

# Tunisia

## 9 propositions for boosting economic development

IN ACTING OUT ITS democratic revolution, Tunisia turned a new page in Euro-Mediterranean history. The upheaval will have considerable repercussions in the region. It will not only alter the nature of the bonds between Tunisia and the European Union, but it will change the future role played by countries south of the Mediterranean in the regionalization process. The European Union's attitude towards Tunisia over the coming months is therefore crucial: through its relationship with this country, the EU will be deciding on the direction that partnership with its south Mediterranean neighbours will take from now on.

Supporting and encouraging democratic transition in Tunisia is an urgent necessity. Yet the fate of this revolution will be decided in the short term: its success depends on an upturn in economic development and rapid job creation. Without an emergency recovery plan, the efforts of the Tunisian people will have been in vain.

This report is based on around fifty interviews made between March and September 2011 with different stakeholders in the Tunisian economy. It puts forward nine propositions aimed at boosting the country's economic development and encouraging job creation in the short term.

### **Make it easier for SMEs to access funding with a guarantee fund**

The creation of a guarantee fund for SMEs would boost business and job creation in the whole of Tunisia.

### **Facilitate Tunisians' professional mobility by relaxing visa procedures**

The requirement for mobility inherent to constructing a new partnership between Europe and Tunisia will entail inventing a visa system that makes it easier for Tunisian professionals to access Europe.

### **Reassure investors about Tunisia's business climate and socio-economic stability**

A campaign to promote investment highlighting the Tunisia's progress and potential is needed to improve the country's image after years of dictatorship.

### **Help open up the skies to encourage more diverse tourism**

A support package for Tunisair would help continue the liberalization of air transport in Tunisia, which is necessary to inject new energy and diversify tourism in the country.

### **Develop vocational training institutes**

Creating training centres integrated into the private sector would guarantee an operational workforce for companies setting up in Tunisia.

### **Simplify the administrative machinery**

Democratic transition is a chance to give new impetus to the process for simplifying administrative procedures and stem the corruption that developed under Ben Ali's regime.

### **Redefine spatial planning policy by giving regions more power and resources**

Decentralizing authorities would be an efficient way to promote better territorial balance in spatial planning and identify each region's economic potential.

### **Secure long-term investments**

To encourage a pickup in investment despite the economic and political risks of transition, Tunisia should sign a treaty with its European partners securing long-term investments.

### **Redefine the country's economic strategy**

To optimize mid-term investment strategies, a skills assessment should be drawn up for Tunisia, clearly pinpointing the country's comparative and competitive advantages.

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## INTRODUCTION

IN ACTING OUT its democratic revolution, Tunisia turned a new page in Euro-Mediterranean history. The upheaval will have considerable repercussions in the region. It will not only alter the nature of the bonds between Tunisia and the European Union, but it will change the future role played by countries south of the Mediterranean in the regionalization process. The European Union's attitude towards Tunisia over the coming months is therefore crucial: through its relationship with this country, the EU will be deciding on the direction that partnership with its south Mediterranean neighbours will take from now on.

The aim of this paper is to answer the following questions: At this time of Tunisian democratic transition, how can we turn cooperation between Europe and Tunisia, pioneer of the Arab revolutions, into a genuine development model? How can we make sure that this model can be reproduced in other Southern countries that are embarking on or planning transition? Given the role played by the economy in this kind of model, how can business be included in the project?

The challenge is commensurate with Tunisian political performance: before the revolution, employment creation in the country was around 60,000 new jobs per year. To absorb those currently out of work (since the revolution, over 500,000 people have lost their jobs) and those newly arrived on the employment market, and to reach a tolerable employment rate at least the same as it was before the revolution, 800,000 jobs will have to be created in Tunisia over the next 5 years. This will involve creating around 150,000 jobs per year, in other words, double what the country achieved over the last decade. In this context, it is clear that the outcome of the Tunisian revolution will be decided in the short term: its success depends on an upturn in economic development and rapid job creation. Without an emergency recovery plan, the efforts of the Tunisian people will have been in vain.

