TUNISIA

CAUTIOUSLY OPTIMISTIC

2013
ISLAMIC FINANCE
COUNTRY REPORT

JUNE 2013

A Joint Initiative of

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General Council for Islamic Banks And Financial Institutions

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Democratisation of Intelligence: From the heart of the Arab Spring

"The new source of power is not money in the hands of a few but information in the hands of many." — John Naisbitt

This quote is often used by many of my Thomson Reuters colleagues and I don't shy away from repeating it because it resonates very strongly for what we stand for. In this day and age, knowledge is a key source of power.

Thomson Reuters is in a privileged position as gatekeepers of data, information and intelligence and it is our social responsibility to find ways to democratise access to such knowledge. Our partners, the Islamic Research & Training Institution ("IRTI") and the General Council for Islamic Banks and Financial Institutions ("CIBAFI"), two leading institutions in charge of the development of the Islamic Financial Services industry, share our vision for an accessible and transparent Islamic finance industry.

It is for this reason we decided to make our report free for public consumption, so that those with any interest in Tunisia as an investment destination would find no hindrance in accessing quality intelligence drafted by three well respected infrastructure entities.

Institutions looking to set up operations or Islamic finance businesses in Tunisia or transact with Tunisian financial institutions should not have to pay a six figure consulting fee before they even engage the market. Instead, such intelligent insight should be a public good that is funded by other more creative means.

And intelligent insight it is. With our partners we have gone through deep in-country research involving the travel of our own analysts to Tunisia to interview key parties and stakeholders combined with more than 600 surveys of the Tunisian population right across the country, boosting the unique unprecedented value of this report.

We are proud to be a brand synonymous with quality, independence, objectivity and most importantly integrity.

I sincerely welcome you on your exploration of the Tunisian market particularly in relation to Islamic finance.

Sayd Farook

Dr. Sayd Farook
Global Head Islamic Capital Markets
Thomson Reuters

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Since its Inception in 1981, the Islamic Research and Training Institute (IRTI) has been one of the major institutions that contributed to the development and dissemination of knowledge in Islamic Economics and Finance through research, advisory, capacity building and provision of information services. Today IRTI is even more ambitious in the accomplishment of its mission since it aims to be the global knowledge center for Islamic economics and finance by 1440H. The different activities of IRTI have directly or indirectly contributed to the development of the Islamic Financial Services Industry (ISFI) which has witnessed a steady and strong growth in terms of assets, mobilization of savings and diversification of investments.

The recent financial and economic crises and the political-social transformation in many countries after the Arab Spring accentuated the interest in the IFSI. In this context, an increasing number of policymakers, practitioners and researchers are looking for credible and rigorous information and analysis about the available opportunities of the IFSI in different countries specially those where governmental incentives to the development of this industry are increasing. The Islamic Finance Country Report (IFCR) is therefore a timely designed product that aims to provide a comprehensive coverage of the Islamic finance industry characteristics in each one of the OIC countries.

This report is the output of a joint and strategic partnership between IRTI, Thomson Reuters and CIBAFI, three institutions who decided to put together their complementary expertise in order to offer to the public the best analyses and insights. In its first edition, it gives me a pleasure to invite you to discover the opportunities of the ISFI in Tunisia a promising IDB member country.

Dr. Mohamad Azmi Omar
Director General, IRTI

A new era has started in Tunisia after the recent revolution, and it is a must to pay a lot of attentions to the changes the current economic and financial system is going to face in case new regulations will allow Islamic Finance institutions to operate effectively and efficiently.

During the course of the Islamic finance industry which is only four decades old, Tunisia has not benefited of such an equitable and just system. Very few Islamic finance institutions were established since 1983.

This report covers the Tunisian economic landscape and studies the country strengths, weaknesses, opportunities and threats so as to enhance local as well as foreign investments by offering an auspicious investment climate in Islamic finance sector.

Tunisia has a highly qualified human resources power that is willing to learn much in Islamic Finance, and consequently to give much to the industry. The strong savings culture among Tunisians is likely to create an Islamic finance environment full of opportunities for retail banking as well as investment and wholesale banking.

The tendency in the country towards Islamic finance services requires a legal structure that enable the IF institutions to grow in a very constructive and supportive environment with a separate and full fledge legal entities. Conventional Banks should not be allowed to offer Islamic Finance services as this will weaken a strong growth of the new Islamic Banks in the Tunisian economy.

The regulatory framework should be further enhanced to allow for different kind of techniques and tools that comply with the requirement of the new financial products. A full range of consumer protection framework is needed for a very transparent and progressive industry. We are very hopeful that this report will contribute positively to the new challenging and opportunities open for new capital to move into the Islamic Financial industry in New Tunisia.

Dr. Omar Hafiz
Secretary General
CIBAFI, Bahrain

General Council for Islamic Banks And Financial Institutions
CIBAFI

EXECUTIVE SUMMARY

Tunisia is in the process of emerging from its historic 'dignity revolution' and has set a fundamentally new course for its future. The Dec 2010 protests against the then government due to high unemployment, corruption, high food prices and little public transparency and accountability eventually led to the ouster of President Ben Ali on 14 January 2011. Even with the ensuing tense political climate, a much more representative governance is emerging. Tunisians are expecting many areas of socio-economic development that had previously not been accessible to all. One area of previously latent need was Islamically compliant financial services and solutions. This report presents a comprehensive view on the Tunisian economy, its financial services landscape, its limited existing Islamic finance activity, and presents the potential for Islamic finance development and investments.

Politically, Tunisia is going through its last phase of transition to an envisioned representative democracy. With a successful first phase elections in Oct 2011, the Constituent Assembly formed was given the mandate to draft a new Constitution and announce general elections within two years. This final phase of drafting the constitution has been marred by ideological differences between the Constituent Assembly election winners, the conservative Ennahda party, and the other more secularly oriented coalition and opposition parties. The situation was further aggravated by the assassination of an opposition party leader Chokri Belaïd on February 6, 2013 that has stalled the smooth transition. The earlier announced parliamentary and presidential elections for June 2013 have now been postponed given the Prime Minister, Hamadi Jebali's resignation and dissolution of the Cabinet since the Shokri Belaid's assassination. Now, as of the writing of the report, the coalition have formed a new governmentwith a new prime minister, Ali Larayedh, still from the Ennahda party. Mr. Larayedh has named a new government that includes several respected non-partisan figures with Ennahda legislators having the most seats in the assembly. The National Constituent Assembly had proposed that the charter be adopted in July, with elections to be held in October.

Macro-economically, Tunisia is classified among the higher middle-income countries with a GNI per capita (based on Atlas Method current US$) of $4,070 in 2011 and a population of 10.7 million (2012) of which more than two thirds live in the urban areas. The recent revolution (December 17th, 2010 - January 14th, 2011) brought to the fore the state of the country's economic development – that it was not inclusive and had not benefited all social categories. This exposes the country to two urgent economic challenges: The first is the need to reduce unemployment (17% in 2012) particularly among young graduates, while the second challenge is coupling rural and interior regions to the dynamic of economic development (29% population in the center-west region under national poverty line).

Tunisia has a vibrant and developing economy. According to the Tunisian Institute of Statistics the real GDP growth during2012equaled 3.6% and the IMF estimates places it on a positive trend reaching 6% by 2017. Also, compared to an expected drop in foreign direct investment (FDI) in 2011, 2012 has shown a strong recovery with FDI and portfolio investment reaching 3.08 billion TND ($1.98 billion) compared to 1.72 billion TND ($1.1 billion) in 2011, thus registering an increase of 79.2 %.

Tunisian Republic & Islamic Banking

HUMAN DEVELOPMENT INDEX HIGH #94 OF 184

Egypt #112, Algeria 93,
Morocco 130 (UNDP, 2013)

UNEMPLOYMENT 17%

Egypt 12.7%, Algeria 9.7%,
Morocco 8.8% (UN, 2011)

FDI UP 79.2%

to US$ 1.98 billion
(FIPA 2011-2012)

EASE OF DOING BUSINESS 50 OF 185

Egypt #109, Morocco # 97
Algeria #152 (UN, 2011)

ISLAMIC BANKING OPPORTUNITIES

- Sukuk issuances
- Local Islamic banking
- Islamic 'Windows'
- Islamic investment funds
- Takaful
- Islamic microfinance

POPULATION 10.7 million

Egypt 8x of Tunisia and Morocco,
and Algeria are more than 3x (UN, 2011)

GDP/CAPITA US $4,152

Egypt $3,109, Algeria $5,660,
Morocco $2,988 billion (current): (IMF 2012)

GDP US $45 billion

Egypt $255 billion , Algeria $207 billion,
Morocco $97 billion (current): (IMF 2012)

GDP GROWTH 2.2%

Expected to be 6% in 2017. (IMF 2012)

Trade 10%
Transportation 9%
Telecom 6%
Tourism 8%
Electrical & Mechanical 8%
Agri & fishing 11%

S — STRENGTHS

- Population inclined toward sharia compliance
- Supportive Government initiatives (Sukuk planned)
- Recent investment activity
- Islamic Banking functioning although constrained

W — WEAKNESS

- No specific regulations (however expected soon)
- A big gap in understanding of Islamic Finance
- Limited sharia financing ecosystem

O — OPPORTUNITIES

- Strong demand — potential of reaching 40% of total financial assets in 5 years
- Islamic banking 'Windows' have support
- Sizeable non-banked and conventional bank customers interested

T — THREATS

- Delay in Islamic finance regulations adoption will have adverse investor confidence impact
- 'Adhering to Islamic rules' a critical challenge to Islamic banking adoption

The Tunisian financial sector is small and mainly dominated by banks. Their total assets contribute about 115% of total GDP as of 2011. There are 21 resident banks including three big state-owned banks that account for 37% of banking sector assets, three large private local banks that constitute 28% and 6 foreign-owned private banks that have 28% of banking sector assets.

The Central Bank of Tunisia has taken major steps towards increasing banking supervision. After the uprising, the Central Bank highlighted its objective of creating robust banking supervisory practices. According to the 2012 IMF report on Tunisia's Financial Stability, this plan includes a new organization, and reassignment and recruitment of staff. The Central Bank also adopted a new corporate governance regime for commercial banks to increase the role and independence of commercial bank Boards.

UNIQUE TO THIS REPORT — TUNISIAN SURVEY with focus on retail Islamic finance Consumer Survey insights: Unique and exclusive to this report is a national retail financial services usage and perception survey (with particular focus on Islamic finance) that was conducted online and offline with a representative target sampling from key geographic areas of Tunis (metropolitan area,) Sfax, Sousse, and rest of the country. With 701 fully completed responses the insights have a 95% confidence level with a +/- 4 confidence interval. Key insights concluded:

A retail banking environment full of opportunities:

1. Low satisfaction level highlights opportunity to gain customer loyalty
2. A strong savings culture among Tunisians
3. A sizeable unbanked population (7% of respondents)
4. ATM services and low fees top considerations in using financial services; Islamic compliance is in the top four of considerations

Major interest in Islamic banking with key expectation around adherence to Islamic rules:

1. Majority do not currently bank with an Islamic Bank
2. A sizeable interest in Islamic banking from those currently not using it: from those respondents who are not using Islamic banking today or any financial services, 46% said they would be interested in Islamic banking.
3. Interest in Islamic banking is high regardless of risk to capital or lower rate of return
4. Sizeable numbers open to Islamic banking 'windows'
5. 'Adhering to Islamic rules' critical challenge to Islamic banking adoption

Target audience seeking better education on Islamic banking:

1. A big gap in understanding of Islamic finance
2. 'Education' of Islamic banking a big need

Islamic finance demand & expert insights: Tunisia today has two Islamic banks with very limited local banking activity representing 2% of total financial assets. Currently, there is no specific Islamic finance law and this has limited Islamic finance's growth despite its potential. The demand for Islamic financial services however has been validated by the retail survey presented in this Report. This demand is further validated by the socio-political dynamic in Tunisia that shows a suppressed Islamic finance market need that is ready to be realized in a post-revolution environment.

