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CHALLENGES AND CHANGES: THE POLITICAL ECONOMY OF NATIONAL DEVELOPMENT BANKS IN AFRICA

TUNISIA CASE STUDY

Bank for Financing Small and Medium Enterprises

Private Sector Development (PSD)

The African Center for Economic Transformation (ACET) is a pan-African economic policy institute supporting Africa's long-term growth through transformation. We produce research, offer policy advice, and convene key stakeholders so that African countries are better positioned for smart, inclusive, and sustainable development. Based in Accra, Ghana, we have worked in nearly two dozen African countries since our founding in 2008.

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ACRONYMS

ACET	African Center for Economic Transformation
AFD	Agence Française de Développement
AfDB	African Development Bank
ANETI	National Agency for Employment and Independent Work
APBEFT	Tunisian Professional Association for Banks and Financial Institutions
APD	Official development assistance
APIA	Agency for the Promotion of Agricultural Investments
APII	Agency for the Promotion of Industry and Innovation
ATIC	Tunisian Private Equity and Venture Capital Association
BCMA	Arab Maghreb Cooperation Bank
BCT	Central Bank of Tunisia
BDET	Tunisian Bank for Economic Development
BFPME	Bank for Financing Small and Medium Enterprises
BFR	Working capital requirements
BNDT	National Tourism Development Bank
BTEI	Bank of Tunisia and Emirates
BTK	Tunisian-Kuwaiti Bank
BTL	Tunisian and Libyan Bank
BTQI	Tunisian and Qatari Investment Bank
BTS	Tunisian Solidarity Bank
CA	Board of directors
CCT	Short-term loans
CDC	Caisse des dépôts et consignations
CMLT	Medium- and long-term loans
CSI	Supreme Council for Investment.
CSR	Corporate social responsibility
CwA	Compact with Africa
DAC	Development Assistance Committee (of the OECD)
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETAP	Tunisian National Oil Company
EU	European Union
FADES	Arab Fund for Economic and Social Development
FAR	Restructuring Support Fund
FDI	Foreign direct investment
FIPA	Foreign Investment Promotion Agency
FOPRODI	Facility for Industrialization and Decentralization
FSPME	SME Support Fund
GDP	Gross domestic product
GNP	Gross national product
IBRD	International Bank for Reconstruction and Development

ICD	Islamic Corporation for the Development
IS	IT system
IsDB	Islamic Development Bank
ITCEQ	Tunisian Institute of Competitiveness and Quantitative Studies
ITES	Tunisian Institute for Strategic Studies
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
NGO	Non-governmental organization
OCDE	Organization for Economic Cooperation and Development
ODA	Official development assistance
PPP	Public-private partnership
QFF	Qatar Friendship Fund
SDGs	Sustainable Development Goals
SICAR	Risk Capital Investment Company
SOTUGAR	Investment Guarantee Fund
STB	Tunisian Bank Society
STUSID	Tunisian-Saudi Investment and Development Company
TIA	Tunisian Investment Authority
TMM/ MMR	Monetary Market Rate
TND	Tunisian dinars
USAID	United States Agency for International Development
WB	World Bank

Executive summary

This report is part of a four-country study of national development banks in Africa. It is a case study of the Bank for Financing Small and Medium Enterprises (BFPME) in Tunisia, which is the only development bank in the country even though the legal status of development bank does not exist. The information in this report was collected through desk review of relevant local publications and interviews with key actors in development finance in Tunisia. It reviews the evolution of the BFPME mandate, its activities and its performance, as well as the difficulties it has encountered in recent years to ensure its survival.

This research traces the history of the creation of the BFPME, the governance structure, business model and sources of financing. It also reviews the structural and other factors that have influenced the sustainability of the bank's business model. These include the regulatory provisions and the institutional framework, as well as the Revolution of 2011 and its consequences in terms of social tensions and political instability in Tunisia.

In summary, the study highlights three salient facts that have contributed to the drift of the BFPME's performance and governance: namely, fragmented development policies, the absence of a specific legal and institutional framework, and an unsustainable business model.

1. Fragmented development policies

Tunisia has been in the process of opening up since the 2011 Revolution. Progress has been made in its democracy but the reforms for restructuring the economy have been unevenly implemented. This is the case of the 2019 Transversal law[1] which was supposed to clean up the business environment, but is not yet operational. The law on Crowdfunding[2] and the law on corporate social responsibility[3] are not yet supported by implementing decrees, while the law on private equity is in the process of being drafted. All these factors do not favor the positioning of the BFPME as a development bank.

The relationship between SME financing and development is not officially established in Tunisia. It is not properly clarified in the operations of the supervisory authority (the Ministry of Finance) and the Ministry of Development, Investment and International Cooperation (which was merged with the Ministry of Finance in 2020). Such a situation does not allow the bank to make a full impact on the economy and society nor to justify why it has shown low profitability. National development budgets remain low and the commitments of the BFPME, (around TND20 million in 2020, or US$8 million) are negligible compared to the real needs of SMEs, which have an annual financing gap estimated by the BFPME management at TND3.4 billion (around US$1,3 billion).

1 Law No. 2019-47 of May 29, 2019.

2 Law No. 2020/37 of August 6, 2020.

3 Law N° 2018-35 of June 11, 2018.

2. Lack of a legal and institutional framework for a development bank

There has been no specific legal or institutional framework for development banking in Tunisia since 2001 and policy makers did not consider it useful to create an adequate framework when the BFPME was established in 2005. It has therefore operated without complying to any prudential rules laid down by the Central Bank of Tunisia for commercial banks. These rules are in any case inapplicable to the BFPME. This situation has created a sort of permanent exemption that has blocked banking supervision despite all governance shortcomings observed in BFPME operations.

Given the need for a rapid economic recovery, establishing a national development bank seems an absolute necessity. What remains is to identify the business model that best ensures the greatest impact in the context of persisting political, social and economic crisis.

3. An unsustainable business model with confused governance

The BFPME's business model began by providing financial and non-financial services to support SMEs that do not traditionally have easy access to capital. The business model prioritized projects in disadvantaged areas and it focused on investment financing and financial inclusion. The low capitalization of the BFPME and the absence of a refinancing market have led the bank to explore other ways to pursue its mission and ensure its survival.

Thus, the BFPME has operated since its launch with very high exposure to risk, particularly at the following levels:

- Credit risk related to insufficient financial information on projects and uncertain average profitability not covered by sufficient guarantees;
- Operational risk linked to a non-performing organization and an obsolete information system;
- Liquidity risk with insufficient net banking income and ratios that do not comply with current regulations;
- Risk associated with poor governance. The non-payment to date of a capital increase decided by the Ministry of Finance in 2015 (Article 7 of the 2015 Finance Law) illustrates this problem.

Consequently, the BFPME has accumulated, over time, a high number of outstanding debts that have heavily impacted its performance and credibility. The situation is such that today it has negative equity, in violation of Article 388 of the Commercial Companies Code.

The shortage of public funding has forced the bank to resort to external resources to ensure its survival. Hence, the pivot to manage investment funds by delegation and by focusing its interventions on equity financing instead of medium- and long-term bank credit. Its mandate has, thus, been extended to the delegated management of funds on behalf of international donors such as the Swiss Fund, Qatar Friendship Fund and FADES, and some large state-owned companies such as Entreprise Tunisienne d'Activités Pétrolières or the Compagnie des Phosphates de Gafsa.

This activity, which is essentially less risky and more lucrative than bank credits, has opened a new and more reassuring route to expansion and sustainability of the BFPME.

1. Introduction

1.1. Motivation and objectives of the study

A national development bank (NDB) is any financial actor providing banking services or via a public banking structure dedicated to economic development. Microfinance services and housing loans are excluded from this study, even though they represent a significant aspect of development. In many African countries, NDBs occupy a unique role as development actors. Compared to regional or international financial institutions, NDBs are deeply rooted in the national agenda, embedded in national policy frameworks, and well-connected to both public and private sector actors at the country level. As such, they can play an instrumental role in the domestic economy, in supporting the growth of domestic firms, playing a counter-cyclical role in addressing economic shocks and crises—particularly important in the current juncture—and in contributing to long-term economic transformation to sustain low-carbon and climate-resilient economies (Griffiths-Jones et al., 2020; Studart and Gallagher, 2016; Muñoz Cabré et al., 2020).

However, in African countries where institutional weakness and governance challenges are common, a perception of these institutions as weak in governance and poor in performance means that they may be overlooked by international partners, inhibiting their potential developmental impact. Attridge et al. (2020) provide evidence that governance structures condition the financial performance of the bank. They find that political influence that increases potential for governmental interference in African NDBs are associated with poorer financial performance, and tend to undermine the developmental role of banks. On the other hand, governance structures that increase independence tend to have a stronger impact in contexts where the enabling environment is weak.

The following case study contributes to fuller understanding of how NDBs are performing in Africa and the challenges they face as a development actor. The key research questions include:

- Political influence: What is the relationship between the bank and the government, and how have governance structures of the bank responded to political influence, both positively and negatively?
- Operations and performance: How have the bank's mandate and operations evolved over the past 5-10 years? What has been the role of influence in driving the bank's performance?
- Enabling environment: How has the wider economic and institutional context supported or constrained the bank's ability to fulfill its mandate? Has the bank managed to shape and achieve its stated goals?

The African Center for Economic Transformation (ACET) in collaboration with the Overseas Development Institute (ODI) undertook this country case study to generate policy insight, knowledge and discussion that might assist the continuing reform processes of national development banking in Tunisia, and more broadly in Africa. This study builds on ODI's quantitative study on the governance and financial performance of the NDBs in Africa using qualitative research case studies in parallel with ongoing policy engagement with key stakeholders.

1.2. Case study methodology

This report assesses the activities and impact of the BFPME, a Tunisian national development bank that finances small and medium enterprises (SMEs) in various sectors from their creation and through their development phases. The status and legal texts establishing the BFPME provide its governance structure, management, mode of operation and sources of funding. However, over the years, the ambitions have been constrained by many factors such as civil unrest, breakdown in government structures and drift in the national agenda for economic growth in Tunisia.

The BFPME is currently the main development bank in Tunisia. It was established in 2005 within a policy framework aimed at promoting entrepreneurship.

The case study was conducted as follows:

Step 1: Collecting data through different channels (e.g. White Papers, scientific publications, press, websites, corporate reports...) on development banking in Tunisia.

Step 2: Conducting interviews with top executive directors, board members at the BFPME and with Ministry of Finance representatives to discuss development finance challenges and legal and institutional environment issues. There was also an analysis of the bank's business model and governance followed by focus group discussions on the BFPME role and positioning in the banking landscape in Tunisia.

Step 3: Analyzing the Bank's portfolio and performance to identify the salient facts that contributed to the drift of the BFPME's performance and governance, namely, fragmented development policies, the absence of a specific legal and institutional framework, and an unsustainable business model. These findings were presented and discussed in a validation workshop held in the headquarters of the BFPME. Due to the pandemic, most of the work had to be done remotely.

