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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF THE REORGANIZATION OF THE SOCIETE NATIONALE D'INVESTISSEMENT IN TUNISIA

April 22, 1966

Development Finance Companies Department

CURRENCY EQUIVALENTS

Currency Unit	-	Tunisian Dinar (D)
US $1.00	=	D 0.525
D 1.000	=	US $1.905
US $1 million	=	D 525,000
D 1 million	=	US $1,905,000

SOCIETE NATIONALE D'INVESTISSEMENT

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This report was prepared by Mr. R. A. Morton of IFC on the basis of information received in Tunisia and in Washington between January 1964 and April 1966.

SOCIETE NATIONALE D'INVESTISSEMENT

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SUMMARY AND CONCLUSIONS

i. During 1964 and 1965 IFC made, at the invitation of the Government, a study of development financing institutions in Tunisia. From this study emerged proposals, in agreement with the Government, for the reorganization of the Societe Nationale d'Investissement and its conversion into a privately-owned development finance company offering various forms of medium- and long-term finance to the private industrial and tourist sectors.

ii. From its establishment in 1959 with a share capital of D 2,000,000, held 58% by Government and its agencies and 42% by over 80,000 small Tunisian investors, SNI confined its activities to the provision of equity capital to new enterprises (some of which it promoted itself) and to a few expanding ones. Other Government-controlled financial institutions provided medium-term financing and Government itself provided much equity capital directly, in order to assure as far as possible the desired pace of industrialization. Operating with this limited scope, and with only its own equity capital for resources, SNI was not profitable. Its difficulties were compounded by several changes in management and by lack of competent staff.

iii. The reorganization agreed between IFC and the Government involves a reduction in SNI's capital, the enlargement of its total financial resources, substantial assistance to it from Government in various forms, provision of strong management, and close cooperation with the Societe Tunisienne de Banque (STB), the largest banking institution in Tunisia. The last two objectives have been attained by the appointment of Mr. Abdelaziz Mathari, President and General Manager of STB, to hold the same office in SNI as well. He will be assisted by an experienced foreign adviser. The reorganization is now approaching completion.

iv. The reorganized SNI will have a key role in the substantial investment in private industrial and tourist sectors predicted during the 1965-68 Four-Year Plan. It will be specialized in providing medium- and long-term financial assistance to these sectors.

v. It is recommended that IFC should invest D 300,000 ($570,000) in the reorganized SNI and that the Bank should provide a $5 million line of credit to it. The IFC investment and Bank loan would be accompanied by the purchase of shares by a representative selection of Tunisian and foreign financial institutions.

vi. The terms and conditions of the Bank's loan would be those customary in loans to development finance companies. The interest rate applied to each portion of the loan would be the Bank's current rate at the time of crediting that portion. The amortization schedule would be agreed in advance, subject to amendment to conform to the repayment schedules of the loans made by SNI from Bank funds. The loan would be used for cost of goods in individual projects for which SNI makes loans and equity investments, and unless the Bank were to agree otherwise, would be for foreign currency expenditures only. All projects to be financed from the Bank loan, except those needing less than $50,000, would be subject to prior approval by the Bank.

APPRAISAL OF THE REORGANIZATION OF THE SOCIETE NATIONALE D'INVESTISSEMENT

I. HISTORY

1. In September 1963, the Tunisian Government requested IFC's assistance in examining the situation of the Societe Nationale d'Investissement (SNI), a development finance company organized in 1959 on government initiative and in which the Government held a majority of the capital stock. By agreement with the Government, an IFC mission in January/February 1964 made a study of the prospective demand for long-term finance in the private sector of the Tunisian economy, of the organization and operations of institutions engaged in medium- and long-term financing, and of institutional changes desirable to meet more effectively the demand for such finance.

2. The mission reported that there was a shortage of long-term loan and equity capital for private industrial and other productive enterprises in Tunisia, and that there would probably be enough demand for such finance in the country to support a private development finance company. Any arrangement for filling this gap would have to take into account the poor condition of SNI, then at the end of its resources after four years of rather ineffective and unprofitable operation. It should also take into account the substantial development banking activities and experience of the Societe Tunisienne de Banque (STB), the largest banking institution in Tunisia. The mission noted three possible alternative courses of action:

(i) SNI might be merged into a strengthened STB; or

(ii) SNI might be reorganized and reoriented under private control; or

(iii) a new private development finance company might be created, which would take over the sound portion of SNI's assets.

The mission recommended the third alternative. In June 1964, IFC transmitted these conclusions to the Tunisian Government.

3. The Government preferred the second alternative and in January 1965 requested IFC to assist in SNI's reorganization and to participate in its capital. An IFC consultant, Mr. E.T. Kuiper, visited Tunis in March to discuss this reorganization and to review the possibility of an IFC participation. He too concluded that there should be enough business to support a privately-controlled development finance company. He drew up recommendations for the reorganization of SNI, for an IFC participation in its capital, and for a Bank loan to it, which,

with minor modifications, form the basis of the present proposals. In May 1965, the Tunisian Secretary of State for the Plan and the National Economy expressed his agreement to these recommendations. Subsequently, with IFC's agreement, the Government nominated Mr. Abdelaziz Mathari, President and General Manager of STB, to occupy the same post in SNI as well. The reorganization and the proposed IFC investment and Bank loan were discussed with Mr. Mathari in Washington in August and October 1965 and negotiations for the latter took place in Washington in November/December 1965. It has also been agreed that a number of financial institutions, Tunisian and foreign, should become shareholders in SNI.

II. TUNISIAN INDUSTRY AND INDUSTRIAL FINANCE

Growth of Industry

4. Tunisia is a small country (population about 4-1/2 million) and provides a limited market. It is not over-populated. The average level of general education is impressive. Infrastructure is good, agriculture is typical of the North African littoral and oil has recently been discovered in moderate quantities. Location near Western Europe is an asset. Reference is invited to the Bank's "Review of 1965-1968 Development Plan - Tunisia" (AF 39a), particularly Volume IV on industry.

