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Neighbourhood SME financing: Tunisia

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This report is based on a survey of the intermediaries conducted by the Economics Department of the European Investment Bank. Information about the market context draws on the EIB/EBRD/WB Enterprise Survey and the World Bank's Doing Business as well as national sources.

About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in its positioning, strategy and policy. The Department, a team of 35 economists and assistants, is headed by Debora Revoltella, Director of Economics.

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1. SUMMARY

1.1 Economic and Financial Situation

- Tunisia is an upper-middle income country with a GDP per capita of USD 4,415 (11,300 in PPP terms) and a population of 11 million in 2014. Tunisia is classified as a high human development country by the UN and fares well in the Doing Business report of the World Bank. However, Tunisia is suffering from major structural deficiencies and is heavily regulated, which hampers competition and investment.
- The Tunisian economy is still struggling to recover from the rough patch which followed the Jasmine revolution. Real GDP growth has reached 2.4% in 2014 thanks to a rebound in chemical and mining production as well as in agriculture, compensating for weaker performance in the tourism sector. However, for 2015 the GDP growth forecast of the IMF has been decreased to only 1% following the terrorist attacks of the Bardo museum and the Sousse resort.
- Inflation is expected to remain high at 5.0% in 2015, and the current account deficit is expected to remain wide at 8.5% of GDP this year. Moreover, the fiscal deficit is expected to deepen somewhat as the government slightly loosened its fiscal stance to accommodate the short-term economic fallout of the recent economic slowdown.

1.2 Assessment of the Financial Sector

- The Tunisian banking sector is one of the smallest in the FEMIP region, with assets representing about 100% of GDP. Despite being highly fragmented the sector suffers from low competition, and this weak competitive pressure is thought to be at the heart of the disappointing performance of the sector over the last years.
- Tunisian banks struggle with high doubtful loans, a difficult liquidity situation, as well as, partly, inadequate capitalization. Public banks are particularly affected, which have all been subject to audits and are expected to be re-capitalized.
- The microfinance sector has changed substantially with the introduction of a new microfinance law in 2011, which opened up the market to new entrants. Since then, four new players have been licensed and are now operating in Tunisia. Private equity and venture capital markets remain shallow in Tunisia. The institutional and regulatory framework for private equity investments has been strengthened in the aftermath of the revolution, but private equity investments remain nevertheless limited. The Tunisian leasing market accounts for less than 10% of the financial sector, but is an increasingly important player for external financing of fixed asset investments of SMEs.

1.3 Gaps in SME Finance

- One-fourth of SMEs consider access to finance as being a major or very severe obstacle to the operation of their business. Despite reasonable access to financial services, SMEs remain credit constrained. Key factors are high collateral requirements as well as complex loan application procedures which discourage many SMEs from applying for a loan.
- Banks do not serve the SME segment adequately, and especially young and innovative SMEs are often cut off external financing sources even if their business model is sound. There is also a

lack of other financing instruments, such as private equity, venture capital, and the comparatively well-developed leasing sector has also a large scope for deepening its product offer and depth.

- In order to deepen their SME business, banks could be interested in the development of SME portfolio guarantee systems.
- Enterprises need access to longer term resources to take investment decision with longer term financial implications. However, banks only provide loans with longer maturities infrequently and only under very specific conditions. Banks need longer term funding to provide more long term loans to SMEs.
- Leasing companies also have a need for longer term external financing in order to reduce their reliance on short term funding. Additional long term funding for the leasing sector, possibly with a special focus on specific segments such as innovative SMEs, could help the development of the SME sector.

2. MACROECONOMIC ENVIRONMENT

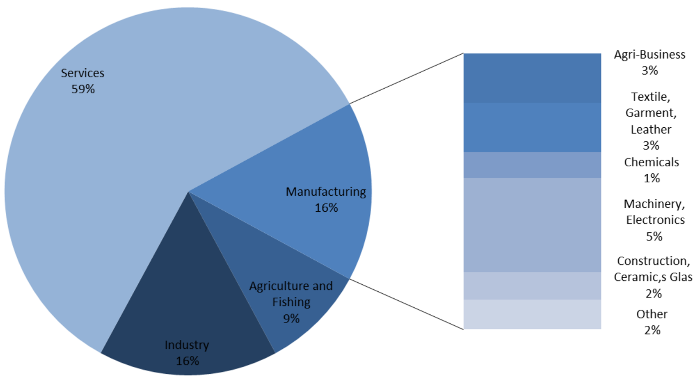
2.1 The Structure of the Economy

Tunisia is an upper-middle income country with a GDP per capita of USD 4,415 (11,300 in PPP terms) and a population of 11 million in 2014. Tunisia is classified as a high human development country by the UN and fares well in the Doing Business report of the World Bank, being ranked the most business friendly economy in the FEMIP region except Israel. However, Tunisia is struggling with major structural deficiencies which are, to a large extent, a legacy from the Ben Ali regime. A report, published by the World Bank in 2014, finds that these structural impediments are the main reason behind the continuing economic woes, and that they create an economic system that benefits only a small part of the population while others suffer from economic deprivation.[1] Tunisia's economy is heavily regulated, which hampers competition and investment. Lack of employment opportunities, as well as unequal access to economic opportunity, are the results of poor economic management and policies.

Indeed, Tunisia is struggling with high unemployment; the unemployment rate stood at staggering 19% in 2011. It has since come down to about 15%, which is high by regional standards. The part of the population which is most affected is the youth, with an unemployment rate of almost 30% among the 15-24 years old.

Tunisia's economy is heavily reliant on services, with almost 60% of gross value added stemming from this sector. It includes wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services. The manufacturing sector accounts for 16%, with machinery and electronics being its most important component (see Figure 1).

Figure 1: GDP by sectors (2014)



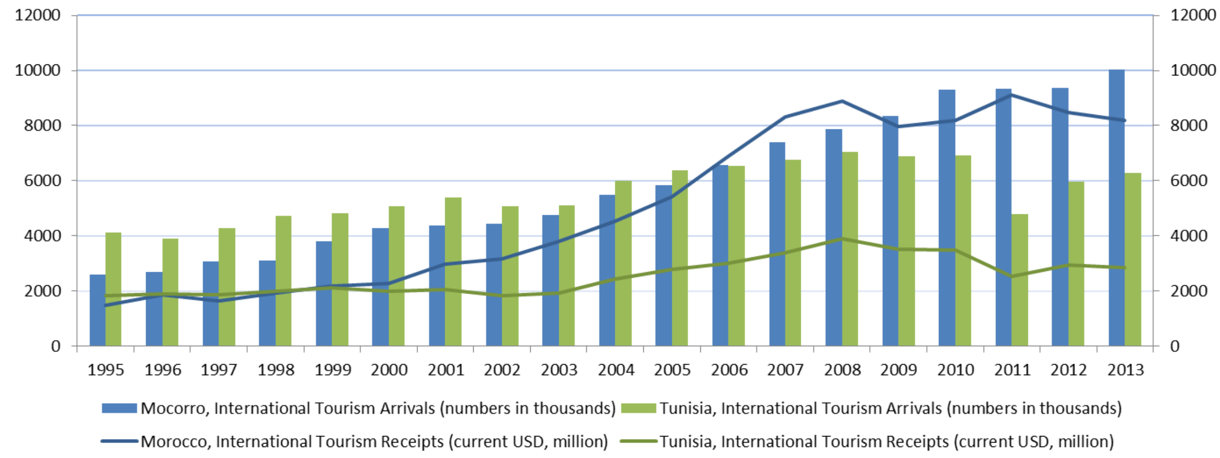
Source: INS

Agriculture has become less important over the last years, now accounting for about 9% of gross value added compared to 11% fifteen years ago. The sector is confronted to deep structural

[1] See World Bank (May 2014). The Unfinished Revolution – Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians.

problems and operates well below its productive potential. The high fragmentation of farm land has led to a large proportion of small-scale farming, which explains the low investment rates in the sector, the low level of mechanization as well as the low use of fertilizers. Despite increasing irrigation of farm land, agricultural production continues to vary sharply with rainfall and temperature patterns. Most cereal cultivation is rain-fed, and yields in this segment are very low by international standards. The climate in Tunisia is not particularly suited for cereal farming, but nevertheless one-third of farmland is sown with cereals. Crops, such as olives, citrus fruits or tomatoes, are under-exploited despite the country's natural comparative advantage. The origin of this distorted use of agricultural land lies to a large extent in the government's food security policy, which aims at reaching self-sufficiency in cereals, milk and beef. In this context the authorities offer subsidies to farmers producing these products. It would otherwise be cheaper to buy those products on international markets rather than producing them domestically. These subsidies distort the sector away from more high-value and climatically suitable crop production, and is therefore contributing to holding back the development and modernization of the agricultural sector.

