributed among at least 200 shareholders, on the day of the IPO at the latest.	• Securities held by the public must be distributed among at least 100 shareholders, on the day of the IPO at the latest.
• The company must have a minimum capital of TND 3 million on the day it is floated on the market.	• No minimum capital requirements.
	• The company must appoint a list sponsor for the duration of its existence on the alternative market. The sponsor's term of service must not be less than 2 years.

Source: BVMT.

79. Nonetheless, the conditions relating to: (i) the existence of a manual for organizational procedures, processing and disclosure of financial information; (ii) existence of an internal audit and administrative services structure; (iii) the presentation of a 5-year business projection; and (iv) the publication of a CMF-approved prospectus, are still imposed on SMEs.

80. Even though most of the features of this second market conform to international best practices, there are still various problems that need to be addressed. Some of these problems are systemic to Tunisia's stock market, and others are specific to the alternative market.

Institutional constraints on the stock exchange.

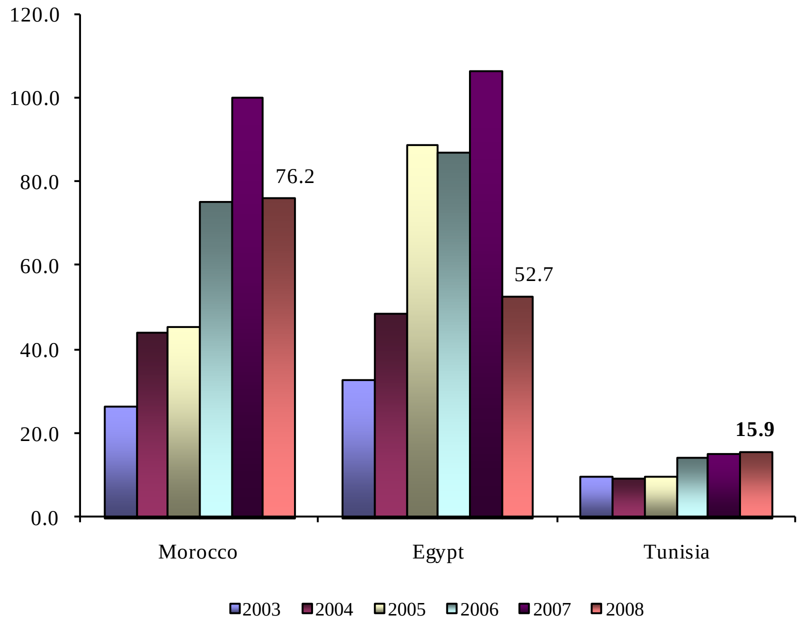
- **The Tunisian stock exchange (BVMT) remains very modest in size;** market capitalization of listed companies is at 15.9 percent of GDP in 2008, i.e. more than three times smaller than the market in Egypt and almost five times smaller than in Morocco (Chart 23). Similarly, there was no major change in the number of domestic companies using the stock market as a source of funding from 2003 to 2008 (Table 6). According to CMF, the possibility of obtaining bank credit and the family culture of Tunisian companies are the two main factors that are holding back the development of the primary market. Even though the alternative market could, in principle, be attractive in a bank credit environment that is not very favorable for Tunisian SMEs, small family

[41] - Sopat in the agri-food industry and Servicom, in the services and telecommunications sectors.

enterprises' low appetite for capital market financing may have a negative impact on the growth of this market;

- **Market liquidity is relatively low in Tunisia**, as shown by the liquidity and turnover ratios (Table 6). Low liquidity markets make entry and exit difficult for investors and are therefore less attractive. It is costly for firms to raise funds on low liquidity markets, for investors generally demand a premium in exchange for buying shares, which creates a form of aversion to this type of financing. In this context, the low liquidity of the primary market increases the risk of low liquidity on the secondary market; all the more so because the less liquid shares typically come from SMEs.

Chart 23. Market capitalization of listed companies (Pct. of GDP).



Source: DDP Database, World Bank, updated October. 2009.

Table 6. Indicators of Stock market development.

	2003	2004	2005	2006	2007	2008
Market liquidity (stocks traded as a Pct. Of GDP)						
Egypt	4.0	7.1	28.3	44.2	40.7	42.8
Morocco	1.6	3.4	8.0	20.6	35.0	25.4
Tunisia	**0.7**	**0.8**	**1.6**	**1.7**	**1.9**	**3.7**
Turn-over ratio (stocks traded as a Pct. of market capitalization)						
Egypt	13.7	17.3	43.0	54.8	45.6	61.9
Morocco	6.4	9.1	15.9	35.3	42.1	31.1
Tunisia	**7.2**	**9.2**	**16.5**	**14.3**	**13.3**	**25.5**
Domestic companies listed						
Egypt	967	792	744	603	435	373
Morocco	53	52	56	65	74	77
Tunisia	**46**	**44**	**46**	**48**	**50**	**49**

Source: DDP Database, World Bank, updated October. 2009.

- **Investor protection remains still below global standards** (Doing Business 2010). The investor protection index measures the strength of minority shareholder protections against misuse of corporate assets by directors. It describes three dimensions of investor protection: transparency of transactions (*Disclosure Index*), liability of directors (*Director Liability Index*) and shareholders' ability to sue officers and directors for misconduct (*Ease of Shareholder Suits Index*). The indices range from 0 to 10 (highest score). Tunisia ranks 73 out of 183 economies on the overall Protecting Investors index with a score of 5.3 (compared to a regional average of 4.9 and a score of 5.8 for OECD countries). This ranking is the result of a relatively low score on the disclosure of appropriate information. Tunisia is still (relatively) behind best practices in this regard. This is detrimental, for experience has shown that better investor protection is positively correlated with an increase in market capitalization (Pasjuste 2002, Shleifer and Wolfenson 2000). This therefore impacts the secondary market;

- **Tunisia's financial information reporting and disclosure system still diverges significantly from international standards (ROSC 2004).** Various studies (Khanchel El Mehdi, 2007, CIPE 2005) have shown that there is room for significant improvement in corporate governance in Tunisia and that there is a sizeable gap between the law and its application. Financial industry professionals underline a lack of confidence in the current financial information reporting and disclosure system;

- **Obstacles to the participation of foreign investors need to be progressively removed.** The cap on foreign property (currently 50 percent without government approval) is an obstacle to market development. Experience shows that increasing openness to foreign capital improves firms' capacity to obtain capital and boosts market liquidity (Levine and Zervos 1998). There are no such restrictions on the other markets of the region. In Egypt for example, foreign capital accounts for roughly 48 percent of stock exchange capitalization, compared to roughly 28 percent in Tunisia.

Demand constraints on the alternative market.

