

Country Assessment

Tunisia

12 September 2012

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Executive summary

Tunisia became a Member of the Bank in December 2011 and requested to be granted recipient country status by letter dated 20 June 2011. The report of the Board of Directors to the Board of Governors on the geographical extension of the Bank's operations to the member countries of the Southern and Eastern Mediterranean (SEMED) (BDS11-187(F)) and the related Resolutions Nos. 137, 138 and 139 of the Board of Governors, envision a three-phased approach to the geographical extension of the Bank's operations to the member countries of SEMED.

Consistent with this approach, on 17 January 2012, the Board of Directors approved the commencement of the first phase of activities in Tunisia (technical cooperation and other similar activities).

In the second phase, the entry into force of the amended Article 18 of the Agreement Establishing the EBRD (the "Agreement") allows the Bank to start special operations in a member country which is not a recipient country, subject to the Board of Governors granting, for a limited period of time and under such terms as may be advisable, "potential recipient country" status to such member country. The amendment of Article 18 of the Agreement, as approved by the Board of Governors pursuant to Resolution No. 138, came into force on 22 August 2012.

Tunisia requested to be granted potential recipient country status on 13 July 2012. Consistent with the provisions of Article 18, a decision to grant potential recipient country status can only be made if the member is able to meet the political and economic conditions of Article 1 of the Agreement. To inform the decision by the Board of Directors on whether Tunisia meets the economic and political requirements, Management has prepared a report entitled "Tunisia: Country Assessment and Operational Priorities" (attached). The report provides a political and economic assessment, including an analysis of Tunisia's transition challenges.

Based on the attached report and the staff assessment, it is Management's view that Tunisia meets the political and economic conditions of Article 1 of the Agreement. The assessment shows that:

- Tunisia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank, notwithstanding the need to further consolidate the political and economic reform process which has been put on a promising path; and
- Tunisia is a country where the Bank can carry out its purpose and functions as set out in Article 1 and 2 of the Agreement, namely "to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative".

The report also outlines the Bank's proposed operational response to the transition challenges faced by Tunisia, drawing on initial field visits and consultations. The following operational themes have been identified to guide the Bank's activities:

- Restructuring and strengthening the financial sector to support private sector development;
- Financing private enterprises, with a focus on SMEs, to boost the creation of high quality private sector jobs and develop a resilient and diverse economy;
- Supporting energy efficiency and the development of a sustainable energy sector, to improve energy security, sustainability and economic competitiveness; and
- Facilitating non-sovereign financing for infrastructure development to provide wider access to better quality urban and more efficient public services.

These proposed operational themes are consistent with the overall directions set in the context of the Deauville Partnership including the Economic and Social Programme prepared by the Tunisian authorities and described in the Government Action Plan finalised in March 2012. The pace and direction of the Bank's operational engagement will reflect the continuing economic and political reform environment in Tunisia.

The EBRD has and will continue to cooperate with other IFIs,¹ the EU and bilateral partners, so that its operational priorities take full account of the activities of other IFIs active in Tunisia. Taking note of the Deauville Partnership IFI platform, the EBRD will aim to create synergies, avoid duplication, and capitalize on the Bank's specific competencies, comparative advantage and transition mandate.

In the past 12 months, the EBRD has already been making considerable progress in the necessary preparatory work for operations in Tunisia to start as swiftly as possible. The Bank has established a functioning office and is in the process of building a dedicated organisation and staff. With generous financial support from donors and from the Bank's net income, we have initiated technical cooperation projects and project preparation activities. The Bank is confident that it can contribute its experience to bringing about economic transition in Tunisia, while at the same time realising that it has a lot to learn and will have to adapt. The recent Transition-to-Transition conference which was organised with the help of the authorities presented an opportunity to exchange views on needs and possibilities. All of this will allow for a rapid start of investments once all institutional requirements are met.

Accordingly I recommend that the Board of Directors:

- Endorse Management's conclusion that Tunisia meets the political and economic conditions of Article 1 and that the Board of Governors should be asked to grant potential recipient country status to Tunisia in accordance with Article 18 of the Agreement;
- Determine that the decision to grant potential recipient country status to Tunisia should not be postponed until the next annual meeting of the Board of Governors and does not warrant the calling of a special meeting of the Board of Governors; and that, as a consequence, the decision should be made by voting without a meeting in accordance with Section 10 of the Rules of Procedure of the Board of Governors;
- Approve the attached draft Report of the Board of Directors to the Board of Governors, which includes a draft Resolution for adoption by the Board of Governors, and direct the

¹ Notably the EIB and other Deauville IFI Partners (AfDB, IFC, IsDB, AFESD, AMF, World Bank, OFID and IMF).

Secretary General to transmit to each Governor the proposal relating to the adoption of such Resolution with a request that the votes of the Governors reach the Bank on or before 12 September 2012; and

- Confirm the proposed operational response to Tunisia's transition challenges, noting that a Country Strategy will be prepared for consideration and approval by the Board of Directors once Tunisia has been granted recipient country status.

Country Assessment and Operational Priorities

Tunisia, which became a Member of the Bank in December 2011, has requested to become an EBRD country of operations. Consistent with the respective resolutions and amendments to the Agreement Establishing the Bank (AEB), it is expected that the Bank would follow a three-phase process in helping Tunisia become a recipient country for EBRD operations:

- (i) In the first phase, the Board of Directors were requested to approve the use of cooperation Funds in Tunisia. This was done in January 2012.
- (ii) In the second phase, resources from the EBRD SEMED Investment Special Fund – the “SEMED ISF” – will be made available to finance investment projects in Tunisia and other SEMED countries. The Board of Governors at the 2012 Annual Meeting allocated EUR1 billion from the Bank’s Net Income for potential drawdown by the Board of Directors to the SEMED ISF. Utilisation of these funds will only be possible after the entry into force of the amendment to Article 18 and upon granting by the Board of Governors of “potential recipient country” status to Tunisia.
- (iii) In the third phase, upon the entry into force of the amendment to Article 1 of the AEB, the Board of Directors and the Board of Governors would consider the granting of “recipient country” status to Tunisia and therefore allowing the use of ordinary capital resources for operations.

This paper prepares for the utilisation of the SEMED ISF in Tunisia under the second phase. In order for the Board of Governors to grant “potential recipient country” status to Tunisia and approve use of SEMED ISF funds in the country, the Board of Directors will need to determine that Tunisia meets the political and economic conditions of Article 1 AEB. This Country Assessment provides an analysis that aims to inform this judgement. In addition to providing a political and economic assessment, it also sets out updated operational priorities for the Bank, drawing on the Bank’s growing field experience.

1. Assessment of developments with regard to the political aspects of Article 1 AEB

Over the past year and half, Tunisia has made impressive progress in its political reform programme, especially in undertaking substantial improvements in legislation affecting political and human rights and participation. The next steps in Tunisia's promising reform programme include the completion of the drafting of a new Constitution by the Constituent Assembly in 2012, holding a referendum on the Constitution, organisation of fresh parliamentary elections (expected in the first quarter of 2013), and the formation of a new government corresponding to the results of the election.

Representative and Accountable Government

Free, fair and competitive elections

Tunisia's December 2010/ January 2011 revolution has put the country on a new course towards development of a multiparty democracy. Following the removal of President Ben Ali and after persistent demonstrations forced the resignation of the interim government, a new transitional government was formed. The new government and the High Commission for Revolutionary Goals, Political Reform and Democratic Transition were mandated to restore order, dismantle the main power centres of the old regime, draft an election law, and manage a process that would culminate in an election to form a Constituent Assembly. The High Commission, led by one of the country's most respected legal scholars, drafted the Election Law in April 2011. It created a proportional representation system that does not permit any one party to gain more than 30 per cent of the National Assembly seats and required gender parity (of 50-50 per cent) on candidate-lists. The draft law also forbade the former ruling party members from participating in the election.

Tunisia's High Independent Authority for Elections (ISIE) took credible steps to allow for a free election with very broad participation of all Tunisians of voting age in and out of the country. The ISIE mandated the use of national identity cards to allow citizens not registered in polling databases to participate and welcomed unlimited numbers of domestic and international observers to monitor the election. More than 10,000 non-partisan Tunisians, representing a large number of civil society organisations, participated as local monitors.

The Constituent Assembly election in October 2011 was an important milestone. For the vast majority of Tunisians, it marked the first opportunity to freely choose who will govern them. There were some reports of irregularities and influencing voters towards specific parties and candidates, however the majority of observers, including for example the Parliamentary Assembly of the Council of Europe, reported that it was generally smooth and free.

Representative government that is accountable to the legislature and electorate

The three parties with the largest number of seats in the Constituent Assembly formed a coalition government following the election, and the Assembly in turn elected a President in December 2011. The Assembly announced that it will finalise the drafting of the new Constitution by the end of 2012. A two thirds majority of the Assembly is needed to adopt the Constitution. A popular referendum with a simple majority would only be called if the Constitution fails to garner the necessary majority from the Assembly after two attempts.

Annahda, an Islamist party banned before the revolution, emerged as the leading party after the elections and heads the governing coalition. A debate on the extent to which Islamic jurisprudence would influence the legislative structure was settled when Annahda publicly opposed any reference in the Constitution to Islamic Sharia (jurisprudence). Article 1 of the Constitution, which stipulates that Islam is Tunisia's religion but without stating the sources of legislation, will remain unchanged in the draft. Six committees, each comprising twenty members in proportion to their representation in the Assembly, are responsible for drafting the Constitution.

The fundamental debate at the centre of the drafting of the Constitution is the nature of the new governing system. Tunisia will almost certainly move from the absolutist Presidential system it had lived under for decades. Some political parties favour a purely parliamentary system on the basis that it limits executive power and would prevent a return to an authoritarian system. Other leading parties support a mixed system where executive power is shared between an elected President and a Chief of Government chosen by the Parliament. The initial, completed constitutional clauses indicate that Tunisia will move towards a system anchored on checks and balances and in which the legislature will have clear oversight over the executive. This is already starting to happen. The Assembly frequently calls upon Ministers to testify before the Assembly on various matters in a display of genuine democratic procedures and exchanges.