2. Literature review

2.1. Economic overview on Tunisia

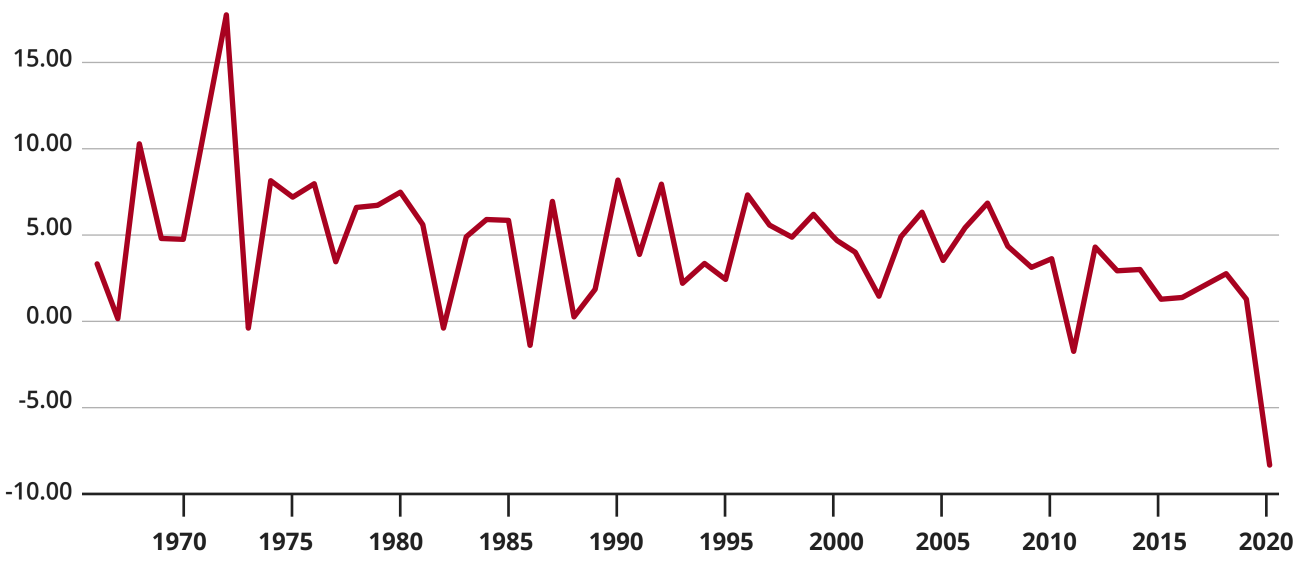
Tunisia has a population of about 12 million, with 6.65 percent living abroad. [4] It has a gross domestic product (GDP) of US$41.62 billion[5] in 2020. According to the last edition of the World Bank's Doing Business Index, Tunisia ranks 78th out of 157 countries studied[6].

Since its independence in 1956, Tunisia has experienced several development models, including collectivism (1959-1969), «privilegism» (1970-1986), controlled liberalism (1987-1995), industrial upgrading (1995-2010). The investment priorities were set out in 5-year development plans and implemented with varying degrees of success depending on the difficulties of the period.

During the 1990s and 2000s, the country achieved respectable GDP growth with an average rate of 4.5 percent. However, the socio-economic fundamentals remained fragile and continue to be affected by the cyclical effects of the international economic situation as illustrated in Figure 1.

From 2011, the country entered a phase of instability due to political confusion, and the situation worsened with the COVID-19 pandemic, leading to an exceptional drop in growth, which reached -9.2 percent in 2020.

Figure 1: Tunisia Annual GDP growth, 1960-2020 (%)



Source: World Bank, 2020

4 United Nations, Department of Economic and Social Affairs. Population Division, 2019. Trends in International Migrant Stock: The 2019 revision.

5 https://donnees.banquemondiale.org/pays/tunisie

6 https://www.doingbusiness.org/en/data/exploreeconomies/tunisia

In addition to the effects of the 2011 Revolution, the country has been hit hard by the COVID-19 crisis, with a heavy impact on economic activity, exemplified by the sharp fall in the creation of new businesses. In 2021, investment declarations to the Agency for the Promotion of Industry and Innovation (APII) contracted by 14.6 percent over the first seven months of the year compared to 2020[7].

2.2. Historical review of the banking sector

The Tunisian financial sector was born after independence in 1958 with the nationalization of colonial banks, the creation of the Central Bank of Tunisia, the Tunisian dinar and the launch of a monetary market. Monetary policy underwent a gradual evolution until the period from 1967 to 1980, which was marked by the separation of deposit banks from investment banks, and the creation of offshore banks to support the industrialization strategy based on foreign direct investment (FDI), the famous Law 72.

The period between 1981 and 1990 saw deep economic crisis and a heavy public deficit, along with the rise of private banks and also joint venture banks with funds from the Gulf region.

The policy of economic liberalization that marked the 1990s favored the activation of the capital market exchange, created in 1969. This had been dominated by the public sector until 1995 when it was renamed Bourse des Valeurs Mobilières de Tunisie (BVMT) and entrusted to private sector management. This period also favored the development of corporate banks, leasing companies and banking accreditation was given to La Poste de Tunisie (1998). The end of this decade witnessed the merger of state deposit banks and investment banks.

The 2000s began with the arrival of foreign banks in Tunisia, and continued with the privatization of state-owned banks. Banking reforms in 2001 abolished the distinction between deposit banks and development banks in favor of the principle of universal banking. The law organizes the banking system, on the principle that credit institutions are allowed to perform all banking operations. With the exception of development banks that operate under a specific agreement, as it does not apply to offshore banks that are governed by Law 85-108 of December 6, 1985.

During this period, money market instruments diversified and there was emphasis on domestic consumption and export growth. Since 2000, consumer credit has quadrupled and home mortgages have grown fivefold. In 2009, the first Islamic Bank was established in Tunisia – prior to this, there was only one offshore Islamic bank. Meanwhile, public policies focused on developing instruments for financing SMEs through dedicated state-owned agencies such as BFPME; a bank dedicated to SMEs, the Tunisian Investment Guarantee Fund (SOTUGAR) for SMEs and public capital investment; and SAGES Capital, an investment firm managing early stage public funds.

The period of instability most notably marked by the 2011 Revolution exposed the structural weaknesses of the Tunisian financial system, in particular state-owned banks. Serious liquidity problems hit the banking sector, with low recourse to the bond market, high levels of non-performing loans, weaknesses in risk management and failures in governance. These main characteristics of the banking sector in post-revolutionary Tunisia have had an alarming impact on economic competitiveness and growth.

7 www.tunisieindustrie.nat.tn

2.3. Regulatory and institutional landscape

The Tunisian financial system includes the Central Bank of Tunisia (BCT), 23 resident banks, seven offshore banks, and 13 financial institutions, including merchant banks, leasing institutions, and two factoring companies.

The financial landscape also includes the National Post Office, the Financial Market Council, the Tunis Stock Exchange (BVMT), Tunisie Clearing, investment companies and some asset management firms.

The banking system has succeeded in setting up a large network of agencies. There are currently more than 1,905 branches, or approximately one branch for every 5,775 inhabitants.

Created on September 19, 1958, the Central Bank of Tunisia is a public institution endowed with financial autonomy. Law No. 2016-35 of April 25, 2016 determined the status of the Central Bank and assigning it the main objective of ensuring price stability.

The BCT contributes to financial stability in order to support the achievement of national economic policy objectives, including in the areas of development and employment. It also ensures optimal coordination between monetary and economic policy.

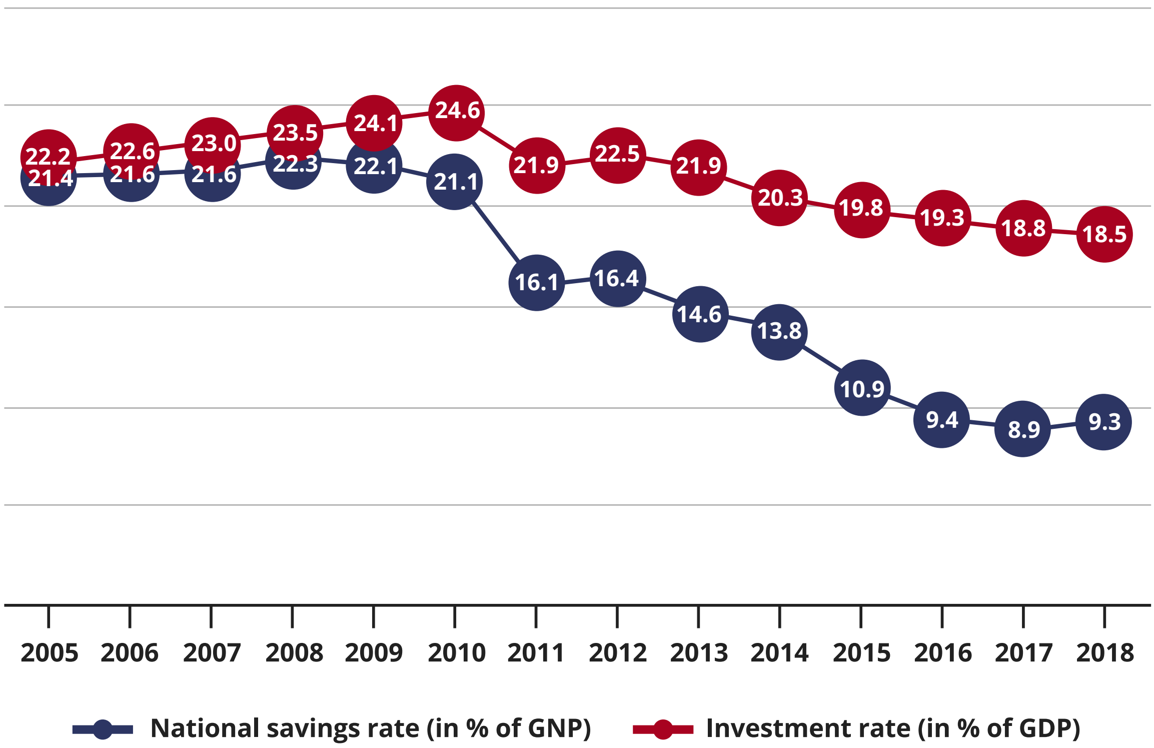
2.4. Reforms in the financial sector

According to the national accounts, gross fixed capital formation rose from TND8,395 million to TND19,568 million (at current prices) between 2005 and 2018, an increase of 233 percent over the period, while GDP increased by 279 percent over the same period. This suggests a relative decline in gross fixed capital formation.

Similarly, the investment rate fell from 24.6 percent in 2005 to 18.5 percent of GDP in 2018. The decline was more pronounced for the savings rate, which fell by more than half between 2005 and 2018, from nearly 22 percent to less than 10 percent of GDP (Figure 2). The explanation of this divergence could come from continuing international financial flows that maintained a minimum level of investment through infrastructure projects supported by international donors.

Total financing granted by international donors in the order of US$5 billion, more than 12 percent of GDP, in projects approved but not yet committed in Tunisia.

Figure 2: Tunisia: Savings rate and investment rate, 2005-2018 (%)



Source: Central Bank of Tunisia, 2020

According to data from the national business directory, Tunisia had 782,115 registered private companies at the end of 2019. Companies employing more than six peopl[8] are considered as SMEs and numbered around 15,000 entities. Only 15 percent of these companies are profitable and pay corporate tax. This figure is likely to fall drastically with the COVID-19 crisis despite the government's efforts to keep SMEs in activity.

The Council of Bilateral Chambers of Commerce (with about 3,000 members) affirmed, in a conference held on January 28, 2021 in Tunis, that 34 percent of its members (offshore or mixed capital companies) closed their doors in 2020 because of the COVID-19 pandemic. Half of these SMEs would probably not have been able to resume their activities in 2021.

