

Co-production in Tunisia

Context, realisations and perspectives

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THE MEDITERRANEAN CO-PRODUCTION OBSERVATORY

Managed by IPEMED with the support of BpiFrance and the Paris - Ile de France Chamber of Commerce and Industry, the Mediterranean Co-production Observatory aims at qualitatively analysing the strategies of Mediterranean investors, their behaviour, their expectations and the difficulties they are facing to integrate the local network.

A good knowledge of industrial and service strategies in the Mediterranean must favour the development of co-production and highlight the shared benefit of this model in the repartition of value chains.

The Mediterranean Co-production Observatory has a mission of observation, follow-up, information and awareness with Northern and Southern Mediterranean public authorities and companies, especially in future-oriented sectors.

The works of the Mediterranean Co-production Observatory are carried out in collaboration with Martin FLEURY and Jean-Philippe PAYET, of the firm R.M.D.A., and IPEMED's Production team.

This report, the second publication of the Mediterranean Co-production Observatory, intends to analyse the position of Tunisia in the Mediterranean macro-economic environment as well as the foreign investment dynamics at work in Tunisia, in order to offer recommendations to support the development of co-production as well as a better integration of the country in the Mediterranean and global economy.

In the same collection :

FLEURY M., PAYET J.-P., Dynamique des investissements dans les pays riverains de la Méditerranée : situation macroéconomique [Investment dynamics in Mediterranean countries - Macroeconomic situation], IPEMED, June 2015

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FOREWORD OF JEAN-LOUIS GUIGOU

President of IPEMED

In Tunisia, while the political transition is on the right track, it is now time for the government to address the economic transition. Unemployment is currently high and persistent, especially among young graduates, which could lead the Tunisian population to take to the streets again. Therefore, the current government must come up with a solution to reduce unemployment, and especially to give hope to the youth. Even though some administrative, financial and structural reforms have been implemented in this regard, the results have not shown yet.

Tunisia must be attractive not only for national investors but also for international ones. Since the Arab Spring, Tunisia has been struggling to boost incoming FDIs, which now revolve around 2% of GDP, of which 25% come from France, Italy, Germany and Spain.

It is undeniable that Tunisia boasts all the necessary assets to reach this objective. A high-skilled labour force, recognised skills in a certain number of leading industries, as well as its geo-strategic location close to Europe and on Africa's doorstep are great assets for the country.

In the **Guidance Note of the Strategic Development Plan 2016-2020** of the Tunisian Ministry of Development, Investment and International Cooperation, "*the economic efficiency based on innovation and partnership*" is one of the four pillars of this new development project.



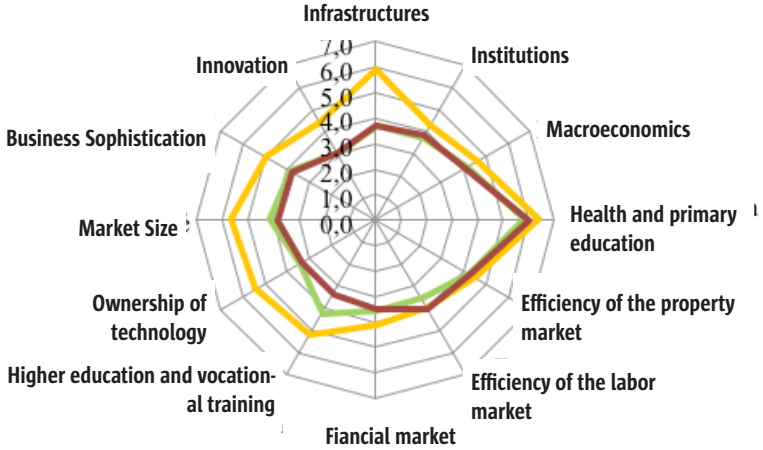

IPEMED agrees with this analysis and promotes the concept of co-production, which can be defined as an exchange of added value and technology between the North and the South of the Mediterranean. The implementation of co-production in geographically close areas with different development levels has been a success between Japan, the Dragons and later the Tigers, between Germany and the CEEC, and between the United States and Mexico, to a lesser extent.

It is now time to integrate Tunisia, North Africa and Europe via co-production.

Besides, a historical opportunity is presenting itself. Indeed, according to two experts of the World Bank, with the rise of production costs in China, 85 million manufacturing jobs should leave China in the coming decades. This is why, by combining Northern technologies with the skills and resources of Southern Mediterranean countries, the latter, and Tunisia more specifically, could attract a large part of these jobs. With the extraordinary modernisation of the Suez Canal in the East and the great potential of Tangier Med in the West, Tunisia could play a significant role in this new industrial space that is taking shape in the South of Europe.

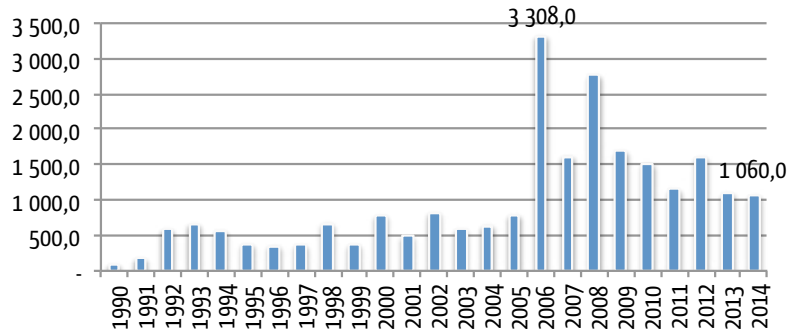
In the light of this historical opportunity to see the Southern shore of the Mediterranean industrialise to the benefit of Africa and Europe, this report of the Mediterranean Co-production Observatory intends to identify the strengths and weaknesses of the Tunisian production sector in order to offer solutions and recommendations that could multiply co-production operations and thus promote a sustainable and inclusive economy.

COUNTRY FACT SHEET

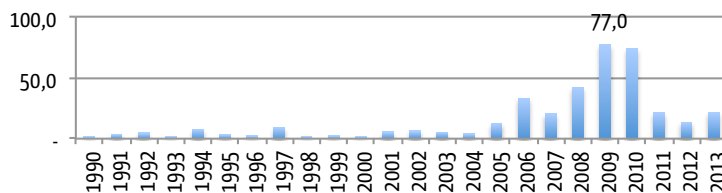
	DEMOGRAPHY (2014)				
	Population 	10,900,000 inhabitants			
		Demographic growth rate: 1%			
		Urban population: 83.21%			
		Urbanisation rate: 1.5% per year			
		Median age: 31.41 years old			
	Migration rate: -1.74‰				
Active population	Active population: 4,000,000 workers Share of active population: 37%				
	Unemployed people: 214,200 Unemployment rate (2013): 12.60%				
GLOBAL COMPETITIVENESS INDEX (2014/2015)		ECONOMY (2014)			
 <p> — Average EU — Average SEMC — Tunisia </p>		Gross Interior Product	\$47 billion		
		GDP growth rate	2%		
		Share of GDP in the world	0.1%		
		GDP per inhabitant	\$4,345		
		Trade Balance	-11.40%		
		Inflation rate	5.40%		
		GDP per sector  <p> ■ Primary ■ Secondary ■ Tertiary </p>			
		Doing Business Rating	74 /189 (2015)		
		Competitiveness Rating	92/140 (2015)		
		Export	Destination 1	France (30.24%)	
Destination 2	Italy (18.48%)				
Destination 3	Germany (11.82%)				
Main exportations	Machines	27.01%			
	Textiles	25%			
	Mineral products	14.82%			

FOREIGN DIRECT INVESTMENTS (2014)

Inflows



Outflows



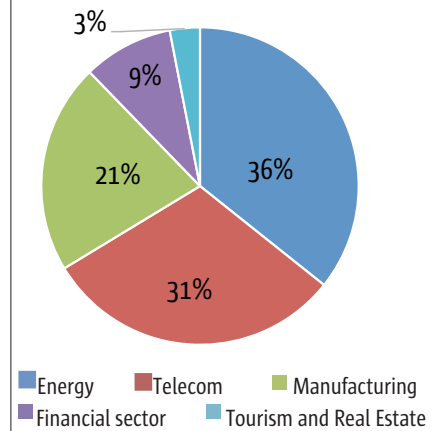
FDI Stocks (2013)

\$33,557 million

Main investors

Qatar (31%), France (15%), Austria (13%), Canada (6%)


FDI by sector



OTHER FINANCIAL FLOWS (2014)

Sending of funds	\$68 million
Receipt of funds	\$2,314 million
Receipt of ODA	\$303 million

RISKS AND OBSTACLES (2014)

World Risk Index	5.47% 103 / 171
Bank financial solidity	3.5 / 7
Investor protection index	6 / 10
Main obstacles to competitiveness:	Bureaucracy 

INTRODUCTION

MISSIONS OF THE MEDITERRANEAN CO-PRODUCTION OBSERVATORY

In spite of their geographic and cultural proximity, economic relations between the European Union (EU) and Southern and Eastern Mediterranean countries (SEMC) remain limited. They do not fully take advantage of their growing complementarities, and often rely on low-added-value investments for Southern countries (exploitation of raw materials, production of manufactured goods and basic services, exportation of slightly processed products).

In order to foster an exchange dynamic with a higher added value and mutually beneficial to both shores of the Mediterranean, IPEMED has long supported and encouraged co-production.

Today, this commitment takes the form of an Observatory, aiming at:

- Providing a transversal account of co-production dynamics by country,
- Updating these accounts via regular analyses of the behaviour of entrepreneurs from both shores of the Mediterranean, and following up the evolution of public policies,
- Synthesising information and highlighting heavy trends in order to enable decision makers to master the topic,
- Being a proactive force for stakeholders in order to:
 - ◊ make investments or incentive devices easier and,
 - ◊ help overcome the obstacles to these virtuous investments and more generally to regional integration.

After drawing up a first macro-economic account of the co-production phenomenon between four EU countries (EU4) and seven SEMC countries (SEMC7)¹, this document specifically focuses on co-production in Tunisia. It is the first of a series of thematic and territorial publications that will enable the analysis of the assets and challenges of co-production on each side of the Mediterranean.

¹ Fleury M., Payet JP. Dynamique des investissements dans les pays riverains de la Méditerranée : situation macroéconomique [Investment dynamics in Mediterranean countries - Macroeconomic situation], IPEMED, June 2015

DEFINITION OF CO-PRODUCTION

In order to develop the concept of co-production and transpose it to the contemporary Mediterranean space, it seemed important to build upon the Asian (Japan/ Dragons/ Tigers), American (United States/ Mexico) and Eastern Europe (Germany/ CEEC) experiences.

The common feature of these experiences, which generated real and sustainable development in these countries, is the concentration and distribution of complementary production units in a given space. Interactions generated synergies contributing to manufacture specialised products. The distribution of added value resulting from this dynamic also led to the emergence of large regional markets, ensuring market opportunities.

Today, the position of the Observatory defines² co-production as follows:

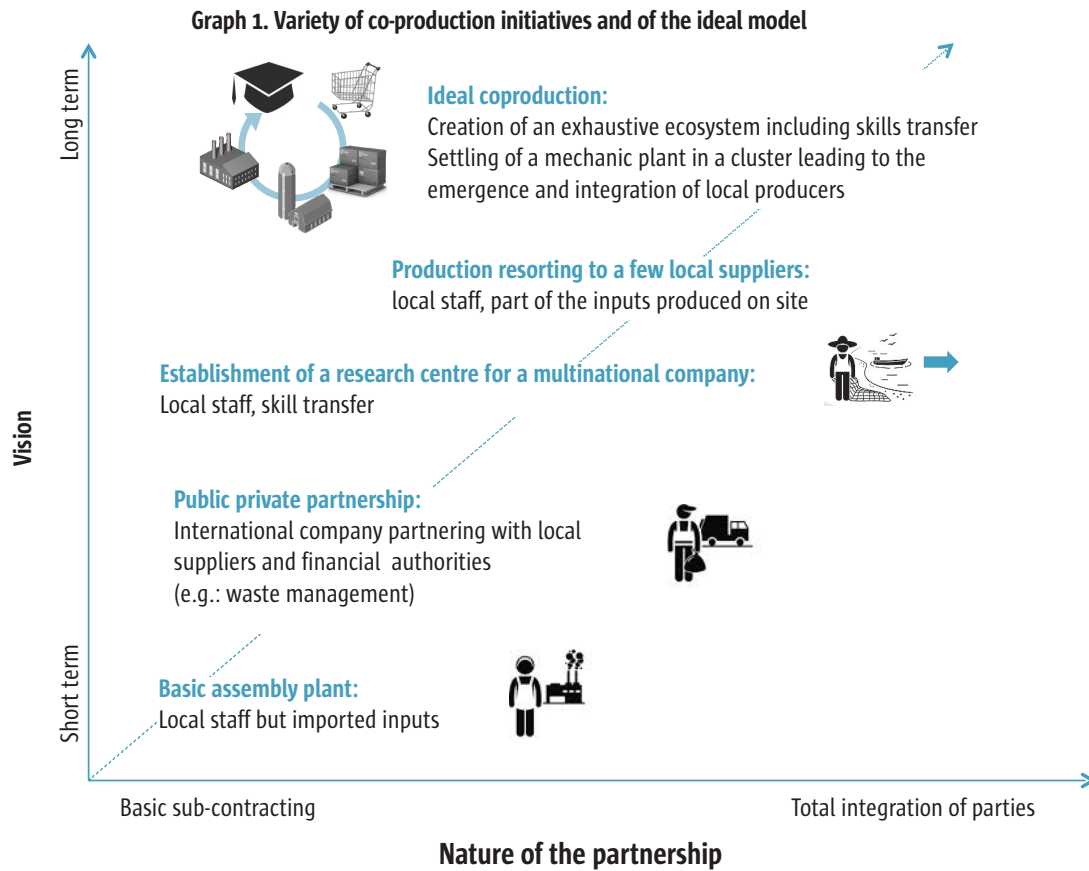
“Joint development of a value chain, integrating at least one Southern partner, favouring long-term investments”

In our context, this definition comprises four strong and inseparable ideas:

1. the development of a value chain, so that co-production generates a locally added value at each step of its cycle, and for all stakeholders
2. the notion of partnership, rather than subcontracting, for a fair division of these profits
3. the integration, or the presence, of at least one Southern partner. Then, South/South, South/North or North/South cooperation can be carried out.
4. sustainable investments, requiring long-term planning, jointly implemented with no desire to get a good short-term deal

This definition comprises a rather large variety of initiatives. However, we favour actions with the most accomplished scope, integration and vision. Co-production is an ideal, a model towards which current and future investments must converge.

² Fleury M., Payet JP. La co-production, pour un new deal économique en Méditerranée [Co-production - A new economic deal in the Mediterranean], IPEMED, Co-production Observatory, June 2015



SYNTHESIS OF PREVIOUS REFLECTIONS

The data analysed by the Observatory over the first semester 2015 showed a great complementarity between the EU and SEMC. Yet, both spaces are following divergent paths, even though each zone presents solutions that respond to the other's issues:

- As the cost of energy in Europe is about 40% higher than in the United States, European companies are looking for a greater cost competitiveness with constant (and growing) quality, to remain competitive on the international market. They also need a workforce that the local labour market cannot provide, be it because of the low growth of active population or of the lack of interest in some training courses. In return, they can offer and transfer skills and techniques enabling to divide work and operate more efficiently.
- As for companies in SEMC, they need a greater assimilation of technology as well as a production diversification and a reallocation of added value in order to support the local social and economic development and the rise of the middle class. They can offer young and well trained workers, as well as a more flexible business environment.

In the Mediterranean basin, the co-production model relies on cultural, linguistic and geographic proximity, as part of the global movement to promote a sustainable and inclusive economy.

Indeed, in the case of a relocation or the production in a country for its local market, co-production enables to reduce transport, both in terms of costs and environmental impact, and to benefit from SEMC comparative advantages in terms of renewable energies (solar, wind power, hydroelectricity).

The combination of the competitive advantages of both areas would help boosting co-productive companies. The renewed competitiveness would give them a promising position on the European market as well as in SEMC. Such a partnership would enable to attract the market of Middle Eastern and African middle classes at the periphery of this new region, which represents a significant source of growth in the long term.

For instance, on 10 June 2015, the signature of the Tripartite, a new free-trade agreement spanning from Cape Town to Cairo, gave Egypt the opportunity to become a hub accessing a region of 1.5 billion inhabitants.

The specific objectives pursued in this document are:

1. singling out the position of Tunisia in the Mediterranean macro-economic environment,
2. identifying specific FDI in Tunisia according to their geographic origin,
3. comparing their objectives to Tunisian sectoral characteristics,
4. providing ideas on current co-production dynamics and on the way to encourage this ambition.

SUMMARY

Located on a vertical line joining Sub-Saharan Africa and Europe, Southern and Eastern Mediterranean Countries (SEMC) have a high development potential. They boast significant natural and human resources, they have accesses to the Atlantic and Mediterranean coasts, and have cultural and linguistic bonds with the populations of both continents.

In this region, Tunisia has long drawn the attention of observers as the country served as a “laboratory” in many fields, and especially in the attraction of investments. Yet, with the global recession, the Arab Springs and the lasting security crisis, Tunisia is struggling to attract new foreign investors. Although they reached a peak of \$3.3 billion in 2006, **FDI inflows are stagnating around \$1.1 billion per year**. Even though this phenomenon reached all SEMC, which all underwent these crises, the Tunisian trend remains worrying, especially in comparison with Morocco, which is in stable recovery since 2010.

An economy that relies strongly on the global economic situation, and especially on the European one

European countries as main partners

Today, Tunisia hosts nearly 3,220 foreign-invested businesses accounting for over 330,000 jobs (8.25% of the active population), half of which in the industrial sector.

In 2014, EU4 countries (Germany, Spain, France and Italy) remained among the first investors in Tunisia, with 24% of flows, 15% of which being from France.

French and Italian investments are quite diversified and evolve from one year to another (financial, energy and electric/electronic sectors for France, pharmaceutical industry, energy, leather/shoes, rubber and textile for Italy). On the contrary, Germany and Spain show stable trends and highly targeted sectors: electric and electronic appliances for German companies, agriculture and agri-food industry for Spanish ones.

FDI mostly directed towards offshore activities

Nearly 77% of EU4 companies (except Spanish ones) established in Tunisia completely export their production. In terms of employment, the gap is quite large: German offshore activities account for 95% of jobs, versus 81% for France and 85% for Italy. Spain is an exception here, as its offshore activities account for 56% of companies and employment. This can be explained by the presence of Spain almost exclusively in sectors that are little liberalised, for which investments cannot be made without Tunisian partners.

Generally speaking, non-offshore FDI focus on capital-intensive non-liberalised sectors, as is the case for the production of construction materials, and, especially for France, telecommunications.

Investors waiting for reforms

It is quite clear that since 2011, investors already present in Tunisia have been waiting for the implementation of the current reform projects. Thus, (i) expansion investments exist but they remain limited given the potential of the country, and (ii) creation investments are struggling to start up again.

A real potential for a move upmarket

As Tunisia has always been open and promoted exportations via sub-contracting and co-contracting, the country still benefits from a strong industrial foundation favourable to the development of quality co-production. This move upmarket is also made possible thanks to the existence of cutting-edge companies in each key sector. An analysis of the Tunisian sectoral strengths and opportunities in terms of co-production highlighted historical leading industries (ICT, mechanical industry, textile) and future-oriented industries (renewable energies, health and pharmaceuticals, agri-food industry).

For Tunisia, the issue is to go beyond the classic model of exporting companies by adopting a greater integration of value chains (by locating more production steps in Tunisia and by integrating new markets via the diversification of exportations). This will be achieved by strengthening and better coordinating the investments of Tunisia's historical partners - France, Germany, Italy and Spain - as well as by opening up the Tunisian economy to Africa. By imposing itself as a gateway to this continent with a booming economy, especially for its European partners, Tunisia could get round its limited national market.

Necessary reforms to favour the development of an inclusive and sustainable economy

For Tunisia to attract investors again and to “move upmarket”, administrative, financial and structural reforms are necessary.

Reforming the Investment Code to make Tunisia more attractive for foreign investors

Historically, Tunisia has had a quite flexible legislation regarding foreign investments. The current framework is established by the Investment Incentives Code, adopted in 1993. In order to take up the challenges facing the country, Yassine BRAHIM, the Minister of Development, Investment and National Cooperation, initiated a reform process of the Investment Code, which will be one of the foundations of the new 2016-2020 Strategic Vision for Tunisia.

One of the main features of the future Code will be to extend the freedom of investment to most industries, by suppressing the authorisation of the Higher Investment Council (as well as the other authorisations required by the Code, and by integrating them in sectoral laws and specifications).

Besides, the new Code intends to adopt a new unique corporation tax rate of 15%, which will result in a higher tax rate for offshore companies and a lower tax rate for onshore companies.

This reform would enable Tunisia to have a competitive position in the sub-region, with one of the lowest corporation tax rates.

Making convertibility and currency transfer easier to favour cross-investments

As regards currency transfer abroad, **the new Code provides a response time of 15 days maximum from the Central Bank. Beyond this time period, the decision will be considered as favourable.** The objective of this provision is to overcome one of the main obstacles facing investors. Today, only transfers for regular operations, gain on sale or assets' liquidity can be made freely. Other transfer operations require the authorisation of the Central Bank.

Reforming the Customs Code in order to improve commercial exchanges

The new project of Customs Code has two main objectives: (i) **accelerating and simplifying formalities**, and (ii) **reducing the loading and unloading time of goods.**

Finalising the law on Public-Private Partnerships (PPP) in order to develop the infrastructures necessary to the economic take off

Minister Brahim is also contemplating the development of PPP. This is a major measure undertaken by the government, as at least 4 out of the 22 priority projects regard PPP. **The reform would enable the introduction of any form of PPP** (public market, public service delegation, partnership agreement). However, it remains the object of significant debates as the State fears to lose sovereignty in the exercise of public services. Today, PPP are allowed only in the digital sector (2008 legislation).

Boosting decentralisation and devolution in favour of territorial cohesion

Indeed, the objective is to create more homogeneous territories by relying on real economic and employment basins. The new regions should be in line with the realities on the ground, in their analysis of the means, especially economic and social infrastructures, and in their capacity to federate public and private (Tunisian and international) investors, via PPP for instance.