The Assembly is also discussing issuing new laws to enshrine transparency and parliamentary oversight, including on budgetary matters. The Assembly has already approved live broadcasting of its deliberations. Television cameras have been allowed in the legislative hall for the first time ever in the country's history. The authorities are also working with the European Union, the United Nations Development Programme and a number of local and international civil society organisations on a new Election Law.

Effective power to govern of elected officials

The period since January 2011 witnessed a significant transformation in which the influence of unelected entrenched powers was considerably reduced. The heavy influence of the ruling party that characterised President Ben Ali's presidency came to an end. Former regime officials have been put on trial and independent commissions were launched to investigate corruption, violence and past abuses. Political decisions are taken by a coalition government that was formed based on the results of free and fair elections. The Constitution is being drafted by an Assembly formed on the basis of free and fair elections.

Freedom to form political parties and existence of organised opposition

The 1988 Political Parties Law continued to apply in the period after the removal of President Ben Ali, though the Ministry of Interior in the successive transitional governments applied it very loosely. In less than one year, over 110 political parties were created. The Election Law governing the Constituent Assembly election significantly narrowed the grounds on which the authorities could forbid a party from operating, replacing a law with many limitations that provided that no party may "base its principles, activities, and programs on a religion, language, race, sex, or region". A large number of secular groups came together in April 2012 under a unified political party, constituting an organised opposition. In May 2012, Tunisia authorised, for the first time, the establishment of a new political party that publicly

describes itself as Salafist (followers of strict interpretations of Islamic theology and traditions).

Civil Society, Media and Participation

Scale and independence of civil society

Tunisia has a varied and very active civil society. Over 700 NGOs and social and political associations opened up, or have been legally authorised, in the period since the removal of President Ben Ali in January 2011. A large number of local and international human rights groups operate in Tunisia. A number of associations that were illegal under the previous regime, such as the International Association in Support of Political Prisoners, received official authorisation soon after the creation of the transition government. Different labour, trade, and student associations had (and continue to have) serious open disagreements with the coalition Government on policy matters; Parliamentary sessions witness spirited debates; and various publications (for example the annual report of the Journalists Syndicate) strongly criticise the executive on specific policies and activities. There are genuine debates on the policies of the Government and the decisions of the Chief of Government and the Ministers. However, this participation process is not formalised. For example, although there have been consultations with different political parties and civil society organisations, no public consultations on the key articles of the new Constitution took place. The UN's Office of the High Commissioner for Human Rights reported in March 2012 that civil society organisations are able to function in open manner and without obstruction of their activities.

Independent pluralistic media that operates without censorship

Tunisia has a diverse and pluralistic media scene. Active and dynamic internet and digital communications have offered many young Tunisians new ways of voicing their views and new routes for political participation. Over the past year, more than ten new radio channels and five TV stations started broadcasting in the country. New digital media has also played a conspicuous role in triggering the Tunisian revolution. The New Press Code abolished prison sentences for criminal defamation, a number of speech and freedom of expression offences, and marks a significant step in the protection of journalists from harassment. The New Code stipulates the establishment of a new High Authority for Audio-visual Communications, which is expected to be designated as having "Constitutional Status" – it will have elected Governors, be self-regulating, and will not fall under the supervision of any executive authority. The Government has indicated that it will propose to the Parliament that the new Constitution abolishes the requirement of a permit for any print publication, and that the launching of TV and radio stations would be subject to notification-processes only.

These are positive developments, however there have been delays in the introduction of some of these administrative procedures. The steps to establish the High Authority for Audio-visual Communications have not yet been implemented. The annual report of the Tunisian Journalists Syndicate details many 'violations' perpetrated on its members by security forces and by the Interior Ministry, and accuses groups related to political parties in the coalition of attacking journalists while covering demonstrations. There appears to be confusion on which media laws are being currently applied. Tunisia's Penal Code continues to criminalise certain speech offences.

Multiple channels of civic and political participation

Since the revolution, Tunisia witnessed a significant transformation in its political environment whereby there is a new momentum for participation in decision making, openness in discussing power dynamics, and wide interactions on various issues ranging from the nature of the state to various political, economic and social reforms. Also, decrees concerning access to administrative documents signify a significant step towards freedom of information and government transparency. Although the Decree on Access to Administrative Documents has been put into effect, public organisations will have two years before they are to conform to it.

Rule of Law and Access to Justice

Separation of powers and effective checks and balances

The first Clauses of the Constitution that have already been approved by the Constituent Assembly indicate that the new Constitution would ensure separation of powers and effective checks and balances. The parliament is expected to have broadened competencies under the new Constitution, which will balance the power of the executive (Government and President).

Supremacy of the law

The Assembly is currently debating the procedures to amend existing laws under the new Constitution. Over many decades, Tunisian Presidents were able to amend laws and regulations through procedures passed by the Chamber of Deputies which were products of illegitimate elections. The new amendment procedures are expected to require super parliamentary majorities.

The Interior Ministry set out a “road map” for reform of the police, but this included no provision for investigating and ensuring accountability for past violations of human rights by the police.

The Department of State Security was dissolved. However, there remain serious concerns by local and international observers on the powers of the security forces. The UN Office of the High Commissioner for Human Rights (UNHCHR) noted, in March 2012, the harsh response of the security forces and actions of an “armed militia” to demonstrations that Tunisia witnessed in the first half of 2012. A number of local and international observers have called for specific measures to hold the Interior Ministry accountable.

Government and citizens equally subject to the law

The new political landscape in Tunisia significantly empowers the Constituent Assembly. The new Constitution is expected to ensure that Government and citizens are equally subject to the law. The Tunisian Government has also taken steps in installing transparency, especially over finances and budgeting and in administering procurement at the public sector. The Tunisian Committee against Corruption and Misappropriation of Funds was established in 2011, and there have been practical measures taken in combating corruption.

Independence of the judiciary

Tunisia's Constituent Assembly has committed to establishing the country's first independent Constitutional Court. Tunisia currently operates a system in which the Court of Cassation is the highest appeals court, yet it is not mandated to rule on constitutionality. The Assembly did not yet clarify the procedures, specific jurisdictions, and composition of the new Constitutional Court. The Constituent Assembly has also passed a legislation to replace the Supreme Council of Magistrates, which had links to the Ben Ali administration, with an independent Judicial Committee that would be mandated to review and decide upon appointments, allocations, and disciplining civil Tunisian judges. However, the legislation that was passed in December 2011 has not yet been implemented.

Civil and Political Rights

Freedom of speech, information, religion and conscience, movement, association and assembly

The High Commission for Protecting the Revolution, Political Reform, and Democratic Transition drafted regulations for the press, freedom of expression, and on public associations. The Commission's mandate was temporary, but these draft reforms evolved into discussions within the Constituent Assembly and a number of High Authorities and Laws are expected to be passed in 2012 or incorporated in the new Constitution. The United Nations Education, Scientific and Cultural Organization (UNESCO) noted that after the uprising of January 2011, the situation in terms of freedom of expression evolved rapidly. In the immediate aftermath, journalists enjoyed new-found freedom, Internet censorship was reduced and the Ministry of Information was dissolved. The Government has also indicated that the new Constitution would protect the freedom of association and assembly.

However, a number of international human rights groups have noted that the Penal Code continues to criminalise a number of speech offences and to have vague definitions regarding its wording. The new Law on Association stipulates that civil society organisations need only notify the authorities as opposed to the old Law that required explicit approval. If the authorities do not object in a specific time frame, the new CSO are created. The new Law also states that associations would now be invalidated only by a court order. This new legislation opens the door for wide civic and political participation. The Law allows the executive to ban public gatherings without a court order.

In October, the police were accused by a number of local civil society organisations of failing to intervene effectively when groups attacked the headquarters of a TV station after it aired a film that physically depicted God. Later, the director of that TV channel was condemned by a Tunisian court for disrespecting sacred values and troubling public order. It is not yet clear how the new Constitution would protect freedom of expression.

Political inclusiveness

The Electoral Commission adopted a gender-parity system for candidate lists for the Constituent Assembly election, which required all political parties to alternate men and women on their lists, resulting in 50 per cent women candidates. In practice, most parties won a limited number of seats, and in many cases only one seat per district. As a result, 26 per cent of the Constituent Assembly seats are held by women, 67 per cent of whom represent the

Islamist Annahda party, the leading party in the governing coalition. The legislature has also adopted provisions to the penal code criminalising domestic violence and abuse and marital rape.

Political debate in Tunisia has experienced a rise in sectarian rhetoric, mainly by highly conservative Islamic groups. However, the public statements of Government officials and leaders of the coalition Government Parties have emphasised equal citizenship rights for all Tunisians.

Freedom from harassment, intimidation and torture

NGOs have been lobbying for the inclusion of various measures to enshrine human rights principles in the new Constitution and to protect civil and political rights from any potential intrusion from the security apparatus. In response, several representatives in the Constitutional Assembly and the Constitutional Commission for Rights and Freedoms have held hearings on human and political rights. The Government indicated that the new Constitution would protect these rights.

In 2011, the UN Human Rights Council welcomed the efforts of the transitional Government to release all political prisoners through a general amnesty and to bring transparency to the prison system, in particular by granting access to international and non-governmental organisations.