- **There is a lack of information and awareness of the fact that the alternative market could be a source of long-term financing for SMEs.** In an environment in which there are substantial cultural bottlenecks stemming from the reluctance to dilute control, as is the case in family SMEs, it is necessary to make special efforts to promote this second market. But that is not sufficiently the case yet;

- **A large number of SMEs are highly reluctant to disclose the information required for market flotation.** As the FSAP notes on Tunisia (2006), most family SMEs remain unwilling to tap into the stock market and the second market despite the fact that the 2005 financial transparency bill reduced the discrepancies between listed and non-listed firms in the area of certification and disclosure. Owners of SMEs – particularly family SMEs – are strongly opposed to the disclosure of their business plans and their financial information because they usually fear a loss of competitive edge and the possible tax ramifications of such disclosures (Poutzioris and Wang, 2004).

- **The perception that there is a high cost of entry to the alternative market is a strong deterrent to potential candidates.** IPO costs are the same regardless of the size of the firm and potentially prohibitive in certain cases.

3.5. SICARs.

81. Venture capital is a form of private equity capital. It is a structured technique that provides capital to high-growth emerging enterprises. Venture capital enables enterprises to obtain private equity capital that is granted without any collateral (or tangible and intangible guarantees) and is paid back in the medium term by the enterprise itself once it has started to generate profits. In theory, venture capital plays a crucial role in economic development, due to its contribution to all stages of business formation and development, starting with identification of and support for very high value-added market segments, right up to these enterprises' maturity and possible initial public offering.

SICARs in Tunisia.

82. Law 1995-87 of 30 October 1995 institutionalized venture capital in Tunisia, and introduced a new type of Investment Company: the *Société d'Investissement à Capital Risque* – SICAR – (venture capital Investment Company). This law states that SICARs may acquire a portion of invested companies' share capital on their own behalf (or on behalf of third parties) with a view to the eventual re-transfer of ownership of these shares. SICARS invest in enterprises that are launched by project sponsors, are based in regional development areas, or that promote new technology and innovative ideas.

83. SICARs step in to help finalize the project financing plan. With the sponsor and FOPRODI, SICARs provide between 35 to 40 percent of total investment. Significant legislative changes implemented very recently (2009 Finance Bill) no longer allow SICARs to demand that sponsors provide collateral outside the project,[42] or to pre-determine returns on their equity investments (phasing out of warrants, or the practice known as "portage"[43]). In addition, the new Finance Bill requires SICARs to use 75 percent of their funds in regional development.

Table 7. SICAR activity.

		2002	2003	2004	2005	2006	2007
Approvals							
	Number	194	191	131	185	222	204
	Amount MD	65	57	54	98	85	79
Disbursements							
	Number	170	116	99	103	134	180
	Amount MD	58	40	47	74	53	47

Source: Maher (2008).

84. There are currently about 40 SICARS in operation in Tunisia, 27 of which are backed by financial institutions. Five are regional SICARS that are majority owned by the government and eight belong to groups. At the end of 2007, in 12 years of business, venture capitalists had helped to finance 1,300 enterprises with funds amounting to close to TND 600 million (USD 468 million), half of which had been disbursed in the previous

[42] - This was one of the main criticisms of SICARs, especially those depending on financial institutions.

[43] - *Portage* is a way of making an equity investment in a form comparable to short or medium-term credit, and with a predetermined rate of return. This practice was introduced mostly by SICARs that are subsidiaries of banks. *Portage* made it possible to pre-determine the value of stakes to be bought back; the repurchase period was therefore totally disconnected from the enterprise's performance and the share's real market value at the time of exit.

four years. 63 percent of projects funded between 2005 and 2007 were new business start-ups. Average participation of SICARs was about TND 463,000 (USD 361 000) for an average cost per project of TND 3.2 million (USD 2.5 million, Maher 2008).

Limitations of the system.

85. The 2009 Finance Bill rightfully erased two major constraints on the development of SICARs (see above). Nonetheless, there are other significant difficulties that will take longer to address;

- Due to the limitations of BVMT and the alternative market (see before), prospects of stock market flotation are slim and are therefore holding back the development of these institutions;

- Lastly, it appears that many SICARs lack expertise in the appraisal, approval and monitoring of technology projects. This inhibits their involvement in this sector.

4 SYNTHESIS AND RECOMMENDATIONS.

86. The Tunisian government has long been aware of the need to support companies in their search for financing. Over the last decade, the government has strengthened legal and regulatory frameworks in this area, created public financing systems, facilitated the development of financial markets and helped to expand the supply of financial products, especially those geared at SMEs. SMEs play a vital role in Tunisia because at least 97.8 percent of Tunisian firms fall into this category. The main consequence of the prevalence of SMEs in Tunisia's economic landscape is that all economic development strategies are de facto based on the performance of this category of companies. SMEs' ability to obtain financing for their business operations and investments is therefore crucial to Tunisia's future economic development and its integration to the world economy.

87. Data available for Tunisia underscore a kind of paradox. Tunisian SMEs have operated in the last few years within a constantly improving macroeconomic framework and business environment. Most financing tools are available and the Tunisian government has put in place several support mechanisms (e.g. BFPME and SOTUGAR). However, despite this fairly favorable environment that generates viable financing opportunities, private sector funding (as a percentage of GDP) has leveled off in the last decade. Recent growth in outstanding credit is mostly due to an increase in consumer credit. Firms and SME financing remains (relatively) limited and largely short-term. In addition, the usual indicators of access to financial services are below what is predicted by Tunisia's GDP per capita level and the size of its financial sector. This can be explained by the fact that many constraints remain in this area, whether on the demand or supply side.

88. Firms identify the main constraints on demand for funding as being banks' stringent requirements with regard to documentation and collateral value. Self finance – essentially reinvested earnings – is therefore the main source of financing for Tunisian enterprises. Bank credit remains relatively small in the financing of investment and other sources of financing (leasing/factoring, secondary market, SICARs) are of minor importance.

89. On the side of the supply of financial services and products, banks - which provide the bulk of firm's and SMEs external funds - indicate they face a serious opacity problem with SMEs, that most of them have already a high debt ratio and propose most of the time projects for mature market which are unlikely to have a high rate of return. The difficulty they face in dealing with SMEs is further increased by the fact that i) it is difficult to obtain proper credit history information on this type of firms, ii) they have not enough personal specializing in this area and iii) for most of them - recent advances in lending technologies (credit-scoring) are not used (and cannot be fully used now due to limitations of the current credit reporting system). As a result, banks rely mostly upon the ability of SMEs to provide collateral in order to provide a credit (asset-based lending technology) and their reputation. This creates de facto an upper limit to SME lending as many of them - especially the smallest ones - are unable to provide adequate collateral, a fact which is compounded by the mild defiance banks express with respect to existing state sponsored guarantee mechanisms. Furthermore, it must also be noted that some other characteristics

of Tunisian banks are not in favor of further increase in SME lending. In spite of an improvement in recent years, Tunisian banks are still burdened by the high level of non-performing loans on their balance sheets. In this context that is not conducive to risk taking, there is some concern that Tunisian banks will continue to remain on the sidelines of SME financing for a while longer and will continue to favor consumer credit as they have done in recent years, as the latter is considered as simpler and safer. As of now, banks seem to be unwilling/unable to consider SMEs as an attractive and profitable market.