A comprehensive Islamic finance regulatory framework covering sukuk issuance, banking, takaful and even zakat and waqf has been drafted and is awaiting Government review and adoption. Assuming Islamic finance regulations will pass in 2013 or in early 2014, and a stable future government is functioning by mid 2014, we present two scenarios of Islamic finance potential in Tunisia. **Based on the two scenarios, Islamic finance assets are estimated to reach $28.5 billion in 2018 under scenario 1 or $ 17.8 billion in 2018 under scenario 2.**

In a key sign of further support to the industry, the government, had announced in 2012 that Tunisia intends to issue sukuk (commonly referred to as Islamic bonds) worth up to 1 billion TND ($630 million) in 2013 to plug the country's budget deficit.

The study further gathers original insights through nine different industry stakeholder interviews. They represent the Tunisian Ministry of Finance, Central Bank, AlBaraka Bank, Zitouna Bank, Bank International Arabe de Tunisie (BIAT,) and Tunisian Institute of Strategic Studies. Overall the interviewees provide cautious optimism in terms of the potential and development of Islamic finance.

Islamic finance investment scenarios and industry development: In conclusion, tying the analysis to the objective of the report, the report summarizes key Islamic finance sector investment scenarios in Tunisia. In regards to overall political stability and Islamic finance regulatory changes, the Report sees a high probability that core aspects of a robust Islamic finance regulatory framework will be in place by late 2013 or early 2014 with relative political stability by mid 2014 as well. Some key areas of investment consideration include:

- Government's planned sukuk issuance is expected to kick start investor interest with domestic corporate sukuk issuances
- Investments in local Islamic banking is a key area to follow
- Islamic 'windows' can have a significant play
- Takaful market is in its infancy with strong potential
- Islamic private investment funds should find opportunities in export oriented industries and SMEs
- Islamic microfinance can serve a large gap in the market

Besides the obvious initial hurdles towards realizing these specified opportunities (hurdles being regulatory and political challenges), two additional key challenges will also have to be addressed to realize these opportunities. The first is the ability for all segments of Islamic finance (banks, takaful companies, funds) to stimulate demand and deepen their offerings to attract customers both retail and institutional. Second, addressing the big gap in educating consumers about Islamic finance is key to building confidence in this market.

In regards to industry development, four key areas of recommendations are presented covering priority for developing the industry ecosystem, the demand drivers, offering depth and reach as well as a supporting environment. Key initiatives highlighted relate to formation of an industry association, developing Islamic finance public awareness programs, and establishing governance best practices and their monitoring.

ACKNOWLEDGEMENTS

"A significant industry-developing initiative can only be crafted with the contribution and the close-collaboration of group that share a mutual vision of enhanced transparency and quality of financial services. The outcome of the Tunisia Islamic Finance Country Report is believed to harness the needs of the Islamic financial industry — for Financial institutions, suppliers and customers — debuting information about the Islamic finance opportunity in Tunisia while allowing them to make informed investment decisions"

The Report is based on 4 months of work, with the joint effort of the Research team of the Thomson Reuters Islamic Finance Gateway Service, the Islamic Research and Training Institute (IRTI) — a member of Islamic Development Group (IDB), the General Council for Islamic Banks and Financial Institutions (CIBAFI), and DinarStandard consultancy.

Special thanks are also due to Mr. Jalel Tebib — Advanced Technologies Promotion Director, The Foreign Investment Promotion Agency, and Mr. Aymen Triki, Contribution Manager, Thomson Reuters, for facilitating our meetings in Tunisia. In addition, the team would like to thank our Tunisia Survey execution partners — Institut des hautes études commerciales de Carthage (IHEC) — Marketing Mediterranean Tunisia.

Above all, the project team is grateful for sponsors — for generously funding the development of the Tunisia Islamic Finance Country Report.

To conclude, we are grateful to Thomson Reuters management, particularly Basil Moftah (Managing Director, Middle East, Africa and Russia) and Russell Haworth (Managing Director, Middle East and North Africa) to have the foresight to invest heavily in the development of the Islamic Financial services industry.

Sincerely

Sayd Farook

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STUDY PURPOSE, SCOPE & APPROACH

Thomson Reuters has partnered with the General Council for Islamic Banks and Financial Institutions (CIBAFI) and the Islamic Research and Training Institute (IRTI) to produce this comprehensive Report.

The TUNISIA, 2013 ISLAMIC FINANCE COUNTRY REPORT is part of a series of Islamic finance country reports and market analyses to evaluate the situation and appetite for Islamic finance in the Organisation for Islamic Cooperation (OIC) countries that are developing or engaged in Islamic finance. The reports are distributed free of charge for the benefit of the industry and other interested parties. These Islamic finance country reports are different than the regular country reports available in the market, since they will focus on the investment and development opportunities of Islamic finance.

The TUNISIA, 2013 ISLAMIC FINANCE COUNTRY REPORT provide practical insights for local, regional, and international investors to offer Islamic financial services. These insights better inform the investor of the Islamic finance potential for this emerging and untapped markets vis-à-vis the retail and corporate markets. The reports also provide an assessment of the developing regulatory environment.

The objectives of the Tunisia Country Report are:

1. To provide the most relevant, high-impact insights on **emerging Islamic finance investment and expansion opportunities** in Tunisia
2. To provide a comprehensive overview of relevant legal and regulatory requirements or trends to the offering of Islamic financial services in Tunisia
3. To provide an accurate **pulse of retail consumers, corporate customers and government regulatory road map**
4. To be a pioneering report in galvanizing the development of the Islamic finance space in the country

LOGO

POLITICAL ENVIRONMENT

A. SWOT ANALYSIS

Strengths:	Weakness:
• The Revolution has ensured a path towards a representative democracy, one that should accommodate Islamic finance well. • A population relatively homogenous in terms of religious factions, even with other social problems, creates less opportunity for sectarian strife unlike other MENA markets.	• Given the non-democratic governance of past decades, the political process is not mature for both parties and populace. • Political instability will continue to be a challenge until the new elections. • Legacy of weak governance, transparency and accountability (current budget example)
Opportunities:	**Threats:**
• While uncertainty on the timing of elections exists, its expected free and fair process is a positive sign for the future government setup and operation. • Government's openness across the secular/ conservative spectrum to support Islamic finance legislation drafting bodes well for Islamic finance. • Expected multilateral organizations financial support will assist the government with its financing.	• Political assassination of an opposition leader risks more of such incidents that could throw the country off the path towards elections and stable government. • The new constitution being agreed upon faces risk of deadlock along ideological lines. • Growing secular/ conservative divide also further risks completion of the second transition phase. • High youth unemployment and rural/ urban socio economic gap could lead to further political unrests.

B. PRE-REVOLUTION POLITICAL CONTEXT

- Strong historical French Influence: Modern day Tunisia was established in 1956 when agitation for independence from 75 years of French rule (since 1881) led to the country's independence. Strong French influence remains in Tunisia's culture, language, and even political ideology.

- First President, Habib Bourguiba ruled the country for 31 years shaping a strong one-party state: He established a strict one-party state and a highly centralized presidential system with key sectors of the economy publicly owned and managed.

- Second President, Zine el Abidine Ben Ali diversified economy, invested in social development but progress was marred by corruption: In November 1987, Bourguiba was replaced by Zine el Abidine Ben Ali in a bloodless coup. With liberal market oriented policies Tunisia saw strong growth performance in mid 90's and early 2000's. However, centralized power under President Ben Ali was abused through massive corruption that stunted growth and wealth distribution.

- The 'Dignity Revolution' sets a new course for Tunisia: Dubbed the 'Dignity Revolution' in Tunisia, major anti-government demonstrations started to take place in 2010 against high unemployment, corruption,

high food prices and little public transparency and accountability. The protests were escalated by the self-immolation of a street vendor Mohamed Bouazizi on 17 December 2010 and many other deaths that galvanized the whole revolution further eventually leading to the ouster of President Zine El Abidine Ben Ali on 14 January 2011. By late January 2011 a "national unity" interim government was formed to set the path towards a true democratic Tunisia.

C. POST REVOLUTION POLITICAL DEVELOPMENTS & TRAJECTORY

- Successful first phase of Tunisia's political transition: The Interim Government formed was tasked to organize a national election of a Constituent Assembly that was to write a new constitution. Declared as free and fair by international observers, the October 2011 Constituent Assembly elections had 91% participation of the 4.1 million registered voters.1

- The once banned Islamic party Ennahdha obtained majority 89 seats (40%): Congress for the Republic (CPR), in the centre left, obtained 29 seats and Ettakatol, Social Democratic Party obtained 20 seats in the Constituent Assembly, from a total of 217 seats. Ennahda led a coalition government with two 'secular' political parties, the CPR and Ettakatol. The CPR's Moncef Marzouki became the President, Ennahda's Hamadi Jebali became Head of Government and Prime Minister, and Ettakatol's Mustapha Ben Jaafar became Speaker of the Constituent Assembly. However in February 2013, Prime Minister, Hamadi Jebali resigned and dissolved the Cabinet given the turmoil post assassination of Government critic Chokri Belaïd. Now, as of the writing of the report, the ruling party and the coalition have formed a new government with a new prime minister, Ali Larayedh, still from the Ennahda party. Larayedh has named a new government that includes several respected non-partisan figures. The National Constituent Assembly had proposed that the charter be adopted in July 2013, with elections to be held in October 2013.

- Ideological divide slowing the Constitution forming process: An ideological divide between the ruling Ennahda party (moderate Islamic orientation) and the other two coalition parties Ettakol and CPR (secular orientation) is creating much friction in developing the Constitution. A draft of the document that was issued end of October 2012 has been highly controversial. The draft of the document has 'fundamentals of Islam' (defined as openness, moderation, and higher human values) as one of the bases of the Tunisia state. Such references are causing much disagreement with secular oriented representatives and leaving the resulting text to unclear interpretations in the future.

- Violence is further frustrating the second transition phase: Religious/ secular ideological divisions are also causing continued protests from opposing camps. The Salafist opposition that has strong views on introducing sharia as a basis for legislation has been accused of violent actions as part of its demonstrations. The worst of the violence has been the assassination of an opposition party leader, Chokri Belaïd of the Democratic Patriots Movement (DPM) on February 6th, 2013. Chokri Belaïd was a vocal critic of the government and the more religious Salafists.

- Planned parliamentary and presidential elections are the key milestone: Ex-Prime Minister Jebali's Government had announced elections for June 2013 before which time the Constitution was supposed to be in place marking the end of transition period and beginning of a sustained future democracy of Tunisia. However, the assassination of Chokri Belaïd and the increasing ideological tensions between parties creates much uncertainty about this most delicate last phase. As mentioned earlier, the Jebali's Government was dissolved and a new setup is in place under new Prime Minister Ali Larayedh. Proposed date for elections now is October 2013. In addition, continuing high unemployment and poverty is expected to further put the pressure on quick transition to full democracy with sustained developmental progress.