Fortunately, democratic transition presents an immense economic opportunity for Tunisia. The fall of Ben Ali's regime and the end of the dark practices associated with it provide an occasion to restore confidence between foreign investors and a country that the whole world currently looks upon favourably. Just a few months after January's events, there are healthy signs of a pick-up in economic activity. In September 2011, the

country only showed a 17% loss in incoming FDI compared with 2010. From now until the end of the year, this percentage is set to drop further and start to grow again in 2012. In fact, we can even expect a real upsurge in investment in Tunisia over the coming months and years. Although most economic stakeholders are currently still cautious, many others have already taken a stand. Since the revolution, hundreds of European companies have signed up to join the various chambers of commerce that represent their interests in Tunisia.

These potential investors are aware that the current political transition has every chance of a favourable outcome and that it contains the seeds of important economic reforms. All the major political parties battling it out in the constitutional elections are putting democratization of the state and liberalization of the economy at the heart of their programmes for the nation. It could hardly be otherwise: these parties must respond to the aspirations of a people emerging from revolt who would undoubtedly not tolerate any further political deviation. Ultimately, Tunisia will probably succeed in its historic feat.

TUNISIA IS A COMPETITIVE country that, for its size and resources, has achieved a remarkable performance in attracting foreign investors, particularly in the industrial sector (car parts, textiles, etc.). After decades of socio-economic development and industrialization, it has numerous competitive advantages: available skilled labour, a good standard of infrastructure and equipment, attractive tax packages for foreign companies, etc. However, the revolution highlighted one of Tunisia's little-known assets: huge contingents of young graduates seeking work and willing to participate in building up their country. What until now constituted a favourable environment for activities with low added value must today act as a step towards a new stage of development. After years of focusing on the availability of cheap labour, foreign investors must now overcome their often unfounded fears and give the Tunisian economy a chance. It is time for them to envisage sharing added value more fairly between Europe and Tunisia and to promote better corporate governance within their installations (i.e. corporate responsibility, upgrading jobs, co-development). This renewal of the Euro-Tunisian "contract", which is amply justified by the democratic transition underway, would generate significant development impacts in Tunisia (e.g. create

qualified jobs, transfer of technologies, etc.) and in Europe (e.g. improved company competitiveness, development, etc.).

In addition, the regional dimension of the Tunisian economy carries new significance. The fall of Gaddafi's regime in Libya and the gradual opening up of Algeria offer new perspectives for extending the North African market. Tunisia, which has shown exemplary solidarity towards Libyans over recent months, and which has always had very close economic links with the country, will undoubtedly be one of Tripoli's privileged partners in reconstructing Libya. If it can prove its stability and its precursory role in democratization in the region, Tunisia will in future constitute a prime regional investment base, both in the Maghreb and in sub-Saharan Africa. Opportunities for co-development between European and Tunisian companies will only be more numerous.

It is on these bases and promises that the European Union and Tunisia must now work on creating a new regional development model, similar to what was done with the EU and CEECs. As a reminder, this model was based on two crucial stimuli: a joint European effort in favour of CEECs with the aim of rapidly linking them into the regional project (i.e. infrastructure development, updating of administration and

standards, etc.); sustained participation from business, especially German companies, to industrially and economically integrate these former Soviet countries into the Union. Cooperation between Tunisia and Europe needs to be devised along similar lines of massive integration. This political project is all the more achievable since, for several years, economic stakeholders have been preparing the foundations of this kind of Euro-Tunisian integration.

THIS REPORT IS BASED on around fifty interviews made between March and September 2011 with different stakeholders in the Tunisian economy. The point of these interviews was to gather accounts on the Tunisian business environment and identify the obstacles and difficulties that companies have come up against over recent years. This diagnosis set out to define ways to boost the country's economic development and encourage job creation in the short term. The nine propositions that emerged from these interviews follow.