Figure 2: International Tourism Arrivals and Receipts



Source: World Development Indicators, World Bank

A sector of strategic importance for the Tunisian economy is tourism – the sector accounts for about 7% of GDP (2010 data), 14% of employment (direct and indirect), and is a major source of foreign exchange. However, the tourism industry in Tunisia is affected by major structural deficiencies, and the decline of the sector has begun well before the recent period of political and economic instability. Already before the revolution the sector's key indicators, such as tourist arrivals and occupancy rates, deteriorated. Tunisia has increasingly sold relatively cheap sun-packages, catering to less affluent tourists. This can be explained by years of under-investment and mismanagement, which has led to the domination of low-end hotels, weak entertainment infrastructure and poor service levels. Tunisia is now the tourist destination around the Mediterranean with the lowest per-capita spending by visitor, lagging far behind Morocco, Turkey or Egypt. Figure 2 shows that Morocco, one of Tunisia's main competitors, has increased its international tourism arrivals and receipts substantially over the last decade, while this has not been the case in Tunisia. Consequently investments in the sector have decreased, again leading to a deterioration of the existing facilities. At the same time, the poor performance of the sector has led to a sharp increase in hoteliers' indebtedness. It is estimated that the tourism sector accounts for about one-third of NPLs in the banking sector.

2.2 Recent Macroeconomic Developments

Economic developments and growth

The Tunisian economy is still struggling to recover from the rough patch which followed the Jasmine revolution. Real GDP growth has reached 2.4% in 2014 thanks to a rebound in chemical and mining production as well as in agriculture, compensating for weaker performance in the tourism sector. However, the security situation has worsened over the last years with the conflict in neighbouring Libya, terrorism violence on the border with Algeria and the return of thousands of young Tunisians which left the country to fight for terrorist groups abroad. At the same time social tensions remain high with persisting work stoppages and strikes affecting production in the phosphate sector. Temporarily the main plants in Gafsa region had to close down, leading to a decrease of 50% in production in the first half of 2015. As a result to these adverse developments the GDP growth forecast for 2015 of the IMF has been decreased to only 1% from the previously expected 3%.

Table 1: Macroeconomic Indicators

	2010	2011	2012	2013	2014	2015 (proj.)
Real GDP growth (yoy %)	2.6	-1.9	3.7	2.3	2.3	1.0
CPI Inflation (yoy %)	3.3	3.5	5.1	5.8	4.9	5.0
Current account balance (% of GDP)	-4.8	-7.5	-8.2	-8.3	-8.8	-8.5
Fiscal balance (% of GDP)	1.3	-1.4	-3.0	-4.2	-1.8	-3.7
Government gross debt (% of GDP)	40.7	44.5	44.5	44.3	50.0	54.0
Unemployment rate (%)	13.0	18.9	16.7	15.3	15.3	15.0

Source: IMF WEO Fall 2015

Fiscal situation

The fiscal situation has deteriorated significantly since the 2011. Last year’s overall lower fiscal deficit was achieved mainly through record low capital spending with public investment reaching only 4.2% of GDP. For 2015 an increase in the fiscal deficit is expected, as the government is trying to alleviate the economic impact of the terrorist attacks and has increased the wage bill to contain social pressures. The public wage bill remains massif, accounting for about 13.3% of GDP in 2015, and despite lower energy prices the subsidy envelope remains large. This leaves the government with very limited expenditure flexibility. Capital spending serves as an adjustment variable to meet the deficit target. As a result of the difficult fiscal situation, public debt has increase from 41% previous to the revolution to forecasted 54% in 2015. The share of foreign currency denominated public debt is high at 60.8% (end-2014), which exposes the government to exchange rate depreciation risks. Tunisia’s government receives large support from multi-lateral and bi-lateral lenders. This year’s financing needs are largely covered by an early 2015 USD bond-issuance, IMF and World Bank programmes and other official loans. Official lending support is expected to remain important in the coming years.

Balance of payments

The current account deficit has ballooned over the last years, peaking at almost 9% of GDP last year. It is expected to remain wide at 8.5% of GDP in 2015, reflecting the loss of structural competitiveness of the Tunisian manufacturing industry and the dependence of imported energy due to a lack of domestic oil resources. This slight improvement in the current account balance this year can be explained by an exceptionally good olive harvest, and consequently high olive oil exports, as well as declining energy imports, which have helped to compensate the fall in tourism receipts. Foreign direct investments (FDI) in Tunisia were significant in the pre-revolution period, but concentrated mostly on the energy sector which received about 60% of FDI. FDI in manufacturing took place mainly in low value added activities. During the decade preceding the revolution, annual FDI inflows averaged at about 3.7% of GDP. Since 2011 there has been a decline in FDI inflows, but the expected revision of the investment code is likely to translate in an improvement in foreign direct investments. Currently, onshore manufacturing FDI is restricted, foreign ownership of agricultural land is no permitted (although land can be leased through long term contracts), and FDI in the services sector is tightly controlled. Most FDI comes from Europe, mainly France, Italy, Germany, the UK and Belgium. FDI flows from the Gulf States are expected to gain in importance over the coming years as the GCC states seek to invest their oil wealth.

Monetary policy and inflation

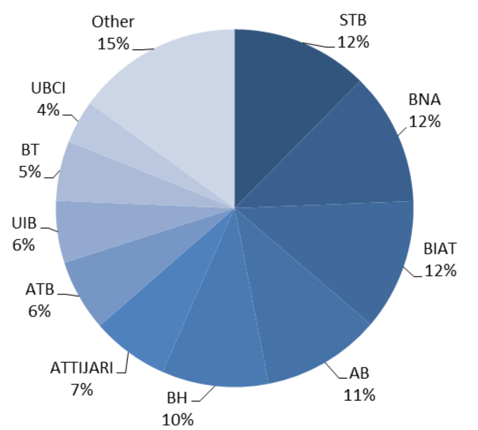
Inflation has jumped since the revolution to levels of around 5% or above. In 2015 CPI inflation is expected to remain this high, despite lower international commodity prices. Inflationary pressures are driven mainly by food and beverage prices. Moreover, the weakening of the Tunisian Dinar has raised import prices. Monetary policy, which aims at price stability, has taken a tight stance given the inflationary environment. The Banque Centrale de Tunisie (BCT) has repeatedly raised the policy rate from 3.75% in 2012 to 4.75% in 2014. The BCT does not have an official inflation target. Despite pressures on the Tunisian currency, the country's large external imbalances and relatively high inflation, the BCT has decided to loosen its monetary policy by decreasing the policy rate by 50 basis points to 4.25% end of October 2015. The persistent economic downturn, together with a slight easing of inflationary pressures during the 3rd quarter of the year, explains the policy move.

3. FINANCIAL SECTOR OVERVIEW

3.1 Banking Sector

The Tunisian banking sector is one of the smallest in the FEMIP region, with a total of 22 commercial banks and assets representing about 100% of GDP. The sector is highly fragmented with the largest three banks accounting for about 12% of the market in terms of assets each (see Figure 3). The largest five banks account for about 57% of the market and three of those five are publicly owned (STB, BNA and BH) and represent 34% of total assets. Of the four largest foreign banks present in the country, one is Moroccan (Attijari Bank), two are French (UIB and UBCI) and one is Jordanian (ATB).

Figure 3: Commercial Banks in Tunisia and their market share (end-2014)



Source: BCT

The large degree of fragmentation in the sector could have a positive effect on access to finance stemming from a high degree of competition. However, studies have shown that despite being highly fragmented the Tunisian banking sector suffers from low competition, and this weak competitive pressure is thought to be at the heart of the disappointing performance of the sector.[2] Factors underlying this low level of competition include (i) the poor regulatory and supervisory framework, (ii) IR caps, (iii) poor governance of publicly owned banks, (iv) inefficient bankruptcy and collateral regimes, as well as (v) the dominance of banks as financing source. Important consequences of the high degree of fragmentation are the difficulties faced by individual banks to develop their market position and the lack of economies of scale.

