Towards a New Growth Model for Tunisia
June 2012 Seminar Proceedings

Ministry of Regional Development and Planning
African Development Bank
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African Development Bank
Despite economic progress in Tunisia during the last decades, the country still faces significant development challenges. The economic and social progress have indeed not been sufficiently inclusive resulting in the creation of large regional and social disparities both in terms of access to public services and investment and human development index. Moreover, the Tunisian economy is still based on industry and low value-added services that cannot absorb the new entrant to the labor market, in particular educated youth.

The Ministry of Regional Development and Planning and the African Development Bank jointly organized a seminar on 12 and 13 June 2012, on the theme: “Towards a New Growth Model in Tunisia”. The main idea behind this series of workshops was to link Tunisian academicians and development actors and policy makers, in order to capitalize on the results of research conducted on the economic and social development model.

The objective was to establish initial dialogue on six key areas of reflection, namely public and private governance; financial partners and target markets; the financial sector; policies for employment and social policies; economic transformation and regional development. Special emphasis was placed on the need to establish a link between academic research and policy makers in Tunisia.

At the restitution stage, an initial set of practical policy recommendations drawn up by participants was presented to the public authorities.

We hope that this document provides a rich basis for reflection to policy makers in Tunisia in this critical juncture to ensure a healthy economic recovery from the social and political unrest of 2011.
Acknowledgements

This seminar was organized by:

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Special thanks also go to the team of reporters from the Ministry of Regional Development and Planning for their valuable contribution to the development of this document.
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**Presentations**

Opening Session

Session 1: Building better governance to enhance the efficiency of public finances  
Session 2: Diversify partnerships and markets  
Session 3: Returning financial sector to the service of private investment  
Session 4: What policies for employment and better social protection?  
Session 5: Towards an economy with higher value added  
Session 6: Institutional Reform for Effective Decentralization of Regional Development
Key recommendations from the 12-13 June 2012 Seminar on a « New Growth Model in Tunisia ».

The Ministry of Regional Development and Planning and the African Development Bank jointly organized a seminar on 12 and 13 June 2012, on the theme: “Towards a New Growth Model in Tunisia”.

The main idea behind this series of workshops was to link Tunisian academicians and development actors and policy makers, in order to capitalize on the results of research conducted on the economic and social development model.

The objective was to establish initial dialogue on six key areas of reflection, namely public and private governance; financial partners and target markets; the financial sector; policies for employment and social policies; economic transformation and regional development. Special emphasis was placed on the need to establish a link between academic research and policy makers in Tunisia.

At the restitution stage, an initial set of practical policy recommendations drawn up by participants was presented to the public authorities.

The following summary presents the key aspects covered by the workshops.
Workshop 1

Building better governance to enhance the efficiency of public finances

This workshop mainly addressed issues bearing on monetary policy and financial reforms in Tunisia during the transition period, as well as on public sector governance through “management by objectives” and by contractualization, and lastly, on participatory governance in Tunisia.

The key recommendations were as follows:

- **Monetary policy and financial reforms**

  Participants stressed the need to strengthen the capital base of banks and further open up stock and bond markets and also proposed a gradual easing of foreign exchange control (through a gradual liberalization of trade and financial credits contracted abroad). The workshop also considered the creation of an independent prudential supervision agency. Lastly, participants recommended the adoption of a monetary policy which ensures greater macroeconomic resilience: that is, one that reduces external debt exposure to currency and interest rate risks, permits a policy mix and strengthens global balances.

- **Public sector governance through management by objectives and contractualization**

  Experts agreed, after assessing the pilot approaches, to call for an extension of the budget management by objectives approach to all ministries. They also recommended the promotion of the “project approach” in public management and, to that end, the establishment of training programmes for project managers and key stakeholders. Lastly, they proposed that the administration should systematically measure user satisfaction and monitor the actual level of involvement of public stakeholders and beneficiaries in public policy implementation.

- **Participatory governance in Tunisia**

  Experts recommended a significant improvement in citizen access to relevant public information. This will be achieved through raising awareness, education and mobilization of citizens, as well as through building the capacity of associations. Attention was especially drawn to involvement of women, youth and disadvantaged groups.
Workshop 2
Diversifying partners and markets

The experts mainly examined the international environment (impact on the Tunisian economy of the European sovereign debt), as well as the opportunities offered to our country by regional and international integration, and lastly, the lessons to be drawn from the presence in Northern Africa of four emerging economies, namely Brazil, Russia, India and China.

Their recommendations were as follows:

- **The international environment, in the short term**

There is need to prepare for a reduction in external demand, in Europe mainly, and to identify ways of mitigating the impact on the operators concerned. In the medium term, it is vital to consolidate the integration process with the European Union and while exploring new markets, so as reduce dependency on a market which accounts for 70% of our exports and is only marginally dynamic. Furthermore, our export supply structure must be reviewed, in a bid to reduce our range of products on the decline worldwide (such as, textiles which account for 43% of our exports, at a time when global market is showing little growth and competitors are increasing).

- **Towards greater integration**

Regional and international integration will be even more fruitful as integration with the European Union is consolidated. However, trade with the EU is currently focused mainly in three countries and it is essential to extend the partnership and trade links to the other members. Also, integration with the EU facilitates our integration into other frameworks and international partnerships, particularly African regional, Arab and North African integration. On this last point, we must focus on the development of border regions. Generally, the Experts recommended the establishment of two national commissions, one responsible for the business environment and competitiveness, and another for regional and international economic integration, involving the stakeholders concerned, to suggest policies and strategies as well as monitor progress in those areas.
• **BRIC and emerging markets**

Tunisia needs to implement a real strategy to attract investments from the BRIC (Brazil, Russia, India, China) and, more broadly, from emerging economies (like the 25 Rapid Growth Markets) and to ensure that such investments create jobs and particularly, skilled jobs. Drawing from success stories in North Africa, this strategy should address the following issues: communication, (specific) incentives for investments, quality infrastructure, human capital (special training) while maintaining specific goals in terms of job creation (type and number of jobs created), as well as support to diversification and sophistication.

In the same vein, Tunisia can draw inspiration from the strategy adopted by BRIC themselves and by some North African countries, in a bid to win the competitiveness wager. Africa must thus be a choice destination in our market diversification strategy.
Workshop 3

Returning the financial sector to the service of private investment

Greatly diverging views emerged from this workshop attended by academic experts and Tunisian finance sector actors. Some concrete proposals were however identified.

- Tunisia’s banking and finance system

Participants called for wide-ranging reform to restructure the Tunisian banking sector: Ensure the emergence of good-sized banks through mergers and acquisitions; effect a thorough review of governance modes of publicly-owned banks; reinforce meticulous and controlled risk management and align our prudential norms with international standards; revitalise and deepen the financial market; and diversify bank products and services.

To facilitate access to bank credits by individuals and SMEs, the workshop recommended the establishment, on an experimental basis, of credit reference bureaux, which are credit insurance offices that significantly enhance the provision to banks of information on the situation of borrowers, thereby reducing the banks’ reluctance to extend credits.

Consider reviewing the strategic role played by the Tunisian Post Office with regard to the financial inclusion process: Two proposals were made: to allow the Post Office to play a more active role in the extension of micro-credit; to allow the Post Office to fully play the role of a financial services provider in partnership with financial institutions (banks, insurance companies, factoring, etc.).

There was discussion on institutional reform to improve the performance of the Central Bank of Tunisia.

The workshop concluded as follows:

Achieving strong, balanced and sustainable growth requires a tailored set of macroeconomic policies. Monetary and budgetary policies play a vital role in that regard. These policies must be fitting and adequate, as essential conditions for macroeconomic stability, income redistribution and resource allocation. Faced with the grim prospect of a liquidity shortage, Tunisian banks, which are undercapitalized, will be hard-pressed. The funding problems may turn into a real credit crisis as banks
default and become fragile. This calls for extensive restructuring of the banking sector and the alignment of prudential standards.

The country’s new context necessitates the institution of a new generation of financial reforms bearing on:

- Monetary policy and inflation targeting;
- Modernization of the public finance management system, notably by widely extending the practice of budgetary management by objectives;
- Enhanced financial inclusion and development of new financial products;
- Anchoring new risk assessment and monitoring techniques, including credit reference bureaux;
- Expansion of the network of associations and strengthening civil society’s role in development, so as to entrench a new solidarity based and social economy entailing greater synergy between the market, the State and non-profit institutions.
Workshop 4

Policies for employment and enhanced social protection

This workshop in particular yielded a wealth of recommendations

- **Proposals for urgent solutions**

  The workshop recommended that:
  
  - a national plan to save jobs at risk and assist firms in difficulty be put in place;
  
  - the investment code be revised, avoiding the granting of incentives to low-value added activities, so as to encourage more skilled jobs and ensure added value;
  
  - the technology poles strategy be reviewed, leading on to the more effective concept of competitive clusters;
  
  - Synergies between academia and industry be effectively nurtured.

- **Payroll taxes and labour law**

  The workshop recommended:
  
  - A revision of the method of computing payroll taxes, with a reduction of taxes for skilled jobs;
  
  - Strengthening of the taxpayer control system, particularly for those in the flat-rate scheme;
  
  - A revision of the labour code with regard to conditions of recruitment and dismissal;
  
  - Fostering frequent corporate negotiations in a bid to improve the social climate within enterprises.

- **Training and intermediation**

  The workshop recommended the following:
  
  - Adapt programmes and their contents to ensure the acquisition of know-how in addition to knowledge;
  
  - Give greater value to professional qualifications;
  
  - Develop alternate training between the university and industry and strengthen the corporate culture;
- Introduce similar reforms in basic and secondary education, in order to develop behavioural skills before reaching the university;

- Set up an observation and evaluation mechanism to assess the consistency;

- Update the Standard Occupational Classification System.

**Maintaining, strengthening the reviewed AEP (Active Employment Policy)**

The workshop recommended:

- Optimization of AEP performance, including the sector and regional dimensions;

- Better coordination between all actors, be they public, professionals or private;

- Better governance of AEPs through a clear definition of the decision-making chain and coherent application of its components;

- Implementation of a national fiscal and social pact for employment: State-business-union contract;

- Measure mechanisms within the framework of a tax reform.

**Employability of young graduates**

The workshop recommended:

- Improved complementarity and coordination within the education system;

- Review and extension of best practices in higher education that favour employability, such as quality improvement programmes, co-construction, and entrepreneurship incentives;

- Activation of insertion integration units within university institutions and observatories.

**Strengthening youth entrepreneurship**

The workshop recommended the following:

- Ensure gender mainstreaming in dealing with the issue of entrepreneurship;

- Provide suitable incentives to prepare “potential” promoters from a very tender age;

- Encourage higher education and vocational training institutions to involve business operators in training on business establishment and entrepreneurship;

- Simplify information flow to potential promoters and popularize processes to
facilitate project design and business inception;

- Capitalize on experience from microfinance, in terms of effective micro-project financing stemming from the proximity of operators and simplification of project ideas.

• Labour market flexibility

The workshop recommended the following:

- Rethink the nation’s social contract, to grant greater flexibility while securing professional career paths;
- Introduce flexibility mechanisms involving all social partners;
- Establish social legislation which could convert informal sector economic activities to formal sector activities;
- Establish regional labour markets.

• Social Protection System

The workshop recommended:

- Initiating a national discussion on a National Social Compact;
- Conducting efficacy studies (cost/benefit analysis) for all programmes, to avoid no-win situations.

• Urgent measures in respect of the contributory system

The workshop recommended the following:

- Offset the CNRPS current deficit;
- Review the legislation on equalization using a simpler indexing method;
- Develop a high-quality system involving individual account management; this has already been done for CNRPS, but is yet to materialize for CNSS;
- Improve control procedures to partially offset (in the short term) the effects of demographic ageing in relation to CNSS;
- Link “retirement” contributions to the right to good health, so as to eliminate inter-temporal trade-offs;
- Urgent dematerialization of all CNAM reimbursement procedures (effective monitoring of patient accounts and “physician” account tracking, with both types accounts being brought together for tax returns).

• Structural measures to be considered

The workshop recommended:

- Expanding the contribution base to include income sources other than...
salaries (tax on certain products and services, with full transparency concerning funds collected);

- Reviewing the minimum retirement age for certain categories, as well as the pension computation method (parametric reforms)

• Reform of PNAFN (National Programme of Assistance to Needy Families)

The workshop recommended the following:

- Ensure transparency in the application of assistance criteria;
- Develop qualitative and quantitative poverty indices;
- Establish a procedure for monitoring and evaluation of results;
- Adopt a dynamic approach and avoid using the fixed-rate aid procedure;
- Place the non-contributory programme within a cross-cutting development strategy;
- Make the PNAFN a poverty reduction programme, rather than one of assistance to the poor.
Workshop 5
Towards an economy with greater value added

• Innovation and value creation

This workshop highlighted the centrality of innovation in adding value. However, note should be taken of the very limited role of internal research and development within Tunisian firms, and the very insignificant place R & D occupies in firms with foreign participation. Some quarters have even proposed that a minimum level of R&D to be conducted in Tunisia be imposed on foreign direct investment seeking support from the Tunisian government.

Other proposals were:

- Facilitate the entry of new firms in industries: revise terms, liberalize services;

- Bring together all State intervention and reallocate R & D incentives to focus on employment in inland areas, within the context of corporate innovation programmes;

- Foster synergies between the training, education, higher education system and scientific research and firms: consider decentralizing support for innovation, foster university-firms-banks strategic alliances, like in Canada or the American State of Georgia.

• Another avenue for developing the economy’s value added

A vast area for reflection on strengthening competitiveness is open:

- Restoring security as well as political and social stability;

- Facilitating access to bank credit, especially for small businesses, and reducing the mortgage guarantees required by banks;

- Strengthening the Competition Council and its intervention in curbing unfair competition and anti-competitive practices;

- Cutting the waiting period for delivery of public services (long administrative delays give room for corruption);
- Simplifying and streamlining administrative procedures, especially customs procedures: there is a positive correlation between corruption and complex customs procedures.

- PPP (Private-Public Partnership); and

- Case of South Korea: export driven economic growth.

• The case of South Korea

A presentation on the case of South Korea was made, from which the following recommendations may be drawn:

- Create a knowledge-intensive economy;
- Diversify FDIs;
- Increase transparency;
- Develop an entrepreneurship culture;
- Provide financial assistance to exporters;
- Ensure legal framework better suited to PPP (Private-Public Partnership); and

- Case of South Korea: export driven economic growth.

• Liberalisation of services

Lastly, proposals were made in respect of service liberalisation:

- Opening up services helps to improve efficiency, with a domino effect on the competitiveness of the whole economy;
- Taking into account the adaptability of the economy, and adopting a gradual approach (Upgrade sectors that are open to competition);
- Targeting sectors with high potential for skilled employment.
Workshop 6
Regional development and redistribution

This workshop addressed several key issues

- **Which scale for apportioning the development budget to various regions?**

The scale is a formula that helps to achieve rational and equitable budget allocation for the purpose of inclusive and participatory growth with citizen participation. In this regard, the Experts recommended the following:

  - Avoid scenarios that would lead either to seeking complete convergence of the regions, or a just a proportional distribution on the basis of population (so-called republican allocation);

  - However strengthen the “convergence allocation” rather than the “republican allocation”;

  - Ensure that rurality and urbanization indices of the regions are taken into account;

  - Very frequently review the various indices of the scale;

  - Never discourage coastal regions that have the necessary development driver index to propel the growth of the entire country.

- **Decentralisation and devolution**

The workshop recommended:

  - The same spatial boundaries for both local and regional authorities as for the administrative divisions of the State;

  - Each local authority should have a deliberative body, an executive body and a control body;

  - The supply of public goods and services, the promotion of the different levels involved and the capacity to promote economic and social development be criteria to differentiate powers assigned to each tier of local and regional authorities;

  - That importance be given to the delegation of powers in the definition of administrative units and development indicators;
- Addressing the issue of splitting duties between several ministerial departments (Interior/Development/Infrastructure/Development/Environment).

**Towards enhanced regional development governance**

Concerning regional and local governance, the workshop recommended:

- Institutional reform to allow for public action as close as possible to the local level;
- Inscribing in the Constitution, the place and role of each region in the country’s development (decentralization and status of local and regional authorities);
- Clarifying and institutionalizing the cooperation between various regional entities.

Concerning governance specific of respective entities, the workshop recommended:

- In-depth restructuring of the functioning, powers and role of the three regional development agencies and the CGDR. Developing a special statute for the regional development Branch offices;
- Reduction of administrative tasks;
- Clarification of the relations with the line ministry;
- Assessment and support to draw up a new organization chart for the Ministry of Regional Development and Planning;
- Establishment of inclusive and participatory local governance.

**Universal subsidy or direct financial transfers from State to local and regional authorities to finance programmes decided locally?**

According to experts, the current over-subsidisation benefits the rich more than the less privileged. Similarly, urban residents benefit more from hydrocarbon subsidies than from food subsidies. At the same time, there is the need to narrow the compensation fund deficit, by reducing the number of subsidized products while gaining a more thorough understanding of poverty in Tunisia.