Eventually, these changes will improve the quality of regional public services and reinforce their presence in the most remote provinces. Thus, the economic efficiency of all territories will be improved, as well as long-term growth factors, through the reduction of development gaps.

Restructuring the banking sector in order to rationalise the financing of the local economy

The banking sector, characterised by the presence of many public banks, should be reorganised in order to better meet the financing needs of local economic actors. Let us mention here the opportunity for the Deposit and Consignment Office to make complementary investments in productive sectors favouring job creation.

Favouring the productive investments of the Tunisian diaspora

Twice higher than FDI, fund transfers of Tunisian immigrants, which are very often counter-cyclical, are almost never oriented towards productive investments in Tunisia. Following the example of Morocco, Tunisia should implement mechanisms to develop and guide these investments, which rep-

resent a stabilisation factor in crisis periods via direct investments as well as a great indirect financing tool of the economy.

Reforming professional training to better meet the needs of the labour market

The high unemployment rate is mostly due to the incompatibility of trainings with the needs of the labour market. A large number of young graduates are over-qualified while Tunisia has not moved upmarket as expected.

Thus, the government launched a reform programme of the professional training national device that must be accelerated, in order to level qualifications with the labour market.

1. TUNISIAN MACRO-ECONOMIC ENVIRONMENT

OBSERVATION N°1: The economy is resilient, but wealth creation is insufficient to support demographic issues, and in particular the creation of skilled jobs

GDP (in \$):	47 Billion (2013); 48.6 Billion (2014)
Average growth of real GDP 2004-2014:	3.81% (2004-2014)
Growth rate enabling to reduce unemployment	~4%
Population:	10,900,000 inhabitants (2014)
Share of active population:	36.7% (2014)
Unemployment rate:	13.3% (2013)
Share of youngsters in the NEET category (rural areas):	33.4%
Share of youngsters in the NEET category (urban areas):	20%
Median age:	31.4 years old

Economically, the Tunisian Arab Spring generated an economic crisis that was quickly absorbed by the Tunisian economy. After a zero - growth in 2011, recovery started as early as 2012, nearly doubling the growth rate of SEMC7 that same year, before stabilising beyond 2% and resuming a common upward growth trend.

Besides, Tunisian growth opportunities remain highly correlated with the economic situation of EU4, its first commercial and investment partner. The GDP of Tunisia and UE4 evolve in parallel, and in average the Tunisian GDP has been three points higher over the last ten years.

Graph 2. Annual growth compared with the real GDP



SOURCE: WORLD BANK (ESTIMATIONS MADE BEFORE THE SOUSSE BOMBING ATTACKS OF JUNE 2015. IT IS LIKELY THAT THE LATTER AFFECTED THE 1% GROWTH RATE).

Although the economic performances are rather significant, the Tunisian growth has been below potential since the Revolution for the economic reasons mentioned above, but also for structural reasons. The country suffers, among others, from a low productive added value of industrial sectors, access to funding is not easy and small and medium-size artisanal businesses prevail.

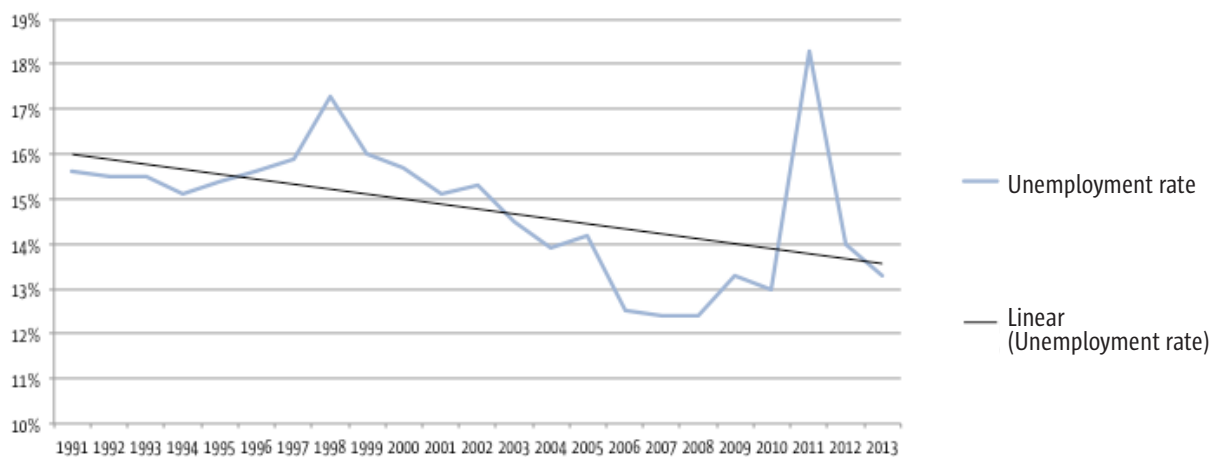
These economic performances are relative, as Tunisia has almost achieved its demographic transition and now features the highest activity and unemployment rates in SEMC7. Thus, while the number of people arriving on the labour market each year is decreasing, the Tunisian economy is yet not capable of integrating them. Wealth creation is insufficient to integrate the excess of active population in the short term, even though unemployment is decreasing in the long term. In order to reduce excessive frictional unemployment - mostly among youngsters - it is necessary to balance the needs in human resources of the labour market (in particular family SMBs) and training courses.

Table 1. Demographic data

	TUNISIA	Algeria	Egypt	Jordan	Lebanon	Morocco	Turkey
Population 2014	10,900,000	38,700,000	82,000,000	6,460,000	4,460,000	33,000,000	76,670,000
Active population	4,000,000	12,400,000	27,700,000	1,700,000	1,700,000	12,000,000	27,500,000
Share of active population	36.7%	32%	33.8%	26.3%	38%	36.3%	35.8%
Demographic growth rate	1.0%	1.9%	1.6%	2.2%	1%	1.5%	1.3%
Unemployment rate (2013)	13.3%	9.8%	12.7%	12.6%	6.5%	9.2%	10%
Median age	31.4	27.3	25.1	21.8	29.3	28.1	29.6

SOURCE: WORLD BANK

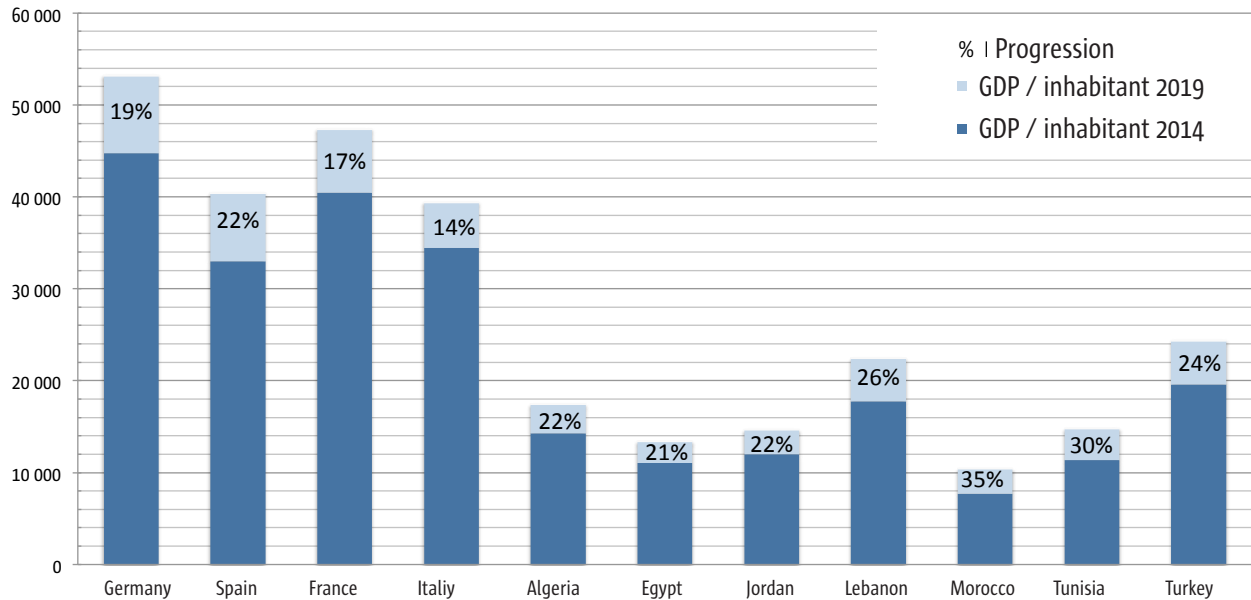
Graph 3. Unemployment rate in Tunisia since 1991



SOURCE: ILO

This demographic development is also boosting the rise of middle classes. Nominal GDP per capita is the higher predicted performance after Morocco in the area (+30% expected between 2014 and 2019).

Graph 4. GDP per inhabitant in 2014 and projections for 2019



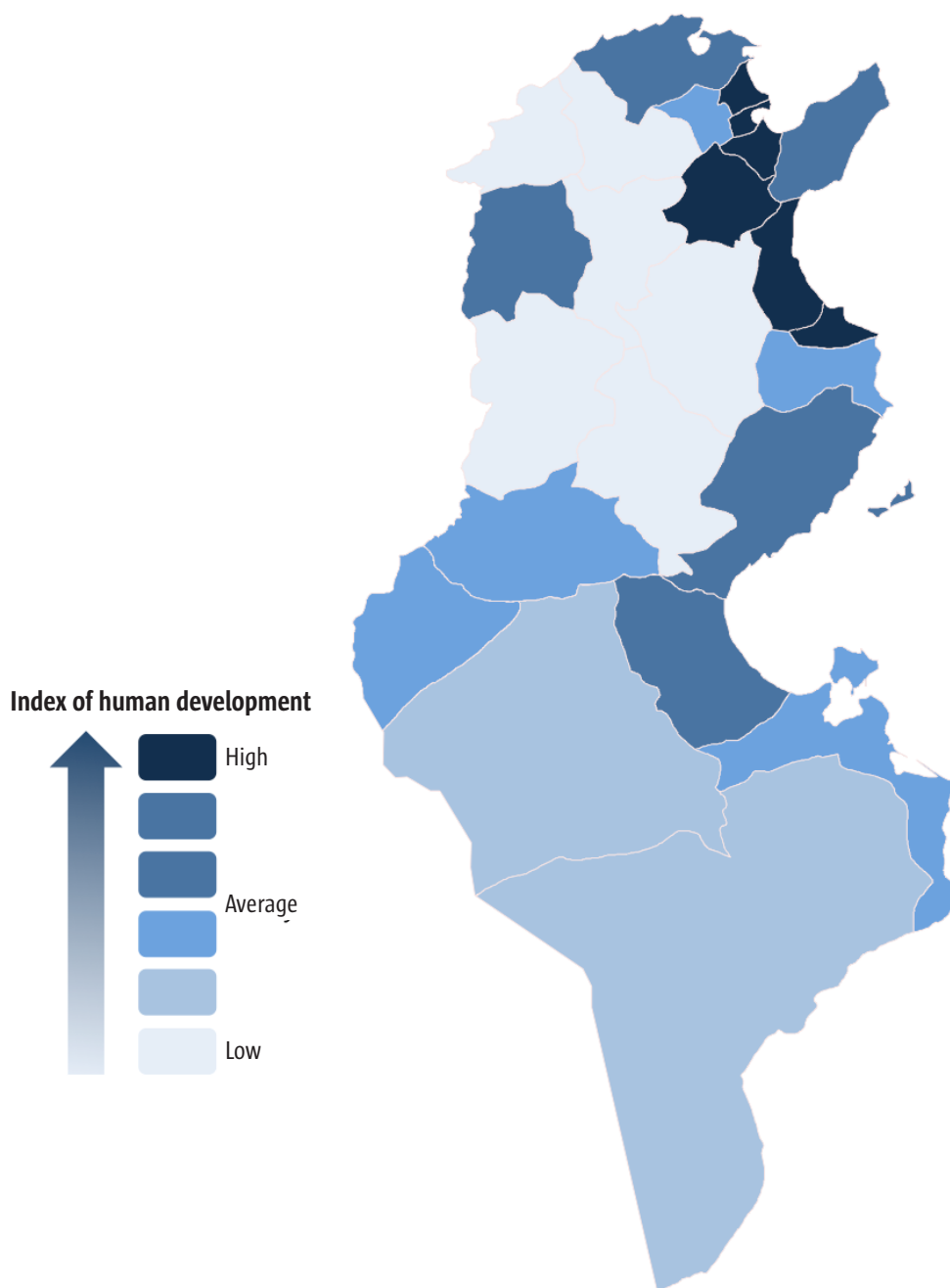
SOURCE: IMF (IN PURCHASING POWER PARITY)

In the end, Tunisian growth is mostly driven by consumption rather than investment (extensive growth). However, as the demographic transition is progressing, it will become necessary to generate a more intensive and inclusive growth, by favouring investments and long-term productivity gains - two key factors that form part of a co-production strategy.

Quantitatively, the growth rate from which unemployment could start decreasing must be superior to the sum of the short-term productivity growth (about 2% per year between 2000 and 2010 according to the World Bank) and of the evolution rate of active population (slowing down but established at about 1.85% per year over the last ten years according to the World Bank).

Therefore, below a real GDP growth of 4% per year, Tunisian growth cannot help curb unemployment in the long term.

Territorial discrepancies also exist. The distribution of growth profits benefits more coastal regions, while the regions of Gafsa, Tataouine, Jendouba and Kasserine are the most affected by unemployment, reaching 23-26%. Eventually, these discrepancies can also be detrimental to the Tunisian potential by generating social and political phenomena (massive rural exodus, less expertise, social demands...), thus hindering key factors of growth.

Map 1. Human Development Index by governorate

HDI is a statistical composite index, created by the United Nations Development Programme (UNDP) in 1990 in order to assess the world's countries human development level. The HDI was based on three criteria: GDP per capita, life expectancy at birth and education level.

OBSERVATION N°2: An innovative industry is emerging but it is still too marginal to lead to a real diversification of exportations and to generate complementarities with neighbouring countries, which are a source of regional commercial integration

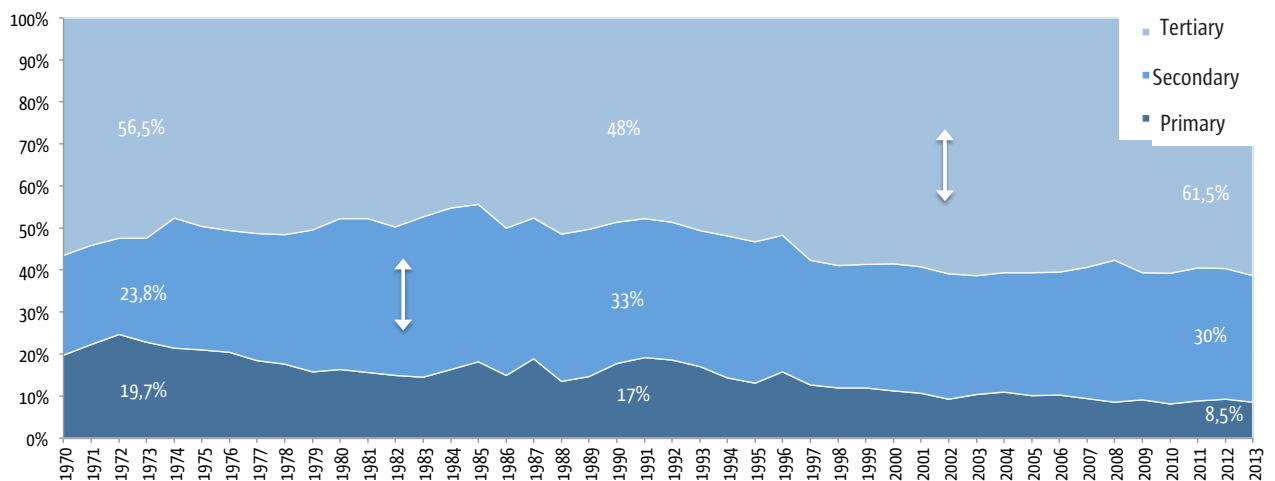
Share of the primary sector:	8.5%
Share of the industrial sector:	30%
Share of the tertiary sector:	61.5%
Trade Balance:	\$-5.5 billion (2013)
Main export markets:	France, Italy, Germany and Spain (65% of exportations)

The tertiary sector, led by tourism, has always been significant in Tunisia and accounts for over 60% of GDP.

Even though the growth of the industrial sector was unfavourable to the tertiary sector in the 1980's (its share decreased as much as that of industry increases), in the 1990's the tertiary sector massively "absorbed" the workers of the declining primary sector (the decrease of the primary sector was proportional to the growth of the tertiary sector, the industrial sector accounting for around 30% of GDP in average).

In the end, the eleven points lost by the primary sector since 1970 benefited the other two sectors almost as much.

Graph 5. GDP sectoral composition since 1970



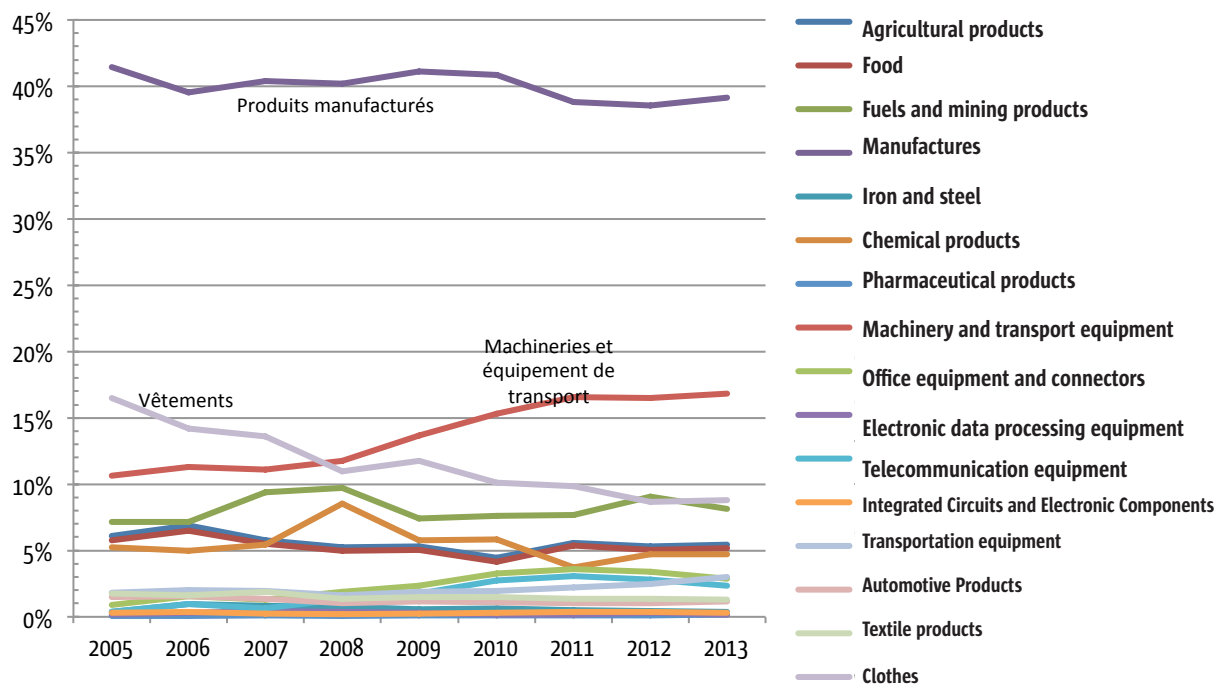
SOURCE: WORLD BANK

Industrialisation progressed rather slowly in Tunisia, as it was limited by the prevalence of tourism, which has long driven the economy. However, since the beginning of the 1990's, this slow evolution was accompanied by a deeper transformation of the nature of industrial production, towards innovative sectors, even though they still account for a very small share of exportations.

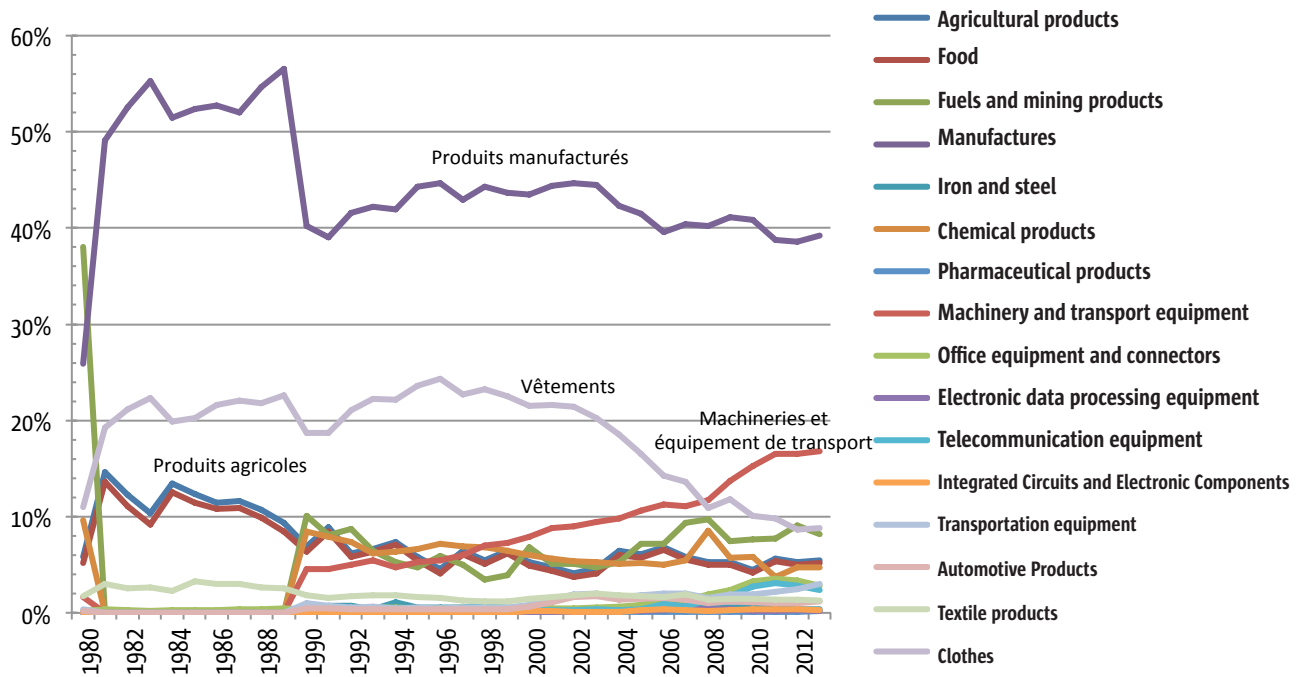
At the beginning of the 1990's, the manufacturing boom started declining and production settled at 40% of exportations. The manufacturing of machines and chemical products emerged, while agri-food industry started declining. However, only this first activity really took off to reach 17% of exportations today. Yet, the machine production remains limited to industrial inputs in relatively short value chains. This observation is also true for telecommunication and automotive sectors, which have been growing since 2010, but not sufficiently.