2.5. Overview of development finance landscape

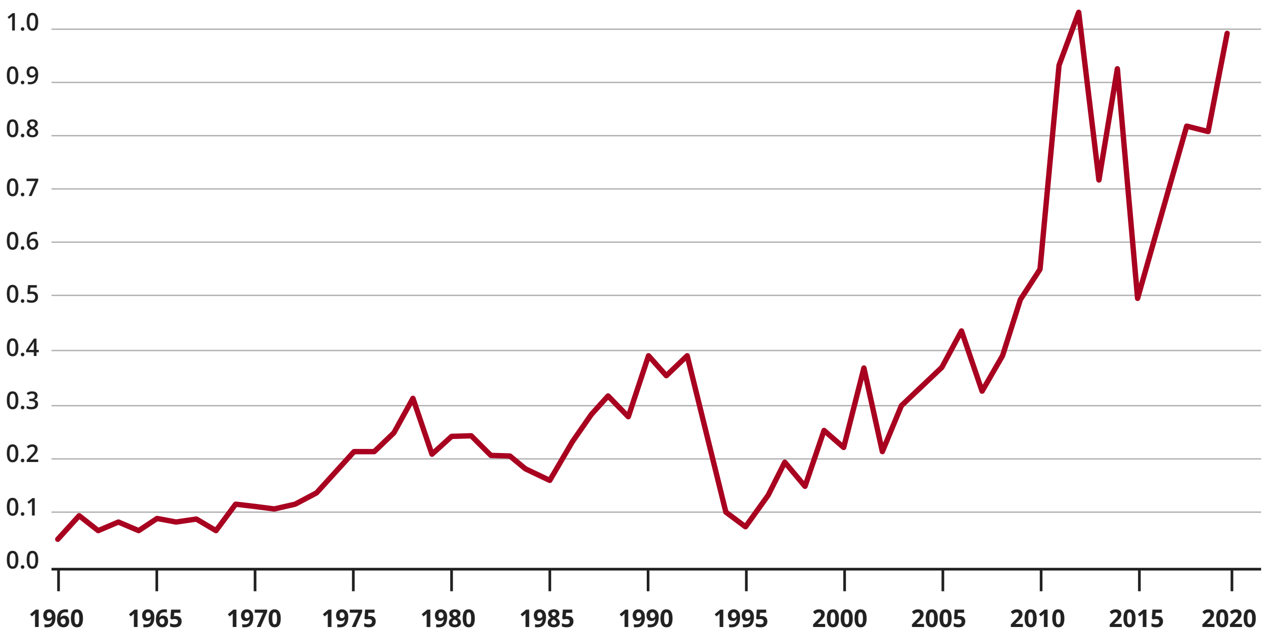
2.5.1. Evolution of development finance institutions

Since its independence, Tunisia has benefited from international development aid that it has deployed on several levels to build quality public service. Education and health were the first sectors targeted, followed by the industrial and tourism sectors. This aid peaked after the Revolution to reach, according to the World Bank, US$4.866 billion over the decade 2010-2020 as illustrated in Figure 3. Net official development assistance to Tunisia rose to US$805 million[9] in 2018.

8 Source National Institute of Statistics (INS).

9 www.tradingeconomics.com

Figure 3: Net official development assistance and official aid received, 1960-2020 (current US$)



Source: World Bank, 2020

The World Bank defines net official development assistance (ODA) as disbursements of concessional loans (net of principal repayments) and grants by official agencies of Development Assistance Committee (DAC) members, by multilateral and bilateral institutions, to promote economic development and welfare in DAC recipient countries and territories. Net official assistance refers to aid flows (net of repayments) from official donors to the countries and territories in Part II of the DAC list of recipients.

2.5.2. Challenges and failures of development finance institutions

Between 2010 and 2020, the Tunisian state budget more than doubled, public debt quadrupled in TND (see Table 1) and as a direct consequence, the tax burden rose from 20 percent to 25 percent.

With this accelerated deterioration of the economic situation, the dependence on external loans and development aid is increasingly evident. In order to fuel its five-year development plans, Tunisia relies on public budgets supplemented by external financing.

Table 1: Development expenditure from earmarked external resources, 2010-2010

		2010	2011	2012	2013	2014	2015	2016	2017	2018	Prov 2019	Fin. Law 2020
State Budget	TND billion	18.335	19.192	22.935	26.792	28.125	28.900	29.250	32.705	35.851	40.662	47.227
Budget balance	TND billion	-0.650	-2.127	-3.853	-5.207	-4.074	-4.069	-5.510	-5.987	-5.055	-4.040	-3.782
	% GDP	**-1.00**	**-3.30**	**-5.50**	**-6.90**	**-5.00**	**-4.80**	**-6.10**	**-6.10**	**-4.80**	**-3.50**	**-3.00**
Fiscal pressure	% GDP	20.10	21.10	21.10	21.70	23.10	21.90	20.80	21.90	23.20	25.30	25.40
Public debt	TND billion	25.640	28.780	31.418	34.987	41.054	46.922	55.921	67.830	82.295	82.350	94.068
	% GDP	**40.70**	**44.60**	**44.70**	**46.60**	**50.80**	**55.40**	**62.40**	**70.20**	**77.90**	**72.20**	**74.00**
Development expenditure from earmarked external resources	TND billion	1.261	1.280	0.981	1.128	1.146	0.784	2.808	1.093	2.816	2.374	
	% GDP	**6.88**	**6.67**	**4.28**	**4.21**	**4.07**	**2.71**	**9.60**	**3.34**	**7.85**	**5.84**	

Source: Ministry of Economy, Finance and Investment, 2020

According to a study[10] carried out by the African Center for Economic Transformation (ACET), development finance remains limited to classic instruments controlled by the state in Tunisia. Some private equity or blended finance practices have been introduced by a few donors in some infrastructure projects but this remains very limited and the prerogative of a few PPP projects such as certain technology clusters.

The large variations in development expenditure from earmarked external resources (see Table 1) – between TND1,261 million in 2010 and TND2,374 million in 2019 (with a peak of TND2,816 million in 2018) – suggest that the planning of development projects is not under control.

The World Bank believes that the country could do much better in terms of investments, with improved public services that are capable of supporting economic recovery and job creation for young people, thereby contributing to social peace and democracy[11].

2.5.3. Share of banking system in development finance

According to the annual report of banking supervision, the 30 or so banks established in Tunisia had total net assets of TND140.848 billion in 2019 (around US$56 billion), or about 130 percent of GDP.[12] The banking system remains small and fragmented, with a 13.4 percent share of classified receivables and a delinquency rate of 5.7 percent.

The 2011 revolution, which overthrew the former regime, put the banking sector under pressure,

10 Mondher Khanfir. October 2020. Blended Finance Good Practices: KfW in Tunisia case study. ACET.

11 https://www.banquemondiale.org/fr/country/tunisia/overview#1

12 Annual Report on Banking Supervision. BCT, 2019.

both in terms of liquidity and credit risks. The deterioration of the financial and economic environment was further aggravated by the COVID-19 pandemic, with an expected negative impact on the financing of SMEs, which represent the vast majority of the economy in Tunisia.

The latest trends in loans to the economy by sector (see Table 2) show that total bank credits rose from TND65 billion in 2015 to TND98 billion in 2020, with the private sector accounting for more than 90 percent of total bank credits. The share of industry is about 25 percent, and that of agriculture and fisheries about 3 percent in 2020.

However, despite the exceptional measures taken to support the economy, credit to industry remained almost stable between 2018 and 2020. This could be explained by a reallocation of credits rather than the issuance of new credits. The emergency measures that were adopted served only to relieve some of the SMEs that took out bank loans before the COVID-19 pandemic.

Table 2: Trends in sectoral credit, 2015-2020 (TND million)

Indicators	2015	2016	2017	2018	2019	2020
Agriculture and fishing	2,119	2,337	2,650	2,744	2,906	3,089
Industries	16,886	18,393	21,492	24,503	25,017	25,790
Services and loans to individuals	46,609	51,306	57,565	61,740	64,371	69,711
Total	**65,614**	**72,036**	**81,707**	**88,987**	**92,294**	**98,591**

Source: Central Bank of Tunisia, 2020

Thus, SMEs have been doubly harmed, lacking access to bank financing and loans or to government assistance. Indeed, BCT statistics show that it is the medium- and long-term credits (CMLT) that have increased in the context of the rescheduling of SME debts while short-term credits (CCT) remained almost stationary between 2019 and 2020 (see Table 3).

This confirms that for Tunisian SMEs, access to capital continues to be very difficult, due to its meager supply and an unstructured capital market. For their part, banks complain about the lack of information on SMEs as well as the difficulty of obtaining a credit risk rating or reliable financial statements. Banks also lack innovative products and financial technologies that would reduce the cost of lending to SMEs. As a result, they rely mainly on the ability of their customers to provide tangible assets as collateral. This strategy excludes many potentially creditworthy SMEs and startups with a good business plan and sustainable cash flow, as they cannot provide real external collateral or a sufficient financial track record.

Table 3: Credits to the economy, by term and by beneficiary, 2015-2020 (TND million)

Indicators	2015	2016	2017	2018	2019	2020
Short-term loans	27,982	30,679	35,665	40,534	42,641	43,229
Medium and long-term loans	16,886	18,393	21,492	24,503	25,017	25,790
Loans to professionals	47,059	51,477	58,994	65,027	68,241	73,139
Loans to individuals	18,555	20,559	22,713	23,960	24,053	25,452

Source: Central Bank of Tunisia, 2020

2.5.4. Primary pillars of development finance in Tunisia

There is a worldwide consensus that SMEs play a crucial role in boosting economic growth and creating jobs. The industrialization of the economy with a view to self-sufficiency and job creation has been at the top of the political agenda since the 1970s. Several achievements can be attributed to this policy, which had its moment of glory in the 1990s after the signing of the free trade agreement with the European Union in 1995 and the acceleration of FDI inflows. The latter rose to 2.6 percent of GDP in 2018 (see Table 4) before falling to 1.7 percent of GDP in 2020.

Table 4: Foreign direct investment, 2015-2020 (TND millions and % of GDP)

Indicators	2015	2016	2017	2018	2019	2020
Foreign direct investment (in TND millions)	1,967	1,901	2,132	2,742	2,479	1,834
Foreign direct investment/GDP	2.3	2.1	2.2	2.6	2.2	1.7

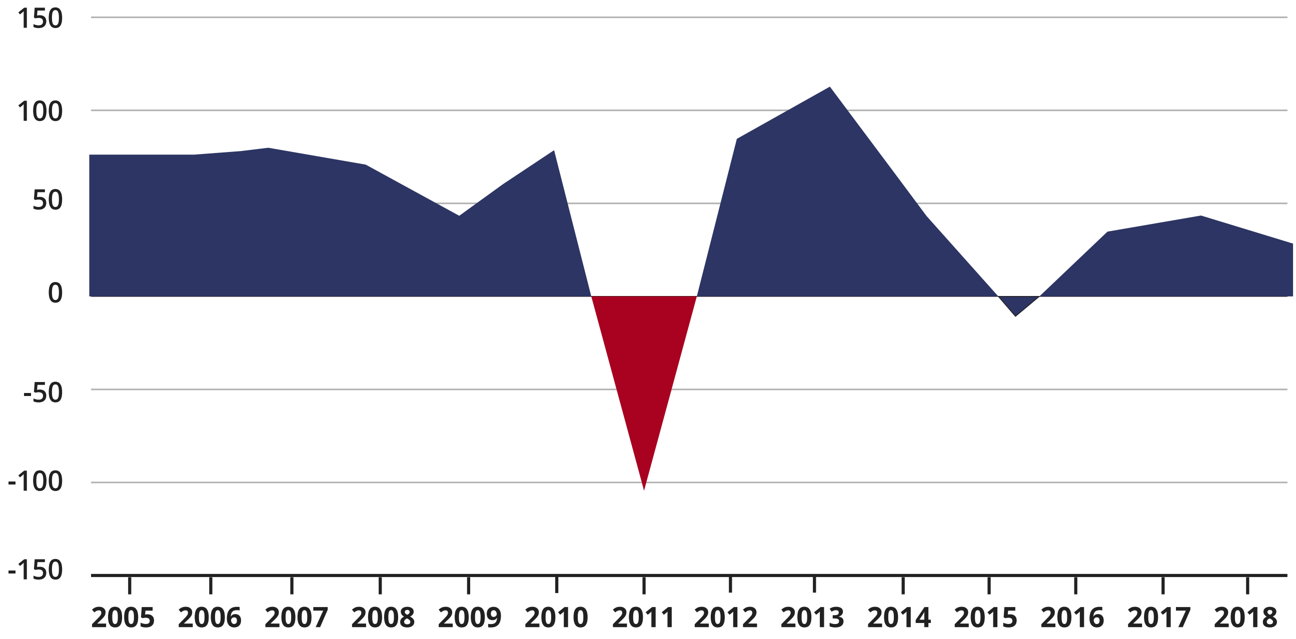
Source: Central Bank of Tunisia, 2020

The need to finance investment led to the creation of development banks in the 1960s. The Economic Development Bank of Tunisia (BDET) and the National Tourism Development Bank (BNDT) were the first national development banks. The BDET is a general multi-sectoral bank while the second one is more specialized in the tourism sector. These banks controlled the development credits that contributed to the investment boom until the arrival of competing banks at the beginning of the 1980s. The bilateral development banks with mixed Tunisian-Arab capital were launched with an equal distribution of capital between the Tunisian state and Arab partner countries, which will be detailed in the following section.