The sector has been suffering from a difficult liquidity situation. Public banks are particularly affected, and the liquidity provisions of the BCT, which have increased during the first months of 2015, are absorbed to a large extent by the three large state-owned banks. Privately owned banks also face liquidity problems and are fighting to attract new deposits, partly at a high cost. Most banks plan on expanding their branch networks into central and southern regions to access un-tapped deposits from under-banked parts of the population. This weak liquidity environment has led to an increasing loan-to-deposit ratio, which stood at 112.6% at end-2014. During the first few months of 2015 deposits growth has even become negative, an evolution which hadn’t been observed since 2011, as money has been taken out of the financial sector mainly on account of increasing cash-based informal sector activity.

The Tunisian banking sector also struggles with high doubtful loans as well as, partly, inadequate capitalization (see Table 2). The most severe problems can be found in the three public banks (STB, BNA and BH), which have all been subject to audits. The recapitalization programme for two of them (STB and BH) had been approved by parliament in August 2015.[3] The recapitalization of BNA is expected to take place at a later stage. Asset quality has been deteriorating throughout the sector in

[2] See World Bank (May 2014). The Unfinished Revolution – Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians.
[3] The total amount of the programme has been set at 757m TND for STB and 110m TND for BH.

the aftermath of the revolution in 2011, with an NPL ratio standing at almost 16% at end-2014. Privately owned banks are less affected: NPLs in private commercial banks stood at about 9.7% compared to 24.9% in public banks. The capital adequacy ratio for the sector overall was slightly below the 10% regulatory minimum, but the private banks reached on average a capital adequacy ratio of 12.5%. The delayed restructuring of the three large public banks has led to a regulatory forbearance – the central bank authorized the three public banks to continue operations despite their breach of the minim capital adequacy requirement.

Banking supervision and regulation is the role of *Banque Centrale de Tunisie* (BCT).[4] In terms of prudential norms, Basel II is not fully implemented and supervision is not sufficiently risk based. The BCT is currently in the process of reforming banking supervision in cooperation with the IMF through a technical assistance programme. The reform, which is planned to be implemented until 2020, aims at ensuring that the banking regulation complies with Basel II and Basel III, introducing a risk based approach and improving the IT systems in the banking sector. The BCT also plans on introducing a new bank resolution mechanism.

Table 2: Financial Soundness Indicators

	2011	2012	2013	2014
Capital adequacy				
Regulatory Capital to RWA	11.9	11.8	8.2	9.7
Tier1 Capital to RWA	--	9.5	6.6	7.9
Asset quality				
NPLs to total loans	13.3	14.9	16.5	15.8
Provisions to NPLs	48.6	45.7	56.4	57.6
FX-loans to total loans	5.1	4.8	4.8	5.1*
Profitability and earnings				
Return on Assets (ROA)	0.6	0.6	0.2	--
Return on Equity (ROE)	5.9	7.2	2.9	--
IR average spread (between loans and deposits)	3.0	3.0	3.1	2.9*
Liquidity				
Liquid assets to total assets	26.5	28.2	28.4	28.2
Liquid assets to short term liabilities	89.4	89.2	92.6	96.6
Loans to Deposits	114.4	111.7	111.6	112.6

Source: BCT, IMF
*Note: * mid-2014 data*

3.2 Microfinance

The Tunisian microfinance sector has changed substantially since the 2011. Over the previous decade, there were two types of microfinance players in Tunisia: (1) One single privately owned and commercially run MFI (ENDA Inter-Arabe, which was created in 1995), lending to both individuals and micro-firms at commercially set interest rates. (2) Public micro-finance established in 2000 through the BTS (*Banque Tunisienne de Solidarité*) and its almost 300 AMCs (*Associations de Microcrédit* – small, inefficiently run associations which were financed and supervised by the BTS), lending at subsidized interest rates.

[4] Annex 2 provides an overview of main prudential regulations.

In October 2011 a new microfinance law was introduced. Two legal forms of MFIs are now accepted (*société anonyme* and *association*), both requiring licensing through the newly established microfinance regulator and supervisor, the *Autorité de Contrôle de la Microfinance*. The ceiling for micro-credits has been increased to 20,000 TND (a lower ceiling of 5,000 TND remains in place for the MFIs under *association*-status). This new law means that new MFIs can enter the market, and until mid-2015 four licenses had been handed out.[5]

All newly licensed MFIs are new to the country as none of the players previously present in the market have yet obtained a license. ENDA Inter-Arabe is currently adjusting their organization to be able to submit a licensing request. Regarding the state-owned side of microfinance, things are very complex. The new microfinance law from 2011 required the AMCs to restructure to obtain a license, which none of them was able to do. Consequently the AMCs were cut off their BTS funding in 2013, which created problems as many poor people in rural areas were effectively cut off their only source of finance. The authorities reacted by issuing a new regulation allowing the AMCs to remain financed by the BTS until 2016, by which time they need to have obtained a license. MicroMed, a microfinance support project financed by the EIB and the Luxembourgish government[6], has launched a pilot project to merge several AMCs and have the merged group apply for a license. This project is, however, blocked at an administrative level, and a quick resolution is unlikely given differing interests in the future of the AMCs, as well as political and social considerations.

3.3 Private Equity and Venture Capital

Private equity and venture capital markets remain shallow in Tunisia. The institutional and regulatory framework for private equity investments has been strengthened in the aftermath of the revolution in 2011 and has led to an increase in the establishment of investment vehicles such as *SICARs* (*Société d'Investissement à Capital Risque* – investment companies), *FCPRs* (*Fonds Commun de Placement à Risque* – mutual funds dedicated to private equity activities) and *FA*s (*Fonds d'Amorçage* – funds for startups). Various tax incentives, coupled with a simplified legal and regulatory framework, have helped the private equity industry to develop somewhat in recent years. Private equity investments in Tunisia remain nevertheless very limited.

3.4 Leasing

The Tunisian leasing market accounts for less than 10% of the financial sector. The sector consists of 9 active leasing companies, of which most are associated to large banks, and is highly competitive. A few large players face the competition of smaller leasing companies, which try to gain market share. The leader is Tunisie Leasing, accounting for about one-fifth of the market in terms of outstanding leases, while the three smallest leasing companies together do not even account for twenty percent of the market. [7]

[5] Taysir Microfinance, Microcred Tunisie, Advans Tunisie and Centre Financier aux entreprises (all under the legal form of *société anonyme*).
[6] The Government of Luxembourg Directorate for Development and Cooperation and EIB launched a EUR 4 million programme for supporting the development of the microfinance sector in Tunisia in 2012. MicroMed aims at improving the regulatory environment and the ability of microfinance institutions to grow responsively. It provides capacity building to microfinance institutions and increases transparency of the sector.
[7] Fitch, Peer Review: Tunisian Leasing Companies, Feb 2015.

Since 2012 the leasing sector has seen loan growth slow down on the back of the difficult macro-economic environment. In 2014 the situation has improved somewhat, but the troubled economic recovery in 2015 is likely to dampen any further loan growth acceleration. Asset quality is the leasing sector remains weak. Many leasing companies are exposed to high debtor concentration, which exposes them to additional credit risk.

4. SME SECTOR

4.1 SME Activity

Size of the segment

There is no official SME definition in Tunisia, and commercial banks use different definitions, mostly in relation to annual revenue of the firm[8], and the national statistical office in Tunisia uses a definition according to number of employees[9]. According to a recent IFC report, MSMEs in Tunisia account for about 40% of GDP and for 56% of employment.[10]

The latest available figure of the Tunisian statistical office show that there the vast majority of firms are one-person firms, i.e. self-employed entrepreneurs. They account for almost 90% of all firms. Excluding this specific type of micro-firm, the most dominant category of firms remains nevertheless the smallest firms, with 76.7% of all firms employing between one and five people. Overall the MSME segment accounts for almost 98% of all firms (see Table 3). Only 2.2% of firms have 100 employees or more, but these firms account for almost 55% of all employment in private enterprises in the country.