Value chains are not deep enough, which affects the trade balance (\$5.5 billion deficit in 2013). Generally speaking, importations mainly concern finished and partly finished goods (cars, microcircuits and electrical appliances) and oil, while exportations focus on equipment parts and textiles, as well as raw materials and unprocessed agricultural products.

Graph 6. Composition of exportations since 1980



Focus on the 2005-2013 period:

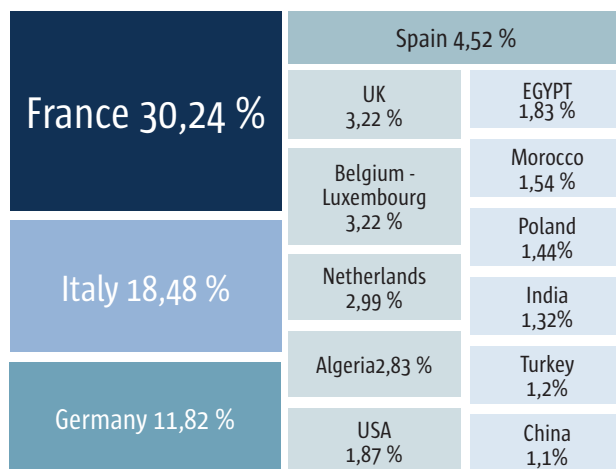


SOURCE: WORLD TRADE ORGANISATION

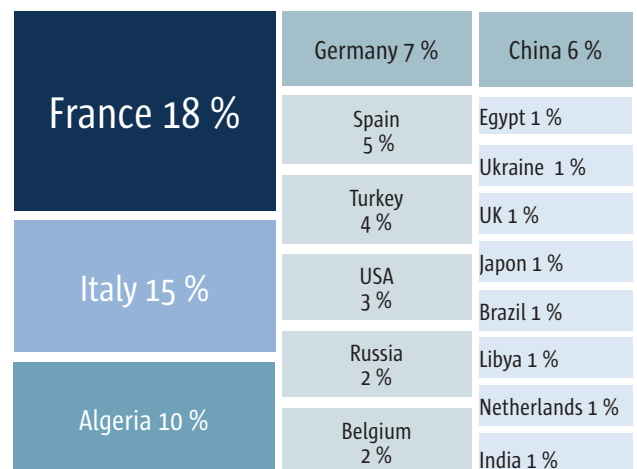
In terms of destination, four European countries receive nearly 65% of exportations (France, Italy, Germany, Spain), against 6% for other North African countries. Because it highly relies on Europe, Tunisian production is vulnerable, especially as it relies on interchangeable products with a low added value.

As regards trends, exchanges with North America and North Africa can be observed, but they remain limited.

Graph 7. Main exportation markets



Graph 8. Main importation markets



SOURCE: THE ATLAS OF ECONOMIC COMPLEXITY OF HARVARD BUSINESS SCHOOL

Thus, in order to produce more wealth locally, it is necessary to diversify production and develop value chains. Tunisia can specialise further via integration at the North African, African and European levels (Agadir Agreements, Association Agreements with the EU, Free-Trade Agreement with Turkey) and via the insertion into more global commercial dynamics.

Indeed, North African countries have the lowest percentage of intra-regional trade of goods (3% of their total trade). Integration would enable the development of a regional commerce of goods and services in a potential interior market of 80 million consumers. Creating healthy competition and emulation among countries will strengthen both their competitiveness and strategic position in the global economy.

Integration can also be done towards the South, following the example of the Tripartite free-trade agreement signed on 8 June 2015 among 26 African countries (including Egypt). Tunisia already boasts undeniable competitive advantages in Sub-Saharan Africa and can serve as a strategic hub for European companies in a vertical co-production dynamic Europe-Mediterranean-Africa.

Finally, in 1995, Tunisia was the first Mediterranean country to sign an Association Agreement with the EU, planning the creation of a free-trade zone for industrial products, implemented on 1st January 2008. In 2012, the country signed a Privileged Partnership with the EU. The latter should lead to a Deep and Comprehensive Free Trade Agreement (DCFTA) that would go beyond the liberalisation of commercial exchanges and the removal of custom duties, favouring a closer economic integration.

The negotiations regarding the DCFTA started on 13 October 2015. By taking into account the real competitiveness discrepancies between the EU and Tunisia, they should enable a deeper integration of Tunisia in the European Union, by reducing non-tariff restrictions, simplifying custom procedures, liberalising service trade, ensuring investment protection and standardising regulations.

2. CHARACTERISTICS OF FOREIGN DIRECT INVESTMENTS

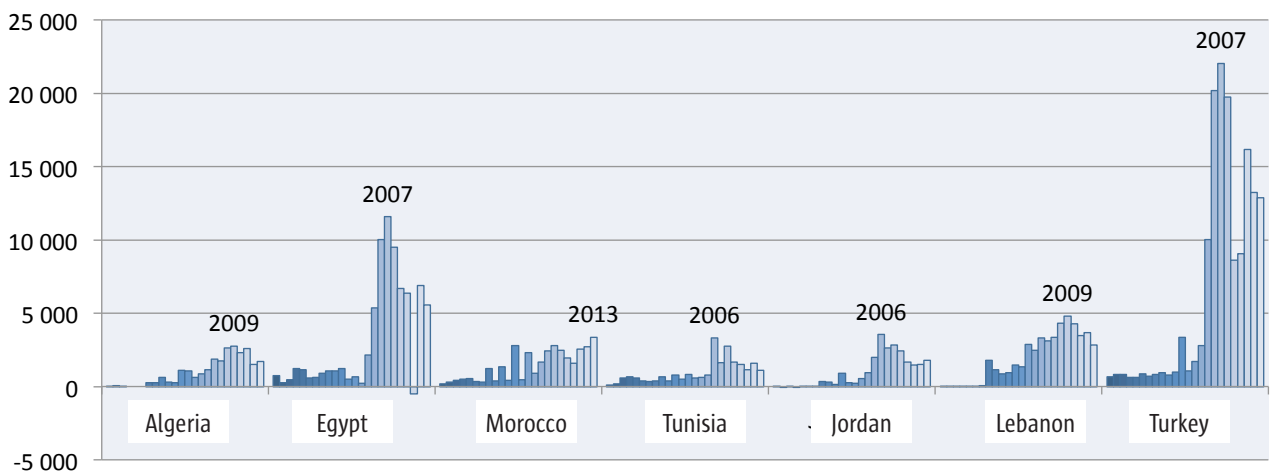
OBSERVATION N°3: Even though FDI flows are decreasing, Tunisia remains in a good position among SEMC7 thanks to significant investment stocks, the volume of which amounts to 65% of GDP

GDP stocks:	\$ 33.5 billion (2013); \$31.6 billion (2014)
FDI stock / GDP:	70.7% (2013); 65% (2014)
FDI flow / GDP:	2.4% (2013); 1.99% (2014)
Greenfield investments:	40 (2011)
Greenfield investments:	18 (2013)
Competitiveness rating:	92 / 140
Doing Business Rating:	74 / 189
Fitch ratings:	BB stable
MOODY's:	Ba3 stable
Standard & Poor's:	B/B negative

Generally correlated to the global economic and political situation, incoming Foreign Direct Investments (FDI) in Tunisia are no exception. As a result of the economic downturn (2008) followed by the socio-political revolution (2011), FDI are decreasing after the peak of \$3.3 billion reached in 2006. Since the Arab Spring, Tunisia has been struggling to boost incoming FDI that are now stagnating around \$1.1 billion per year.

Even though this phenomenon reached all SEMC, which all underwent the economic crisis as well as political revolutions for some of them, the Tunisian trend remains worrying, especially in comparison with Morocco, which is in stable recovery since 2010.








Graph 9. Amount of incoming FDI since 1990 in SEMC (US\$ million)



SOURCE: UNCTAD

In spite of this economic slowdown, Tunisia remains in a privileged position among the SEMC7 as in 2014, its stock of FDI amounted to 65% of its GDP, the third higher ratio in the region behind Lebanon and Jordan. This is also proof of a certain attractiveness. Nevertheless, this privileged position could weaken in the medium term, as annual FDI flows do not exceed 1.99% of GDP, against 3.28% for Morocco and 4.92% for Jordan.

Table 2. Compared FDI data (2014)

	TUNISIA	ALGERIA	EGYPT	MOROCCO	JORDAN	LEBANON	TURKEY
							
FDI stocks (US\$ million)	31.6	26.8	87.9	51.7	28.7	56.83	168.5
FDI stock (% GDP)	65%	12.5%	30.7%	47.3%	80.3%	114%	20.9%
Flow (% GDP)	1.99%	0.69%	1.67%	3.28%	4.92%	6.15%	1.54%
Greenfield investments 2012	31	18	62	65	26	19	153
Greenfield investments 2013	19	16	45	45	16	16	149
Greenfield investments 2014	11	13	58	67	14	10	108

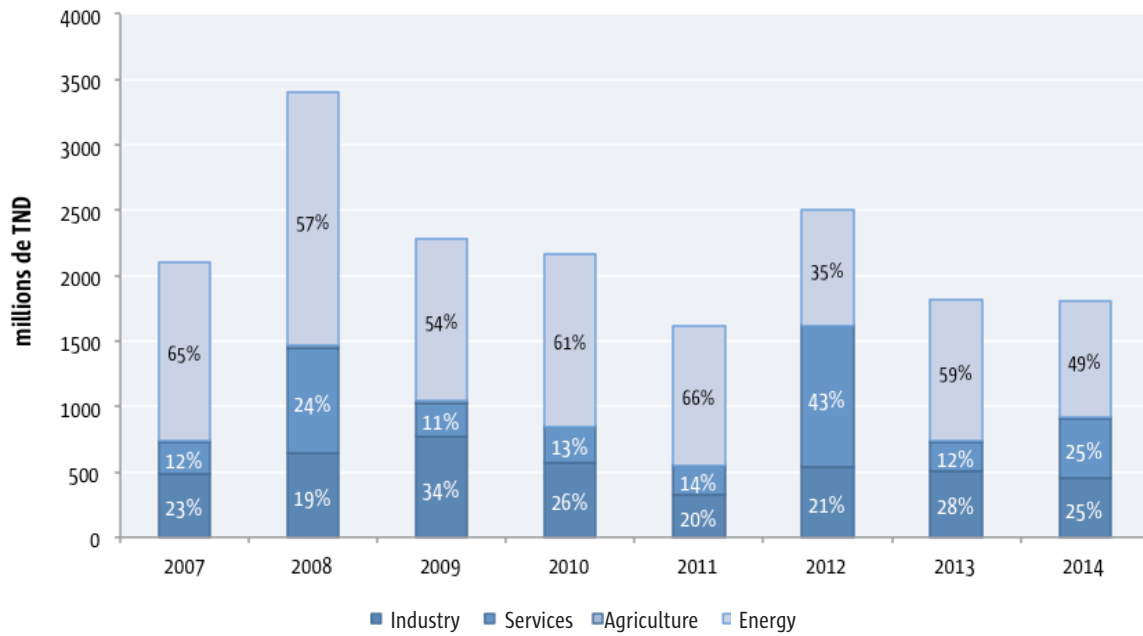
SOURCE: UNCTAD AND TRADE SOLUTIONS BNP PARIBAS

In terms of FDI attraction in the sub-region, Tunisia mostly competes with Morocco. Thanks to its political stability, the Kingdom of Morocco attracts more significant absolute FDI stocks (\$50 million vs. 33 for Tunisia). Besides, it has a superior annual progression of flows, which reinforces this advance.

To avoid a too strong direct competition with Morocco, Tunisia could rely on a greater diversification of its production and on a complementary industrial specialisation. It could even favour the productive investment of its diaspora.

As regards the sectors concerned by FDI, Tunisia benefits from reassuring sectoral dynamics. Services and, to a lesser extent, pharmaceutical and agri-food industries, show a promising progression. Indeed, over the last few years, the service sector strengthened thanks to telecommunications and finance activities; it accounted for 25% of FDI in 2014, the highest share since 2007, except for 2012 when Qatar Telecom acquired 15% of the shares of the operator Tunisiana. As for the industrial sector, it stabilises around 25% of FDI. The growth of the agri-food, pharmaceutical and various other industries balances the relative decrease in the electric, electronic, mechanic and textile industries - which remain the most significant.

Graph 10. Evolution of incoming FDI in Tunisia by sector from 2007 to 2014

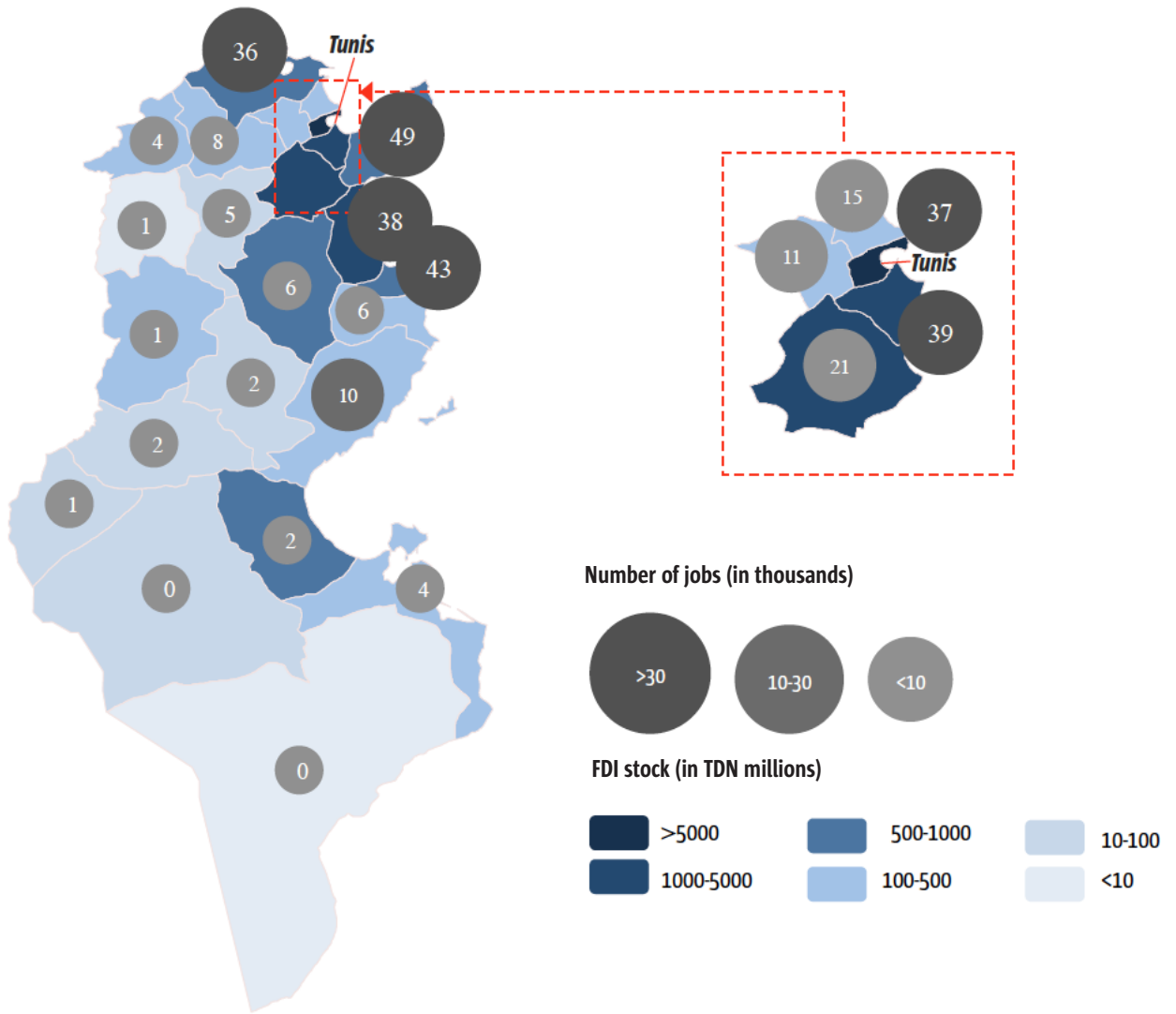


*The share of agriculture is too low to appear clearly in the graph and accounts for 1% or less for the years 2009, 2012, 2013 and 2014.

SOURCE: IFAP

Finally, even though Tunisia benefits from encouraging sectoral dynamics, it must pay attention not to increase regional discrepancies. Because of the disparity of FDI stock between dynamic coastal regions and underprivileged interior regions, these discrepancies are already significant. The Tunis governorate holds 42% of FDI stocks in value, and five governorates (Ben Arous, Nabeul-Hammamet, Zaghouan, Sousse, Monastir and Tunis) hold 77%. In terms of employment, the dynamic follows the same pattern. The coasts remain highly privileged, with the governorates of Bizerte, Tunis, Ben Arous, Nabeul, Sousse and Monastir accounting for 71% of jobs generated by FDI.

Map 2. FDI stocks and jobs generated by the former, by governorate in 2014



SOURCE: IFAP

Tunisia has always attracted FDI stocks. However, if the country does not implement strong and clear sectoral and regional policies to decrease the effect of terrorist threats weighing down on FDI flows in the short term, this advantage could come to an end.

FORESIGHT: The political and security unrest following the revolution had a negative impact on the business environment. The political transition, combined with a recast of the investment code, should improve the business environment. Nevertheless, this environment is characterised by the lack of competitiveness, a heavy bureaucracy and persistent corruption. Besides, the Sousse bombing attacks of 26 June 2015 hindered the relative return to safety and trust.

In spite of these circumstances, Tunisia has solid foundations, as few foreign plants have been closed down. Investors are waiting, which shows that they still have trust in Tunisia. Besides, FDI are stagnating but not decreasing. Today, Tunisia is considered as the laboratory of Arab Revolutions and generates much hope. The most vulnerable elements to this economic situation, such as employment (and therefore social movements), public investment and growth can give a wrong impression in the short term. However, a proactive and clear policy, especially in terms of sectoral strategies, infrastructures and incentives to co-production - a potential major factor of interest for investors in Tunisia - could boost FDI flows and lead to more employment and to a social healing process.

In the meantime, the risks incurred by investors are the following:

Security risks

As borders are porous and security is still an issue in Libya and Northern Mali, collusions between terrorist groups and criminal networks are numerous, mostly regarding drug and weapon traffic, as well as smuggling in Northern Africa and Sahel, especially in Tunisia, Algeria and Niger. These synergies favour the political, social and security destabilisation of the region's States, thus reinforcing the social and economic crisis and discouraging investors.

Economic risks

In the short term, commercial risks are considered high, even though the overall situation of the country should improve. The country's currency reserves remain rather low (3.2 months' import cover) and the economic growth will have difficulty to reach 1% in 2015 (far from the 3% expected and reviewed after the bombing attacks), in spite of an increase in public spending. Growth remains related to the perception of the security risk in the country (key factor for FDI and tourism), and to the economic situation in the Euro zone, especially in Italy and France. Indeed, these markets are the first destinations for Tunisian exportations, as well as a source of tourism and funds.

- » In the competitiveness global rating established each year by the World Economic Forum and published on Wednesday 3 September 2015 in Geneva, Tunisia ranks 87th out of 144 countries, losing four ranks in relation to the former report established in 2013-2014³.
- » Tunisia also lost four ranks between 2014 and 2015 in the Doing Business rating on business environment established by the World Bank. However, the country still remains 60th out of 189 countries, thus leading North African countries⁴.

³ <http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=TUN>

⁴ <http://francais.doingbusiness.org/data/exploreeconomies/tunisia/>

International comparison of investors' protection (index from 0 to 10)

	TUNISIA	MIDDLE EAST & NORTH AFRICA	UNITED STATES	GERMANY
Transparency in transactions index	5,0	6,0	7,0	5,0
Manager responsibility index	7,0	5,0	9,0	5,0
Power of shareholders index	6,0	4,0	9,0	5,0
Investor protection index	6,0	5,0	8,3	5,0

SOURCE : DOING BUSINESS - LAST DATA AVAILABLE.

Financial rating of the country

Since the revolution, current expenditure has increased and therefore, the ratio public debt/GDP has increased as well. However, the total public debt (interior and exterior) should remain under 60% of GDP. Most bonds of the Tunisian exterior debt will expire in the medium and long term. The country should be able to meet its financing needs and, at the same time, benefit from soft loans granted by official money lenders. Tunisia still has access to an IMF stand-by arrangement of \$1.74 billion.

International comparison of investor protection

FITCH RATINGS	MOODY'S	STANDARD & POOR'S
BB stable	Ba3 stable	B/B negative*
<i>"The Sousse attack highlights the risks of terrorism on the Tunisian potential and economy", said the agency Fitch Ratings in a report of 1st July 2015.</i>	Fitch and Moody's maintained Tunisia's sovereign rating at Ba3, while upgrading its perspectives from negative to stable.	In April 2015, the rating agency Standard & Poor's (S&P) downgraded the Tunisian banking system for its Banking Industry Country Risk Assessment (BICRA) from group 8 to group 9.**

* This ranking was withdrawn upon request from the Tunisian government.

** SAccording to this method, the rating scale goes from 1 to 10, with group "1" representing the lowest economic and industrial risks and "10" the highest risks. According to the agency, the risks of the Tunisian banking system have increased because of the delays in implementing reforms, especially the recapitalisation of public banks and the creation of an asset management company.

» Euromoney downgraded the Tunisian sovereign risk by 0.7 point in the 1st quarter of 2015, placing it at 43.9 points out of 100. Since 2010, Tunisia has lost 5 points and, in total, the country has lost 14 points since 2007, even before the global financial crisis.