Current Political Landscape

Official Name	Republic of Tunisia
Legal System	Based on the constitution of 1959. Constitution to be rewritten by mid 2013
Elections	Last elections – Post revolution that ousted former President, Ben Ali, elections for a National Constituent Assembly (NCA) were held in October 2011. The NCA is responsible for rewriting the constitution and organizing parliamentary and presidential elections Next elections (presidential and parliamentary) are due to be held in June-2013 but are now expected to be delayed, perhaps until early 2014
Major Political Parties	Hizb alNahda (Ennahda); Congrés pour la république (CPR); Forum démocratique pour le travail et les libertés (Ettakatol); Aridha Chaabia (Popular Petition); Mouvement des democrats socialistes (MDS); Parti démocratique progressiste (PDP); Pole démocratique moderniste (PDM)
Head of State	President — Moncef Marzouki (from CPR party)
Head of Government	Prime Minister — Hamadi Jebali (from Ennahda party)
Executive/ Cabinet	The cabinet is dominated by Hizb al-Nahda members. However the cabinet is expected to be dissolved and a new national unity government is expected to be formed (as of mid February) given the simmering political crisis brought on by the assassination of Chokri Belaïd of the Democratic Patriots Movement (DPM)

MACRO-ECONOMIC ENVIRONMENT

A. SWOT ANALYSIS

Strengths:	Weakness:
• A middle-income country with a young demographic • Strong 'doing business' and global competitiveness environment relative to region • A diverse export segment including mechanical and electrical products, textile, food and agriculture, with strong connectivity to European market • Strong women participation in workforce and economy • Prudent fiscal policy and regulatory quality	• High exposure to the EU market for trade and investments • High unemployment given influx from Libya, revolution impact, and EU crisis • Select disadvantaged regions with high poverty (central west and south west regions) – areas where the revolution started • Legacy of the previous regime, lack of transparency is a challenge • 'Economic incentives regime' is a relative weakness

Opportunities:	Threats:
• With the Revolution, a greater competitive environment can be expected • Diversifying trade and investment with MENA/OIC[2] markets • FDI is picking up • EU recovery bodes well for future growth • 'Getting credit' was ranked low in its 'Doing Business' ranking – highlighting opportunity for financial services	• Delay in establishing national constitution and the final transition phase elections, will dent investor confidence • Continuing high employment • Unstable security environment • Secularism vs Conservative non-reconciliation may impact economic policies, regulations negatively • A worsening of the EU economic crisis

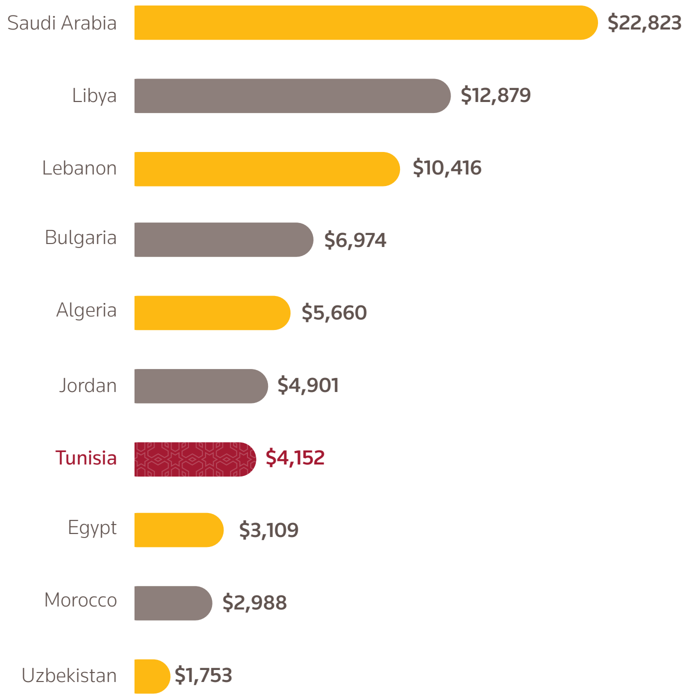
B. MACRO-ECONOMIC FUNDAMENTALS

- **Tunisia is a higher middle-income country with a mostly urbanized population of 10.7 million.** The country is classified among the higher middle-income countries with a GDP (current prices) of $45 billion in 2012, a GDP per capita of $4,152 and a population of 10.7 million (2012). Tunisia has a modest population relative to its North African neighbors (Egypt is eight times of Tunisia, and Algeria's population is bigger threefold). More than two thirds of its population lives in the urban areas.

  The land area of 163,610 sq. km is situated in geo-strategic position in North Africa with Algeria and Libya as neighbors. Tunisia is less than a two-hour flight away (over the Mediterranean) from many European cities.

- **Tunisia realized an average annual growth of 4.4%** over the period 2000-2010 which is higher than the average growth of the OECD economies (1.9%) but lower than the growth of many emerging economies. The IMF estimates the real GDP growth during 2012 at 2.2% and places it on a positive trend reaching 6% by 2017. Following the

2012 GDP per capita, current prices USD billion



Source: IMF World Economic Outlook Database, October 2012

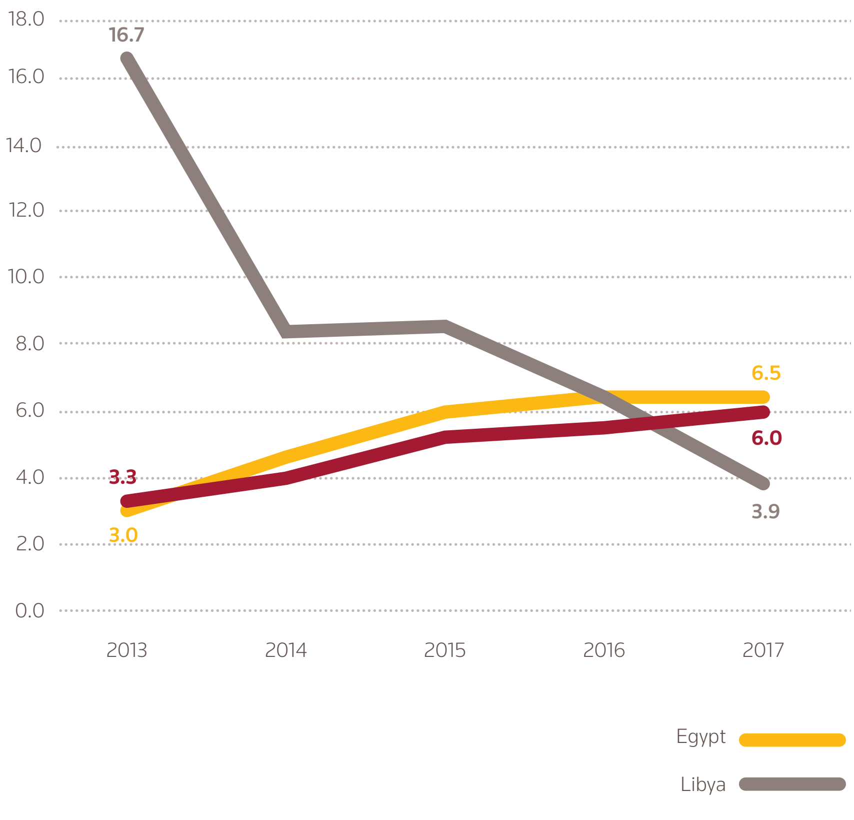
revolution, the year 2011 was particularly difficult for the Tunisian economy with a negative real GDP growth of 1.9%, according to Tunisian statistics institute. Several factors had compounded and contributed to this: i) the social upheaval and strikes, ii) the recession in Europe, Tunisia's principal export market and iii) the revolution in Libya one of the major trade partners and hosting country of thousands of Tunisian workers iv) the reduction of tourists scared off by the social turbulences, (v) lower worker remittances. Despite the recession in the Eurozone, the Tunisian Economy has shown, since the fourth quarter of 2011, some signs of recovery in different sectors (mainly the chemical industries, the transport services, tourism and the non-manufacturing industries specially the extraction and transformation of phosphate).

- **Tunisia has a diverse economy led by services sector** (See full table in Appendix.) It is dominated by the Services sector for which the value added share in GDP increased from 58% in 2000 to 60% in 2010. Within the Services sector, trade, transportation, and telecom are major contributors. Tunisia also has a vibrant mechanical and electrical industries sector unlike any in the Arab markets. Other prominent manufacturing sectors are textile and food processing sectors which have all attracted FDI.

- **2011 tourism receipts were** $2.569 billion (3.844 billion TND) which would represent 8% of the GDP market activities. Given its multiplier effect towards the rest of the economy, the World Bank estimates that the tourism sector accounts for 17% of GDP and 16% of employment[4].

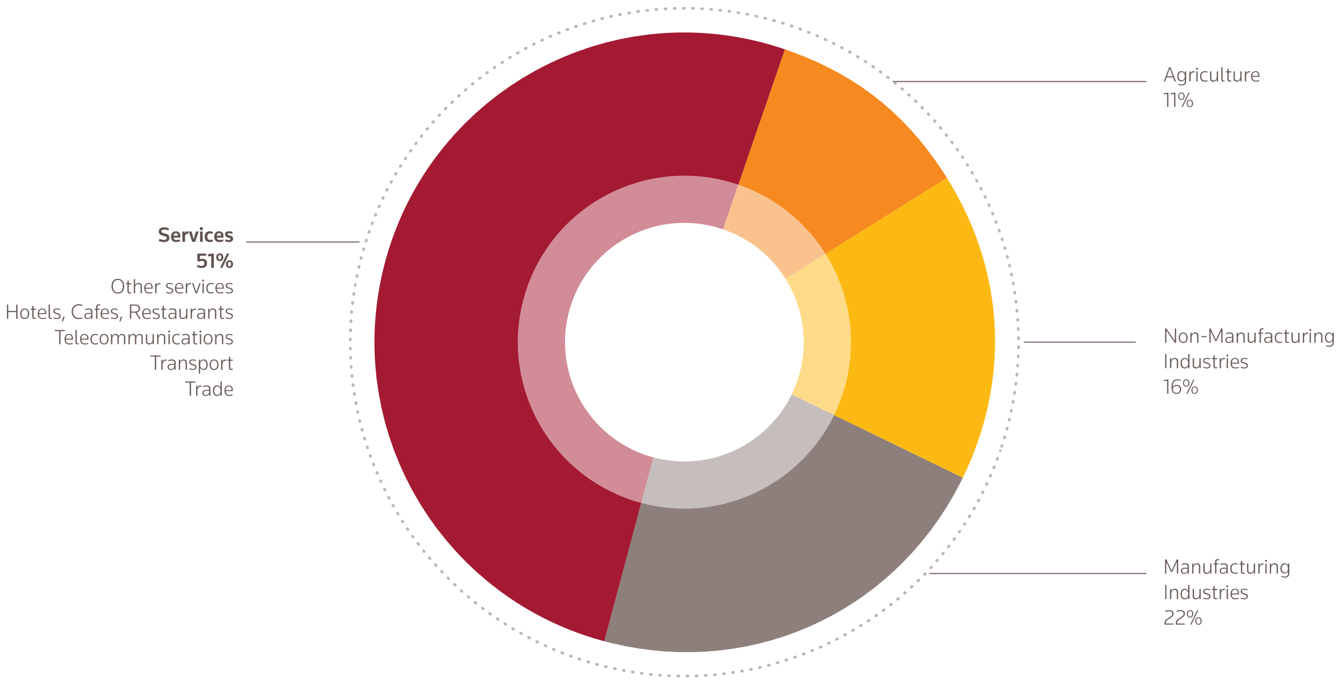
- **Tunisia has had a prudent fiscal policy** over the last decade and demonstrated an improving public financial management. Before 2010, the public deficit was less than 3% of GDP and public debt did not exceed 40% of GDP, down from 52% in 2005. This relatively comfortable situation has enabled the country to increase its borrowing after the revolution without hindering the sustainability of public debt. The government increased its expenditures in 2011 and 2012 to cope with social upheavals. As a consequence, the fiscal deficit exceeded 5% in 2012 and the ratio of public debt to GDP increased to almost 43% in 2012. According to IMF projections, this

Projected GDP Growth (% Change, constant prices), "Arab Spring" Revolution Markets



Source: IMF World Economic Outlook Database, October 2012

Percentage of GDP by Branch of Economic Activity, 2011



Source: Ministry of Regional Development and Planning, Tunisia Central Bank Document

ratio would reach 50% by 2014.
Tunisia received $ 3.2 billion during 2012 as financial support to its budget from the international community. The financing need for 2013 is estimated to be $ 4.66 billion and the government intends to issue sukuk for an amount of $ 650 million in the coming months. In November 2012 the World Bank approved a financing package of $ 500 million to support the country's economic recovery.

