



## FIRM PERCEPTIONS IN POST-REVOLUTIONARY TUNISIA

*Djibrilla Adamou Issa<sup>1</sup>*

**Introduction:** Through steady structural reforms and good macroeconomic management, Tunisia has been successful in sustaining growth. The country enjoyed a 4.8% average annual growth in GDP over most of the 2000's, placing the country among the leading performers in the region. Most of the growth was driven by private enterprises in the export sectors. Tunisia did better than most countries in the region because it started structural reforms earlier and stayed the course in a gradual fashion. But many emerging countries, such as Malaysia and Turkey, which share similar growth models, outperformed Tunisia.

**Tunisia and Crony Capitalism:** The uncompetitive business environment in Tunisia did not support the dynamism found in high-growth economies. While macroeconomic policies were sound and a substantial package of incentives successfully attracted FDI to the exporting offshore sectors, the economic regime under former President Ben Ali was characterized by lack of transparency, cronyism and anti-competitive behavior, discouraging entrepreneurship and private sector investment, particularly in the 'onshore' domestic economy. Heavy and pervasive intervention by the state in the economy and slow progress in improving the business environment in the 'onshore' sector plagues much of the private sector in Tunisia to date,

limiting competition, investments, and job creation. Domestic private investment remained low and increasingly focused on real estate, considered a relatively safer sector.

**The Transitional Government and Reforms:** Reforms initiated by the transitional Government to improve transparency have not changed firms' perception and new challenges are identified by firms in post-revolutionary Tunisia. The new reforms aimed to reduce red tape, eliminate discretion and increase transparency in the regulatory and legal framework for investments, and remove privileges and monopolies/concessions towards greater market contestability and competition. The Government launched a process to revise the Investment Code and the Competition Law and regulations to reduce discretionary application of rules and to increase the transparency of the Competition Authority. A survey of 600 enterprises in Tunisia in 2012 identified key challenges<sup>2</sup>:

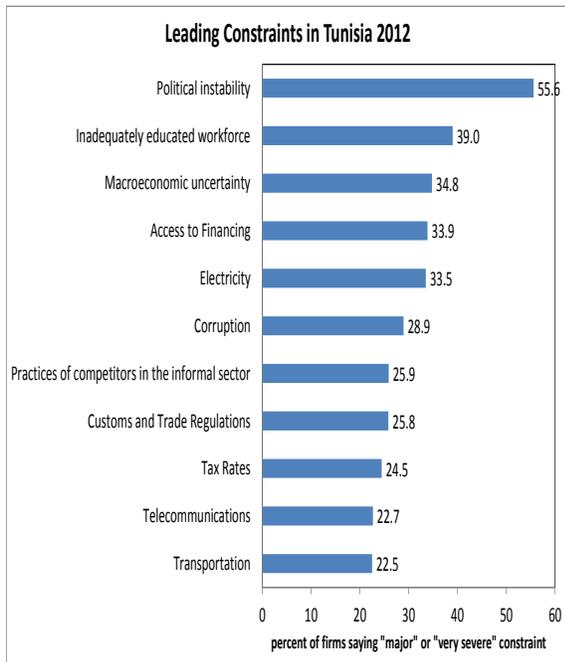
**Leading constraint currently identified by Tunisia firms:** Instability and uncertainty are the major constraints to firms' operations in Tunisia. The Tunisian revolution, besides removing the former President and his regime, created new challenges for the private sector related to uncertainties about the political and macroeconomic future of the country. This is well reflected in firms' responses during the survey. Over half of the surveyed enterprises

<sup>1</sup> Djibrilla Adamou Issa works at the Finance and Private Sector Development Unit, the Middle East and North Africa Region (MNSF1), the World Bank. This Quick Note was cleared by Simon Bell, Sector Manager (MNSF1).

<sup>2</sup> The reference is to the Enterprise Surveys conducted for the Investment Climate Assessments (ICA) undertaken by the World Bank in the latter part of 2012.

perceive political instability as a major or very severe constraint to their operations, making political instability the top constraint among 20 different issues. It is the top constraint for all sectors. The tourism sector was particularly concerned with 65% of firms seeing political instability as a major constraint to their business (figure 2). Coming in third place is macroeconomic uncertainty, with one out of every three firms indicating it is a major (or very severe) constraint to their operations (figure 1). Large firms in particular perceive macroeconomic uncertainty as highly constraining (44% of large firms vs. 33% of medium firms and 30% of small firms (figure 3). The impact of these constraints varies across Tunisia. They have most negatively affected firms in the Greater Tunis area, which includes Ariana, Tunis, Manouba, Ben Arous, Bizerte, and Nabeul (figure 4).