» COFACE Country assessment:

- ◊ B (out of 7 levels, A1, A2, A3, A4, B, C, D in risk ascending order)
- ◊ Business environment B
- ◊ Country under surveillance since 26/03/2015

OBSERVATION N°4: UE4 countries remain the main investors in Tunisia and each of them invests in rather different sectors

Number of foreign companies established:	3,220
Number of jobs generated by FDI:	330,000 (8.25% of active population)
Share of EU4 in FDI:	24%

Because of its economic history, Tunisia has always attracted FDI in low-added-value activities with strong employability. **Today, Tunisia hosts nearly 3,220 foreign-invested enterprises accounting for over 330,000 jobs (8.25% of the active population), half of which in the industrial sector.**

FDI from EU4 countries account for 24% of flows reported in Tunisia, which gives them significant importance in the Tunisian national economy. France accounts for 15% of FDI, Italy for 5%, Germany for 3% and Spain for 1%. The United Kingdom (18%) and Austria (8%) were exceptionally part of key European investors of 2014, with major projects in the energy sector.

As for SEMC, they almost do not invest in Tunisia. In 2014, each country accounted for less than 1% of invested amounts, except for Libya that reached 2.3% of flows. These few investments from SEMC7 generally concern one sector (and often one project): energy for Algeria, pharmaceutical industry for Jordan and agri-food industry and real estate for Libya. These low investments do not favour the economic integration of the region and lead to very few commercial exchanges.

French and Italian investments are quite diversified and evolve from one year to another (financial, energy and electric/electronic sectors for France, pharmaceutical industry, energy, leather/shoes, rubber and textile for Italy). On the contrary, Germany and Spain show stable trends and highly targeted sectors: electric and electronic appliances for German companies, agriculture and agri-food industry for Spanish ones.

These sectoral specificities also single out European investors in terms of high labour needs. Although French FDI are the most significant in value and number of projects, proportionally they do not generate the largest number of jobs. Thus, in 2014:

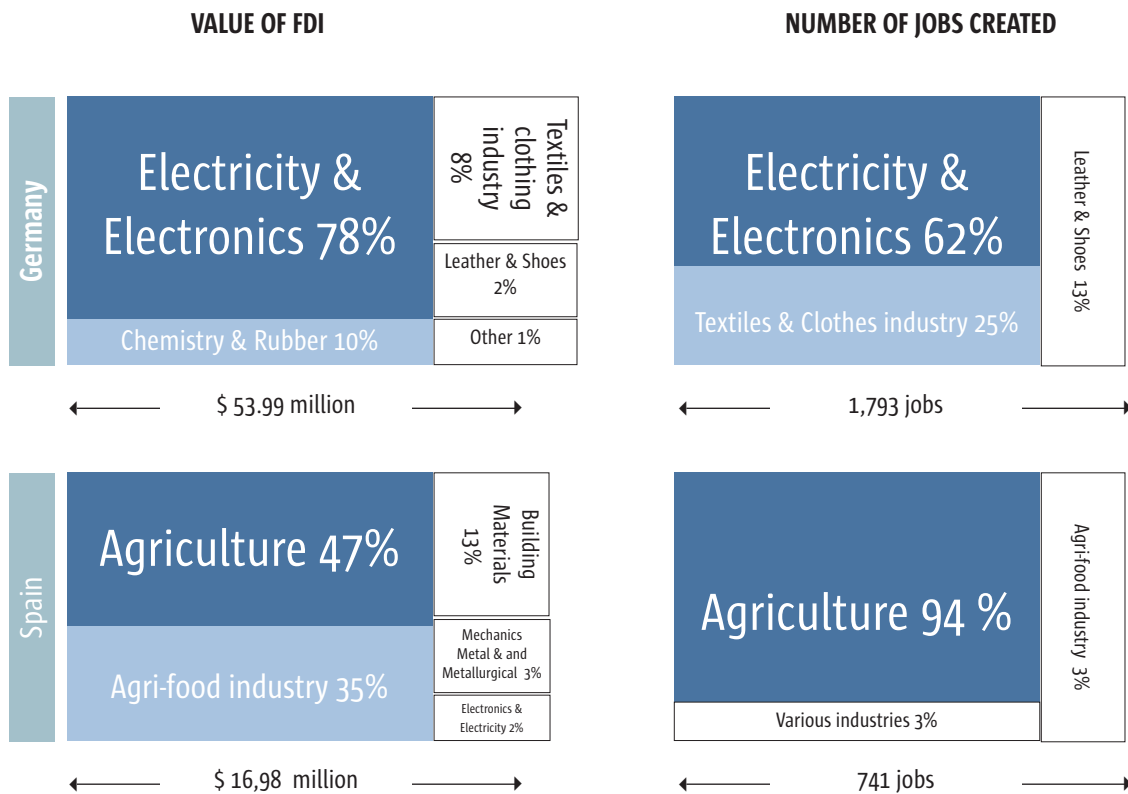
- For TND 278 million invested, France created 1678 jobs
Or 1 job for each TND 165,000 invested
- For TND 93 million invested, Italy created 3074 jobs
Or 1 job for each TND 30,000 invested
- For TND 54 million invested, Germany created 1793 jobs
Or 1 job for each TND 30,000 invested
- For TND 17 million invested, Spain created 741 jobs
Or 1 job for each TND 23,000 invested

Table 3. Incoming FDI flow in value, number of projects and jobs created by country of origin in 2013 and 2014 (FDI in million Dinars)

Origin of FDI	2013			2014		
	Projects	FDI	Jobs	Projects	FDI	Jobs
France	217	261	3,992	117	278	1,678
Italy	175	156	2,015	72	93	3,074
Germany	34	63	1,248	29	54	1,793
Spain	21	39	244	9	17	741
TOTAL	447	519	7,499	227	442	7,286

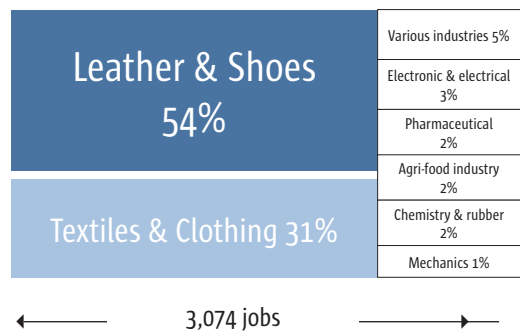
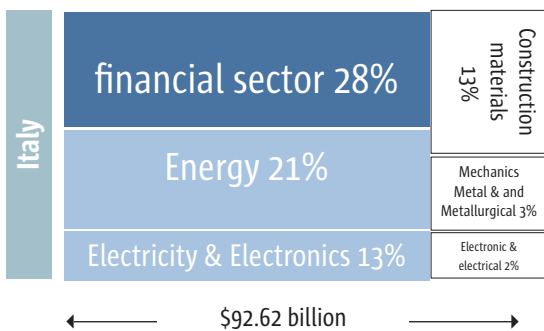
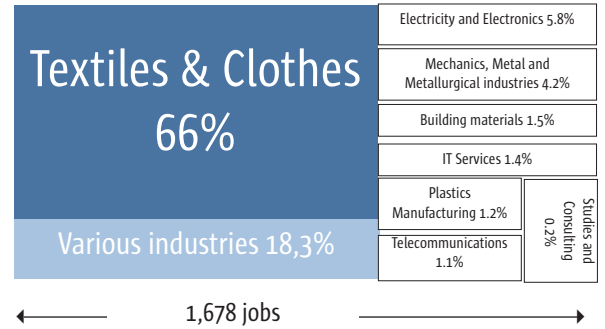
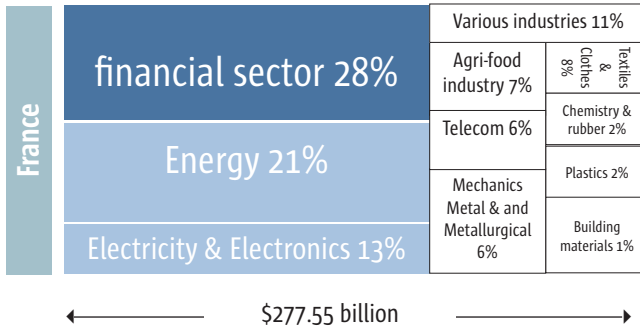
SOURCE: IFAP DATA 2014

Table 4. Value and share of FDI by sector and country of origin (EU4) - Source: IFAP



VALUE OF FDI

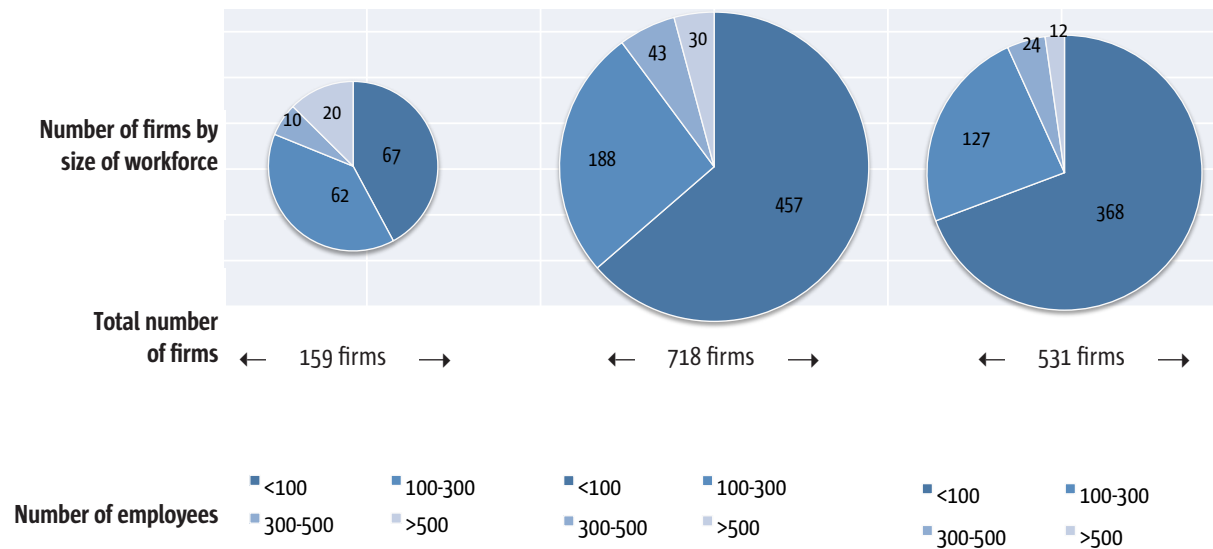
NUMBER OF JOBS CREATED



These trends can be explained by (i) the sectors attracting investments as well as (ii) the different industrial structures in each country of origin. For instance, France is the only European country to invest in services (financial sector and telecommunications) that create fewer jobs. Germany mostly invests in sectors requiring a numerous workforce, but the German industrial network also traditionally comprises mostly medium-size companies. Only 42% of German companies present in Tunisia employ less than 100 collaborators and 19% employ over 300. As for the French and Italian industrial networks, they are more fragmented but they are present in sectors requiring a numerous labour force (textile, shoes, etc.).

Graph 11. Size of foreign-invested companies that are operational in the Tunisian industry (by nationality and number of employees)

	GERMANY		FRANCE		ITALY	
< 100	67	42%	457	64%	368	69%
100 - 300	62	39%	188	26%	127	24%
300 - 500	10	6%	43	6%	24	5%
> 500	20	13%	30	4%	12	2%
TOTAL	159	100%	718	100%	531	100%



SOURCE: DIRECTORY OF INDUSTRIAL ENTERPRISES OF THE API

OBSERVATION N°5: As reforms are long overdue, European FDIs, mostly offshore ones, mainly concern expansion projects and new investments are scarce.

Share of EU4 companies (except Spain) exporting all their output:	>77%
Share of expansion FDI (Germany, France and Spain):	>80%
Share of expansion FDI (Italy):	69%

European investors keep investing mostly in traditional sectors. Yet, most of these investments regard operators already on site. Few new comers have been reported, since after the Arab Spring the situation is uncertain and reforms are long overdue.

The same European investors mostly go for the offshore status, taking advantage of its assets. A company is said to be “totally exporting” or “offshore” if it makes at most 30% of its turnover in Tunisia. In 2015, the authorities increased this threshold up to 50% in order to attract FDI.

EU4 companies present in Tunisia mostly remain totally exporting companies. 79% of German companies are concerned, 77% of French companies and 80% of Italian companies. In terms of employment, the gap is quite large: German offshore activities account for 95% of jobs, versus 81% for France and 85% for Italy. Spain is an exception here, as its offshore activities account for 56% of companies and employment. This can be explained by the presence of Spain almost exclusively in the agricultural, agri-food and building material sectors that are little liberalised, for which investments cannot be made without Tunisians partners.

Generally speaking, non-offshore FDI focus on capital-intensive non-liberalised sectors, as is the case for the production of construction materials, and, especially for France, telecommunications.

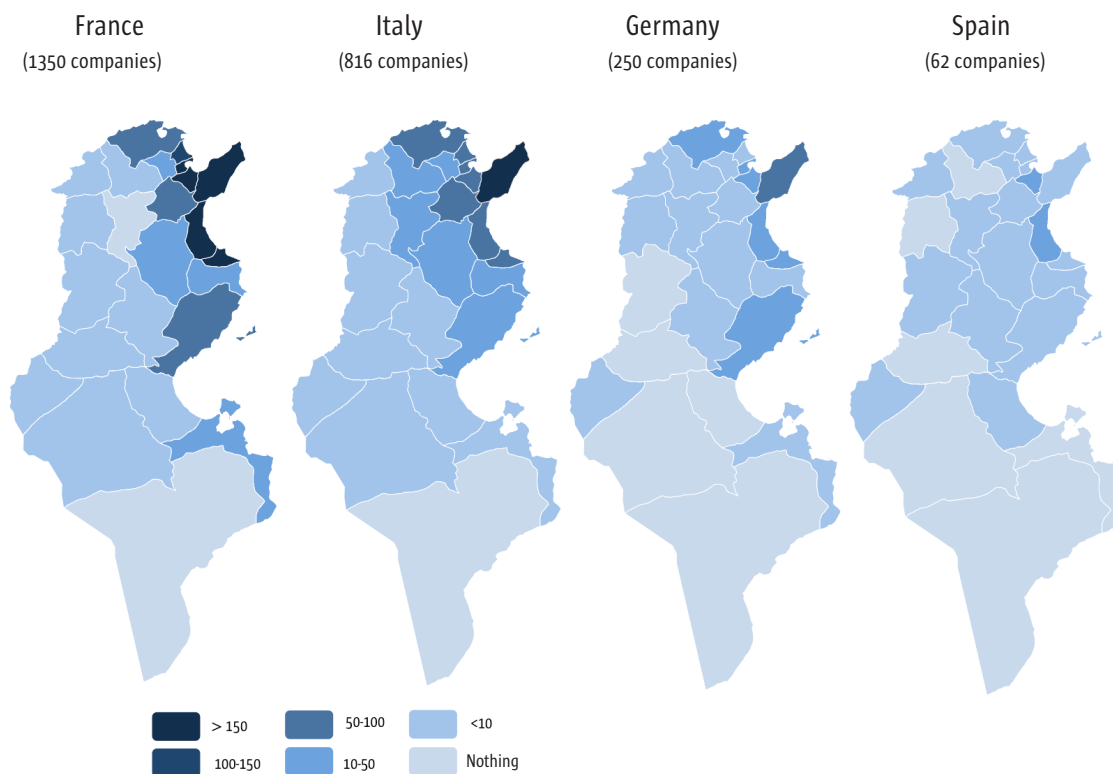
Table 5. Share of totally exporting companies in 2014 (stock)

	Companies	Jobs	FDI
Germany	79%	95%	64%
France	77%	81%	57%
Italy	80%	85%	68%
Spain	56%	56%	35%

SOURCE: IFAP DATA 2014

At the territorial level, foreign-invested companies (totally and partially exporting) are mostly established in the regions of Nabeul-Hammamet, Sousse and Tunis (including the governorates of Ariana, Tunis and Ben Arous). French and Italian companies are by far the most numerous in stock, respectively reaching 1,350 and 816 companies in 2014. As for Germany and Spain, they respectively own 250 and 62 companies in this category.

Map 3. Number of foreign-invested companies by nationality of origin and by governorate in 2014



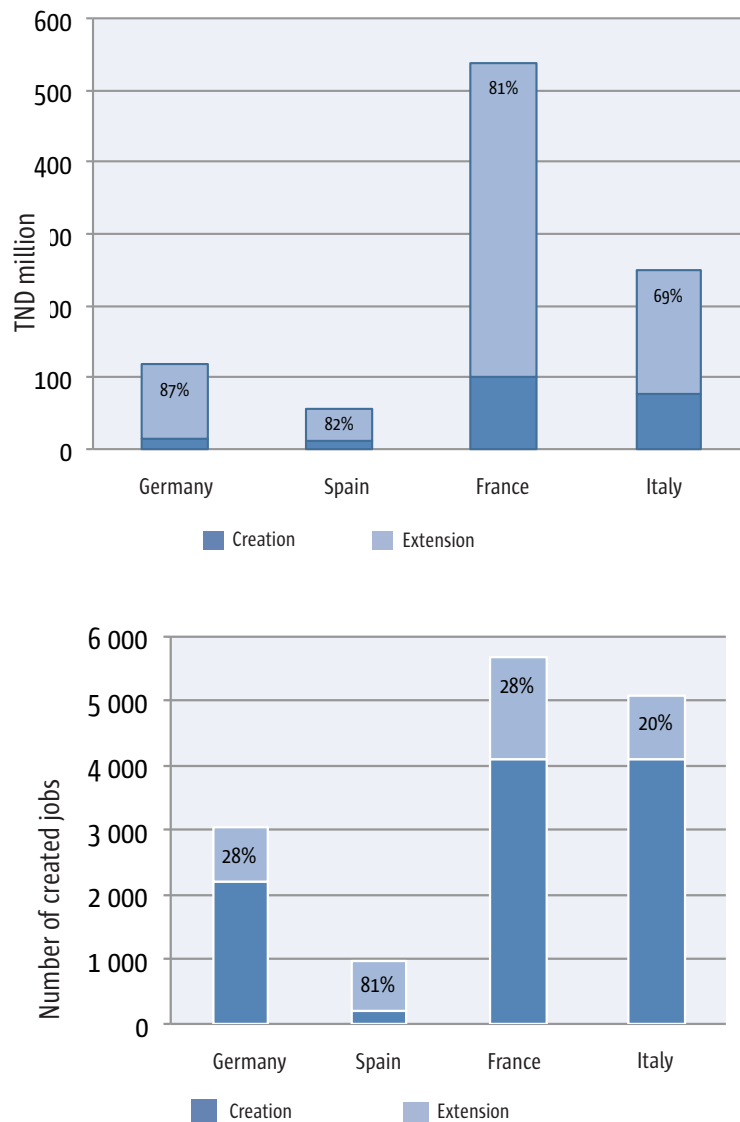
SOURCE: IFAP

In the end, the lack of FDI structural evolution in Tunisia over the last few years can be observed on sectors, nature (totally or partially exporting companies) and regions. Indeed, even though very few production sites have been closed, very few have been opened. In 2013, 90% of new FDI were expansion FDI, compared to 92% in 2014.

Among EU4 countries, Germany, France and Spain accounted for 80% of expansion FDI, versus 69% for Italy. On the contrary, in 2013 and 2014, SEMC realised the creation of FDI, especially Morocco, Turkey and Libya. Only Algeria realised one expansion investment in the energy sector.

However, most of the jobs created come from a few creation FDI (66% of jobs created in 2013 and 68% in 2014). For Germany, France and Italy, this is due to creation investments in sectors requiring little capital but high employability, such as textile, electricity/electronics, and to a lesser extent IT services (French specificity).

Graph 12. Repartition of expansion and creation of FDI by nationality (flows) in 2014



SOURCE: IFAP

The figures regarding foreign investments in Tunisia highlight:

- **A strong dependence on FDI coming from EU4 countries, historic partners of the Tunisian economy.** Although flows decreased and the number of new-comers is low, European investors have been resilient and seem to have confidence in the future.
- The hopes triggered by the Arab Spring are slow to materialise into attractive political projects like infrastructure, clear national economic vision, new institutional framework, sectoral strategies and specificities in keeping with incentive policies, etc.
- **A real co-production potential.** EU4 companies invested in sectors favourable to co-production, however these sectors can still take the form of mere subcontracting. Policies favouring skill and technology transfer as well as the training of local populations according to the needs of investors would encourage a better division of added value.

- **The competitiveness of neighbouring countries**, especially Egypt and Morocco, which increasingly position themselves as gateways to Anglophone and Francophone Africa respectively, could eventually harm Tunisia if the country does not succeed in promoting its competitive advantages and in finding a complementary niche.
- The low rate of Tunisian outgoing FDI and the few incoming FDI from SEMC7 show that there are **little synergies** between Tunisia and its neighbours. Diversifying partnerships and opening up to other regions and markets (North Africa, Africa, Gulf countries) could favour development.

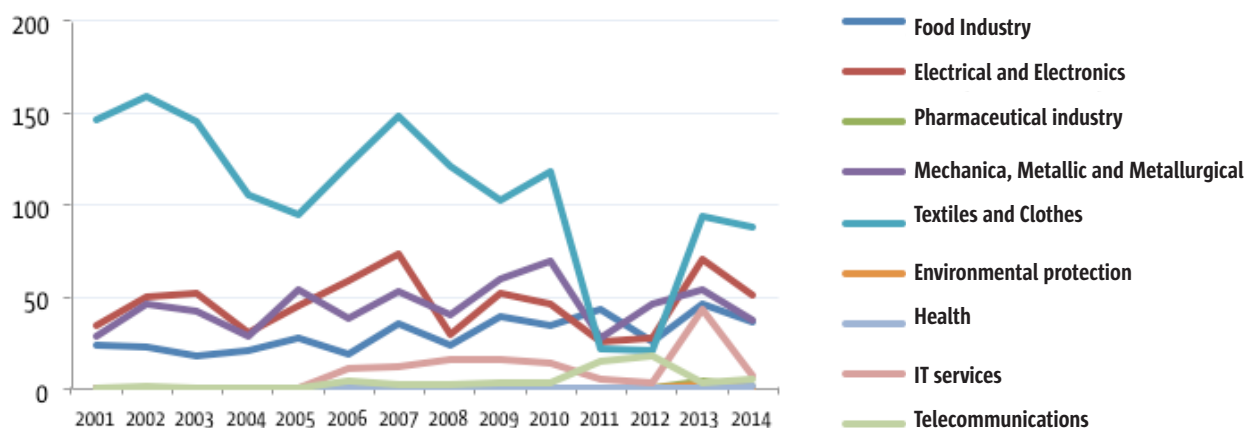
In order to explore the Tunisian sectoral strengths and opportunities in terms of co-production, the next chapter is dedicated to the study of high-potential sectors. Be they historic leading industries (ICT, textile and mechanic industries) or future-oriented industries (renewable energies, health and pharmaceuticals and agri-food industry), they have been selected according to the following criteria:

- Current importance in the economy and future potential on the regional market;
- Ease to implement a co-production model on a long value chain;
- Complementarity to the needs of European companies.