5. Tunisia possessed a small manufacturing and mining sector at independence in 1956, with value added in the sector amounting to D 33 million, or 14% of gross domestic product at factor cost. Thereafter, there was little or no growth for a few years, but expansion of the sector resumed in about 1960 under the impulse of active governmental industrial promotion and investment, and between 1960-1964 industrial activity grew at about 6% a year - short of the Government's ambitious targets, but about the same as the rest of the economy, and a respectable achievement. By 1964, about 1 in 14 employed people were occupied in manufacturing and mining, and value added in the sector was around D 53 million.

6. Manufacturing, so far, has been principally for the Tunisian market, with food processing predominant, and industrial exports have been largely confined to a few processed agricultural and mining products, olive oil and phosphatic fertilizers in particular.

7. The industrialization effort of the past few years has concentrated on import substitution industries. Some enterprises have not been sucessful, but the failure of output to reach the targets set for 1962-1964, despite the Government's success in raising investment approximately to projected levels, was due principally to a combination of underestimated costs and slow realization of projects as well as the low utilization

of some installations. In the coming years, Tunisia should devote more attention to export industries, including tourism.

8. Tourism is, in fact, a sector of great potential importance for the Tunisian economy. It has been a net contributor of foreign exchange since 1963. Total receipts doubled between 1962 and 1964, and appear to have risen by another third during 1965 to some D 6-7 million. It is thought likely that they will rise to well over D 10 million by 1968. Government initiative in hotels over the years has equipped Tunisia with a number of hotels of high standing and a nucleus of trained hotel staff.

9. The Government has launched a Four-Year Plan (1965-68). In industry, the target is to increase value added by 15% per annum, with industrial employment rising from 97,000 in 1964 to 133,000 in 1968. To achieve this, net investment in industry over the four years is forecast at about D 110 million, compared to about D 75 million from 1960 to 1964. The Bank's recent review of this plan indicates that these targets are probably over-ambitious, but there is no reason to suppose that industrial investment will not be at least as great as in the recent past, and it will probably continue to increase. Output may lag behind projections, but it will benefit to some extent from the delayed effects of 1962-64 investments. Heavy further investment in hotels, particularly in the non-luxury classes, and in other tourist facilities, is envisaged for the next years and, with active government encouragement, the private sector is undertaking a very substantial part of it.

10. Since 1959-60, the Government has taken the lead in industrial investment principally because it felt there was no one else to do so. The majority of industrial establishments existing at independence had been established by foreign initiative. While there were a few successful Tunisian industrialists, most Tunisian businessmen remained attached to the long commercial traditions of Tunisia. After independence, foreign settlers began to leave and, in some cases, foreign industrialists went as well. Various political setbacks to confidence tended to deter investors and the vigorous nature of the Government's intervention in these circumstances roused fears that the Government desired to preempt a large part of the industrial sector.

11. The Government has now affirmed that it will take a less active part in industrial promotion and investment in future, and that it will encourage private industrial enterprise, Tunisian and foreign, more vigorously. The need to lighten the heavy burden on public resources and to mobilize more fully all the resources of the private sector has encouraged this change. Though they are still hesitant, there are reasonable prospects that private investors will respond to this new emphasis in governmental policy, of which the Government's initiative in reorganizing SNI has offered evidence.

12. For some years the Government has provided special incentives to private industrial investors and has granted applications for rights of repatriation of dividends and capital to foreign investors. Tunisia signed the Settlement of Investment Disputes Convention on May 5, 1965, the first country to do so. The Government is now studying a number of new measures, including the adoption of an investment code, the establishment of an investment promotion center and the starting of an industrial management training program.

Financing of Industry

13. There have been two principal domestic sources of finance for industry in the past few years. One has been direct equity investment by the Government itself or its agencies; the other has been medium-term lending by the commercial banks, based partly on their own resources and rediscount facilities with the Central Bank, and partly on special US-supplied resources distributed through STB and the Banque Nationale Agricole (BNA).

14. The Government itself took large equity participations in key industries, such as phosphates, iron ore, steel, petroleum refining, sugar and paper pulp. SNI, STB, BNA, the social security fund and the government-owned insurance company also took substantial participations. Thus a number of new industrial companies were started in which the majority of the share capital was held by the Government and its agencies. In some cases, foreign partners held a substantial minority of the capital and in a few cases (sugar and steel) the Government organized a campaign to distribute shares among small Tunisian subscribers. The distribution of share ownership in some of these companies was such that when SNI passed under private control the companies themselves became privately controlled, though their substantial capital needs may make it hard to maintain this. In spite of these large governmental equity subscriptions, however, most of the new companies established in the past few years have been under-capitalized, and have carried an excessive load of medium-term debt.

15. Most active in the term-lending field has been STB, established by the Government in 1958 as a wholly Tunisian-owned bank in a field hitherto occupied by French institutions, and in which the Government now holds about 56% of the issued shares. Under dynamic and competent management, STB has become the largest commercial bank in the country and has also been active in the promotion and financing of industry and tourism. Its importance in the commercial banking sector was increased when it took a 50% interest in a new commercial bank, formed in 1964 from the merger of a banking subsidiary with the Tunisian operations of the Credit Lyonnais.

16. STB has organized several industrial companies and taken share participations. Most of its equity portfolio, now totalling over D 1 million, was acquired in this way. Its term-lending to industry has been almost

exclusively at medium-term with funds from three principal sources:

(i) own resources, backed up by the rediscount facilities of the Central Bank, which have been extensively employed;

(ii) a special dinar revolving fund (Fonds Special Renouvelable - FSR) from US counterpart funds, now amounting to D 2.7 million; and

(iii) a US$ 5 million loan from the Development Loan Fund.

A few of STB's loans, made with government guarantee, have had a ten-year life and the two US funds permitted long-term loans, but, in practice, STB has seldom provided financing beyond five years. In addition to its industrial financing, STB carries on an extensive program of residential construction financing.