These bilateral banks have definitely contributed to the development of the tourism and manufacturing sectors and have played a significant role in the diversification of the Tunisian economy.

An industrialization strategy was thus born and brought its fruits in terms of growth and exports. However, the problem of unemployment has persisted, in particular for young graduates, and net job creation has been weak and uneven during the period 2005 to 2018 (see Figure 4). It seems that there is a disconnect between investment, growth and development in Tunisia, and this explains why the country came to a breakdown manifested in the 2011 Revolution.

Figure 4: Job creation, 2005-2018 (in thousands)



Source: National Institute of Statistics, 2019

3. Analysis and discussion of findings

3 .1. Historical background

3.1.1. The experience of mixed capital development banks

The creation of development banks with mixed Tunisian-Arab capital at the beginning of the 1980s corresponded to the launching period of the Sixth Development Plan (1982-1987). In 1981, the last year of the Fifth Plan, the growth rate in Tunisia was 6.5 percent and the average for the whole Fifth Plan period was 6.3 percent. One of its objectives was to contribute to the mobilization of the resources needed to finance the Sixth Plan, investments estimated at TND8 billion.

Thus, six banks with mixed capital were created. Four with the Gulf countries – BTKD with Kuwait, STUSID with Saudi Arabia, BTEI with the United Arab Emirates and the Tunisian and Qatari Investment Bank (BTQI) with Qatar – and two with Maghreb countries – BCMA with Algeria and BTL with Libya. Each of these banks started its operations with an initial capital of US$100 million.

These mixed-capital development banks quickly ran out of steam and were quickly overtaken by local commercial banks. The latter were becoming capable of competing in project financing through long-term credits and took away the quasi-monopoly of the development banks. This was because the resources of the mixed-capital banks were mobilized on long-term basis and in foreign currencies without swap instruments, and were more expensive and riskier.

There are also other causes, such as the possibility for commercial banks to open foreign (mainly European) lines of credit, thus competing with the mixed-capital development banks in their core business.

Apart from the BCMA, which was very quickly liquidated, the other banks with mixed capital operated until their financial resources were exhausted. Regulatory restrictions on foreign exchange and access to international capital markets have prevented them from continuing their activities normally, which has led them to work with the Tunisian state, as a co-shareholder, to obtain a commercial bank license in order to align themselves with their competitors on the banking market and to free themselves from the regulatory constraints they were subject to.

The law of July 10, 2001 on credit institutions enshrined the universal nature of credit institutions and abandoned the distinction between deposit banks and development banks. Thus, the development banks were all transformed into universal banks and helped distort a market already saturated by some 20 commercial banks.

3.1.2. Venture capital and development capital in Tunisia

On the private sector side, parallel to the banking circuit, Venture Capital Investment Companies (SICAR) have a development agenda. Today, the stakeholders of venture capital are grouped within the Tunisian Association of Investors in Capital (ATIC). They were worth TND386 million in 2020, about 52 percent of which is for the benefit of the interior regions. Some 174 investment operations – with an average investment of TND2.216 million – have contributed to creating or maintaining 3,900 jobs. It is estimated that about 61 percent of investments are allocated to development capital (growth). However, only 18 startups were financed for a total amount of TND5.3 million. Meanwhile, 113 disinvestment operations took place in 2020, representing TND112.239 million.

The resources available in venture capital funds amount to TND3.3 billion (around US$1.3 billion), which is the estimated gap in financing the economy. This proves that money is available but bankable projects are missing.

3.1.3. The Industrial Promotion and Decentralization Fund

Tunisia has set up several funds that aim to support industrial development. The first of these funds, established in 1972 by Law 72-38, is the Industrial Decentralization Promotion Fund (FOPRODI). It was probably the most important measure taken in favor of entrepreneurship in Tunisia since its independence.

According to a report by the Council of Economic Analysis,[13] from 1972 to 2018, FOPRODI enabled the financing of 2,200 projects of which 1,500 were SMEs, that is to say, nearly a quarter of Tunisian industry currently in business. Several of them are considered among the flagships of the economy (see Success story box: Biome Solar Industry). This fund has made two types of intervention, namely the promotion of new businesses and the encouragement of regional development.

As of December 31, 2018, or 42 years after its establishment, FOPRODI's total interventions amount to TND965 million (or an annual global average of TND23 million) for nearly 8,000 interventions, comprising:

- 3,038 projects involving new business and SMEs for an amount of TND225 million;
- 4,700 projects and various other interventions under the regional development grants for an amount of TND643 million.

Since an enterprise can benefit from several interventions of the Fund (such as special premiums for innovation or regional development), it is estimated that there are more than 2,200 industrial enterprises promoted by new entrepreneurs and financed by FOPRODI. Of these projects, and on the basis of the recovery rate recorded, it is estimated that nearly 1,500 industrial enterprises are currently in operation.

This public fund was initially managed by public banks and was later generalized as the venture capital funds (SICARs) at national and regional level. After facilitating access to capital for a large number of entrepreneurs, FOPRODI was de facto effectively stopped as soon as the implementing texts of the new investment law were published in 2017. These enacted the Tunisian Investment Fund (FTI), an entity intended to absorb all public funds supporting the equity of SMEs (including FOPRODI). However, actual implementation has been slow.

13 CAE Report. Tarek Zine and Moufida Hedidar. Sept. 2019.

3.1.4. Tunisian Investment Fund

Promulgated in 2016 as part of the Investment Law, the Tunisian Investment Fund (FTI)[14] aims to promote investment and encourage the creation of businesses and their development according to the priorities of the national economy, particularly through:

- Increasing the value addition, competitiveness and export capacity of the economy and its technological content at regional and international level, as well as the development of priority sectors;
- Job creation and human resource capacity building;
- Achievement of integrated, balanced and sustainable regional development.

This law includes a regulatory and institutional framework that aims to reduce the shortcomings of governance and boost investor support. Overall governance of national investment policy, strategy and programs is through the Higher Council for Investment (CSI) and the Tunisian Investment Authority (TIA).

The CSI determines the state's policy, strategy and programs in the field of investment. The TIA provides the secretariat for the CSI and is intended to serve as a single point of contact for each investor. Its mission is to facilitate administrative procedures and to propose policies in the field of investment. It is supposed to absorb APII and the Agency for the Promotion of Agricultural Investments (APIA) in order to position itself in the whole decision-making process.

The TIA also manages the FTI, which aims to streamline the granting of incentives and contributions and to consolidate the mechanisms of state intervention to encourage investment.

Political procrastination and the lack of coordination with the various ministerial departments concerned are still preventing full implementation of this mechanism. The FTI is only partially operational, and this delay is creating a situation of stalemate that is highly detrimental to the business climate and investment in Tunisia.

14 In accordance with Law No. 2016-71 of September 30, 2016, on the law of investment, the Tunisian Investment Fund (FTI) will now be the only fund that will intervene in the support of all investment operations that are governed by the said law.

4. General profile of the BFPME

4.1. History of the BFPME

At the beginning of the 2000s, Tunisia began to feel its economic model running out of steam and chose to link its development policy with entrepreneurship. The objectives of financial inclusion and regional development thus motivated the creation of the bank for funding SMEs, namely the Banque de Financement des Petites et Moyennes Entreprises (BFPME).

This bank was launched in the rush of a presidential campaign and there was no in-depth study of the causes of failure of previous development banks. The business model initially targeted the lack of equity capital and the poor preparation of businesses. The profitability of projects was not the decisive criterion. It was necessary to increase access to bank credits to encourage entrepreneurship and lower the rising unemployment curve, a source of growing social tension in the disadvantaged regions of the country's interior.

The BFPME was thus created on March 1, 2005. It carries out its activity within the framework of Law N° 2016-48 of July 11, 2016, relating to credit institutions. It has the status of a public enterprise, with a universal bank license. The capital of the BFPME currently amounts to TND100 million and is divided as follows:

Shareholders	Share in the capital (%)
Tunisian state	60
Tunisian Chemical Group	22
Tunisia Telecom	10
Office of Civil Aviation and Airports	6
Tunisian Trade Office	2

4.2. Corporate governance and political influence

Tunisia has a governance guide for public enterprises and a specific law [15] on the governance of banks and financial institutions. The latter has recently been supplemented by the BCT circular N° 2021-05 dated August 19, 2021 which sets even stricter conditions for the functioning of the boards of directors of banks.

4.2.1. BFPME board of directors

The BFPME has a board of 12 directors, including two independent members. The board includes state appointees and shareholders, without regard for their banking expertise. A directive concerning the separation of the roles of chairman of the board and chief executive officer was approved at an

15 Law n° 2016-48 of July 11, 2016

extraordinary general meeting held in August 2020 to comply with Article 46 of the Banking Law 2016-48. Subsequently, a September 23, 2021 board meeting appointed a chairman (from the Ministry of Finance) and made the former CEO as general manager, signaling an imminent restructuring of the bank.

In terms of operation, apart from the independent directors, the appointment of the other directors does not follow a formal recruitment process. This reduces the possibility of individual assessment. In addition, the audit, risk, appointment, and remuneration committees are well established but do not have the necessary resources to fully carry out their work. Furthermore, the bank's defective information system prevents proper monitoring and reporting of the bank's activities.

In relation to integrity and corruption, the BFPME has set up a good governance unit[16] that provides coordination between the board and internal and external departments such that all stakeholders comply with best practices guidelines and governance frameworks of the bank. However, the unenforceable regulatory texts and the varied strictness of banking supervision constrain the establishment of effective governance in the BFPME. This leaves the bank with continuing and very high exposure to risks, mainly from:

- Credit risks linked to sparse and unstructured financial information on sectors of activity and projects whose average profitability is often low or even uncertain. The guarantee mechanism does not in fact cover more than 30 percent of the breakage, according to the Bank's management.
- Operational risks linked to institutional weaknesses in terms of written procedures and business processes, resulting in ineffective internal controls and an inadequate information system.
- Liquidity risks associated with a solvency risk putting the bank in a delicate situation with regard to the BCT. In 2020, the bank's own funds went into the red in violation of Article 388 of the Commercial Companies Code.

Other failures have also been identified. While the Supplementary Finance Law of 2015 allocated a budget of TND100 million for an increase in the capital of the BFPME, this amount was never released. The idea proposed by the Minister of Finance at the time was to explore a new economic model based on «on-lending» financing of commercial banks. It was up to the banks to serve the SMEs. KfW was asked to share its experience in the field of economic development. It sponsored a study that drew up the outline of the Regional Banks project. Political confusion led to a decision in the 2019 Finance Law to allocate a budget for a new Regional Bank for development, with the absorption of BFPME and SOTUGAR as a first step. This decision has still not been implemented due to its lack of a legal basis.

4.3. The BFPME business model

The BFPME business model is to provide medium- and long-term investment loans to SMEs at subsidized rates, and sharing the risk with commercial banks. Its mission is to bring to the market a dual-value proposition combining economic development with financial inclusion through entrepreneurship. It provides financial and non-financial services to entrepreneurs, strengthened over time through local and international partnerships, as described below.

16 In accordance with the President of the Government's Circular of 2012 No. 16 concerning public enterprises.

Financial services for SMEs

These services are based on three phases of the life cycle of the SME: creation, growth and restructuring. Over time, the BFPME has developed alternative financing instruments that have expanded its scope of intervention as follows:

- Granting interest-free or low-interest equity loans to strengthen the capital base of SMEs created by young entrepreneurs;
- Co-financing of investment in the creation or expansion of SMEs through medium and long-term loans

In addition to the direct financing of projects, the BFPME ensures that entrepreneurs benefit from programs and facilities to develop their projects. These include investment premiums, special government measures to promote certain sectors, training programs, export support, innovation support and other public initiatives in favor of SMEs. As such, the BFPME plays the role of advisor to the entrepreneur in order to facilitate the necessary administrative procedures.