- **After the revolution, the Central Bank of Tunisia (CBT) accommodated its** monetary policy by injecting large amounts of liquidity into the market, reducing its reference interest rate from 4.5% to 3.5% and substantially lowering its reserve requirement ratio from 12.5% to 2%. This enabled the banking system to increase its credit to the economy at a rate of 13.5% in 2011 which is lower than the 19.3% rate seen in 2010 but which was sufficiently strong enough to avoid an additional devastating credit crunch.

  By the end of 2012 the BCT initiated a gradual tightening of monetary policy in order to contain a rising inflation of 5.6% on average at end of 2012 compared to 3.5% in 2011.

- **During the 1990s, exchange rate policy** in Tunisia was focused on maintaining a stable real exchange rate, through regular adjustments in the nominal exchange rate, against an unrevealed basket of currencies weighted according to the country's main trading partners. Since early 2000, Tunisia has moved gradually towards a more flexible exchange rate regime. Currently it adopts a managed float with no predetermined path and no official fluctuation band. The value of the dinar is determined in the interbank foreign exchange market with reduced interventions by the BCT in the foreign exchange market in order to stabilize the real effective exchange rate.

C. FDI & INVESTMENT TRENDS

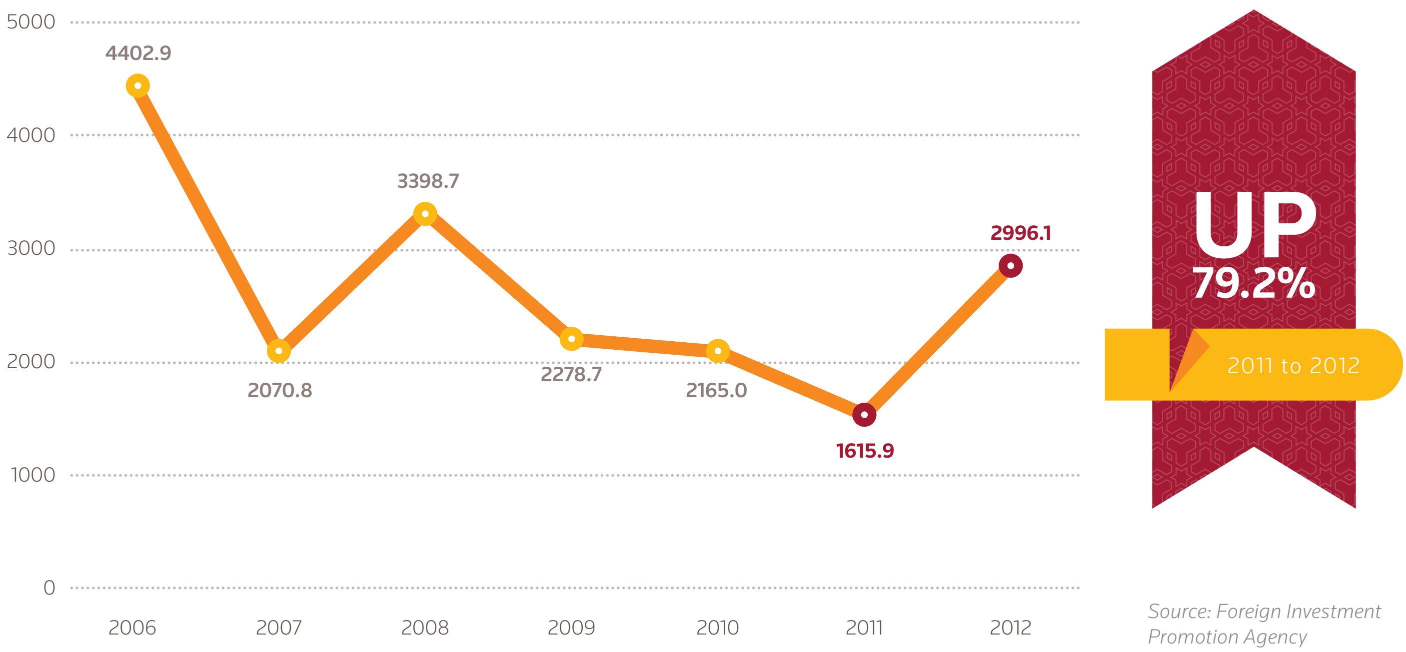
- FDI recovering in 2012[5]: 2011 saw a 25% year-to-year drop in Foreign direct investment (FDI) to Tunisia given the revolution. However, 2012 has shown a strong recovery with foreign investors committing to Tunisia's future potential. (FDI) and portfolio investment reached an amount of 3.08 billion TND ($ 1.98 billion) compared to 1.72 billion TND ($ 1.1 billion) in 2012, thus registering an increase of 79.2%.

  2012 FDI increase is largely due to privatization and acquisition (acquisition of 13% stake in BT worth 218 million TND ($ 140 million) by the French Crédit Mutuel and acquisition of 15% shares in the capital of the telecommunications operator Tunisiana worth 636.9 million TND ($ 409.3 million) by Qatar Telecom.) Overall, in 2012 FDI investments resulted in 123 new companies starting production and 185 expanding operations.

- **Energy, manufacturing (e.g. textile, electronics) and tourism are leading FDI sectors:** The energy sector has traditionally attracted the largest FDI amount and this was maintained in 2012 with an amount of 1.38 billion TND ($ 885.6 million) in investments, representing 44.7 % of total investments. Financial services related investment returned in 2012 after none were registered in 2010 and 2011. A key segment to note is Tunisia's manufacturing sector, especially its impressive electronics sub-sector that is unlike any in the Arab world.

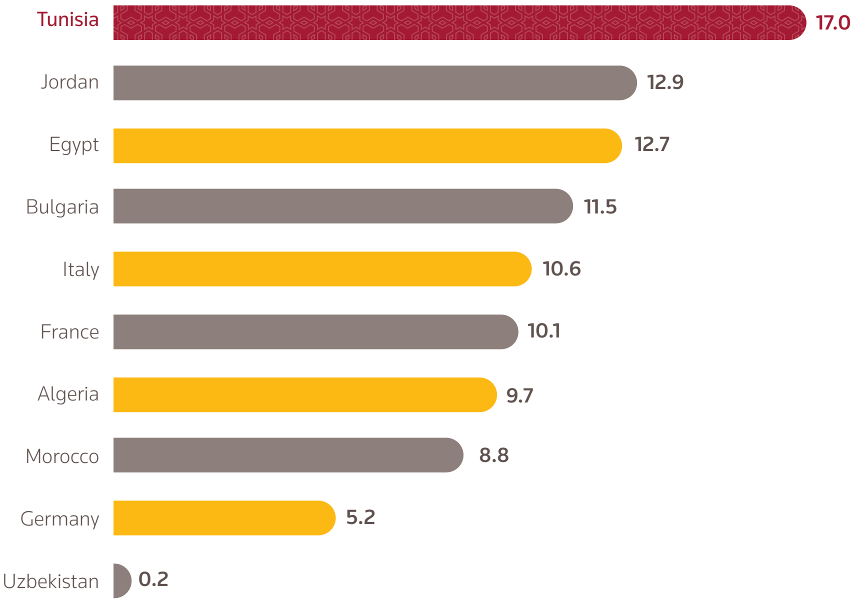
- **Leading investors:** Tunisia's largest trading partners France, Germany and Italy have been the consistent leading investors in Tunisia. However in 2012 Qatar had the highest amount signaling interest from GCC investors. Qatar's FDI amount was 784.2 million TND ($ 504 million), followed by France with 388.31 million TND

Total FDI in Tunisia 2006 - 2012 (million TND)



Source: Foreign Investment Promotion Agency

2012 Unemployment Rate



Source: IMF World Economic Outlook Database, October 2012

($ 249.5 million), Italy with 133.96 million TND ($ 86.1 million)and Germany with 102 million TND ($ 65.6 million). The number of companies with foreign participation equals 1,895 where 1,171 are totally owned by foreign investors (out of a total of 5,731 industry firms with minimum 10 employees.)[6] The Islamic Corporation for the Development of the Private Sector (ICD), a member of the IDB Group, was pro-active after the Tunisian revolution by establishing an SME fund in partnership with the public agency, CDC, for an initial closing of $50 million.

D. SOCIO-ECONOMIC HEALTH

- Overall human development in Tunisia has progressed towards the achievement of the Millennium Development Goals (MDGs) at the national level in areas of education, malnutrition, infant mortality, sanitation, and water source. However, recent data reveal that rural and inner regions have not equally benefited from this progress.

  One of the major challenges facing Tunisia in the short and medium terms is to reduce unemployment in general and particularly for its young educated population. The Tunisian private sector has not been able to sufficiently absorb the university graduates entering the job market each year. More than 55% of Tunisia's highly educated workers are employed in the public sector, mainly in health and education. The economic recession, the return of thousands of workers from Libya and the wait-and-see behavior of the private sector have contributed to the increase of the unemployment rate from 13% in 2010 to 19% in 2011.

- Although unemployment has decreased on average to 17% in 2012 Q3, the situation is not improving in many disadvantaged regions like the Governorate of Tataouine where the unemployment rate reached 51% in September 2012. It is worth mentioning that the Ministry of Employment and Vocational Training has already identified 3,500 profitable micro-projects which lack self-financing5 and which are likely to benefit from the Education for Employment (E4E) Initiative for Arab Youth spearheaded by the IDB and the IFC and which aims to address the labour demand and skills mismatch.

- **Poverty rate in Tunisia** in 2011 was estimated to be 11.8% (population under national poverty line). This had been downplayed for many years6 by maintaining a very low poverty line, one sufficient only for survival and food consumption. This was updated post-revolution by the National Statistics Institute by using a more adequate poverty line. This average is much more pronounced in certain regions. Poverty estimates range from a low rate of 5% to 7% in the Center East region and Grand Tunis to a high of 29% in the Center-west region.

- **Education has always been the most abundant resource of the country**, thanks to continued investment in the sector. Since independence in 1956, Tunisia has followed a strategy of universal education. The country has already achieved the second MDG related to the achievement of universal primary education. Public spending on education as a percentage of GDP exceeds 6% on average and is higher than the average spending of Malaysia, Turkey and South Africa during the period 1980-2008.

  Another positive aspect of Tunisia's education system is its focus on women. Tunisia has one of the highest gender parity index in the region.

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E. TRADE TRENDS & OPPORTUNITY SECTORS

- **Export sectors present diverse opportunities:** Tunisia's trade balance has increased from exports at 68% of imports in 2000 to 74% in 2011. However its diverse and vibrant exports have also continued strong growth. Tunisia's trade was negatively affected by the global economic downturn including Europe's Eurozone drag, but exports have rebounded. Benefiting from FDIs in export related manufacturing sectors as well as opportunities beyond the EU, Tunisian exports can be expected to rise.

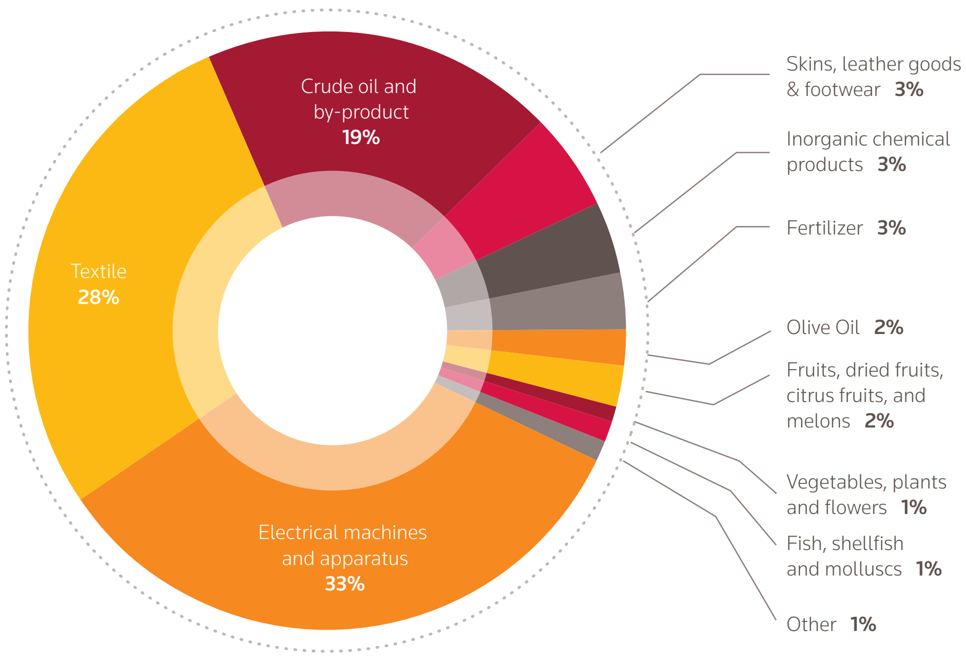
- **Exports segments:** Tunisian industry comprises 5,731 firms (with minimum 10 employees) among which 2,696 firms are fully export oriented mainly in the textile and clothing (1,602), electronic, electro-mechanical and electrical industries (244), leather and footwear (215), and agro-industry (196).