17. STB's activities in the industrial field are likely to be substantially reduced in the coming years. For monetary reasons, the Central Bank is anxious to limit discounting of medium-term credits on a large scale. To this end, it has ruled that all commercial banks should employ at least 10% of their call and term deposits in medium-term loans. It has also imposed discount ceilings on each bank. The former measure should result in the commercial banks, other than STB, expanding their medium-term lending (they have done little up to now) but the latter, affecting STB, should operate to reduce the total volume of such credits made by the banking system as a whole. Moreover, STB's two US funds are virtually fully committed and, in the future, only repayments will be available for new lending.

18. Another important public financial institution in Tunisia is BNA, established by the Government in 1959 under its control. It specializes in agricultural financing, including particular responsibilities for cooperative credit, but has extensive commercial banking activities as well. It too has available a revolving dinar fund of US counterpart money and a US dollar loan. Despite its concentration on agriculture, it has made funds available for industries processing agricultural products, centering around a successful group of companies which BNA itself promoted and controls.

19. One final important source of industrial finance has been foreign suppliers' credits. Under special French and other European governmental aid arrangements, credits of up to twenty years' duration have been obtained for the new steel mill and for the proposed government-sponsored expansion in the textile industry. However, most of the credits obtained have been medium-term and the burden of them is increasing, both on Tunisia's balance of payments and on the firms that have contracted them.

20. There is a small and inactive market for securities in Tunis, which has not played any significant role in industrial financing.

21. The Tunisian financial system has thus made available to new and expanding industrial enterprises a fairly large amount of medium-term credit. It is unlikely that any sound projects were prevented from going forward through lack of financing, but many companies have been created with an unsound financial structure. The main shortage to date has been in long-term loan funds, and there has also been less equity capital available than would have been desirable. Medium-term credit is now becoming scarcer, as a result of Central Bank policy and the exhaustion of STB's special resources.

22. Interest rates have been on the low side in Tunisia. Term-lending to industry has been largely conditioned by the Central Bank's discount rate (4% for prime paper) and by the rates agreed for loans from special resources entrusted to STB and BNA. In general, medium- and long-term loans to industrial enterprises have been at between 5 and 7%, with a slightly higher trend within these limits in the past year or so. SNI did not establish any set pattern of charges when it began lending, and the interest rates on its loans to date vary between 6 and 7%, according to the security obtained and other circumstances.

23. It will be SNI's task, following its reorganization into a specialist provider of medium- and long-term finance, to help fill the gaps in the supply thereof. The Government has assured IFC that it intends that commercial banks shall confine their main activity to short- and medium-term operations (and perhaps longer-term lending to government enterprises), and that it desires SNI to be the main institution specialized in term loan and equity finance.

III. THE SOCIÈTE NATIONALE D'INVESTISSEMENT

History

24. SNI was established in 1959 with the principal objective of contributing to the industrial development of Tunisia through promotion of, and financial assistance to, new, reorganizing or expanding enterprises. About 58% of its D 2 million share capital was subscribed by the Government, the Central Bank and other public agencies, and the balance by more than 83,000 private Tunisian citizens. Until 1964, this capital remained its only resource.

25. Although empowered to make loans, SNI, in fact, addressed itself entirely to equity participations in companies of its own promotion and in other companies. As a result, it had a portfolio of

equities totalling D 1.77 million at December 31, 1965, of which the quality varies greatly (Annex II). Two of the companies recently made bonus issues, a few pay dividends, many are still in the starting-up stage, and a few are expected to fail. In 1964, SNI began accepting deposits, which it employed profitably in the short-term money market to enhance its income. A loan was negotiated from the social security fund and a revolving dinar fund was entrusted to it by the Government. It then started to lend at medium- and long-term, and had made loans totalling nearly D 500,000 to a variety of clients by the end of 1965 (Annex III).

26. SNI has managed to make ends meet but has not become profitable or been able to build up reserves. Income increased in 1964, reinforced by a government subsidy, but it was used to enlarge the staff very rapidly. Unfortunately, many of the new personnel proved not to have qualifications appropriate to a sound development finance company. But for the reorganization, SNI would be at a dead end.[1/]

27. There are three principal reasons for SNI's failure to become a profitable investment institution. In the first place, it has lacked continuity of management, having had five presidents in its brief life, most of whom lacked investment experience. In the second place, it had no leverage for its share capital until 1964. Thirdly, its restricted field of operations - equity investment in new and slow maturing enterprises - could not produce enough income to maintain an adequate management and staff and build reserves.

Objective of the Reorganization

28. The reorganization of SNI involves substantial changes in its capital structure, including an ending of government majority in the share capital, an increase in the total resources available, the introduction of new management, and the adoption of new policies for future operations. The reorganized SNI will have as its main objective the development of private industries and tourist facilities by making available finance and technical assistance to existing enterprises and by promoting new enterprises. It will make equity investments in, and medium- and long-term loans to, such enterprises. It will also be prepared to guarantee credits granted to them from other sources, and to advise entrepreneurs in the proper preparation of their projects.

Ownership

29. The reorganized SNI will have an issued and paid-in share capital of D 1.5 million, consisting of 300,000 shares of a par value of

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1/ Balance sheets and profit and loss accounts for 1962-65 are summarized in Annexes IV and V.

D 5 each, of which a majority will be in private hands. Five foreign financial institutions, from four industrialized countries, and five of the major commercial banks operating in Tunis will become shareholders alongside IFC1/. When this take place, distribution of SNI shares will be as follows:

	Thousand Dinars	Percentage
Government and its agencies	134	9
Tunisian banks:		
Government controlled	65	4
Private	45	3
Tunisian private shareholders	836	56
Foreign financial institutions	120	8
IFC	300	20
	1,500	100%

One additional foreign financial institution is being sought and the Central Bank has agreed to hold D 30,000 of its SNI shares for sale to it. SNI's management intends to encourage some concentration of the thousands of tiny shareholdings.

30. The reorganization is in two stages. The first occurred in June 1965 when an extraordinary meeting of shareholders approved reduction of the share capital from D 2 million to D 1.5 million. At the second stage, the foreign and domestic banks and IFC will purchase, at par, shares held by the Government and the Central Bank. The proceeds of IFC's purchase will be loaned immediately to SNI.