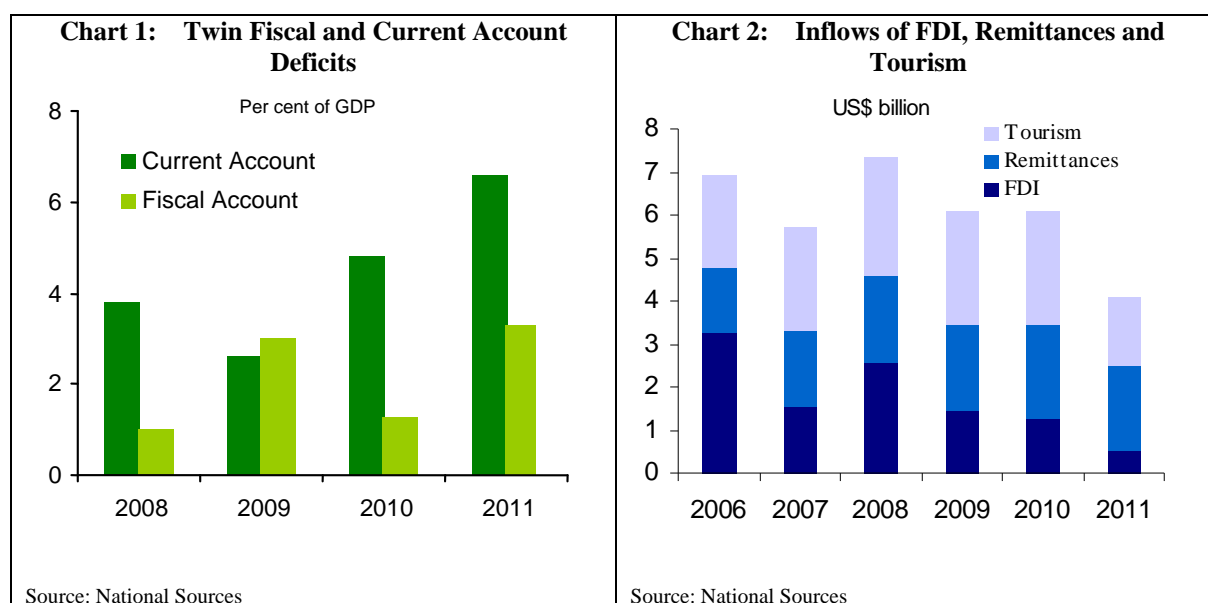
In June 2011, Tunisia acceded to and signed the Rome Statute of the International Criminal Court and the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

2. Operational environment

2.1 Macroeconomic context

Tunisia's economy weathered the impact of the global financial crisis in 2008/9 relatively well. The main crisis transmission channels included trade and remittances. To mitigate the impact of falling external demand, the government introduced targeted fiscal measures, accelerated public investment as well as provided direct support to exporting firms that had been particularly hard hit. As a result, real GDP growth decelerated only slightly, to 3 per cent in 2010, with some widening of the external current account deficit.

However, since the beginning of the Tunisian uprising in January 2011, strikes and protests have caused severe disruptions to industrial production and services while investor sentiment weakened. In addition, the external environment has also worsened with the crisis in the Eurozone. Moreover, the conflict in neighbouring Libya has prompted the loss of remittance income, the return of large numbers of migrant workers and a significant inflow of refugees and has prompted a further weakening in investor sentiment.



Thus, after recovering somewhat following the Arab spring and the end of the Libya conflict, Tunisia's economy slowed in the fourth quarter of 2011, leading to an overall output contraction of 2.2 per cent in 2011. Tourism revenues dropped by 33 per cent in 2011, and FDI inflows fell by 26 per cent, picking up only slightly in the first quarter of 2012 (see Chart 2). Industrial production and manufacturing declined slightly in March, after having rebounded in the first two months of 2012. Recent figures point to a continued slowing down of economic activity during the first quarter of 2012. Official unemployment jumped to 18.9 per cent in 2011, up from around 13 per cent a year earlier.

The current account deficit widened to 7.4 per cent in 2011, up from 4.7 per cent in 2010, on the back of a high energy import bill associated with rising global prices, and widened further in the first quarter of 2012. Tunisia's exports have held up well, growing by 6.7 per cent in 2011 and by a further 14.4 per cent in the first three months of 2012 compared to the same

period last year. As macroeconomic pressures have intensified gross central bank reserves declined by 1/5th since end-2010, to USD6.8 billion in February 2012, covering less than 3.5 months of imports.

Social pressure has also led to a significant increase in government expenditure, widening the fiscal deficit to 3.8 per cent of GDP in 2011 (from 1.1 per cent of GDP in 2010, see Chart 1), leading to funding pressures and limiting the room for further fiscal stimulus. The government has revised its projected deficit in 2012 to 6.6 per cent of GDP to enable higher spending on development projects and job creation.

The IMF has estimated that Tunisia's fiscal financing needs (excluding grants) will reach USD3.6 billion in 2012 and USD3.5 billion in 2013, with external financing needs (excluding grants) amounting to USD5.2 billion and USD5.3 billion respectively. So far, the government has been able to fund the fiscal deficit from both domestic and foreign sources. To support its fiscal needs, Tunisia has received debt guarantees from the US government which will allow the authorities to tap the international bond markets for the first time since 2007 at much reduced interest rates. Donor funding has also been forthcoming: the EU approved two new programmes worth EUR117 million to support economic recovery and social transition and to prop up competitiveness while the US, Turkey, and Qatar provided loans to Tunisia totalling USD100 million, USD500 million, and USD1 billion, respectively.

The central bank has continued to inject much needed liquidity in the banking sector, having kept policy interest rates steady throughout most of 2011. Inflation has been rising mainly on the back of increased food and energy prices, to 5.7 per cent y-o-y in April from an average of 3.5 in 2011. There is also evidence that core inflation is slowly trending upwards from 3.7 per cent in 2009 to 3.5 per cent in 2011.

Thus, the key immediate challenges facing Tunisia's economy today stem from a combination of the on-going political transition and the fallout from the problems in the Eurozone, on which Tunisia depends for its exports, remittances, FDI, and tourism income. The forecast is for growth to be 2.2 per cent in 2012.

2.3 Structural reform context

In recent years, Tunisia's structural reforms have proceeded along a dual track: to support the development of an export-oriented 'off-shore' economy under a liberal regime that managed to attract foreign direct investment (given generous incentives such as tax exemptions, duty-free imports and free repatriation of profits); alongside an 'on-shore' economy without tax incentives or market contestability and with significant state interference and red tape. The export oriented sectors benefited from early trade reforms including accession to the WTO already in 1995 and significant tariff reforms. This dual economy and the associated regional disparities are reflected in virtually all human capital and labour market indicators with limited job opportunities in the interior regions of the country.

Since the second half of the 2000s Tunisia's authorities have made half-hearted reform efforts to advance the privatisation agenda. While privatisation did indeed proceed in a number of areas such as telecommunications, banking, insurance, manufacturing and petroleum distribution, often with foreign participation, the agenda remains incomplete. While increased privatization in the telecoms sector has yielded more competition, particular in the mobile sector, the fixed line sector remains dominated by the majority state owned

incumbent. But more importantly, the government still retains significant control in a number of sectors, most notably finance, electricity and gas distribution, hydrocarbons and water.

The incomplete privatisation in the banking sector, with three of the major banks remaining under majority state ownership (controlling about 33 per cent of total assets), has resulted in structural balance sheet weaknesses. Bank balance sheets suffer from the consequences of years of directed lending. The central bank has reported a further significant increase in NPLs, to an estimated 16 per cent in 2011, up from 13 per cent in 2010. This is largely due to the failure of large businesses associated with the former ruling family and its associates. This is constraining the availability of finance for SMEs.

Despite earlier reforms, a level playing field has been lacking in many sectors, pointing to weak de facto regulatory frameworks. One example is the lack of independent regulatory agencies in natural resources and power and even for the telecommunication sector regulatory responsibilities are distributed between the Instance Nationale des Télécommunications (NTI) and the Ministry of Communication and Technologies raising concerns about independence.

Looking ahead, the Tunisian government has outlined in its *Government Action Plan for 2012* key structural targets broadly along the following main themes: (1) good governance and transparency, (2) inclusive growth and social cohesion; and (3) employment creation and regional development. The latter is a particularly important priority; and the government is embarking on a number of short term social emergency measures, including job-support programs and enhanced financial support for lagging regions. The *Action Plan* is quite explicit about the role of the private sector in creating job opportunities and growth and includes a commitment by the government to divest some of its assets and to overhaul its regulatory framework pertaining to SMEs, PPPs and private equity.

2.4 Business environment

Tunisia ranks high in the World Bank's Doing Business index. At number 46, it is significantly ahead of its SEMED peers Morocco (ranking 94th), Jordan (96th) and Egypt (110th). However, there appears a significant gap between de jure institutional frameworks and their actual implementation and effectiveness. The country achieved a stellar increase in the World Bank's rankings very quickly, from 139th in 2006. However, as the World Bank points out, surveys suggest that discretionary application of rules and regulations exists. The World Economic Forum ranks Tunisia ahead of its peers in its competitiveness index, at 40 out of 142 countries.

According to the 2011 Corruption Perceptions Index published by Transparency International, Tunisia is ranked 73rd out of 182 countries with a score of 3.8 (0-10 scale where 0 equals most corrupt).

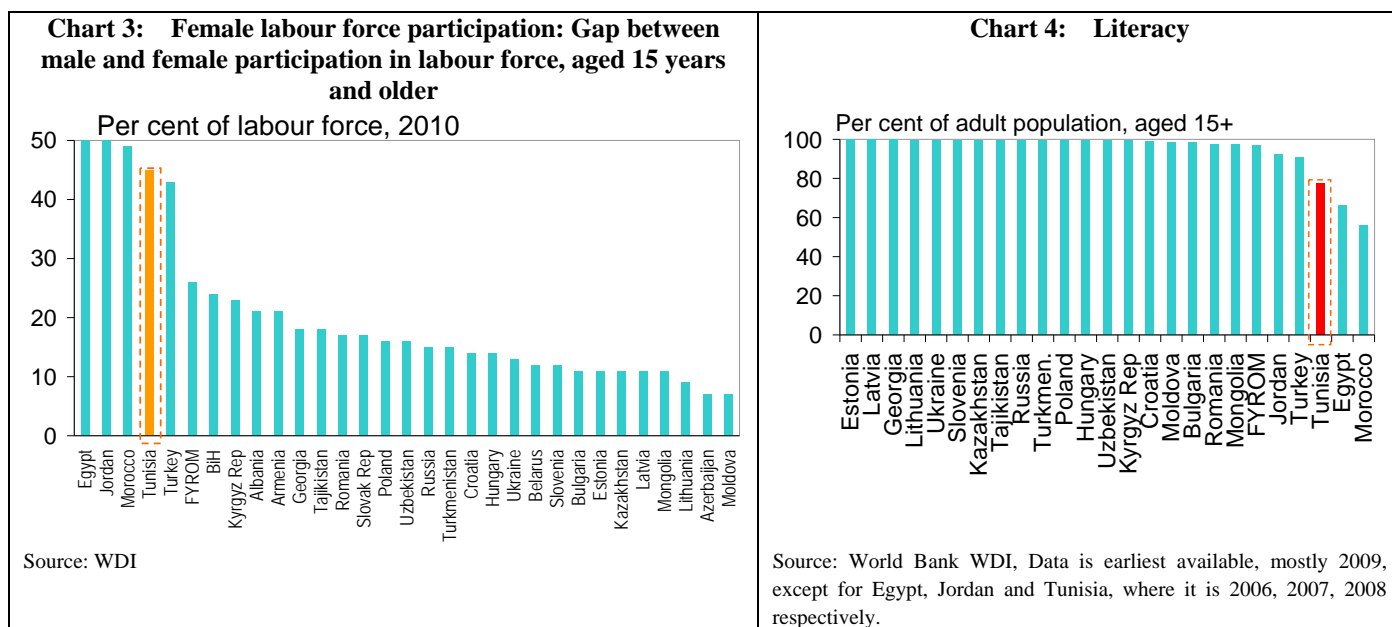
Breakdown of Unemployment	
<i>percent</i>	
Total	18.9
Male	15.4
Female	28.2
Youth (15-29 yrs)	37.8
Education	
None	11.2
Primary	14.3
Secondary	22.2
Tertiary	33.1
Male	21
Female	49.4