  According to the World Bank (2008)[9] Tunisia is now one of Europe's top 10 suppliers of automobile electrical wiring systems. The exposure to international trade and the series of reforms that started in the early 1970s have improved the productivity of the offshore sector.

- **EU is Tunisia's major trade partner:** In 2011, 75% of Tunisia's exports and 52% of import transactions were with the EU. There is further potential for developing trade with the EU given integration through trade agreements and investments. Specific trade and investment opportunities from the Middle East and the North Africa region also have tremendous potential.

- **Trade Agreements:** Tunisia signed many bilateral free trade agreements and regional (multilateral) agreements. In 1995 it signed the Association Agreement with the EU for free trade of industrialized goods, which resulted in the institution of a free trade zone in early 2008. Tunisia has been a member of the Arab Maghreb Union since 1989, a signatory of the Agadir Agreement since 2004, as well as member of the Euro-Mediterranean Partnership since 2008. Negotiations with the EU for the liberalization of the services and agricultural sectors have been underway since 2009.

Tunisia's Major Export, 2011



Source: National Statistics Institute

Top 10 Export Trade Partners (% of total, 2011)

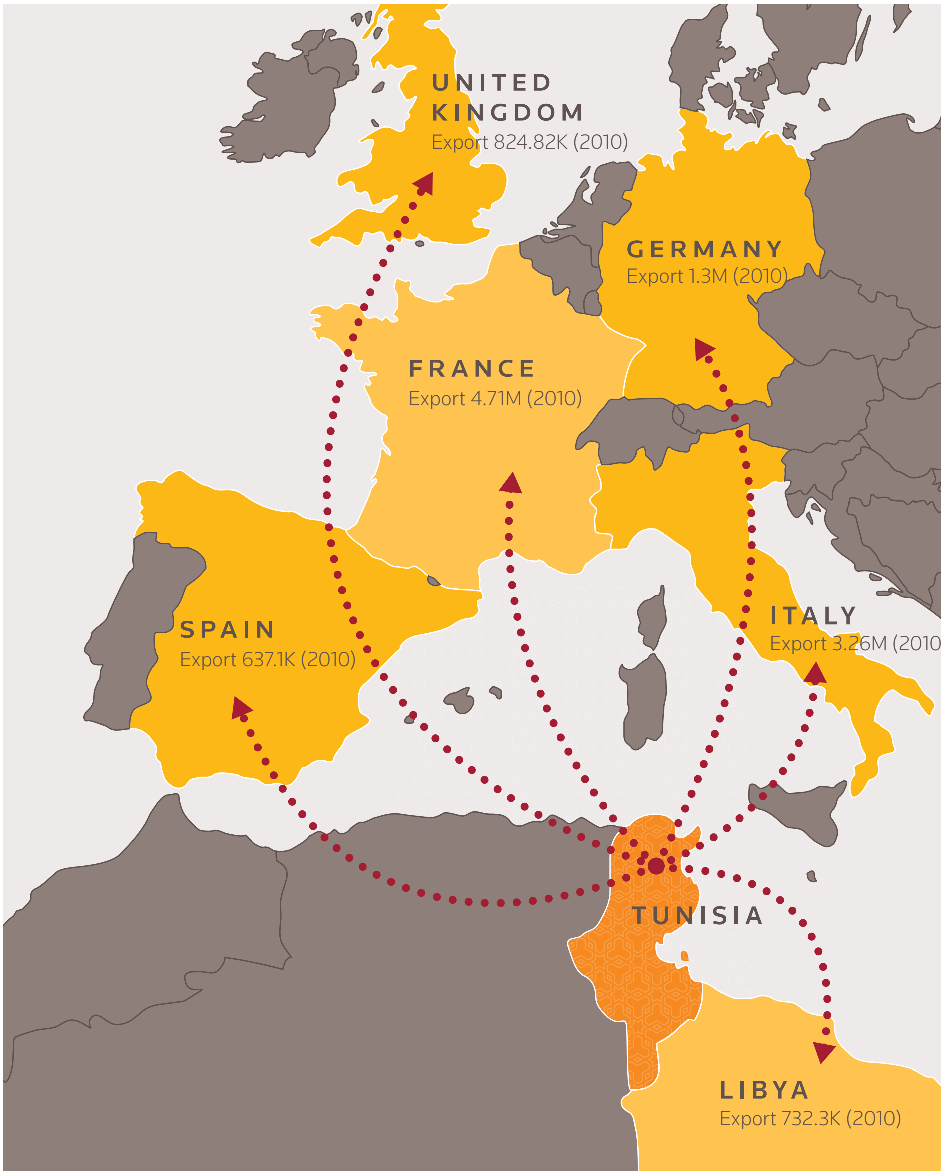
France	30.7%
Italy	21.7%
Germany	9.1%
Libya	4.4%
Spain	4.3%
United Kingdom	2.8%
Algeria	2.6%
Netherlands	2.3%
Belgium	1.9%
United States	1.6%

Top 10 Import Trade Partners (% of total, 2011)

France	18.3%
Italy	15.8%
Former U.S.S.R	8.1%
Germany	7.4%
Spain	4.7%
United States	3.7%
Algeria	2.7%
Belgium	1.8%
United Kingdom	1.4%
Netherlands	1.1%

Source: National Statistics Institute

Tunisia's Top 6 Export Markets



Source: World Bank, 2011

F. GENERAL BUSINESS ENVIRONMENT

- The 2013 World Bank Doing Business Report ranks Tunisia at #50 out of its coverage of 185 countries, which is a strong indicator relative to its North African neighbors (Morocco # 97, Egypt #109, Algeria #152.) The doing business indicators show that the main axes the country needs to improve are "Getting credit", "Dealing with construction permits", "Registering property" and "Enforcing contracts".
- The Global Competitiveness Report 2011-2012 ranks Tunisia 40 out of 142 countries which is the strongest among its North African neighbors (Morocco #73, Algeria #87, Egypt #94.) Compared to other ranked countries, Tunisia is ranked low mainly in "Labor market efficiency" and "Financial market development" .
- The World Bank indicators of knowledge development show that Tunisia is ranked 80 out of 146 countries. Tunisia has improved its rank since 2000 but this low ranking is mainly due to low quality of "economic incentives regime" which is reflected through its "tariff and nontariff barriers" and "regulatory quality".
- With regard to the Governance and Institutional Development scores, in 2011 Tunisia was situated in the same range of the considered set of comparative upper-middle income countries except according to the pillar "Regulatory quality".
- In order to favor private investment, the Government of Tunisia is preparing a new juridical framework aiming to simplify administrative procedures and bureaucracy. Furthermore, Tunisia aims to mobilize 322 million TND ($ 207 million) for the construction of 350 Km of high railways in the interior regions of Enfidha, Kairouan, Gafsa, Kasserine and Sidi Bouzid. The country is also encouraging foreign investors to invest in the Pharmaceutical industry (Tunisia covers 45% of its own needs), new technologies, and renewable energy (especially solar energy which will enable the country to export electricity to Europe.)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FINANCIAL MARKET LANDSCAPE & TRENDS

A. SWOT ANALYSIS

Strengths:	Weakness:
• The Central Bank of Tunisia has taken major steps towards increasing banking supervision and enhancing governance in public banks • The developing political environment is expected to be less interfering towards financial market efficiency	• Nonbanking financial sector is relatively small • Banking sector has a weak governance legacy, e.g. low capital adequacy ratio risks banking performance, quality of loans and solvency • Public banks have been used to support nonviable state-owned enterprises and activities and still suffering from weak governance. The supervisory framework suffers from weak reporting practices

Opportunities:	Threats:
• Financial inclusion is relatively low at 32% of 15+yr population relative to its neighbour Morocco (39%) with similar gaps in the area of savings and loans • SME/business financing is a big need even though domestic credit to private sector is at par or better in region • Mortgage loans affordability is an area of opportunity • Microfinance offerings is a big need that now has supportive regulation • Insurance services are underserved	• Deterioration in banks' balance sheets • Lack of transparency in case of persistence will negatively affect investor confidence • EU market crisis

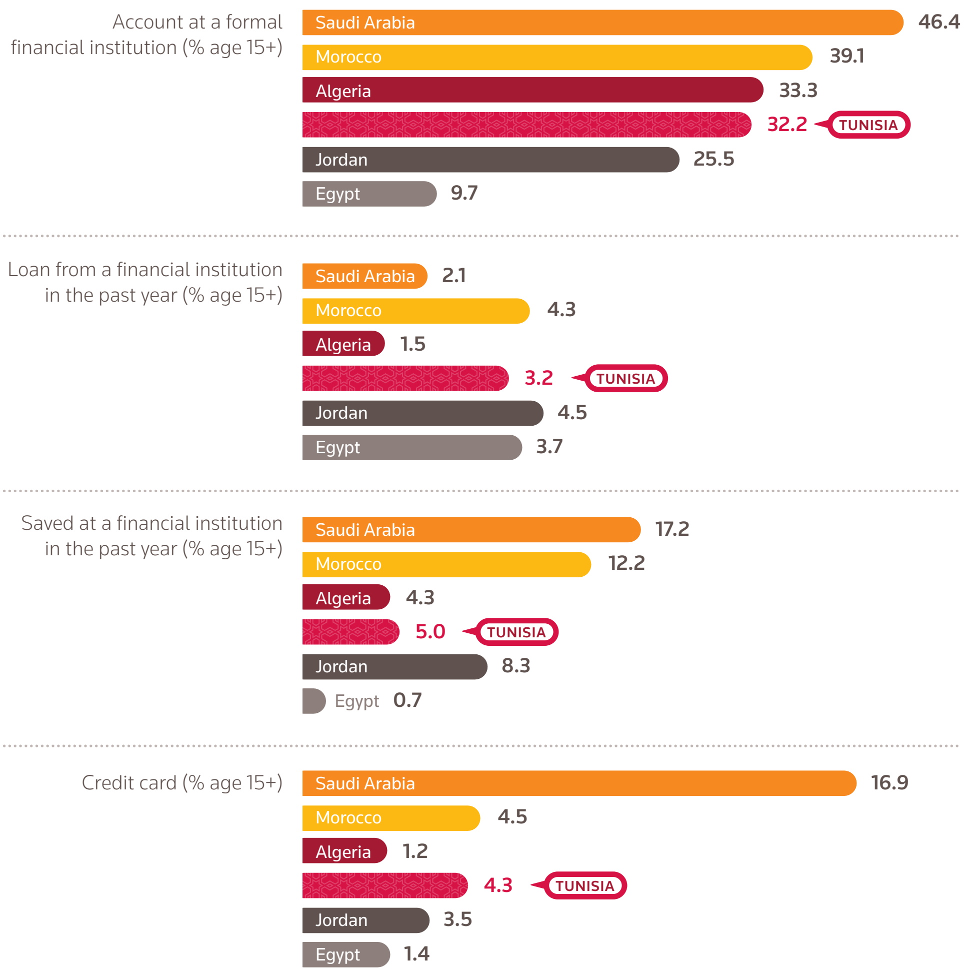
B. CUSTOMER PROFILE

- As highlighted earlier, Tunisia has a relatively small population of 10.7 million (2012), higher only than Libya in the North African region. Conversely its GDP per capita at $4,152 is higher than Egypt's and Morocco's in the immediate region.