The recommendations are as follows:

- More effective measuring and analysis of poverty in Tunisia;
- Move food subsidisation to the end of the chain;
- Customize subsidies per beneficiary and per head;
- The recommendations are as follows:
- Develop a subsidy control and monitoring system;
- Reduce the coverage for beneficiaries, if it is no longer necessary;
- Use geographical targeting in distributing subsidies or products;
- Use targeting through an income-based assistance programme for the least privileged groups;
- Improve food subsidy through targeting in favour of populations most in need;
- Initiate multiple targeting methods within a single programme, to achieve an appreciable degree of social efficiency.
Presentations
Opening Session

Presentations

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Towards a New Growth Model for Tunisia

Boutheina Yaghlane
Ministry of Regional Development and Planning

Context (Prior to Revolution)

Threefold strategic options for growth

- Mass tourism
- Economy based on outsourcing
- Openness to foreign direct investment
Development Problems

* High unemployment
* Limited integration
* Regional disparities
* Social disparities
* Weak structure of the economy
* Inadequate private investment
* Environmental issues

Context (After revolution)

Search for other sources of growth as bases for new development model

* Meeting the pressing needs with regard to supporting employment and disadvantaged regions
* Preparing the future with a new strategy commensurate with national aspirations and goals of the revolution
Objectives of the seminar

* Initiate national and regional consultation on growth and economic and social development issues based on participatory and decentralized reflection aimed at mobilizing collective intelligence (public actors, private actors, employer and trade union organizations, civil society, etc.)

* Provide access to and discuss existing studies

* Identify in a collaborative manner relevant actions for reviving the Tunisian economy

Avenues to be explored for a new development model

* Build good governance for improved efficiency of public finances

* Diversify partners and markets

* Return the financial sector to the service of private investment

* Optimal employment and social protection policies

* Strive for an economy with higher value added

* Regional development and redistribution
Action Plan

* Your proposals?

* Other themes to be explored?

* Teams?

* Schedules?

* Deliverables (objectives, structures)?
Economic Prospects in Tunisia

Audrey Verdier-Chouchane
African Development Bank

Presentation Plan

1. Macroeconomic prospects
2. Major challenges
3. Strengths of Tunisian economy
4. A few recommendations
Macroeconomic prospects in Tunisia

Tunisian revival expected in 2012/13 ...

Source: BCT and ADB, 2012
Engines of growth in 2012

**Domestic**
- Local consumer demand (↑ wages and subsidies)
- Resumption of public and private investment
- Sector growth: agriculture, services, construction and manufacturing

**Foreign**
- Libyan reconstruction
  - ↑ volume of goods exports and job supply
- Agricultural export prices
- External financial flows (FDI, Grant, Official Development Assistance)

... Despite a difficult environment

- Investor wariness
- Social tension
- Slow recovery of the Libyan economy
- Weak banking sector
- European crisis
Global growth: deceleration

Channels of repercussion of the more serious crisis in Europe on Tunisia’s growth

- Decline in tourism revenues
- Decline in goods export earnings (decrease in volumes and terms of trade)
- Spillover effects on banks
- Decline in financial flows (ODA, FDI, migrant remittances)
The 10 worst performing African economies in 2012/2013

The 10 best performing African economies in 2012/2013
Expansionary monetary policy

Money supply

- Reduction of the mandatory cash reserve rate from 12% to 2% in 2011
- Reduction of the BCT key interest rate from 4.5% to 3.5% in 2011
- Increase of credit to the economy
- Rescheduling of bank debts
- Depreciation of the dinar against the € and the $
- Reduction of foreign exchange reserves

Inflation under control, but expected to rise

Source: AfDB
**Expansionary budgetary policy**

↑ State expenditure

Increased subsidies relating to purchasing power and wages

spending focus shift to combatting unemployment, regional disparities and poverty

Assistance to enterprises affected by revolution

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**Widening public deficit (% of GDP)**

![Graph showing the widening public deficit (% of GDP) from 2008 to 2013(p)].

Source: AfDB
Slight widening of current account deficit

Current Account (% of GDP)

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<tr>
<td>2013(p)</td>
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</table>

Source: AfDB

2

Main challenges
Limit external debt burden

Source: IMF, May 2012

Diversify structure of the economy

Source: AfDB based on INS data
Improve business climate and good governance

Dropped 6 places in the 2011 Doing Business ranking

Major constraints: Access to financing, red tape, long waits in ports and customs clearance delays

Increased number of non-performing loans, poor bank supervision and a financial market with little depth and dynamism

Curb youth and graduate unemployment

Unemployment Rate

7 out of 10 unemployed are under 30 years of age

Gender-based disparities on the labour market

Source: INS
Reduce regional disparities

Unemployment in 2008 and % of enterprises established by region

Source: INS

Other specific challenges

Return to social stability
Public security
Agreement on electoral timetable and the Constitution
Consolidate banking sector
Resolve difficulties of the phosphate sector
Reduce offshore/onshore dualism
Broaden tax base and reduce food and oil subsidies
3

Strengths of Tunisian economy

High level of infrastructure

Source: AfDB Statistics Department based on 2011 WEF data
Qualified and healthy human resources

![Human development Index chart]

Source: AfDB Statistics Department, based on 2011 UNDP data

Other strengths

Public governance: New laws and institutions being put in place

Freedom of the press

Strategic geographical position

Modern and efficient telecommunication network

Existence of large private sector
A few recommendations

Recommendations

Diversify growth sources

Facilitate programmes for regional integration and trade openness

Improve economic and political governance

Foster inclusive growth and employment

Consolidate financial sector
Limits and prospects of potential growth in Tunisia 1990-2020

Taoufik Rajhi
African Development Bank
Potential growth approach

The potential growth approach provides a simple analytical framework commonly used to assess the pace of sustainable growth without inflationary pressures on goods and labour markets. This is based on a representation by a standard Cobb-Douglas production function of the whole economy. The potential growth rate of the economy is defined by the following equation:

\[ \frac{\Delta y^*}{y^*} = \alpha \frac{\Delta k}{k} + (1 - \alpha) \frac{\Delta L}{L} + \frac{\Delta A}{A} \quad (1) \]

The term \( y^* \) is the potential GDP, \( L \) being the labour force, \( k \) capital stock and \( \frac{\Delta A}{A} \) measures the total factor productivity.

In the short term, potential growth on:
- Labour input and quality;
- The growth of fixed productive capital and its productivity
- Total factor productivity gains (TFP)

In a balanced growth system, the potential growth rate of the economy is defined as the sum of the working population growth and productivity potential \( \frac{\Delta A^*}{A^*} = \frac{\Delta A}{A} (1 - \alpha) \) by:

\[ \frac{\Delta y^*}{y^*} = \frac{\Delta L}{L} + \frac{\Delta A^*}{A^*} \quad (2) \]
Potential Growth

Potential growth of 5% not fully realized

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<td>2.3%</td>
<td>2.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>effective</td>
<td>1.77%</td>
<td>1.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Effective Potentiel</td>
<td>0.27%</td>
<td>0.29%</td>
<td>0.26%</td>
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<tr>
<td>effective</td>
<td>93.4%</td>
<td>94.2%</td>
<td>94.7%</td>
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<tr>
<td>Margin</td>
<td>6.6%</td>
<td>5.8%</td>
<td>5.31%</td>
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Determinants of Actual Growth

Actual growth is the outcome of three forces represented by the potential growth rate, the gap between employment growth and that of the labour force and the gap between labour productivity and productivity potential:

$$\frac{\Delta y}{y} = \frac{\Delta y^*}{y^*} + \left( \frac{\Delta E}{E} - \frac{\Delta L}{L} \right) + \left( \frac{\Delta A}{A} - \frac{\Delta A^*}{A} \right)$$  \hspace{1cm} (3)

Thus, increase in actual growth could result from three mechanisms:

1. An increase in the potential growth of the economy
2. Growth of job creation that outpaces the growth of the labour force
3. Growth of labour productivity that outstrips the potential for productivity growth.

Breakdown of potential growth

1. Actual growth is limited by potential growth which is itself limited by the growth of potential productivity.
2. Labour productivity in Tunisia has always been below potential. This situation in itself mirrors the unemployment of Tunisia’s skilled labour force and the low rate of supervision in enterprises.
3. Job creation grew faster than the labour force throughout the period 1990-2010 and especially during the last decade. But the difference is small

<table>
<thead>
<tr>
<th>Period</th>
<th>(1) Productivité potentielle (1)</th>
<th>(2) Population active (2)</th>
<th>(3) Croissance Potentielle (1)+(2)</th>
<th>(4) Productivité travail-productivité potentielle</th>
<th>(5) Emploi-population active</th>
<th>(6) Croissance effective (3)+(4)+(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-2010</td>
<td>2,71%</td>
<td>2,23%</td>
<td>4,94%</td>
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<td>0,19%</td>
<td>4,66%</td>
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<tr>
<td>2000-2010</td>
<td>2,93%</td>
<td>1,90%</td>
<td>4,82%</td>
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<td>0,32%</td>
<td>4,56%</td>
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<tr>
<td>1990-2000</td>
<td>2,49%</td>
<td>2,56%</td>
<td>5,05%</td>
<td>-0,36%</td>
<td>0,06%</td>
<td>4,76%</td>
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</table>
Alternative scenarios

1. Growth in Tunisia, as such, cannot reduce unemployment to acceptable levels.

2. The absorption of unemployment depends on the rate of employment growth, a key variable for reducing this unemployment.

3. Three scenarios may be envisaged.

4. The first is the status quo with a job-creation growth rate of 2.2%, leading to a jobless rate of 16% in 2020.

5. An alternative scenario of 2.9% would lead to an jobless rate of 7% in 2020.

6. A 3.1% scenario would achieve the ambitious objective of 5% in 2020.

Which unemployment-reduction strategy?

<table>
<thead>
<tr>
<th>Year</th>
<th>Active Population</th>
<th>Job Creation</th>
<th>Unemployment Rate</th>
<th>Job Creation</th>
<th>Unemployment Rate</th>
<th>Job Creation</th>
<th>Unemployment Rate</th>
</tr>
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<tbody>
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<td>18.89%</td>
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<td>2012</td>
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<td>17.79%</td>
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<td>4007.29</td>
<td>71.95</td>
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<td>94.62</td>
<td>16.22%</td>
<td>101.34</td>
<td>15.90%</td>
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<tr>
<td>2014</td>
<td>4068.36</td>
<td>73.55</td>
<td>16.76%</td>
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<td>15.09%</td>
<td>104.48</td>
<td>14.59%</td>
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<td>2015</td>
<td>4125.64</td>
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<td>100.18</td>
<td>13.84%</td>
<td>107.72</td>
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<td>2018</td>
<td>4274.25</td>
<td>80.30</td>
<td>13.49%</td>
<td>109.16</td>
<td>9.38%</td>
<td>118.05</td>
<td>8.14%</td>
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<td>2019</td>
<td>4317.46</td>
<td>82.08</td>
<td>12.46%</td>
<td>112.32</td>
<td>7.69%</td>
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<td>6.24%</td>
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<td>2020</td>
<td>4358.50</td>
<td>83.91</td>
<td>11.36%</td>
<td>11.58</td>
<td>5.91%</td>
<td>125.48</td>
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<tr>
<td>TOTAL 2012-2020</td>
<td>692.77</td>
<td>15.01%</td>
<td>930.34</td>
<td>12.09%</td>
<td>1002.63</td>
<td>11.21%</td>
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Which scenarios for 2030?

* Status quo (inv=23.3%, TFP %, participation rate =47%)

* Capital accumulation (Investment from 23% to 30%)

* Increase of the total productivity of the factors from 1.8% to 2.5%

* Gradual increase of population’s participation rate from 47% to 67% in 2020

* Three-in-one scenario

Baseline scenario: Status quo

<table>
<thead>
<tr>
<th>Tunisia: Benchmark Contributions to Average GDP Growth, 1991-2029</th>
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<tbody>
<tr>
<td>-----------</td>
</tr>
<tr>
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<tr>
<td>Total Factor Productivity</td>
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<tr>
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Capital accumulation scenario: 30% investment rate

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## Capital accumulation scenario: 30% investment rate

### Tunisia: Benchmark Contributions to Average GDP Growth, 1991-2029

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<td>2.8</td>
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## Scenario whereby total factor productivity (TFP) increases to 2.5%

### Tunisia: Contributions to Average GDP Growth, 1991-2029

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Scenario whereby TFP increases to 2.5%

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Scenario of increased participation rate

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### Scenario of increased participation rate

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### Scenario of Prosperity

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<td>24.5</td>
<td>22.2</td>
<td>22.0</td>
<td>21.9</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
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</tbody>
</table>
Scenario of Prosperity

Which policies?

1. Implement policies aimed at restructuring the economy through reorientation of public, private and foreign investment on a sector and regional basis, as well as by improving the business climate in order to boost the potential growth rate of the Tunisian economy and, in particular, the potential productivity. Improve the quality of human resources through training and education policies. The impact would be medium to long-term, but definitely not short-term.

2. Implement ad hoc policies, to boost demand without causing inflationary pressure, while ensuring medium-term debt sustainability (Stop-Go Policy) and coordinating the monetary and fiscal policy.

3. Implement supply policies primarily targeting equilibrium unemployment by encouraging firms to hire more. In this context, the preferred instruments are investment code reform and tax reform in general (incentives, new taxes, etc.) carried out as part of a social and fiscal pact for employment.
Session 1: Building better governance to enhance the efficiency of public finances

Presentations

1 - Monetary policy and financial reforms in Tunisia during the transition period - Sami Mouley (University of Tunis)

2 - Management-by-objectives: contractualization, governance of special public programmes - Lotfi Bouzaiane (IHEC de Carthage)

3 - Participatory Governance: How to improve public service delivery through state-citizen partnership - Justin Murara (AfDB)
Monetary policy and financial reforms in Tunisia during the transition period

Sami Mouley
University of Tunis

Context

Monetary policy within a context of global technical recession and low caliber institutions:

* Unemployment rate, worsening from 500,000 persons at end-December 2010 to nearly 750,000 in December 2011 (government source).
* An evident weakening of the economy’s ability to create net jobs (from 57,000 in 2010 to only 16,000 in 2011) due to investment decline.
* An jobless rate within the workforce of over 18% in 2011, against 14.8% in 2010, coupled with an even higher unemployment rate among young graduates, which rose from 30.7% in 2010 to 33.6% in 2011.
* A GDP growth rate at constant prices, which rose from 3.1% in 2010 to -2.2% in 2011, whereas IMF projected +0.2%.
* Poor governance, especially in terms of voice and accountability.
Monetary policy affected by global macroeconomic imbalances:

* A growing deficit between savings and investment, which went from (-3.12%) of GDP in 2010 to -4.5% in 2011.
* Budget deficit estimated at 5.1% of GDP in 2011 compared with 1.3% in 2010.
* Public debt equivalent to 43% of GDP in 2011 compared with 40.5% in 2010.
* A trade balance coverage rate of about 74.5% in 2011 compared with 78% in 2010.
* A current account deficit of 6.5% in 2011 compared with 4.3% in 2010.
* A drop in FDI inflows of about 32% in 2011.

Context

Monetary policy to counter domestic vulnerability factors:

Increased risk of fragility of the banking sector:

- A money market liquidity crisis owing to the unprecedented slowdown in autonomous factors (decrease in the bank notes and coins in circulation due to hoarding practices and decline in the net foreign currency assets as a result of the slowdown in major export sectors and repayments of the external debt service)
- Volume of non-performing loans and clear non-compliance with the Basel principles for effective banking supervision
- A spike in inflationary pressure
Structural and recurrent vulnerability of the financial system:
- Limited size of the stock market and lack of sector diversification
- Preponderance of the banking sector and low participation of institutions in stock market capitalisation
- Low levels of financing of the economy in relation to emerging comparators
- Obvious obstacles to attraction of foreign investments
- Institutional and governance deficits

Monetary policy undermined by external vulnerability factors:
- Management of risks from international contagion and spillovers (especially the sovereign debt crisis and Euro zone recession)
- Sustainability of exchange policy
- Deterioration of sovereign ratings
- Sustainability of external debt, foreign exchange reserves management and mobilization of external financial resources

Problem Analysis (1)

I. Contextualize a specific operational framework for implementing the monetary policy to cope with the demands of the economic transition:
* What optimal sequencing is appropriate for an accommodating monetary policy: overhaul and management of the banking system liquidity or relaunch of economic activity?
* What are the priorities regarding the control of transmission channels: conventional monetary channels (bank lending and exchange rates) or the interest rate channel?
* Which new generation management instruments are appropriate for better modulation of monetary policy (monetary and/or inflation targeting, financial stability, asset price stabilization, micro-prudential supervision and/or macro-prudential fine-tuning)?
* What are the financial reforms for increasing the effectiveness of monetary policy (new instruments for managing systemic liquidity, deepening the stock market, boosting the bond market, and adopting a foreign exchange policy that can attract foreign investment)?
What macroeconomic control mechanism is temporally consistent with the implementation of the fiscal policy?

A brief review transcending partisan logic:

The monetary transmission channels getting blocked in times of crisis

- Freeing up the interest rate channel through unconventional mechanisms:
  - Credit easing: a record 12.5% reduction in reserve requirement down to the theoretical minimum of 2%, and of the key rate in two steps of 50 pb each.
  - Quantitative easing: bank refinancing and massive injection of liquidity into the money market through weekly bidding invitation mechanisms (average amount of TD 3,673 million in October 2011 and TD 3,616 million in December 2011).

Problem Analysis (2)

- Additional liquidity that helped delay the risk of declining capacity of the banking sector:
  - Increase in unpaid loans granted to businesses and individuals
  - Increased need for banks to build reserves
  - Lower borrowing costs for operators associated with a reduction in the refinancing costs of banks at the BCT
  - Increased competition in the economy not actually backed by a recovery strategy, but due essentially to credit transformation (rescheduling, consolidation, etc.)
  - An abundant temporary classification of unpaid loans
  - But inadequate management of the liquidity crisis of the banking system
  - Inelasticity of investments with decrease in interest rates due to the uncertainty of the business climate
- Following the actual over-depreciation of the exchange rate of the dinar relative to its basic value, there was a second reduction of the key interest rate by 50 pb earlier than expected (in terms of Central Bank response function).