90. On the supply side, while all financial services and products (leasing/factoring, alternative market, SICARs) face specific problems, they also have shared constraints: lack of information, difficulty of realizing collateral, etc. In addition, some supply side issues are very closely interrelated. For instance, one of the main problems facing SICARs (difficulty of exit) cannot be resolved without improving the functioning of the BVMT, which can itself contribute to the better operation of the SME alternative market.

91. Given that issues are strongly interrelated, it is therefore advisable to propose both systemic and specific recommendations. The strategic recommendations of this report provide an indication of the broad types of measures to be considered if one wishes to overcome the constraints to SME finances developed in this paper. Firstly, it is required to consider systemic measures aimed at improving the credit environment in Tunisia and to create appropriate incentives for SME finance. These measures are essential if one wishes banks to start considering SMEs as a profitable market and to improve their ability to deal with this type of client. Furthermore, some measures specific to the banking sector are also required in order to improve its relationship with SMEs. Finally, some specific financing instruments (factoring, leasing, SICARs, secondary market), of current lesser importance in SME financing have to be improved.

4.1. Systemic measures to improve the credit environment.

92. These measures aim at improving the credit environment in order to create a framework where bank can consider SMEs clients with greater confidence. This would imply to:

Promoting SMEs transparency. SMEs are often not able to submit satisfactory loan applications and certified accounts which induces bank to request in turn significant collateral. SMEs need assistance in this area. This report therefore suggests:

- Continuing, strengthening and extending the Centre d’Affaires and Pépinières programs to give project sponsors better insight into SME financing problems and provide them with direct support;
- Currently, companies posting an annual turnover of less than TND 5 million are not required to submit certified accounts. It is necessary for companies with smaller turnovers - i.e. SMEs – to submit certified accounts (even if they are simplified accounts) in order to remove the information asymmetry that lenders face. This means either lowering the threshold (to TND 2 million for instance), or developing simplified and certifiable accounting standards for all enterprises whose turnovers are below the current threshold.

<u>Improving the availability of information on borrowers and transactions</u>. The availability of information on borrower's credit history is still relatively limited despite, in recent years, the restructuring and improvement of the CIBCT of the BCT. By mid-2009, private credit bureaus do not exist in Tunisia and the coverage of CIBTC reaches roughly 20 percent of the adult population (Chart A. 8). The relatively limited availability of information forces banks to rely heavily on the value of collateral and firm's reputation when lending, a significant issue for SMEs, and prevents bank to upgrade their analysis tools with decision models (credit scoring models) better suited to SMEs. These are the usual symptoms of a market where information flows are asymmetric and incomplete. A similar constraint exists in the leasing and factoring industries. De facto this is a constraint to the long term development of lending to SMEs. It would be appropriate to:

- Set up under the guidance of the BCT a private, complete and unfragmented credit information sharing system - i.e. private credit bureaus (PCBs) - and to remove the legal constraints that may exist for the creation of such a system. Such a credit reporting system would allow providing a complete credit history for firms – and SMEs especially - and would supply information to all participants in the system (banks, leasing and factoring companies, etc.). The system should have at least some of the following characteristics: lenders should share information with PCBs and request data from PCBs before making any credit related decision (with the consent of the borrower's), the transmission of the CIBCT historical data to PCBs should also be made possible and finally, the current CIBCT should be closed to requests of information from lenders that would have to rely on existing PCBs. Under such a system, the BCT would have – on top of its primary responsibilities - the key role of granting licenses to PCBs, regulate and supervise them[44].
- Set up, for leasing operations, a secured transaction registry in which lessors and lessees can officially register their contracts and the assets leased ;
- Set up, for factoring, an electronic transaction register (like in the United States and the United Kingdom) that enables the seller to record all the required information, including their customers' codes (Egg. the Dunn & Bradstreet ID Number) on-line. Once the data has been entered, the customer's credit score is immediately determined and the factoring request accepted or rejected.

<u>Improving current guarantee mechanisms</u>. Current collateral mechanisms are a hindrance to the long-term development of SME financing systems. It is necessary to:

- Improve collateral mechanisms. The collateral required for financing is generally real collateral. This penalizes new entrepreneurs and SMEs. This report therefore suggests further developing the legal framework for movable asset collateral;
- Reduce the time required to register collateral in land registries;
- Expand the range of guarantees provided by SOTUGAR and enhance the compensation system, and thus make it more attractive to banks

[44] - It must also be noted that in this case, the BCT should also continue to collect information on all loans so as to fulfill its usual responsibilities (supervision, monetary policies, production of statistics, international commitments…).

4.2. Banking sector.

93. Simultaneously, it is also advisable that banks benefit from incentives aimed at improving their ability to deal with SMEs. This would imply:

- **Pursuing and accelerating efforts aimed at reducing the current levels of NPLs.** The current level of NPLs and their subsequent provisioning induce greater risk aversion on the side of banks which acts as a disincentive to deal with the more complicated SME market. It is therefore advisable to continue current efforts to reduce NPLs with the aim of bringing the level of bad debt down into the 4-6 percent range[45] as quickly as possible after 2009, with a debt coverage ratio of at least 70 percent[46];
- **Simplifying procedures**. Simplify procedures and eliminate duplications in loan applications co-financed with BFPME to enhance collaboration between institutions ;
- **Encouraging the use of credit-scoring models** by implementing incentives (or regulatory changes) and by raising banks' awareness. BFPME's recent experience in this area and successful international experiences (EBL in Bangladesh, Banque Musca in Oman, ICICI bank in India…, see IFC (2009)) are a case in point that could be highlighted.

4.3. Other specific measures.

94. Other financing instruments (factoring, leasing, SICARs, secondary market), of current lesser importance in SME financing are nonetheless of great interest to larger SMEs and their development should be further encouraged.

95. **Stock exchange and alternative market**. Currently, these markets are little developed. It is necessary to deepen them so that they can participate more fully in SME financing. It is therefore advisable to:

- Encourage the entry of institutional investors into the market in order to foster long-term saving. Tunisia's biggest institutional investor (the *Caisse de Sécurité Sociale*) does not yet operate on the market. Efforts must be made to invest some of the *Caisse's* assets in shares and bonds;
- Take the necessary measures to improve financial information and its disclosure, at the time of the IPO as well as afterward, in line with international best practices;
- Pursue and accelerate a concerted policy to promote the alternative market in order to raise SMEs' awareness of this source of funding;
- Allow for a more important role of foreign investors by increasing – even removing - the current cap on foreign property (currently 50 percent without government approval), this is line with the current process of opening of the current account.

[45] - I.e. at the level of countries like Jordan and Morocco.

[46] - I.e. at the level of countries like Egypt and Morocco.

96. **Factoring**. It is advisable to:

- Draw up a specific law on leasing;
- Improve contract enforcement mechanisms (mostly reduce the delay for courts decisions and their application in case of a business conflict) and strengthen creditors' rights;

97. **SICARs.** It is advisable to:

- Promote the specialization of SICARs to enable them to develop specific areas of expertise, especially in the strategic sector of services;
- Give comparatively better advantages and incentives to SICARs that invest in the early stage (seed funding, business formation, innovation, etc.) as compared to those that invest during expansion or takeover phases.