Table 3: Firms by size

Size	Number	Percentage
Micro	61,252	76.7%
Small	15,310	19.2%
Medium	1,573	2.0%
Total MSME	*78,135*	*97.8%*
Large	1,739	2.2%
Total	*79,874*	*100%*

Source: INS RNE 2013
Note: Micro 1-5 employees; Small 6-49; Medium 50-99; Large >=100

Characteristics of SMEs

In terms of sector distribution, most small, medium and large firms are active in the manufacturing sector (see Table 4). The larger the firm category, the more firms are in the manufacturing sector (17.5% for micro firms, 59.7% for large firms), while wholesale and retail trade loses importance (only 6% of large firms operate in this sector). The tourism industry is dominated by micro firms and some large players. Agriculture is an important sector especially for micro firms, and accounts for about 44% of total employment in rural areas[11]. Large-scale farming and agri-business is not very well represented in Tunisia due to complex land ownership structures and the high fragmentation of farm land.

Table 4: Firms by sector

Industry	Micro	Small	Medium	Large
Manufacturing	17.5%	37.4%	56.5%	59.7%
Construction	6.9%	9.2%	6.7%	5.3%
Wholesale and Retail Trade	32.4%	23.0%	10.2%	6.0%
Transport and Storage	2.2%	3.4%	2.9%	2.1%
Tourism	10.4%	5.9%	4.4%	8.2%
Financial Services	0.9%	0.7%	1.1%	1.8%
ICT	1.8%	2.4%	1.7%	1.6%
Extractive Industry	0.3%	1.2%	1.8%	1.0%
Other	27.6%	16.8%	14.8%	14.2%
TOTAL	100%	100%	100%	100%

Source: INS RNE 2013
Note: Micro 1-5 employees; Small 6-49; Medium 50-99; Large >=100. The agricultural sector is underrepresented in this dataset, and is therefore not shown as individual category.

[8] There is no reporting requirement of commercial banks to report figures relating to their SME business to the central bank. Commercial banks use different thresholds for their internal definition of SMEs.
[9] The INS uses the following definition: micro firm 0-5 employees, small firm 6-49 employees, medium firm 5-199 employees, large firm 200+ employees.
[10] IFC (2014), Market Assessment of the Financial Needs of Very Small, Small and Medium Enterprises in Tunisia. MSMEs in this report are firms with less than 200 employees.
[11] See World Bank (May 2014). The Unfinished Revolution – Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians.

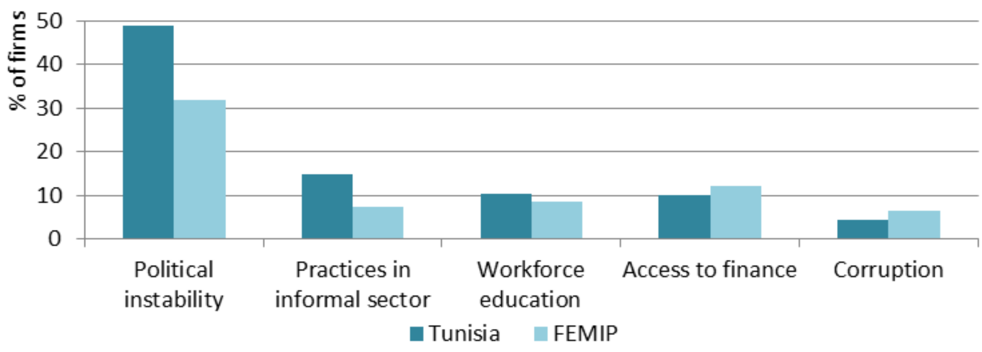
The Tunisian private sector firms are divided in two very distinct legal forms – the onshore and offshore sector. The distinction comes from the investment incentives code, and separates firms into onshore-firms, which serve solely the domestic market (or at least to a very large extent), and off-shore firms which are fully exporting. The latter benefit from some tax exemptions, duty free access to inputs and equipment, as well as streamlined customs procedures. This dual system has initially helped the country to attract foreign direct investments and foreign exchange, but has ultimately led to important distortions in the Tunisian economy[12]. At the same time this onshore-offshore distinction explains the relatively high share of foreign owned firms, both overall and SME specific, compared to the rest of the FEMIP region, as well as the relatively high proportion of exporting firms (see Table 5).

Table 5: Firm characteristics

	SMEs		Total	
	Tunisia	FEMIP	Tunisia	FEMIP
% of exporting firms	25.6%	18.5%	30.2%	20.1%
% of foreign owned firms	9.2%	5.5%	11.7%	6.5%

Source: EIB, EBRD, World Bank, MENA Enterprise Survey 2012
Note: SMEs are firms with less than 100 employees.

Figure 4: Top SME obstacles to business operations



Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

Performance

Tunisian SMEs have suffered from the very difficult economic environment prevailing since 2011. Indeed, Figure 4 shows that political instability is the top obstacle for SMEs' business operations. Many SMEs have seen their profitability come under pressure and have ceased investment given the difficult domestic economic situation. Their demand for investment loans has decreased over the last months, and SMEs mainly demand working capital loans. The by far most important constraints to business development of SMEs in Tunisia are political instability and insecurity.[13] The outlook remains dim as consumer spending and consequently SME revenues are expected to continue performing poorly, at least in the short term, given the recent setbacks in recovery prospects.

[12] See World Bank (May 2014). The Unfinished Revolution – Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians.
[13] See EIB/EBRD/WB (2014) MENA Enterprise Survey and Conect (2015) Sondage sur l'acces au financement des PME.

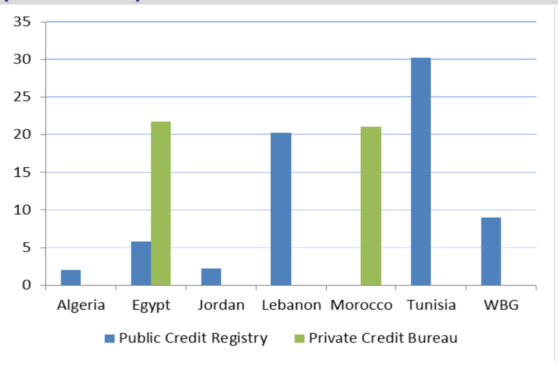
4.2 Institutional and regulatory environment

The business environment in Tunisia compares relatively well to other countries in the region. According to the World Bank's Doing Business 2015 report, Tunisia ranks 60th out of 189 economies; this puts the country ahead of all other FEMIP countries (except Israel). However, Tunisia has lost several places in the ranking over the last years. The business climate is relatively attractive regarding electricity provision (38th) and trading across borders (50th), even though the latter has recently weakened due to deterioration in port infrastructure and inadequate terminal space. The biggest challenges remain getting credit (116th) and starting a business (100th). The World Economic Forum lists inefficient government bureaucracy, access to financing, policy instability, and restrictive labour regulations as the top problematic factors for doing business. In the Global Competitiveness Ranking 2014-2015, Tunisia is ranked 87th out of 144 economies.

Access to finance is one of the main impediments to the business environment in Tunisia, and this particularly true for SMEs. Accessing financing from external sources is problematic, for reasons stemming from demand and supply side factors as well as the institutional framework. The institutional framework for external financing comprises legal and regulatory dimensions, and includes aspects such as credit information systems, registration systems for moveable assets, land and real estate, as well as creditor rights.

Credit information systems: Tunisia has a well-established public credit registry, the *Centrale des Risques* of the central bank. It covers more than 30% of adults, which is very high relative to other countries in the region (see Figure 5). There is, however, no private credit bureau in place, which is needed to obtain more comprehensive information. The public credit registry's main drawback is that it is limited to financial entities regulated by the central bank, as they are the ones giving information about their clients to feed the information system. A private credit bureau can go further and use alternative sources of information. An initiative to create a private credit bureau has been launched in 2014, but it is not operational yet.

Figure 5: Credit Information System Coverage (% of Adults)

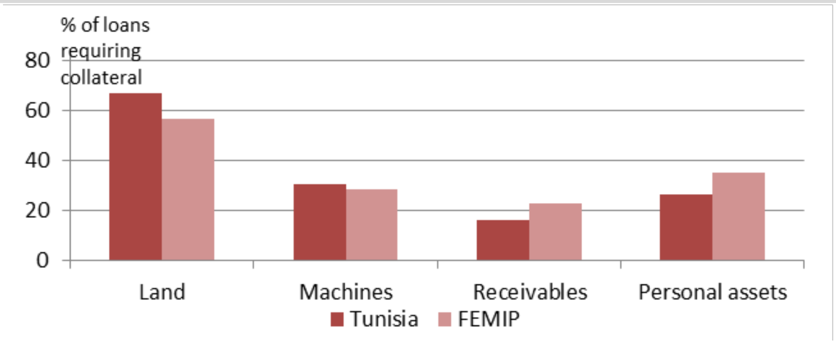


Source: WB Doing Business 2015
Note: Israel has a pivate credit bureau coverage of 100% of adults. Only Egypt has both a public credit registry and a private credit bureau in place.