We voluntarily set tourism apart. Although it favours agreements between foreign and local companies and plays a significant role in the economy, co-production synergies are low. Economic partnerships are limited to low-added-value activities (mostly mere subcontracting, with little technology transfer) implemented in the short term (see characteristics of a perfect co-production system in the introduction of this report).

The graph hereafter illustrates the significant role of textile in terms of FDI as well as the progression of investments in electronics and mechanics, and the ICT take off. Because of its very nature, the relative boom of the agri-food sector observed since 2006 was interpreted as the sign of an under-exploited potential. Finally, even though they are still emerging, the pharmaceutical, environmental and health sectors are very promising.

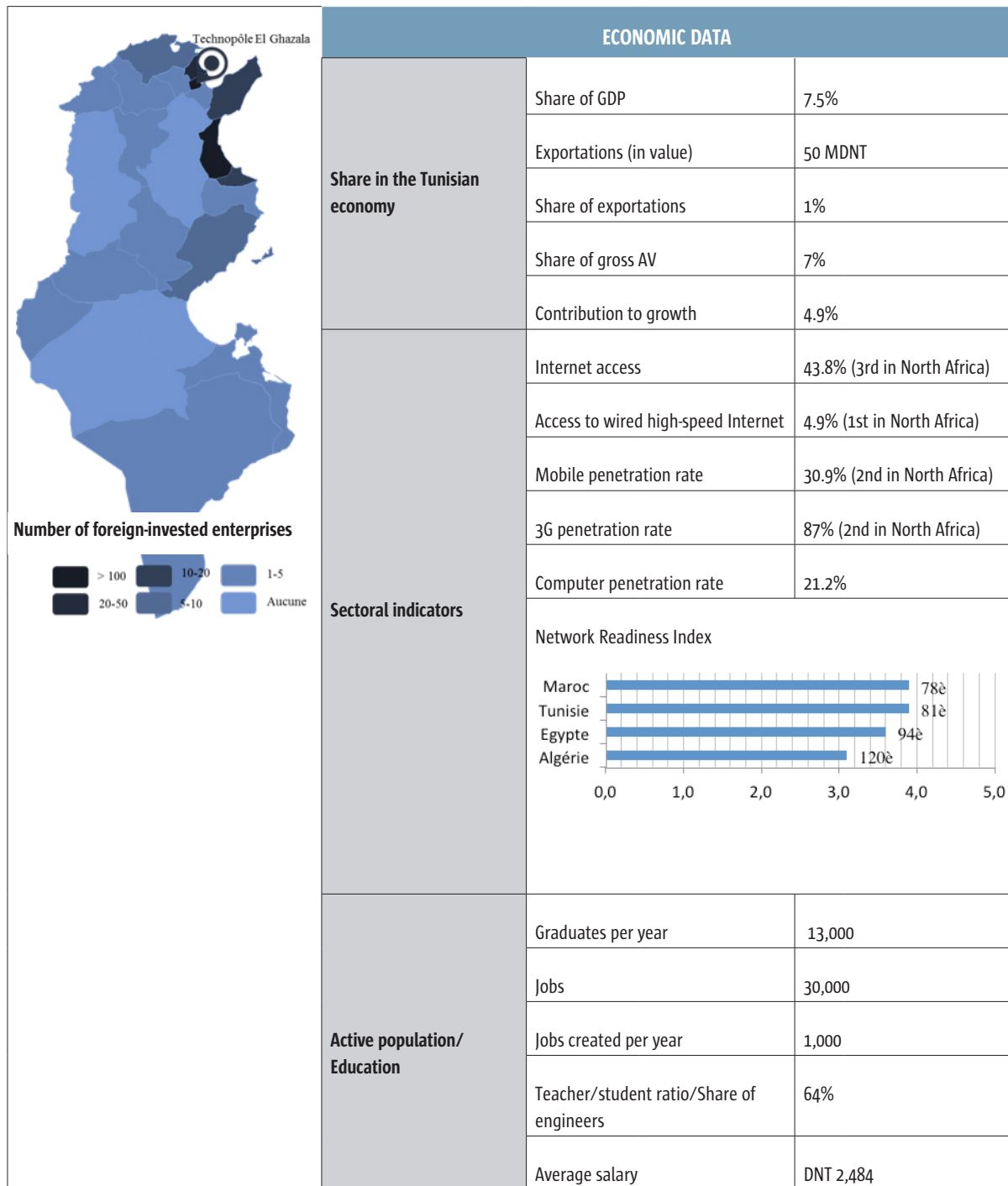
Graph 13. Share of FDI by sector in Tunisia (2001-2014)



SOURCE: IFAP

3. MONOGRAPH OF HISTORIC LEADING INDUSTRIES

OBSERVATION N°6: The dynamic ICT sector presents a high potential



COMPETITIVE POSITION		ACTORS																															
<p>Advantages</p> <p>Telecom and ITC infrastructures</p> <ul style="list-style-type: none"> » Optical fibre in Tunis, Sousse and Sfax. Total pass-band of 90Gbps <p>High-skilled workforce at a competitive cost</p> <ul style="list-style-type: none"> » Over 200 ICT university training courses in over 50 institutes <p>Gateway of the African market</p>	<p>Obstacles</p> <p>Limited national market</p> <ul style="list-style-type: none"> » 11 million Tunisians with a still limited purchasing power <p>Small-size companies</p> <ul style="list-style-type: none"> » 80% of software companies have less than 20 employees <p>Paradoxically, high-skilled workforce is needed and it is sometimes insufficient to meet the needs of companies</p>	<p>Number of companies</p>	1,800																														
		Offshore share	6.7%																														
		Share of foreign-invested companies	Between 10 and 15%																														
		Activities	Call centres, software design and production, IT services, telecommunications																														
		Technology centres/Training	El Ghazala (130 companies, 2,000 jobs)																														
		Main companies	Tunisie Télécom, Orascom, Sagem																														
		Companies listed on the Tunis Stock Exchange	Sotetel, Aetech, Hexabyte, Telnet, Servicom, One Tech, CellCom																														
FOREIGN DIRECT INVESTMENTS (2014)																																	
<p>Inflows (MTND)</p> <table border="1"> <caption>FDI Inflows (MTND) 2007-2014</caption> <thead> <tr><th>Year</th><th>Inflows (MTND)</th></tr> </thead> <tbody> <tr><td>2007</td><td>~100</td></tr> <tr><td>2008</td><td>~50</td></tr> <tr><td>2009</td><td>~150</td></tr> <tr><td>2010</td><td>~150</td></tr> <tr><td>2011</td><td>~200</td></tr> <tr><td>2012</td><td>~750</td></tr> <tr><td>2013</td><td>~100</td></tr> <tr><td>2014</td><td>~100</td></tr> </tbody> </table>	Year	Inflows (MTND)	2007	~100	2008	~50	2009	~150	2010	~150	2011	~200	2012	~750	2013	~100	2014	~100	<p>FDI Stocks (2014)</p> <table border="1"> <tbody> <tr> <td>Telecommunications</td> <td>TND 6,811 million 10,031 jobs</td> </tr> <tr> <td>IT services</td> <td>TND 36 million 4,833 jobs</td> </tr> </tbody> </table> <p>Main investors (2014)</p> <table border="1"> <caption>FDI Stocks by Investor (2014)</caption> <thead> <tr><th>Investor</th><th>Percentage</th></tr> </thead> <tbody> <tr><td>Qatar</td><td>52%</td></tr> <tr><td>EAU</td><td>28%</td></tr> <tr><td>France</td><td>20%</td></tr> </tbody> </table>			Telecommunications	TND 6,811 million 10,031 jobs	IT services	TND 36 million 4,833 jobs	Investor	Percentage	Qatar	52%	EAU	28%	France	20%
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The ITC sector, gathering all economic sectors producing goods and services in the information and communication technology sector, features a high growth potential. While this sector only accounted for 2.5% of GDP in 2002, it now reaches 7.5% (2012 data).

In this regard, Tunisia can rely on (i) technological infrastructures among the best in North Africa and the Middle East and (ii) skilled and competitive human resources. Indeed, according to the last results of the “Network Readiness Index”, published by the “Global Information Technology Report 2015”, Tunisia ranks 81st out of 143 countries, thus progressing with 6 ranks in relation to the 2014 rating. Tunisia is the 4th African country, after

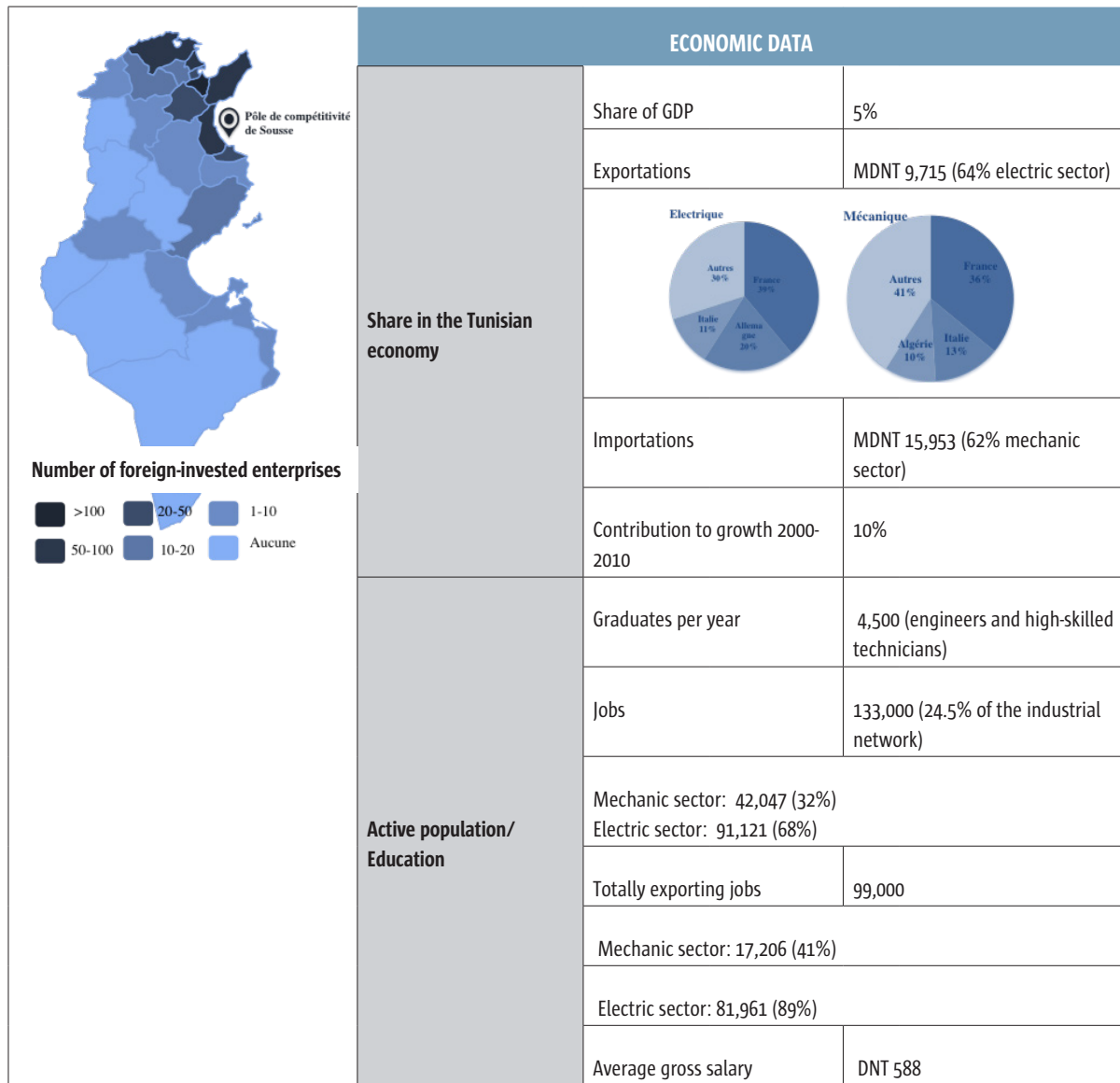
Seychelles, South Africa and Morocco. In terms of human resources, Tunisia trains a large number of engineers and technicians in this sector, available on the labour market at a competitive cost. Besides, the ratio teacher/student is high (64%) and ICT now accounts for 30,000 jobs, 800 of which are created each year.

Aware of this potential, Tunisia gives a significant importance to the development of ICT. After the Revolution, the Tunisian Association for Communication and Technology (TACT) was launched in order to employ the pool of young unemployed graduates. After having launched the TACT Academy in order to update the skills of Tunisian engineers, the TACT launched the programmes “Smart Tunisia” and “Tunisie Digitale (Digital Tunisia) 2018”. Smart Tunisia was launched in 2015. It is a convention signed between the Ministry of Information Technologies and Digital Economy and the company Sofrecom (branch of Orange in Tunisia) enabling the recruitment of 400 engineers and committing to create 80,000 jobs in the digital economy sector over the next 4 years via various tools, among which targeted bonuses to companies in order to invest in young people training. As for the Strategic National Programme “Tunisie Digitale 2018”, it intends to expand high speed Internet and to reinforce the use of ICT in all the sectors of the economy in order to create jobs and promote social and economic development. The programme relies on six pillars: (i) digital infrastructure, (ii) uses for companies and citizens, (iii) e-government, (iv) offshoring, (v) innovation and entrepreneurship and (vi) e-business. Besides, a certain number of technology centres were recently created in various governorates. The largest is the “El Ghazala” technology centre in the governorate of Grand Tunis. It gathers 130 companies and a higher institute of telecommunications. These initiatives show a strong public will to develop this sector in addition to the many private initiatives.

Indeed, the ICT sector relies on 1,800 private companies, most of which are small businesses: 80% of SSII companies employ less than 20 collaborators and nearly 10% employ over 50. Tunisian companies cover a wide range of activities, from call centres to software design and production, to IT and web services and telecommunications. In spite of their assets, these companies are established on a limited national market, which encourages them to (i) develop exporting activities and (ii) form partnerships with European companies to help them conquer the African market, as is the case between Oxia and Opentrust or Oxia and Casiopae. Co-production initiatives, as branches, business partnership or joint ventures, remain limited. Indeed, foreign companies are more interested by the conquest of other markets via partnerships with Tunisian companies, without physically investing on site. ICT Tunisian companies remain deliberately focused on exportation. The share of importations in their turnover has significantly increased, from 23% in 2002 to over 65% in 2008.

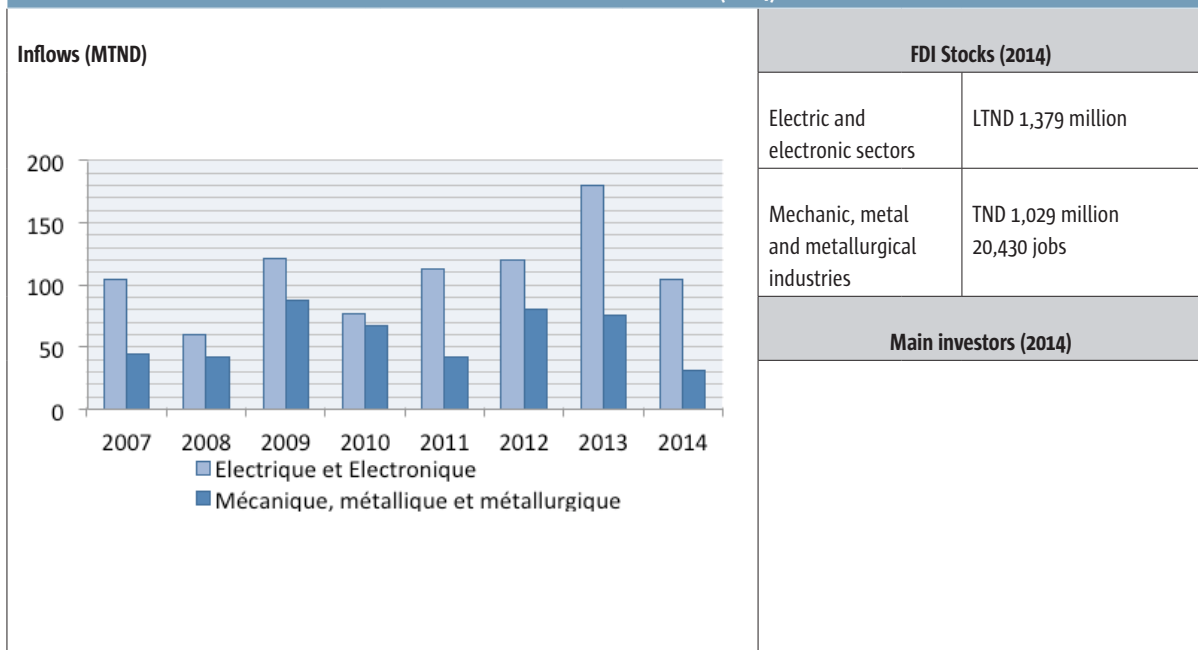
Marketing efforts are necessary to promote Tunisia in the ICT sector, especially in Europe, and to attract an increasing number of foreign visitors. From 2007 to 2014, incoming FDI did not increase much, except for the exceptional investment of Qatar in Tunisia Telecom in 2012. They follow the general trend of foreign investments in Tunisia. Yet, the ICT sector might be a sector to invest in, as Tunisia features comparative advantages over Morocco.

OBSERVATION N°7: Mechanic and electric industries, a traditional sector supporting automotive and aerospace industries



COMPETITIVE POSITION		ACTORS	
Advantages	Obstacles	Number of companies	1,000 (627 Mechanic and 373 Electric sector), or 17.4% of the industrial network
Significant network of suppliers and partners	Dependence to the European market in crisis	Offshore company	Mechanic sector: 163 (25%) Electric sector: 210 (57%)
Skilled and available human resources » Training of 4,500 engineers and technicians per year	Limited market » Household equipment rate of 22.6%	Share of foreign-invested companies	Mechanic sector: 200 (31%) Electric sector: 236 (64%)
Competitive costs of production factors	No automotive constructor » PSA and Renault established themselves in Morocco	Companies with 100% foreign capital	Mechanic sector: 136 (21%) Electric sector: 157 (42%)
		Activities	Cable loom, electronic components, mechanic parts and components
		Technology centres and technical institutes	Competitive cluster in Sousse Technical Centre specialised in the Mechanic and Electric sectors (CETIME) - 8 engineering schools
		Main companies	Leoni, DAV Tunisie, Le Moteur, Sagem

FOREIGN DIRECT INVESTMENTS (2014)



Mechanic and electric industries (MEI), traditional sectors playing a major role in the Tunisian economy, account for 24.5% of manufacturing jobs and 17.4% of the industrial network. These sectors are all the more so important as they are the foundation of the technological development and industrial modernisation of the country. They are key sectors supporting the automotive and aerospace industries examined below.

The automotive industry, a traditional sector in need of a higher added value

Just like the textile industry, the automotive industry is a traditional industry that first developed thanks to low-added-value assembling activities characterised by high employability and a high share of exporting companies (63% in 2012). Since the 2000's, this sector has been undergoing a sustained growth, both in terms of production and exportation, with a 12% average annual growth rate for production from 2005 to 2012 and 8% for exportations from 2008 to 2012.

Tunisia succeeded in developing (i) a skilled workforce at all levels thanks to quality training and (ii) a dense network of suppliers and partners, thus creating a favourable economic environment.

The automotive part industry comprises 60,000 jobs and 230 companies (85% growth in relation to 2005) in various fields such as cable and plastic manufacturing, electronics, textile, accessories, 145 of which export their entire output. This industrial network enables Tunisia to reinforce its position as a leader of the automotive industry in the region. The country is the 2nd African manufacturer of automotive components and the 1st African manufacturer of cable looms. The country also hosts great global parts manufacturers from France, Germany, Italy and Japan.

ECONOMIC DATA		
Share in the Tunisian economy	Exportations	MDNT 3,870 of which automotive parts: MTND 492 mechanic parts MTND 2,637 electric parts
	Importations	MTND 508 (automotive components)
	Production	€M 2, 050
Sectoral indicators	Equipment rate	22,6%
	Automotive components	2nd manufacturer in Africa
	Cable looms	1st manufacturer in Africa 10 first EU suppliers
Active population/Education	Graduates per year	4, 500
	Jobs	60 000
	Average net salary	588 DNT

ACTORS	
Number of companies	230
Part offshore	145 (63%)
Activities	Cable and plastic manufacturing, electronics, technical textile, accessories
Technopôles/Formation	Sousse competitive centre 15 training centres
Main companies	Misfat, Cofat, Coficab Germany: Leoni, Dräxlmaier, Bosch France: Faurecia, Valeo
Companies listed on the Tunis Stock Exchange	ARTES (Renault-Nissan Group), City Car (KIA Group), Ennakl Automobiles

However, the sector must face major obstacles. The Tunisian market is quite limited, because of a limited population for the region and an equipment rate of 22.6%. Besides, Tunisia does not host any automotive manufacturer; 66,000 vehicles were imported in 2013.

While the automotive industry is changing, the challenge is now to rise in the value chain and evolve from assembling to higher-added-value activities. Indeed, while subcontracting activities dominate, large European constructors and parts manufacturers increasingly outsource the production of parts and components to independent suppliers.

If the following dynamics are implemented, Tunisian companies could play a significant role: (i) increasing the added value of the product range via reinforced investments in R&D and innovation, (ii) developing the logistical activities enabling the development of the sector, (iii) developing synergies with other industrial sectors of the country as well as among industries, universities and research labs.

Aerospace industry - Ambitious programmes to develop future-oriented synergies

In Tunisia, the aerospace industry developed in the 1990's, following the development of textile industries in the 1970's and automotive industries in the 1980's. As Tunisia improved its expertise, the aerospace industry became a dynamic sector creating a great number of jobs every year. In particular, we can observe a restructuring of the sector's global value chain favouring Tunisia in the global dynamic.