98. All the measures recommended are summarized in the next table.

STRATEGIC ORIENTATIONS

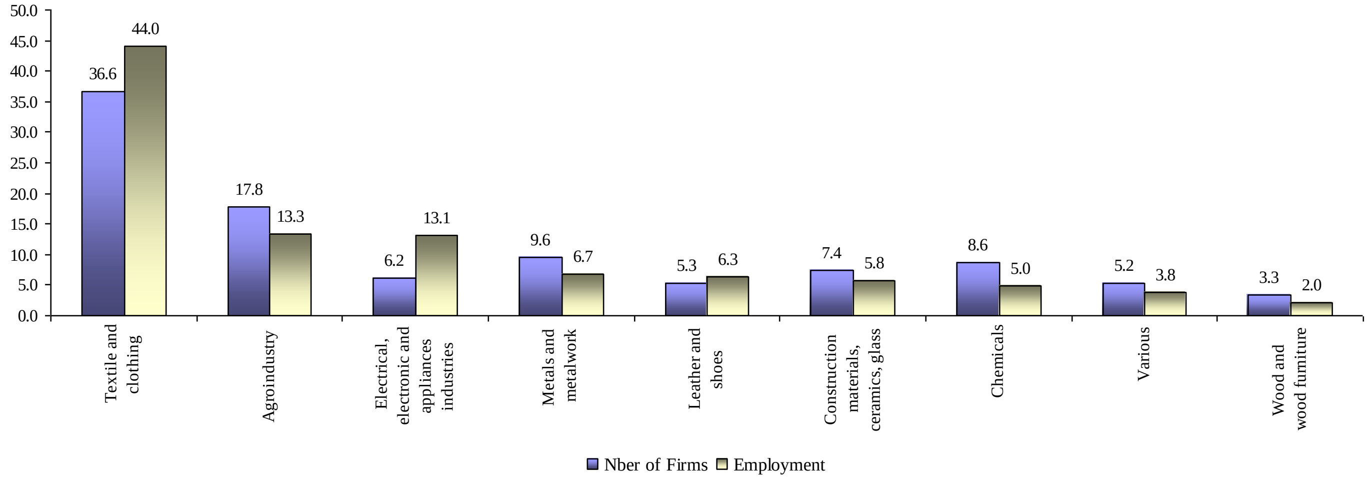
Objective	Issue	Recommendations
I. Systemic measures to improve the credit environment.		
Promote SMEs transparency	SMEs are often unable to submit satisfactory loan application requests and certified accounts.	• Pursue, strengthen and extend the *Centre d'Affaires* and *Pépinières* programs; • Either lower the threshold below which enterprises are not required to submit certified accounts (currently TND 5 million), or develop simplified and certifiable accounting standards for all companies whose turnovers are below the current threshold.
Improving the availability of information on borrowers and transactions	The availability of information on borrower's credit history is still rather limited and forces banks to rely heavily on the value of collateral and firm's reputation when lending. It also prevents bank to upgrade their analysis tools with decision models better suited to SMEs. A similar constraint exists in the leasing and factoring industries.	• Set up under the guidance of the BCT a private, complete and unfragmented credit information sharing system - i.e. private credit bureaus - and remove the legal constraints that may exist for the creation of such a scheme. Under such a system, the BCT would have – on top of its primary responsibilities - the key role of granting licenses to PCBs, regulate and supervise them; • Set up, for leasing operations, a secured transaction registry in which lessors and lessees can officially register their contracts and the assets leased ; • Set up, for factoring, an electronic transaction register on-line.
Improving guarantee mechanisms	Current collateral mechanisms are a hindrance to the long-term development of SME financing systems.	• Improve collateral mechanisms by further developing the legal framework for movable asset collateral; • Reduce the time required to register collateral in land registries; • Expand the range of guarantees provided by SOTUGAR and enhance the compensation system.
II. Banking sector.		
Pursuing and accelerating efforts aimed at reducing the current levels of NPLs.	The current level of NPLs and their subsequent provisioning induce greater risk aversion on the side of banks which acts as a disincentive to deal with the more complicated SME market.	• Continue current efforts to reduce NPLs with the aim of bringing the level of bad debt down into the 4-6 percent range as quickly as possible after 2009, with a debt coverage ratio of at least 70 percent.
Simplify specific procedures	Current separate appraisal of requests co-financed with BFPME is complex.	• Simplify procedures and eliminate duplications in loan applications co-financed with BFPME.

Strategic orientations (continued)

Encouraging the use of credit-scoring models	Banks heavily rely upon the ability of SMEs to provide collateral in order to accept a credit application (asset-based lending technology) and for most of them do not use (and cannot use) more recent and more appropriate lending technology.	• Foster the use of credit-scoring models by implementing incentives (or regulatory changes) and by raising banks' awareness. BFPME's recent experience in this area and successful international experiences are cases in point that could be highlighted
III. Other specific measures.		
Further develop the stock exchange and the alternative market	Currently, these markets are little developed. It is necessary to deepen them so that they can participate more fully in SME financing.	• Encourage the entry of institutional investors into the market in order to foster long-term saving. Tunisia's biggest institutional investor (the Caisse de Sécurité Sociale) does not yet operate on the market. Efforts must be made to invest some of the Caisse de Sécurité Sociale (Social Security Fund) assets in shares and bonds; • Take measures to improve financial information and its disclosure, at the time of the IPO as well as afterward, in line with international best practices; • Pursue and accelerate a concerted policy to promote the alternative market in order to raise SMEs' awareness of this source of funding; • Allow for a more important role of foreign investors by increasing – eventually removing - the current cap on foreign property (in line with the current process of opening of the current account).
Structural strengthening of the factoring sector	The sector is currently undermined by the absence of a specific legal framework and the inadequate circulation of information pertaining to transactions and debtors.	• Draw up a specific law on leasing; • Improve contract enforcement mechanisms (mostly reduce the delay for courts decisions and their application in case of a business conflict) and strengthen creditors' rights;
Strengthen SICARs' capacity to meet SMEs' needs	Many SICARs lack expertise in the appraisal, approval and monitoring of technology projects. This inhibits their involvement in these types of activities.	• Promote the specialization of SICARs to enable them to develop specific areas of expertise, especially in the strategic sector of services; • Give comparatively better advantages and incentives to SICARs that invest in the early stage (seed funding, business formation, innovation, etc.) as compared to those that invest during expansion or takeover phases.

ANNEXES

Chart A. 1. Industry - Sectoral Employment in 2007 (firms with more than 10 employees, Pct.).