As part of the strengthening of support mechanisms for SMEs, especially those experiencing financial difficulties, the BFPME has also been mandated to manage a specific support program. This program was launched in accordance with the complementary finance law of 2014 and Decree No. 2015-31 of January 13, 2015, setting the terms of organization and operations of the Support Fund for Small and Medium Enterprises (FSPME).The BFPME is by virtue of its mandate highly exposed to solvency risk. It has, over time, adjusted its credit policy, no longer relying on the intrinsic components of the project and the guarantee offered by the Tunisian Guarantee Company (SOTUGAR). It requires, in case of insufficient coverage, real guarantees external to the project, knowing that SOTUGAR covers 60 percent or 75 percent (in the regional development areas) of the principal of the credit granted. In spite of this, this coverage has proven to be insufficient given the high rate of non-recovery. When such a problem occurs, the BFPME first recovers half of its stake while waiting for the balance on presentation of the certificate of bankruptcy. This involves a tedious legal process that can last several years given the absence of a commercial court and the weight of formal procedures in Tunisia.

This situation, within an ecosystem that is not always cooperative, has pushed the BFPME to move away from its business creation activities and to diversify its products and services, sometimes outside its official mandate, to ensure its sustainability. Nevertheless, it continues to rely heavily on public development policy.

Table 5 below summarizes according to the stage of the project, the instruments made available to the BFPME to accomplish its mission.

Table 5: BFPME services provided to SMEs during their life cycle

Project stage	BFPME intervention	Dedicated instruments
Creation of the SME	Strengthening of the equity capital	Interest-free equity loans (IntilaQ, Bader, QFF…)
	Financing / co-financing of investment	Medium- and long-term, low-interest loans Insurance on the capital invested by SOTUGAR Access to the Tunisian Investment Fund (currently being set up)
Growth of the SME	Financing of expansion (operations and/or investment)	Growth support programs financed by donors such as the World Bank or the EBRD.
	Rescheduling granted under the exceptional government measures (2020-2021).	Facility with special measures (fiscal, social and financial) to deal with the impact of the COVID-19 crisis.
Restructuring of an SME in difficulty	Mobilization of capital for the strategic, organizational and financial restructuring of the ailing SME.	Financial restructuring lines for SMEs through FSPME (2014) and FAR (2018) with a technical assistance facility and a guarantee fund for the financing granted.

Non-financial services to SMEs

These services are based on two phases, before establishment and after establishment. The BFPME thus covers all the needs of the entrepreneurs it targets to become its clients. The services of the bank are summarized as follows:

- To provide assistance in identifying strong project ideas and to inform entrepreneurs and project holders of economic and prospective studies carried out by ministerial departments. It puts entrepreneurs in touch with various public structures such as the Regional Development Offices and the Sectoral Technical Centers.
- To provide access to the sectoral databases held by APII, APIA and FIPA and to facilitate access of entrepreneurs to support and assistance structures for the creation of SMEs (business centers, business incubators, spin-off cells, Regional Development Offices, «entrepreneurial spaces» under ANETI, etc.).
- Directing entrepreneurs to support and assistance programs in the field of entrepreneurship set up by international organizations operating in Tunisia.[17]

17 "National mapping of entrepreneur support programs". AfDB-Ministry of Vocational Training and Employment Study -2018

Table 6 describes the different interventions of the BFPME in the before and after stages.

Table 6: BFPME non-financial services provided to SMEs before and after creation

	BFPME intervention	Programs and initiatives	Donors/ program sponsors	Program management agency
Before creation stage	Sourcing of SME projects and participation in the steering committee and/or other monitoring bodies of these programs.	Souk- Attanmia ANDI FEKRA AGRIPRENEUR 2.0 PROAGRO	African Development Bank Tunisie Télécom GIZ Italian Agency for Development Cooperation	African Development Bank Radio Express FM APIA APIA, in partnership with several other concerned organizations
	Organization of entrepreneurship competition and event sponsorship.	APII innovation competition Global Entrepreneurship Week – Tunisia Hult Prize Challenge 2021	APII Global Entrepreneurship Network UN	APII, in partnership with several actors of the entrepreneurial ecosystem IACE in collaboration with ecosystem partners University of Tunis
	Capacity building (Boot camps and coaching sessions), participation in jury work.	Univenture The National Student Entrepreneur Program	Carthage Business Angels European Union (ERASMUS+ project)	Wiki Start Up Agence Universitaire de la Francophonie
After creation stage	Mentoring: Assistance and guidance of entrepreneurs by experienced investors.	Accompaniment and loan of honor Mentoring, support and training	AFD French Embassy, Campus France and ATB	Tunisia Entrepreneurial Network MOOVJEE
	Collaboration in order for SME clients of the BFPME benefit from technical assistance programs for SMEs in Tunisia.	ISECO TUNISIA JOBS Technical assistance to SMEs / FAPA Fund Technical assistance to SMEs experiencing difficulties as a result of the COVID-19 pandemic.	GIZ USAID JICA and the Austrian Agency for International Cooperation UK Embassy in Tunis / OECD	GIZ USAID BFPME FMEP

4.4. Performance and achievements of the BFPME

4.4.1. Sophisticated business processes without an adequate information system

A sophisticated information system is required to underpin the capacity of the BFPME to operate effectively with its customers as well as its partners. However, the current information system of the BFPME does not even allow the management of the credit processes. It was acquired when the bank was established and has evolved by internal development without reaching global banking standards. Several critical activities such as database management are still handled manually or with the help of Excel spreadsheets. This situation compromises good governance and the reliability of financial information.

Identified as a major issue by the BFPME risk committee, the information system is under internal discussion for upgrading through a tender. The management is aware that before making technological choices for digital transformation, the bank's management system must be clarified and above all aligned with its business model. Migration to a new information system cannot succeed if there are no precise specifications for functional coverage and cross-functional applications (single repository, groups and users, rights and authorization, traceability and audit trail). The organizational vagueness and the procrastination on the economic model are preventing this project from moving forward. In the meantime, the board of directors has approved the leasing of an information system, pending the long and tedious process of a call for tenders.

Initially, the BFPME's loan policy was to grant medium and long-term loans to SMEs at a reduced interest rate and without guarantees, in addition to the investment in the project itself. The creation of enterprises in the interior regions was a bank priority, in line with the Sustainable Development Goals (SDGs).

Experience quickly showed that this segment presents a very high level of risk and uncertain profitability. This led the bank to focus more on expansion projects, thus neglecting business creation. This strategy not only harmed the market offer but also the image of the BFPME as the only development bank.

Even though the bank has launched new financing products and services, such as the participatory loans detailed below, it has found itself after 15 years of operation without a pipeline of quality projects and with cumulative losses in 2020 exceeding TND100 million.

The provision for bad debts peaked at 83 percent in 2020. This is largely due to the poor quality of the business plans submitted for the bank's due diligence, the lack of experience of the entrepreneurs targeted by measures focusing more on "social solidarity" than profitability. Other features include the lack of control over market risks, the cumbersome administrative procedures of all stakeholders and, above all, the unsuitability of the proposed financing scheme for «greenfield» projects. These have combined with the long time taken to assess applications and the multiplicity of panelist to ultimately result in low margins for development projects. A good number of projects could have succeeded if there was more flexibility in the financing schemes and if the working capital requirements were properly taken care of by the BFPME. The bank's low capitalization and the lack of a refinancing market quickly led the BFPME to explore other avenues to ensure its survival.

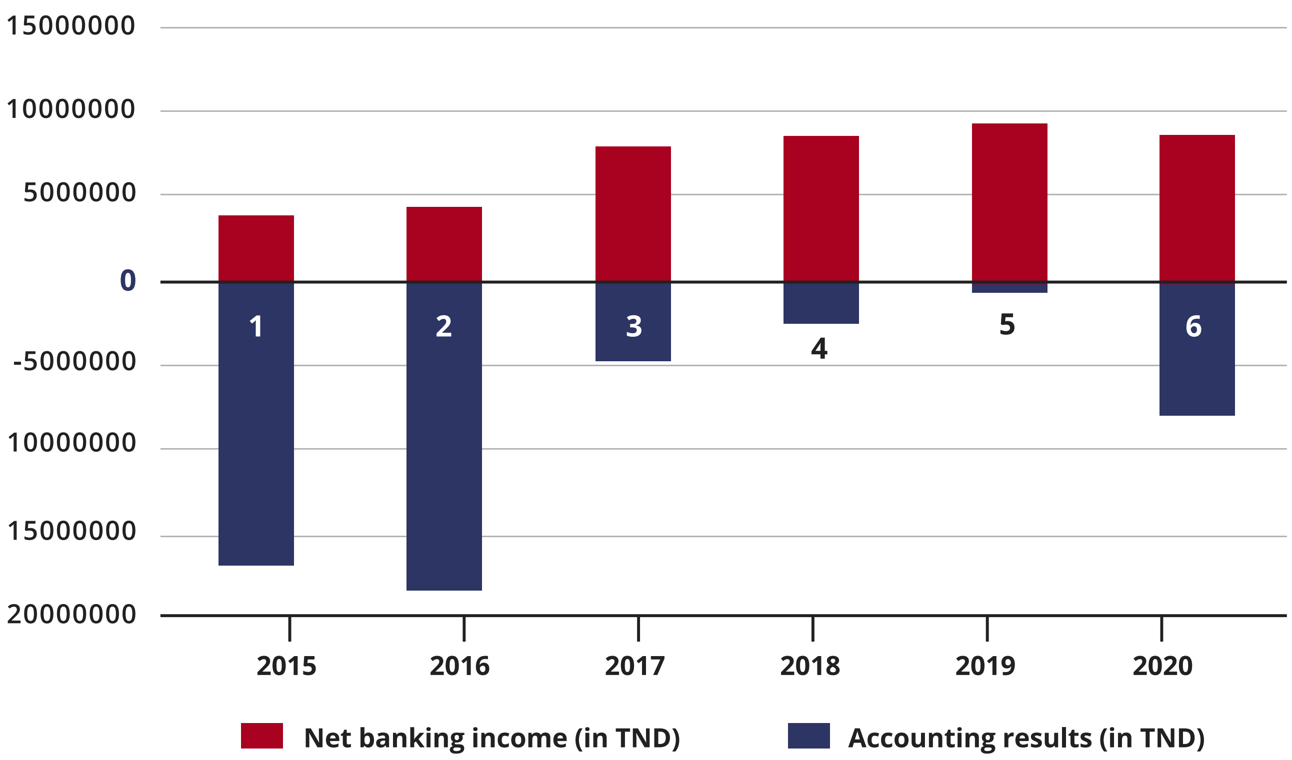
The situation changed with the agreement with the Swiss Fund donation of TND6.5 million to the BFPME in 2011 to overcome the weakness of equity capital of first-time entrepreneurs in the regions. For a fixed fee, the BFPME has managed to allocate about a hundred participatory loans at zero interest, thus, boosting projects that were on hold due to the non-completion of their financing scheme in 12 governorates. This experience, which is outside the BFPME's mandate, has opened up new prospects for collaboration with other donors such as the Qatar Friendship Fund (QFF).

Furthermore, this activity has generated not only a new growth dynamic in the market, but also the prospect of definite profitability for the bank with this asset class that has helped in temporarily overcoming its financial difficulties.

With a share capital of TND100 million, the BFPME is one of the smallest banks in Tunisia. Its universal bank license is not consistent with its mandate as a development bank since it does not have customer deposit accounts and cannot rely on a refinancing market, which does not exist in Tunisia.

Its financial statements show a significant evolution of net banking income which has been established at nearly TND9 million since 2018. On the other hand, profitability is still not assured given the almost permanent negative results (see Figure 5). In 2020, the bank recorded a record deficit of nearly TND8 million largely due to provisions for bad debts. According to the financial statements, the rate of pending receivables increased from 81.45 percent in 2019 to 83 percent in 2020.