2.5 Social context

Tunisia has made steady progress in human development in the past 30 years. Adult illiteracy rates have decreased, and infant mortality has dropped by more than two thirds since the mid-1990s. Tunisia managed to achieve universal primary education, one of the Millennium Development Goals. Life expectancy has constantly improved and stands now at 75 years, significantly above the regional average. In general, Tunisia’s social indicators are better than its peers in the region, as well as those of other lower-middle-income countries, according to the World Bank. Literacy rates, however, while high by regional standards, continue to lag behind other countries (Chart 4).

However, Tunisia has witnessed a rapid rise in unemployment that has reached 18.9 per cent at end-2011. This reveals persistent structural issues leading to especially high unemployment and low labour force participation rates for educated young people and women (Table 1 and Chart 4). According to the World Bank, the rate of unemployment among the young and educated reached 44 per cent, largely due to structural skills mismatches – compared to an OECD average of 17 per cent. Thus Tunisia’s economy continues to be low-wage and low-value added, unable to accommodate an increasingly skilled work force of young graduates.

Excessive labour market regulations, a large informal sector and a significant mismatch of skills are some of the core factors deemed to be responsible for high unemployment. Notwithstanding some reforms of the labour market, a number of rigidities persist, namely a rigid wage setting process and high redundancy costs, including high severance payments as well as difficult out-of court settlement procedures.



2.6 Legal context

Tunisia’s commercial law traditions have been strongly influenced by the French system. Commercial legislation is mainly to be found in the Code of Commerce of 1959. The EBRD’s Legal Transition Team is currently in the process of conducting an assessment of selected key commercial laws and their implementation, which is expected to be completed

towards the end of 2012. The initial results show that there is room for legal reform in a number of areas. For instance, Tunisia has a history of concession projects and a potentially attractive environment for public-private partnerships and concessions. However, the country does not have a single comprehensive act unifying all concession and PPP related provisions.

Recent reforms have led to the creation of commercial court departments that specialise in commercial dispute resolution, including mediation. However, the enforcement of contracts in general remains a lengthy and uncertain process.

In relation to EBRD operational priorities concerning the strengthening of the financial sector and support to SMEs via better access to finance, a number of weaknesses in the legal regime should be addressed. In particular, the high level of non-performing loans in the banking sector will require a revision of the insolvency regime and debt enforcement with the view to allowing a more efficient debt resolution as well as a more balanced outcome for both creditors and borrowers. At present, the perception is that the regime is too ‘debtor friendly’, without allowing preserving the business value. Policy dialogue is currently on-going with the Central Bank of Tunisia and there is a working group at the Ministry of Justice.

Corporate governance, in particular of banks, has also been identified by Tunisian financial sector stakeholders as in need of strengthening and the Bank will explore ways by which it can use some of the lessons learned in its existing region in this respect.

Finally, the development of SMEs will require better access to finance – which would also benefit from a thorough revision of the secured transactions regime. This regime still favours significantly the taking of collateral over real estate and buildings, which many SMEs do not have to offer. Enforcement of security over any type of property is also a serious issue that will require significant reforms, including of the judiciary.

2.7 Energy efficiency and climate change context

As is the case in many other SEMED countries, Tunisia is facing the challenge of increasing CO₂ emissions and rising emissions intensity. Emissions rose by 19.7 per cent from 2007-2010, while CO₂ emissions per USD of output have risen by 5.9 per cent. In terms of energy supply related to GDP PPP, the energy intensity ratio is 0.16 toe/ 1,000 USD PPP (in year 2000 USD), the same as in OECD countries and the second lowest within the Maghreb region. While Tunisia’s 0.23 kg of CO₂/ USD PPP remain the lowest in the Maghreb region, there is considerable potential to halt and then reverse the increasing trend by promoting energy efficiency and renewable energy to a larger extent, across all sectors of the economy, but in particular the power, residential, industry, and transport sectors.

The primary energy intensity has improved significantly, resulting in a decrease of 20 per cent in the period 1995 – 2009, with an average value of 1.3 per cent per year. This has been achieved through:

- The restructuring of GDP and the national economy thanks to a policy of investment and development of the economy towards less energy intensive industries.
- Energy savings thanks to the effort required by the audit system, mandatory for consumers above 1 ktoe/ year, and awareness raising programs.

- The reduction of STEG’s specific consumption in the power sector thanks to the introduction of combined cycle power plants.

Nevertheless, this reduction in energy intensity was not sufficient to prevent significant rises in CO2 emissions between 2000 and 2009, when emissions rose by 16 per cent from 19.7 mt CO2/ a to 22.9 mt CO2/ a, and the current rate of energy intensity improvements needs to be accelerated. While coal consumption has dropped to zero since 2000, this has been replaced by natural gas, which saw a 60 per cent rise in consumption. Petroleum product consumption increased by 10 per cent between 2000 and 2009. While progress has been made in developing sustainable energy legislation and regulation, this could be further enhanced through targeted policy dialogue.

Climate change is also projected to intensify pressure on water resources, with potentially significant impacts on agriculture, tourism and human health. Sea level changes and coastal erosion may also affect coastal regions and settlements, as well as industries such as ports and fisheries. Inefficient water use in irrigation is also a particular concern.

3. Strategic Orientations

3.1 Transition Challenges

- **The financial sector has a number of structural deficiencies**, particularly in MSME lending, private equity and local capital market development. High NPLs indicate weak bank balance sheets in particular in the state owned banks that have been prone to directed lending to connected businesses and overexposure to a few sectors. This has partially crowded out lending to SMEs, which suffer from a lack of access to finance and are faced with low institutional capacity and skills to lend on a cash-flow basis. **Modernisation of industry.** The corporate sector suffers particularly under weak corporate governance and efficiency standards, as well as a lack of adequate logistics and distribution networks constraining development across a number of value chains from agribusiness to textiles. Another challenge is enhancing the competitiveness of the fixed-line telecom sector and developing the technology sectors further. .
- **Commercialisation of the energy sector**, which has large transition gaps across-the-board. The upstream and downstream oil, gas and power sectors remain dominated by state-owned companies in need of restructuring. Although there have been efforts to encourage private sector generation, it still only accounts for around a fifth of total generation. The power sector operates as a single buyer/wholesale model largely subsidised through fuel cost, with no market based incentives for network and investment. Further unbundling, tariff reforms, phasing out of subsidies and regulatory independence are the key reform challenges.
- **Infrastructure – both municipalities and the transport sector - also suffers from a number of large gaps.** Separation of regulatory and operational responsibility of municipalities has not taken place, negatively impacting the efficiency of water and waste water services as well as urban transport management. Given the ineffective tariff system, in particular for wastewater, with service fees only covering half of operating costs, the sector remains dependent on subsidies. Developing transparent PPP solutions to attract private sector participation will be important for structural policy as well as fiscal sustainability reasons. For the transport sector disentangling infrastructure from

operations is an important first reform goal, to promote efficiency and to attract private sector participation and introduce competition.

Despite earlier reforms, a level playing field has not been established in many sectors, pointing to weak *de facto* regulatory frameworks. Independent regulatory agencies are yet to be set up in natural resources and power.

3.2 The Bank's Priorities for 2012-2013

Tunisia's main priorities over the medium term will be to tackle high unemployment and regional disparities as well as to strengthen institutions that regulate markets. Labour markets have significant rigidities and skill mismatches. Virtually all human capital and labour market indicators show limited job opportunities in the interior regions of the country, and in common with other SEMED countries Tunisia has a very low female participation rate in the labour force. And despite earlier reforms, a level playing field has not been established in many sectors, pointing to weak *de facto* regulatory frameworks.

In response to the transition challenges identified in Section 3.1 above, the following operational themes have been identified to guide the Bank's activities in Tunisia:

- Restructuring and strengthening the financial sector to support private sector development;
- Financing private enterprises, with a focus on SMEs, to boost the creation of high quality private sector jobs and develop a resilient and diverse economy;
- Supporting energy efficiency and the development of a sustainable energy sector, to improve energy security, sustainability and economic competitiveness; and
- Facilitating non-sovereign financing for infrastructure development to provide wider access to better quality urban and efficient public services.

Within this overall set of priorities, the EBRD has begun identifying possible opportunities for assistance. The priorities will not only guide project selection for "second phase" funding through the SEMED Investment Special Fund but also for pipeline development with a view to the Bank's longer term engagement. The "Operational responses" in the following sections therefore cover a wider range of activities than can be expected to be completed over the SEMED ISF horizon. Under all operational themes, however, there are a number of concrete project leads which teams are developing in close consultation with the authorities.

3.2.1 Cross-cutting issues

There are a number of cross-cutting issues which will be given strong emphasis in implementing the proposed operational priorities. In particular the Bank will apply its high standards in due diligence, integrity and transparency in all of its operations. Such standards are especially important while the country rebuilds its institutions, which is reflected in the prominence CSOs as well as the authorities have placed on these issues.