**Resumption of inflationary pressures**

* This was certainly due to cyclical factors (hikes in commodity and energy import prices, smuggling of food exports to Libya, slippages in the distribution channels) and structural factors linked to domestic demand (significant effects of the food product prices).
* But there is underlying inflation (excluding food products), rising from 3.6% year over year to 4.1% - a rate higher than in comparator and emerging countries, whether or not these have adopted formal inflation-targeting systems.
* The situation is partly due to currency inflation that inevitably contributed to a sharp depreciation of the dinar relative notably to the euro
* A pass-through effect also partly due the worsening trade and current account deficit

**Transitional liquidity risk management style that is out of step with actual banking system clean-up measures**

* Latent weakening and vulnerabilities of the banking sector (non-performing loans - NPL), low average return on banking assets which stagnated at 1% compared with 1.8% in the MENA economies, non-compliance with certain Basel core principles for effective banking supervision in respect of the level of credit policy, counterpart risk assessment, NPL provisioning and portfolio quality monitoring).
* Non-compliance with financial stability standards.
* Absence of institutionalized security mechanism (function of lender of last resort or a deposit guarantee and insurance system)
* And, above all, exorbitant cost of resources associated with deposit mobilization (preponderance of near-cash deposits at more than 63% compared with 37% on average for monetary deposits and external liabilities, outbidding practices relating to institutional deposits, certificates of deposit and commercial paper)
Risk of weakening external position

* Increased risk of default on sovereign debt coupled with a deterioration of sovereign ratings (speculator grade)

* External resource mobilization constraints (difficulty in accessing international financial markets, decreased attractiveness for foreign investment, difficulty in financing budget and current account deficits).

Policy Recommendations

Alternatives based on money market reform

* Critical need to consolidate the equity capital of banks (recapitalisation) and the corporate and investment banking (CIB) segments
* Broaden range of the collateral payable, by revising the eligibility criteria for debt refinancing
* Broaden maturities applicable to refinancing
* Break down the barriers between the dinar money market and the foreign exchange money market through foreign exchange-dinar swap (reduce the BCT refinancing envelopes and create a rate yield curve)
* Modernize, adapt and harmonize legislation on real estate collateral with relevant norms and standards.
**Alternatives based on financial market reforms**

- Stimulate the main securities market through further (but gradual) liberalization of portfolio equity flows beyond the current ceiling of 50%, targeting the reform primarily at institutional investors.
- Develop the bond market through greater Treasury issues (launch of a national loan, for example).
- Limit the primary market restrictions applicable to foreign investors through recourse to primary dealers in Treasury Securities (SVT).
- Gradually increase the authorized subscription rate for foreign investors to publicly traded bonds quoted on the stock exchange, essentially by developing the secondary market for public and private debt securities.
- Stimulate the alternative market for acquisition of SME-SME shares through a tax system that is more attractive for collective investment in transferable securities (UCITS) such as by SICAR, SICAV and SICAF.

**Policy Recommendations**

**Alternatives based on the gradual easing of foreign exchange controls**

- Additional modulation of easing foreign exchange controls by focusing primarily on medium- and long-term capital flows, increasing the pace of capital account liberalization, and particularly long-term loans contracted abroad by companies listed in Tunisia.
- Gradual liberalization (easing of caps) on trade and financial credits contracted abroad by credit institutions and other resident companies.

**Institutional orientations and modes of governance**

Default risk management, tracking and monitoring systemic entities by establishing an independent prudential oversight body (close to the ACP model in France or to the U.S.)
model recommended by the Dodd-Frank Act), which would include a body responsible for:

- the supervision of Banks (BCT) and insurance companies (Ministry of Finance)
- supervision of the quality of banking services (OSB - BCT)
- BVMT and CMF.

Acceleration in stages of the process of migrating from the current prudential framework to the Basel III requirements.

**Monetary policy for greater macroeconomic resilience**

* Reduce profile of exposure of external debt sustainability to foreign exchange and interest rate risks

* Strengthen the technical instrumentation of the BCT (relevant leading indicators, performance prediction models, implicit inflation targeting, etc.)

* Optimal coordination with the budgetary authority to reduce the unpredictability of the Treasury current account.
Management- by- objectives: contractualization, governance of special public programmes

Lotfi Bouzaïane
IHEC, Carthage

Weight of the State in the economy

* More than 70% of GDP controlled by the State.
* Public sector.
* Regulation of other sectors.
* Weight on the increase:
  * New reforms.
  * Decline of State withdrawal.
Management of public resources

* Predominant mode:
  * Budget negotiation.
  * Directives, circulars, authorizations...
* Implication: Obligation to follow procedures:
  * Waste of resources.
  * Omission of objectives.

Noteworthy experiences

* PDRI
* PMI/PMN
* PAQ
* EPNA
* Management by objectives:
  - Specific units
  - Pilot departments (Health, Agriculture, Education).
Appraisal of experiences

* Innovative aspects:
  - Contracts and programme: objectives + Strategy
  - Autonomy.
  - Accountability: Steering + monitoring indicators.
  - Participation of stakeholders: +/-

* Current shortcomings:
  - Persistence of usual practices (lack of flexibility, resistance).
  - Limited use of autonomy
  - Haste, uncompleted...

Questions to encourage management by objectives

* What is the assessment of the ongoing experiments?
* What are the means of implementation?
* How can they be optimized and generalized?
* How do you ensure autonomy and admissibility?
* What areas should be targeted?
A few ideas…(1)

Develop an Action Plan for widespread implementation.

Develop a management by objectives model adjusted through implementation:

* Project manager vs. Director.
* Objectives/strategy/action.
* The broadest autonomy possible.
* Steering (actual) + Monitoring Indicators.

A few ideas…(2)

Reactivate pilot experiments (health, education, agriculture) with necessary updates:

* Training of project managers and key stakeholders.
* Critical size marketing function (1% to 5% of expenditure) – satisfaction, own resources.
A few ideas…(3)

Areas of dissemination of the practice of management by objectives:

* Regional development: Projet manager for each region around a cluster of projects (PDRI and/or PMI model).

* Professional integration: Projet manager, connecting the economic environment with training and educational institutions.

* Etc.

Participatory Governance: How to improve public service delivery through state-citizen partnership

Justin Murara
African Development Bank
Research Methodology

- Document review (October 2011 - January 2012)
- Interviews with key public information source persons (November 2011 - March 2012)
- Group discussions with citizens, CSOs and public authorities (November 2011 - March 2012)
- Survey of Tunisian associations (December 2011 - April 2012)
- Validation Workshop (January 2012)
- Publication of final report and dissemination workshop (September 2012)

Goal

- Establishing the reality of citizen participation in Tunisia in order to make recommendations for strengthening the involvement of Tunisian men and women in public decision making and delivery of social services (at the local, regional and national levels).

- Social inclusion should be given special attention.
Framework

* ADB research in 2012 as part of the effort to strengthen civil society and citizen participation

* Specific survey of 256 Associations and NGOs in 24 governorates
  - Evaluation of the profile, activities and expectations of a new framework for governance and partnership with the State
  - Proposal of institutional measures to enable civil society stakeholders to become effective governance stakeholders.

Key research components

Analysis of the current context for participatory governance in Tunisia

Analysis of the capacity and potential of Tunisian associations (to promote participatory governance)

Recommendations (to promote participatory governance).
Current Context

- Legacy of an authoritarian past
- Political transformation
- Corruption
- Decentralization
- Sociocultural factors
- The media
- The status of civil society
- Relations between the State and citizens

Environment for active citizenship

* Environment considered quite conducive to expression of their opinions and concerns

  - Existence of mechanisms for State/citizens dialogue (e-participation and surveys)
  - New laws on freedom of association and public access to information (Decree Law 2011-41)
  - Availability of resources to support active citizenship/participatory governance initiatives
  - Government’s willingness to listen and be accountable to citizens,

* A number of elements considered as limiting:

  - Weak capacity of associations to actively promote participatory governance
  - Access to information
Who has the greatest responsibility to promote good governance and combat corruption?

* Firstly:
  - The Law (55%)
  - Associations (52%)

* A distant second level:
  - The Prime Minister and his Government (38%)
  - The High-level Anti-Corruption Body (30%)
  - The Constituent Assembly (24%)
  - The citizens (15%)
  - The media (14%)
  - Political parties (9%)

Internal Governance

- 81% have an executive and in two out of three cases (68%) this executive is elected.

- Among associations which had a budget in 2011: 89% say they produce an annual financial report, 85% distribute this report to their members.

- In contrast, only 52% disclosed the size of this budget.

- 22% of respondents indicated that the association did not disclose this information.

- 13% said they did not know the amount, while 23% did not answer the question.
Areas of Intervention

Graphique 8 - Intervention Areas of Organisations

Levels of intervention

Graphique 3 - Intervention levels of initiation of participation governance
Is there any dialogue between associations and the public authorities

![Pie chart showing dialogue frequency]

Membership, staff and headquarters

* The vast majority of new associations are still in their infancy and just beginning to put in place systems relating to their organization and functioning.

* 39% do not have a headquarters.

* 22% do not have paid staff.

* The average number of employees is 2.6 persons per association.
Composition of the Associations

Main challenges

* 34% of associations had budgets ranging from TND 200 to TND 350,000, with an average of TND 61,600 and a median of TND 7,000 (2011).

- Lack of cooperation and dialogue with policy makers and the Administration;
- Lack of access to information.
- The challenge in mobilizing the public (the negative and/or “dependent” attitude of citizens)
- Inadequate networking and coordination among associations,
- Inadequate gender mainstreaming.
Support deemed substantial

Graphique 12 - Types d'appui jugés les plus importants/utiles par les associations

Recommendations

* Increase citizens' demand for and access to relevant public information. (budget, CDC)

* Sensitize, educate and mobilize citizens.

* Develop capacity of associations.

* Promote the inclusive participation of women, youth and disadvantaged groups.

* Introduce mechanisms for constructive dialogue and participatory governance.
Session 2: Diversify partnerships and markets

Presentations

1 - International Environment: Impact of Europe’s sovereign debt on the Tunisian economy - Sami Boussida, (ITCEQ)  

2 - Regional and International Economic Integration - Messaoud Boudhiaf (FSEG of Tunis)  

3 - Regional Integration: What opportunities for Tunisia? - Emanuele Santi (AfDB)  

4 - The BRICs in North Africa: What Lessons for Tunisia? - Vincent Castel (AfDB)
International Environment: Impact of Europe’s sovereign debt on the Tunisian economy

Sami Boussida
ITCEQ

Context

* Successive global crises:
  - Subprime mortgage crisis in the U.S.: collapse of the U.S. subprime mortgage market in late 2007
  - Global financial crisis
  - Sovereign debt crisis in Europe.

* Idea is to see the extent to which Europe’s sovereign debt crisis has affected the Tunisian economy and the channels of transmission of the effects perceived.
Sovereign Debt Crisis in Europe

Indeed, over the 2009-2010 period, the ratio of the public debt and the budget deficit of developed countries compared to their GDP reached exorbitant levels.

This situation is due to:

- Factors related mainly to the direct effects of the recession (declining tax revenues and increased unemployment and social welfare benefits).
- "Anti-crisis" plans (fiscal expansion and the financial system rescue packages).

Ensure the stability Pact in 2011
Impact of European sovereign debt crisis on the Tunisian economy

* This situation is not without consequences on the Tunisian economy

* Indeed, given the volume of its trade with Europe, Tunisia has suffered and continues to suffer the effects of this crisis in two spheres:

* Financial sphere

* Real sphere.

---

Financial sphere (1)

* This effect was relatively mild due to:

  - Limited opening of capital account to foreign capital markets,
  - The total non-convertibility of the dinar
  - The existence of a practically controlled exchange rate.
Financial sphere (2)

* The nominal exchange rate trend shows the Euro appreciating against the dinar.

**Exchange Rate Trend (Dinar/Euro)**

Financial Sphere (3)

This appreciation will:

* Inflate the cost of debt contracted in Euro: The outstanding medium- and long-term external debt was estimated at TD 23,860 million in 2011 against DT 23,600 million at end-2010, 63% of which was denominated in Euro.

* Increase the cost of mobilizing new external loans.

* Induce a relative increase in the rate of inflation through the imported component (pass-through effect) of raw materials and capital goods.
Real Sphere (1)

Observation 1: It is mainly through trade flows, tourism, remittances from Tunisian workers residing abroad and the entry of foreign direct investment that the crisis could affect the Tunisian economy.

Observation 2: Over 70% of our trade is with Europe which is experiencing a recession (deterioration of purchasing power).

Observation 3: The trend of Tunisian goods and services exports and demand addressed to Tunisia followed two highly synchronous patterns, notably over the 2007-2011 period.

Real Sphere (2)

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<th>2007</th>
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<td>118</td>
<td>104</td>
<td>114</td>
<td>118</td>
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<td>growth (%)</td>
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<td>116</td>
<td>130</td>
<td>127</td>
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<td>growth (%)</td>
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<td>2.8</td>
<td>-7.6</td>
<td>12.6</td>
<td>-2.4</td>
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<tr>
<td>Market Share(*)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.68</td>
<td>0.63</td>
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</table>
Tunisia faced with a changing and unstable environment.

In the short term, it must meet following challenges:

* Limit repercussions of decreased external demand, primarily from Europe
* Implement an appropriate foreign exchange policy which takes into account the deterioration of foreign exchange reserves and the imported inflation.
Recommendations (2)

In the long term:

* Tunisia should continue its integration and opening up process, while endeavouring to diversify its exports to markets other than EU which alone receives over 70% of the country’s exports and enjoys a very low degree of dynamism. It also needs to shift from products for which demand is on the decline worldwide (mainly textiles which account for more than 43% of Tunisian exports).

Regional and International Economic Integration

Messaoud Boudhiaf
Faculty of Economics and Management of Tunis
Circle of Economists of Tunisia
International economic context

* Increase in multilateral integration
* Development of regional integration
* Economic crisis
* Low international demand.

Regional and national context

* Limited integration with EU
* Euro-Mediterranean FTA skewed
* Limited Maghreb-Arab integration
* Lack of a specific regional business environment
* Neglect of internal efforts at regional integration
* Economic instability
* Low levels of growth and high unemployment
* Unfriendly business environment.
Problem Analysis (1)
Regional economic integration as a source of growth

* The advantage of the extension and intensification of integration with the EU

* The benefits of Southern and Eastern Mediterranean integration

* Maghreb integration increases agricultural trade by 45%, non-agricultural trade by 20%, FDI by 34% and GDP by at least 2%

* Similarity source of growth.

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Problem Analysis (2)
Regional economic integration as a source of growth

* Maghreb Integration develops the border regions

* Internal regional integration stimulates growth

* Regional integration as basis for a specific business environment

* The business environment as a source of growth

* The business environment as a factor of integration
Problem Analysis (3)
Compatibility between regional and international integration

* Benefit of expanding regional integration

* Benefit of multilateral integration

* Benefit of unilateral integration

* International integration complements and improves regional integration

* Protection may be beneficial.

Policy Recommendations (1)

* Deepen integration with EU

* Avoid replacing customs duties with consumer taxes

* Expand regional integration

* Develop Maghrebian, Arab integration and with other countries

* Reduce protection in trade with the rest of the world

* Participate actively in multilateral negotiations
Policy Recommendations (2)

* Liberalize services
* Extend convertibility of the dinar
* Improve the business environment
* Improve training
* Strengthen investor protection
* Review labour legislation
* Decentralize the Administration.

Policy Recommendations (3)

* Reform taxation system
* Improve infrastructure
* Protect where beneficial

* Set up a National Business Environment Commission like in Morocco
* Set up a National Commission for Regional and International Economic Integration.
Regional Integration: What opportunities for Tunisia?

Emanuele Santi
African Development Bank

Regional Integration
If not now, when?

North Africa is the least integrated region in the world, whereas regional integration presents many potential gains, estimated at 2 to 3% of GDP.

The changes that occurred in the region offer an opportunity to strengthen regional integration.

The Euro zone crisis underscores the need to search for new markets and sources of growth.

Tunisia: at the heart of regional integration efforts.
Regional Context and Outlook: Political, Economic and Social Context

### Political Context
- Algeria-Morocco land border closed since 1994
- No single institutional architecture uniting the six countries
- Weak Regional Economic Community
- Recent political changes and transition to democracy

### Economic Context
- 36% of total GDP and 17% of the population of the continent
- GDP real growth stood at around 5% from 2003 to 2008, and 4% over the 2009-10 period
- Limited trade between countries of the region (around 3.5% of total trade)
- Limited progress in economic convergence

### Social Context
- Unemployment as the biggest socio-economic problem throughout the region (20-25%)
- Poverty, inequality and regional disparities
- Social demand for more democracy
- Cultural and language ties

### Regional Integration in North Africa: Major Challenges and Opportunities

| Differences in performance and economic structures which limit regional integration prospects |
| Diversité et complémentarité des dotations entre pays de la région |
| Strong outward orientation, primarily targeting the European market |
| Fort potentiel en matière d’ouverture des marchés et d’économies d’échelle à travers une plus grande intégration à l’économie globale, et en particulier au niveau de la région |
| Multiplication and overlapping (FTA) of trade agreements in North Africa pose major obstacle to trade expansion in the region |
| Construire des liens plus étroits avec le reste de l’Afrique, compte tenu des difficultés économiques des partenaires traditionnels |
| More missing links and connections |
| The region’s infrastructure is of a fairly high quality |
| Lack of political will and weakness of regional economic organizations |
| New political landscape in the region that may generate new regional integration momentum |
| Prominent role for the private sector |
Sector-Based Analyses
Themes Discussed

a. Energy

b. The Environment and Climate Change

c. Human Development

d. Trade and Transport

e. Financial Sector

f. Information and Communication Technology

ASector-Based Analyses
Major Outcomes by Themes

a. Energy

- North Africa is strategically one of the world's most important regions in terms of energy sources
- Building a regional market will enable the region to increase its role as energy transit corridor and a source of clean energy supply through an integrated approach
- Tunisia: Transit and processing area

b. The Environment and Climate Change

- Water stress and desertification are the major challenges affecting the region
- Capacity building (knowledge, tools and methods) for the development of integrated approaches and coordinated implementation of climate adaptation and national disaster risk reduction measures.
- Tunisia: Water stress and desertification
Sector-Based Analyses
Major Outcomes by Themes

c. Human Development

Unemployment is a structural problem: the average unemployment rate in North Africa exceeded 17% in 2008.
Facilitate migration of workers to ensure a better match between skills supply and the demand of the regional market.
Tunisia: is better placed to benefit from an active migration strategy (like Libya, for example).

d. Trade and Transport

The missing links go beyond the physical infrastructure: logistical bottlenecks and lack of appropriate transport services are among the main obstacles to intra-regional trade.
Trade in services is still in its infancy. The liberalization of professional services is limited and closely related to the restriction of labour mobility.
Tunisia: Key transit role in the region.