Figure 5: Tunisia: net banking income and accounting results (in TND)



The jump observed in 2017 corresponds to the mobilization of special external resources, mostly from foreign donors. These special resources rose from around TND20 million in 2010 to TND277 million in 2020 (Table 7).

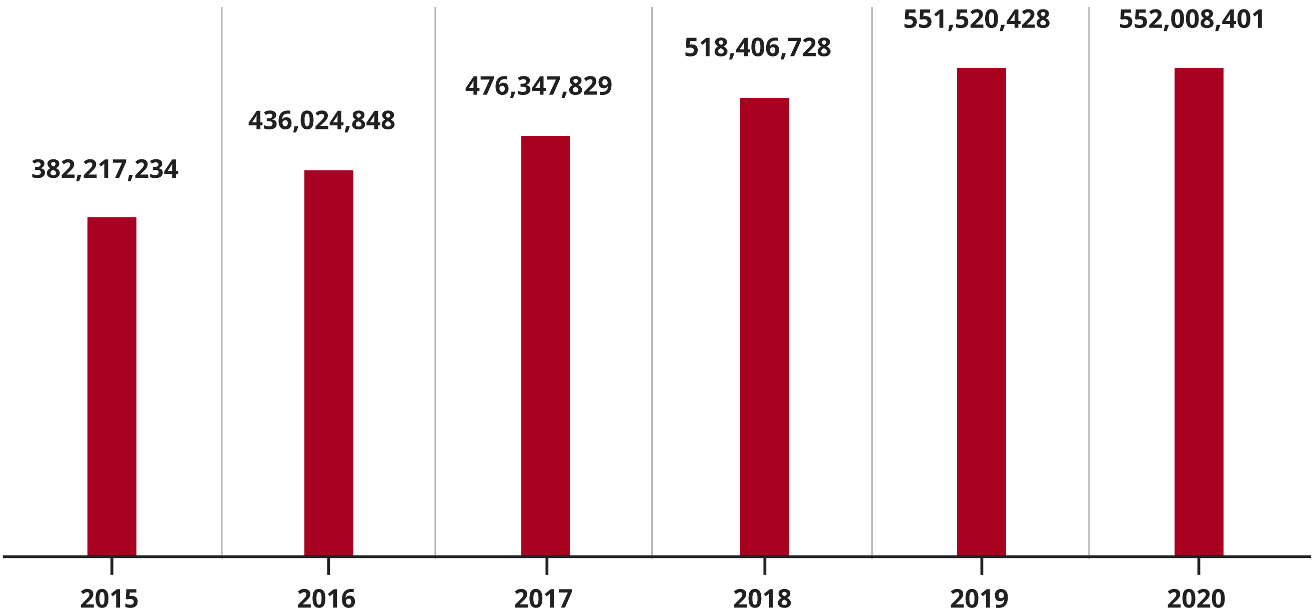
Table 7: BFPME. Special resources by origin (2020).

	December 31, 2020
Special resources from external sources	159 497 154
Italian line	7 203 832
Spanish line	508 011
FOCRED line	0
JBIC line	51 050 626
French Line	1 622 626
FADES line	28 689 000
IBRD line	3 562 746
BAD line	2 625 000
FADES 2 Line	38 012 925
ETAP "RSE PME Tatouine" fund	1 858 023
CPG Gafsa fund	2 421 151
FF Fund Remaining Grant (1)	6 230 722
ETAP "RSE PME Kebilli" fund	90 000
Line QFFT (2)	15 200 000
Subvention Fonds Suisse 2	422 492
Special resources from the budget	102 448 232
FOPRODI	12 428 865
RITI	297 319
INTILAQ II Fund	29 998 649
SME Support Fund PDFP	53 419 419
BADER Fund	5 211 310
FAR Fund	1 092 670
Debts related to special resources	15 119 622
From external sources (accrued interest)	403 590
From budgetary sources (accrued interest))	14 716 033
Total	**277 065 008**

Source: BFPME.

These resources have enabled the bank to provide new services to SMEs (such as equity loans) and have helped the bank to cover its operating expenses. However, they do not generate enough margin to cover the outstanding receivables and financial expenses that accumulate year after year.

Figure 6: Evolution of assets under BFPME management, 2015-2020 (TND)

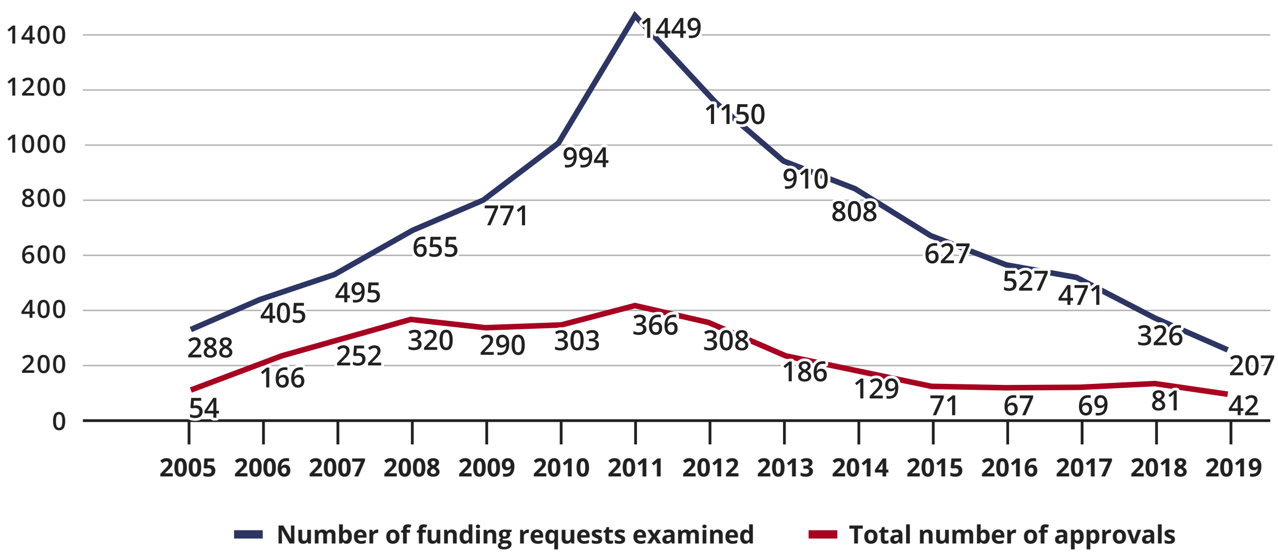


These special resources (public and foreign), in addition to customer and bank receivables, the liquidity and the investment portfolio are considered as the assets under BFPME management. These transferable assets represent, in a way, the intrinsic value of the bank. The BFPME has consolidated its assets under management (Figure 6) even though it recorded a loss of more than TND100 million by the end of 2020, thus finding itself in an untenable situation of negative equity. The BFPME must now accelerate its recapitalization and its restructuring in order to ensure its sustainability.

4.4.2. Analysis of the BFPME's customer portfolio

In 15 years of operation, the BFPME has processed 10,094 credit applications. It approved 1,723 projects with commitments of TND404 million. According to the bank's database, there has been a decline in applications since 2011 (Figure 7), as well as a clear correction in the rate and total amount of approvals (Figure 8).

Figure 7: Trends in funding requests and approvals, 2005-2019



Source: BFPME

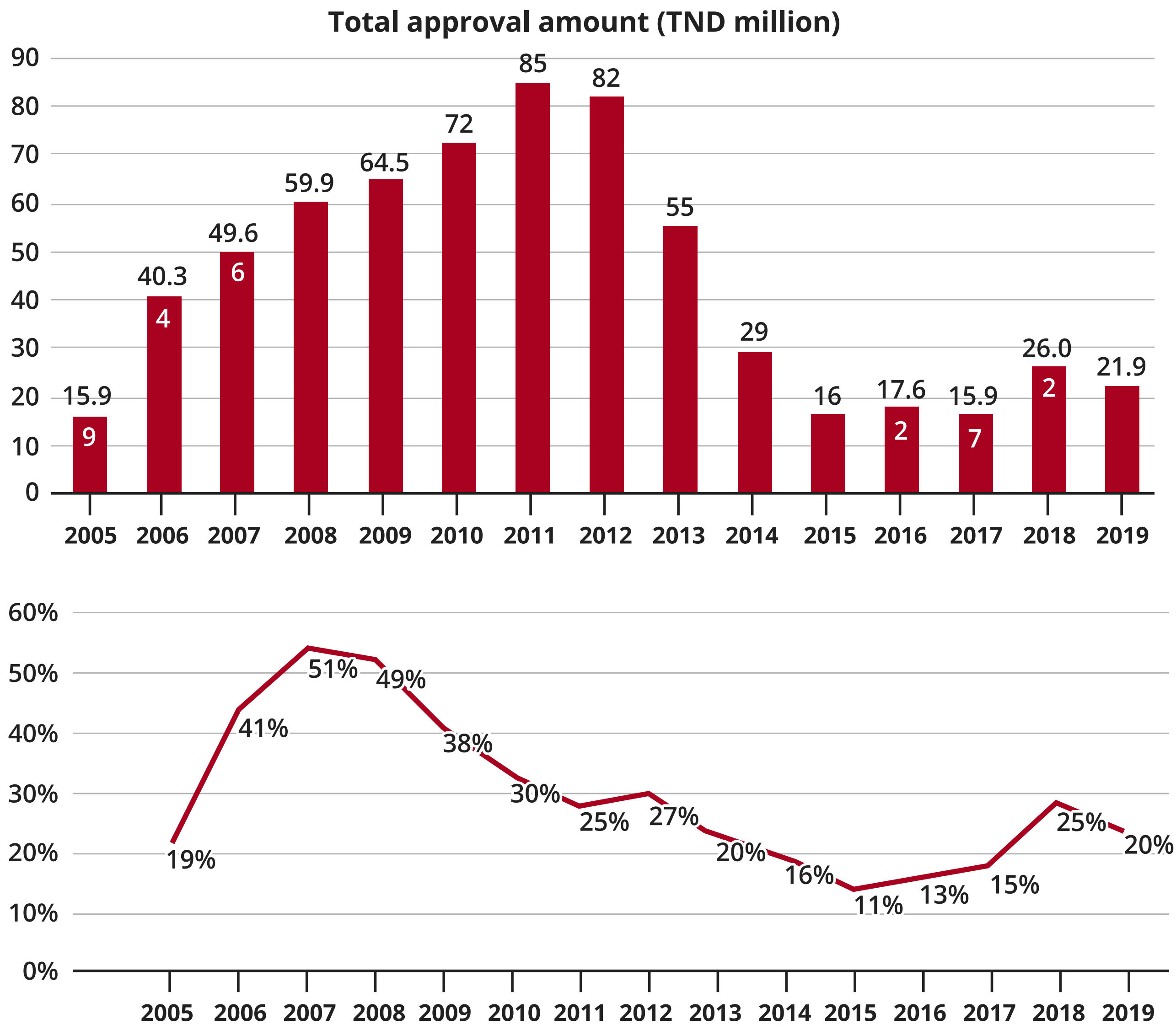
The BFPME plays a key role in the entrepreneurial ecosystem, by directing financing flows to priority sectors and regions. Over 15 years of activity, the BFPME has raised nearly TND1 billion as investment in SMEs. This amount remains modest compared to the financing needs of the economy, estimated at TND3.4 billion per year.

The BFPME receives several hundred applications for funding per year. A peak was observed in 2011 when it received 1,449 applications. The number of approvals peaked at 366 in the same year, decreasing to 42 in 2019.

According to the latest statistics, the BFPME approved a total amount of TND21.9 million for 42 projects in 2019. A decrease compared to 2018 of 15 percent in commitment and 48 percent in number of projects.

In 2019, the bank's new commitments break down as follows: 54 percent for extension projects against 44 percent for creation projects and three percent for restructuring operations. This shows a clear preference for extension projects, where the risk is lower. The best financed sectors are the agri-food industries, followed by the chemical and paper and cardboard industries.