Indeed, the growing demand generates ascending perspectives on the global market. Tunisia benefits from (i) geographic proximity to Europe, which is the largest global aerospace market, as well as (ii) greater skills and expertise in the industrial sector thanks to the implementation of training centres specialised in aerospace (such as CEMIA, an institute dedicated to aerospace). Besides, (iii) certain factors favour synergies between the different actors of the sector: the GITAS (XXX) and the Mghira aeropole.

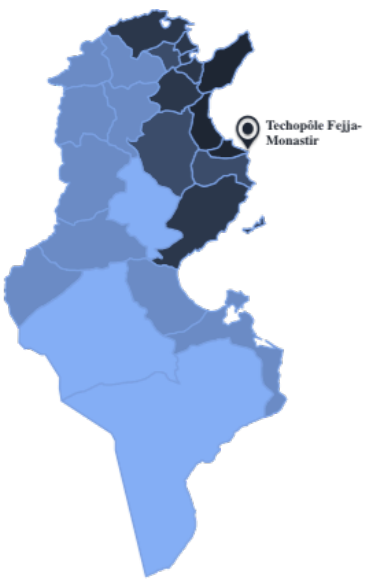
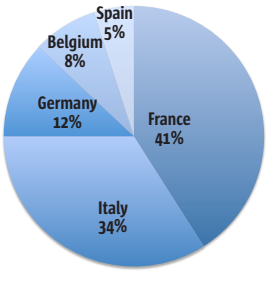
Tunisia also relies on a dynamic network of 95% foreign-invested companies. Since 2004, the number of companies operating in this sector has been multiplied by 6 and the number of jobs created has been multiplied by 7, reaching respectively 70 companies and over 9,000 jobs. Following the same dynamic, exportations in the aerospace industry grew at an average annual rate of 46% from 2003 to 2008.

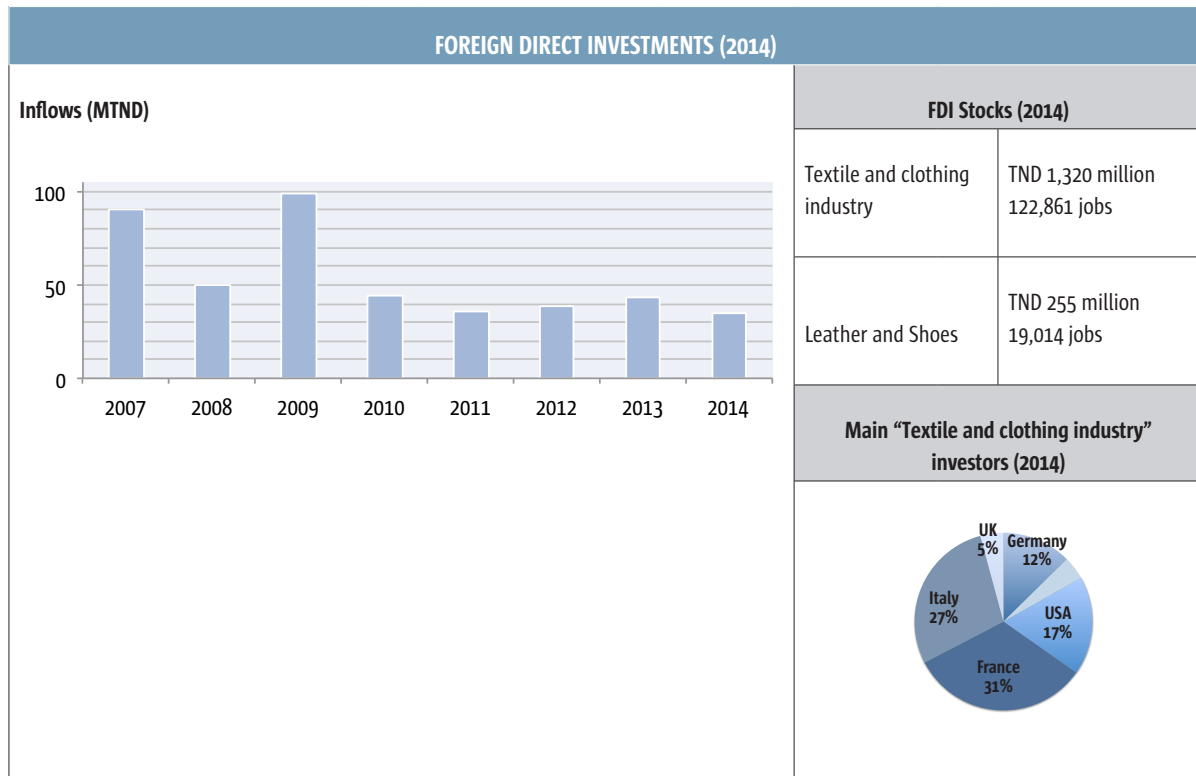
ECONOMIC DATA			
Share in the Tunisian economy	Exportations	MDNT 392	
	Importations	MDNT 419	
Active population/Education	Jobs	9,193	
	Jobs created per year	1,000	
COMPETITIVE POSITION		ACTORS	
Advantages Geographic proximity to Europe, the largest aerospace market in the world, and positive global demand perspectives Higher skills and expertise of the industrial network Integration of the industrial network » GITAS, Mghira aeropole	Obstacles Concentrated industrial network » 70 companies, 95% offshore Requires constant investments in R&D Very few subcontracting Tunisian companies	Number of companies	70
		Offshore share	95%
		Share of foreign-invested companies	100%
		Technology centres University/training centre	Aerospace centre of El Mghira (industrial area of 200 ha: production centres, one training centre) CEMIA (Centre of Excellence for Aerospace Industry Professions)
		Main companies	Aerolia, Aerotech, Zodiac,

Today, the challenge is to reinforce the foundation of the Tunisian aerospace industry and to develop the value chain and activities such as technical activities of plastic components, sheet metal works, software development, 3D modelling.

In this regard, “Tunisia Aeronautic Valley” is a project intending to make of Tunisia a major regional platform of the aerospace industry. As the first experience of the technological centre of Mghira was successful, the authorities are willing to implement this aerospace cluster in order to welcome new actors of the sector, who will benefit from specific advantages. The objective remains the same: developing synergies between actors and favouring economies of scale.

OBSERVATION N°8: The textile industry boasts significant assets that need to be developed

		ECONOMIC DATA		
		 <p>Nombre d'entreprises à participation étrangère Number of foreign-invested enterprises</p> <p>■ 50-100 ■ 10-20 ■ Aucune</p>	<p>Share in the Tunisian economy</p>	Share of GDP
Exportations	MTND 4,916 (25%)			
				
Importations	MDNT 3,603			
Share of gross AV	29%			
<p>Active population/ Education</p>	Production			MDNT 6,337
	Exportations			5th EU supplier
	Exportations			10th global exporter
	Jobs			179,000 (34% of manufacturing jobs)
	Teacher/Student ratio			15%
	Average gross salary	DNT 409		
COMPETITIVE POSITION		ACTORS		
<p>Advantages</p> <p>Geographic proximity to Europe</p> <ul style="list-style-type: none"> » In Europe, 1 piece of clothing out of 3 is "Made in Tunisia" <p>Skilled and competitive human resources</p> <ul style="list-style-type: none"> » 11 training centres for specialised workers <p>Free-trade agreements</p> <ul style="list-style-type: none"> » Agadir Agreements, Association Agreement with the EU 	<p>Obstacles</p> <p>Dependence to the European market in crisis</p> <p>Small-size companies</p> <ul style="list-style-type: none"> » 70% of companies have less than 100 employees <p>Paradoxically, overqualified workforce more expensive</p>	Number of companies	1, 852	
		Offshore share	84%	
		Share of companies with 100% foreign capital	30%	
		Activities	Spinning, weaving, finishing, knitwear, manufacturing	
		Technology centres Trainings	Competitive centre Fejja-Monastir Sectoral training centres: Manouba, La Goulette, Tunis, Bir El Kassâa, Sfax, Monastir, Bembla, Ksar Hellal	
		Main companies	Benetton, Société Essel, INESS Confection, BDS, SARTEX Confection	



Historically, the textile and clothing industry was a key sector of the Tunisian industry. It was one of the first industries to be developed as part of a strategy to promote low-added value exportations with high employability. Today, this industry remains a key sector of the Tunisian manufacturing industry. It accounts for 4% of GDP and 25% of exportations. Besides, it accounts for 29% of gross added value and 34% of manufacturing jobs in the country. It is therefore the first sector of the manufacturing industry in terms of exportations, employment and added value.

This historically significant sector relies on the following comparative advantages:

- i. Its geographic proximity with Europe, favouring a high reactivity when necessary;
- ii. Qualified and competitive human resources thanks to an efficient professional training system (the country offers a large number of engineer and technician specialised trainings, 8 centres of further training and 11 centres of specialised workers training);
- iii. Free-trade agreements favouring exportations (Agadir Agreements, Association Agreement with the EU, free-trade agreement with Turkey).

This last point is all the more so important as the textile and clothing industry is undeniably export-orientated. Totally exporting companies account for 70% of all the companies in the sector. French and Italian companies account for most partnerships with foreign actors. French companies account for 36% of foreign-invested companies (100% or mixed) and Italian ones account for 28%.

Even though it is a strength for the country, it can also make it vulnerable as (i) it increasingly relies on export markets, especially Europe and (ii) competition is increasing, especially with Morocco and Asian countries. The textile industry seems to be losing ground, with a 1% production growth from 2008 to 2012 (from MTNS 6,189 in 2008 to MTND 6,337 in 2012). Besides, exportations dropped from MNTD 5,183 in 2008 to MTND 4,916 in 2012.

Even though it is a historic industry, the textile industry must deal with (i) less competitive labour costs than in Morocco and Asia and (ii) an industrial network made up of small businesses, thus limiting opportunities of economies of scales and synergies. Companies of less than 100 employees account for 70% of all the companies in the sector. Besides, it is interesting to note that most companies that closed after the Revolution were small textile businesses.

In order to stand out, Tunisia must move upmarket in high-added-value niches (top-of-the-range manufacturing, technical textile) to shift towards a co-production dynamic and employ a workforce that is becoming overqualified in relation to companies' needs. To do so, it must develop the value chain upstream (material fabrication) and downstream (logistics). This requires a major recast of companies' strategies, including new models as well as shorter and more specialised production chains. Although some companies are taking advantage of the current crisis to bring about changes, such a dynamic is not generalised yet.

4. MONOGRAPH OF PROMISING SECTORS

OBSERVATION N°9: Renewable energies, an emerging industry for which Tunisia has significant assets

ECONOMIC DATA			ACTORS		
Sectoral indicators	ENR	3% of power generation Objective: 30% in 2030	Activities	Solar panels, wind energy, eco-friendly pellets, energy efficiency	
	Unit consumption	0.78 toe/hab	Technology centres	Borj Cédria technology centre (governorate of Ben Arous) Eco-industry technology centre of Gabès	
COMPETITIVE POSITION			PROJECTS		
<p>Advantages</p> <p>Natural resources: high level of exposure to sunlight and wind farms » Annual average between 1,400 and 1,600 hours</p> <p>Low oil resources</p> <p>Legal framework authorising the self-generation of electricity » law n°2015-12 of 11 May 2015</p> <p>Geographic position to become an energy platform in the heart of the Mediterranean » Opportunities of HV interconnection between Europe and North Africa</p>	<p>Obstacles</p> <p>Scattered industrial network</p> <p>Lack of experience and expertise in some sectors</p>	Wind power	Generated power Exploited surface Operator PST Objective Projects	8 GW 1,600 km ² STEG 100 MW in the private sector, 60 MW for self-production Cement works, phosphate	
		Solar energy	Companies Opportunities PST Objective Projects	500 (PROSOL Programme) Housing solar thermal power, collective and tourist accommodations, air-conditioning 15 MW Nur ENERGIE (2GW), Eco-village of Zarzis	
		Mediterranean projects	MedGrid: Trans-Mediterranean master plan. Elmed: electric interconnection between Tunisia and Italy (1000 MW) TuNur, Desertec: exportation of solar energy		

Since 2000, the Tunisian energy situation has been increasingly deteriorating because energy demand has kept rising while energy resources were stagnating. Indeed, the country highly relies on natural gas (53% of prime energy consumption) while, in spite of the efforts of public authorities, the share of renewable energies in consumption is insignificant.

In 2010, the STEG (Tunisian Company for Electricity and Gas) created a department of Renewable Energy gathering the STEG, industrials, banks and public institutions. The network is opening up to private operators, even though transport and distribution remain the STEG's exclusive right.

The objective of the authorities is clear:

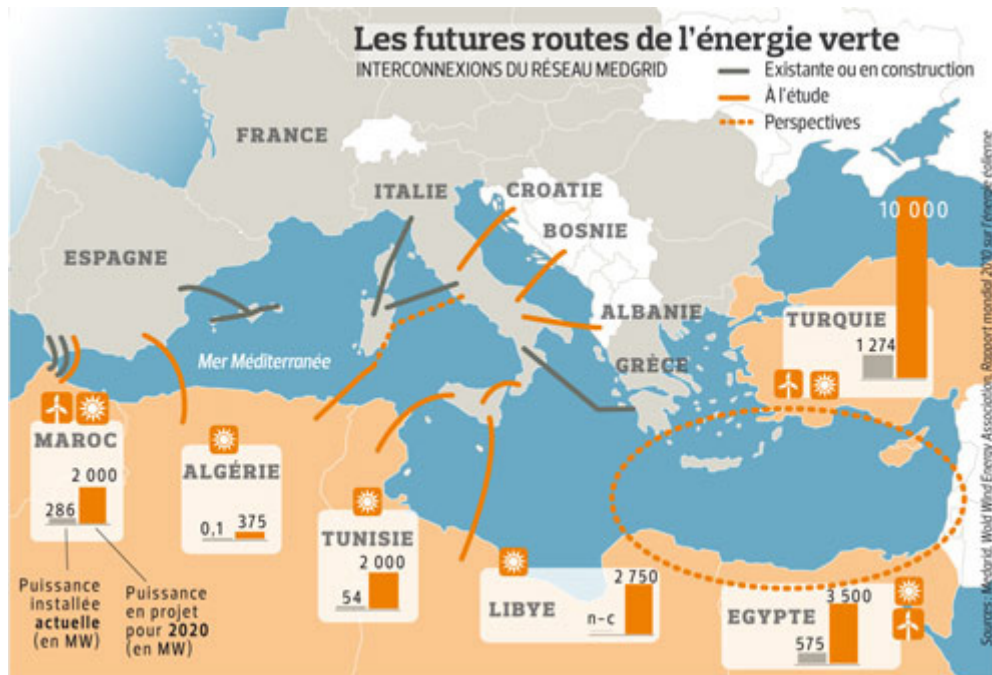
- (i) reducing the country's energy dependence on fossil energies;
- (ii) improving energy supply security;
- (iii) improving the competitiveness of the Tunisian economy by reducing energy costs.

In this regard, several initiatives were implemented such as the law passed in 2006-2007 compelling public buildings to run on solar energy. In 2009, a first law authorised independent power generation from renewable energies for establishments of the primary, secondary and tertiary sectors. It also grants them the right to sell their extra power to the STEG, to the extent of 30% of power generated. Finally, the three-year plan (2005-2007) and four-year plan (2008-2011) intended to boost the development of renewable energies in Tunisia via significant investments.

Tunisia's objective is now ambitious: by 2030, 30% of national power generation will have to come from renewable energies (3,700 MW). Although these initiatives were gradually promoted by the public sector, the private sector is expected to be the main actor of this energy transition.

In this regard, Tunisia, which voted on 11 May 2015 its 3rd law on power generation from renewable energies, broadened the self-generation status to local authorities, state-owned companies and private businesses, with the possibility to sell the excess power to the STEG (to a certain extent). Besides, the country allows the exportation of power, especially towards Europe (MedGrid).

Map 4. Interconnections of the MEDGRID network

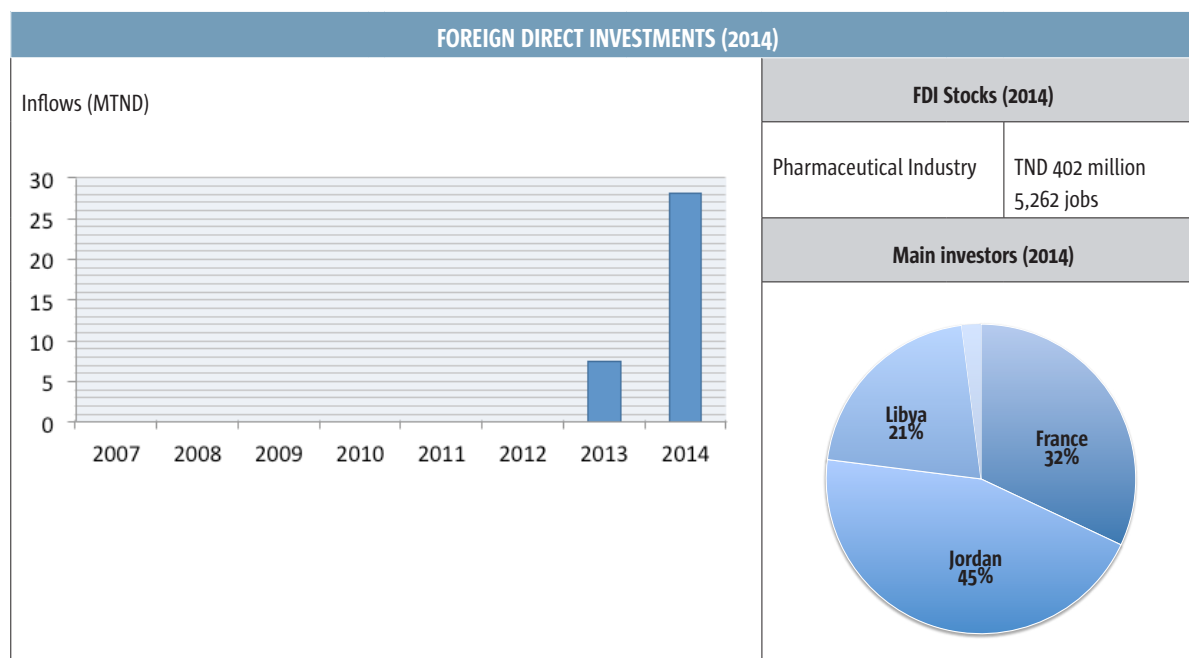


SOURCE: WORLD WIND ASSOCIATION - GLOBAL WIND REPORT 2010

Therefore, in Tunisia, an increasing number of businesses are created in the energy field, both by Tunisian and foreign investors.

OBSERVATION N°10: Health and pharmaceutical industry, a promising sector

<p>Number of foreign-invested enterprises</p> <ul style="list-style-type: none"> >100 50-100 20-50 10-20 1-10 Aucune 	ECONOMIC DATA		
	Share in the Tunisian economy	Share of GDP	7.5%
		Exportations	
		<ul style="list-style-type: none"> Maghreb Europ Sub-Saharan Africa 	
		Importation	MTND 831 (16%)
	Sectoral indicators	Production	MDNT 420
		Needs in medicines	47% in value and 65% in volume covered by local production
		Generic medicines	49% of local production
	Active population/ Education	Graduates per year	6,000 of which 1,500 PhD
		Jobs	8,327
Jobs created per year		1,000	
Teacher/student ratio		48 %	
COMPETITIVE POSITION		ACTORS	
Advantages	Obstacles	Number of production units	
<p>A sophisticated sector</p> <ul style="list-style-type: none"> » Best healthcare infrastructures in the region and skilled workforce <p>Favourable geographic location</p> <ul style="list-style-type: none"> » Between an ageing European population and a rising African middle class <p>Market not saturated yet</p> <ul style="list-style-type: none"> » Local production only covers 47% of Tunisian needs in pharmaceuticals 	<p>Logistics</p> <ul style="list-style-type: none"> » National distribution and expensive airfreight, not adapted to exportation <p>Equalisation of prices by the Central Bank</p> <ul style="list-style-type: none"> » Imported pharmaceuticals have a posted price 30 to 40% cheaper than their real price <p>Long certification and homologation procedures</p>	<p>56 (28 medicinal products for human use, 6 for veterinary use and 22 pharmaceutical devices)</p>	
		Offshore companies	
		12 (21%)	
		Foreign-invested companies	
		27 (48%)	
		Companies with 100% foreign capital	
		14 (25%)	
		Technology centres/Training	
		Sidi Thabet Biotech Centre Sidi Thabet Superior Institute of Biotechnologies (ISBST)	



In Tunisia, the health and pharmaceutical sectors are young and promising. In spite of a limited production in value (MTND 420), they have increased by 10 to 15% over the last few years. The number of industrial units rose from 27 in 1999 to nearly 60 in 2011 and the turnover of locally produced medicines rose from MTND 125 in 2000 to MTND 425 in 2010.

With a network of 50 production units, Tunisia has some of the best healthcare infrastructures in the region, as well as a competitive and skilled workforce, both in terms of medicine and pharmacy graduates and technicians. The Sidi Thabet Superior Institute of Biotechnologies (ISBST), established on the Biotech Centre of Sidi Thabet (governorate of Ariana) is a great example.

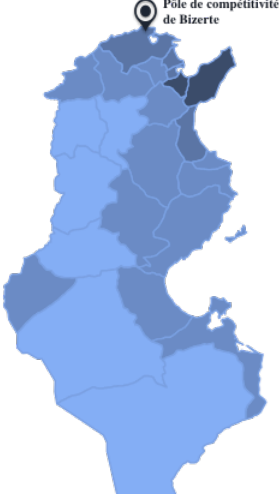
Thus, Tunisia is the first healthcare destination in the Africa/Middle East region, with 376,000 foreign patients in 2013. Besides, the exportation of healthcare services was multiplied by 7 over the last 10 years. Indeed, the geographic proximity with the ageing European market on the one hand and the growing African market on the other hand, are assets for Tunisia as a regional hub, especially for the fabrication of pharmaceuticals and vaccines.

Driven by strong prospects of demand growth, a large number of small actors are entering the pharmaceutical industry market, developing illegal marketing practices and triggering a tough battle for market shares. Apart from this recent phenomenon, the industry mainly suffers from:

- (i) little competitive logistics. The costs of maritime transport are very high and Tunisair (the Tunisian airlines company) does not have the adequate air fleet to export pharmaceuticals;
- (i) unfair competition with the local industry due to the equalisation of the price of medicines by the Central Bank. Any imported pharmaceutical is submitted to the homologation of the adjusted price, generally 30 to 40% lower than the real price.