In addition, the promotion of inclusive growth will be given due prominence in the Bank's engagement in Tunisia. As mentioned above, among the country's main challenges are high youth unemployment, low female participation in the labour market, and low access to

finance by women entrepreneurs. Initiatives are already underway at the Bank to better understand the issues which adversely affect women's economic participation in Tunisia and other SEMED countries, through dialogue with academics, representatives of the business community and partner IFIs working in the region (including at a recent conference held at the EBRD²). In its operations the Bank will work with its clients to identify how best to address these issues so as to reduce such inequalities. Specific opportunities and operational implications will be clarified once the Bank has gained more country specific knowledge and has finalised its new Gender Strategy. In addressing gender inequalities consideration will be given to a) working with financial institutions to increase access to finance for women borrowers; b) developing Corporate Social Responsibility programmes to promote employment opportunities; and c) promoting equal opportunities in the workplace of our clients.

3.3 Transition Challenges and Bank Operational Response

3.3.1 *Restructuring and strengthening the financial sector*

Transition challenges

- Need to restructure, raise standards in, and, where appropriate, assist in the eventual privatisation of state-owned banks which cause a systemic risk for the market and create pricing distortions.
- Limited access to finance for MSME's, particularly for smaller firms or those with limited collateral or personal guarantees, even when the cash flow analysis is satisfactory.
- Underdeveloped microfinance sector due to be expanded and strengthened through the application of the new law.
- Low penetration of non-bank financial services as measured in proportion of GDP shows that there is room for increased development, especially in insurance.
- The private equity industry remains underdeveloped and nascent except for TunInvest-AfricInvest, with few independent fund managers and a limited product range and investor base.
- Underdeveloped local currency and capital markets which are key for sustained growth.

Operational response

The Bank would consider opportunities in several areas, including:

- Offering involvement in the review of the three large public sector banks as an initial step to advise on their restructuring and possibly to participate in their privatisation.
- Supporting the further development of good banking practices via investments in capital instruments (subordinated debt and equity).
- Training programmes currently being developed to include components related to Equal Opportunities in the workplace will be implemented.

² Organised with Women for Women International.

- Provision of medium and long-term loans to banks in foreign currency, for on-lending in foreign currency to export-oriented SMEs, in particular supporting the development of new markets, (i.e. in sub-Saharan Africa). The Bank would also consider providing TND to a wider population of MSMEs, provided EBRD can be satisfied that the local banks have the capability and processes to cover the resulting currency and interest rate mismatch. If needed, these lines could also include donor-funded first-loss coverage or risk sharing tools. These lines could also be accompanied by “downscaling” programmes, as well as SME seminars aimed at making SMEs more bankable.
- Supporting SMEs through provision of long-term funding to leasing companies in the context of tightening liquidity.
- Provision of Trade Finance products, in particular to locally-owned banks, to foster competition in international trade finance. Supporting the microfinance sector in its current transition phase through investments in MFIs (Micro Finance Institutions) as well as funding and technical assistance. Supporting the provision of financing to mid-sized companies under the Medium-Sized Co-Financing Facilities (MCFF).
- Supporting the transition of the insurance sector through TC and direct investments.
- In private equity (PE), supporting regional fund managers that have Tunisia in their investment focus, engage in capacity-building of the PE industry, and cooperate with other DFI’s in developing a stable international, regional and local investor base, promoting greater investor interest in the asset class.
- Supporting the development of local currency and capital markets possibly through risk-sharing instruments, guarantee mechanisms, and project bonds.

3.3.2 *Financing Private Enterprise*

Transition challenges

- Investments are needed to help the country move further up the value chain and improving corporate governance and energy efficiency standards in various sectors including *inter alia*, mechanical, metallurgical and electrical industries, automotive components, textiles, construction materials, ceramics and glass, and chemicals.
- State involvement in the primary agriculture sector remains substantial including subsidized financing, direct subsidies and price interventions on basic food items. The agribusiness value chain lacks quality control and traceability, the sector is dominated by traditional retail and distribution, level of specialization of suppliers to retailers is low and there is a lack of modern and efficient suppliers’ networks. Farmers’ access to finance remains limited due to lack of land titles and collateralisation options.
- In the telecommunications sector, the predominance of incumbent fixed operator Tunisie Telecom leaves much room to further enhance competition, while progress has been made to encourage private sector participation in the mobile sectors. The potential for Tunisia to become a regional hub for technology and innovation remains largely unexploited.
- The tourism sector faces significant restructuring challenges as a consequence of previous overbuilding, and there is a pressing need to diversify away from low cost package holidays. Conversely, supply of modern energy-efficient office space in the main cities remains limited.

Operational response

The Bank's priorities in the private enterprise area would encompass several sectors, including the manufacturing and services, agribusiness, property and tourism and ICT sectors (see also Section 3.1), with the main target being SMEs.

The Bank would consider opportunities in several areas, including:

- Supporting investment into private manufacturing and service companies on appropriate terms and where additional to improve corporate governance, energy efficiency standards and equal opportunities in the work place with a special focus on SMEs. Providing acquisition and restructuring financing to support consolidation or reorganisation resulting in larger, more efficient and competitive entities, potentially including selected investments in the tourism sector. Direct and indirect financing of MSMEs, including through the Local Enterprise Facility. This could include SME financing facilities, potentially including risk-sharing arrangements with local banks to promote financing in primary agriculture.
- Further assisting MSMEs through the Business Advisory Services and Enterprise Growth Programme, to help clients improve their performance, competitiveness, productivity and managerial effectiveness. This support should enable MSMEs to better access finance through banks and /or EBRD funding.
- Investments to develop midstream agribusiness infrastructure (warehousing, storage and logistics).
- Capex and equity financing for companies upgrading their processing facilities and quality to international standards;
- Supporting investments in modern supplier networks accelerating the development of modern retail, as well as in selected retail projects extending the modern retail format to cities other than Tunis.
- Supporting and possibly participating in the privatisation of the main telecommunications operators and supporting private sector operators.
- Investments in high-tech and innovative companies to support the development of innovation systems and the knowledge economy based on the results of a gap analyses for which a study is under preparation.
- Working with clients to develop and implement good HR practices so as to both encourage increased female employment and promote equal opportunities in the work place.

3.3.3 *Supporting energy efficiency and a sustainable energy sector*

Transition challenges

- Tunisia's dependence on mostly imported fossil fuels is increasingly detrimental to the national budget, the economy more generally and the environment.
- Upstream and downstream in the oil, gas and power sectors are dominated by state-owned enterprises in need of restructuring, and private participation in these sectors remains limited.

- Despite a well-developed energy legal framework, the power sector has not been really unbundled yet, and some laws are not fully effective. This includes the law on self-generation from renewables, which limits sale of surplus to STEG, with a cap of 30 per cent.
- Lack of an independent energy regulator. This role is currently assumed by the Ministry of Industry.

Operational response

The Bank would consider opportunities in several areas, including:

- Bringing EBRD specific expertise to bear in this area by promoting liberalisation, unbundling and commercialisation, potentially linked to large projects requiring co-financing. These activities would need to be closely coordinated with other IFIs active in this sector, and would be focused on the specific expertise the Bank could provide in this joint approach, including through concerted policy dialogue.
- Promoting the development of renewable energy, which has been negatively affected by subsidies to conventional energy, and explore possible investments in the distribution sector to reduce both residential demand and summer demand peaks. Investment in distribution would also help improve sector governance.
- Supporting energy efficiency projects, using sustainable energy financing facilities channelled through local banks and combined with technical assistance for smaller projects, and direct financing for larger industrial and agribusiness companies.
- Exploring possible investments in oil and gas projects, which are predominantly located in disadvantaged regions, as well as supporting mid-cap foreign investors. In the natural resources sector the Bank would make its engagement conditional on energy efficiency and the highest EHS standards.
- Tunisia is planning a number of oil and gas handling and processing plants related to energy security, energy efficiency and the environment where Bank involvement could be considered. There are also typically substantial energy efficiency savings to be gained in the transmission system itself.

3.3.4 *Facilitating non-sovereign financing for infrastructure*

Transition challenges

- The state remains dominant in this sector, with both municipal and transport infrastructure fully reliant on state or state-supported financing.
- Transition challenges in the municipal sector similarly include developing decentralized financing solutions to improve cost recovery and commercial discipline, notably in urban transportation (mass transit systems and bus operations) and in public water and wastewater utilities.
- Key challenges within the transport sector will be to support the development of reforms allowing for greater commercialization, opening up of the sector to non-sovereign financing structures and mobilization of private sector funding.

Operational response

The Bank would consider opportunities in several areas, including:

- In the municipal sector, the Bank would seek to support reform-minded municipalities and on a very selective basis viable public sector entities which show a strong commitment to restructuring, commercialisation and private sector participation.
- The Bank will aim to conduct policy dialogue to strengthen governance and institutional capacity of public utilities, in order to help create a reform environment that could enable the Bank to be a catalyst for decentralised financing solutions.
- The Bank's focus will be on rehabilitation, upgrading and expansion of existing urban transport infrastructure to meet the needs of the population, including in the Grand Tunis area, developing integrated waste management solutions, restricting and funding priority projects in the water and wastewater sector and other municipal infrastructure.
- The Bank will seek engagement on a non-sovereign basis, but may very selectively provide sovereign support at the initial stage of engagement or in parallel with other IFIs, where there is a strong link to commercialisation and private sector participation and specifically identified financing gaps vis-à-vis other IFIs.
- In the transport sector, engaging in selected sub-sectors (railways, roads, ports, shipping, and aviation) conditional on sector reform, particularly in areas of EBRD comparative advantage and/or where non-sovereign financing structures can be introduced.
- Supporting private sector operators such as logistic companies, private freight forwarders, and port concessionaires etc., which have limited access to long term finance for business expansion.
- Providing support with the promotion of private sector participation in the development of key transport infrastructure, especially through PPPs.
- The Bank will adopt a participatory and culturally appropriate approach so that the respective priorities of men and women can be reflected in the development and implementation of both infrastructure and municipal services.
- Where appropriate, the Bank shall work with municipalities and public sector entities, as well as PPPs, to promote equal opportunities in the work place, building upon its experience in Turkey.

3.4 Environmental and Social Implications of Proposed Activities

Restructuring and strengthening the financial sector and promoting management of environmental and social risks within financing instruments. The Bank will assess environmental and social risks management capacity in the financial sector and provide training to Financial Intermediaries to ensure potential environmental and social risks associated with the development of financial sector and funding of private sector are properly managed through development and implementation of environmental and social management and stakeholder communication systems. Training programmes currently being developed to include equal opportunities in the work place are also likely to be implemented.