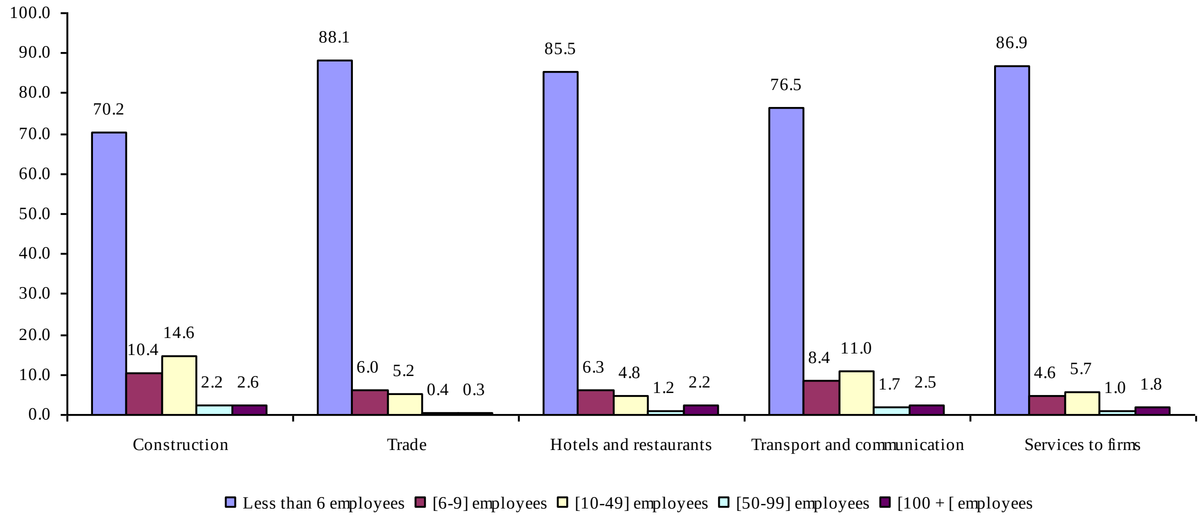
Source: API database.

Table A. 1. Basic data on industry in Tunisia (2007).

Sectors	Value added rate (Pct.)	Export rate (Pct.)	2002-2007 Exports growth rate (Pct.)
Agroindustry	15.7	18.0	19.4
Construction materials, ceramics, glass	37.4	13.1	14.2
Metals and metalwork	29.0	35.1	13.7
Electrical, electronic and appliances industries	16.0	94.8	18.3
Chemicals	7.1	36.8	1.8
Textile and clothing	32.0	98.9	3.8
Leather and shoes	22.9	4.8	5.0
Wood and wood furniture	40.7	68.1	6.8
Various	27.7	31.2	-
Total	**22.7**	**46.7**	**9.3**

Source: API database.

Chart A. 2. Size distribution of firms in services by subsectors (Pct.).

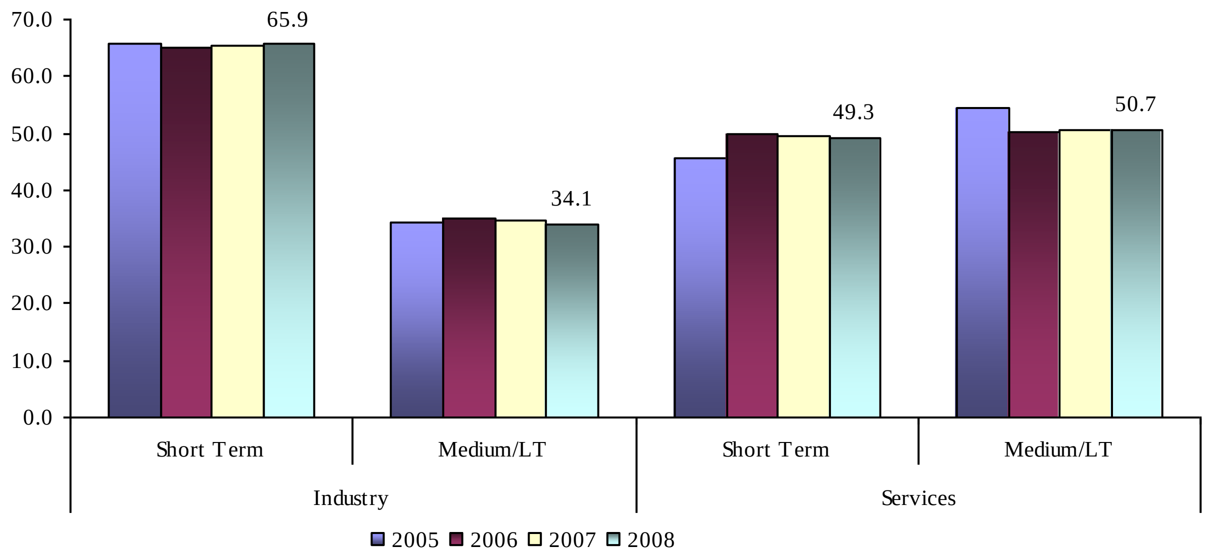


Source: INS/ Répertoire National d'Entreprises 2005.

Chart A. 3. 2010 Doing business rankings of Tunisia.

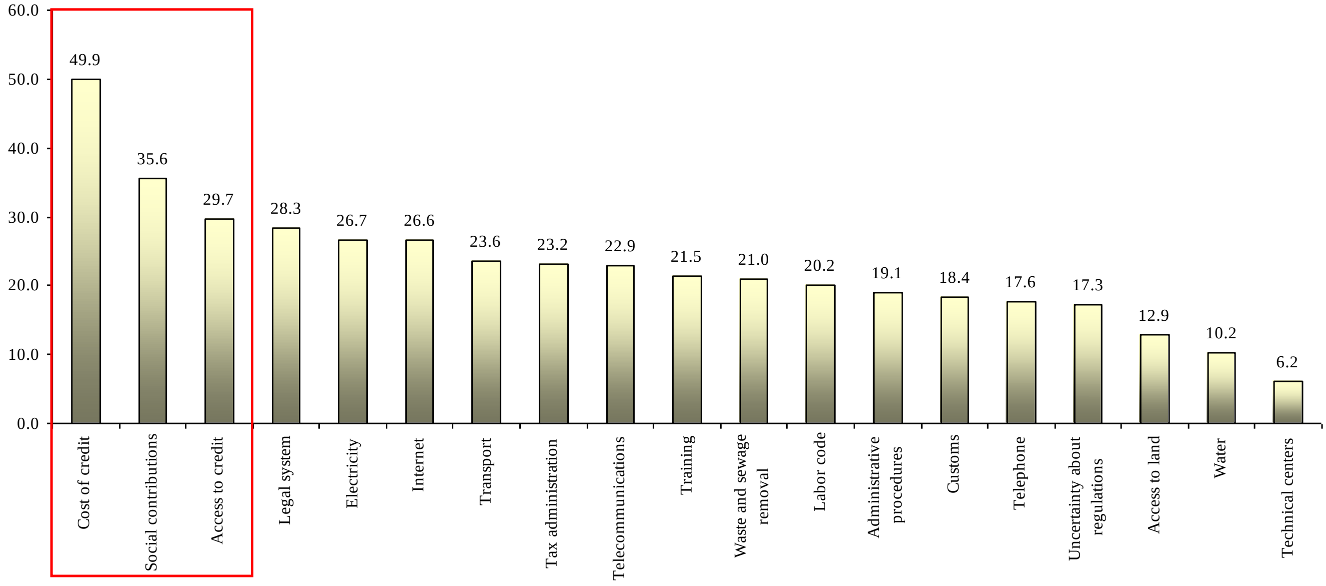
Source: Doing Business 2010.