## 1 Make it easier for SMEs to access funding with a guarantee fund

### ISSUE

PRIVATE INITIATIVE is hindered in Tunisia, particularly small-scale projects created by nationals with low investment capacities. This failure is the responsibility of the banking sector which, according to all economic stakeholders in the country, has shown itself to be excessively pusillanimous. Tunisian bankers are not trained to evaluate projects or analyze risks, to the extent that if the project's promoter cannot provide a personal guarantee equivalent to the credit requirement (e.g. mortgage on property, collateral security, etc.) no project can expect to secure funding from local banks. SMEs and new investors suffer greatly from this situation, especially in poorer regions, where family backing is harder to find. Obviously, the potential for job creation and untapped wealth is considerable. The industry and tourism sectors are particularly affected by this failure.

### PROPOSITION

TO OVERCOME THIS structural deficit in the Tunisian banking sector and trigger a momentum of local development based on aid for creating businesses, the European Union should urgently create a guarantee fund aimed at SMEs. The fund's objective would be to guarantee loans granted by local banks and thus make it easier for SMEs to secure funding. In addition, the fund could back loans with favourable rates for young investors in priority sectors or geographical areas, based on an assessment of the project's relevance and feasibility. The project could also include training programmes in the bank credit professions (e.g. risk analysis, applications processing, financial packages, etc.), given at local banks partnering the fund. Courses should be taught by European practitioners specializing in lending to SMEs and regional banks. ■

## 2 Facilitate Tunisians' professional mobility by relaxing visa procedures

### ISSUE

MOBILITY REPRESENTS a significant constraint to Tunisian economic leverage. The documents required for visa applications are plethoric, applications take a long time to process (up to two or three weeks), and validity periods are insufficient (sometimes just a few days). Added to this, obtaining a visa can be a humiliating process (several hours queuing at the consulate, last-minute refusals, etc.). These constraints are detrimental to Tunisian professionals, particularly those who work with European partners or in multinational companies: many miss urgent meetings or do not benefit from direct contact with clients and suppliers, which can be necessary in some lines of business (e.g. design, engineering, etc.). Entrepreneurs in the North are also penalized by closed European borders: Tunisian businesspeople who complain that they cannot attend European trade fairs and events are usually looking for suppliers, not customers. Strengthening Euro-Tunisian integration and defending the principles of co-development necessarily involves facilitating South-North mobility.

### PROPOSITION

THE REQUIREMENT for mobility inherent to constructing a new partnership between Europe and Tunisia will entail inventing a visa system adapted to this new situation. The system could be based on a listing of professions and jobs for which the need to travel to Europe is recognized, with the possibility of granting annual visas, automatically renewable for the duration of the work contract of the employee concerned. European companies located in Tunisia and Tunisian companies working with Europe (e.g. service providers, customers and suppliers) should be able to benefit from this system on equal footing, thus promoting a balanced partnership between North and South. The employer or partner European country would guarantee the visa application of the working party. ■

## 3 Reassure investors about Tunisia's business climate and socio-economic stability

### ISSUE

DURING THE LAST DECADE, at a time when Tunisia should have been moving up to a higher level of development, the lack of transparency and the anti-democratic and anti-competitive practices permitted by Ben Ali's regime (e.g. lack of respect for human rights, plundering, biased attribution of public markets, corruption and preferential treatment, etc.) gave out extremely negative signals to the community of foreign investors. This deficient image, which highly impeded the quantitative and qualitative growth of investment in Tunisia, continues today in the questions being asked by Europeans regarding the country's capacity to find stability and successfully carry through its democratic transition. Although the situation has generally calmed down, the images of January's Tunisian revolt have left a long-lasting

mark in our minds. The question of security is crucial to reviving economic activity, and communication is the main way of reassuring investors on this issue.