Financing private enterprises through SME lending and promoting environmentally and socially sustainable growth. There is much need for MSME financing in Tunisia as there is a high level of youth unemployment both among young educated people in Tunis and poor rural community with less access to education. The Bank will promote the principle of sustainable development in line with its Environmental and Social Policy and Performance Requirements and cooperate with the Ministry of Agriculture and Environment (DGSD) that developed and published guidance for sustainable development initiatives in agriculture, industry, tourism and transport sectors in Tunisia, in order to encourage private small and medium enterprises to incorporate sustainability parameters into their business models. In particular, the Bank will assess global issues, associated with potential agricultural development projects, such as food security, dependence of agriculture on water, risk of desertification and loss of fertile soil to erosion due to excessive irrigation. Programmes to develop the capacity of banks working in disadvantaged areas and to support women entrepreneurs and increase their access to credit will also be developed.

Supporting energy efficiency and a sustainable energy sector and addressing climate change adaptation issues. Tunisia is piloting energy management initiatives focused on the establishment of a regulatory framework supporting energy conservation, the introduction of financial incentives and a communication and awareness campaign. To strengthen the national effort in terms of renewable energy in 2011, Tunisia has established a Tunisian solar plan that integrates all areas of energy efficiency and renewable energy. The Bank will address potential climate change mitigation issues within the remit of its projects and incorporate greenhouse gas savings assessment into the environmental and social due diligence process on all projects, conduct energy efficiency audits on proposed investments to identify opportunities for improvements and support projects using renewable sources of energy. The Bank will also aim to support adaptation to climate change by addressing key vulnerabilities such as water scarcity and sea-level rise in its investments.

Facilitating non-sovereign financing for infrastructure and addressing pollution prevention and water security issues. Despite existing institutional provisions to address issues associated with infrastructure development, economic growth is triggering challenges as the amount of generated waste and sewage is rising and growing traffic in the cities is degrading air quality. There is also a growing quantity of toxic waste and emissions, which require adequate treatment and disposal. Global challenges such as climate change and industrial growth are likely to increase the stress on water and will necessitate more efficient use of water. The Bank will assess how projects proposed for Bank-funding are structured to address these issues and incorporate sustainable use of natural resources, water saving and pollution prevention and abatement measures in the environmental and social action plans to be implemented over the life-cycle of projects. The Bank will also ensure that a participatory and culturally appropriate approach to consultations shall be conducted so that the respective priorities of men and women can be reflected in the development and implementation of both infrastructure and municipal services.

3.5 Status of the Bank's Engagement via Cooperation Funds

There are presently 16 donor-funded TC assignments in process in Tunisia, including 11 regional SEMED assignments that represent EUR17.3 million of approved funding. These include the Food Security Initiative in the region, the implementation of the SBS programme in the region, the expansion of the EBRD/ Italy Local Enterprise Facility and the Direct Company Assistance programme for agribusiness companies. The TC assignments also

include 5 country-specific assignments representing EUR756 thousand of approved funding, including a Transport Sector Review, an Assessment of the Sub-Sovereign Financing Framework, a Sustainable Energy Initiative study, an Environmental and Social Assessment, and a Country Law Assessment.

In November 2011, a 2 year Agreement was signed with the EU to fund the launch of the Small Business Support programme (SBS) in Tunisia through the Neighbourhood Investment Facility (NIF). This SBS supports economic transition by achieving enterprise change in viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes, Enterprise Growth Programme (EGP) and Business Advisory Services (BAS).

Under the EBRD's agribusiness 'Direct Company Assistance' programme one Tunisian company has so far been identified which could benefit from this TC programme, possibly leading to follow-on investments. This project is expected to start within the next two to three months and will possibly lead to an investment. In the coming months the teams will work on expanding the pipeline of eligible companies that could benefit from project preparation TCs. On the policy dialogue front, the Bank has signed a two-year work-programme on Food Security as part of the expansion of the EBRD-FAO framework agreement to SEMED. This is a programme that focuses on identifying key bottlenecks along the food value-chain in the SEMED countries, bringing together key stakeholders and expanding the Bank's successful EastAgri knowledge platform to SEMED ("MedAgri"). Currently, the team is considering various sectors which could be the focus of an in-depth food value chain analysis in Tunisia.

In the sustainable energy sector the initial TC objective is to develop a comprehensive roadmap, supported by targeted interventions at project or sub-sector level. These activities could comprise a market study TC to determine the potential for energy efficiency measures, a resource audit facility to offer energy audits and water use audits to private sector clients, a study to assess demand for solar power and the optimal approach to support renewable energy, and a technical and financial assessment of STEG distribution entities. In the oil and gas sector, the Bank could implement an assessment of relevant state agencies to identify the prospects for investments. TC will also be sought to support policy dialogue for establishing an independent regulator, developing the legal framework for renewable energy and preparing introduction of cost based tariffs taking into account affordability issues.

The Bank's priorities for TC in the municipal sector include project preparation work, including feasibility studies for specific projects such as investments in the Tunis transport company, Transtu. A thorough analysis of the current framework for financing municipal projects and of the reforms necessary to make sub-sovereign financing approaches bankable was launched early 2012. The consultants' final report is expected late July 2012.

The use of cooperation funds in the transport sector focuses on a review of the private sector operators and related potential investment opportunities as well as identification of niche or complementary priorities for sovereign engagement linked to sector and institutional reform and sustainable transport initiatives.

4. Access to domestic and international capital: private and public sources of finance

4.1 Access to capital

The financial sector in Tunisia has a number of structural deficiencies, particularly in MSME lending, private equity, and local market development. The banking sector, especially the state-owned banks, has been plagued in recent years by high NPLs and balance sheet weakness, due to directed lending to connected business under the previous regime and overexposure to a few sectors. This has crowded out lending to other sectors, especially to SMEs, which suffer from a lack of access to finance. The Tunisian stock exchange has low market capitalization and is dominated by financial institutions. Tunisia's sovereign rating was recently downgraded by S&P from BBB- to BB, with a stable outlook and is on negative watch by Moody's at Baa3.

The economy's access to credit by the banking system continues to be constrained due to structural impediments in the sector. Three of the four largest banks, which together hold around a third of banking assets, are state-owned. Although banking penetration is in line with peers with 13 branches per 100,000 inhabitants, a significant fraction of the low income population does not have bank accounts. Most lending and funding is in local currency. However, lending decisions are made on the basis of the presence of collateral as well as on trust, which makes access to credit difficult for entrepreneurs lacking such collateral or relationships. Credit to the private sector grew by around 14 per cent y-o-y at end-2011, down from 19 per cent at end-2010.

Solvency and liquidity are becoming important issues for the system. Banks have a loan to deposit ratio of around 135 per cent, well above the countries of operation of EBRD, which range around 80-90 per cent. This partly stems from low deposits, which remain at less than 55 per cent of GDP. NPLs are also on the rise, expected to reach around 16 per cent in 2011 from 13.2 per cent in 2010. This is partly due to bad quality of loans disbursed by the state-owned banks under the previous regime, overexposure to cyclically vulnerable sectors (tourism accounts for 20 per cent of all bad loans), and weak balance sheets.

Access to financing remains a significant challenge for MSMEs, with bank lending to the sector at around 15 per cent of total lending. In the corporate sector, access to bank loans is heavily dependent on the presentation of personal guarantees or collateral, even when the cash flow analysis is satisfactory. SMEs therefore typically rely on self-financing or informal financing, as they are unable to fulfil these requirements.

The current institutional framework also hampers access to credit. The existing credit registry suffers from information gaps in the updating and clarity of information as well as with regards to the accounting of small loans. A unified collateral registry does not exist, and contract enforcement remains costly and lengthy. On the borrower side, most entrepreneurs do not have a good understanding of financial products offered by banks and other lending organizations.

4.2 MDB finance and collaboration with other IFIs and donors

Several international financial institutions (IFIs) and major regional and bilateral organisations continue to be active in Tunisia. As repeatedly emphasised by EBRD Governors, it will be important to avoid duplication and competition and to ensure that any potential activity of the EBRD brings specific value-added based on its specific mandate and competencies. Field missions by EBRD staff over the past months offered numerous opportunities to meet with other IFIs and bilateral donors in Tunisia.

This coordination process has been strengthened under the aegis of the Deauville Partnership, which was announced in May 2011 by G8 leaders.³ The Partnership includes a “Coordination Platform” dedicated to (i) facilitating information sharing and mutual understanding, (ii) coordinating monitoring and reporting on the implementation of the Deauville Partnership, and (iii) identifying opportunities for collaboration on financing, technical assistance, and policy and analytical work.

The Deauville Partnership has launched several important initiatives, including a Private Sector Development Initiative, led by the IFIs, aimed at fostering a competitive private sector, including developing local capital markets, addressing skills mismatches, and providing technical assistance for public-private partnerships. In order to improve the policy environment for SMEs IFIs are also jointly preparing an assessment of the conditions for SMEs to generate jobs and growth, which will include recommendations for further action and guide concrete actions by transition and donor countries in the area of SME development.

- Under the umbrella of the Private Sector Development Initiative, the EBRD and the AMF are co-leading a joint initiative to comprehensively develop local currency and local capital markets. Several IFI missions to the transition countries are planned for H1 and H2 2012, which will be used as a key assessment mechanism. Based on the assessments, recommendations will be developed together with country authorities and private sector participants. The aim is to complete the initial needs assessment and issue recommendations for most countries by mid/late 2012, after which options for technical assistance will be considered.

In addition to these broad-based efforts, the EBRD is also heavily coordinating its activities in the region with the EIB, AFD and KfW in the framework of the EU Neighbourhood Investment Facility. The Bank is also participating in a donor coordination initiative which involves all multilateral and bilateral agencies, which have their offices in the country. The EBRD signed Memoranda of Understanding with several MDBs as well as, of course, making amendments to the one with the EIB. Overall the MoUs confirm the complementarity of EBRD and the other institutions and the shared intention to use their skills and experience to advance their respective mandates. Table 2 highlights the indicative commitments made by various institutions in Tunisia.