Registration systems for movable assets, real estate and land: Despite being important assets an enterprise could offer as collateral, banks are typically very reluctant in accepting assets other than land or real estate as guarantees from their clients. Indeed, SMEs report that for more than 60% of loans, either land or real estate was required as collateral, which is high even for regional standards (see Figure 6). Poor registry systems for movable collateral are, at least partly, to blame – Tunisia has no centralized collateral registry, and information is difficult to access.

Creditor rights: Tunisia has a relatively weak protection of creditors' rights. Secured creditors are not able to seize collateral when the debtor enters a reorganization procedure and are not payed first (that is before tax and employee claims) when a debtor defaults outside an insolvency procedure or when a business is liquidated.[14] Bankruptcy procedures are lengthy and inefficient, often preventing the orderly restructuring or exit of inefficient firms, which leads banks to adopt an overly conservative lending approach.

Figure 6: SMEs - Percentage of loans requiring a certain type of collateral

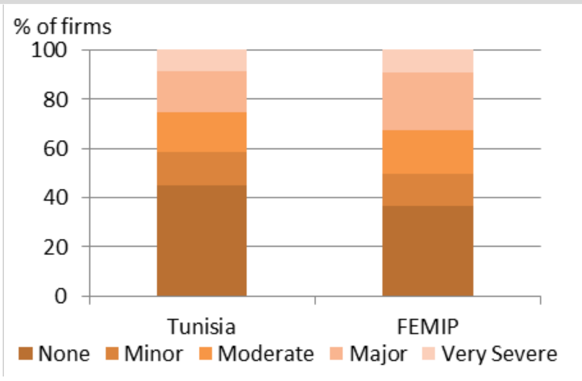


Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

4.3 SME Access to Finance

The weak institutional framework contributes to unsatisfactory levels of access to finance in Tunisia. According to a recent IFC study, about 71% if MSMEs are banked (the ratio even reaches 100% for firms with more than 50 employees).[15] However, one-fourth of SMEs consider access to finance as a major or very severe obstacle to the operation of their business (see Figure 7). Less than half of SMEs consider access to finance not an obstacle. Access to financial services is higher in Tunisia than in other FEMIP countries, with more than 50% of SMEs having a loan or credit line (compared to about one-third in FEMIP on average) and more than 60% having an overdraft facility (less than 50% in FEMIP on average).

Figure 7: SME Access to Finance as Obstacle to business operations (2012)



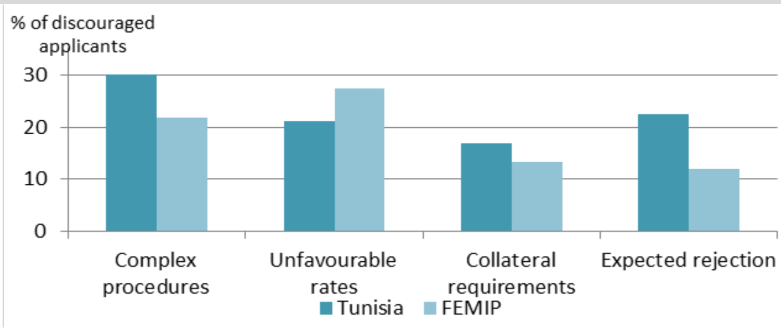
Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

The most important sources of financing for working capital and fixed asset are internal funds and retained earnings. Tunisia compares favourably to the FEMIP region on average when it comes to the proportions of working capital and fixed asset being financed externally. Bank finance is most important external financing source of working capital for SMEs in Tunisia, followed closely by trade credit (see Figure 9). Regarding fixed asset investments, bank financing and equity are equally important (see Figure 10). Equity in this context stands for owners' contributions or issuance of new equity shares, and the highest proportion of fixed assets being financed through equity (almost 50%) can be observed in firms which have a partnership structure.

[14] See World Bank Doing Business 2015.
[15] IFC (2014), Market Assessment of the Financial Needs of Very Small, Small and Medium Enterprises in Tunisia. MSMEs in this report are firms with less than 200 employees.

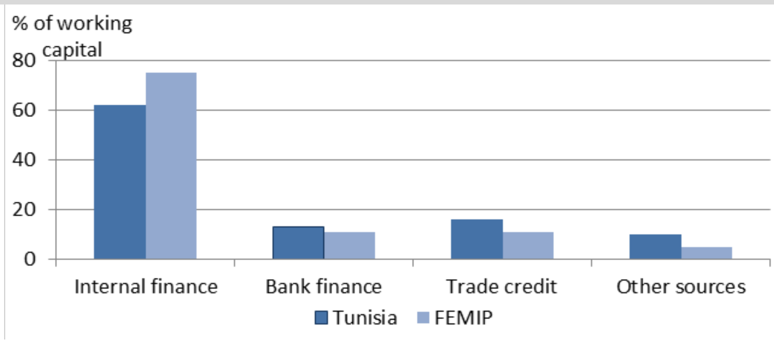
However, more than 40% of all SMEs report being credit constrained.[16] Many SMEs are discouraged from applying for a loan (39%), mainly because of too complex application procedures (see Figure 8). SMEs are requested to provide financial information about their business when applying for a loan, which many are no able or willing to provide. Banks often complain about the lack of transparency of SMEs. According to the IFC, only 60% of SMEs in Tunisia keep accounts, and 33% have certified financial statements.[17] SMEs also lack financial projections (only 36% have a business plan).

Figure 8: SMEs - Reasons for discouraged credit applications (2012)



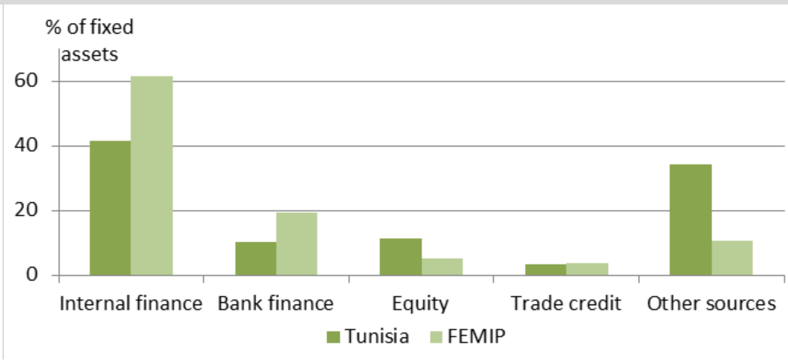
Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

Figure 9: SMEs – Sources of financing – Working Capital (2012)



Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

Figure 10: SMEs – Sources of financing – Fixed Assets (2012)



Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

[16] EIB/EBRD/WB Enterprise Survey
[17] IFC (2014), Market Assessment of the Financial Needs of Very Small, Small and Medium Enterprises in Tunisia. MSMEs in this report are firms with less than 200 employees.