Financial Resources

31. A major objective of the reorganization is to increase, substantially, the resources at SNI's disposal. Augmenting its equity base, SNI will have a grant of D 500,000 from the Government, effected by conversion of the revolving dinar fund which the Government entrusted to SNI in 1964.

32. It will have several sources of loan funds:

(a) A D 615,000 loan from the Government, interest-free and repayable in 30 years, including 15 years' grace, subordinated to other debt and ranking *pari passu* with the share capital in case of liquidation. D 500,000 of this loan is in exchange for D 500,000 of government-held shares that have been cancelled, and the balance of D 115,000 will derive from the proceeds of the Government's sale of shares to IFC.

1/ Annex I identifies the institutions investing.

(b) A D 500,000 4% loan from the Caisse Nationale de Securite Sociale, made to SNI in 1964 for 15 years.

(c) D 185,000 in 5% 15-year notes (maturing from the fourth year), which SNI will sell to the Central Bank and which the Central Bank will endeavor to place among institutional investors. This represents the lending to SNI of the proceeds of the Central Bank's sale of shares to IFC.

(d) The proposed $ 5 million (D 2.6 million) line of credit from the World Bank.

33. Proposed long-term funds in SNI after the reorganization should, therefore, total about D 6.0 million, made up as follows:

	Dinars Million	US$ Millions Equivalent
Share capital	1.500	2.85
Government grant	0.500	0.95
Subordinated government loan	0.615	1.20
Total	2.615	5.00
Caisse Nationale de Securite Sociale loan	0.500	0.95
Central Bank loan	0.185	0.35
Proposed World Bank loan	2.600	5.00
Total conventional loans	3.285	6.30
Total resources1/	5.900	11.30

34. The grant and subordinated loan, taken with the share capital and reserves, will provide SNI with a base for substantial borrowing. As and when SNI's business requires it, SNI's policy statement and loan agreement with the Bank will permit it to borrow up to three times their total. This would mean about D 8 million, far in excess of the amount now arranged. SNI will thus have potential resources of over D 10-1/2 million, enough to enable it to begin making a real impact on the Tunisian economy. In addition, it will be able to present some of its medium-term loans to the Central Bank for rediscount.

35. SNI has at present almost D 2 million of deposits, mainly from public institutions, which are profitably employed at short term, mostly in the money market in Tunis.

1/ Reserves should be added to this. Legal reserves, after appropriations for 1964, amounted to D 2,400 and accumulated earned surplus was D 46,100. Unaudited accounts for 1965 show a profit for appropriation of D 86,000.

Relations with Government

36. Apart from the grant and the interest-free subordinated loan already described, SNI will also enjoy other forms of government assistance. First, the Government is paying SNI an annual subsidy of D 50,000 in each of the four years beginning 1965 to help defray the cost of SNI's operating staff. In the second place, the Government will guarantee SNI against loss from its operations before completion of the reorganization. This guarantee covers:

(a) recovery within five years, if SNI wishes, of its book value of any equity investment made before the reorganization;

(b) recovery of all interest and principal on loans already made and of all sundry debts;

(c) reimbursement of any payments which have to be made by SNI under guarantees given before the reorganization.

Third, SNI will continue to benefit until the end of 1968 from the substantial tax exemptions which it has enjoyed to date, including freedom from all tax on profits. The terms of these exemptions will require SNI to limit any dividends to 4% until 1968.

37. The Government is empowered by legislation enacted in 1965 to carry out certain supervisory functions in respect of all companies in which it has a participation. The law in question requires such companies to submit their annual accounts and budget forecasts to the Government for approval, to adopt personnel regulations satisfactory to Government and to submit to certain Government inspections. The Government has given assurances that it will not exercise these functions in respect of SNI in a manner which in any way limits SNI's freedom of action.

Board and Management

38. SNI will have a Board of 11 directors, distributed among the shareholders as follows:

Government and its agencies	1
Central Bank	1
Societe Tunisienne de Banque	1
Other Tunisian banks	1
Tunisian private shareholders	4
Foreign financial institutions	2
IFC	1
	11

This will mean enlargement of the present Board of seven by addition of the representatives of the new shareholders (IFC, Tunisian and foreign banks).

39. Mr. Abdelaziz Mathari, President and General Manager of STB, was elected in 1965 to that office in SNI, on the nomination of the Government. For at least two years he will have a foreign adviser. At IFC's request, the Banca Commerciale Italiana has made available one of its experienced officials for this job, Dr. Marcello Luri. They will overhaul SNI's organization and staff to enable it to perform effectively in close association with the experienced staff of STB.

40. An executive committee, consisting of the President, the representatives of the Central Bank and the Tunisian banks, and one private director, all resident in Tunis, will be appointed by the Board. It will supervise SNI's affairs in the intervals between meetings of the Board (expected quarterly), and have the power of approval of investments and loans up to D 50,000.

41. SNI has not made any commitments since the end of 1965, the effective date of the Government guarantee. The executive committee will be constituted as soon as the local banks have made their investment (expected in May), and the director representing them has been coopted. The committee will be prepared to act upon proposals up to the limit set. Proposals above this limit will be held over until they can be considered by the full Board, including the representatives of IFC and the foreign banks, after the reorganization is completed.

Operating Policies

42. SNI intends to conduct its operations in a way that will combine active assistance to the development of the private industrial and tourist sectors with the prudence appropriate to a sound private development finance company. Its operating policies, drafted in consultation with IFC and the Bank, have been incorporated in a statement (Annex VI), which has been adopted by SNI's present Board and which the enlarged Board will be invited to endorse after the reorganization is completed. SNI will make a special effort to promote the development of the Tunisian capital market by revolving its own portfolio, and by seeking to establish mutual funds in Tunisia. In accordance with sound business practice, it will aim at diversifying its investments, and at keeping its investments in any single enterprise within prudent limits. It will not make individual commitments of less than D 15,000. It will establish interest rates and other charges adequate to cover expenses, build reserves and distribute dividends. It will follow a conservative reserve policy and will protect itself against the foreign exchange risk on its external borrowings. The Government will undertake this risk in the case of the proposed Bank loan.