### PROPOSITION

TO BOOST TUNISIA'S image to outside markets, it would be a good idea to take advantage of the high media profile that the country is likely to continue enjoying over the coming months. It would be useful to launch a campaign in Europe to promote investment in Tunisia. This campaign, which would include testimonials from entrepreneurs installed in the country, should target strategic organizations likely to relay the information further (e.g. chambers of commerce, employers' asso-

ciations, professional networks and investment funds). A presentation of the German-CEEC industrial integration model and the benefits resulting from this kind of stimulus could also generate interest from European companies in Tunisia. To boost the operation's credibility, and so its impact, it should be sponsored by the European Commis-

sion, which would have first carried out an appraisal of the risks linked to security and socio-economic stability in Tunisia. A solemn commitment from the Tunisian state that it will continue to improve the business climate should also be one of the messages transmitted to investors. ■

## 4 Help open up the skies to encourage more diverse tourism

### ISSUE

TUNISIAN TOURISM, traditionally based on mass coastal resorts, has been in decline for several years. Having been neglected by Ben Ali's regime, it is now in need of renewal and diversification. Among the different possible development options, one of the most promising is independent tourism integrated into the territories (e.g. cultural tourism, green tourism, social tourism, etc.). Acting as a complement to seaside tourism, this new type of product would be a way of combating the main weaknesses of Tunisian tourism: excessive coastal tourist development, seasonal peaks and dips, total dependence on tour operators, languishing image of the country, under-development of cultural and natural resources, etc. To support this kind of diversification, Tunisia needs to be made more accessible, in particular by aeroplane.

### PROPOSITION

ONE INDISPENSABLE TOOL to reach this objective is to open up the Tunisian skies, so that people can reach Tunisia on low-cost airlines, the main way of attracting independent tourists looking for an alternative option (as well as seaside tourists). The conclusion of the Open Sky agreement between Tunisia and the European Union is due at the end of 2011, which is later than planned because of the revolution. The Tunisian government's reticence to sign this agreement was mainly due to doubts about the future of Tunisair, one of the country's principle employers, and the national airline's capacity to deal with free competition. The losses recorded by Tunisair in 2011, which can partly be explained by its contribution to the rescue plan for the tourist season (promotional offers, price cuts and

contract deals for tour operators) and partly the drop in tourist numbers caused by the revolution, risk delaying the decision even more.

So as not to slow down the liberalization of air transport in Tunisia, the European Union should draw up an assistance package for Tunisair to help the company tackle competition with major European airlines. This package, which could take inspiration from the experience of Royal Air Maroc (confronted with the opening up of Moroccan skies in 2006), should be two-fold:

- Conversion of Tunis-Carthage Airport, Tunisair's homeport, into an airport hub for flights to sub-Saharan Africa, the Middle East and Europe, rather like Casablanca. The project will involve creating new infrastructures (runways and terminals) and completely restructuring the airport (transfer system, reorganization of the customs system, etc.) The European Union could assure funding for the necessary work and technical support.
- Aid in creating a low cost branch of Tunisair. In 2006, Royal Air Maroc created its own low cost airline, Atlas Blue, which enabled it to keep some share of the market that it had lost to regular airlines. Tunisair could take inspiration from this model and develop a low cost airline for flights to secondary airports in some outbound markets in which the company already has a foothold. The European Union could offer technical support in setting up this project. ■

## 5 Develop vocational training institutes

### ISSUE

THE AVAILABILITY OF qualified labour is Tunisia's prime economic asset, according to companies. It is extremely rare that an entrepreneur cannot find the human resource he is looking for locally, whatever the specific profile (e.g. professional speciality, level of qualification, language, etc.). Despite the impressive high rate of school attendance in the country, this advantage does however include some significant imperfections that foreign and Tunisian entrepreneurs unanimously deplore. For example, the education system in its current state is completely divorced from the private sector and thus unable to transmit to young graduates the skills they need to immediately integrate the workplace. In these conditions, it is generally left to companies themselves to provide operational training for their new recruits. This cost is all the harder to bear since employees, once they are trained, are rapidly swept up by more powerful companies. In both the industry and the service sectors, this situation is slowing down the upscaling of businesses achieved in Tunisia in strategic domains (e.g. R&D, new technologies, BPO, etc.).