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Sector-based Analyses
Major Outcomes by Themes

e. Financial Sector

Expansion of the sector in all countries, but at widely varying rates. Despite privatization programmes of recent years, State control of the banking system ranges from 27% (of banking sector assets) in Morocco to 85% in Algeria.
Busy schedule: harmonization of payment systems, banking and financial regulations and financial and supervisory framework; credit agencies and trade financing agencies.
Tunisia: Capital attraction.

f. ICT

Algeria, Egypt, Morocco and Tunisia have well developed ICT sectors and have made significant advances in regional integration.
ICT companies in North Africa are still handicapped by their small size, which limits their ability to carry out major projects or guarantee the reliability of export activities. Regional connectivity and regulatory harmonization remain weak, with missing and unsecured links.
Tunisia: Leadership potential in the region.
Tunisia-Libya: An Example of Strong Cooperation

* Historic Partnership: Libya is Tunisia’s leading partner after the EU

* Tunisia’s role in the emergence of Libya and the impact of the conflict

* Tunisia’s role in the reconstruction

* Migration potential (study in process).

The BRICs in North Africa
What Lessons for Tunisia?

Vincent Castel
African Development Bank
Context (1) From “resource providers” To “target market”

* A growing need for resources: Energy, Phosphate
* European markets dominate exports, but the BRICS capture market share
* The AN is seeking to diversify its exports and is targeting tourism in particular
* A need clearly supported by the desire to reduce dependence on Europe
* Help North Africa to meet those needs (food security, health and primary products
* Support infrastructure development
* Manufactured product exports on the uptrend
* A developing diaspora that facilitates penetration
* But some activities are more “debatable”.

Context (2)
From “Made in China” To “Made in Egypt”

* Manufactured goods – the Egyptian case
  - Cheap energy - facility to export products
  - No tax & trade agreement and cheap labour
* China – Leading investor in Egypt: >USD 500 billion in 2009 – Counter-cyclical
* Natural resources – Securing supply
Context (3)
The economy does not replace politics

* A long and sustainable relationship (non-aligned countries)
* And renewed (AN subscribes to the "one-China" concept)
* Some tensions
  - Morocco and Algeria – competition and employment.

Problem Analysis (1)

* A low investment rate in Tunisia
  - How to attract investments?

* An employment problem – the BRICs are in direct competition in certain sectors
  - Creation or destruction of employment?
  - What types of employment are created?
Problem Analysis (2)
How to attract investments

* Facilitate investment
  - Reforms & Transport
  - Communication (forums, country bureaux and e-forum)
  - New agreement

* Free trade areas– Specific to BRICs

* The Egyptian case
  - 953 firms in special economic areas
  - Before revolution: new area (180 firms/USD 3.5 billion/40,000 jobs)

* But the problems persist
  - These are not countries for “immigrants”
  - Lack of trust (on both sides)
  - Inflation and foreign exchange risk.

Problem Analysis (3)
The job issue

* Type of jobs created
  - Long or short-term: not to be confused with the building of structures
  - Skilled or unskilled

* Do these jobs benefit nationals?
  - Case of Algeria
  - Regulation (at least 10% of workers should be Algerians).

Ultimately, with the opening up of the markets: job creation or destruction?
Policy Recommendations (1)

* Develop a real strategy to attract BRICS investment
  - Communication
  - Incentives
  - Infrastructure
  - Human capital (special training).

Policy Recommendations (2)

* Maintain specific goals in terms of:
  - Job creation (types and number of jobs created)
  - Support for diversification and sophistication

* Strategy to conquer these markets

* Drawing inspiration from these economies.
Session 3: Returning financial sector to the service of private investment

Presentations

1 - Analysis of Tunisia’s banking and financial system - Mansour Samia (AfDB) 100

2 - Towards a strategic role of the Tunisian Post in financial inclusion - Hamadi FEHRI et Sihem Bennour (Poste Tunisienne) 105

3 - Public Credit Registries Design and Financing Obstacles: Evidence from Africa - Thouraya Triki (AfDB) and Elvis Adjei, (Bangalore University) 108

4 - Towards a new approach to banking supervision in Tunisia: the challenges of sound growth financing - Hatem Salah (University of la Manouba) 118

5 - Investment financing in Tunisia: Is the role of banks important? - Mouldi Djelassi et Manel mazioud (University of Tunis) and Dhafer Saidane (University of Lille) 123

6 - What institutional reforms are needed to improve performance of the Central Bank? - Ali Chebbi (University of Tunis) 130
Analysis of Tunisia’s banking and financial system

Mansour Samia
African Development Bank

Context (1)

* Shift of the epicentre of the global crisis towards Europe and appearance of a new hierarchy propelling emerging economies to a world leading position.

* The Tunisian economy needs to adapt, to capitalize on the potential offered by the national political change, and attract investment flows internationally ...

* Key role of the banking and financial system in this new context ....
Context (2)

* Cloud of uncertainty hanging over the entire financial and economic sector (negative growth of 3.3% as at 30/06/2011)

* A highly fragmented banking sector ...

* Tunis Stock Exchange in a recession ....

Problem Analysis (1)

Fragile Banking Sector ...

- A country’s macroeconomic and financial stability cannot be assured without a sound and regulated financial system ...

- The revolution of 14 January 2011 highlighted the shortcomings of the banking sector (in terms of the division and coverage of risks and commitment monitoring).
Problem Analysis (2)

Slowdown before Rebound...

- The rate of non-performing loans remains relatively high compared to countries of the Middle East and North African (MENA) region (11.94% at end-December 2010)

- The robust credit growth (19% in 2010), coupled with a less pronounced increase in equity (11% at end-2010), affected the solvency of some banks (a sector solvency ratio of 11.94% at end-2010).

Problem Analysis (3)

Slowdown before the Rebound...

- The sector suffers from acute fragmentation (high number of small banks). A comparison with African banks shows that Tunisian banks are lagging far behind (in terms of total assets or income generated). None of the 21 establishments in operation figures among the Top 10 African or Maghreb banks in terms of deposits, credits or net banking income.
Problem Analysis (4)

* The governance of Tunisian banks, especially public banks, continues to be problematic....

* Risk management remains one of the weaknesses of Tunisian banks ....

* A financial market that is dependent on banking institutions ....

Policy Recommendations (1)

* Banking institutions should be aware of the need for restructuring to remedy their shortcomings:
  
  - Mergers and acquisitions are becoming a necessity in the Tunisian banking landscape
  - Review the size of banks
  - Optimize the organizational and information systems of banks.
Policy Recommendations (2)

* Strengthen the rules of good governance in Tunisian banks (BCT Circular No. 2011-06)

* Establish a proper regulatory framework to help banks implement the guidelines of Basel II.

* Diversify the existing product range by launching alternative financial instruments (like in Morocco).

Policy Recommendations (3)

* Bankinsurance: An untapped market …

* Establish strict rules of disclosure and transparency to increase confidence in the financial market and promote investment.
Towards a strategic role of the Tunisian Post in financial inclusion

Hamadi Fehri and Sihem Bennour
Tunisian Post

Context

The objective of the Tunisian Post is to include the unbanked in the productive sphere by providing them with a financing flow.

There are two main reasons for this concern:

- In terms of financial inclusion, Tunisia lags far behind other countries of similar income levels (according to the World Bank study of April 2012: "Measuring Financial Inclusion: The Global Findex Database"), see charts following.

- Concern for economic efficiency characterized by efforts to balance the budget of the Tunisian Post (State subsidy of TD 40 million for 2012).
Factors favouring financial inclusion by the Tunisian Post

Postal network capillarity:

* 1,042 post agencies, of which:
  - 44% in rural areas
  - 70% are computerized
  - 46 are mobile
    * 32 Financial Spaces dedicated to value-added financial services

* 180 ATMs (representing 7.6% of the total number ATMs in Tunisia)

Mapping of the postal network

Factors in favour financial inclusion by the Tunisian Post

A huge volume of savings: TD 2.712 billion at end-2011 (24% of the national market)

* Number of savers: 3.267 million

* Annual payment-withdrawal surplus: TD 180 million
  8% of savers have holdings of < TD 500

* Breakdown of savers by age bracket:
  - 13% of customers are aged 25 years
  - 74% of customers are aged between 25 and 60 years
  - 13% of customers are aged over 60 years

Savers' holdings are placed at the disposal of the Public Treasury.
Scenario 1

* The Tunisian Post assumes the role of distributor of microfinance services in partnership with current MFIs
* Prerequisites of postal system: training of staff, management procedures, interface with MFI information systems...
* Advantage of the model: No risk-taking

Limitations of the model:
- Low involvement of the staff of the Post
- No transfer of know-how
- Low distribution fee.

Scenario 2

* Establishment by the Tunisian Post of a microfinance company in accordance with Decree Law No. 117 of 5 November 2011

* Prerequisites:
  - Provision of a minimal capital of TD 3 million
  - Human resource training in MFI skills (file review, risk management, monitoring of recoveries, etc.)
  - Establishment of an appropriate information system
  - Preparation of the postal network for the marketing of microfinance services

* This model makes it possible to boost cashflows at the Tunisian Post through dividends.
Conclusion

The Tunisian Post definitely meets a number of requirements for developing financial inclusion, but these must be supplemented by a programme for (technical and financial) support and exchange of experiences and expertise to strengthen its capacity to provide a full range of microfinance services, notably financing flows to the unbanked.

Public Credit Registries Design and Financing Obstacles: Evidence from Africa

Thouraya Triki
African Development Bank Group
and
Elvis Adjei
Bangalore University
Outline of the Presentation

* Background information about credit registries
* Research questions and contribution
* Data and Methodology
* Main findings
* Conclusion

Access to finance in Africa: What do we know? (1)

Table 1: Percentage of Firms identifying access to finance as a major constraint

<table>
<thead>
<tr>
<th>Region</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>48.24</td>
<td>40.77</td>
<td>32.74</td>
</tr>
<tr>
<td>Developping Asia</td>
<td>26.26</td>
<td>24.48</td>
<td>21.57</td>
</tr>
<tr>
<td>Developping America</td>
<td>30.76</td>
<td>25.28</td>
<td>18.78</td>
</tr>
<tr>
<td>Developping Europe</td>
<td>13.98</td>
<td>13.67</td>
<td>15.33</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation using World Bank Enterprise Surveys
Access to finance in Africa: What do we know? (2)

* Demand side

- Excessive collateral requirements (WBES: 186% of loan value)
- Cumbersome procedures
- High interest rates
- Size or maturity is inappropriat

Access to finance in Africa: What do we know? (3)

* Supply side

- Poor capitalization and quality of applications
- High levels of information asymmetry
- Lack of credit information systems

Regional credit information (2005-2010)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Depth of credit information</th>
<th>Public registry coverage (% of adults)</th>
<th>Private bureau coverage (% of adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Africa</td>
<td>1.4</td>
<td>1.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>2.0</td>
<td>3.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Developing America</td>
<td>3.4</td>
<td>8.3</td>
<td>29.8</td>
</tr>
<tr>
<td>Developing Europe</td>
<td>3.3</td>
<td>4.8</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Source: World Bank (Doing Business database)
Credit Registries: the Silver Bullet?

<table>
<thead>
<tr>
<th>PCRs</th>
<th>PCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Banking supervision</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>Mainly large corporate. Limited in terms of history and type of data provided.</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Government or central banks</td>
</tr>
<tr>
<td><strong>Status</strong></td>
<td>Not for profit</td>
</tr>
<tr>
<td><strong>Data sources used</strong></td>
<td>Banks and non banks financial institutions</td>
</tr>
<tr>
<td><strong>Access</strong></td>
<td>Restricted to information providers</td>
</tr>
</tbody>
</table>

Private Credit Bureaus in Africa

[Map of Africa showing locations of credit bureaus]
Credit registries: the silver bullet?

* Facilitate cost-effective exchange of accurate and timely credit information (Galindo and Miller (2001) and Brown et al. (2009)),

* Reduce adverse selection and moral hazard in the credit market (Pagani and Jappelli (1993) and Padilla and Pagano (2000)),

* Reduce the informational rent that banks could extract from borrowers as well as overindebtedness risks,

* Allow a more efficient supervisory oversight ((Girault and Hwang, 2010)).

Credit registries: the silver bullet?

* Mainly serve borrowers with existing credit history

* Increase lending to safe borrowers rather aggregate credit levels

* Discourage financial institutions from developing their own risk management expertise (Dorbec, 2006)

* Errors in data collected by credit registries could create barriers to finance
The literature on credit registries

Firm-level: Love and Mylenko (2003), Galindo and Miller (2001) and Brown et al. (2009)

Country level: Jappelli and Pagano (2002), Djankov et al. (2007), Singh et al. (2009), and Brown and Zehnder (2007)

Inconclusive results on the merits of public credit registries (PCRs)... positive results on the merits of private credit bureaus (PCBs).

No study on African markets!

**Objective and Research questions**

Empirically explore the value-added of credit registries to improve corporate access to finance in Africa:

- Does the presence of (PCBs) and PCRs improve SMEs access to finance?

- How to design Public Credit Registries (PCRs) to improve SMEs access to finance
**Contribution**

* We provide the first cross-country multivariate study assessing the benefits of credit registries and factors affecting firm's access to finance in Africa,

* We test how the design of PCRs affects their performance on alleviating the financing constraint by using new indicators on their fee structure, provision of online access to users and minimum loan they covered.

---

**Data and methodology**

* 17,000+ firm-level observations from the World Bank Enterprise Surveys (WBES) conducted in 42 African countries between 2006 and 2009

* Country-level indicators of income level and inflation (World Economic Outlook), concentration of the banking sector (World Bank Financial Structure Database), private credit to GDP (IMF International Financial Statistics database), strength of credit information (doing business), the strength and independence of the juridical system and political stability in the country (Mo-Ibrahim foundation).
Data and methodology

* Data on PCRs and PCBs: Djankov et al. (2007), the doing business database and annual reports (2004-2011), World Bank survey of credit reporting systems, central banks.

* Access to finance obstacle = f(firm characteristics, macroeconomic environment, financial sector development, credit information quality and PCRs features)

* Dependent variable: response to the question available in the WBES: How severe is the access to finance obstacle for your current operations?

---

Data and methodology

Credit information quality:

- Index measuring the depth of credit information at the country level
- 2 dummy variables for PCR and a (PCB) availability,
- Number of PCBs

PCRs characteristics:

- Minimum loan value covered by the PCR,
- Dummy for positive and negative information,
- Dummy for PCRs charging users a fee
- Dummy for PCRs offering users online access to information.
Data and methodology

**Firm characteristics:** size, age, ownership structure (both in terms of foreign and government ownership), sector of activity, management quality, capacity to provide audited financial statements.

**Financial sector development:** claims on the private sector by financial institutions to GDP, share of the largest 3 banks in total banking sector assets

**Macroeconomic environment:** GDP per capita and the percentage change in the consumer price index.

---

**Main findings (1)**

* Smaller, younger, domestic-owned and non listed companies face greater barriers to access finance. Government ownership is not relevant.

* Provision of audited financial statements and better credit information at the country level improve access to finance.

* The presence and number of PCBs are associated with lower financing barriers
Main findings (2)

* The presence of PCRs is associated with a higher probability to identify access to finance as a constraint...however

* PCRs offering online access to users and covering smaller loans size have a positive effect on companies' access to finance.

* The fee structure of PCRs does not affect the probability to identify finance as a constraint.

Conclusion

PCBs are efficient tools to soften the financing constraint in Africa.

PCRs could also be used if they are well designed: online access, coverage of small loans.

Quality of credit information at the country and firm levels are significant determinants of firm's capacity to access finance.
Towards a new approach to banking supervision in Tunisia: the challenges of sound growth financing

Hatem Salah
University of la Manouba

Context (1)

* In 2011, the rate of non-performing loans (NPLs) rose to 20% of the total loans (against 13% in 2010 and 24% in 2003)
* Despite a BCT circular (June 2011) requesting banks not to include in claims declared after January 14th in the "non-performing loan" category, the banking sector is under pressure stemming from the relatively high levels of non-performing loans
* According to Standard & Poor’s, Tunisia faces:
  - "very high risk" in its "institutional framework" because of the low solvency requirements and the classification of NPLs,
  - a "high risk" in the "dynamics of competition".
Context (2)

- a very high risk” in “the entire financing system”.
- The provisioning put in place by Tunisian banks is not enough to cover problem loans
- The regulatory authorities are yet to implement the Basel II rules for risk identification
- The supervision of the banking sector, in terms of risk evaluation, is barely adequate.