IV. PROSPECTS

Volume of Business

43. If industrial investment in Tunisia is maintained at the level of the past few years (a conservative assumption), and if, as is intended, the private sector plays a more substantial part, it can be estimated that SNI, concentrating on term-lending and equity participations in the private industrial and tourist sectors, can expect to do business totaling about D 1.5 - 2 million per annum. This figure may be greater if, as the Bank's recent economic mission to Tunisia expects, the level of investment in these sectors rises. The forecast of somewhat larger activity is supported by the recent favorable trends in the tourist industry, where SNI's management feels that the company has a particular contribution to make. The volume of SNI's new resources should be viewed in the expectation that, over the next two-and-a-half years, SNI will be able to commit between D 4 and 5 million.

44. To meet this demand, SNI will have dinar resources consisting of D 300,000 from the proceeds of the IFC investment; about D 200,000 from repayments of loans made earlier and internal cash generation; perhaps D 500,000 in realizations under the government guarantee of the present portfolio; and about D 700,000 now available in current resources. These dinar resources, totaling about D 1.7 million, can be supplemented by some rediscounting at the Central Bank. A Bank loan of $5 million (D 2.6 million) will bring resources in hand for new lending and equity investment over the period to about D 4.3 million, which may be sufficient to meet SNI's requirements for the next two to three years. New dinar resources may become necessary earlier.

Profitability

45. Given lending and equity investment activity of this magnitude, it should be possible for the institution to become profitable. The interest rates it will charge - 7% on medium-term loans and 7-1/2% (more on occasion) on long-term loans, and a margin of 2-1/2% over the discount rate applied on all portions of loans accepted for rediscounting by the Central Bank - have been agreed between the Government, the Central Bank and the Bank and IFC. In Tunisia, the Government and Central Bank set the interest ceilings for all types of lending as part of general credit policy. The Government has agreed to keep SNI's situation under continuing review and, if it appears that SNI cannot earn a reasonable profit, to permit steps requested by SNI to be taken to remedy this.

46. It will be necessary for the management to keep SNI's administrative expenses under close control. SNI's management is confident it will be possible to do this without impairing the quality of SNI's project appraisal and other work. Indeed, by engaging a few competent new key personnel, the management expects to be able to achieve a

substantial improvement in the quality of project appraisal work with a considerably smaller staff. Close relations and a common chief executive with STB will facilitate this.

47. If SNI is successful in this, if its business increases as predicted, and if its interest charges are kept appropriate for its business, its profitability should rise steadily as the low-cost government money is lent and invested, and as further leverage is secured from the proposed World Bank loan. Net profits should reach some 12% or more of the share capital by the third year after the reorganization.

48. SNI's accounts will be audited annually by a firm of independent public accountants acceptable to the Bank.

SNI's Contribution to the Economy

49. As already described, the development of private enterprise has been rather hesitant in Tunisia, despite substantial industrial growth. Entrepreneurial talent is not plentiful, and there has been a shortage of long-term capital. However, the Government does not wish to continue its almost exclusive role, nor does it wish to make the appropriations of public funds that would be necessary for it to do so. The Government's decision to transfer SNI to private control reflects this intention and the reorganized SNI should be able to make a useful contribution to Tunisia's economic growth by its assistance to the private sector.

V. PROPOSED LOAN AND INVESTMENT

50. The proposed $5 million Bank loan to SNI would be on substantially the same terms as are usual with loans to development finance companies. The loan account would be credited with amounts required for projects submitted to the Bank by SNI, and the commitment charge would be payable only on the amounts so credited. To each portion of the loan the Bank's current rate of interest at the time of crediting that portion would be applied. The loan would be available for equity investments by SNI as well as for loans. Unless the Bank otherwise agreed, the loan would be for foreign currency expenditures only. Initially, all projects using more than $50,000 from the loan would require prior Bank approval.

51. The amortization schedule agreed during negotiations is an estimated composite of the schedule of repayments to SNI by its borrowers, combined with an appropriate pattern of repayments on the portions of the loan used for equity investments. No portion of the loan should be outstanding longer than 15 years. This schedule would be subject to adjustment to conform to the actual pattern of repayments to SNI, once established.

52. The proposed IFC investment in SNI is relatively large compared with the purchases by the other new shareholders. This reflects IFC's crucial contribution to the reorganization. It will assure the entry of foreign shareholders and help SNI gain the confidence of foreign investors as well as local. The proposed IFC directorship is viewed by all parties as an essential part of the reorganization.

53. An agreement negotiated between IFC and the Government will provide for the remittance to IFC, or its assigns, of all dividends and other distributions on these shares and for the repatriation of the proceeds of any sale of them.

54. On the assumption that the reorganization will be completed as described in III above, SNI is recommended as a suitable recipient for a Bank loan on the terms and conditions described, and as a suitable investment for IFC.

SOCIETE NATIONALE D'INVESTISSEMENT

(i) Distribution of Shares

	A. Before Reorganization		B. After Capital Reduction June 28, 1965		C. After Reorganization	
	D'000	%	D'000	%	D'000	%
Tunisian Government	665	33	165	11	50	3
Central Bank	450	23	450	30	56 1/	4
Government-controlled agencies	28	1	28	2	28	2
Government-controlled banks 2/	21	1	21	1	65	4
Government-direct and indirect	1164	58	664	44	199	13
Tunisian individual shareholders	822	41	822	55	822	55
Bearer shares	14	1	14	1	14	1
Tunisian private banks	-	-	-	-	45	3
Foreign financial institutions	-	-	-	-	120 1/	8
IFC	-	-	-	-	300	20
	2,000	100	1,500	100	1,500	100

(ii) Tunisian Banks Investing

Banque d'Escompte et de Credit a l'Industrie en Tunisie	D 15,000
Banque de Tunisie	15,000
Banque Nationale Agricole 3/	15,000
Union Bancaire pour le Commerce et l'Industrie	15,000
Union Internationale de Banques 3/	15,000
Société Tunisiene de Banque 3/	14,000

(iii) Foreign Institutions Investing 1/

Banca Commerciale Italiana	D 30,000
Bank für Gemeinwirtschaft	30,000
Stockholms Enskilda Bank 2/	30,000
Caisse Centrale de Cooperation Economique	15,000
Caisse des Depots et Consignations	15,000

1/ A further foreign institution will be sought to take up D 30,000 and so complete the D 150,000 allocated. The Central Bank will hold the necessary shares in reserve for this sale.