### SOLUTION

IT IS URGENT TO restructure the technical training and higher education system, particularly given the upscaling of activities achieved in Tunisia. In the short term, it would be preferable to create specialized training institutes in the country's major industrial and service areas, with courses designed to meet the needs of the private sector. These centres should work in partnership with local, Tunisian and foreign companies, which would commit themselves to taking on pupils and initiating them in a particular trade (i.e. internships, sandwich courses). In exchange, these companies would have the guarantee of being able to recruit operational staff in management, engineering and technical trades (e.g. specialized labourers, computer programmers, logistics staff, bankers, etc.). These centres could be funded by the European Union. Training would focus on practical experience and be taught by professionals from the private sector, preferably with some experience in Europe or in European companies, with a view to transferring capabilities. There should also be an emphasis on student exchanges with European universities and companies. ■

## 6 Simplify the administrative machinery

### ISSUE

NUMEROUS TUNISIAN and foreign companies complain about the country's administrative set-up. The problems most frequently encountered are the amount of red tape and slow procedures (i.e. diverse authorizations, customs, investment, company creation, etc.) and the attitude of civil servants working in administration. The unpredictable, arbitrary and uncertain nature of the costs and delays required to obtain administrative authorizations are highly detrimental to Tunisia's competitiveness, especially given the way that the new global economy works, with its core emphasis on smooth running (i.e. responsiveness, just-in-time production, secure delivery times, etc.). Entrepreneurs come up against two types of difficulty: Firstly, validation procedures generally go through several agencies and ministries, which makes administrative channels particularly com-

plex and opaque (the multiple controls jeopardize the chances of meeting deadlines, and the multiple middlemen increase the risk of corruption). Secondly, texts relating to commercial and customs regulations are often ambiguous and imprecise, which creates a hotbed for corruption since intermediaries can take advantage of the lack of clarity.

### PROPOSITIONS

TUNISIA HAS BEEN working on simplifying its administrative system for several years. However, the transition underway provides an opportunity to inject new impetus into improvements awaited by the whole economic community. This urgent challenge could be met through European technical assistance. Two projects could be set up:

- A project to help computerize and automate administrative procedures, which would reduce the need for human intermediaries and ensure the systemization of administrative regulations. This project could be introduced gradually, starting with institutions (ports, customs) or pilot ministries.

- With a view to clarifying and standardizing Tunisian regulations, Tunisia and European countries should set up a system of administrative twinnings. Inspired by the TACIS programme developed by the EU with Eastern European partner states, this system would be a way of extending good practices within authorities and making upgrading swifter. ■

## 7 Redefine spatial planning policy by giving regions more power and resources

### ISSUE

INFRASTRUCTURE and equipment form the foundations of a country's industrial competitiveness. In Tunisia, spatial planning is often considered to be satisfactory by entrepreneurs, yet in reality significant loopholes exist, including blatant inequalities in spatial planning. Since independence, coastal zones have received the lion's share of public investment in infrastructure. This failure is essentially the result of an excessive decentralization of decision-making, particularly in recent decades, when the state's spatial planning monopoly was administered by corrupt managers who constantly put their personal interests ahead of the national interest. The effect of their policy was to widen already considerable gaps between the regions, creating clear territorial antagonism between privileged coastal areas and neglected inland areas. This situation has totally conditioned the geography of Tunisian development: the coastal development of tourist and industrial activities, with a particular North-East bias (from Tunis to Sousse); the emergence of major coastal urban centres (Tunis, Sousse, Sfax, etc.); rural exodus; under-development of the hinterland; bad connections with neighbouring countries. These multiple imbalances, which provided fertile ground for the Jasmin revolution to take root, penalize the whole Tunisian economy in preventing the development of new activities and the exploitation of the whole country's potential (agriculture and the food industry, renewable energy, diversified tourism, etc.).