Problem Analysis (1)

Deficient banking supervision in Tunisia has led to excessive build up of risks in the banking system

The prudential supervision framework is lagging behind in the introduction of new reform, in particular, the adoption of a standardized Basel II approach for credit risk and the rapid transition to more advanced methods

The banking environment is changing and the limitations of the current supervision methods could become obvious in the event of an unanticipated occurrence affecting a class of assets that was previously believed to be immune to shocks (e.g. mortgages).
Problem Analysis (2)

What analytical framework should be adopted for banking supervision in Tunisia?

What are the stakes and challenges of implementing Basel II in bank capitalization and SME financing in Tunisia?

Does Basel III meet the current needs of Tunisian banks?

Would it be advisable to entrust the supervision function to the Central Bank of Tunisia or set up an autonomous supervisory authority?

Is the regulator able to effectively supervise banks without compromising the implementation of the monetary policy.

Problem Analysis (3)

Why is risk-based banking supervision an appropriate analytical framework?

- Measure risk and target control
- Expand risk coverage (Basel 2): market risk and operational risk
- Take counterparty risk into account: coverage of expected losses (EL) and unexpected losses (UL)
- IFRS standards (improvement of financial reporting)
Policy Recommendations (1)

* Gear banking supervision towards a comprehensive assessment of all categories of risks faced by the banks reviewed

* Integrate stress test techniques into risk management, as advocated by Basel II, to measure the resilience of the banking system

* Strengthen off-site banking supervision on a continuous basis, e.g. quarterly, in order to enable:
  - A more detailed analysis of the financial soundness of banks
  - An overall classification of banks
  - The establishment of an early warning system.

Policy Recommendations (2)

* Establish an early warning system covering several aspects of banks:

  - Solvency, Asset Quality, Liquidity, Profitability, Management, Probability of default of credit institutions
  - The early warning system should enable:
    - The strengthening of quality control (internal oversight and good governance ...)
    - Early identification of banking problems,
    - Rapid intervention by the supervisory authority in the event of banking difficulties
    - The establishment of a macro-prudential supervision mechanism and calibrating macro-prudential tools according to the contribution of each institution to the systemic risk.
Policy Recommendations (3)

- Analyze macro-economic and macro-financial changes:
  - Credits
  - Non-financial actor indebtedness
  - Trend of asset prices
  - Level of transformation, leverage effects, liquidity risks

- Analyze risk accumulation dynamics:
  - Unusually high returns
  - New techniques for regulatory arbitrage
  - Development of unregulated activities
  - Quality and relevance of the tools used by banks and micro-prudential supervisors for risk measurement

- Analyze competition quality:
  - Oligopolies & their market power corollary
  - Position advantage
  - Information asymmetry likely to concentrate risks on certain actors

- Analyze regulatory arbitration possibilities:
  - Alignment with equity capital requirements, accounting treatment and transformation and liquidity requirements.

Policy Recommendations (4)

* Enhance the soundness of the banking system by applying stricter rules regarding the quality of the capital base and liquidity of banks, without affecting credit distribution in favor of SMEs:
  - Raise the regulatory capital requirements
  - Rethink credit guarantee for SMEs

* Strengthen the supervision process by performing stress testing on the basis of macroeconomic shock projection (economic recession, rising unemployment, falling asset prices (housing and financial assets))

* Reorganize the structure of banking supervision in light of the new responsibilities of banks under Pillar 2 of Basel II and of the strengthening of technical and human capacities

* Limit development of financial products whose risk measurement is not guaranteed and impose more stringent prudential ratios on certain risks.
Investment financing in Tunisia: Is the role of banks important?

Mouldi Djelassi and Manel mazioud
University of Tunis
Dhafer Saidane
University of Lillie

Problem Analysis

What is the investment financing structure in Tunisia?

Have Tunisian banks reached a stage of maturity that allows them to serve as a growth engine?

Net flow method.
## Flow table: origin and application of the funds of enterprises

<table>
<thead>
<tr>
<th>Ressources Gross</th>
<th>Jobs</th>
<th>Ressources net</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Internal financing</td>
<td>(7) Numéraires et dépôts</td>
<td>Internal financing (1)</td>
</tr>
<tr>
<td>(2) Bank loans and others financial institutions</td>
<td>(8) Actions acquises</td>
<td>Bank loans and others financial institutions (2) –(7)</td>
</tr>
<tr>
<td>(3) Issue of new shares</td>
<td>(9) Obligations acquises</td>
<td>Net Issue of new shares (3)-(8)</td>
</tr>
<tr>
<td>(4) Bonds issuance</td>
<td>(10) Crédits commerciaux consentis</td>
<td>Bonds issuance?? (4)-(9)</td>
</tr>
<tr>
<td>(5) Commercial credits</td>
<td>(11) Investissement physiques</td>
<td>Net Commercial credits (5)-(10)</td>
</tr>
<tr>
<td>(6) Gross resources, total</td>
<td>(12) Total jobs</td>
<td>Net resources, total (6)-(7)-(8)-(9)-(10) = Physical investment</td>
</tr>
</tbody>
</table>

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### Methodology

* Data: "Flows" extracted from the comprehensive economic tables (TEE) published in "Les Comptes de la Nation base 1983" (National Institute of Statistics)


* Calculation of real investment financing ratios.
I. Observations:
- Contribution of bank loans to finance modest physical investments;
- The decrease in banks contribution is associated with an increase in self-financing until 2005;
- An increasingly role of equity financing from the mid 90s (privatization capital increase without passing through the organized markets such as company creation...)
- A negligible role in the market for debt security

<table>
<thead>
<tr>
<th>In %</th>
<th>83-85</th>
<th>86-90</th>
<th>91-95</th>
<th>96-00</th>
<th>01-05</th>
<th>06-09</th>
<th>83-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal financing*</td>
<td>49.8</td>
<td>63.5</td>
<td>73.7</td>
<td>71.7</td>
<td>76.1</td>
<td>65.3</td>
<td>68.4</td>
</tr>
<tr>
<td>Bank Loans</td>
<td>32</td>
<td>26.4</td>
<td>11</td>
<td>14.4</td>
<td>5.85</td>
<td>5.5</td>
<td>13.1</td>
</tr>
<tr>
<td>Bonds</td>
<td>-0.2</td>
<td>-7.5</td>
<td>-6.5</td>
<td>-4.7</td>
<td>-6.2</td>
<td>-1.7</td>
<td>-3.7</td>
</tr>
<tr>
<td>Shares</td>
<td>18.4</td>
<td>11.8</td>
<td>19.1</td>
<td>30.3</td>
<td>30</td>
<td>31.2</td>
<td>26</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>5.8</td>
<td>2.7</td>
<td>-11.7</td>
<td>-5.7</td>
<td>-0.3</td>
<td>-3.8</td>
</tr>
<tr>
<td>External financing</td>
<td>50.2</td>
<td>36.5</td>
<td>26.3</td>
<td>28.3</td>
<td>23.9</td>
<td>34.7</td>
<td>31.6</td>
</tr>
</tbody>
</table>

* with capital transfers
Source: Authors’ calculations

Shares of various net sources in the financing of non-financial companies (NFCs)’ investments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Financing</td>
<td>63.5</td>
<td>68.2</td>
<td>73.1</td>
</tr>
<tr>
<td>Bank loans</td>
<td>22.4</td>
<td>13.1</td>
<td>7</td>
</tr>
<tr>
<td>Shares issued</td>
<td>14.9</td>
<td>24.8</td>
<td>35.1</td>
</tr>
</tbody>
</table>

Tunisia is a country with high levels of domestic financing and low levels of recourse to bank loans, with equity financing playing an increasingly significant role.

Tunisia’s financial system was disrupted following the switch from financing entailing banking debts to mainly equity financing (result: internal oversight of management of firms)

The investment financing method is characterized by a high level of equity issuance, while the capital market remains underdeveloped.
Remark

Respective shares of gross sources in the financing of non-financial company (NFC) investments

<table>
<thead>
<tr>
<th>En %</th>
<th>83-85</th>
<th>86-90</th>
<th>91-95</th>
<th>96-00</th>
<th>01-05</th>
<th>06-09</th>
<th>83-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic financing</td>
<td>49.7</td>
<td>76.1</td>
<td>62</td>
<td>75.20</td>
<td>78.82</td>
<td>68.39</td>
<td>69.88</td>
</tr>
<tr>
<td>Bank loans</td>
<td>42.6</td>
<td>26.2</td>
<td>17.1</td>
<td>24.4</td>
<td>19.2</td>
<td>22.6</td>
<td>24.3</td>
</tr>
<tr>
<td>(Net) Bank loans</td>
<td>32</td>
<td>26.4</td>
<td>11</td>
<td>14.4</td>
<td>5.85</td>
<td>5.5</td>
<td>13.1</td>
</tr>
<tr>
<td>Shares issued</td>
<td>23.38</td>
<td>18.26</td>
<td>34.06</td>
<td>35.92</td>
<td>42.73</td>
<td>31.24</td>
<td>31.08</td>
</tr>
</tbody>
</table>

Source: Author’s calculation

A widening gap between the two rates of loans: NFCs are increasingly depositing funds in banks (liquidity trap and deposit trap)

Net loan sources are more severely affected by the decline, a situation which reflects the structural nature of the decline.

Explaining bank credit weakness in light of information asymmetry models
Theoretic Approach

Information Asymmetry

Anti-selection Risk

Moral hazard Risk

Credit Rationing

Goal and ultimate objective of the Semi-Directive Survey

<table>
<thead>
<tr>
<th>Financial Body Location</th>
<th>Agences bancaires</th>
<th>Sièges bancaires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Central Region</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Southern Region</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>20</td>
</tr>
</tbody>
</table>

* Explore the existence of rationing on the credit market
* Investigate whether the theoretical determinants of credit rationing have equivalents in the practices of credit managers
Theoretical determinants of Credit Rationing selected

- Nature of credit supply capacity
- Nature of credit request
- Moral hazard
- Lack of material collateral
- Nature of recovery procedures.

Credit Rationing Measures

When the venture seems risky:

- Raise interest rate: 16
- Do not allow CR: 61
- Demand conditionalities: 23
Conclusion

* The limited NFE credit allocation results in credit rationing: red-lining (Stiglitz et Weiss, 1981).

* Credit rationing determinants include:

- unreliability of accounting documents
- anti-selection problem
- inefficient recovery procedures.
Policy Recommendations

* Encourage long-term bank financing, to avoid the risks of heavy dependence of investment on own funds (financial accelerator problem)

* Introduce reforms to encourage medium- and long-term lending. This requires reducing the reporting and oversight problems relating to long-term commitments, in order to:

  - Strengthen project evaluation capacity of banks by developing the “studies and outlook” functions
  
  - Empower banks in setting interest rates. The objective is to improve risk pricing and gradually move towards greater accountability and competition
  
  - Reform the bankruptcy law for greater empowerment of creditors.

What institutional reforms are needed to improve performance of the Central Bank?

Ali Chebbi
University of Tunis
Economists’ Circle, Tunisia
Reference Framework: Institutional Approach and Performance of the Central Bank of Tunisia (BCT)

In democratic transition, political reforms are less difficult than economic sector reforms: the unifying role of the institutional dimension for better rules:

Is the independence of the BCT a guarantee for better conduct of monetary policy?

Organic or functional independence: which priority?

Which institutionalized coordination mechanisms?

What institutional reforms for better governance of the banking industry?

What priorities for improved performance of the BCT?

Talking Points

1. First: The independence of the Central Bank - supporters and opponents
   - Status of the problem and typologies (de jure-de facto, functional-organic)
   - From pure credibility to flexibility: ensuring temporally coherent coordination between monetary and fiscal policy: measurable objectives, identified instruments and efficiency

2. Is the independence of the CBT necessary today?
   - Since the revision of the CBT's statute in 2006, the institution's partial functional independence has been de jure

3. Post-January 14,
   - But functional independence is of little use, given the inefficiency of monetary policy instruments: structures and micro-economic approach
   - Dismantling of monetary policy
   - Functional autonomy, as an anti-inflation objective, proved meaningless and devoid of content during the recession

4. The question is: What kind of governance is needed for the Central Bank in a transition period?
Organic or functional independence, what priorities during the transition period?

1. Recession framework and priority to recovery and stabilization: The budget instrument is now paramount. Hence, a specific monetary and financial governance framework:

a. Organic independence whereby the current statute of the CBT is far from being achieved (need for changes in respect of internal oversight - accountability of statutory auditors to the National Constituent Assembly (ANC), for example, rather than to the president who appoints them: problem of accountability, transparency and empowerment)

b. Discretionary aspect of the monetary policy during often ex-post evaluation of objectives (which may undermine the transparency, credibility and opportunities for evaluating monetary policy).

c. Contextual functional independence, due to the specificity of the transition period:
   1. In the absence of rules, institutionalization of the joint adoption of monetary policy measures, in conjunction with the budgetary authority
   2. Taking into account of the transmission effects of monetary instruments on budgetary aspects (macroeconomic framework)

b. Monetary instrument as a tool for financial stability

b1. Link the monetary policy instruments with the quality of banking assets (example: the reduction of mandatory reserves should be accompanied by better provisioning, but this is not the case, given that the post-January 14 reduction of 10% produced only a 3% increase in provisioning

b2. Inflation-inducing monetization accompanied by increased instability of the national currency

b3. Hence the need for better governance in the banking industry aimed at ensuring:

- Good asset quality - fewer non-performing loans - greater profitability – improved liquidity management.
- Therefore, a compelling need for banking sector reform.
Economic Policy Recommendations

* What Independence during the transition period?
Organizational and modulated independence coupled with "optimal" coordination between monetary and fiscal policy;

Benefits of institutionalized coordination
- Monetary policy flexibility to take into account fiscal stimulus instruments, without being subject to them;
- Active management of monetary instruments vs fine-tuning for rapid adjustment and control interest rate (repos, currency swaps, and interbank deposits at the Central Bank);
- Consideration of the negative impact of the economic context;
- The “optimal” reaction functions of the Central Bank reflect greater efficiency of the mon. policy.

What appropriate institutional mechanisms?

Decision-making and independent oversight bodies:
- An expanded Board of Directors and publication of the minutes of the Board of Directors
- Institutionalization of relations with international financial bodies and credit rating agencies …
- An BCT independent body comprising experts, elected officials, representatives, etc.) to endorse the choice of economic policy;
- An authority in charge of addressing the expectations of the agents

In addition to the economic budget,
- Provide a quarterly monetary policy programme for discussion in the National Constituent Assembly (ANC) or an equivalent body
- Introduce institutional reform for greater transparency in the banking sector (a public authority in charge of auditing Central Bank reports on Banking Supervision).
What mediums and features for the BCT governance?

Functional structures of the BCT of governance

The following questions should first be answered:

- What are the mechanisms for ensuring the accountability of managers of the Central Bank (BC), as an institution, which implements monetary policy independently?
- How do we ensure that individual decision-makers are held accountable for their decisions?
- Which bodies should be responsible for implementing the principle of transparency to ensure accountability to the public?
- Communication and accountability?

And then,
1. Appropriate technical instrumentation: institutional place in macroeconomic policy
2. Efficient models for forecasting and macroeconomic planning
3. Reliability of financial information and continuous availability of statistical data
4. A surveillance or early warning system relating to the real global monetary and financial situation
5. Generalization of banking supervision inspections.

Conclusion

* An institutionalized independence, objective and/or instruments. Collective business aimed at a specific choice

* Contextualization of the Banking sector reform (size, structure, performance, etc.)

* Targeting of the performance of BCT structures

* Appropriate signals for improving the business climate.
Session 4: What policies for employment and better social protection?

Presentations

1 - The Tunisian Job Market - Mohamed Kriaa
    University of Tunis, IDEES)

2 - Employment in Tunisia: the way forward? - Stijn
    Broecke (AfDB)

3 - Fiscal and Social Pact for Employment - Taoufik
    Rajhi (BAD)

4 - The social protection system in Tunisia: between urgent measures and structural reforms - Mehdi Ben Braham (Association IDEES - Afkar Tunisie, LEGI/ École Polytechnique de Tunisie)
The Tunisian Job Market

Mohamed Kriaa
University of Tunis, IDEES

Problem:
Qualitative and quantitative imbalance between supply and demand
Contradictory qualification/salary expectations.

1st Observation: Job offers requiring mostly low-level qualifications. In 2010, nearly 84% of the workforce had an educational level below the high school diploma.

2nd Observation: An additional demand from highly qualified job seekers (over 60% of new entrants in 2010).

3rd Observation: Universities have continued to enroll according to their intake capacities and above.

Without matching training (continuing, vocational) with job market needs: problem of mismatch
Context I: Gender disparity in jobless rate

Unemployment rate:
15.6% in 1994 to 14.2% in 2008 to 13% in 2010 and 18.3% in 2011

By gender:
Unemployment rate: Male from 10.9% in 2010 to 15% in 2011
Female from 18.9% in 2010 to 27.4% in 2011

Context II: Disparity by educational level

In 2008, 21.6% of higher education graduates were jobless, representing 113.8 thousand unemployed (of which nearly 62% women or 70.4 thousand). This rate was below 5% in 1994; in 2011, it exceeded 29%.
Context III: spatial disparities

With their intertwined relationship, the regions of the hinterland seem trapped in inequality and under-development.

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobless Rate</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>14.9%</td>
<td>Centre West</td>
</tr>
<tr>
<td>2011</td>
<td>28.6%</td>
<td>Centre West</td>
</tr>
</tbody>
</table>

Problem Analysis

Problem of job offers: The imperative to create skilled jobs

A sector-based analysis of the employment structure

1) In 2010, nearly 60% of new entrants were higher education graduates, whereas only 16% of employees have a higher education qualification.