Figure 8: Portfolio analysis, 2005-2019



Source: BFPME (2020)

Established in almost all the governorates of Tunisia, the BFPME had to adjust its appraisal of SMEs and adapted it to take into account the specific conditions of each region. The financing of extensions thus dominates, and the three leading regions are Kairouan, Sfax and Sousse.

Furthermore, it can be seen that in some cases, financing has progressively shifted towards micro projects and non-industrial activities (such as craftsmen and the professions). This shift in market positioning is explained by the scarcity of industrial projects, or rather the diversion of BFPME as an investment bank.

After the 2011 revolution, the number of applications for financing fell significantly. An APII report on the problems of enterprise creation in Tunisia noted the clear effect of the Revolution on the creation of new industrial enterprises.

The average number of industrial enterprises created per year thus fell from 470 over the period 2005-2011 to 292 over the period 2012-2015 (Table 8), a drop of around 40 percent. The number of potential jobs created also fell, from 33,000 to 16,000 over the same periods, with the average number of jobs per company falling from 70 to 54 over the same periods.

Table 8: Companies entering production and jobs generated, 2005-2015

	Average 2005-2011	Average 2012-2015
Number of new companies per year	470	292
Number of jobs created by new companies per year	33,000	16,000

Source: APII, 2020

According to the same APII report, the failure rate for companies with less than 50 jobs was 47 percent, while it was only 30 percent for those with more than 200 jobs. This confirms the fact that companies that manage to reach a certain critical size become more sustainable.

In summary, the market has seen fewer projects since 2011, smaller investments and fewer jobs generated. Financing flows have therefore tended to be directed more towards expansion investment rather than creation.

As the BFPME's market share represents about seven percent of enterprises created, there should be 7,350 jobs generated by the SMEs that went into production. This is far from the 30,000 jobs announced in the BFPME's reports.

This proves that the BFPME cannot evaluate the real number of jobs created by its clients. It has to deal with the asymmetry of information with partner banks and it is generally informed last when the SME encounters difficulties.

The influence of the commercial bank prevails in decisions to shelve and stop credit repayments by SMEs in difficulty. Indeed, as it is the commercial bank that finances the operating cycle (working capital), it has a direct and permanent relationship with the SME. This is not the case of the BFPME, which does not have a client account.

The indicators of the BFPME as of June 30, 2021 indicate that out of 1,106 firms in its portfolio, 635 are active, 53 still at investment stage and 418 closed. This high rate of closure can be explained by the risk profile that characterizes the portfolio of the BFPME. According to the statistics communicated in September 2021, 80 percent of the companies are classified between 3 and 4 according to the standards of the BCT, which reduces the recoverable part to only 20 percent of the total credits (in number of projects).

Despite this, the BFPME has a few success stories that can serve as examples for future entrepreneurs. These successes are not only due to the fact that these entrepreneurs have access to financing, but also to the general conditions of the business environment, the market potential, their technological mastery and the qualities of the management.

The example of Biome Solar Industry illustrates all this. The company represents one of the most outstanding success stories in the BFPME portfolio (see box below). The project in question is part of a national program called the Tunisian Solar Plan. This is being implemented with German technical cooperation and aims to create a market for solar water heaters in Tunisia.

4.4.3. Success stories

Example 1: Biome Solar Industry, an SME making its mark in Africa

Biome Solar Industry (BSI) was founded in 2006 by Mr. Ahmed Ernez, after more than 13 years of experience as an engineer with the National Energy Management Agency and in the renewable energy industry. It manufactures, markets, installs and maintains solar water heaters (SWH) using German technology. The company started with an initial production capacity of 8,000 units per year, which has grown to 16,000 units per year. After five years of existence, BSI has reached a turnover of TND66,000,000 in 2010 then TND16,100,000 in 2020 and projects more than TND19,000,000 in 2021. The company exports more than 40 percent of its production to Africa, Europe and France's overseas territories. Its workforce has grown from 20 to 130 employees between 2010 and 2020 with a management-to-staff ratio of about 30 percent.

BSI has been ISO 9001-2008 certified since December 2009 and has the German SOLAR KEYMARK certification for the CES range.

The year 2020 saw the creation and start of production of the industrial entity Kollector Biome Béja SA with a capital of TND2,300,000, involving relocating the production of its German partner Kollector BAU Berlin GmbH from Berlin to Béja. This operation enabled the total integration of the production of the solar panels and potential entry to the European market with quality products.

In addition to the entrepreneur's cash contribution, the initial financing scheme was as follows:

The German industrial partner brought 12.5 percent of the capital, the STB SICAR share was 47.4 percent and 30.1 percent was injected in the form of an equity loan by the BFPME, with a subsidized rate of 2. 5 percent. Operations were financed by bank credits and supplier credits.

In 2013, Biome benefited from another round of bank financing for its expansion amounting to TND1,235,000, of which TND285,000 was in the form of bonds convertible into shares, TND520,000 in the form of a medium-term credit from the BFPME and TND430,000 in medium-term credit from Amen Bank (a commercial bank).

The BFPME financed the creation of the BSI subsidiary, Biome Inox Industry with around TND720,000, of which TND200,000 was an equity loan in initial capital and TND520 000 as a medium-term credit. This subsidiary produces stainless steel tanks for specific markets.

As BSI is transparent in its management, it benefited from the special COVID-19 measures taken by the government in favor of SMEs. In this context, it mobilized bank credits of TND1.5 million at a money market rate + 1.5 percent.

BSI has been able to benefit from bank financing instruments reserved for the creation of SMEs and the financing of its operations to ensure its growth and finance its expansion.

It must be said that all the ingredients for success were present in BSI: a well-studied project with a German industrial partner and growing market demand, with the support of government facilities and incentives. On the financing side, a leverage effect was possible thanks to the contribution of the BFPME. With only 10 percent of personal contribution, and without any mortgage, the entrepreneur created his company by mobilizing the required initial capital of TND400,000. To this end, he had to take up compulsory insurance contracted at a rate of 1.5 percent with SOTUGAR. These incentives were complemented by other fiscal and social measures due to the fact that the company was located in a regional development zone (governorate of Béja). The lessons learned from this client, supported since its creation by the BFPME, are of several kinds:

- Support programs emanating from national development strategies generate opportunities for the creation of enterprises with high growth potential.
- The maturity of the entrepreneur is a guarantee of success for the project and facilitates dialogue with the bank.

Example 2: The Technopole of Sousse, an infrastructure success

One of the rare capital financing operations of the BFPME, the technopole of Sousse (specialized in mechatronics), is initially a public project. Like the Bizerte (specialized in agri-food) and Fejja-Monastir (specialized in textiles) technopoles, Sousse was under the authority of the Ministry of Higher Education and Scientific Research.

Sousse was privatized in 2009 through the Amen Bank, which mobilized TND5 million in capital, including 10 percent provided by the BFPME. The state retained a minority stake in the capital and transferred the land as an asset for a symbolic dinar, on the condition that the technopole does not sell or transfer the land.

The business model of the technopole covers the development and management of several areas of economic excellence. Called Novation City, its value proposition is based on three key concepts: Novation Mechatronic City, Novation Business City in Sousse and Novation Industrial City in Enfidha. Novation City's share capital rose to TND35 million in 2014, integrating the Caisse des dépôts et Consignations (CDC) to the tune of about 25 percent. The company generated a turnover of TND15 million in 2020. It employs 20 people and hosts about 50 companies employing more than 5,000 people. It is considering an imminent IPO to raise the TND25 million needed for its growth.

This atypical case of financing has given rise to interesting feedback for the BFPME, in terms of financial performance (a return on equity that will be confirmed with the IPO), entrepreneurial dynamics and societal impact (a technological showcase with 5,000 direct permanent jobs created in a dozen years).

This example of direct financing of an infrastructure dedicated to startups and SMEs (in a technology cluster) shows the importance of mixing financing vehicles (debt and equity) in innovation projects. The impact is much greater in terms of the SDGs, with an additionality effect for better risk control, not to mention the number of startups and SMEs that will benefit from a better environment to start up and grow. In the same way that a strategy for SME development should be considered, the development of the host infrastructure (tangible) and the business environment (intangible) should be considered.

4.4.4. Positioning of the BFPME at odds with the banking ecosystem

There is a paradoxical situation in Tunisia: a low level of bank credit to SMEs (estimated at 15 percent of total credit to the economy) and a high level of bank intermediation to the economy in general (77 percent of GDP).[18]

According to the World Bank's Doing Business 2018 report, Tunisia ranks 88th out of 190 economies. Loans (105th) and business creation (100th) remain the biggest challenges.

Table 9: SWOT analysis of BFPME positioning in the ecosystem

Strength	• Key role of stimulation of the entrepreneurial ecosystem with a regional network in all the governorates of Tunisia. • Strong capacity for investment due diligence (extension)	• The bank is not competitive on LMCs • Exposure to high operational risks • Dependence on the State budget for refinancing	**Weakness**
Threat	• Inadequate governance which is not aligned with the challenges and modus operandi of a development bank • Anchoring in development policies not linked to specific objectives and means	• Evolution of the business model • Partnership with national and international donors • Prospects of development finance (alternative finance, meso, leasing,...)	**Opportunity**

In Tunisia, as in most developing countries, banks remain the main source of intermediation for financing the economy. However, with a share not exceeding 15 percent of total loans, bank loans to SMEs remain insufficient. This level of bank credit in relation to GDP remains below potential and even below that of neighboring countries such as Morocco which has total credits amounting to 24 percent of GDP.

A more detailed analysis over a long period (1993-2016) of the distribution of loans to the economy shows that the shares of agriculture, fishing and industry have been declining steadily in favor of consumer loans.

Should there be a development bank in Tunisia? What would be its positioning in relation to commercial banks? In focus groups involving banking ecosystem stakeholders, the responses to these questions are almost unanimous on the need to have a development bank, provided that the economic model is changed. The SWOT matrix (Table 9) drawn up during the focus group discussions shows the main opportunities and challenges that the BFPME has to face.

Furthermore, the experience of delegated management of public funds (FOPRODI, IntilaQ, Bader) has produced convincing project performance and bank results. This has enabled the bank to attract special concessional lines from international donors (Swiss Fund, Spain, JICA, France, World Bank, AfDB, etc.).

18 Source: World Bank (2014).

A more detailed analysis shows that the bank is subject to constraints and risks that are due not only to internal factors, but also to external ones, as shown in the following PESTEL[19] matrix (Table 10):

Table 10: Analysis of PESTEL factors on the BFPME

Factors	Impact
Policy	Delayed implementation of reforms blocks measures to promote private investment
Economic	The arrival on the market of new players in alternative finance (CSR funds, impact funds, etc.) creates competition for the BFPME
Social	Focusing priorities on specific social categories (first-time entrepreneurs, micro and meso finance, gender, etc.)
Technological	Generalization of the digitalization of services and valorization
Environmental	Strategic targeting of the SDGs through programs such as the Tunisian Solar Plan (Renewable Energy)
Legal	Institutionalization of cooperation among ecosystem stakeholders is needed for better implementation of the new legal framework for investment

19 PESTEL is a tool to analyze the impact of external factors on the strategy of the organization. Available at Tunisia PESTEL Analysis - Comprehensive Country Outlook (marketpublishers.com).

5. Summary of findings, conclusion and recommendations

5.1. Summary of findings

With a commitment of TND432 million (US$170 million) at the end of 2020 and more than 1,100 SMEs financed (out of a total of 15,000), the BFPME is an important asset in the development finance landscape in Tunisia. Even if only one out of five clients is solvent (Figure 9), it can be considered to have played its role as an economic engine, according to the affirmation that credit to the private sector contributes to economic growth (Ben Jedidia et al., 2014).[20]

While the breakage rate could have been lower if the overall environment and support services offered were more favorable, the risk of failure is high in emerging markets such as Tunisia.