### PROPOSITION

TO BOOST COMPETITIVENESS and develop new activities, Tunisia must continue to structure its territory (e.g. land transport, storage areas, logistical centres, etc.). To set up a spatial development policy in line with the objective of recreating a balance between territories, the country will need to reform the way that land development is managed. Decentralization and administrative regionalism would be one way of balancing the distribution of budgets allotted to spatial development and optimizing expenditure in this domain. The aim is to organize a new administrative apportionment and create administrative macro-regions organized around major urban centres on the coast (Tunis, Sousse, Sfax, Gabès, Zarzis) that would be responsible for developing their inland areas. This solution is as economically relevant as it is historically relevant, given that for centuries, major coastal towns have been in permanent connection with their hinterlands, from where they obtain their workforce and farming produce (35% of the inhabitants of Sfax come from the region of Sidi Bouzid). Only the regional capitals are in a position to identify priority spatial development projects and implement them to develop their spheres of influence. ■

## 8 Sécuriser l'investissement de long terme en Tunisie

### ISSUE

TO PAVE TUNISIA'S path towards achieving definitive democracy and provide support for its economic and social modernization, a considerable amount of equipment and infrastructure will need to be put in place over the forthcoming years, in the domains of energy (e.g. power stations, renewable energy), urban planning (e.g. water, sanitation, waste treatment), logistics and transport (e.g. roads, ports, airports) and in the social sector (e.g. hospitals, universities). These major projects will cost several billion euro and require participation from major international building contractors. Given the uncertainty of the unprecedented transition that Tunisia is going through, it is urgent to minimize the risks facing these potential investors. Without genuine security for long-term investments, it will be difficult to rally these stakeholders, who are crucial for rebuilding the country.

### PROPOSITION

TO ENCOURAGE a massive pickup in investment and reduce the economic and political risks of the current transition, Tunisia should immediately sign with its partners a treaty securing long-term investments. This treaty must firstly define a regime for protecting strategic and structuring investments. It should also include the creation of a Euro-Tunisian body for settling disputes. Devised in this manner, the treaty could constitute the basis of a modern, uniform investment framework for Tunisia, and go on to be used as a model by all countries South and East of the Mediterranean. ■

## 9 Redefine the country's economic strategy

### ISSUE

TUNISIA FITS into a regional and global environment that has seen deep-seated changes in the space of the last decade. Competition from CEECs and Asian countries, the European economic crisis, and southern Mediterranean countries' opening up to tourism have all threatened the Tunisian economy and should have obliged it to regularly redefine its position in the regional block. Leaders under Ben Ali were unfit to carry out the necessary reforms to continue the country's modernization, and so opted to maintain the status quo throughout the last decade. As a consequence, the country's comparative strong points are less advantageous: attractive tax conditions, available skilled workforce, tourist facilities and proximity are no longer Tunisian monopolies in the Mediterranean area.

### PROPOSITION

AN ECONOMIC STRATEGY that takes the country's potential into account in its own environment is clearly the starting point for its renewal. This would be an efficient way to target investments and provide long-term visibility for foreign investors. Such a project calls for a large-scale study that

would take the form of a skills assessment pinpointing the country's comparative and competitive advantages and listing its most significant economic successes (e.g. IT, car industry, luxury textiles, etc.). This diagnosis would be a way of identifying the branches and activities in which Tunisia can claim genuine assets: in prime sectors (i.e. electronics, fashion fabrics, tourism) and buoyant sectors (i.e. food industry, renewable energy, health, construction, etc.). It would also show in which ways the Tunisian economy can complement European economies (mutual North-South enhancement, shared added value, exploiting regional markets, etc.). The study should also take into account the country's specific territorial features, with a focus on solutions to promote for under-developed areas. The failure of policies to industrialize inland regions results from ignorance of the resources available on these territories. Since these zones have little available labour and no business fabric, subsidies designed to encourage industrial investment inland have had little chance of convincing industrials to relocate there. This negligence has proved as harmful as the potential is high (e.g. mineral and tourism resources, farming, renewable energy sources, etc.). ■