It is clear that a low percentage of job offers is from skilled labour-intensive sectors.
Problem Analysis
Problem of Job Offers 2, 3 and 4

2) The weight of high value-added sectors (ICT, Ind. auto,...) in the GDP is low
   Share of market services = 48.4%

3) A low youth labour-intensive economy
   the GDP elasticity of youth employment is less than 1

4) The most job-generating activities are not necessarily the top performers in
   terms of production (textile, IMM, IEEE)

   To foster the creation of skilled jobs, it no longer suffices to increase
   the GDP growth rate.
   Without a change in the production structure and a technology upscale,
   Tunisia’s economy will remain incapable of absorbing the influx of graduates
   into the labour market.

Problem Analysis
Problem of demand and intermediation

Demand: Tunisian universities churn out graduates in all fields of study.
At the same time, enterprises are often unable to find the types of profile they need.

   The paucity of skills is due mainly to the dearth of certain profiles and
   training and education curricula that are ill-adapted to corporate needs

Intermediation: An employment policy based on economic growth and its impact
on job creation. It is also based on the regulatory policy (PAE).

   An intermediation policy that has proved its limitations since it is unable
   to reduce the imbalance between supply and demand
Policy Recommendations
Proposals for immediate solutions

Proposal No. 1: Apply protection scheme for threatened jobs and ailing businesses, although the lever of the budget deficit will be activated.

Proposal No. 2: Public investment (national programme of construction of public buildings and major works) must play its role of prime mover of job creation, regional development and revitalization of other economic sectors.

Proposal No. 3: Organized international and notably highly skilled labour, can serve as an outlet for graduate unemployment. In this area, we must seize the new opportunities on the Libyan market.

Proposal No. 4: Immediately, set training quotas for specific profiles, and make a readjustment of the training system, through rationing in some specialties depending on actual market needs.

Policy Recommendations
Proposal for structural change

1- Reform of the production system

Proposal No. 5: Revise the investment code, the industrial and incentives policy and improve competitiveness: outsourcing and the strategy of "import substitution", guarantee businesses lower or no customs duties on their imported inputs.

Avoid engaging Tunisian firms in activities with low added value: the idea is to foster conditions for increased skilled jobs and go upmarket in terms of added value.

Proposal No. 6: Revisit the strategy of technology centres and move towards a more efficient concept, namely that of competitiveness clusters.

Promote synergies between universities and industry (R & D) and Leverage the productive units of different sectors to improve their productivity and to support their technological development.
Policy Recommendations

2 - Payroll taxes and labour law

Proposal No. 7: Revise the method of calculating payroll taxes, by reducing those for skilled jobs, hence the system of financing social security. Reduce pressure on labour costs, hence the competitiveness of enterprises.

Proposal No. 8: Closer control of taxpayers, notably including those of flat-rate system is essential. It should largely offset the lower wage employment taxes.

Proposal No. 9: Revise the labour code: legislation on hiring and firing through discussions with social partners (unions and employers). The idea is to reduce the rigidity of the labor code to boost the creation of formal jobs and accelerate corporate restructuring.

Improve the quality of the social climate in companies.

Policy Recommendations

3 – Training and intermediation

Proposal No. 10: Adapt curricula and their contents to the acquisition of know-how in addition to knowledge.

Adding value to professional degrees

Proposal N°1 1: Develop alternate training between universities and industry and enhance the corporate culture that is sorely lacking.

Introduce a similar reform at the basic education and secondary education level, these are behavioral skills to be acquired before university.

Proposal N°. 12: To assess the quality of adequacy, it is necessary to set up an observation and evaluation mechanism of the matching process. Such mechanism is based on a number of complementary surveys.

Proposal N°. 13: Have a catalogue with a detailed classification of occupations, with a precise definition of all that each trade entails.
Employment in Tunisia: the way forward

Stijn Broecke
African Development Bank

Workshop of 10 April

* Objective: To bring together policy makers and academia to discuss labour market research in Tunisia and its implications for policy.

* Partners: The workshop was organized by the African Development Bank in collaboration with UNU-WIDER. The Ministry of Vocational Training and Employment and the Ministry of Higher Education and Scientific Research were involved from inception to execution.

* Participants: Over 50 participants attended the workshop, mainly Tunisian researchers and policy makers, and representatives of various donors.

* Presentations: A total of nine presentations, organized into four different sessions, were made by experts from academia, government, and donors.
Talking Points

4 Four roundtables:

Employability of young graduate job seekers: between adaptation of training process and economy's absorptive capacity

The determinants of entrepreneurship among higher education graduates

The impact of the intensity of labour market flexibility on job creation

Private sector, competitiveness of enterprises and employment

Policy Recommendations: Employability of young graduates

* Basic skills:

- Increase the quality of entrants into higher education institutions by reducing the number of high school graduates - abolition of the 25% bonus at the “baccalauréat” examination
- Before graduation: encourage and provide support to acquire basic skills
- After graduation: further basic skills training and prolonged assistance to students seeking employment

* Better complementarity and coordination within the education system:

- Coordination with secondary education on curricula and prerequisites for University enrollment
- Open access to the University for vocational training graduates, to avoid discouraging students from opting for vocational training.
Policy Recommendations: Employability of young graduates

* Revise and spread best practices in higher education for employability such as: quality improvement programmes, co-construction, introduction to entrepreneurship, etc.

* Activate placement units within academic institutions and provide more resources to university observatories to follow-up students (traceability).

* Governance:
  - As a first step, activate the 2008 law on autonomy of universities (EPST) la loi de 2008 relative à l’autonomie des universités (EPST)
  - As a second step, grant universities EPNA status
  - Generalization of the contractual policy between the Ministry and educational institutions
  - with accountability and resources on the basis of performances related to employability taking into account the quality of entrants and the allocation of initial human resources.

Policy Recommendations: Entrepreneurship among higher education graduates

* Imperative of gender mainstreaming in addressing the entrepreneurship problem
* Need to incentivize "potential" developers from a very young age (preschool, school and family and cultural environment)
* Individualization of processing
* Encourage initial training structures (especially higher education and vocational training) to provide training in topics related to business development and entrepreneurship to entrepreneurs ("success stories," young entrepreneurs, mentorship, etc.)
* Streamline information flow to potential promoters and popularize or even trivialize the process of facilitating the creation of projects and enterprises (facilitation, clear and written standards and procedures)
* Leverage the experience of micro-finance (mainly micro-credits) as concerns efficient funding of micro-projects thanks to the proximity of operators and simplification of project ideas.
Policy Recommendations: Labour Market Flexibility

* In a structural unemployment situation which Tunisia is currently experiencing and with the same economic model, labour market flexibility mechanisms these are not what would resolve the unemployment problem
* In the medium term, it will be necessary to rethink the social contract to allow more flexibility and secure career paths for workers, to support the new investment and growth dynamics and allow a better reallocation of resources
* To introduce these flexibility mechanisms, there must be support from all social partners and the entire process must be done in partnership
* The success of the new social contract will depend on the State's ability to enforce the applicable laws and regulations.

Policy Recommendations: Labour Market Flexibility

* Create an easy to implement corporate legislation that could take economic activities out of the informal to the formal sector and relax the mechanisms for social protection of informal activities by adapting social protection to such activities
* Create a single type of employment contract. The employee undergoes a probationary period and could be confirmed as an employee in their position
* Relax the conditions for dismissal and in return ensure the security of the worker's career and adequate compensation
* To finance this scheme, consultations must be held between the State and social partners to find the appropriate model. One might consider using part of the budget currently devoted to active employment policy (1.2% of GDP in 2011) to partially fund the said mechanism
* Research priorities: the impact of flexibility on job creation and possible scenarios for funding the worker's career protection mechanism.
Policy Recommendations: Private Sector

* Creation of regional (procurements of regional authorities and public enterprises) and border markets (improvement of road infrastructure to Algeria)

* Actual integration of agriculture in the economy and increasing the share of producers in the value of agricultural products (increasing bargaining power at sale and purchase by the creation of capitalized farmers’ cooperatives guaranteed by the State). Besides the direct job created in agriculture and services to agriculture, this measure will significantly increase farmers’ incomes and accordingly consumption and allow the indirect creation of jobs in various sectors.

* The solvency of new markets in these regions, and notably the private market for education, health, and services to enterprises.

Fiscal and Social Pact for Employment

Taoufik Rajhi,
Africain Developement Bank
Outline

* Introduction

* Empirical and Theoretical Rationale

* Contractual Social VAT

How to develop employment stimulating fiscal policies

* Devise policies that stimulate the existing productive apparatus to hire more ... (assumption: underutilization of productive capacity)

* Encourage businesses to hire could be achieved through a reduction in wage costs (assumption : the tax wedge is high)
Differential between productivity and real salary

Source Elkadhi 2012, IACE

Breakdown of tax wedge

<table>
<thead>
<tr>
<th></th>
<th>Average 1990-2000</th>
<th>Average 2001-2010</th>
<th>Average 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Employer's Contribution</td>
<td>10.1%</td>
<td>10.3%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Other Employer's Charges</td>
<td>2.7%</td>
<td>3.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Gross Salaries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Employer's Contribution</td>
<td>5.0%</td>
<td>5.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Taxes on wages</td>
<td>5.8%</td>
<td>8.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Net Salaries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coin socio-fiscal</td>
<td>23.5%</td>
<td>27.6%</td>
<td>28.2%</td>
</tr>
</tbody>
</table>

Source: Elkadhi 2012, IACE
Reduce social security contributions

Positive impact on enterprises

* Reduces the tax wedge
* Reduces labour cost
* Enterprises may be led to hire (nothing is certain)

Negative impact for the State and welfare funds

* Reduces the revenue of social welfare funds
* Poses a problem of funding

Source: Elkhadhi 2012, IACE
Solution: A Social and Fiscal Pact for Employment

* Linked social contract: Enterprises/Trade Union/State
* Linked incentive contract (ex: Physician/Social Security Contract in France)

1. Reduction of a %age of social contributions on wagebill of employees actually hired and not those to be hired

2. The enterprises that hire X% compared to their stocks will be granted a Z% reduction of their social contributions bill, etc.)

4. The State finds a fiscal financing method to offset revenue lost through the said the social contributions

---

Eg: A social and fiscal pact financed by VAT: social contractual VAT

The so-called social VAT for employment is designed for use as a fiscal instrument to boost employment. It consists in reducing social security contributions paid by employers and offset by an increase in the VAT rate to continue to finance social protection of employees.

It is therefore a mechanism to replace all or part of the employers' social contributions by tax revenue paid by consumers. Revenue from that tax is then collected by the social security authority instead of the Treasury.

This mechanism is designed to lower labour costs to allow enterprises to hire more workers and become more competitive on the basis of a disguised devaluation.
The stakes?

* The idea seems simple and easy to implement; its impact on the economy and unemployment may be relatively significant. The commitment of stakeholders, government, business and trade unions is crucial to its success.

* Positive and negative effects:

- Labour cost reduction effect
- Competitiveness effect
- Inflationary effect
- Unredistributive effect

MEGC Simulation of social VAT in Tunisia

<table>
<thead>
<tr>
<th></th>
<th>5 points drop in contributions</th>
<th>10 points drop in contributions</th>
<th>points drop in contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social VAT rate</td>
<td>1.1</td>
<td>2.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Change in GDP growth rate</td>
<td>0.51</td>
<td>0.93</td>
<td>1.25</td>
</tr>
<tr>
<td>Change in unemployment rate of skilled labour</td>
<td>-3.59</td>
<td>-6.86</td>
<td>-9.89</td>
</tr>
<tr>
<td>Change in unemployment rate of unskilled labour</td>
<td>-4.32</td>
<td>-8.08</td>
<td>-11.35</td>
</tr>
</tbody>
</table>
MEGC Simulation of social VAT in Tunisia

<table>
<thead>
<tr>
<th>Table 2: Effect of a Reduction in Social Contribution of Qualified Workers (2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social VAT rate</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>0.2</td>
</tr>
<tr>
<td>Change in GDP growth rate</td>
</tr>
<tr>
<td>Change in unemployment rate of skilled labour</td>
</tr>
<tr>
<td>Change in unemployment rate of unskilled labour</td>
</tr>
</tbody>
</table>

Policy Recommendations

* Implement a fiscal and social pact for employment: State-Businesses-Union contract

* Avoid free rider by entering into incentive performance contracts with businesses

* Search for funding sources other than VAT

* Quantify the mechanisms as part of tax reform.
The social protection system in Tunisia: between urgent measures and structural reforms

Mehdi Ben Braham
Association IDEES-Afkar Tunisia
LEGI/Ecole Polytechnique de Tunisie

Context (1)

* After 14 January 2011, social tensions have placed back the welfare system at the centre of political, social and economic concerns

* Fact: Many claims against a system that suffers from internal ailments and external pressures.

* Results: inefficiency, inability to handle certain problems and financial imbalance. (Lose-lose situation)
Context (2) Problems of different types

Structure of the system

Bismarckian contribution System

Retirement system

Health insurance

Beveridge’s non-contributory system

Public:
CNRPS

Private:
CNSS

CNAM

PNAFN AMG1 AMG2

Problem Analysis (1)

* Problem of the contributory system

- Internal problems:
  - Laws in force
  - Non-optimum organisation
  - Under declaration
  - Coverage density

- External elements:
  - Ageing population

- Retirement system:
Problem Analysis (2)

* Problem of the contributory system

- CNAM
  - Administrative red tape
  - Pathetic cap
  - What control over APCI?

Problem Analysis (3)

* Non-contributory system

- PNAFN
  - System of self-sufficiency in poverty
    - Targeting problem
    - Definition of poverty line?
    - What criteria for entry? exit?
    - Insufficient number of field workers

- AMG1/AMG2
  - Lack of overall development strategy

Problem of supply of care in quantity and quality
**Politc Recommendations (1)**

* What should be the purpose of the protection social system?

- Need to establish after a national debate, a National Social Pact to define the objective(s) of the system. (Avoid futile negotiations without agreement on the means and goals)

- Conduct studies on efficiency of all schemes (cost / effectiveness analysis) to avoid lose/lose situations.

**Policy Recommendations (2)**

* Urgent measures concerning the contributory system.

- Overcome the current deficit of CNRPS (State budget).
- Review the legislation concerning the equalization through simple indexing.
- Develop quality individual accounts-based management.
- Improve field control procedures to partially and in the short-term offset the effect of an ageing population at the NSSF. (improve coverage quantitatively and qualitatively)
- Linking "retirement" contributions to the right to health to eliminate inter-temporal compromise.
- Urgent dematerialization of CNAM reimbursement procedures (effective tracking of patient accounts and tracking physician accounts with coupling on tax returns.)
Policy Recommendations (3)

* Structural measures:

- Establish a universal “social pension” to combat old age poverty (60% RSNA pensioners have pension below the minimum wage).
- Broaden the contributions base to other sources of income apart from salary (tax on certain products and services with complete transparency of the funds raised).
- Review the retirement age for certain categories and the method of calculating the pension (parametric reforms)
- Cap on contributions for high earners and introducing a funded pillar through tax exemptions.
- Delete the special schemes for senior civil servants.

Policy Recommendations (4)

* PNAFN Reform

- Transparency in the application of aid granting criteria.
- Build a qualitative and quantitative poverty index.
- Establish a monitoring and evaluation procedure for results.
- Have a dynamic approach and avoid using the aid package procedure.
- Place the non-contributory scheme in a cross-cutting development strategy.
- Make PNAFN a scheme to combat poverty, and not assistance in poverty.
Session 5: Towards an economy with higher value added

Presentations

1 - Towards an economy with higher value added - Mohamed Ayadi (ISG, University of Tunis)  

2 - Sophistication of business and innovation (at the firm and in relations between firms) - Lotfi Bouzaiane (IHEC de Carthage)

3 - Main findings of the annual survey on competitiveness - Heithem Zammali (Tunisian Institute of Competitiveness and Quantitative Studies)

4 - Structural Transformation of the Tunisian Economy: Lessons from Sarth Korea - Kaouther Abderrahim (AfDB)

5 - Impact of Opening up Tunisia’s Services Sector to Competition An assessment using a general equilibrium model - Abdelaziz Houichi (ITCEQ/DEE/DES), Hajer Trabelsi Chaibi (ITCEQ/DEE/DES), Mohammed Ali Marouani (Paris I Panthéon-Sorbonne)
Towards an economy with higher value added

Mohamed Ayadi
ISG, University of Tunis

Reasons

* The introduction of technologies, processes and innovative products for local companies can accelerate growth.

* It helps narrow the technology gap and boost business competitiveness on national and even foreign markets.

* The identification of factors favouring the development of innovative companies is as important in developing countries as in developed countries.
Outline

Motivations of innovative companies

a - Role of demand and its components
b - Technology and absorptive capacity
c - Roles of size, industry and State

Analysis of the Tunisian context

a - Innovation survey
b - Empirical methods of analysis
c - Results

Economic policy recommendations

1.a. Role of demand

* When businesses depend on local demand, they are confronted with the fragility of the local purchasing power!

* Opening up (participation in GATT and free trade agreement with the EU)

- Local businesses open to foreign markets.
  they must share the local demand with foreign competitors!
  --> Companies must innovate to:

- satisfy both demands (local and foreign)
- realize a satisfactory level of profit
- even survive in some cases.
What innovations?

* Increase its local market share, the company reduces costs through process innovation

* Same requirement for foreign demand, the Tunisian Industry, based on cheap labour, → process innovations.

* Increase the share of local demand from high income groups. Local businesses compete with foreign companies,

→ offer goods of a certain quality.
→ product and process innovations

1.b. Technology and absorptive capacity

* Tunisia does not offer technology!

* The capacity to benefit from technological progress is the main source of improvement of the technological level.

* Such capacity is determined by the absorptive capacity of firms.