- 32% of Tunisians had an account at a formal financial institution, which is a much higher proportion than Egypt (9.7%) but lower than Morocco (39%). At the same time saving at 5% of population (15+ yrs) is higher than Egypt and Algeria but lower than Morocco. However, it did have a high percentage of credit card usage at 4.3%, which was lower only to Morocco (4.5%.)

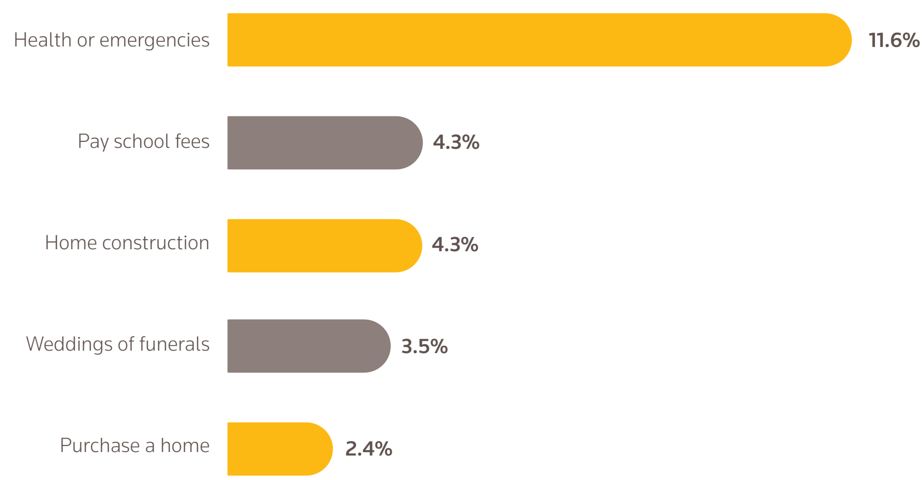
- In regards to outstanding loans the biggest area of need has been 'health or emergencies' followed by 'school fees,' and 'home construction.'

- Financial accounts for business purposes are 7.1% of the 15+ yrs population, which accounts for half of its neighbor Morocco's statistic, and slightly lower than Algeria's. SME/ business financing is an area that has been identified as an opportunity. At the same time, domestic credit to the private sector as a % of GDP is higher than Morocco, Algeria and Egypt in its immediate neighborhood.



Source: IMF World Economic Outlook Database, October 2012

Outstanding Loan by Tunisians (15 yr+), 2011



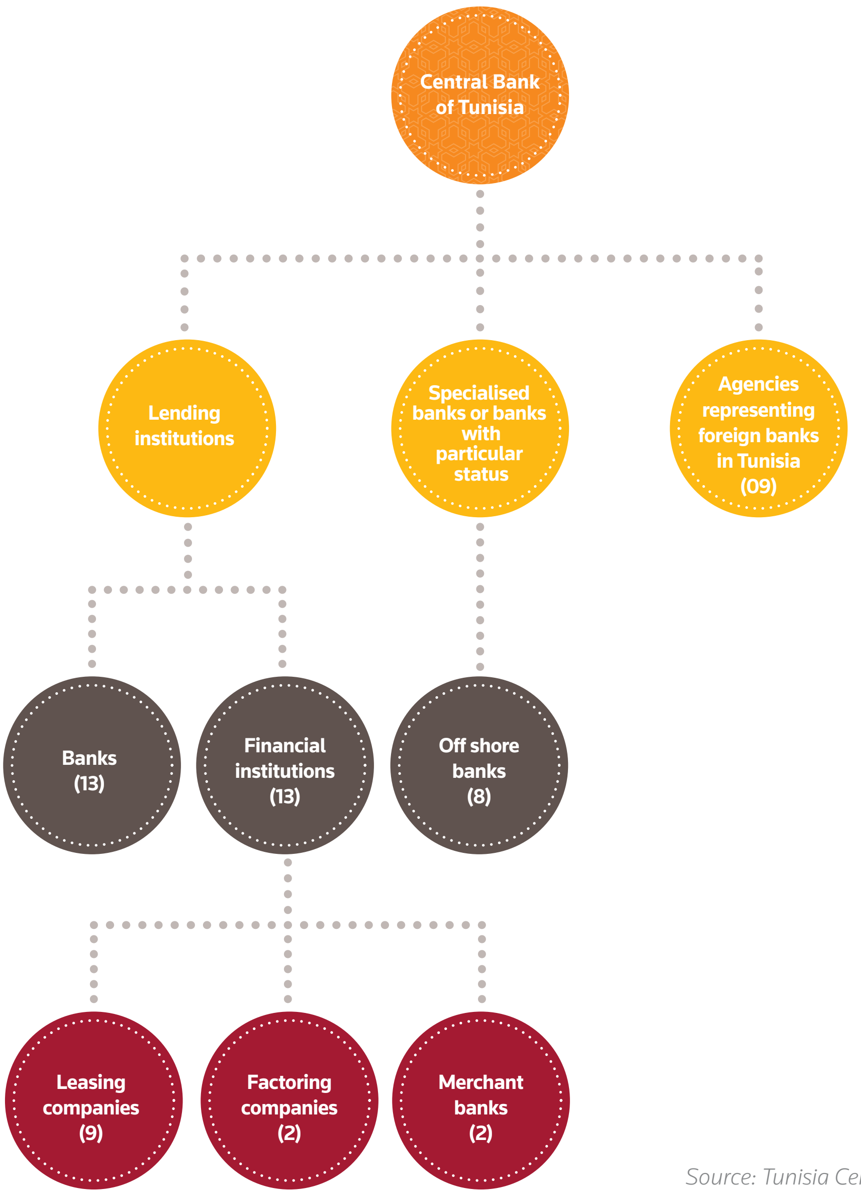
Source: World Bank Database, Findex

C. FINANCIAL INSTITUTIONS LANDSCAPE & PROFILE

- The Tunisian financial sector is small and mainly dominated by banks in which their total assets contribute to about 115% of total GDP as of 2011. The 21 resident banks include three big state-owned banks that account for 37% of banking sector assets, three large private domestic banks that make up 28% and six foreign-owned private banks that carry 28% of banking sector assets.

- The banking sector dominates the financial industry with almost 80% of all financial system assets in 2011. In comparison to its peer countries, Tunisia's non-bank financial sector is considered to be relatively small, with only 19 companies primarily focused on non-life activities (85% of premiums). The total annual premium to GDP in Tunisia is about 2%, much lower than the global average of 6.9%. According to the latest IMF report on Tunisia's Financial Stability, The equity and fixed-income markets are still small, with a market capitalization equal to 24% of GDP, lower than in regional peer countries such as Jordan (112%) and Morocco (76%). The private equity and leasing sector continue to remain small relative to other sectors with nine institutions, accounting for 15.5% of the private gross fixed capital formation noted in 2010.

Structure of the Banking System and Specialized Companies



Source: Tunisia Central Bank

- **Indicators of commercial banks**

	2009	2010	2011
Number of institutions	42	42	43
Banks	20	21	21
Non resident banks	8	8	8
Leasing institutions	10	9	9
Factoring institutions	2	2	3
Merchant banks	2	2	2
Total assets	57.62 billion TND ($ 37.03 billion)	65.04 billion TND ($ 41.8 billion)	70.40 billion TND ($ 45.24 billion)
Banks share (%)	91	90	90
Total assets/GDP in current prices (%)	98	103	109
Loans to clients	35.17 billion TND ($ 22.6 billion)	42.12 billion TND ($ 27.07 billion)	47.7 billion TND ($ 30.65 billion)
Clients deposits	33.99 billion TND ($ 21.85 billion)	38.3 billion TND ($ 24.61 billion)	40.18 billion TND ($ 25.82 billion)
Indicators tied to banking service extension			
Bank branch network	1,208	1,335	1,396
Number of inhabitants per bank branch (thousands)	9	8	8
Number of accounts per 100 inhabitants	53	54	55

Source: the Central Bank of Tunisia (BCT)

- Access to financial services in Tunisia is among the highest in North Africa. However, Tunisian banks have made inadequate provisions for non-performing loans, according to Standard & Poor's analysis. Banking supervision requires many improvements. The regulatory authorities have not yet implemented Basel II standards to identify all associated risks. In addition, banks do not facilitate the products most needed by SMEs, including loans, savings accounts and insurance.

- **Financial Sector Key Indicator Analysis:** Considering the risks facing the Tunisian banking system, the minimum capital adequacy ratio of Tunisian banks is too low. The authorities are required to increase the minimum capital adequacy ratio from 8% to 10% by 2014, as pointed out by the IMF in their Tunisia Financial System Stability Report. Implementing this will require the banks to raise their capital by the equivalent of 1.3% of GDP.

- The minimum liquidity ratio and the reserve requirement should be de-linked. Currently, banks that do not comply with the minimum liquidity ratio are required to maintain a higher level of reserves.

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- **Housing Finance:** For home mortgages to be affordable for Tunisians, banks would need to extend loan/financing maturities, but banks can ill-afford the resources. The central bank has made it a requirement for banks to maintain the necessary long-term resources to match loans/financing with duration of over 10 years. The central bank also requires banks to offer fixed rates for all loans/financing of over 15 years, and thus to avoid such constraints, bank reduce the maturities of their loans.

- **Non-resident Bank(s):** Any foreign banks wishing to open and/or transfer branches to Tunisia are subject to joint authorization of the Ministry of Finance and the Central Bank of Tunisia.

- **State-owned Banks:** According to the latest IMF report on Tunisia's Financial Stability the government's involvement in the financial sector is hindering the efficiency of state-owned banks. Poor performers are bailed out whenever needed, without the need for any restructuring. The authorities are required to limit state ownership in those banks in order to stimulate competition in the banking sector.

- **Financial Sector Key Performance Indicators** (in percentile)

	2006	2007	2008	2009	2010	2011
Capital adequacy ratio	11.8	11.6	11.7	12.2	11.6	11.5
Private	12.1	9.7	11	11.6	11.7	11.7
Public	9.3	9,9	9.6	10.5	10	9.8
Gross nonperforming loans (% of gross assets)	19.3	17.6	15.5	13.2	13	13
Private	19	18.1	15.3	12.5	10.4	10.2
Public	19.7	17.3	15.9	14.1	16.3	16.4
Provisions (% of non-performing loans)	49	53.2	56.8	58.3	58.5	59.6
Private	48.4	52	55	59.2	67.7	67.9
Public	50.2	55	58.1	57	50.1	49.2
Liquid assets to total assets	34.2	37.5	37.1	37.2	34.7	30.5
Liquid assets to liquid liabilities	120.8	121.9	124	119.1	104.1	89.4
Deposits to loans	99.1	104.8	104.5	106.9	100.7	92.9
Net open position in foreign exchange	1	1	1.4	1.5	1.3	1.9
ROA	0.7	0.9	1	1	0.9	0.7
ROE	7	10	11.2	11.7	10.2	7.9

Source: IMF / The Central Bank of Tunisia (BCT)

- **Banking Sector Assets**

(End of period figures: in million dinars/ dollar)	2006	2007	2008	2009	2010	2011	Aug-12
Total Bank assets	**36.47 ($ 23.44)**	**41.38 ($ 26.59)**	**46.68 ($ 30.0)**	**51.89 ($ 33.35)**	**58.05 ($ 37.30)**	**63.26 ($ 40.65)**	**67.80 ($ 43.57)**
Cash balance	0.20	0.24	0.24	0.26	0.27	0.27	0.39
Deposits at the BCT	1.34	1.92	3.20	3.69	2.27	2.21	2.55
Foreign assets	1.39	2.00	1.75	2.16	2.32	1.58	1.73
Claims on the state	2.61	2.82	2.50	3.06	2.94	3.57	3.54
Loans to the economy	23.15	25.46	29.32	32.19	38.59	43.92	47.06
Securities portfolio	1.54	1.65	1.80	2.13	2.35	2.51	2.63
Other items of assets	6.24	7.29	7.86	8.40	9.32	9.21	9.91
Total Bank Liabilities	**36.47 ($ 23.44)**	**41.38 ($ 26.59)**	**46.68 ($ 30.0)**	**51.89 ($ 33.35)**	**58.05 ($ 37.30)**	**63.26 ($ 40.65)**	**67.80 ($ 43.57)**
Monetary deposits	5.42	6.27	7.00	8.26	9.46	10.59	11.63
Quasi-money deposits	14.67	16.54	19.28	21.43	23.96	24.52	25.22
External liabilities	4.33	4.90	5.15	5.82	6.24	6.17	6.67
Advances from BCT	0.12	0.02	0.02	0.00	0.31	3.57	4.62
Special resources	1.14	1.09	1.14	1.16	1.18	1.21	1.25
Capital stock equity	4.93	5.47	6.26	7.06	7.79	8.52	8.99
Other items of liabilities	5.86	7.09	7.84	8.15	9.11	8.69	9.43

Source: Central Bank of Tunisia (BCT)

- **Access to Finance:** Access to finance in Tunisia is limited. The Global Financial Inclusion indicators show that Tunisia needs to improve on providing access to finance. Financial inclusion was given a boost when, in October 2011 a law governing microfinance was passed. A supervision unit was created to finalize the regulation and ensure implementation.