³ Countries in the Partnership currently include the five Partnership countries (Egypt, Tunisia, Jordan, Morocco, and Libya), the G-8, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Turkey. The International Financial Institutions include the African Development Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, the Islamic Development Bank, the International Finance Corporation, the International Monetary Fund, the OPEC Fund for International Development, and the World Bank. The Organization for Economic Co-operation and Development is also a Partnership member.

The EBRD will bring its particular expertise in private sector financing, which has thus far been very limited in Tunisia, but is now seen as a key priority by the government. The EBRD's activities will build on its business model. This business model includes mandate, institutional and operational attributes such as, inter alia, its transition focus, respect for additionality, capacity to evaluate, structure, mitigate and take debt and equity risks, experience in supporting local (less experienced) and smaller businesses, ability to support different ownership models, and ability to intervene directly at company level to promote high quality standards in areas such as governance.

Table 2: Summary of the activities of IFIs in Tunisia

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
World Bank (IBRD)	USD510 m	New commitments in FY11 amounted to USD592 m. There was no new lending in FY12. 11 SILs, 3 grants and 3 GEF projects	Tunisia Interim Strategy Note estimates up to USD970 m for FY13	All sectors under Governance and Citizen Participation (ISN Area1) Social and Economic Inclusion (ISN Area2) and Laying the Foundation for Renewed Sustainable Growth (ISN Area3)	Export Development Project II (ongoing) and III (under preparation); MSME Financing loan approved in FY11 (USD50 m)
IFC & MIGA	USD252 m in 6 companies as of end April 2012 MIGA = USD192 m in 2 projects	In FY11, IFC signed a USD7.8 m project in the health sector; FY12 ytd USD31 m in oil/gas and financial markets sector	Expected annual commitments around USD150 m over the next three years MIGA: USD100 m over next three years	Trade finance, MSME credit lines, investment climate Infras	Focus on PPPs, equity investments and IT (same, plus MIGA can cover sovereign guarantees in support of private projects)
AfDB	Active portfolio comprises 36 operations, including ESWs of USD2.26 bn, of which USD410 m are private sector operations	For 2012, a USD500 m budget support operation (UA320 m) and 1 waste water management project of USD40 m (UA26.8 m)	The envelope for 2012 estimated at about USD500 m ⁴	Transport, power, governance, lines of credit and budget support	Lines of credit and hydrocarbon sector
EIB	EUR4 bn	EUR300 m in 2011	EUR400 m for 2012 EUR1.2 bn over the period 2011 - 2013	Private-sector development; environmental protection; support to large-scale infrastructure	21% on average over the last 3 years

⁴ Estimated envelope for Tunisia is subject to change as recent sovereign credit rating downgrade of Tunisia of two notches to a speculative BB/B might effect sustainable lending limit (SLL)

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
IsDB	USD1.1 bn (excluding trade finance)	USD283 m in 2010. USD110 m was approved in 2011. So far USD35 m was approved in 2012 where USD215 m are expected to be approved prior end of July 2012 too.	USD900 m over the period 2011-2013, with focus on SMEs, Agriculture and infra-structure. (Country Strategy Paper underway)	Energy, Transportation, Education, MSME, Trade, Agriculture, Water and Health, Islamic Finance, and business insurance.	25 % on average
Arab Fund for Economic and Social Development	USD2.3 bn	USD133 m in 2010 (power plant). In 2011, AFESD has provided two loans amounting to USD195 m	Currently preparing a loan of about USD150 m for rural development projects.	Power, industry and mining sectors	No recent project
OPEC Fund (OFID)	USD126 m	No operation in 2011		Energy, transportation, education	None in Tunisia
Arab Monetary Fund (AMF)	No loan to Tunisia so far	N/A	Expected to sign its first loan to Tunisia imminently	Provide financial assistance to correct balance of payments disequilibria and implement structural reforms aimed at modernising financial systems	N/A
KfW/DEG	EUR1.4 bn	EUR48 m in 2010 EUR91 in 2011	Not yet decided	Strong focus on the sustainable use and efficient management of water resources	No recent project
AFD	EUR1.7 bn (since 1992)	EUR185 m since 2011	EUR425 m for the period 2011-2013 (under Deauville commitments)	Water, infrastructures, employment	

Annex 1: Selected Economic Indicators

Tunisia	2006	2007	2008	2009	2010	2011	2012
							<i>Projection</i>
Output and expenditure	<i>(Percentage change in real terms)</i>						
GDP	5.6	6.2	4.4	3.1	3.0	-2.2	2.2
Private consumption	4.5	5.5	5.0	4.0	4.5	4.2	...
Public consumption	7.0	4.2	6.1	5.2	4.4	6.1	...
Gross fixed capital formation	9.5	6.3	4.2	4.6	5.5	-12.6	...
Exports of goods and services	4.3	11.8	2.8	-7.6	12.6	-4.3	...
Imports of goods and services	7.6	9.6	5.4	-7.2	17.5	-2.3	...
Industrial gross output	1.0	7.5	-5.1	6.0	6.8	-7.1	...
Labour Market	<i>(Percentage change)</i>						
Gross average monthly earnings(annual average)	2.9	3.5	4.7	1.0	4.4	...	...
Real LCU wage growth	-0.3	-1.5	1.2	-3.3	0.8	...	...
	<i>(In per cent of labour force)</i>						
Unemployment rate (end-year)	12.5	12.4	12.6	13.3	13.0	18.3	...
Prices	<i>(Percentage change)</i>						
Consumer prices (annual average)	4.2	3.4	4.9	3.7	4.5	3.5	5.1
Consumer prices (end-year)	3.0	5.1	4.1	4.1	4.0	4.2	4.0
Fiscal Indicators	<i>(In per cent of GDP)</i>						
Central government balance (incl. grants)	-2.5	-2.5	-1.0	-3.0	-1.1	-3.8	...
Central government revenues (incl. grants)	21.5	21.8	23.9	23.1	22.9	23.8	...
Central government expenditure	24.0	24.3	24.6	25.8	24.2	27.5	...
Central government debt	48.6	45.7	42.9	42.9	40.5	42.8	...
Monetary and financial sectors	<i>(Percentage change)</i>						
Broad money (M2, end-year)	12.0	13.4	14.8	12.9	11.9	9.4	...
Credit to the private sector (end-year)	6.8	9.5	14.3	9.9	19.3	13.5	...
	<i>(in per cent of total loans)</i>						
Non-performing loans ratio	19.3	17.6	15.5	13.2	13.0	16.0	...
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>						
Local currency deposit rate (savings, weighted avg)	...	...	...	...	...	...	...
Foreign currency deposit rate	...	...	...	...	...	...	...
Lending Rate (weighted avg, loans/advances)	...	...	...	...	...	...	...
Interbank Rate (weighted average)	...	...	...	...	...	...	...
Policy Rate	5.3	5.2	5.3	4.5	4.5	3.5	...
	<i>(TND per US dollar)</i>						
Exchange rate (end-year)	1.30	1.22	1.31	1.32	1.44	1.50	...
Exchange rate (annual average)	1.33	1.28	1.23	1.35	1.43	1.41	...
External sector	<i>(in per cent of GDP)</i>						
Current account	-1.8	-2.4	-3.8	-1.8	-4.7	-7.4	...
Trade balance	-9.7	-10.1	-11.9	-10.9	-13.3	-13.1	...
Merchandise exports	34.0	38.9	42.4	33.1	37.1	38.2	...
Merchandise imports	-43.7	-49.0	-54.2	-44.0	-50.2	-51.3	...
Foreign direct investment	9.6	4.1	6.1	3.9	3.4	2.4	...
Gross reserves, excluding gold (end-year)	19.1	19.3	21.0	22.8	20.5	16.1	...
External debt stock	53.4	50.0	49.0	49.6	49.8	51.3	...
Public external debt	29.8	27.4	26.7	26.4	25.8	26.9	...
Private external debt	23.6	22.7	22.3	23.2	24.0	24.5	...
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	3.9	3.4	4.9	4.6	4.1	3.5	...
Memorandum items	<i>(Denominations as indicated)</i>						
Population (end-year, million)	10.1	10.2	10.3	10.4	10.5	10.7	...
GDP (in billions of TND))	45.8	49.9	55.8	58.8	63.4	65.7	...
GDP per capita (in US dollars)	3,394	3,810	4,383	4,170	4,197	4,371	...
Share of industry in GDP (in per cent)	16.2	16.8	18.1	16.8	16.9	...	...
Share of agriculture in GDP (in per cent)	9.3	8.6	7.8	8.3	7.3	...	...
FDI (In million of US dollars)	3,308	1,616	2,758	1,688	1,520	1,143	...
External debt - reserves (in US\$ billion)	11.8	12.0	12.7	11.7	13.0	16.4	...
External debt/exports of goods and services (per cent)	157.0	128.6	115.6	149.8	134.2	134.4	...
Broad money (M2, end-year in per cent of GDP)	50.6	52.6	54.0	57.9	60.1	63.4	...

Annex 2: Small Business Support

The Small Business Support Team (SBS) supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes: the Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). EGP focuses on substantial managerial and structural changes and supports the introduction of international best practice to SMEs by engaging experienced international executives and industry experts as advisers. BAS enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost-sharing basis.

In November 2011 a two-year Agreement was signed with the EU to fund the launch of SBS operations in Tunisia, Egypt and Morocco through the Neighbourhood Investment Facility (NIF).

MSME environment in Tunisia

The SME sector forms the backbone of the economy in Tunisia. It accounts for more than 90 per cent of the total number of operating enterprises, contributing to over 80 per cent of GDP in the region of Tunis. The country faces significant regional disparities; overall, the East coast is better off than the Western and Southern regions. MSMEs in Tunisia operate in a business environment where business activity is heavily regulated. The majority of MSMEs are relatively small companies, many are family-owned and family-managed.

MSME challenges

A major challenge for MSMEs is access to finance and this is due to conservative/administrative policies and lack of dedicated MSME products available on the banking side and financial illiteracy on the MSME side. The size of the local market is another challenge for Tunisian MSMEs. Exporters selling mainly raw materials or semi final products to European corporations in the automotive, agribusiness and textile sectors are facing tough competition. Lack of information and access to data is a barrier for enterprises that heavily rely on exports. In terms of labour, Tunisia appears to have a relatively skilled labour force as the government put a lot of effort in educating and training workers; however, the country's economy is not able to absorb this qualified labour force.