* Invest in R & D, build the absorptive capacity of firms and their capacity to benefit from external sources of technology.

* Technological development is related to FDI.
1.c. Role of size

Analyses are sometimes contradictory

* Schumpeter (1934): the small size makes companies more efficient.

* Schumpeter (1942), the company must be large to have sufficient financial resources to develop R & D and innovation.

* However, when the size of the company expands —> more complex procedures —> greater rigidities in firms, which generally leads to less innovation.

1.d. Industry

* The line of business of firms has a great influence on their behaviour in addition to their individual dimensions.

* The characteristics of the technology used in the sector can significantly influence the other dimensions (such as demand or capacity to absorb new technologies).
1.e. State participation

* enables businesses to benefit from financial and institutional support

* imposes additional policy and governance constraints.

2.a. Innovation survey

* We use the enterprises data from the pilot survey entitled « R&D and innovation activities in Tunisian firms », prepared by the Ministry of Scientific Research, Technology and Skills Development in 2005, in 876 entreprises.

* The sampling plan of the said survey has been drawn up in collaboration with the National Statistics Institute. This ensures the representativeness of the data gathered regarding all firms throughout the country.
2.b. Empirical Analysis Method

* Innovation : a binary variable, = 1 if the enterprise has introduced a product/process innovation during the past three years, = 0 if not.

We combine the two statistical methods to analyze the characteristics of firms in Tunisia:

- Probit Model
- Regression tree.

Probit Model: the probability of innovation depends on the following variables

- Existence of an R&D department (desRD,+)
- The sales of the enterprise, representing its market share (log(Sales),+)
- An indicator variable equal to 1 if the enterprise serves both the local and foreign markets (multiMarket,+).
- The share of FDI in the capital (partforeign,+)
- La part de l’État dans le capital (part-state, ±)
- The State’s share in the capital (Université, collUniv,+), Research Centres (collRecCent,+)

2.b. Empirical Analysis Method

* The Probit model parameters are estimated using the likelihood maximum.

* In addition, we use non-parametric regressions of regression trees to analyze the interaction between innovation factors.
Table 5: Characteristics of innovating firms

<table>
<thead>
<tr>
<th>Col. number</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
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<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
</tr>
<tr>
<td>DepRD</td>
<td>0.47*** / (3.64)</td>
<td>0.47*** / (3.66)</td>
<td>0.50*** / (3.78)</td>
<td>0.23*** / (1.79)</td>
<td>0.23 / (1.79)</td>
<td>0.21 / (1.63)</td>
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<td>0.08* / (2.06)</td>
<td>0.08* / (2.07)</td>
<td>0.07 / (1.76)</td>
<td>0.12*** / (3.34)</td>
<td>0.12*** / (3.34)</td>
<td>0.13*** / (3.25)</td>
</tr>
<tr>
<td>Multi-Market</td>
<td>0.34*** / (2.59)</td>
<td>0.30* / (2.10)</td>
<td>0.30* / (2.10)</td>
<td>0.10 / (0.75)</td>
<td>0.09 / (0.67)</td>
<td>0.13 / (0.68)</td>
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<tr>
<td>PartState</td>
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<td>-0.01*** / (-3.83)</td>
<td>-0.01*** / (-3.79)</td>
<td>-0.01*** / (-2.65)</td>
<td>-0.01*** / (-2.62)</td>
<td>-0.01* / (-2.47)</td>
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<td>PartForeign</td>
<td>-0.00 / (-0.82)</td>
<td>-0.00 / (-0.41)</td>
<td>-0.00 / (-0.41)</td>
<td>0.00 / (0.05)</td>
<td>0.00 / (0.05)</td>
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<td>CollUniv</td>
<td>0.57** / (2.60)</td>
<td>0.56* / (2.65)</td>
<td>0.54* / (2.46)</td>
<td>0.24 / (1.15)</td>
<td>0.24 / (1.14)</td>
<td>0.33 / (1.50)</td>
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<td>CollRecCent</td>
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<td>-0.26 / (-0.96)</td>
<td>-0.27 / (-1.00)</td>
<td>-0.11 / (-0.44)</td>
<td>-0.11 / (-0.44)</td>
<td>-0.16 / (-0.62)</td>
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<td>CollLabUnit</td>
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<td>-0.38 / (-1.62)</td>
<td>-0.32 / (-1.38)</td>
</tr>
<tr>
<td>CollNatOrg</td>
<td>0.26 / (1.54)</td>
<td>0.27 / (1.57)</td>
<td>0.27 / (1.57)</td>
<td>0.51** / (2.99)</td>
<td>0.51** / (2.99)</td>
<td>0.48** / (2.66)</td>
</tr>
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<td>CollInternetOrg</td>
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<td>0.86*** / (4.38)</td>
<td>0.87*** / (4.29)</td>
<td>0.57** / (2.86)</td>
<td>0.57** / (2.86)</td>
<td>0.61** / (3.03)</td>
</tr>
<tr>
<td>CollOtherFirms</td>
<td>0.29 / (1.54)</td>
<td>0.30 / (1.57)</td>
<td>0.31 / (1.61)</td>
<td>0.30 / (1.61)</td>
<td>0.31 / (1.61)</td>
<td>0.30 / (1.65)</td>
</tr>
<tr>
<td>ConsultTechn</td>
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<td>0.47*** / (3.68)</td>
<td>0.47*** / 3.64</td>
<td>0.64*** / (5.09)</td>
<td>0.64*** / (5.03)</td>
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<tr>
<td>AFI</td>
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<td>0.14 / (0.76)</td>
<td>-0.02 / (-0.10)</td>
<td>0.14 / (0.76)</td>
<td>-0.02 / (-0.10)</td>
</tr>
<tr>
<td>EEEAI</td>
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<td>-0.26 / (-1.29)</td>
<td>-0.11 / (-0.54)</td>
<td>-0.26 / (-1.29)</td>
<td>-0.11 / (-0.54)</td>
<td>-0.26 / (-1.29)</td>
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<tr>
<td>MMI</td>
<td>-0.01 / (-0.03)</td>
<td>0.21 / (1.01)</td>
<td>-0.01 / (-0.03)</td>
<td>0.21 / (1.01)</td>
<td>-0.01 / (-0.03)</td>
<td>0.21 / (1.01)</td>
</tr>
<tr>
<td>TCLSI</td>
<td>-0.03 / (-0.16)</td>
<td>0.37* / (2.18)</td>
<td>-0.03 / (-0.16)</td>
<td>0.37* / (2.18)</td>
<td>-0.03 / (-0.16)</td>
<td>0.37* / (2.18)</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.21*** / (-3.74)</td>
<td>-2.15 / (-3.62)</td>
<td>-2.03** / (-3.29)</td>
<td>-2.45*** / (-4.39)</td>
<td>-2.45*** / (-4.36)</td>
<td>-2.54*** / (-4.36)</td>
</tr>
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<td>Pseudo-R</td>
<td>0.19</td>
<td>0.19</td>
<td>0.20</td>
<td>0.15</td>
<td>0.15</td>
<td>0.16</td>
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<tr>
<td>Chi-squaredRho</td>
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<td>141.71</td>
<td>142.86</td>
<td>110.90</td>
<td>110.91</td>
<td>123.02</td>
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<tr>
<td>Nb.obs.</td>
<td>538</td>
<td>538</td>
<td>538</td>
<td>538</td>
<td>538</td>
<td>538</td>
</tr>
</tbody>
</table>
Interaction of determinants process innovation

3. Conclusions & Policy Recommendations (1)

* Although there are some complementarities between sources of technological information, companies must be able to benefit from such resources to achieve a significant propensity for innovation.

* Conversely, internal R & D plays a role only in the development of product innovation.
3. Conclusions & Policy Recommendations (2)

* The size of the company positively impacts both types of innovation.

* Small-sized companies which do not receive technical assistance are doomed to have lower levels of innovation.

* Strengthening of all types of technical assistance to businesses is essential to increase the propensity for innovation of Tunisian companies.

---

3. Conclusions & Policy Recommendations (3)

If the State participates in the capital and business management, it has a negative effect on the propensity to innovate.

The negative role of the State should be reconsidered to correct some of its side effects.
3. Conclusions & Policy Recommendations (4)

* The profile of Tunisian firms is different from that of firms in many emerging countries.

* The main difference is the very limited role of internal R & D (national) and the insignificant role played by foreign companies (equity participation) although this type of enterprises play an important role in other countries.

3. Conclusions & Policy Recommendations (5)

* In Tunisia the sectoral dimension does not adequately structure the innovation capabilities of companies.

* There is an immaturity of sectoral innovation systems in Tunisia.
Sophistication of business and innovation
(at the firm and in relations between firms)

Lotfi Bouzaiane
IHEC, Carthage
Advanced source of competitiveness

I. Business sophistication and innovation:
A. Quality of relations between enterprises.
B. Quality of transactions and strategies between enterprises taken individually.

II. Tunisia’s Position:
A. Effectiveness of factors: (40th in 2010 with 4.5/7 for the overall).
B. Business sophistication and innovation: 43rd (52nd business sophistication)

III. The enterprise fabric in Tunisia:
A. Density of enterprises: Low and few of critical size
   a. Approximately 600,000 private companies of which 3,500 with 50 employees or more.
   b. Over a quarter of the 50 or more employees in the ITHC.
   c. Only about 5% of the 50 or more employees in the western regions (population 30%).

B. The growth of the share of exports based on advanced technological content is sluggish
   a. 15.5% in 2010 of exports from manufacturing industries against 13.4% in 1995,
   b. Whereas at world level: respectively 26.1% and 27.8%.

C. Special Programmes to support innovation and technology:
   a. Old programmes: underused (SMI, for example 1,310 enterprises, of which 500 of less than 50).
   b. New programmes: Slow start-up and limited scope (case of Programme of support to competitiveness and access to markets – PCAM- : about 400).
Current Challenges (1)

I. Imperatives for the current phase:

- Exports and competitiveness.
- Involvement of the hinterland regions in export activities.
- Attract more jobseekers to the private sector.

II. Central questions:

- How do you improve productivity and competitiveness?
- How do you create more attractive private sector jobs in the field of innovation?

Current Challenges (2)

Weakest points in business sophistication and innovation in firms:

A. Frequent lack of innovation-friendly features: Quality, R & D, etc.
B. Few certifications.
C. Few marketing studies (customer satisfaction, monitoring of trends, etc.)
D. Weak interaction between local businesses (in particular the export sector).
E. Few relationships with research centres/academic institution.
Institutional obstacles

A. Investment legislation: Conditions remain stiff (obligation to hire graduates), too many incentives without targeting achievement of objectives.

B. Unfavourable business climate for local supplies to exporting companies.

C. State of competition
   a. No plan to liberalize services, agriculture, industry outside of traditional areas, etc..
   b. Weak protection of intellectual property.

D. Few business networks (information exchange, close relationships, joint projects, etc.).

E. Inadequate protection of partners: suppliers, customers and end consumers.

F. Few of critical size for industrial zones.

Recommendations (1)

I. Facilitate the entry of new firms in industries:
   a. At the national level: Review specifications to remove as many constraints as possible.
   b. At the international level: Plan and organize the liberalization of services, etc.
Recommendations (2)

II. Support institutions and special programmes: carry out joint actions

III. Reallocate (at least partially) the incentives:

   A. From investment incentive to sophistication and innovation incentives - R & D in firms, etc.
   B. Target private sector employment in the hinterland regions, in SMEs, etc., for innovation-related functions.

Recommendations (3)

IV. Effective bridges between the training system staff, education, higher education and scientific research firms:

   A. Develop information on research and training results
   B. Develop information on enterprise needs.
   C. Encourage alternation.
   D. Etc.

V. Business sophistication, innovation and hinterland regions:

   A. Ensure the critical size of industrial zones.
   B. Decentralize innovation support, provide more local skills to regions.
   C. Encourage strategic alliances: University, enterprises and banks.
Main findings of the annual survey on competitiveness

Heithem Zammali
Central Directorate of Competitiveness
Tunisian Institute of Competitiveness and Quantitative Studies

Business climate and determinants of competitiveness

ITCEQ conducts an annual survey of a sample of companies to:

- Assess the business environment and identify the main constraints faced by businesses.

- Appreciate the actions and strategies undertaken by companies to improve their competitiveness.
Almost all companies find that institutional sectors are affected by corruption but to varying extents. The police and customs appear most affected, while public services are relatively less affected.

Leading causes of corruption among civil servants:

- Cost of Life: 57%
- Lack of Transparency: 49%
- Larc of Government’s: 47%
- Personal Enrichment: 46%
- Administrative Burdens: 37%
- High Management Pressure: 31%
- Communication Practice: 27%
Trend of sector indicators and side effects of the revolution (1)

- Decline in business activity in the 1st half of 2011/1st half of 2010

Trend of sector indicators and side effects of the revolution (2)

- 67 % of firms suspended their production in the 1st half of 2011.
- The protests and ensuing climate of insecurity are the reasons most cited for suspending production
Trend of sector indicators and side effects of the revolution (3)

- 10% of respondents report having suffered material damage. For half of them, the damage exceed 5% of turnover.

Measures taken by enterprises to cope with insecurity

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening of Monitoring System</td>
<td>71%</td>
</tr>
<tr>
<td>Additional Insurance Policies</td>
<td>15%</td>
</tr>
<tr>
<td>Pousiness Contination</td>
<td>11%</td>
</tr>
</tbody>
</table>

Which generated costs estimated at a minimum of 1% of turnover for nearly 57% of the enterprises concerned.

Trend of sector indicators and side effects of the revolution (4)

- 21% of companies report having downsized. The reduction rate is estimated at 2.5% of the total sample.

- 70% of companies declared they had planned in 2010 to invest in fiscal 2011; 49% of them have decided either to postpone or cancel investment projects already scheduled.

- The financial position of the companies surveyed remains delicate as businesses express operational funding requirements (45%) as well as investment financing requirements(44%).
What is the business outlook?

- The employment outlook should be on the uptrend for more than one enterprise out of five, all categories included.

What is the employment outlook?

- The employment outlook should be on the uptrend for more than one enterprise out of five, all categories included.
Determinants of competitiveness

Companies that consider themselves competitive have engaged in further actions and strategies to consolidate and even improve their market position and face the competition.

**Enterprises having taken measures to boost their competitiveness (in %)**

<table>
<thead>
<tr>
<th></th>
<th>Uncompetitive</th>
<th>Fairly competitive</th>
<th>Competitive</th>
<th>Sample average</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT use</td>
<td>50</td>
<td>54</td>
<td>64</td>
<td>60</td>
</tr>
<tr>
<td>Training</td>
<td>37</td>
<td>50</td>
<td>56</td>
<td>52</td>
</tr>
<tr>
<td>Market diversification</td>
<td>26</td>
<td>34</td>
<td>46</td>
<td>40</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>23</td>
<td>31</td>
<td>45</td>
<td>39</td>
</tr>
<tr>
<td>Innovation</td>
<td>29</td>
<td>21</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Certification</td>
<td>17</td>
<td>26</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td>Marketing</td>
<td>20</td>
<td>19</td>
<td>33</td>
<td>28</td>
</tr>
</tbody>
</table>

Key recommendations

* Restore security and political and social stability to return to growth

* Facilitate access to bank credit and reduce the level of mortgage guarantees required by banks

* Combat the phenomenon of unfair competition and anti-trust practices and highlight the important role of the Competition Board

* Reduce to the minimum, the time required to obtain public services and reduce same to an average around that obtaining in competing countries

* Streamline administrative procedures and notably those concerning the customs and tax administration.
Context - Insufficient Growth…

Tunisia has recorded relatively high growth rates (5% growth in 2000-2005), however…

Inequalities remain major issues

- Investments and public services delivery are still concentrated in the relatively rich regions.

Unemployment: a major challenge

- Unemployment is particularly high among the youth
- Many employed graduates are in underpaid and hold low-productivity jobs
- Lack of employment in the productive sectors of the economy is a major problem.
Exports: indirect indicator of economic transformation and demand for labour

The export sophistication: engine of strong and inclusive growth

- Countries that are able to improve their exports by engaging in new economic activities with high value added tend to grow faster (Hausmann 2005).

- Exports sophistication promotion policies have enabled South Korea to achieve better growth rates.

- Tunisia can achieve faster and inclusive growth by exporting more sophisticated products.

Composition of export basket - Sophistication

Total export growth rate (goods and services, in %)

- The export growth rates recorded in recent years are relatively high.
- However, export sophistication levels have stagnated since the sixties.
The product space: a means of improving “the sophistication” of an economy

- The message of this analysis is clear: diversity and sophistication are important measurements of a country’s productive capacity. The question is how to increase them

- Each product requires a unique combination of capabilities and such capabilities can be decisive in determining which industries would be easier to develop

- As such, countries would find it easier to move towards products requiring the capabilities similar to those they already have (a producer of asparagus would, for instance, find it easier to produce artichokes than to produce steel).

Implications in terms of policies: three possible strategies

- Jobs, Jobs, Jobs (JJJ): groups of products for which the countries already have a strong presence and would therefore imply less risk.

- Parcimonious transformation (PT): goods currently produced by the countries, but more sophisticated, which would be a little more risky, but would offer greater opportunities for technology upgrading.