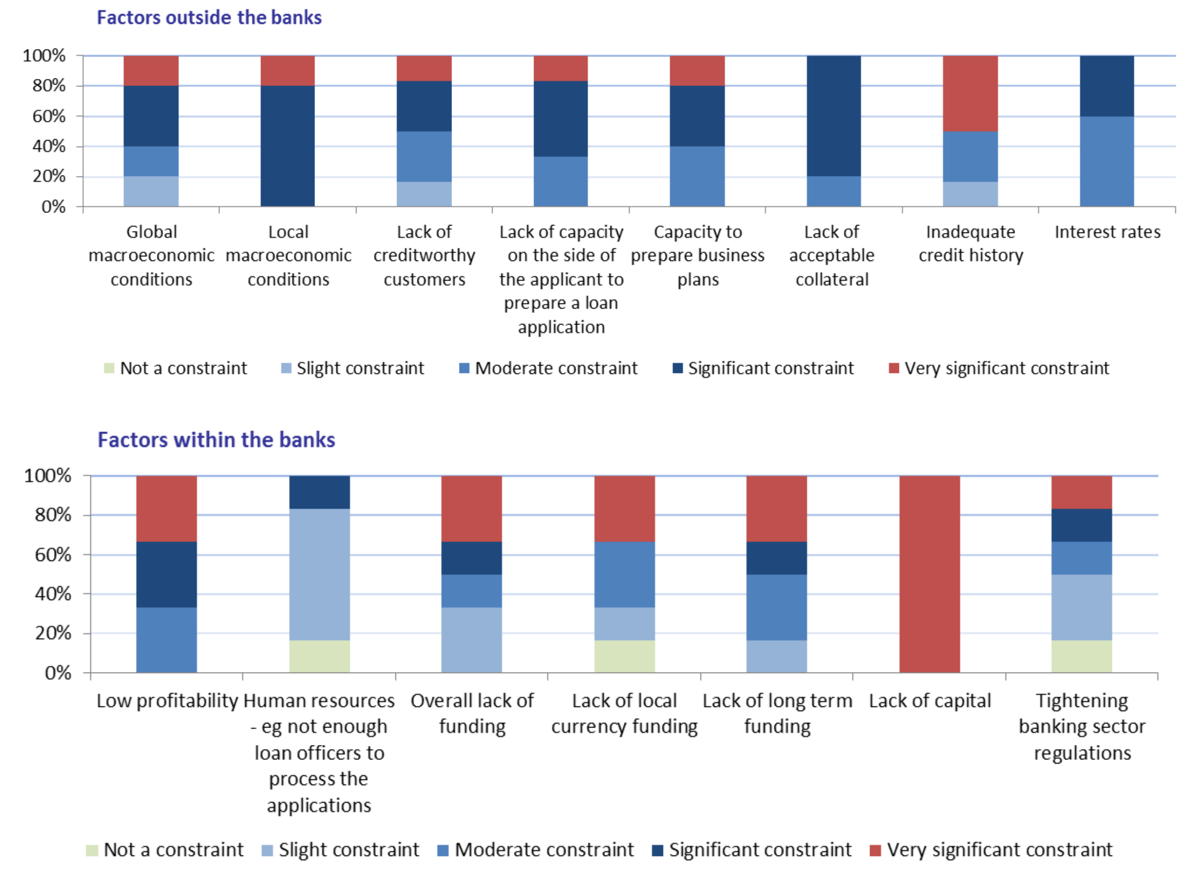
5. SME Financing

5.1 Intermediaries

Banks

Banks remain the main source of external financing for the Tunisian private sector. Credit to the private sector has increased from just below 60% in 2008 to 76% in 2013, which compares well to other countries in the region. Banks provide more than 90% of financial intermediation: domestic credit to private sector by banks stood at 72% of GDP in 2013. However, bank lending to SMEs remains limited in Tunisia, with a share of SME lending to total lending of only about 15% according to a 2011 WB report. This compares poorly to Morocco, which has a much higher share of lending to SMEs of about 24%, but favourably to Egypt (5%) or Jordan (10%).[18]

Figure 11: Factors Constraining the Supply of SME Credit



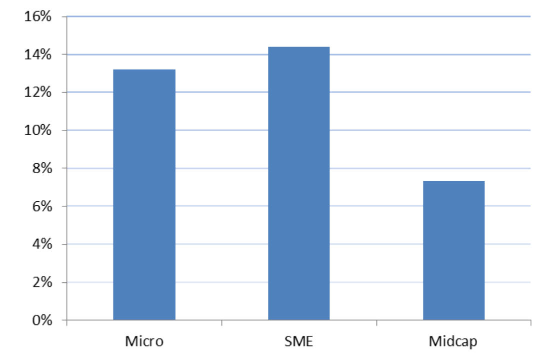
Source: EIB Bank Survey of Enterprise Lending (2015)

Several factors are underlying the low share of SME loans. On the credit demand side, many SMEs lack the capacity, or are not willing, to provide business plans and adequate financial statements needed for a successful loan application. Moreover, SMEs often have difficulties meeting the high collateral requirements of banks (especially real estate), a situation which is exacerbated by the lack of properly functioning collateral registries. Banks demand very high collateral to compensate for

[18] Rocha,Farazi, Khouri, Pearce, The Status Of Bank Lending To Smes In The Middle East And North Africa Region: The Results Of A Joint Survey Of The Union Of Arab Banks And The World Bank, World Bank (2011).

weak creditor rights as well as the risk that the borrower may already have pledged the assets. Figure 11 shows to what extent banks consider different demand side factors as constraints to demand for SME credit. On the credit supply side, banks identify the lack of capital as their biggest constraint, followed by low profitability and the lack of availability of long term funding. Banks consider the lack of human resources able to asses SME loan application as a minor constraint. However, this can be partly explained by a lack of awareness that the adequate assessment of the risk profile of SME clients requires a different approach than the analysis of large corporates. Banks mostly lack specifically trained staff or internal rating systems for SME clients.

Figure 12: Loan growth in 2014



Source: EIB Bank Survey of Enterprise Lending (2015)

As competition in the corporate business is very high and profitability in this segment squeezed, most banks in Tunisia are trying to expand their SME business. Figure 12 shows that loan growth in 2014 has been highest in the SME segment. However, banks are aiming at expanding their SME business only to a subset of well-established SMEs which are able to bring in substantial collateral, especially in real estate. Other SMEs, which have limited equity and funds, remain mostly excluded. The difficult liquidity situation of banks increases this problem as they have limited resources available for lending and prefer using those on clients which are perceived as less risky and offer real assets as securities. Micro-enterprises (TPE) clients are grouped with retail clients and professionals in most banks, meaning that there are no specialized micro-enterprise units which could build up detailed knowledge about this specific client segment.

Leasing

In addition to banks, increasingly important players for external financing for fixed asset investments of SMEs are leasing companies. Leasing products are especially attractive for SMEs which do not have a long credit history or lack collateral to obtain a bank loan, as leasing offers a financing option which does not require extensive guarantees.

Microfinance

Given the loan amount restrictions, MFIs cater to retail clients, professionals and micro-enterprises.

Other (Public – Specialized MSME support)

The BTS, which is state-owned, is extending loans of up to TND 100,000 to professionals and micro-enterprises, which do not have the possibilities to access commercial bank loans due to a lack of collateral.[19] The BTS requires the entrepreneurs to bring in ten percent of the loan amount requested, which leads to a discrimination against young entrepreneurs.[20] The entirely state-owned BFPME has been created in 2005 with the aim to improve access to finance of SMEs and start-ups. The BFPME does not ask for collateral, but will only finance the project if there is a guarantee from the SOTUGAR (see below). The loans extended to SMEs range from TND 100,000 to TND 2.5m, and

[19] MicroMed, Etude sur l'inclusion financiere, Octobre 2013.
[20] OECD, A reform agenda to support competitiveness and inclusive growth, March 2015.

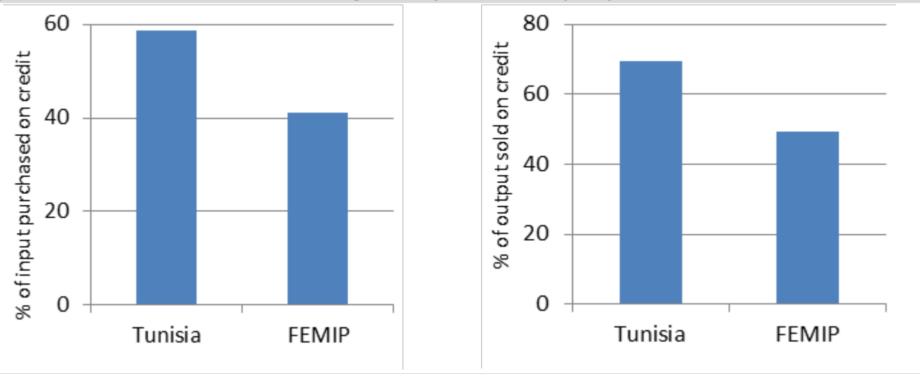
cover up to a maximum of 65% of the project cost.[21] The BFPME doesn't have any branch offices; its regional representation usually takes place in regional business centres. The BFPME is in a difficult financial situation and is awaiting decisions by the Tunisian authorities on how they can adjust their business model to improve their performance. The SOTUGAR is a credit guarantee scheme aiming at alleviating collateral requirement of entrepreneurs and SMEs applying for bank credits. Commercial banks are working closely together with the SOTUGAR, but there is room for improvement regarding the performance of the guarantee scheme.[22]

5.2 Financing Instruments

The main products banks offer to SME clients are classical loans for investment and working capital purposes. Banks also offer trade finance products to SME clients. The typical maturity in this segment is 5 years; in exceptional circumstances some banks even offer 7-year loans to SME clients. Most loans are in local currency, and foreign currency lending is only undertaken if the client has an FX income stream.