Even if some SMEs financed by the BFPME have shown that they are capable of becoming success stories, their number, over a period of 15 years, does not make it possible to confirm the positive association between development financing and economic growth (King and Levin, 1993).[21]

The macroeconomic conditions in which the BFPME has evolved could explain the limitations of its contribution to economic development. Indeed, according to Bittencourt (2012),[22] greater financial development requires better macroeconomic performance. It seems that this fact was not properly integrated into the initial thinking that led to the creation of the BFPME. Other mistakes were made, such as the limitation to a mono-product offer, namely medium- and long-term credit; the rigidity of the financing scheme, and the ponderous administration.

Moreover, to strengthen the long-term relationship between the financial system and the productive economy, an appropriate institutional framework is essential. For this, policy reforms and the implementation of more effective legal and fiscal provisions are required (Ben Jedidia et al, 2014).[23]

Moreover, to strengthen the long-term relationship between the financial system and the productive economy, an appropriate institutional framework is essential. This requires policy reforms and the implementation of more effective legal and fiscal provisions (Ben Jedidia et al., 2014).[24]

In addition to the absence of such an institutional framework for the development bank, the inappropriate regulatory conditions and political instability of the last 10 years have put the BFPME in a position where it can no longer fully fulfil its mandate.

20 Ben Jedidia, K. , Boujelbène, T. and Helali, K. (2014). Financial Development and Economic Growth: New Evidence from Tunisia, Journal of Policy Modeling, 36(5), 883-898. https://doi.org/10.1016/j.jpolmod.2014.08.002.

21 King, R.G. and Levin, R. (1993), Finance and Growth: Schumpeter Might be Right, The Quarterly Journal of Economics, 108 (3), 717-737. http://links.jstor.org/sici?sici=0033-5533%28199308%29108%3A3%3C717%3AFAGSMB%3E2.0.CO%3B2-4.

22 Bittencourt, M. (2012) Financial development and economic growth in Latin America: Is Schumpeter right? Journal of Policy Modeling 34 (3), 341-355. https://doi.org/10.1016/j.jpolmod.2012.01.012.

23 Op Cit.

24 Op Cit.

On the political front, the strategy of the BFPME is to become a vehicle that capable of contributing effectively to economic development, and to handle three interdependent challenges, namely: continuity, performance and consolidation of the ecosystem.

The continuity challenge requires financial restructuring and recapitalization to absorb accumulated losses. The cleaning up of bad and doubtful debts could be done, if necessary, via a *Bad Bank*. This requires the enactment of legislation for specific development bank status with ambitious strategic objectives supported by appropriate governance rules.

The performance challenge requires a revision of the economic model as well as a repositioning on the market. Indeed, the mission of financing SMEs, whether directly or through the banking sector, will have to take on a new dimension and integrate several forms of public and private financing vehicles to reach performance thresholds in line with the needs of the economy while remaining aligned with the SDGs.

The challenge of consolidating the ecosystem points to better cooperation to accelerate the creation of businesses in all economic sectors. However, the development of the bank cannot be achieved without the development of the financial system, which in turn depends on the entrepreneurial ecosystem. The various stakeholders will have to align their vision of development finance and share strategic information more quickly to improve overall performance.

5.2. Conclusion

The BFPME has already started to redefine its mission and its business model. The recent decision to separate the functions of the chairman of the board of directors and the chief executive officer shows that there is a willingness to embark on a new era of governance. A restructuring plan is being prepared and will require recapitalization to bring the bank out of the critical situation of negative equity. Specific budgetary and extra-budgetary financing lines will have to be made available with drawing rights tied to predefined objectives, including the societal component.

The BFPME has two main options: either it can continue to maintain its monopolistic status as a national development bank and act in conjunction with local financial players (extension of the current model with a specific mandate and status), or it can be transformed into an on-lending financier (a model advocated by the Bank of the Regions project) which would support commercial banks, which in turn would become development banks. The financing lines could be either in debt or in capital, which would give the BFPME a better grip on all types of public and private development financing instruments.

At the same time, and in order to consolidate its position as a leading public player, the BFPME will have to work more with the actors of the ecosystem to reduce the mortality rate of SMEs, design new products and appropriate financing services and measure their impact on the market. The bank could thus attract new non-budgetary resources, in particular foreign facilities (FADES, IsDB, QFF, EIB, IBRD, etc.) or funds to be managed by delegation on behalf of the public and private sector (CSR funds in particular).

Dealing with the bad debts of the BFPME is an unavoidable project to better understand the causes of the failures of the SMEs and to restore confidence in the bank's capacity to select suitable clients for support. Moving into productive sectors other than industry would allow the bank to better manage its risk. In this regard, smokeless industries, as proposed by Mouley et al. (2021)[25] could be a prime target for economic recovery in Tunisia.

Installation of an adequate information system for the digital transformation of the bank will ensure better performance. This goes beyond the automation of business processes and services offered by the bank. A stock market listing could, in the long run, be a guarantee of greater transparency and independence from direct political influence. At the same time, it would facilitate the bank's access to capital markets, which is essential for its development and sustainability (Pradhan et al., 2014).[26]

Finally, the status of the bank and its shareholding will be reclassified to ensure better compliance with the rules of governance. The entanglements of holdings in the capital of public enterprises would probably be replaced by a common public investment fund that would represent the state in its capacity as investor in the BFPME. This would avoid convoluted arrangements and interference of interests between public entities. In all cases, particular attention should be paid to the composition of the board of directors and its mode of operation which is, in principle, accountable for maintaining good governance, and ensuring strategic banking policies that align with national development priorities.

5.3. Policy recommendations

The viability of development finance remains dependent on the existence of a favorable business environment. It is obvious that a development bank model cannot succeed without: (1) strong partnerships with commercial banks, (2) financial transparency and (3) reliable risk ratings accessible to professionals.

The first experiences of development banking in Tunisia are in this respect very instructive. Their analysis will make it possible to better define the scope of development finance, which may have different definitions according to the context, the expected impact, the beneficiaries, and so on. This is why development finance deserves a clear definition, backed by a formal policy that can be reviewed and understood by all economic actors.

In an emerging country, all banks, including commercial ones, are supposed to do development finance. This also means considering banks as organizations that contribute not only to the financing of companies, but also to the development of an efficient financial ecosystem.

National development bank experience proves that it is difficult to implement a profitable economic model, and above all to cover the financing needs of all economic sectors solely through the state budget. In addition, to enlarge the development finance impact, it is crucial to attract commercial finance and supply all economic sectors, including all marginalized areas.

25 Mouley, S. and Elbeshbishi. A.N. (2021). Addressing youth unemployment through industries without smokestacks. A Tunisia case study. September, Africa Growth Initiative at Brookings, AGI Working Paper 38. https://www.brookings.edu/wp- content/uploads/2021/09/Tunisia-IWOSS_final.pdf.

26 Pradhan, R. Tripathy, S. Pandey, S. and Bele, S.K. (2014). Banking sector Development and economic growth in ARF countries: the role of stock markets. Macroeconomics and Finance in Emerging Market Economies, 7(2):208-229. http://dx.doi.org/10.1080/17520843.2014.913071.

Stimulating and accelerating investment usually depends on the way the state orients tax advantages and encourages risk taking according to the principle of subsidiarity. Thus, the NDB's role can be consolidated to become a finance bank for commercial banks. The NDB will no longer give direct credit to entrepreneurs, but via commercial banks or investment fund managers. Entrepreneurs, whether they are in the creation, development or expansion phase, will no longer turn to the NDB, but rather exist as venture capitalists or turn to a local bank. Financial arrangements can be complex depending on the project. However, all the capital raised will be accounted for in the development finance asset class. This would enable more development project funding, and a better control over the performance indicators of the development finance asset class.

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Annex 1: Main indicators of Tunisia's national accounts, 2005-2018
(In million TND, unless otherwise indicated)

Year	Gross domestic product (previous year constant prices)	GDP exluding agriculture and fishing	Value added of agriculture and fishing	GDP at current prices	Gross national savings	National savings rate (in % of GNP)	Gross fixed capital formation	Investment rate (in % of GDP)	Job creation (in thousands of jobs)
2005	21,368.0	18,890.0	2,478.0	37,767.0	8,037.0	21.4	8,395.0	22.2	76.5
2006	44,239.0	40,095.0	4,144.0	45,756.0	9,865.0	21.6	10,333.0	22.6	76.4
2007	48,620.0	44,339.0	4,281.0	49,874.0	10,709.0	21.6	11,490.0	23,0	80.2
2008	51,129.0	47,850.0	4,279.0	55,297.0	12,228.0	22.3	13,004.0	23.5	70.3
2009	56,829.0	52,095.0	4,734.0	58,883.0	13,055.0	22.1	14,189.0	24.1	43.5
2010	63,054.8	58,303.9	4,750.9	63,054.6	13,379.8	21.1	15,502.6	24.6	78.5
2011	61,845.6	56,506.5	5,240.1	64,492.4	10,402.3	16.1	14,096.0	21.9	-106.7
2012	67,008.2	61,183.2	5,825.0	70,354.4	11,699.1	16.4	15,824.2	22.5	85.1
2013	71,984.4	65,822.2	6,162.2	75,144.1	11,130.6	14.6	16,465.7	21.9	112.9
2014	76,944.4	69,943.4	7,001.0	80,865.4	11,367.4	13.8	16,435.2	20.3	45
2015	81,849.2	73,537.0	8,312.2	84,689.1	9,382.8	10.9	16,808.9	19.8	-11.7
2016	85,635.6	77,669.9	7,965.6	89,792.1	8,604.5	9.4	17,366.5	19.3	34.7
2017	91,530.8	82,930.2	8,600.6	96,324.5	8,730.9	8.9	18,138.7	18.8	43.3
2018	98,771.4	88,525.2	10,246.2	105,679.1	10,006.5	9.3	19,566.0	18.5	27.7

Source: Central Bank of Tunisia (www.bct.gov.tn)

Annex 2: List of stakeholders

Name		Position	Organization
M.	Lebid Zaafrane	CEO	BFPME
Mr.	Hamdi Ksiaa	Communication & PR manager	BFPME
Mr.	Marouane Ouederni	Deputy CEO	BFPME
Mr.	Mohamed Ali Dabki	Board Chairman	BFPME
Ms.	Wafa Sfar	Board Member	BFPME
M.	Mourad Ben Arab	Board Member	BFPME
M.	Marouene Abassi	Governor	Central Bank of Tunisia
Mr.	Nabil Felfel	DG	Central Bank of Tunisia
Ms.	Rym Ayadi		Central Bank of Tunisia
M.	Jaloul Ayed	Former Minister of Finance	Government
Ms.	Sonia Zoghlami	DG Financement	Ministry of Finance
Ms.	Nejia Gharbi	DGA	Caisse des Dépôts et
Ms.	Olfa Chammari	Chargée de mission	Caisse des Dépôts et
M.	Omar Bouzouada	CEO	Agency for the Promotion of Industry and Innovation
Ms.	Sinda Zairi		Agency for the Promotion of Industry and Innovation
M.	Saber Rehayem		CMF (Financial Market Authority)
M.	Abdelhakim HAMDI	Deputy General Manager	SOTUGAR
M.	Taher BEN HATIRA	CEO	SOTUGAR
M.	Fredj Jatlaoui		SOTUGAR
Ms.	Mouna Saied	Managing Director	Professional Association of Banks and Financial Institutions
Ms.	Faten Lassoued		Professional Association of Banks and Financial Institutions
M.	Mohamed Salah Frad	President	Tunisian VC & PE Association
Ms.	Sonia Barka	CEO	Tunisian VC & PE Association
Ms.	Safia Hachicha	Financial sector specialist	World Bank
Ms.	Zouhour Karray	Trust Fund manager	World Bank
Ms.	Alexandra Chauveau		AFD
Ms.	Isolde Roumy		AFD
Ms.	Beate Richter	Director / Tunis Office	KfW
M.	Slim Tounsi	Private Sector Director	KfW

Private Sector Development (PSD)

Challenges and Changes: The Political Economy of National Development Banks in Africa

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