MSMEs also face a number of internal challenges constraining growth. Excessive centralisation of management and lack of corporate governance is a common pattern at family-owned businesses. Limited management competencies and practices that lack strategic vision are another hurdle. Tunisian enterprises often face other problems related to the lack of a unique value proposition and the dependence on exports to large international clients, management openness to the use management consultancy, etc.

Infrastructure of MSME support

State Policy and Governmental support: support organisations in Tunisia include a number of governmental agencies with regional outreach. The Government is working on regional

integration encouraging manufacturing by creating regional industrial zones with many economic incentives. The ‘Agence pour l’Investissement’ (API) under the Ministry of Industry and Technology hosts the ‘Bureau de remise à niveau’ which has been implementing the ‘Programme de Mise a niveau’ (PMI) for enterprises mainly in the manufacturing sector since 1995.

Donor support: IFIs have been active in Tunisia since the 90’s and have been supporting its economic growth. The EU is active in Tunisia through its budget and support programmes and the implementation of two major programmes for the modernization of the industrial sector. The African Development Bank is the second in size and includes 26 active programmes. Agence Francaise de Development is also present and has a number of public and private programmes focused on technical assistance, SME development. UNIDO supports Tunisian SMEs by promoting entrepreneurship in the regions, focusing on a limited number of sectors and improving supply chains for existing businesses.

Private sector support: The private sector is also supporting SMEs as demonstrated by the large number of associations and federations that are active in the field, however there is lack of integration and coordination amongst the various players. The Federation for employers, Union Tunisienne de l’Industrie, du Commerce et de l’Artisanat, (UTICA) offers a platform for business owners to network and to raise SME challenges by sectors. Private equity is emerging in Tunisia and is still fairly limited in scope.

Tunisian consultancy market

The management consultancy market in Tunisia faces high transition gaps and is characterised by a number of consultancy companies in the area of accounting, legal and technical studies, mostly located in main cities. The range of consultancy services available in the market is limited and its growth has been largely dependent in number and variety on the availability of funded business development services (BDS) programmes. The technical skills and know-how available locally is limited in the areas of applied, strategic and operational management. There is a professional representation of general consultancy businesses through the “Chambre Syndical National des Entreprises d’Etudes, de Conseil et de Formation”. There is no representation for management consultants.

Small Business Support Operational Response

SBS is commencing operations in Tunisia with a focus on visibility activities to raise awareness about the potential benefits of accessing advisory services. The Team has identified priority sectors such as textiles, construction materials, mechanical and electrical components, tourism, agribusiness and R&D. Operations are expected to start from the capital city and then extend coverage to less-developed areas. SBS recognizes the barrier to economic growth represented by the low participation of women in employment and by the high level of youth unemployment, particularly in the rural areas of Tunisia. The Team aims for its programmes to help address these and other cross cutting issues, such as energy and water efficiency, once a good operational level is reached.

The main areas of focus include:

- Increasing efficiency and productivity of enterprises
- Improving management practices of managers

- Promoting corporate governance and transparency, especially to family owned businesses
- Improving the quality of advisory services
- Developing the consultancy market especially in the rural regions
- Strengthening the existing infrastructure and contributing to the institutionalization of the business advisory market.
- Supporting larger agribusiness companies under the joint EGP-Agribusiness direct industry assistance
- Promoting energy efficiency interventions
- Contributing to the policy dialogue between the Bank and local stakeholders

Banking linkages and project preparation

- SBS is working closely with ICA sectors especially Agribusiness, M&S, ICT and PE
- Project preparation for the agribusiness team through the joint EGP-Agribusiness programme
- Coordination with Private Equity to support their potential “Equity Funds” partners by supporting enterprises in which they have stake.
- Coordination with the FI team by referring MSMEs to partner banks, and raising awareness among MSMEs on the new financing products and instruments which FI has supported.

Business Advisory Services

BAS projects will support MSMEs in areas that respond to the challenges identified, focusing on:

- Strategy development and performance management techniques
- Market analysis, planning and strategy
- Organizational development and HR management
- Introduction of IFRS/Budgeting/Financial planning systems
- Introduction of costing systems
- Management information systems
- Operational planning/Quality management/ Certification
- Supply chain management
- Product development

Enterprise Growth Programme

EGP will be implemented with the aim of demonstrating the SBS approach and methodology in assisting high potential SMEs to their next level of growth. Special focus will be given to the priority sectors: agribusiness, textile and apparel, ICT, engineering and electrical feeder

industries. Larger agribusiness companies will benefit from the EGP-Agribusiness joint framework to improve value chain inefficiencies and prepare them to receive financing.

Market/Sector Development Activities

SBS will conduct market and sector development activities to support the achievement of the overall goals.

- Visibility and dissemination in cooperation with major representative bodies of Tunisian enterprises; such as the CGEM, Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat" (UTICA), "Chambre Syndical National des Entreprises d'Etudes, de Conseil et de Formation", "Centre de Promotion des Exploitation" (CEPEX)
- Training of local consultants on advanced consultancy skills and support their preparation to achieve an internationally recognized accreditation.
- Support to and development of existing local institutions engaged in serving MSMEs (mentioned earlier), by providing advice on introducing innovative business development services.

Coordination

- The EBRD will coordinate its activities in this area closely with the Ministry of Investment and International Cooperation, as well as other relevant Ministries and government agencies.
- The EBRD will also co-operate closely with the other active IFIs and donors.

Annex 3: Gender Profile Tunisia

Gender inequality and Human Development

According to the UNDP's Gender Inequality Index (GII), in 2011 Tunisia's GII was 0.293, which ranked the country 45th out of 187 countries. The Gender Inequality Index is a composite measure, which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labour market participation. The Human Development Index (HDI) ranks Tunisia 94th out of 187 placing it last in the countries with high human development but highest amongst SEMED countries.

Education

Youth literacy rates are high both for girls (96 per cent) and boys (98 per cent) in Tunisia. Primary school enrolment shows little difference as 99 per cent of girls and 98 per cent of boys are enrolled in primary education. Secondary school attendance is low both for girls and boys without any significant gender differences. In fact, there are more girls (67 per cent) than boys (63 per cent) enrolled in high schools. However, with respect to tertiary education women significantly outnumber men – 47 per cent for females as compared to 27 per cent for their male counterparts.

Labour participation and the gender pay gap

According to the World Bank statistics for 2010, women's labour force participation rate is 25 per cent as compared to 70 per cent for men. Low employment rates of young people (i.e. people between 15 and 24 years of age), and especially those of young women is a particular challenge for the country. For example, labour market participation of women is only 22 per cent, which is half of men's labour participation rates for the same age group. Young women in Tunisia thus face a double challenge of being both female and being young.

According to a 2011 report of the African Development Bank (AfDB), the rate of unemployment in Tunisia is the highest (53.4 per cent) for women with degrees in economics, management and law - that is 14 per cent points higher than for males with the same type of qualifications. A large percentage of women's employment is concentrated in the public as opposed to the private sector. This could be due to a number of factors which may include longer work hours in the private sector, which detract women who have additional childcare and/or household responsibilities, a lack of relevant education (women still tend to focus more on humanities and social sciences whereas many businesses seek employees with technical backgrounds) and/ or a fear of the cost of potential maternity leave by private sector employers.

Women are entitled to 30 days paid maternity leave in Tunisia. However, those working in the civil service can take two months full paid maternity leave. Women are entitled to 30 days paid maternity leave in Tunisia. However, those working in the civil service can take two months full paid maternity leave. The Labour Code allows married women to seek

employment without their husbands' permission. Women, however, are still prohibited from night time employment.

Tunisia's Gender Pay Gap Index according to the World Economic Forum 2010 report is 0.626 which puts the country in 107th place out of 134.

Entrepreneurship, access to finance and credit

Women have the same legal rights to access bank loans and enter into financial contracts as men do. However, there exist a number of non-financial barriers such as restrictions on women's ability to own and inherit assets and to control resources that prevent them from accessing financial products on the same footing as men. A 2005 study undertaken by *Centre de Recherches, d'Etudes, de Documentation et d'Information sur la Femme* (CREDIF) and UNDP on women's entrepreneurship in Tunisia stated that "women have difficulty obtaining financing and loans for new enterprises" and are "less likely than men to request bank financing". The non-banking sector (such as microcredit organisations, family members, etc.) remains a wide-spread means by which women entrepreneurs access credit, though compared to most countries in the region, women entrepreneurs in Tunisia are more likely to take out loans from a bank.

The Women's Economic Opportunities Index (WEO) of the Economist Intelligence Unit ranks Tunisia 44th out of 113 countries. When countries are grouped according to income level, however, Tunisia ranks first amongst the lower middle income countries.

Inheritance and property rights

Tunisia's legal system has been based on the French code since 1956. The personal status code has been amended several times to address discrimination against women. As a result of these amendments, a woman's testimony in court has the same weight as a man's. A further amendment in 1993 introduced 'joint estate regime' which ensures that spouses have joint ownership of property.

Women are entitled to inherit from their husband, father, mother, and/or children and in some cases from other family members. However, while Sharia law is not referred to in the legal system, it is commonly observed with respect to inheritance. Property and land ownership is low among women as it tends to be registered in the husbands' or the fathers' name. This affects women's ability to use property to secure and improve their economic well-being, and most importantly, to use it as a collateral to improve their access to credit.

Participation in politics and decision making

Women have the same rights as men to vote and run for election. In 2009, the ruling party introduced a 30 per cent quota for women and as a result, in 2010 there were 59 women in the lower Chamber of Deputies (27.6 per cent) and 17 women in the upper Chamber of Councillors (15.2 per cent). In the elections of October 2011, political parties had to present both men and women in their candidate lists and even allocate 50 per cent of the lists to women.

According to the 2009 report 'Strengthening Women's leadership and participation in politics and decision-making process in Algeria, Morocco and Tunisia', 31 per cent of lawyers and

24 per cent of magistrates are women. Women occupy approximately 15 per cent of senior positions.

Tunisia ratified the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), with reservations to articles that deal with equality in marriage and family life and arbitration in the event of a dispute. In 2011 the Council of Ministers adopted a draft decree to withdraw all the reservations to CEDAW, and national legislation will be amended accordingly once the new government is elected.