Chart A. 4. Term structure of credit to industry and services (2005-2008).



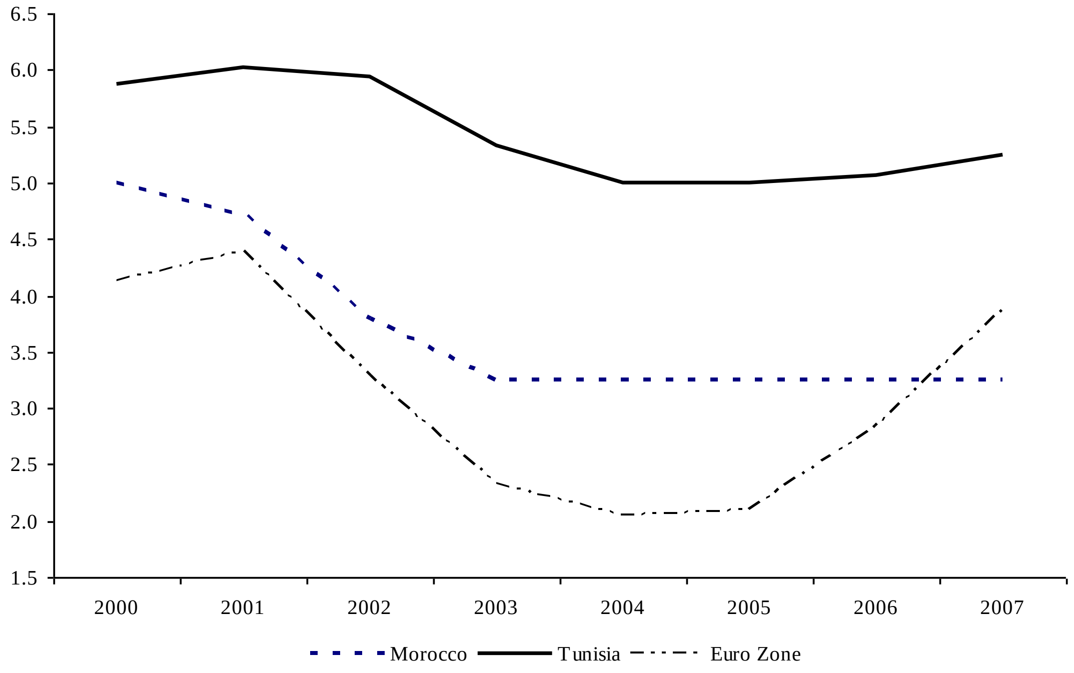
Source: BCT.

Chart A. 5. Major constraints to firm's growth in Tunisia in 2007.



Source: *Enquête sur la compétitivité*, IEQ 2007.

Chart A. 6. Nominal interest rates.



Source: IMF.

Diagram A. 1. Overview of the SME support system in early 2009.

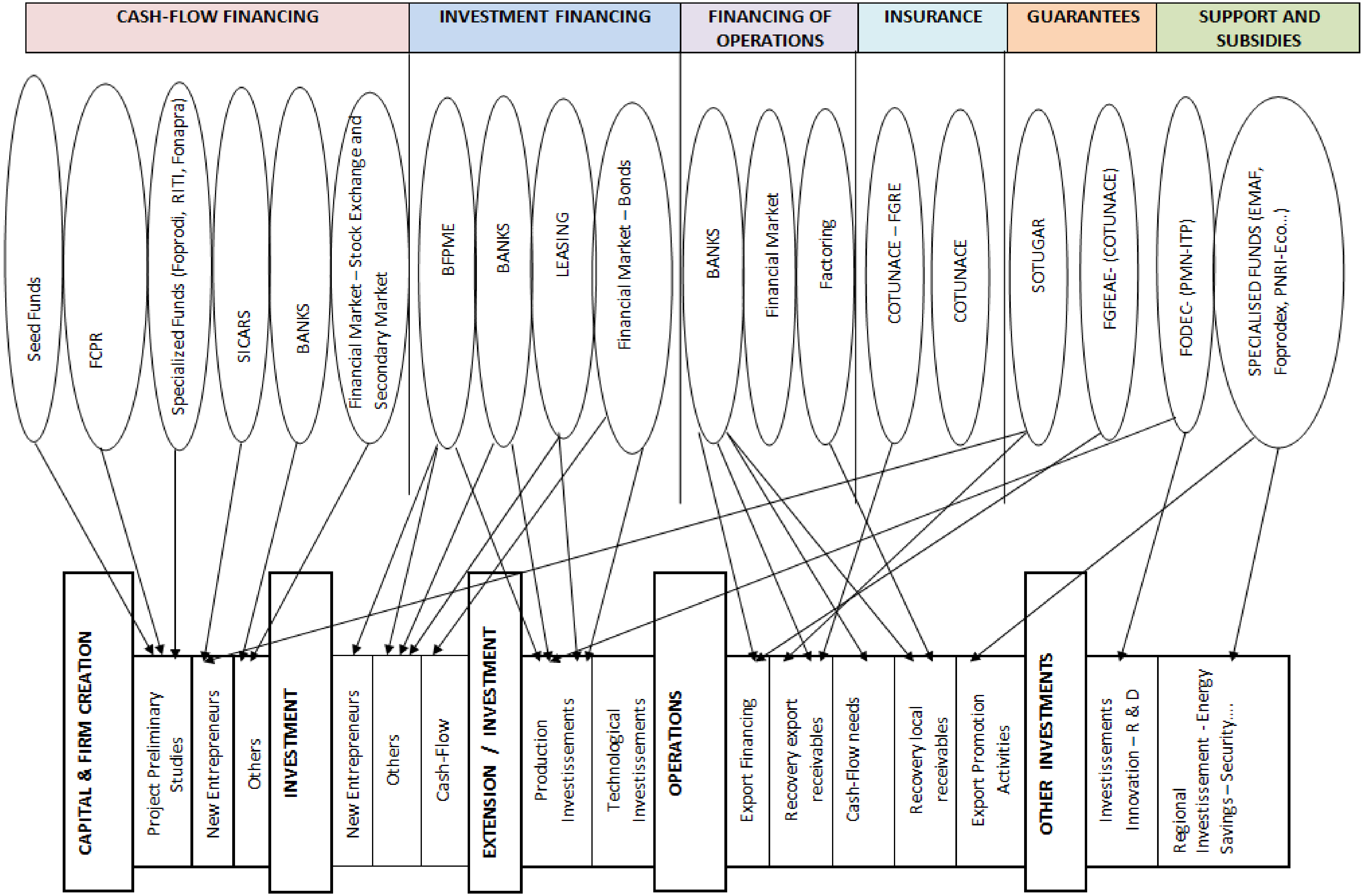
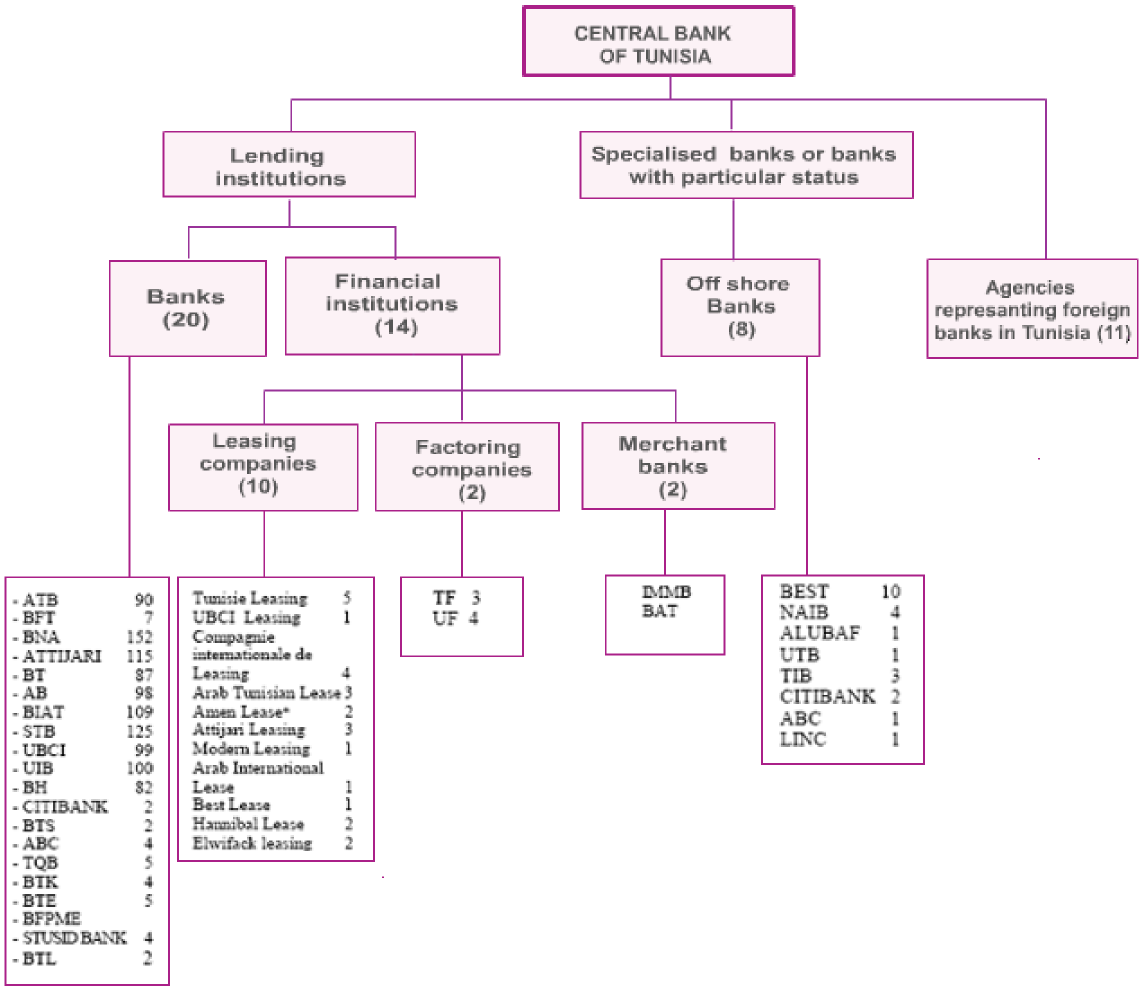