In terms of pricing, fixed-rate loans only exist for housing loans with maturities of more than 15 years. All other loans are subject to a flexible but tightly regulated interest rate, indexed on the TMM, and are determined as follows: (1)The BCT classifies loans by type (different maturities and borrowers); (2) The BCT calculates the type-specific TEM (*taux effectif moyen* - effective average interest rate) based on existing loan portfolios. (3) Banks can discriminate between borrowers according to their risk profile but only up to a tight limit, the excessive rate (*LTE, limite de taux d'intérêt excessif*), a rate equal to 1.2 times the prevailing TEM. This interest rate regulation limits banks' ability to charge higher interest rates for higher risk profiles and highlights the need for extra provisioning. It may also imply that higher-risk clients (e.g. low-collateralised, young or innovative SMEs) are shut out from bank loans.

Figure 13: Trade Credit – Percentage of input and output purchased or sold on credit



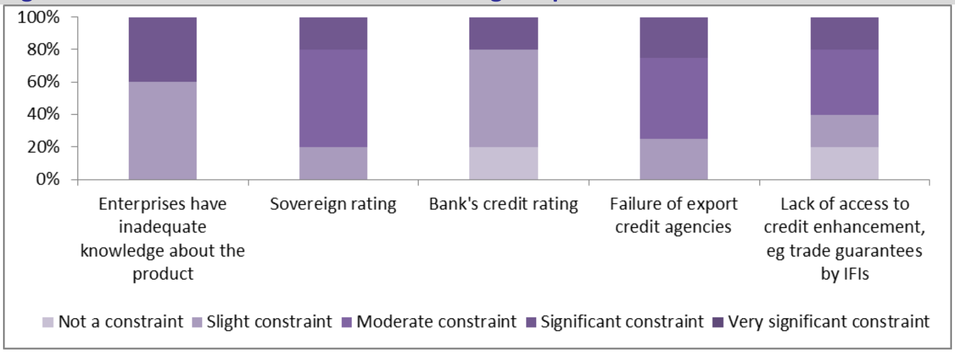
Source: EIB/EBRD/WB Enterprise Survey
Note: SMEs are firms with less than 100 employees

Trade finance is considered by banks to be widely available to their clients, and Figure 13 indeed shows that the percentage of input and output bought or sold on credit is higher in Tunisia than in FEMIP on average. While in Tunisia almost 60% of inputs are bought on credit and about 70% of

[21] MicroMed, Etude sur l'inclusion financiere, Octobre 2013.
[22] World Bank (May 2014). The Unfinished Revolution – Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians.

output is sold on credit, this compares to FEMIP averages of just over 40% and about 50%, respectively. At the same time, Tunisia has a very large share of firms engaged in either importing or exporting by regional standards[23]. Despite being widely available, the further development of trade finance products is constrained by the country's sovereign rating and issues relating to the operation of export credit agencies (see Figure 14).

Figure 14: Trade Credit – Factors constraining the provision of trade credit



Source: EIB Bank Survey on Enterprise Lending (2015)
Note: Banks participating in the survey represented more than half of privately owned commercial banks in terms of assets.

Most leasing clients are SMEs, micro-firms or professionals. The leasing products offered are basic and not very diversified, focusing mainly on operating leases of movable assets such as vehicles (almost 70% of leases are vehicle financing) and equipment, and to a smaller extent real estate.

Microfinance institutions in Tunisia offer classical microfinance products, such as small fixed asset or working capital loans for micro-entrepreneurs, loans for improvements of housing conditions or loans for school fees. The microfinance legislation does not allow MFIs to take deposits or to offer payment methods to their clients.

5.3 Funding of the Intermediaries

The main funding source of Tunisian commercial banks are deposits, which represent more than 60% of total liabilities. The liquidity shortage of banks has been partly mitigated by central bank liquidity support. Banks do not rely on funding sources outside Tunisia, and capital controls limit the possibilities to move deposits out of the country. However, deposits can easily be converted to cash, especially since most deposits are of short term nature. More than one-third of all deposits are sight deposits. The proportion of sight deposits to total deposits has been increasing over the last years as banks had difficulties attracting new depositors and customers being reluctant to lock up their savings in term accounts. The limited availability of long term local currency resources poses a problem to commercial banks and restricts the loan maturities they can offer to their clients. Banks do longer term lending (beyond five or seven years) only if these loans are backed by credit lines from IFIs or national development banks. These credit lines are mostly denominated in hard currency, but the Tunisian banks can use a government-backed 'FX balancing fund' (*fonds de*

[23] 83 percent of firms export 10 percent or more of their sales directly and/or importing 10 percent or more of intermediate inputs (*EIB/EBRD/WB Enterprise Survey).*

peréquation de change – run be TunisRe) to hedge any foreign currency resources risk.[24] The price of this insurance lies currently at 400 basis points, which is below the price any commercially run entity could offer. However, the rate charged is likely to increase further over in the near future, as the Tunisian Dinar is continuously under pressure and the FX balancing fund is making losses.

Traditionally the microfinance sector has been financed through two different channels. The publicly owned micro-credit associations AMCs were exclusively financed by the BTS, while the privately owned ENDA InterArabe mainly financed itself through IFIs and local commercial banks. The newly licensed MFIs all operate under the status of limited liability company (*société anonyme*), which makes their refinancing easier as it is a transparent legal form with a clearly established structure and reporting requirements. So far the local commercial banks and IFIs have financed the new entrants, and it is reasonable to assume that the existing MFIs will be able to continue relying on these funding sources in the short and medium term. The question of funding is, however, more complex regarding the AMCs. Licensed and restructured AMCs might encounter significantly more problems to cover their funding needs and to diversify their funding sources, especially given their poor track record in terms of performance and governance.

Most leasing companies are reliant on short-term funding (which represents about 35% of total funding), and have tight liquidity buffers, which exposes them to significant refinancing risks given liquidity shortages in the market.[25] However, there are substantial discrepancies across different leasing companies, as some of them have considerable advantages accessing funding as they can rely on a commercial bank as their shareholder. The most important wholesale funding source is the Tunisian bond market, representing about 40% of total funding of the sector on average. Some long term funding is already provided through long-term IFI credit lines, and is contributing to decrease the sector's reliance on short-term funding.

[24] This FX currency risk coverage mechanism has been introduced in the 1970s in order to facilitate the use of external resources for economic and social development. The government is taking on the currency risk because of the lack of market mechanisms for FX risk coverage.

[25] Fitch, Peer Review: Tunisian Leasing Companies, Feb 2015.

6. Gaps/Market Failures

6.1 Gaps in the availability of financial products

- Credit is widely available, but there is still a significant financing gap and many SMEs consider themselves credit constrained. Banks do not provide enough loans to this segment of the economy, and especially young and innovative SMEs are often cut off external financing sources even if their business model is sound due to a lack of available (real estate) collateral.
- Enterprises need access to longer term resources to take investment decision with longer term financial implications. However, banks only provide loans with longer maturities infrequently and only under very specific conditions. Access to longer term funding could help banks to extend more longer term loans to SMEs.
- Local currency credit is more widely available than foreign currency, but some banks report a gap in the availability of local currency credit at longer maturities.
- Trade finance products are widely available but the growth of this type of product is constrained by the country's sovereign rating and issues relating to the operation of export credit agencies.
- The leasing sector is comparatively well-developed but there is scope for increasing its product offer and depth. Leasing companies have a need for longer term external financing in order to reduce their reliance on short term funding. Additional long term funding for the leasing sector, possibly with a special focus on specific segments such as innovative SMEs, could help the development of both the leasing as well as the SME sector.
- In order to deepen their SME business, banks could benefit from the development of SME portfolio guarantee systems in Tunisia. However, the pricing of such a product is likely to be prohibitively high given the high non-performing loans in this segment.
- There is a lack of private equity and venture capital products in Tunisia.