2/ Investment subject to approval of Swedish authorities.

3/ STB, BNA, and UIB are directly or indirectly Government-controlled. STB has held D 21,000 to date and is increasing this to D 35,000.

April 11, 1966

ANNEX I

SOCIETE NATIONALE D'INVESTISSEMENT

Equity Portfolio at December 31, 1965

Sector	Company	Year Established	Present Share Capital	SNI Holding Nominal Amount	%	Comments
Textiles, etc.						
	1. Soc. Generale des Industries Cotonnieres et Textiles (SOGICOT)	1962	885,000	110,275	12	Government-controlled cotton enterprise. Has large expansion programme in progress, financed mainly by supplier's credit. Capital increase planned.
	2. Soc. Generale de l'Industrie de Confection (SOGIC)	1962	10,000	7,250	72	SNI-sponsored manufacturer of cotton garments. SNI to fall into minority position after capital increase planned.
	3. Soc. Generale des Industries Lainieres (SOGIL)	1963	100,000	85,700	86	SNI-sponsored importer of wool goods launching into manufacturing. Capital recently increased by bonus issue. SNI will soon fall into minority position in major further increase planned.
	4. Soc. Tunisienne de Filature et de Tissage (STUFIT)	1960	150,000	68,165	45	Jute bag manufacturer.
Wood, etc.						
	5. Soc. Tunisienne de l'Industrie du Bois	1960	50,000	19,210	38	SNI-sponsored particle board producer. Private majority expected to take over management.
	6. Soc. Nationale du Liege	1962	250,000	125,000	50	SNI-sponsored producer of cork agglomerate. Dividend paying.
	7. Soc. Skanes	1963	50,000	15,000	30	STB-sponsored furniture manufacturer, dividend paying.
Food, etc.						
	8. Soc. Tun. du Sucre	1961	1,700,000	272,000	16	Government-controlled sugar refinery, mostly from imported raws but also mills local beet.

9. Cie. Generale des Salines de Tunisie (COTUSAL)	1949	750,000	187,500	25	French-controlled salt extraction. Dividend paying, one for two bonus stock issue 1965
10. Soc. Mediterraneenne des produits de l'Olivier	1964	80,000	16,000	20	SNI-sponsored project for extraction of olive oil by new process. Private investors subscribed recent capital increase.
11. Soc. de Transformation de l'Orange et des Produits Agricoles (STOPA)	1959	200,000	80,000	40	SNI-sponsored canned juice factory. Not yet producing.
12. Soc. de Legumes et Fruits (SOLEFRUITS)	1961	100,000	40,000	40	SNI-sponsored canning firm.
<u>Engineering, Metals, etc.</u>					
13. Soc. Tun. des Ateliers Metallurgiques M'Henni	1961	70,000	17,500	25	Successful private iron foundry, etc. Dividend paying, shares purchased at double of par.
14. Ateliers Mecaniques du Sahel	1962	66,000	26,000	39	STB-sponsored domestic hardware producer. Capital increase due soon.
15. Soc. Tun. de Constructions et de Reparations Mecaniques et Navales (SOCOMENA)	1963	100,000	3,500	3	Government-sponsored promotion company to re-activate old arsenal at Menzel Bourguiba.
16. Soc. Tun. de l'Industrie Automobile (STIA)	1961	150,000	40,000	27	Renault truck and bus assembly, expansion in progress.
17. Soc. International Harvester Manufacturing Tunisia	1964	210,000	5,000	2	Tractor assembly in old arsenal at Menzel Bourguiba.
18. Soc. TUBUKH	1964	50,000	5,000	10	Small diesel engine assembly in the old arsenal.
19. Soc. Ind. de Constructions Metalliques (SICOMET)	1964	20,000	2,000	10	Structural steel etc. producer in the old arsenal.

20. Soc. Ind. du Grillage de Sfax	-	270,000	10,000	3	Wire and wire netting maker.
21. Soc. Tun. des Emballages Metalliques	1964	150,000	25,000	17	French-controlled can producer.
22. Soc. El Fouladh	1962	2,700,000	135,000	5	Government steel mill, starting up in 1966.
Extraction					
23. Soc. Djebel Djerissa	1899	1,406,800	9,270	1	Iron ore mine - shares purchased for D 48,032.
24. Soc. Marbre de Chemtou	1965	150,000	15,000	10	Marble quarrying. 50% paid.
25. Soc. des Phosphates de Gafsa	-	5,000,000	13,360	-	Phosphate rock producer owned almost 50/50 Tunisian Government and private French - purchased for D 4,247.
Transformation					
26. Soc. des Industries Chimiques Maghrebines (ICM)	1962	500,000	10,000	2	STB-sponsored project to produce nitrogenous fertilisers - in planning stage.
27. Soc. Tun. des Plantes a Parfum (STPP)	1964	10,000	3,475	35	SNI-sponsored producer of jasmine and other scent essences.
Miscellaneous Manufacturing					
28. Soc. Tun. de Verrerie (SOTUVER)	1963	182,000	86,870	48	SNI-sponsored glass bottle manufacturer. Capital increase planned.
29. Soc. Industrielle et Commerciale d'Ouvrages en Amiante Ciment (SICOAC)	1961	300,000	89,775	30	SNI-sponsored producer of asbestos cement pipes and sheets.
30. Soc. des Produits Ceramiques Bernadaud	1965	270,000	40,500	15	Ceramics. 50% paid.
News Media, etc.					
31. Soc. Tun. de Production et d'Expansion Cinematographique (SATPEC)	1957	60,000	6,000	10	Government-controlled film producing and cinema managing enterprise. Capital increase planned.