Diagram A. 2. Tunisian Banking System in early 2009.



Note.

Numbers are for the number of local agencies/offices.

Source: BCT, 2009

Table A. 2. Banks in Tunisia by December 31st, 2008.

Acronym	Name	Capital
AB	Amen Bank	85 000 000
ABC	Arab Banking Corporation (Branche onshore)	40 000 000
ATB	Arab Tunisian Bank	80 000 000
ATTIJARI	Banque Attijari de Tunisie	150 000 000
BIAT	Banque Internationale Arabe de Tunisie	170 000 000
BFPME	Banque de Financement des Petites et Moyennes Entreprises	50 000 000
BFT	Banque Franco-Tunisienne	5 000 000
BH	Banque de l'Habitat	90 000 000
BNA	Banque Nationale Agricole	100 000 000
BT	Banque de Tunisie	75 000 000
BTE	Banque de Tunisie et des Emirats	90 000 000
BTK	Banque tuniso-kuweitienne	100 000 000
BTL	Banque Tuniso Lybienne	70 000 000
BTS	Banque Tunisienne de Solidarité	40 000 000
Citibank	CitiBank (branche onshore)	25 000 000
STB	Société Tunisienne des Banques	124 300 000
STUSID Bank	Société Tuniso Séoudienne dInvestissement et de Développement	100 000 000
TQB	Tunisian Qatari Bank	30 000 000
UBCI	Union Bancaire du Commerce et de l'Industrie	50 000 000
UIB	Union Internationale des Banques	106 000 000

Source: *Mac SA 2008*

Table A. 3. Assets quality.

	2003	2004	2005	2006	2007	2008
NPL rate						
Tunisia	**24.2**	**23.6**	**20.9**	**19.3**	**17.6**	**15.5**
Egypt	24.2	23.6	26.5	18.2	19.3	14.8
Lebanon	12.8	17.7	16.4	13.5	10.1	7.5
Morocco	18.7	19.4	15.7	10.9	7.9	6.0
Jordanie	15.5	10.3	6.6	4.3	4.1	4.2
NPLs coverage ratio						
Egypt	57.0	60.2	51.0	76.2	74.6	92.1
Morocco	54.9	59.3	67.1	71.2	75.2	75.3
Jordanie	51.9	63.8	78.4	79.6	67.8	63.3
Lebanon	46.3	46.1	50.2	54.4	56.6	61.0
Tunisia	**44.1**	**45.1**	**46.8**	**49.0**	**53.2**	**56.8**

Note.
Algeria data non available.