- **Microfinance :** In the last few years, particularly following the revolution, Tunisia has been working on a national strategy to develop its microfinance sector in a bid to alleviate poverty and create jobs. A study[10] financed by the European Union in 2010 estimated a potential 1 million new clients of micro-credit, which represents around three times the number of currently active micro-credit clients. The challenge is not restricted to the development of micro-credit but also covers other microfinance services including micro-saving and micro-insurance.

- Currently microfinance services are confined to micro-credit, which is provided by the Tunisian Bank of Solidarity (directly or through the multiple Development Associations it finances) and by Enda-Inter Arabe. The Tunisian Bank of Solidarity (TBS) was established in 1997 with 60 agencies covering the entire territory. It services 160,000 active clients with 79 million TND ($ 50.8 million) of outstanding credit as of March 2011. Around 266,000 clients have benefited from the total amount of 482 million TND ($ 309.8 million) that have been disbursed since TBS started operations, to March 2011.

- In 2012 TBS was put in charge of implementing an IDB financed project[11] (75 million TND ($ 48.2 million) over 15 years) in support of the low-income and young unemployed people.

- The second major provider of micro-credit is Enda-Inter Arabe, an NGO established in the country since 1995 and endowed with a network of 59 agencies. In January 2013 ENDA counts 201.638 active clients with an outstanding credit of 132,867 million. From its inception to January 2013 ENDA granted 1,204,261 loans to 395,007 clients with a total amount of 855 million TND ($ 549.5 million). In February 2013 ENDA received a 4 million TND ($ 2.57 million) financing line from the French Development Agency with the objective of developing its micro-credit services for agriculture in the rural regions.

- The Ministry of Finance supervises the microfinance sector, and it has prepared a **new legal framework for the microfinance sector**. This framework was enacted in January 2013. This new legislation enables more flexibility for the development of the sector by: i) permitting the emergence[12], and the transformation of existing associations in specialized microfinance societies and ii) enlarging the services of microfinance to include micro-insurance, and iii) introducing the supervisory and regulatory framework. It is worth noting that the European Investment Bank (EIB) and the Government of Luxembourg are supporting the country in developing its microfinance sector, namely through technology transfer and regional cooperation. This cooperation will support the establishment of a credit bureau, adopting best practices in risk management and transparency, developing mobile money for financial inclusion through the postal system and introducing micro-insurance in addition to micro-credit services.

- **Capital Markets:** The Tunisian main stock exchange is the "Tunis Stock Exchange (TSE)". The stock market makes a small contribution to financing the private sector with a share of **11.3% in 2010**. The Tunisian revolution left vital impacts on the financial market — At the end of 2011, market capitalization of listed companies shrank to 14.5 billion TND ($ - 9.3 billion) from 15.3 ($-9.8 billion) at the end of 2010. This plunge is mostly due to a fall in prices for 34 listed companies, in spite of the introduction of Telnet Holding, whose stock market capitalization came up to 103 million TND ($66.2 million) at the end of 2011.

- In 2011, The Tunis Stock Exchange reviewed its indices in order to provide investors and portfolio managers with indicators of market trends and performance. After the revolution the exchange only had 57 listed companies. Stock market capitalization represents approximately 20% of GDP, considered low relative to other stock markets in the region. The stock market is mainly dominated by local banks, insurers and industrial companies such as healthcare and manufacturing. In 2011, the overall volume of transactions on the stock exchange came to 3.14 billion TND ($ 2.017 billion), compared to 3.8 billion TND ($ 2.462 billion) in 2010, a drop of 18%. In 2011, taxation amendments were introduced to listed companies on the basis of offering 30% of their capital to the public. On top of that, a tax of 10% was introduced to capital gains to reduce speculative activities. The stock market is poorly provided with cover in the form of guarantees and insurance, despite economic agents' need for them.

- Trading in debt securities increased by 40% over the 2010 figure to 106.4 million TND ($ 68.4 million), up from 75.7 million TND ($ 48.6 million) in 2010.(Source: *Tunis Stock Exchange — Annual Report 2011*)

- **Insurance:** Foreign insurance companies are not permitted to operate with local firms but can operate on joint-ownership status, if holding a non-significant share.

- Insurance premiums rose by 9.17 million TND in 2010 compared to **1,026.22 million TND** ($ 659.5 million) in 2009. There are a total of 23 insurance companies, four of which are offshore firms. The Tunisian insurance sector has a great potential to grow. It has registered continued growth over the past three years, with the volume of premiums rising well over 6% a year. Insurance penetration rate and standard rate for premiums per capita remained low at 1.9% and $70 a head in 2009.

- The top 10 market leaders account for 90% of turnover. Part-public, part-private Société Tunisienne d'Assurances et de Réassurances (STAR) is the largest player, with a 21% market share. While local firms must hold majority ownership, several foreign insurers hold stakes in Tunisian insurance companies, including France's Groupama which owns 35% of STAR. Zitouna Takaful, the first company to offer insurance services in the Maghreb was established by Zitouna Bank in 2010. The company has a registered capital of 15 million TND ($ 9.6 million), to operate as a Takaful and Re-Takaful company.

- Motor insurance accounts for the greatest share of total premiums (46%), followed by Life Insurance (14%) and group insurance (13%).

A STUDY[10] FINANCED BY THE EUROPEAN UNION IN 2010 ESTIMATED A POTENTIAL 1 MILLION NEW CLIENTS OF MICRO-CREDIT...

D. REGULATORY & SUPERVISORY FRAMEWORK

- **Key Regulations & Licensing:** There are three Acts governing the Banking Sector: i) the law governing the creation and organization of the Central Bank of Tunisia[14], ii) the law on Credit Institutions Activities in Tunisia[15] and iii) the law governing banking establishments dealing mainly with non-residents[16].

  A license must be obtained from the Ministry of Finance for any lending bank to operate in Tunisia. The application process is executed by the Central Bank of Tunisia.

- **The role of the BCT:** The Central Bank of Tunisia is the key regulator of the financial sector. The Central Bank performs licensing and supervision of banks and credit organizations, securities market entities, insurance companies and other intermediaries. Yet there is no evidence of deposit insurance scheme (DIS) provided by the Central Bank; an additional requirement for the banking sector. The IMF has pointed out that the Tunisian authorities should consider the introduction of a credible, explicit, and limited DIS once the necessary preconditions are in place.

- **Banking Supervision:** The Central Bank of Tunisia has taken major steps towards enhancing banking supervision. After the uprising, the Central Bank highlighted its aim of creating robust banking supervisory practices. According to the latest IMF report on Tunisia's Financial Stability, this plan includes a new organization, and reassignment and recruitment of staff. The Central Bank also adopted a new corporate governance regime for commercial banks to increase the role and independence of commercial bank Boards.

- According to Tunisian law, an entity is considered a credit institution if it conducts the following activities — receive deposits, extend credit, act as intermediary in exchange operations and facilitate payments. Credit institutions are also allowed to perform transactions related to their line of business as well as carry out the following activities:
  - Asset management;
  - Financial management;
  - Financial engineering; and
  - Any services related to creating, developing and restructuring companies.

- In addition to the above, credit institutions are allowed to acquire stakes in existing companies provided they meet certain conditions. All credit institutions, whether headquartered in Tunisia or not, must fulfill the minimum capital requirements stipulated for their entity class (bank or non-bank institutions).

- The Central Bank of Tunisia establishes the standards and regulations that credit institutions are obliged to comply with. These include but are not limited to those standards and regulations relating to:
  - Use of equity
  - Solvency ratio
  - Loan-to-capital ratio
  - Large shareholders (>5%)
  - Executives and board members
  - Subsidiaries
  - Reserve requirement
  - Liquidity ratios
  - General risks

E. TAXATION FRAMEWORK

- Corporations are required to conduct their financial reporting in accordance with Tunisian Accounting Standards. Profits resulting from operating a business in Tunisia are considered taxable income. The standard corporate tax rate is 30%. Certain companies, including some banking and financial institutions, may be taxed at the higher rate of 35%.

- Corporations are also subject to various other taxes including capital duty, social security, payroll, and others depending on the nature of the business. Tunisia's tax law views capital gains as ordinary income that is subject to the company's corporate tax rate. After paying taxes, foreign companies are allowed to transfer profits out of Tunisia (although certain types of transfers require approval from the central bank).

ISLAMIC FINANCE DEMAND & POTENTIAL

A. SWOT ANALYSIS

Strengths:

- Retail Islamic banking already functioning – albeit limited
- Big proportion of population inclined toward sharia compliance
- Government supporting Islamic finance growth by announcing plans for a sukuk issuance in 2013
- Recent activity (setup of a new sharia-compliant Fund in 2013) shows investor confidence

Weakness:

- Islamic finance specific regulations in progress
- A big gap in retail consumer understanding of Islamic finance
- A limited sharia financing ecosystem — i.e scholars, institutions, media, trained professionals, events

Opportunities:

- Strong demand for Islamic finance exists with a potential of reaching 40% of total financial assets in five years
- Islamic banking 'Windows' have government and sizeable consumer support
- Sizeable non-banked and conventional bank customers interested
- SME financing is an area of opportunity

Threats:

- Delay in Islamic finance regulations adoption will have adverse investor confidence impact
- 'Adhering to Islamic rules' a critical challenge to Islamic banking adoption

B. ISLAMIC FINANCE DEVELOPMENT AND RECENT ACTIVITY

- **A suppressed Islamic Finance market awaiting regulatory setup:** Tunisia today has two Islamic banks, one of which is only allowed to function as an offshore institution with very limited local banking activity. A fiercely secular Government pre-revolution had not been supportive of opening up this segment despite its local demand and potential. However, this is all changing quickly in a different political environment. A comprehensive Islamic finance regulatory framework covering sukuk issuance, banking, takaful and even zakat and awqaf has been drafted and is awaiting Government review and adoption. To be fair the drafting started start pre-revolution. The Central Bank Governor, Chadli Ayari, has also announced that Tunisia intends to issue sukuk (commonly referred to as Islamic Bonds) worth 1 billion TND ($ 630 million) in 2013 to plug its budget deficit.

- **Early Islamic Banking exposure through AlBaraka:** AlBaraka Bank was established in 1983 after obtaining an offshore banking license. The bank was initially called Beit Ettamwil Saoudi Tounsi (BEST) but has since been rebranded. At the time, there was significant political opposition to the establishment of an Islamic bank.