32.	Tunis-Consult	1960	1,000	140	14	Consulting Agency.
33.	Agence Tunis-Afrique Press	1961	20,000	2,100	10	News Agency.
Commercial						
34.	Soc. Commerciale el Moazzia	1964	20,000	1,000	5	Regional distribution monopoly.
Tourism						
35.	Soc. Hoteliere et Touristique Tunisienne (SHTT)	1959	600,000	60,000	10	Government-controlled hotel management company. 75% paid.
36.	Soc. Immobiliere et Touristique Tunisienne	1961	300,000	43,000	14	Government-sponsored company to erect large hotel in Tunis-under construction. Capital increase expected.
37.	Soc. d'Etudes STECHI	1960	10,000	3,500	35	Planning company for Government-financed Hilton Hotel-just opened.
38.	Soc. Hoteliere "El Marhaba"	1965	150,000	23,000	15	Tourist hotel.
39.	Soc. Hoteliere et Immobiliere de Kasserine	1960	350,000	20,050	6	Hotel and construction company.
40.	Soc. le Gammarth	1963	100,000	10,000	10	Seaside bungalows. Capital increase expected.
41.	Soc. de Mise en Valeur des Iles de Kerkennah (SOMVIK)	1961	5,000	3,250	65	Tourist promotion.
Investment Companies						
42.	Soc. Regionale de Developpement du Kef	1965	200,000	10,175	5	Regional small investment company. 25% paid.

43.	Soc. d'Investissement Regionale de Bizerte (El Eddikhar)	1965	50,000	23,420	47	Regional Investment Co. Shares received in exchange for investment in defunct cycle business.
In Liquidation						
44.	Soc. Nationale d'Edition et de Diffusion (SNED)	1960	100,000	10,000	10	Publishing and book distribution.
45.	Soc. Nationale d'Electricite de Radio et de Television (El Athir)	1963	100,000	82,750	83	Radio and T.V. assembly. Taken over, shareholders being paid out in full.
		Total		1,861,735		

Note SNI's Book Value (at cost) of this portfolio is D1,769,254. About D50,000 remains to be paid on the investments.

April 12, 1966

ANNEX III

SOCIETE NATIONALE D'INVESTISSEMENT

Loans Committed to December 31, 1965

Borrower	Description	Amount	Interest Rate	Term and Repayment
STUFIT	Jute bags - see SNI portfolio.	D 150,000	7%	Medium-term, repayable - 75,000 on 31/12/68 - 75,000 on 31/12/69
Societe de Transport des Marchandises	Government - controlled regional transport monopoly	D 130,000	6.25%	Medium-term, 70% rediscountable at Central Bank -4 annual payments after one year's grace.
SOTUPRI	Private company expanding into manufacture of rubber footwear	D 30,000	6.5%	Long-term, repayable over 10 years, including two years' grace.
COTUSAL	Salt extraction - see SNI portfolio	D 80,000	7%	Long-term - 8 years including 3 years' grace.
BEN CAID	Individual building contractor	D 25,000	6.5%	Long-term - 6 years including one year of grace.
SOMVIK	Island ferry - see SNI portfolio	D 52,000	7%	Long-term - 6 years. D 7,000 repaid in 1965.
BOUDAGA	Scholars' hostel	D 4,800	6.5%	Medium-term - 3 years.
GANDOLFO	Processed foods	D 4,000	7%	Medium-term - 4 years.
BESROUR YOUNES	Footwear	D 19,000	6.5%	Medium-term - 4 years.
		D 494,800		(Of which D 7,000 has been repaid and about D 70,000 is still to be disbursed.)

March 28, 1966

SOCIETE NATIONALE D'INVESTISSEMENT

Summary of Balance Sheets as at December 31, 1962/63/64/65
(In Thousands of Dinars)

ASSETS	1962	1963	1964	1965[1]	Proforma[2]
Cash and at banks	978.6	539.2	188.3	49.7	50
Sundry debtors	15.8	15.9	46.6	718.5[3]	650
Loans to money-market	-	-	1,140.0[4]	2,150.0	2,400
Loans outstanding	44.8	47.6	177.2	417.8[5]	488
Participations paid up[6]	979.6	1,348.3	1,598.1	1,718.9	1,769
Property and Equipment net of depreciation	92.8	97.0	105.8	97.5	98
Establishment costs less amortization	21.4	18.8	34.2[7]	24.8	25
	2,133.0	2,066.8	3,290.2	5,177.2	5,480
LIABILITIES					
Excess share subscriptions received	8.5	8.5	8.4	8.3	8
Sundry creditors	8.1	3.8	21.9	59.0	62
Deposits at call or term	95.0	25.0	911.4[4]	1,975.4	1,975
Loans: CNSS at 4%	-	-	300.0	500.0	500
BCT at 5%	-	-	-	-	185
Subordinated loan[8]	-	-	-	500.0	615
Share capital	2,000.0	2,000.0	2,000.0	1,500.0	1,500
Legal Reserve	0.7	1.1	1.5	2.4	7
Government Grant	-	-	-	500.0	500
Unappropriated earned surplus	20.7	28.4	47.0	132.1	128
	2,133.0	2,066.8	3,290.2	5,177.2	5,480

NOTES:
1/ 1965 accounts unaudited.
2/ Proforma column takes into account IFC entry and appropriation to legal reserve, but uses 1965 unaudited figures and assumes full disbursement of loans and share subscriptions (Notes 5 and 6).
3/ Includes short-term advances to client companies.
4/ SNI began to take deposits and lend to the money-market in mid-1964.
5/ Undisbursed portions of loans at end-1965 totalled D 70,000.
6/ Uncalled share subscriptions payable totalled:
1962 - D 251,900
1963 - D 208,200
1964 - D 15,000
1965 - D 50,400
7/ Share certificates issued and costs capitalized in 1964.
8/ From Government, interest free.