Source: IMF (2009c)

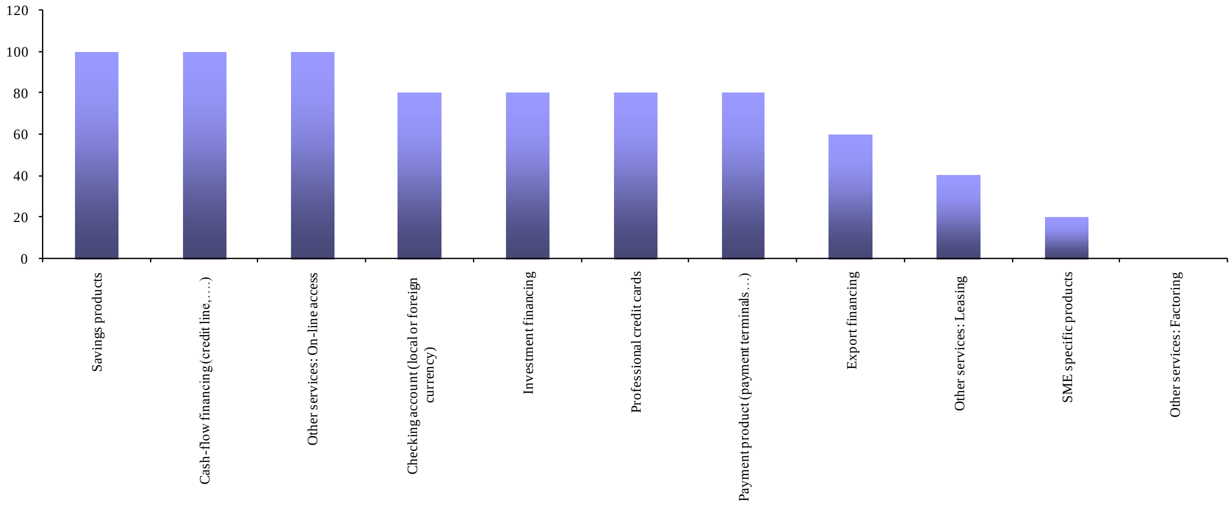
Table A. 4. Net interest margin and cost ratio.

	2001	2002	2003	2004	2005	2006	2007	2008
Net Interest Margin								
Egypt	1.64	1.49	1.49	1.77	1.38	1.12	1.72	2.03
Algeria	3.06	3.29	3.37	3.12	4.11	3.03	2.92	2.55
Lebanon	2.40	2.48	2.71	2.41	2.49	2.76	2.36	2.65
Jordanie	2.12	1.81	1.88	1.82	2.40	2.63	2.76	2.76
Tunisia	**2.27**	**2.26**	**2.14**	**2.16**	**3.89**	**2.65**	**3.10**	**2.95**
Morocco	3.77	3.59	3.27	3.12	3.25	3.12	3.18	3.21
Cost to Income ratio								
Algeria	68.22	30.90	25.98	35.85	32.59	30.36	41.76	31.50
Egypt	48.93	52.96	50.23	49.91	36.04	50.22	61.24	41.81
Tunisia	**26.16**	**39.77**	**58.96**	**63.16**	**52.50**	**46.26**	**43.41**	**42.41**
Jordanie	51.32	54.93	54.30	50.86	46.19	43.42	43.06	44.95
Morocco	44.09	45.91	46.84	46.88	47.04	42.93	42.77	47.54
Lebanon	51.91	53.56	52.05	57.55	54.98	52.03	52.81	52.25

Note.
Data for the 10 largest banks (on an assets basis) active in each country.

Source: Bankscope.

Chart A. 7. Products offered by selected banks in early 2009.



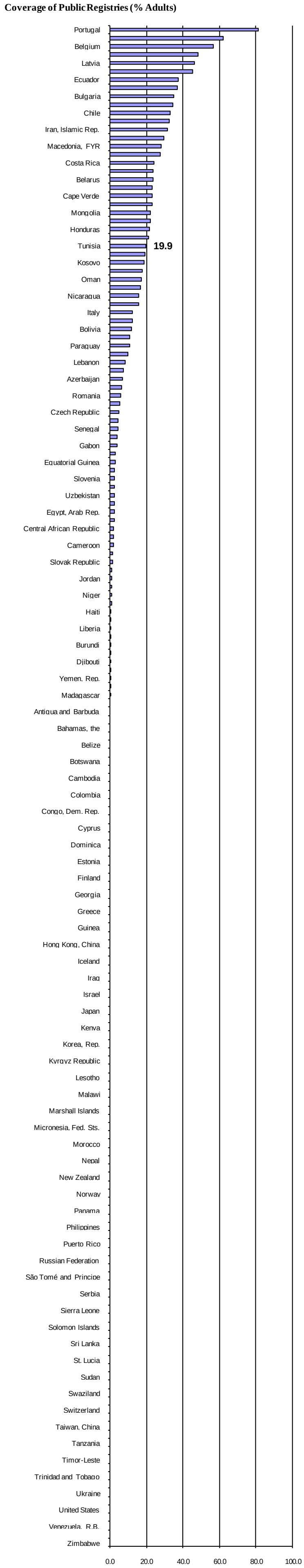
Source: Banks websites.

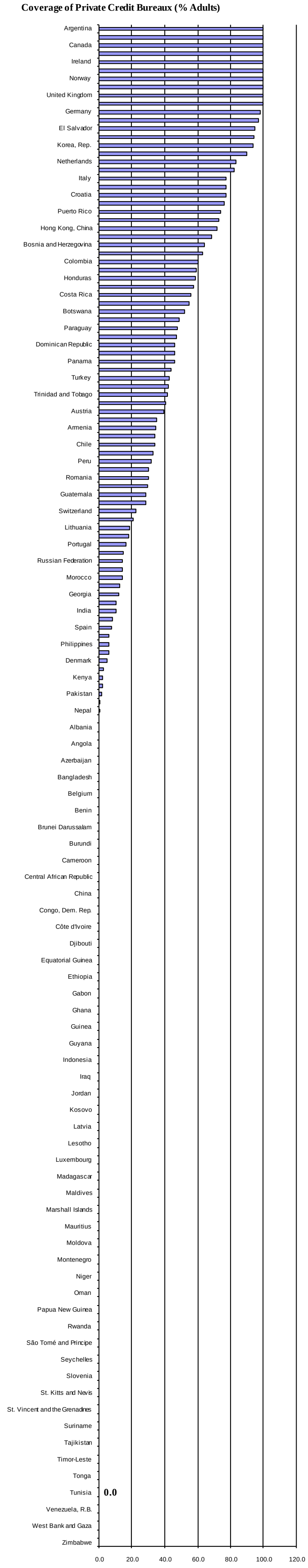
Table A. 5. Leasing companies in Tunisia in 2008.

Company	Name	Capital (DT)	Market Share	Branches	Main shareholders
TLS	Tunisie Leasing	28 500 000	25.60	5	Groupe Amen Bank (49,5%)
CIL	Compagnie Int. de Leasing	12 500 000	18.30	5	Company GM (33%)
ATL	Arab Tunisian Leasing	17 000 000	15.70	3	ATB (24%);BNA
HL	Hannibal Lease	10 000 000	8.80	2	Groupe Djilani (82%)
UBCI Leasing	UBCI Leasing	10 000 000	6.70	1	UBCI
Best Lease	Best Lease	10 000 000	5.90	1	Best Bank
WIFACK	El Wifack Leasing	10 000 000	5.60	2	Invest Sicaf-STB (11,38%)
Modern Leasing	Modern Leasing	10 000 000	5.30	1	Banque d'Habitat (73%)
AIL	Arab International Lease	10 000 000	4.30	1	Banque Tuniso-Koweitienne (50%)
TJL	Attijari Leasing	21 250 000	3.80	3	Attijari Bank (30%)
Amen Lease	Amen Lease	10 000 000	0.00	0	Amen Bank

Source: *Mac SA 2008b et 2009.*

Chart A. 8. Coverage of public registries and private credit bureaus - Doing Business 2010.





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