- Strategic betting (SB): sophisticated industries whose products are very different from the country’s current products and are likely to transform the production structure, but with a greater risk of failure.
Industries to promote by strategy (1)

Jobs

<table>
<thead>
<tr>
<th>Community</th>
<th>% with RCA</th>
<th>JJJ Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cotton, rice, soy beans and others</td>
<td>0.56</td>
<td>0.27</td>
</tr>
<tr>
<td>2 Garments</td>
<td>0.36</td>
<td>0.27</td>
</tr>
<tr>
<td>3 Food Processing</td>
<td>0.58</td>
<td>0.29</td>
</tr>
<tr>
<td>4 Construction materials and equipment</td>
<td>0.45</td>
<td>0.31</td>
</tr>
<tr>
<td>5 Misc Agriculture</td>
<td>0.55</td>
<td>0.32</td>
</tr>
<tr>
<td>6 Tobacco</td>
<td>0.17</td>
<td>0.34</td>
</tr>
<tr>
<td>7 Fruit</td>
<td>0.75</td>
<td>0.34</td>
</tr>
<tr>
<td>8 Fish &amp; Seafood</td>
<td>0.09</td>
<td>0.34</td>
</tr>
<tr>
<td>9 Leather</td>
<td>0.29</td>
<td>0.34</td>
</tr>
<tr>
<td>10 Textile &amp; Fabrics</td>
<td>0.41</td>
<td>0.37</td>
</tr>
</tbody>
</table>

Industries to promote by strategy (2)

Parcimonious Transformation

<table>
<thead>
<tr>
<th>Community</th>
<th>% with RCA</th>
<th>JJJ Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction materials and equipment</td>
<td>0.45</td>
<td>0.36</td>
</tr>
<tr>
<td>Garments</td>
<td>0.36</td>
<td>0.38</td>
</tr>
<tr>
<td>Food Processing</td>
<td>0.58</td>
<td>0.40</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.06</td>
<td>0.40</td>
</tr>
<tr>
<td>Misc. Chemicals</td>
<td>0.42</td>
<td>0.42</td>
</tr>
<tr>
<td>Cotton, rice, soy beans and others</td>
<td>0.56</td>
<td>0.44</td>
</tr>
<tr>
<td>Textile &amp; Fabrics</td>
<td>0.41</td>
<td>0.44</td>
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<tr>
<td>Misc Agriculture</td>
<td>0.55</td>
<td>0.45</td>
</tr>
<tr>
<td>Fish &amp; Seafood</td>
<td>0.09</td>
<td>0.45</td>
</tr>
<tr>
<td>Leather</td>
<td>0.29</td>
<td>0.46</td>
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</tbody>
</table>
Industries to promote by strategy (3)

Strategic betting

<table>
<thead>
<tr>
<th>Community</th>
<th>% with RCA</th>
<th>JJJ Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>0.06</td>
<td>0.21</td>
</tr>
<tr>
<td>Chemicals and health related products</td>
<td>0.06</td>
<td>0.34</td>
</tr>
<tr>
<td>Misc. Chemicals</td>
<td>0.42</td>
<td>0.40</td>
</tr>
<tr>
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<tr>
<td>Construction materials and equipment</td>
<td>0.45</td>
<td>0.43</td>
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<tr>
<td>Meat and eggs</td>
<td>0.04</td>
<td>0.48</td>
</tr>
<tr>
<td>Pulp and paper</td>
<td>0.18</td>
<td>0.50</td>
</tr>
<tr>
<td>Home and office products</td>
<td>0.17</td>
<td>0.51</td>
</tr>
<tr>
<td>Garments</td>
<td>0.36</td>
<td>0.51</td>
</tr>
<tr>
<td>Textile &amp; Fabrics</td>
<td>0.41</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Recommendations

* Adopting a strategy designed to create a knowledge-intensive economy, without addressing the basic pitfalls can perpetuate dependency on low-cost production.

- Diversify FDIs and trading partners
- Strengthen transparency
- Develop an entrepreneurial culture
- Improve access to funding
Case of South Korea and implications in terms of policy – How has South Korea been able to boost exports and growth?

Pace of Growth of Korea’s economy

Source: Bank of Korea
Korea’s development process: lessons to be learnt for Tunisia (1)

- **Subsidies**: An evaluation of the activity of exporting companies is essential to ensure effectiveness of export promotion grants.

- **Corruption**: Regular reports on the behaviour of political leaders and top government officials. Physical contact between suppliers and employees are reduced.

- **Industrial zones**: Support PPP that are established to provide infrastructure and manage industrial zones through a legal framework which clearly defines the types of infrastructure eligible for PPP.

Korea’s development process: lessons to be learnt for Tunisia (2)

- **Development strategy**: Policy-makers had a clear vision of what they wanted to achieve. Policy of incentives to companies to engage in high value added activities.

- **Human development and labour market**: Education and training programmes aimed at improving labour productivity.

- **Financial sector policies**: Financial liberalization underscores the importance of prudence in Korea’s efforts to eliminate capital account contraints.
Impact of Opening up Tunisia’s Services Sector to Competition

*An assessment using a general equilibrium model*

Abdelaziz Houichi /ITCEQ/DEE/DES
Hajer Trabelsi Chaibi /ITCEQ/DEE/DES
Mohammed Ali Marouani /Paris I Panthéon-Sorbonne

Background of the study

* Consolidation of the market economy and the search for new sources of growth and employment.

* Opening up to foreign markets through integration agreements (WTO Agreement, advanced status with the European partner, Arab free trade zone, etc.)
Purpose of the study

Quantitative assessment of macroeconomic and sectoral benefits of opening up the service sectors to competition.

- Macro level: Effects on GDP and income, overall employment and unemployment, macroeconomic balance (budget).

- Sectoral level: analysis of sectoral effects on output, employment and trade; knock-on effects across sectors and sectoral reallocation of resources.

Methodology:

* Quantitative estimate of major barriers to free trade in services (price effects of restrictions).

* Use of a general, balanced and computable sectoral model that is annualized and simulated at two levels:
  - Restricted vs unrestricted opening up.
Major outcomes of quantitative estimates of barriers to free trade in services (*calculation of Trade restrictiveness Indexes (TRI))*

* In general, Tunisia’s level of “restrictiveness” of free trade in services is higher than that of other MENA countries.

* Tunisia has a higher level of restrictiveness in professional services (architecture and accounting), insurance services as well as air and maritime transport services.

---

**Major Outcomes of Opening up**

**Macroeconomic Impacts**

<table>
<thead>
<tr>
<th>Major macroeconomic impacts</th>
<th>Base</th>
<th>Liberalisation of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Average growth (in %) between 2010 and 2016 except as otherwise indicated)</td>
<td></td>
<td>Limited</td>
</tr>
<tr>
<td>GDP at market prices (mp)</td>
<td>5.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Employment</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Investment</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Exports</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Imports</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Unemployment level (Final level of 2016 in %)</td>
<td>15.7</td>
<td>14.3</td>
</tr>
</tbody>
</table>

African Development Bank
Ministry of Regional Development and Planning
Major outcomes of opening up simulations

impacts by sectoral groups

Average Growth of Sectoral Value added (2010-2016)

Unrestricted Restricted
Market Services 6.6 5.7
No Manufacturing Industries 6.2 5.6
Manufacturing Industries 5.8 4.9
Agriculture and Fishery 6.3 5.8

Average Growth of Sectoral Employment (2010-2016)

Unrestricted Restricted
Market Services 1.1 2.3
No Manufacturing Industries 3.7 2.6
Manufacturing Industries 0.5 1.8
Agriculture and Fishery 0.5 -0.9

Major outcomes of opening up simulations

impacts on market services

Average Growth of Sectoral Value added of Services (2010-2016)

Unrestricted Restricted
Business Services 6.1 7.4
Banks and Insurances 7.7 6.7
Telecommunication 8 7.5
Transport 5.9 7.5
Commerce 5.8 5.1
Building and civil engineering 5.7 4.8

Average Growth of Sectoral Employment of Services (2010-2016)

Unrestricted Restricted
Business Services 6.6 4
Banks and Insurances 5.3 4.7
Telecommunication 9 10.3
Transport 2.1 2.3
Commerce -2.8 0.5
Building and civil engineering -5.7 -0.5
Major conclusions

* Significant gains in terms of production and employment; the potential gain in terms of GDP growth is around 1%.

* The more liberalization is unrestricted and targeted at "cost effects", the greater the macroeconomic gains. Restricted liberalization generates only limited gains due to the effects of income redistribution.

* Gains mainly induced by the ripple effects on other sectors (agriculture and notably industry) stemming from lower input supply costs.

Policy Recommendations

* Given the importance of services in the economy, it goes without saying that liberalization makes it possible to improve the efficiency of services, thereby producing a ripple effect on the competitiveness of the economy as a whole.

* It is important, however, to consider the adaptive capacity of the economy, particularly in terms of intensity and cost of reallocating labour and capital factors (not included in our study). A gradual approach with an ongoing effort to upgrade the sectors open to competition would be more appropriate in this case.

* In terms of employment: Target high potential skilled employment sectors (telecoms, business services, etc.), bearing in mind that sectors such as construction and public works and trade, that are intensive in less skilled labour, may experience job losses caused by the combined effect of increased productivity and labour market competition.
Session 6: Institutional Reform for Effective Decentralization of Regional Development

Presentations

1 - Towards Better Regional Development Governance - Yosr Abid Fourati (AfDB) 198

2 - Spatial Hierarchies: elements for a new territorial division - Makram Montacer (ISG, University of Tunis) 202

3 - From Universal Subsidy to Direct Transfer via a Self-Targeting Programme - Mohamed Safouane BEN AÎSSA (University of Tunis and AfDB) (ESTA) 207
Towards Better Regional Development Governance

Yosr Abid Fourati
African Development Bank

Context (1)

* Post-Revolution Period
- Opportunity to develop local good governance
- Opportunity to reduce regional disparities and empower regions through appropriate measures and adapted institutional reform
- Special attention should be given to the potential role of the Ministry of Regional Development (and Planning) and the bodies under its supervision.

* 1st ADB Technical Assistance for the establishment of a local good governance framework
- Need to restructure regional development entities (Ministry, ODR, CGDR and DDR)
- Need for capacity building and the increased resources
- Better governance through regional development: transparency, autonomy, skill development, availability of information, etc.
Context (2)

* 2nd ADB Technical Assistance in 2012 for the assessment of regional development structure support measures

- Specific survey in agencies under the supervisory authority of the Ministry of Regional Development and Planning: ODR, and DDR CGDR
- Evaluation of activities, expectations from a new governance framework and capacity building needs
- Proposed institutional reforms aimed at making regional bodies effective players in the regional development

Problem Analysis (1)

* Local Environment

- The overall environment is not conducive to the effective intervention of regional development structures

- The introduction of local good governance is the prerequisite for effective regional and local development

- Uncertainty as to future the direction of the decentralization policy.
Problem Analysis (2)

* Specific Environment to Regional Development Structures

- Lack of legislative framework and appropriate resources (Some activities are fairly consistent, but the responsibilities and new initiatives that they encompass are not supported by proper regulations)
- Interventions are highly cross-cutting and dependent on the directorates of other sectors
- Lack of legitimacy in the regions
- Lack of initiative and decision-making capacity
- Lack of special statute for regional development directorates (DDRs) and their dependence on the Governor.

Problem Analysis (3)

<table>
<thead>
<tr>
<th>Participation in the development scheme Identification and decision-making process</th>
<th>Degree of satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of Participation in planning</td>
<td>Degree of Participation in the decision-making</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

- Low
- Medium
- Good
- Excellent
- No Information
- No answer

<table>
<thead>
<tr>
<th>Changes since January 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Moderate</td>
</tr>
</tbody>
</table>
Policy Recommendations (1)

* Activities and Achievements of Regional Development Structures
- Upgrade the works carried out by these structures

* Administrative Governance
- Regional and local governance
- Institutional reform for a presence at the LOCAL level
- **DEFINE in the CONSTITUTION** the place and role of the region in the country’s development (decentralization and status of local authorities)
  - Clarify and Institutionalize cooperation among the various regional structures
- **Structure-specific governance**
  - REVIEW the powers and prerogatives of ODR, CGDR and draft a special statute for regional development directorates (DDRs)
  - Reduce administrative tasks
  - Clarify relations with the line ministry
  - Evaluate and support the reform of the organization chart of the Ministry of Regional Development and Planning.

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Policy Recommendations (2)

* Capacity building
  - PROVIDE regional development structures, especially DDRs, with appropriate STAFF and expertise
  - Provide the structures with the technical and financial RESOURCES required for the performance of their tasks prerogatives
  - Improve the PREMISES of DDRs
  - Provide appropriate TRAINING.

* Cooperation with Civil Society
  - Establishment of ADVISORY MECHANISMS
  - Define the **CRITERIA FOR QUALIFICATION** and representation of associations on regional development-related commissions
  - Capacity building for regional development structures in participatory governance.

* Regional Information System
  - Development and setting up of a **REGIONAL INFORMATION SYSTEM** (RIS) (in collaboration with the INS)
Policy Recommendations (3)

* Revitalize Regional Development Support

- Formulate a **NATIONAL PLAN FOR REGIONAL DEVELOPMENT** including:
  - Formulate a Social and Economic Development Plan aimed at ensuring the convergence of regions in terms of access to basic social services (health, education, etc.), road and public transport infrastructure. …
  - Identify **MEASURES FOR REVITALIZING** the regions: promotion of local products and crafts
  - Develop a ROADMAP and calendar for activities related to regional development with the support of an educational THINK TANK aimed at popularizing the idea of governance

* National Policy Impact Assessment

- Establish public policy ASSESSMENT TOOLS on income distribution and growth.

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Spatial Hierarchies: elements for a new territorial division

Makram Montacer
University of Tunis
IDEES Expert
Context

* Social rejection of territorial organization marked by strong regional disparities

* Debate on a new administrative division of the territory and a new distribution of power between the State and local governments.

Problem

* To what extent do urban and functional hierarchies enable the reorganization of the Tunisian space and the promotion of a regional development policy based on space division?
Demographic Hierarchies of the Tunisian space

* The primacy of the capital region
* Aging of the coastal population
* Attractiveness of the coastal regions
* Confusion between urbanization and commonality
* Urban hierarchy: the crushing weight of Tunis and abundance of small towns
* Urban hierarchy and spatial coverage: shortage of intermediate cities
* Centrality and administrative network.

Problem Analysis

* Urbanization, driver of the concentration of economic activities
* Concentration of sectoral employment
* Regional specializations.
Methodological Details and Theoretical Frameworks

- Assumption 1: Need for a Spatial Planning policy

- Assumption 2: Regional development as the foundation of a new Spatial Planning policy

- Assumption 3: Regional development calls for decentralization

- Assumption 4: Decentralization calls for a new administrative and territorial organization.

**Policy Recommendations (1)**

* The same spatial boundaries for local government and administrative districts.

* Each local government must adopt a deliberative body, an executive body and a supervisory body.

* The supply of public goods and services, the promotion of the various levels of spatial division and the ability to promote economic and social development are the criteria for distinguishing between the powers of each level of local government.
Policy Recommendations (2)

* Quelles limites spatiales pour les communes?

* Quelles limites spatiales pour les gouvernorats?

Policy Recommendations (3)

What are the spatial boundaries between the Regions?
The subsidy system (SS) is more and more costly !!!

Source: Ministry of Finance, April 2012

* The SS is a source of random and uncontrolled fiscal risk (4% of the State budget)
* It partially causes efficiency of monetary policy since it represents an additional source of friction in addition actual rigidities (rising wages) and nominal rigidities (falling prices)
  - See Ben Aissa & Rebei (2012)
The subsidies do not target specific groups ...


* Food subsidy benefits accrued to the rich are higher than those accrued to the poor (1/7),

* Increasing dependency of the poor on subsidized goods (Decile 1: 21% of total spending in 2010 compared with of 19.5% in 2005).

A system leak

* Leaks in the system cost the State budget TD 95 million in 2005, or 39% of the expenditure of the General Compensation Fund - CGC (and up to TD 401 million in 2010, or 35% of CGC expenditure). In 2011, due to lack of regulation and market supervision, the leakage spread to other sectors of the Libyan market (hydrocarbons, DAP fertilizers, sugar and flour).

* Although the phenomenon is on the decline, 31% of wheat flour supplied to bakeries does not reach the intended consumers.

* The more the leak, the higher will be the cost of subsidies.
Disparities by Environment

* The more people are urbanized, the less they benefit from food subsidy and the more they benefit from hydrocarbons subsidy

* The diet of urban residents is more diversified than that of their rural counterparts

* The share of food subsidy in food spending represents an average of 30%, but reaches up to 55% for the first decile of rural areas.

Regional disparities

* In terms of volume, citizens of the interior regions benefit more from subsidies, which improve their purchasing power by 6.7%, whereas for residents of the coastal regions the improvement amounts to only 3.5%

* In terms of value, the coastal regions account for the largest amounts of food subsidy. This reversal is amplified when one considers the aggregate subsidy (including hydrocarbons).
Policy Recommendations (1)

Best poverty measurement and analysis in Tunisia: The ADB project, implemented in collaboration with the World Bank and the National Institute of Statistics (INS), will better capture (evaluate and assess) and know (geographical location and profiles) of the poor in Tunisia.

Policy Recommendations (2)

* Reduce the coverage: (i) Use geographical targeting in the distribution of product subsidies; (ii) Use targeting via an assistance programme of based on the incomes of the poor; (iii) Improve the self-targeting of food subsidies; (iv) Use the same targeting system for several programmes and multiple targeting methods within a single programme to ensure maximum profitability.
Policy Recommendations (3)

Reduction of system leak: (i) Shift the bread subsidies to the end of the supply chain; (ii) Consider a smart card system to enable beneficiaries (the most vulnerable) to obtain their share of the subsidy; (iii) Replace food subsidies with food coupons or stamps; and (iv) Establish effective monitoring and evaluation procedures system-wide to help prevent leaks and fraud.

This study provides compelling evidence of the urgent need to initiate the process of reforming the Tunisian subsidy system which is ailing as a result of: (i) very limited knowledge of the poor; (ii) system leak; and (iii) excessively broad coverage.