April 11, 1966

SOCIETE NATIONALE D'INVESTISSEMENT

Profit and Loss Accounts 1962/63/64/65[1/]
(In thousands of dinars)

	1962	1963	1964	1965
INCOME				
Interest received[2/]	26.7	18.5	34.8	127.4
Dividends	-	-	23.9	28.8
Commissions, Fees and Sundry	0.9	1.9	5.3	26.7
Rent received and due	7.5	16.6	2.8	-
	35.1	37.0	66.9	183.0
EXPENSES				
Interest paid	-	-	4.1	39.1
Personnel	16.9	16.4	65.5	84.8
Administrative and general expenses	5.2	5.3	25.2	11.6
Depreciation	8.6	8.9	18.0	18.0
TOTAL EXPENSES	30.7	30.6	112.8	153.5
Net income (loss) for the year	4.4	6.4	(45.9)	29.5
Special items: net prior year adjustments	2.6	1.6	14.9	6.5
Government subsidy	-	-	50.0	50.0
NET INCOME AND SPECIAL ITEMS[3/]	7.0	8.0	19.0	86.0

1/ 1965 figures unaudited
2/ Mostly from short-term operations
3/ Exempt from taxes

April 13, 1966

ANNEX VI

Translation

STATEMENT OF
GENERAL POLICIES AND OPERATIONS OF THE
SOCIETE NATIONALE D'INVESTISSEMENT

I. Purpose of this Statement

These provisions define the general policies and the guiding principles governing the operations of the Société Nationale d'Investissement.

It is evident that the management may propose to the Board of Directors of the SNI any necessary amendment which may be justified, in the light of experience, in order that the SNI may perform its services to the Tunisian economy with greater efficiency. In view of the importance of the subject matter to be discussed, the Board shall be given ample time to study such proposals.

II. Purposes of the SNI

(1) The SNI, through the various forms of operation as specified in III below, shall endeavor to stimulate the industrialization of the country and the development of tourism through productive, economic and financially sound projects.

(2) The SNI shall also seek methods which may reactivate and develop the capital market and, in particular, broaden the securities market.

III. Investment Policy

(1) The SNI will assist the Tunisian economy by one of the following methods, or a combination of several of them:

(a) medium- and long-term loans for the foreign currency needs of a borrowing company.

(b) medium- and long-term loans for its local currency needs.

(c) equity investments.

(d) underwriting syndicates for issue to the public of shares of a borrowing company.

(2) The SNI shall concentrate its assistance in the industrial and tourism sectors.

(3) It will provide financial assistance solely to private enterprises or enterprises with a majority of private shareholders. The following may be considered as private enterprises or enterprises with a majority of private shareholders:

(a) Companies where the capital is held solely by private natural or juridical persons.

(b) Companies where more than half of the capital is held by private natural or juridical persons, though the remainder is held by the Government or public agencies, or institutions where the Government is a majority shareholder.

(4) The total amount of financial assistance which the SNI shall grant to any single company, in the form of loans or equity investments, shall not normally exceed 15% of the SNI's own resources (share capital plus free reserves plus grant plus Government loan ranking pari passu with the share capital). In exceptional cases, where the financial assistance of the SNI exceeds such limit, the Board of Directors shall examine the project particularly carefully after a detailed and thorough study conducted by the Management.

The SNI shall not engage in operations, whether loan or equity investment, requiring less than D 15,000 from it.

No equity investment in an industrial or tourist enterprise shall exceed 10% of the SNI's own resources as defined above.

The total amount of SNI's equity investments shall in no case or at any time exceed the total of the capital, free reserves and grant.

(5) The SNI's equity investments in industrial and tourist enterprises shall be as diversified as possible between the industrial and tourist sectors and within a specific sector.

(a) With regard to industry, among various groups such as: mining, chemicals, mechanical industry, textile industry, food industry, etc.

(b) With regard to tourism:
both among various types of hotels (de luxe and intermediate categories), vacation centers, etc.; and between hotels located in the southern, central and northern regions of the country.

(6) The SNI shall not, as a matter of principle, hold a majority of shares in a company, except:

(a) where SNI acts as promoter of an enterprise and expects to place shares among private subscribers which will bring its holding down to a minority position (below 50%);

(b) where the company under consideration is in a difficult financial situation requiring the direct intervention of the SNI in the best interests of SNI.

As a general rule, the SNI shall not allow itself to assume the managerial responsibility of enterprises in which it shall have an equity investment.

(7) A loan which the SNI is requested to grant to a company directed by a member of SNI's Board of Directors, and in which this director holds a large equity participation, shall be:

- on the one hand, granted only after due consideration and approval by the Board of Directors as a whole;

- on the other hand, subject to a special report of the auditors to the next Ordinary General Meeting, in accordance with the provisions of the Code of Commerce.

(8) The SNI will support all initiatives for the development of the capital and securities markets. In particular, it will take the following measures:

- it will endeavor to ensure the maximum turnover of its portfolio by giving preference to the resale of all or part of the good securities held;

- it will subscribe to share issues, whether the companies are borrowers or not from the SNI;

- it will take part in the promotion of "variable capital" investment companies (mutual funds) or any other type of portfolio investment companies.

IV. Financial Policy

(1) The SNI shall ensure that the total of medium- and long-term debts outstanding (i.e., maturing beyond one year) does not exceed at any time three times the total of its share capital plus free reserves, plus grant, plus Government loan ranking pari passu with the share capital.

(2) For each foreign borrowing, the SNI shall protect itself against any exchange risk arising from loans in foreign currencies. It shall consider with the proper Tunisian authorities the measures to be taken in this respect.

(3) The SNI shall obtain from its lending, guarantee and other operations a rate of interest and commission sufficiently high for it to be reasonably profitable, build adequate reserves and distribute a small dividend.

(4) From the profits of each year of operations, the SNI shall, in addition to the legal reserve, establish a provision for contingencies and extraordinary reserves reasonably commensurate with its commitments and the nature of the risks involved. It shall also pay reasonable dividends in accordance with its annual profits.

V. Organization

(1) The SNI shall recruit a highly qualified personnel for the financial and technical analysis of the projects to be financed.

(2) The SNI shall also set up an organization adequate to give technical assistance to its clients and to enable them to adopt modern management techniques.

March 28, 1966