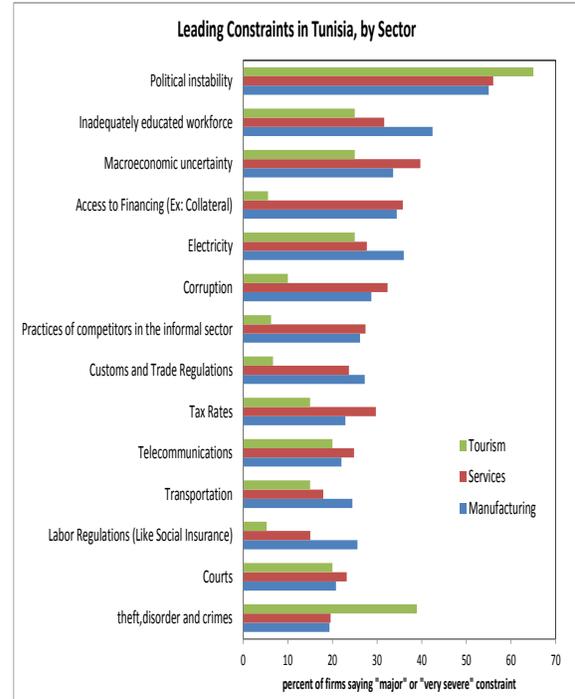
**Figure 1: Leading Constraints in Tunisia**



**Worker Skills and Education:** The second leading constraint to firm operation is inadequate worker skills and education, with 39% of sampled firms indicating that the lack of an adequately educated workforce was

particularly problematic. By sector, manufacturing firms are more constrained than are tourism and services firms. This does not necessarily mean that the Tunisian labor force is not well educated. However, it does indicate that the skills available in the labor market do not fully match firms' needs.

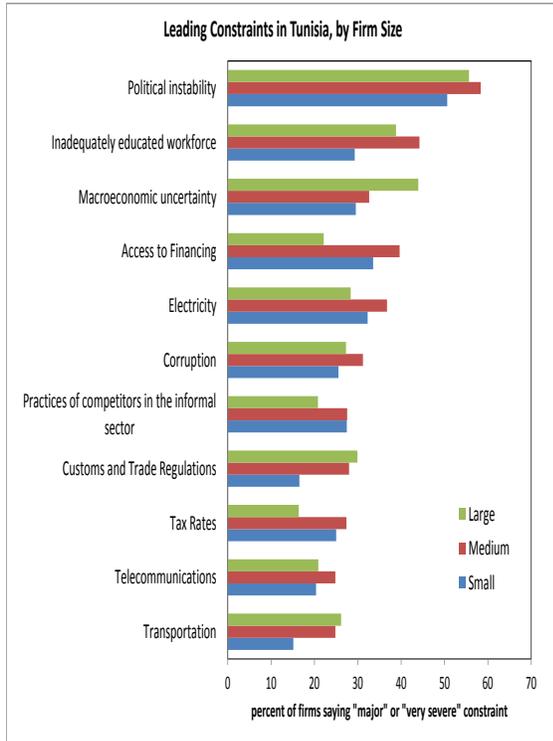
**Figure 2: Leading Constraints in Tunisia, by Sector**



**Access to Finance:** Overall, one out of every three Tunisian firms finds access to finance a major impediment (figure 1). This is a result of unfavorable conditions, including the high collateral required to obtain a loan. Also, small (34%) and medium firms (40%) find access to bank financing more constraining than large ones (2%) (figure 2). By location, firms in Jendouba, Beja, Kef, Siliana, Sidi Bouzid, Kasserine, and Kairouen are the most constrained by access to finance - 51% of firms in these areas found access to be a major/severe constraint. According to the data, tourism firms do not face major problems to obtain financing compared to manufacturing (34%) and services (36%). Therefore, more favorable conditions for lending should be offered with a specific

emphasis on small and medium enterprises in manufacturing and services firms, and firms in identified regions.

**Figure 3: Leading Constraints by Firm Size**

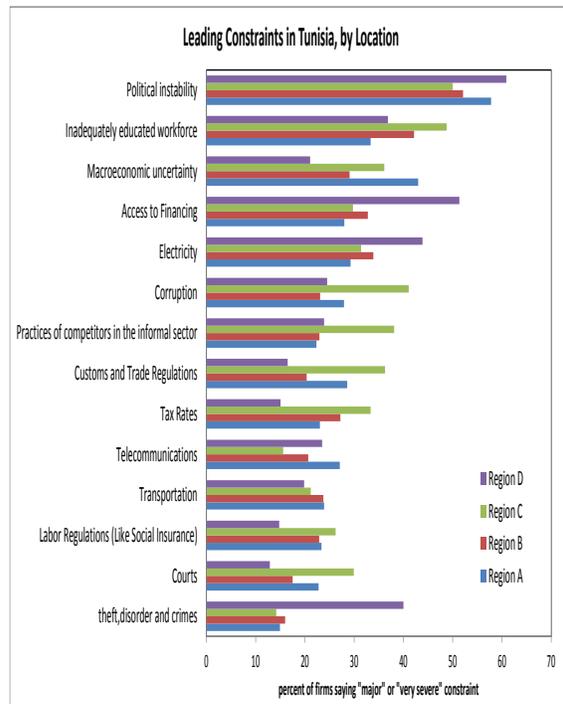


**Access to Infrastructure:** Private firms in Tunisia complain about inadequate levels of power supply, commonly interrupted telecommunications, and poor transportation. One out of every three firms in Tunisia finds access to electricity highly constraining and 23% of firms have a problem with both telecommunications and transportation (figure 1). Manufacturing firms are the most constrained in electricity (36%) compared to 28% of services firms and 25% of tourism firms. Manufacturing firms are also the most constrained in transportation (figure 3).