6.2 Constraints on the growth of SME finance

- There are constraints on both the supply and demand for credit. Demand has been affected by local and global macroeconomic conditions, and the lending capacity of the banking sector has also been hit at the same time.
- The banking sector in aggregate faces a difficult funding situation. The loan-to-deposit ratio stood at 112.6% at end-2014. Attracting new deposits is increasingly challenging, partly due to an increase in cash-based informal activity. There is tight competition among banks for large institutional depositors, as well as new depositors, squeezing profit margins substantially.
- The financial situation of the banks is an important constraint, particularly for the public sector banks where asset quality has deteriorated, capitalization has fallen below regulatory thresholds and profitability is depressed.
- SME risk is an important constraint for banks. Some SMEs lack the capacity, or are not willing, to provide business plans and adequate financial statements needed for a successful loan application. Moreover, SMEs often have difficulties meeting the high collateral

requirements of banks (especially real estate), a situation which is exacerbated by the lack of properly functioning collateral registries. At the same time banks are often not adequately equipped to assess SME specific risks.

- Interest rate regulation limits banks' ability to charge higher interest rates for particular risk profiles and highlights the need for extra provisioning. Interest rate caps have also been a constraint on the development of commercially based microfinance.

ANNEX 1 – Macroeconomic Indicators

TUNISIA - ECONOMIC DATA

	2010	2011	2012	2013	2014	2010-2014 Average	2015 (Est)
SOCIAL INDICATORS							
Population (in millions)	10.5	10.7	10.8	10.9	11.0	**10.8**	11.1
Population Growth (%)	1.0	1.2	1.0	1.0	1.0	**1.0**	1.0
Unemployment rate (%)	13.0	18.9	16.7	15.3	15.3	**15.9**	15.0
NATIONAL ACCOUNTS							
Real GDP (1) growth rate, %	2.6	-1.9	3.7	2.3	2.3	**1.8**	1.0
GNDY (2), % GDP	--	--	--	--	--	**--**	--
GDP per capita, US$	4,176.9	4,305.1	4,198.0	4,316.8	4,422.1	**4,283.8**	3,984.8
GDP in Bn US$	44.1	46.0	45.2	47.0	48.6	**46.2**	44.3
Gross Investment, % GDP	24.6	21.7	21.6	20.2	19.9	**21.6**	20.4
Gross National Savings, % GNDY	--	--	--	--	--	**--**	--
FISCAL ACCOUNTS							
General Govt Balance, % GDP	-0.5	-3.2	-4.8	-6.0	-3.7	**-3.6**	-5.7
Gross General Govt Debt, % GDP	40.7	44.5	44.5	44.3	50.0	**44.8**	54.0
External Debt, % GDP	48.5	48.0	53.8	54.1	56.2	**52.1**	64.4
Debt Service Ratio,% of expt. goods,services & income	--	--	--	--	--	**--**	--
MONETARY ACCOUNTS							
CPI (3) Inflation, %	3.3	3.5	5.1	5.8	4.9	**4.6**	5.0
Broad Money, % GDP	68.6	73.0	72.4	71.4	71.2	**71.3**	71.9
Credit to Private Sector, % GDP	68.5	76.3	75.9	75.7	--	**74.1**	--
Nominal Exchange rate (Nat cur/USD)	1.4	1.4	1.6	1.6	1.7	**1.5**	2.0
Nominal Exchange rate (Nat cur/EUR)	1.9	2.0	2.0	2.2	2.3	**2.1**	2.2
Appreciation (%) against the EUR	-1.0	-3.1	-2.5	-7.5	-4.5	**-3.7**	2.6
Appreciation (%) against the USD	-6.0	1.6	-10.9	-4.0	-4.5	**-4.8**	-16.3
BALANCE OF PAYMENTS ACCOUNTS							
Current Account Balance, % GDP	-4.8	-7.5	-8.2	-8.3	-8.8	**-7.5**	-8.5
Workers' Remittances, inflows, % GDP	4.6	4.4	5.0	4.9	--	**4.7**	--
Net FDI (4), % GDP	--	--	--	--	--	**--**	--
Foreign Exchange Reserves, months of imports	--	--	--	--	--	**--**	--
Trade Openness (5)	104.1	104.2	106.1	101.6	102.6	**103.7**	95.2
Market Share in the World Market, % world imports (6)	0.1	0.1	0.1	0.1	--	**0.1**	--
Imports from EU-27 as Share of Total Imports (%)	62.0	58.8	55.0	57.2	--	**58.2**	--
Exports to EU-27 as Share of Total Exports (%)	75.9	79.3	74.5	74.4	--	**76.0**	--
Real Effective Exchange Rate (2000=100)(7)	100.0	98.2	96.7	95.0	95.0	**97.0**	--
Terms of trade of goods and services (8)	69.6	74.8	73.0	73.4	69.5	**72.0**	73.1

(1) GDP : Gross Domestic Product
(2) GNDY : Gross National Disposable Income = GDP + Net Income + Net Current transfers from abroad
(3) CPI : Consumer Price Index - (4) FDI : Foreign Direct Investment
(5) Trade openness = 100 * (exports + imports of goods and services) / GDP.
(6) Market share in the world market = percentage of merchandise exports in total world imports.
(7) REER: The real effective exchange rate. A decrease in REER represents an increase in competitiveness (real depreciation).
(8) Terms of trade = export prices / import prices of goods and services.
Source: IMF, WTO, European Commission (DG Trade), World Bank.

Governance Indicators 2014 (Percentile Rank)

Voice and Accountability	Stability/No Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
44.08	18.48	52.63	39.71	48.82	54.07

Voice and Accountability: the extent to which citizens of a country participate in the selection of governments.
Stability and Absence of Violence: the likelihood that the government will be destabilized/overthrown by unconstitutional and/or violent means.
Government Effectiveness: the quality of public service provision and of the bureaucracy as well as the government's commitment to policies.
Regulatory Quality: the incidence of market-unfriendly policies, as well as burdens imposed by excessive regulation.
Rule of Law: the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.
Control of Corruption: the extent of corruption, conventionally defined as the exercise of public power for private gain.
Source: World Bank.

Doing Business 2015 (ranking 1=best; 189=worst)

Ease of Doing Business Rank	60	Getting Credit	116	Enforcing Contracts	78
Starting a Business	100	Protecting Investors	78	Registering Property	71
Dealing with Licenses	85	Paying Taxes	82	Resolving Insolvency	54
Employing Workers	--	Trading Across Borders	50		

Source: World Bank

SOVEREIGN RATINGS

Moody's	Fitch	Standard & Poor's	EIB's Internal
Ba3 / Stable	Ba3 / Stable	NR / NR	-- / --

ANNEX 2 – Main Prudential Regulations

Table 1.1: Main prudential regulations		
Capital requirements and capital adequacy	Minimum capital requirement	25m TND for resident banks
	Capital adequacy ratio	Minimum CAR at 10% since end-2014 Minimum Tier 1 Capital ratio at 7%
	Reserve requirements	Minimum reserve requirement stands at 1% (it has been brought down from 12.5% in several steps since 2011)
Liquidity	Liquidity ratio	New liquidity ratio, applicable from 01/2015 (Circulaire n°2014-14 from Nov 2014): Regulatory minimum liquidity ratio of 60%. This will be increased gradually to reach 100% starting 01/2019.
Asset quality	Provisioning rules	NPLs are classified into 5 different classes, depending on the payment delay in number of days, with different levels of specific provisioning required: 0 none 0% specific provisioning required 1 < 90 days 0% specific provisioning required 2 90-180 days 20% specific provisioning required 3 180-360 days 50% specific provisioning required 4 > 360 days 100% specific provisioning required The provisions are based on the total loan amount excluding real collateral. New provisioning rules within the class 4 have been introduced in 2013, forcing banks to provision 40%, 70% or 100% of the loan amount regardless of existing collateral after 3, 6 or 8 years of payment delay, respectively Banks are also required to constitute "collective provisions" to cover hidden risks on current commitments and commitments requiring a particular follow up (category 1).
FX exposure	FX exposure limits	Maximum 10% ratio of the FX position of each currency and net capital stock. Maximum 20% ratio of overall FX position and net capital stock.

European Investment Bank

The EU bank

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