However, as local production only covers 47% of Tunisia's needs in medicines, opportunities exist and could be exploited if (i) the pharmaceuticals pricing policy was more adapted, (ii) Marketing Authorisation homologation procedures (AMM) were simplified and (iii) research and development kept a sustained rhythm.

OBSERVATION N°11: The agri-food industry features promising perspectives requiring a structural transformation of the sector

		ECONOMIC DATA	
 <p>Number of foreign-invested enterprises</p> <ul style="list-style-type: none"> >100 20-50 1-10 50-100 10-20 Aucune 	Share in the Tunisian economy	Share of GDP	3%
		Exportations	MTND 2,065 (22%) of which 48% of olive oil, 17% of dates and 12% of seafood Main destinations: Italy, France, Spain, Libya. New markets: USA, Canada, Russia, Africa
		Importations	MDNT 3,156
		Sector AV	20%
		Production	MDNT 10,666
Sectoral indicators	Olive oil	28% of companies	
	Cereals and by-products	22% of companies	
	Organic products	2th African exporter 24th global exporter 8th certified organic country on the EU market	
Active population/ Education	Jobs	71,241 (14% of manufacturing jobs)	
	Totally exporting jobs	17,195 (24% of manufacturing jobs)	
	Average net salary	522 DNT	

COMPETITIVE POSITION		ACTORS																																
<p>Advantages</p> <p>Proximity of great consumer markets (EU and Arab world)</p> <p>Skilled and competitive human resources</p> <p>» Training, 450 engineers and 770 skilled technicians</p> <p>Significant incentives</p> <p>» Investment premiums</p>	<p>Obstacles</p> <p>Liberalisation of the sector not completed yet</p> <p>» For instance, the price of milk is subsidised by the State at DTND 1.120 a litre</p> <p>Logistics: absence of a central purchasing body</p> <p>» Retail distribution while 80% of selling points are retail shops</p>	<p>Number of companies</p> <p>3%</p>																																
		<p>Offshore companies</p> <p>201 (19%)</p>																																
		<p>Foreign-invested companies</p> <p>115 (11%)</p>																																
		<p>Companies with 100% foreign capital</p> <p>29 (3%)</p>																																
		<p>Activities</p> <p>Oils and fatty substances, cereals, canned foods, milk industry, sugar industry, beverage industry, meat industry</p>																																
		<p>Technology centres Trainings</p>	<p>Bizerte competitive cluster</p>																															
		<p>Companies listed on the Tunis Stock Exchange</p>	<p>Delice Holding, Elbene Industrie, Magasin Général, Land'Or, Poulina GP Holding</p>																															
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<p>Inflows (MTND)</p> <table border="1"> <caption>FDI Inflows (MTND) 2007-2014</caption> <thead> <tr> <th>Year</th> <th>Agricole</th> <th>Agro-alimentaire</th> </tr> </thead> <tbody> <tr><td>2007</td><td>~10</td><td>~40</td></tr> <tr><td>2008</td><td>~20</td><td>~15</td></tr> <tr><td>2009</td><td>~20</td><td>~25</td></tr> <tr><td>2010</td><td>~5</td><td>~60</td></tr> <tr><td>2011</td><td>~5</td><td>~20</td></tr> <tr><td>2012</td><td>~10</td><td>~25</td></tr> <tr><td>2013</td><td>~15</td><td>~35</td></tr> <tr><td>2014</td><td>~15</td><td>~60</td></tr> </tbody> </table>	Year	Agricole	Agro-alimentaire	2007	~10	~40	2008	~20	~15	2009	~20	~25	2010	~5	~60	2011	~5	~20	2012	~10	~25	2013	~15	~35	2014	~15	~60	<p>FDI Stocks (2014)</p> <table border="1"> <tbody> <tr> <td>Agriculture</td> <td>TND 183 million 2,699 jobs</td> </tr> <tr> <td>Agri-food industry</td> <td>TND 544 million 14,315 jobs</td> </tr> </tbody> </table>			Agriculture	TND 183 million 2,699 jobs	Agri-food industry	TND 544 million 14,315 jobs
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In Tunisia, Agri-Food industries are considered as a promising sector with perspectives that have not yet been completely developed and exploited. Mostly driven by the olive industry (olive oil in particular) and the grain industry, the production value of the sector rose by 6% per year in average from 2008 to 2012. The growth rate of exportations in the sector also increased by 10% over the same period. Likewise, FDI have significantly increased since 2011.

This accelerated growth can be explained by the increased household purchasing power, along with a change in consumption habits that shifted towards industrialised products, as well as the rise in exportations of processed products. Besides, the sector benefits from undeniable advantages such as (i) proximity with great consumer markets (mostly Europe), short travelling times enabling the exportation of fresh products; (ii) a climate favourable to specific cultures; (iii) skilled and competitive human resources and (iv) incentives via investment premiums.

Generally speaking, and in particular in 2012, importations (MTND 3,156) exceeded exportations (MTND 2,065) and the industrial capacity was not fully used. Indeed, the sector comprises many SMBs struggling to generate synergies among one another and to benefit from economies of scale, which prevents them from developing their production at full capacity. However, some companies are increasingly innovating, as a result of synergies between agricultural farmers, agri-food industries and research centres. Nevertheless, this dynamic only concerns the major actors of the sector.

Today, for Tunisian agri-food industries, the challenge is to (i) develop high-added-value quality products, while (ii) offering specific products with Tunisian labels and (iii) to develop exportations. In this regard, the country reinforced its skills in organic farming with a growing production.

These objectives will be reached only if initiatives and reforms are implemented. This is why the progressive liberalisation of trade of inputs and finished products seems necessary to develop exportations. Tunisia also considers increasing and diversifying the agri-food production to increase the use of the industrial capacity, while modernising and restructuring the sector via the development of new technologies. It will be important to highlight quality, traceability and certifications. Finally, it is necessary to master the interface between agriculture and the agri-food industry in order to benefit from the strengths of the Tunisian agricultural sector.

5. PUBLIC STRATEGIES AND SUPPORT MECHANISMS

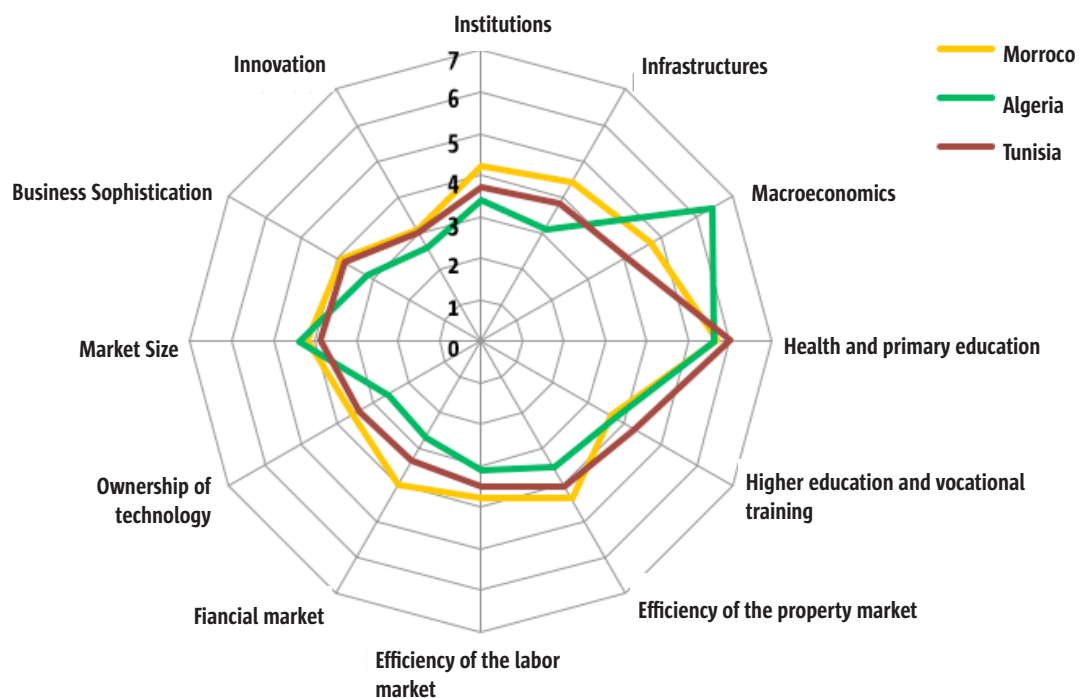
OBSERVATION N°12: Competitiveness factors are favourable to co-production, however the strategy needs to be clarified and implemented harmoniously

Competitive advantages of Tunisia in North Africa:

Health
Primary education
Higher education
Further training

Generally speaking, like most SEMC⁵, Tunisia benefits from an environment favourable to the development of a large co-production movement⁵. However, the current political climate and the absence of a clear or clearly committed strategic vision (especially differentiation/specialisation) are detrimental to the country and expose it to direct and growing competition with other SEMC.

Graph 14. Competitive advantages of Tunisia in North Africa



Generally speaking, among North African countries, Tunisia stands out thanks to a better competitiveness in terms of skilled human resources. This makes up for a relative backwardness in relation to Morocco regarding basic conditions (financial markets, goods market, labour market, institutions, infrastructures). Algeria is lagging behind in all categories, except for its market size and macro-economic environment.

⁵ Fleury M., Payet JP. *Dynamique des investissements dans les pays riverains de la Méditerranée : situation macroéconomique* [Investment dynamics in Mediterranean countries - Macroeconomic situation], IPEMED, June 2015

In Tunisia, a better commercial integration and efforts in terms of clusterisation and co-production could quickly generate competitive advantages on more specific categories that are currently at a standstill (innovation, business sophistication, technology appropriation and market size).

As regards sectorial competitiveness, it is necessary to take advantage of the opportunities identified in niches or sectors where other SEMC are less committed or absent, in order to create complementarities and/or differentiate and diversify flagship productions. For now, without a strong sectorial policy and/or clear and consistent priorities, it is difficult for investors to position themselves on promising Tunisian niches.

At the national scale, the success of these long-term strategies will depend on the harmonious development of regions according to their own capacities and resources. Increasing inequalities that create dual economies hinder sustainable growth. In this regard, Tunisia seems to focus opportunities in coastal regions, at the expense of interior regions.

At the regional level, partnership synergies and competitive advantages encourage companies to turn to Africa, via a vertical regional integration. Some European companies have already made of Tunisia their privileged partner to position themselves in Sub-Saharan Africa, mostly in the ICT sector. By developing agreements and ensuring that its industry moves upmarket, Tunisia can highlight its strategic location and become a major hub for European companies. Indeed, this strategic position would not only come from geographic location, but also from the competitiveness of human and technical resources, as well as the market knowledge. The creation of the “Tunisia Africa Business Council” on 16 October 2015, a business council aiming at reinforcing the economic collaboration between Tunisia and the African continent, will enable, if it is active, to broaden the Tunisian market and make it more attractive.

Conquering the African market

Historically, Tunisia has long been present in Sub-Saharan Africa, although this presence remains limited. Indeed, Tunisian public banks have been acquiring holdings in the West African banking sector since the 1960's, thus generating traditional commercial operations on the Sub-Saharan African export market. However, these exchanges comprise very little productive investments, be it in the manufacturing or tertiary sector.

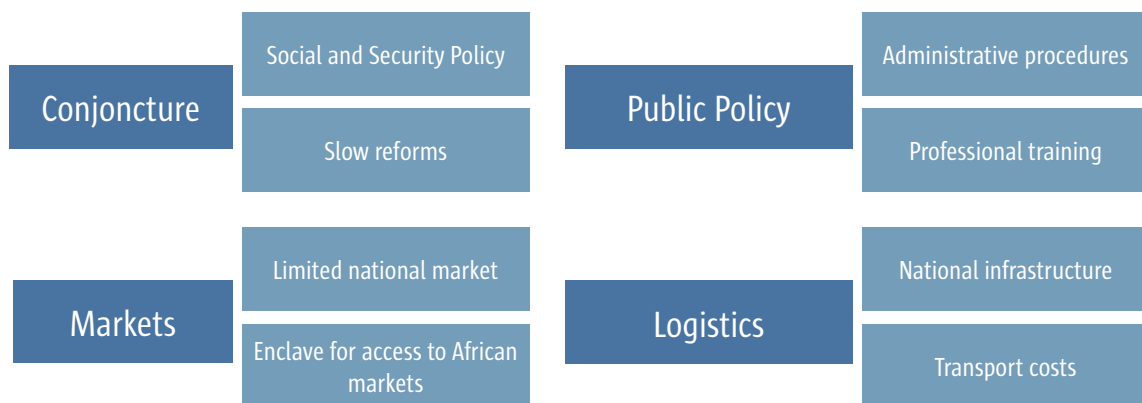
Currently, Tunisian investments on the African continent are increasing, driven by (i) the deployment of the banking private sector (Attirajiwafa Bank, Tunisie Leasing) and (ii) the ICT sector. Interestingly, this dynamic results in an increase in Tunisian expatriations, at all levels of qualifications.

OBSERVATION N°13: Structural constraints remain

As Tunisia has always been open and has promoted exportations via sub-contracting and co-contracting, the country benefits from a strong industrial foundation favourable to the development of quality co-production. This rise in the range is also made possible thanks to the existence of cutting-edge companies in each key sector.

The issue is to go beyond the classic model of exporting companies by adopting a greater integration of value chains (by locating more production steps in Tunisia and by integrating new markets via the diversification of exportations). Even though Tunisia is already moving upmarket (and evolving from a low-cost dynamic to a “better industrial cost” dynamic), major obstacles must still be overcome.

Graph 15. Obstacles to the development of FDI and co-production



The first major obstacle to increased foreign investments and to the development of co-production remains, for most of the concerned actors, political uncertainties, along with their social, security and economic consequences. The Revolution of 14 January 2011 gave hope to Tunisian people, who are still waiting for practical changes. As the political situation stabilised, the country must now face (i) social movements discouraging investors and (ii) growing security threats undermining the image and action of the current government. Finally, (iii) promising reforms that have yet to be implemented can also discourage or delay potential projects.

In order to address the most problematic obstacles to co-production, reforms should be implemented to tackle the complexity and **number of administrative procedures on the one hand, and the incompatibility between further training and economic needs on the other hand**. Administrative procedures remain long and complex, especially procedures regarding licensing in certain fields or currency transfer abroad/profit repatriation. Private actors want to avoid dealing with public authorities as much as possible.

As for higher education, it remains complex as there is often a gap between graduates and the needs of the labour market, which generates a frictional unemployment the country is struggling to overcome. Tunisian youngsters tend to be trained to jobs with little opportunities, whereas SMBs and investors in many sectors struggle to find skilled workers.

Besides, some factors hinder co-production opportunities. Firstly, **the national market is limited**, especially in relation to the other countries of the sub-region, and investors must exclusively turn to exporting activities. Yet, starting a co-production process is easier when part of the production can be sold on the local market rather than entirely exported (ex: automotive production). Nevertheless, Tunisia could be a gateway or a front base toward the African market, in spite of its enclave location between Algeria and Libya.

Besides, investors can be hesitant as equipment and logistic costs do not necessarily make up for the drawbacks. **National infrastructures remain fragile**. The port of Radès, which gathers 90% of Tunisian commercial activities, is often the object of blockings and extremely long waiting times that the companies involved cannot put up with.

Secondly, as railway transport is exclusively used for passenger and phosphate transport, **domestic networks for goods distribution are limited** to road freight. Therefore, transport costs are not competitive enough to make up for a restricted national market and a difficult access to the African continent.

Although these obstacles remain, the current public policies and reforms presented below show that public authorities are trying to find solutions.

OBSERVATION N°14: Political policies presage an ecosystem more favourable to co-production

Since the Revolution, Tunisia has undertaken political and economic reforms that are taking time to be implemented, which results in a rather slow investment rhythm.

The reforms regarding business environment and investments fall into two categories: reforms of the legislative corpus and structural reforms to support economic development and attract investments.

Administrative reforms

Today, while the new Tunisian Investment Code is currently under discussion, foreign investments in Tunisia are determined by the Investment Incentives Code adopted in 1993.

Even though the Tunisian legislation regarding foreign investments is rather flexible, it still has limits that the new Code intends to overcome.

Foreign investment incentive treatments

The Law 72-38 of 1972 includes exemption from custom duties for importations and exportations of offshore companies. This law thus created a free-point regime, granting companies the same advantages as traditional free zones, with no particular territorial delimitation.

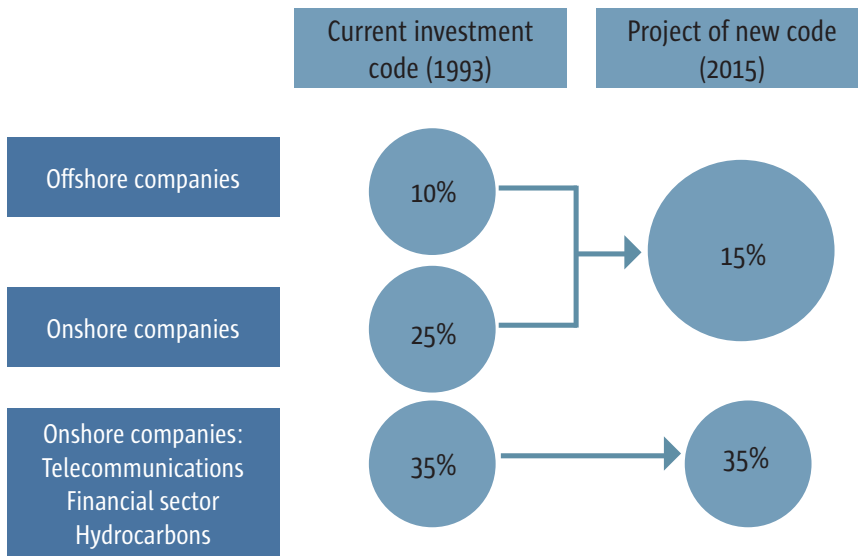
Besides, tax incentives also exist. Offshore companies benefit from tax exemption on corporate benefits for the first ten years, and then from a prime tax rate of 10% (the “normal” rate being of 25%) from the eleventh year of activity.

With the Law on Export Promotion of 1972, the Law on the Industrial Investment Code of 1987 and the Investment Incentives Code of 1993, Tunisia is open to foreign investments, although these are limited to certain sectors. If they export their whole inputs, foreign investors can hold up to 100% of the registered capital with no prior authorisation. However, this privileged treatment only concerns some manufacturing sectors, as well as tourism and services in relation to the industry. Other sectors require the authorisation of the Higher Investment Council.

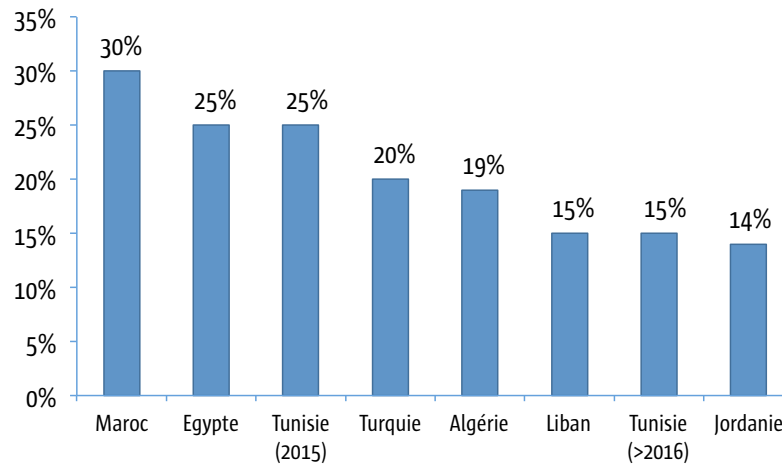
New (future) Investment Code: One of the main features of the future Code will be to extend the freedom of investment to most industries, by suppressing the authorization of the Higher Investment Council (as well as the other authorisations of the Code, and by integrating them in sectoral laws and specifications).

Besides, in order to simplify the tax system, the new Code intends to adopt a new unique corporation tax rate of 15%, which will result in a higher tax rate for offshore companies and a lower tax rate for onshore companies. This reform would enable Tunisia to have a competitive position in the sub-region, with one of the lowest corporation tax rates.

Graph 16. Tax rate by type of company



Graph 17. Tax rate on corporate profits



Note: In Morocco, companies benefit from a tax exemption on profits generated by export over 5 years

Finally, the reform of the Investment Code intends to ensure a better promotion of the country in order to improve the image of Tunisia in a complex context.

Customs reform: in addition, a customs reform is crucial to economic activities, especially exportation. Indeed, customs clearance can be extremely long and harm commercial activities. Therefore, the new project of Customs Code has two main objectives: (i) accelerating and simplifying formalities, and (ii) reducing goods loading and unloading times. Nevertheless, this reform is subject to significant social pressure.

Territorial reform: A territorial reform was enacted in the new Constitution of 26 January 2014. It specifically concerns:

- power decentralisation (skill transfer between the State and regions)
- decentralisation of public administration (financial autonomy of territorial communities)

This major progress helped recast local taxation, by simplifying and modernising it, and restore territorial balance.

Indeed, the objective is to create more homogeneous territories by relying on real economic and employment basins. The new regions should be in line with the realities on the ground, in their analysis of the means, especially economic and social infrastructures, and in their capacity to federate public and private (Tunisian and international) investors, via PPP for instance. Besides, it is necessary for citizens and the civil society to collaborate, via clear and transparent procedures, when it comes to decision making as well as economic, social and environmental choices.

Eventually, these changes will improve the quality of regional public services and reinforce their presence in the most remote provinces, just like skills development for elected people and civil servants. Thus, the economic efficiency of all territories will be improved, as well as long-term growth factors, through the reduction of development gaps.

Financial reforms

Convertibility and currency transfer: As regards currency transfer abroad, the new Code provides a response time of 15 days maximum from the Central Bank. Beyond this time period, the decision will be considered as favourable. The objective of this provision is to overcome one of the main obstacles facing investors. Today, only transfers for regular operations, gain on sale or assets' liquidity can be made freely. Other transfer operations require the authorisation of the Central Bank.

PPP: another major measure of the government will be the development of Public-Private Partnerships, as at least 4 of the 22 priority projects presented during the conference "Investing in Tunisia" are PPP⁶. The bill would enable the introduction of any form of PPP (public market, public service delegation, partnership agreement). However, it remains the object of significant debates as the State fears to lose sovereignty in the allocation of public service. Adopted by the Finance, Planning and Development Commission of the Assembly on 20 October 2015, this project should be adopted before the end of 2015. Today, PPP are allowed only in the digital sector (2008 legislation).