**There are some regulatory and governance issues that require attention.** With a growing export market in Tunisia, firms perceive customs and trade regulations as constraining their growth. To maintain and further enhance growth, customs and trade facilitation reforms

need to be addressed on a priority basis. Customs and trade regulations are particularly constraining for manufacturing (27%) and service (24%) firms. Also, the larger the firm is, the higher the constraint in that regard (figure 3). This issue specially affects firms in Sfax, Gabes, and Mednine, where 36% of firms in these cities perceive customs and trade regulations as a major or very severe constraint to their businesses (figure 4). This issue is also accompanied by a high level of corruption (29% of firms-figure 1).

**Figure 4: Leading Constraints in Tunisia, by Location<sup>3</sup>**



**Conclusions:** The Tunisia ICA identified the following areas for reform:

*Political and macroeconomic uncertainty is the most commonly shared constraint identified by private companies in Tunisia across sectors and regions. The Government will need to build credibility*

<sup>3</sup> Region A includes the Greater Tunis cities (Ariana, Tunis, Manouba, Ben Arous, Bizerte, and Nabeul), Region B includes Sousse, Mahdia, and Montasir, Region C includes Sfax, Gabes, and Mednine, and Region D includes Jendouba, Beja, Kef, Siliana, Sidi Bouzid, Kasserine, and Kairouen

with investors and citizens through a new set of engagements that encourage consultation, transparency and accountability, while establishing a clear strategy that gives emphasis to promoting inclusive, private sector led growth.

*Inadequate worker skills and education is a major constraint.* The efforts to expand tertiary education have not been matched by job opportunities. As a result, in recent years the increase in unemployment has mostly fallen on young and educated individuals, reflecting a growing structural imbalance between the demands for labor, tilted towards the unskilled, and an increasing supply of skilled labor. The persistently high unemployment rate reflects a rapid growth in the labor force and the large and widening gap between the profile of demand and labor supply. Therefore, attention must be directed towards equipping students with the necessary skills and tools to be able to fulfill the needs of private firms.

*There is an important regional dimension to unemployment and the lack of opportunity in Tunisia.* The ICA looked into the regional dimension of the investment climate to provide benchmarks for policy makers concerned with the increased dichotomy between the inland regions and the more affluent urban and coastal centers. It is estimated that in some governorates unemployment is double the national average while firm population density is less than half the figure found in urban centers. At the policy level, Tunisia will need to address gaps and failings in prior measures that limited inclusive growth – particularly in regions outside the major urban centers and the off-shore enclaves which has limited the impact on employment and skewed opportunities towards a privileged few.

*Access to finance remains an issue, especially for SMEs and firm in the manufacturing sectors.* Lack of collateral by private companies and limited

access to information by lenders are explaining factors. Banks compensate the lack of information through over-collateralization. Around 87% of firms interviewed in Tunisia during the enterprise survey indicated that they are required to have land titles as collateral to secure loans compared to 67% in Jordan. On average, the amount of collateral requested by banks is as high as 176% of the value of credits requested by firms overall – and 203% for small firms. Tunisia needs to explore mechanisms, including risk mitigations instruments, allowing SMEs to have better access to finance.

*Customs regulations and trade logistics still impose significant transaction costs on Tunisian firms.* For key exporting sectors in manufacturing and services, logistic costs account for 20 to 73% of gross margins. Overall, even if Tunisia is above or at par with the overall MENA average in term of global Logistics Performance, it still lags behind in terms of “Logistics Competence” compared to its regional peers and remains way below the best performers in the world. Finally, despite improvements in custom’s, there is still room for improvement in terms of import and export control procedures and delays of clearing and releasing containers in Rades Port (the main container port of Tunisia) which now averages 6 days. Tunisia needs to improve trade logistics to lower the cost of exports for Tunisian enterprises in the following areas: (i) infrastructure; (ii) transport services; and (iii) other logistics support services.

**Contact MNA K&L:**

*Gerard Byam, Director, Strategy and Operations.  
MENA Region, The World Bank*

Regional Quick Notes Team:  
Omer Karasapan, and Roby Fields  
Tel #: (202) 473 8177

*The MNA Quick Notes are intended to summarize lessons learned from MNA and other Bank Knowledge and Learning activities. The Notes do not necessarily reflect the views of the World Bank, its board or its member countries.*