Banking sector: The banking sector, characterised by the presence of many public banks, should also be reorganised in order to better meet the financing needs of local economic actors. Let us mention here the opportunity for the Deposit and Consignment Office to make complementary investments in productive sectors favouring job creation.

6 (1) Deepwater port of Enfidha ; (2) Logistic zone of Radès ; (3) Organisation and development of TAPARURA ; (4) Organisation and development of the banks of the lagoon SEBKHAT DE BEN GHAYADHA

Co-production is also an alternative to the inadequacy of the banking sector, such as difficulties in accessing credit, lack of guaranties, lack of information/absence of a central credit register. In addition to the insufficient credit activities of the banking sector, Tunisia suffers from a lack of liquidity in financial markets that do not boost the private sector as it should. Companies remain close to banks, which also manage most stock brokers.

This is why co-production could be an alternative solution:

- Foreign investors hold assets that do not exist locally and can therefore replace the system of banking loans.
- In North Africa, co-production is particularly developed in terms of financial services. Moroccan banks bring funds and a dynamism that could benefit many a beneficiary.

Although the reforms of the business climate and the financial sector will attract international companies, Tunisia does not completely address the issues of **diaspora investors**, which are essential in periods of crisis.

Indeed, funds transfers from Tunisian emigrants are twice superior to FDI (\$2.3 billion of transfers in 2014 against \$1.6 billion of FDI) and often turn out to be counter-cyclical (they increase in a time of crisis). Besides, investments from the diaspora are generally motivated by extra-economic reasons; therefore, they are not submitted to the same constraints as traditional investors.

Therefore, there is no cross-country arbitrage and material considerations (funding, easy remote administrative processes and cost of fund transfer for instance) make up for on-site difficulties.

Even though Tunisia cancelled the exclusivity clause reinforcing competition between transfer operators, it did not completely catch up with other North African countries. In Morocco for instance, banking services are quite developed (Moroccan banks easily acknowledge bank histories acquired abroad), specific administrative services are dedicated to expatriates to answer their specific questions and several entrepreneurship programmes and financing facilities for distance-investments or a project to return have been implemented.

Even though they are now a minority among funds transfers, if they are well oriented and promoted, the productive investments of the Tunisian diaspora could become a stabilisation factor in times of crisis via direct investments as well as an indirect tool to finance the economy (investment fund supplied by the savings of the diaspora for instance).

Reforms regarding training and infrastructures

Although reforms regarding the legal framework of foreign investments are crucial, investors are more attracted by structural aspects of the Tunisian economy, such as (i) workforce level of expertise and (ii) the development of infrastructures and clusters.

Further training: In spite of the hopes generated by the Revolution of 2011, employment and further training remain a major national issue as the country still faces high unemployment, especially in young people. The high unemployment rate is mostly due to the incompatibility of trainings with the needs of the labour market. A large number of young graduates are over-qualified while Tunisia has not moved upmarket as expected.

Thus, in order to level qualifications with the labour market, the government launched a reform programme of the professional training national device including in particular:

- (i) Upgrading of the professional sector, by improving links among establishments, and improving life and training conditions in the concerned establishments, in addition to a large communication scheme;
- (ii) Prior identification of the labour market needs. The devices and methods to be used have not been defined yet;
- (iii) Increase in international training partnerships in order for the workforce to be qualified according to international standards and capable to meet the needs of international markets;
- (iv) New financing model enabling private funding.

It is essential to implement this device in order to attract national and foreign investors.

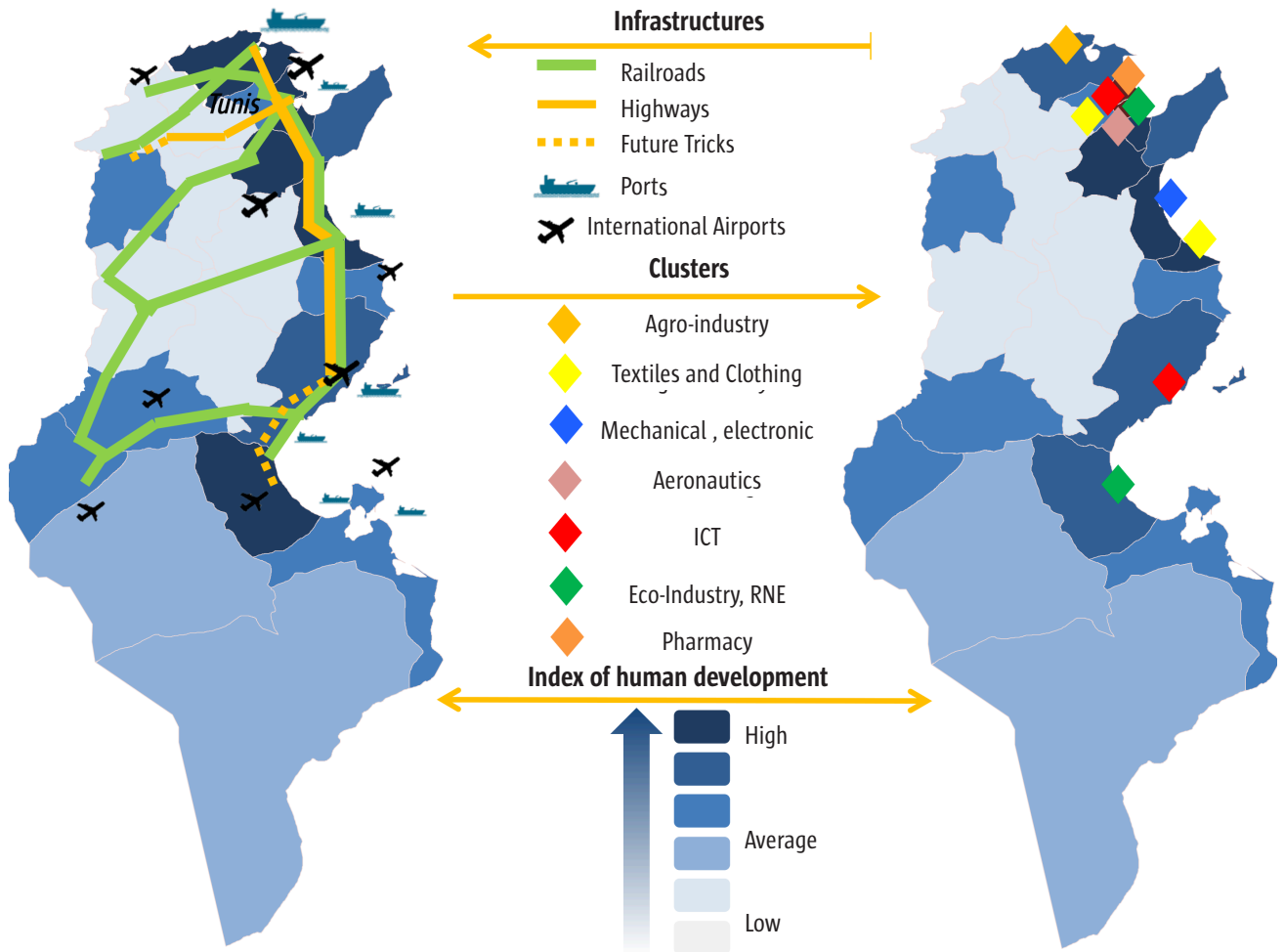
Infrastructures: Developing infrastructures, and especially clusters, is also crucial to attract foreign investors and solve territorial inequalities. In order to address the current deficiencies, the government is launching a certain number of projects that are limited by (i) financing difficulties and (ii) the absence of a law on public-private partnerships.

The port of Radès accounts for 90% of the country's goods transport and is often the object of social pressure. Tunisia must urgently diversify its port accesses, the other two main ports in the country being Sousse and Sfax. The expansion of the port of Radès and the construction of a deepwater port in Enfidha are underway. At the same time, projects to build logistics and economic zones are being launched under the form of PPP in Radès and Enfidha. In case of significant delays, airports can be used on an exceptional basis, but this always involves high costs. The main Tunisian airports for goods transport are Tunis-Carthage, Djerba, Monastir and Enfidha. The country does not have any railway network adapted to goods transport, except for phosphate. Besides, the government is carrying out a 4-year plan (2016-2019) to develop high speed Internet in the whole country.

Clusters and technology centres⁷: Conversely, over the last few years the development of clusters and technology centres has been quite dynamic, boosted by (i) high-growth sectors like ICT and aeronautics and (ii) the actions of private actors. These clusters mostly focus on one sector by taking into account the training centres and universities existing nearby, as well as the specificities of each region.

⁷ See also: Pommier P. "Clusters au Maghreb, vers un modèle de cluster maghrébin spécifique" [Clusters in North Africa, towards a specific North African cluster model], IPAMED, 2014

Map 5. Regional development discrepancies, infrastructure and cluster network



Note: For now, railways are exclusively dedicated to passenger and phosphate transport

These projects show the will of the government to focus on regional development and the balance between coastal regions, main receivers of foreign investments, and interior regions.

APPENDICES

OPALIA PHARMA – RECORDATI: TUNISIA AS A REGIONAL BASE

Opalia Pharma is a pharmaceutical company created in Tunisia in 1988 in view of developing a production unit of antiseptic products as well as a production activity of generic medicines. Opalia Pharma remained in the hands of its two Tunisian associates for a long time. Then, in 2010, the latter sold 33% of the company's capital to the investment fund Abraaz. Three years later, in 2013, the Italian group RECORDATI, listed on the Milan stock exchange, bought 90% of the shares of Opalia Pharma, the social capital of which increased from DNT 45,000 in 1988 to DNT 8 million in 2013.

YEAR OF ESTABLISHMENT	1988. Purchase of 90% of the capital by the group Recordati in 2013.
GLOBAL TURNOVER (2014)	€987.4 million
TURNOVER IN TUNISIA (2014)	€50 million (5%)
GLOBAL HEADCOUNT	4,000
TUNISIAN HEADCOUNT	400 (10%)
OTHER HOST COUNTRIES	Italy, Turkey, France, Spain, Germany (and Luxembourg, Portugal, Brazil, United States, Ireland, Switzerland, United Kingdom, Greece, United Arab Emirates, Belgium, Czech Republic, Slovakia, Russia, Poland, Ukraine, Mexico)
FOREIGN CAPITAL	90%

Opalia Pharma is the 4th company for the production and marketing of generic medicines in Tunisia. Since the pharmaceutical market is quite fragmented, Opalia holds 5% of the Tunisian market shares and relies on one production plant established in Kalaat al-Andalus (Ariana governorate). Opalia Pharma progressively turned to exportation. Today, exportation accounts for 18% of its sales and is mostly destined to the Middle-East and Franco-phone Western Africa.

Opalia Pharma as a strategic regional base of the group Recordati

Even though Opalia Pharma did not have a major position on the Tunisian market, the company had a strong position as well as promising regional perspectives. What the Italian group Recordati was trying to achieve through this acquisition was clear: developing a logistic platform in North Africa and the Middle East, as the group was only present on these markets from Turkey. As for Opalia Pharma, the company is willing to take advantage of this partnership to internationalise its activities and raise its exportations up to 30% of sales over the next few years.

Thus, Recordati and Opalia Pharma cooperate in a co-production approach that takes different forms. The main aspect of this win-win partnership is the investment of Recordati in the human resources of Opalia

Pharma. On the one hand, Recordati invests in a deep skill and expertise transfer in many fields: technical (production of new pharmaceuticals, including brand medicines), management (management budgetary techniques) as well as marketing (medical strategy). On the other hand, Recordati focuses on the development of career plans and on the internationalisation of Tunisian teams.

Recordati also makes greenfield investments, such as the investment of €7 million made since 2013, dedicated to the expansion of a plant to produce in-house what used to be sub-contracted. The two entities also intend to develop research and development activities in Tunisia for the benefit of Opalia Pharma but also for the group Recordati, at the international scale.

However, this investment was not achieved without difficulties. The first obstacle concerned the administrative procedures during the acquisition. Six months were necessary to get the permission of the Higher Investment Council (CSI). Besides, the company development is slightly below expectations, especially in terms of job creation. This is due to (i) the Tunisian pharmaceutical market, which is quite fragmented and extremely competitive and (ii) to the sector regulations demanding a two-to-three-year period to get export certifications and authorisations.

Thanks to the purchase of 90% of Opalia Pharma's shares, the group Recordati strengthens the former by creating jobs, investing in new activities and human resources and by acquiring new certifications for the site. At the same time, the group Recordati benefits from new market opportunities and is currently developing export channels at the regional scale.

MISFAT – SOLAUFIL: AN UNUSUAL EXAMPLE OF SUCCESSFUL NORTH-SOUTH COPRODUCTION

“This is the story of a Tunisian SMB which was struggling to internationalise and managed to do so via the acquisition of a French SMB. This is also the story of a French SMB which could no longer thrive in a competitive international environment and adopted a competitive cost structure by collaborating with a Tunisian company. The result was the creation of wealth and employment on both shores of the Mediterranean.”

Amin BEN AYED, General Director, Misfat Group

Created in 1979, Misfat is currently the Tunisian leader for car filters, achieving about 80% of its turnover in Europe.

The Tunisian company is an example of South-North coproduction: the company succeeded in entering and progressively establishing itself on European markets, especially via the acquisition of the French company Solaufil.

Solaufil is a French family business founded in 1960 and specialising in the production of car air filters. In 1994, the automotive supplier Mecaplast acquired Solaufil and in 2001, it took over 15% of Misfat in order to diversify the range of car filters developed by Solaufil. In 2009, as Solaufil presented internal difficulties, Misfat decided to acquire the whole company as Mecaplast had disposed of all its shares in Misfat.

YEAR OF ESTABLISHMENT	Acquisition of Solaufil by Misfat in 2009
GLOBAL TURNOVER (2014)	€60 million
TURNOVER IN FRANCE (2014)	€33 million, of which €24 realised by Solaufil. €16 million of turnover in France, the rest in exportations.
GLOBAL HEADCOUNT	1,000
TUNISIAN HEADCOUNT	850 (85%)
FRENCH HEADCOUNT	100 (10%)
OTHER HOST COUNTRIES	Morocco, Spain, Portugal, Poland
FOREIGN CAPITAL	100%

Misfat’s objectives were clear: (i) breaking away from the subcontracting situation in which the company found itself in Tunisia, (ii) taking advantage of the famous brands distributed by Solaufil (Lautrette and Mecafilter), (iii) using the logistics and distribution channels of Solaufil in Europe and (iv) completing Misfat’s range of products with Solaufil air filters.

Following this acquisition, Misfat did not express any intention of relocating Solaufil’s production in Tunisia or Morocco. On the contrary, its managers reorganised the company by dividing the tasks according to the comparative and technological advantages of each site.

Thus, Tunisia hosts a production plant based in Jedaida (Ariana governorate) as well as research and development centres.

850 people are employed in Tunisia, 85% of Misfat total staff, covering all qualification levels. This way, Misfat benefits from a skilled workforce in Tunisia - from workers to engineers - at a competitive cost.

On the other side of the Mediterranean, Solaufil employs around one hundred people. Instead of being made redundant, employees were progressively directed towards higher added-value positions. The company also made significant technical and technological investments. This successful strategy aimed at making costs in France more profitable by improving the site's productivity.

In this regard, Misfat deployed 15 automated lines in Tunisia against 5 in France. The company develops large product ranges with significant economies of scale in France and smaller and more costly product ranges in terms of marginal costs in Tunisia. Thanks to this production flexibility, Misfat can work with both small-scale and large-scale markets, which shows the complementarity of the value chain.

Misfat's strategy is profitable both in terms of turnover and activities as well as employment. Since 2009, the production volume doubled, in France and elsewhere. The number of employees increased from 81 in 2009 to 92 in 2014 in Solaufil, and from 650 to 900 in Misfat. Solaufil's turnover increased from €23 million to €23.7 million; that of Misfat rose from €18 to €27 million.

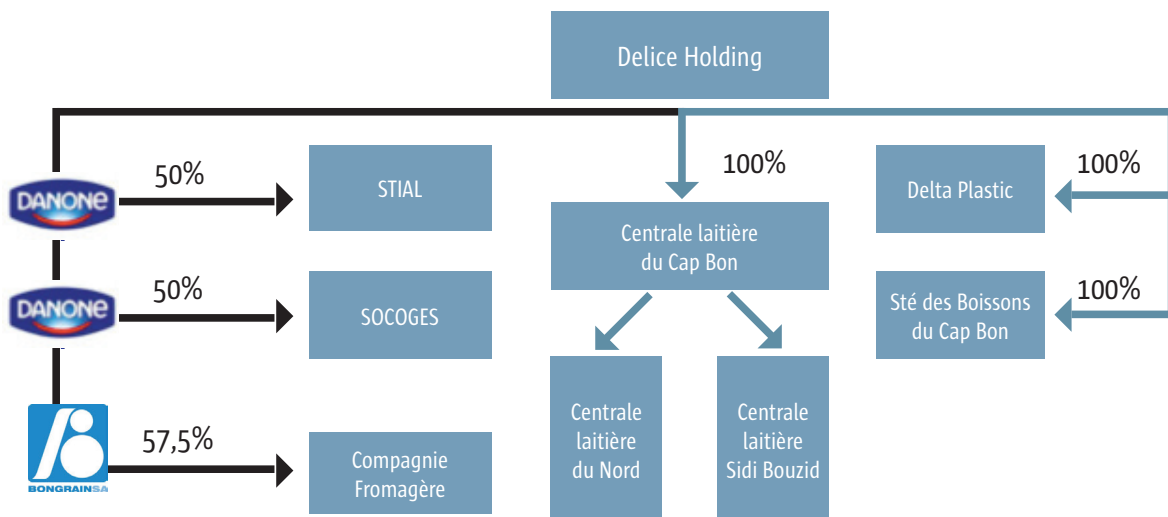
Taking advantage of this positive dynamic, Misfat group invested €10 million in the building of a new plant in Tunisia in order to develop new products, partly thanks to Solaufil's expertise. The company is also investing €5 million for the implementation of a research and development centre in Tunisia.

The acquisition of Solaufil by the Tunisian group Misfat is following the dynamic of South-North investment development, which offers great prospects although it is not yet generalised. This example shows that it is still possible to develop European so-called "activities in crisis" thanks to an optimised repartition of the value chain on both shores of the Mediterranean.

DELICE – DANONE: A STRATEGIC PARTNERSHIP TO CONQUER THE LOCAL MARKET

The group Délice-Danone, a major actor of the Tunisian agri-food industry, is present on the yoghurt, milk and juice markets. In 2014, the group established itself as a holding company in order to go public. It relies on several subsidiaries.

The STIAL (Société Tunisienne des Industries Agroalimentaires) is the main subsidiary of the group, in charge of producing yoghurt, milk and juice, while SOCOGES is the group's distribution subsidiary. The Danone group holds 50% of these two entities. As for the Compagnie Fromagère, making cheese, it is held at 42.5% by the French group Bon Grain. The Tunisian holding holds 100% of the other subsidiaries. Here, we will look into the STIAL – Danone and SOCOGES – Danone partnerships.



In 1997, the group Danone took an interest in the Tunisian market within the internationalisation of its activities. It considered Délice a family group created in 1978 by Hamdi Medded, one of the only promising private groups in the sector. Following its traditional partnership approach with local actors, Danone decided to spend €7 million to acquire 50% of STIAL.

Danone's motivations were the same as in most acquisitions of this kind: benefiting from local partners' knowledge of the market as well as their existing production and distribution circuits. Délice, on the other hand, wanted to benefit from the expertise and technical know-how of the company, as well as from the security and financial power of a great international group. However, contrary to what generally happens in this type of operations, Délice did not want to benefit from Danone's brand image. This is why the co-branding strategy has always remained the same, as the brand "Délice" sold more than the brand "Danone" on the concerned markets.

Thus, the STIAL now benefits from the strength of a multinational group: (i) personnel cross-training abroad; (ii) a research and development centre based in Barcelona for the entire group; (iii) integration in the group as a business unit. Although the STIAL accounts for a very low activity in the huge group Danone, it can be considered as one of the most profitable business units in the group. Thus, the group Délice is rather independent in its activities and decision-making, as Danone has 3 to 4 expatriates in Tunisia in average.

YEAR OF ESTABLISHMENT	1997
GLOBAL TURNOVER (2014)	€21,144 million
STIAL TURNOVER (2014)	€150 million (<1%)
GLOBAL HEADCOUNT	105,000
TUNISIAN HEADCOUNT	1,000 (<1%)
OTHER HOST COUNTRIES	Brazil, China, Mexico, Indonesia, United States, Russia, Canada, Argentina, Chile, Colombia, Morocco, Algeria, South Africa, Egypt Saudi Arabia, Europe, India, Australia, Japan, Ukraine
FOREIGN CAPITAL	50%

Today, the group Délice-Danone is a leader on the Tunisian market. It holds 65% of yoghurt market shares, 60% of milk market shares and 70% of butter market shares.

Growth perspectives are also very promising. Indeed, the group relies on the change in dietary habits as well as on the increase of milk and yoghurt consumption. It also has a diversification strategy, with the creation of new products to broaden the range. However, this strategy could fail due to the small size of the Tunisian market.

North-African integration

Exportations are increasing the turnover of the group Délice-Danone. Indeed, today they account for 7% of yoghurt activity and 10% of juice activity. The main exportation market is naturally Libya, considered as an expansion of the Tunisian “national” market, especially in the agri-food industry. Thus, Délice holds 20% of the Libyan yoghurt market shares. However, Délice can only export juice towards Moroccan and Algerian markets as Danone is already present in both countries and forbids any competition among its various international entities. Délice exports the rest of its production towards Sub-Saharan countries.

Another significant obstacle to the agri-food industry regards distribution logistics, as there is no central purchasing body and retail distribution still prevails. Thus, the strength of the Délice group relies on its distribution subsidiary SOCOGES, which has an excellent knowledge of the Tunisian local market and benefits from Danone’s expertise in logistics.

Thus, after going public in 2014 for 120 million dinar (15% of the capital), the strategic partnership between Danone and Délice enabled to reinforce the group Délice on the Tunisian market thanks to Danone’s financial resources, expertise and research and development. Likewise, investment is profitable for the group Danone, not only financially but also in its conquest of emerging markets.



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