Consequently in 1985 as a result of an amendment to the offshore legislation AlBaraka Bank *was allowed to come onshore provided its deposits did not exceed one percent of the total Tunisian banking system, a rather extreme setback on growth opportunities.* AlBaraka Tunisia has eight branches in Tunis in addition to its head office, two branches in Sfax and one branch in Sousse. In 2011, the bank submitted its application to become a resident bank — to include providing services to local customers.t

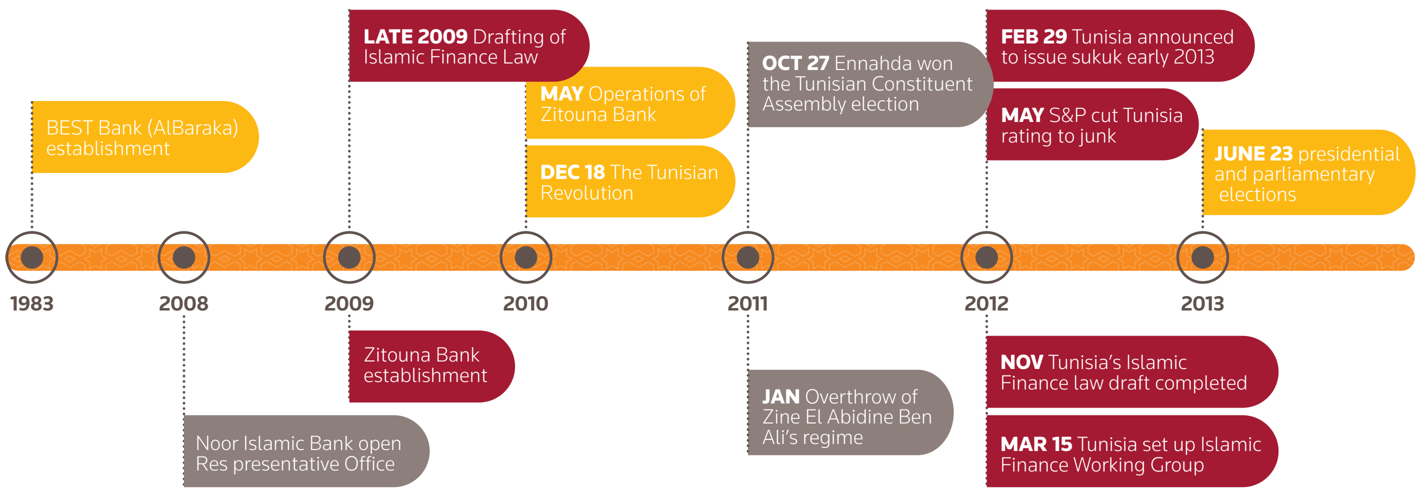
- **Domestic Islamic retail banking services by Zitouna Bank:** Zitouna Bank is a commercial bank founded in October 2009 with the goal of contributing to the growth of the country's economic and social development. After the revolution, the Central Bank took ownership of the Bank which was established by a relative of the former president.

  Zitouna is the only bank allowed to offer Islamic financial services to the domestic retail market. Zitouna caters to individuals and professionals by providing a range of products and services relating to deposit accounts, financing, equity investments, electronic banking and conventional banking. Zitouna also provides financial planning advice as well as services related to foreign trade.

  Recent developments include opening new branches across the country, reaching 32 in all. There have also been several positive indications of increasing momentum for Islamic finance on the ground — in September 2012 the President of the Islamic Development Bank Group visited Zitouna Bank to affirm his capital commitment to Zitouna. A new CEO, Ezzedine Khoja, was appointed in June 2012, and in the same month Zitouna Bank participated in the First International Forum on Islamic Finance in Sfax.

- **Chronology of recent and upcoming events:**
  - 1983 BEST Bank (AlBaraka) established
  - 2008 Noor Islamic Bank opens Representative Office
  - 2009 Zitouna Bank established
  - 2009 Drafting of Islamic Finance Law
  - 2010 Zitouna Bank starts operations
  - 2010 Dec 18, The Tunisian Revolution
  - 2011 Jan, overthrow of Ben Ali's regime
  - 2011 Oct 27, Ennahda won the Tunisian Constituent Assembly election
  - 2012 Feb 29, Tunisia announced to issue sukuk early 2013
  - 2012 Mar 15, Tunisia sets up Islamic Finance Working Group
  - 2012 May, S&P cuts Tunisia rating to junk
  - **2012 Islamic Finance law draft completed (awaiting review and implementation)**
  - 2013 Feb, United Gulf Financial Services — North Africa (UGFS-NA) launches a 50 million TND ($32 million) sharia-compliant SME fund
  - 2013 October (target), presidential and parliamentary elections

- **Chronology of Islamic Finance Development in Tunisia**



> *Strong demand for Islamic finance exists with a potential of reaching 40% of total financial assets in five years*

Key Highlights of Zitouna and AlBaraka Banks

	Zitouna Bank	AlBaraka
Number of Branches	32	8
Commenced Operations	28-May-10	1983
Online Banking	No	Yes
Capital	$50 million	70 million TND ($ 45 million)
Ownership	Zitouna Bank was placed under the supervision and control of the Central Bank of Tunisia (BCT).	87% owned by the government, the rest owned by private companies
2011 RESULTS:		
Total Assets, Thousand USD	325,946	592,331
Total Liabilities, Thousand USD	289,564	497,874
Operating Income, Thousand USD	15,497	27,125
Net Income (Loss)	(511)	8,699

C. INDUSTRY STAKEHOLDERS INTERVIEWED

- Tunisian Islamic Finance influencers provide cautious optimism: A wide mix of Tunisia Islamic Finance industry related business and government officials were interviewed by this Study research team in November 2012 to obtain their views on: 1) the current state of Islamic banking and finance offerings and operations, 2) potential demand and viability of Islamic finance, 3) regulatory road-map and possible scenarios, and 4) to assess domestic and FDI opportunities and challenges for Islamic financial services.

Organization	Interviewee
Ministry of Finance	**Chaker Soltani** General Director of Debt Management and Financial Cooperation (involved in drafting sukuk law)
Bank International Arabe de Tunisie (BIAT)	**Aicha Zamit Miled** Director / Senior Trader, Responsible Desk Sales
Bank International Arabe de Tunisie (BIAT)	**Lotfi Jebali** Director, Head of Dealing Room
Zitouna Bank	**Ezzedine Khoja** President/General Manager
Central Bank (BCT)	**Jamel Bin Yacoub** (involved in drafting Islamic finance law) Director of General Supervising and Banking Regulation, General Department of Banking Supervision
Central Bank (BCT)	**Mohamed Sadraoui** (involved in drafting Islamic finance law) Deputy -Director of General Supervising and Banking Regulation

- **Current State** — Key comments summary from Islamic Bank representatives (See Appendix for full comments):

  - *Islamic finance started early in Tunisia, but after the revolution more concerted strategies towards the development of the financial sector in the country have been put in place.*
  - *Earlier political situation in Tunisia did not encourage Islamic finance, and there was high suspicion towards anything Islamic, hence economic environment for Islamic finance suffered.*
  - *Existing Islamic banks activities had been limited to a set of product financing such as murabaha and ijara and also following conventional banking law in their legal and technical treatments. However they are supplemented by own sharia committees that approve their operations and transactions for sharia-compliance.*
  - *AlBaraka, the first Islamic bank in Tunisia, has not been able to develop despite being in the market since 1983 because legislation limited its Islamic banking operations - as the total deposits of Islamic banks should not exceed 1% of the total banking system deposits.*
  - *Zitouna Bank, the second Islamic bank and the only one with domestic retail operation permission, has reached 32 branches across the country.*
  - *Both Banks are looking forward to the new Islamic finance regulation and are planning expansion activities. Zitouna Bank is planning for over 100 branches across the country within the next five years.*

D. ISLAMIC FINANCE REGULATORY DIRECTION

- **Currently there are no specific Islamic Finance laws or regulations.** Current Islamic banks operate primarily under conventional finance laws. A comprehensive framework and related legislations covering sukuk, banking, takaful, investments, zakat and awqaf have been drafted through committees that have been setup by the finance ministry, religious affairs ministry and the Central Bank. The process of setting up Islamic finance regulations started pre-revolution. The pace and urgency has been stepped up after the revolution, with both economic and consumer drivers in play. Given the political turmoil pre-election, these laws are awaiting legislative review and adoption.

- **Regulatory roadmap** — Key comments summary from Regulatory representatives (See Appendix for full comments):

  - *Islamic banks in Tunisia today are operating in an environment where there is no legislation or laws for Islamic finance.*

  - *Regulators don't expect the new election will have a role to play in the introduction of new laws being drafted, especially because there were Islamic banks even before the revolution. The Central Bank began working on the legislation of these laws two years before the revolution. The recent political changes have however delayed introduction of the new laws.*

  - *A conventional bank representative also confirmed this sentiment - that the next elections will not affect the enactment of Islamic finance in the country. Islamic finance is being seen as a critical supporter to the Tunisian economic system and will help in the development of the economic situation.*

  - *With regards to Islamic banking, the National Committee is with the Ministry of Finance and chaired by the Minister of Finance.*

  - *The Ministry of Finance has worked on three **main committees** (which have various sub-committees under them) — Islamic sukuk, General Administration of public debt, and financial cooperation which is chaired by the Subcommittee of Islamic instrument. There is also a subcommittee of Islamic and investment funds. The Ministry has also worked on the General Insurance Committee which includes Islamic takaful. The Central Bank oversaw the Subcommittee for Islamic Sukuk, some other ministries also oversaw other mechanisms such as the Zakat funds and Waqfs. Final drafts from these sub-committees now await submission to the Constituent Assembly. The first bill that was submitted to the Constituent Assembly was the one covering takaful. Sukuk law was also prepared and submitted to the Council of Ministers.*

  - *Currenly both operating Islamic banks have been involved in legislation forming committees.*

  - *Regulators noted that while providing the legal framework is a necessary condition, it is not enough for the success of the sector. They would like banks, dealers, takaful companies and Islamic funds to stimulate demand and deepen the market to attract customers, whether individuals or institutions.*

  - *The regulators and stakeholders have reviewed all major Islamic finance models and have compared them. In terms of a model, regulators mentioned they found the Malaysian experience closest to them. Although they are looking for best practice from all as they acknowledge that GCC played a vast role in the development of the Islamic finance industry. They are also looking to avoid mistakes.*

  - *An example given by a bank representative was in relation to 'tawarruq', a product that is widely used in the GCC. They do not believe in this product and reject its use for Tunisia.*

  - *There is an ongoing debate on allowing '**windows**', i.e. conventional banks operating Islamic financing activity —through a window or a dedicated branch. The Central Bank will allow windows to operate. The condition will be that the windows are separated from the conventional operations and follow certain guidelines and conditions to open Islamic windows.*

  - *A conventional bank representative believes clients will be suspicious of '**windows**' based transactions especially if they do not know where funds will be invested and believed it will be very difficult for windows of conventional banks to compete with Islamic banks.*

  - *To facilitate Islamic finance operations, there is a **special tax regime**, and there is also special treatment when it comes to contracts registration. Those contracts do not have to be registered twice, in order to avoid double taxation. In terms of incentives on profits, regulators do not distinguish between conventional or Islamic banks, but in terms of paying taxes Islamic banks do not have to pay additional taxes.*

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E. RETAIL SURVEY FINDINGS & INSIGHTS

The Tunisia 2013 Islamic Finance Country Report undertook a national retail financial services usage and perception survey to get an authentic pulse of the market. The survey attempted to **assess experience and satisfaction with any financial services Tunisian consumers use or have used and their perception, understanding and inclination for Islamic financial services.**

The survey was conducted online and offline with a representative target sampling from key geographic areas of Tunis (metropolitan area,) Sfax, Sousse, and rest of the country. With 701 fully completed responses the insights have a 95% confidence level with a +/- 4 confidence interval.

Key themes from retail survey results and best practice considerations

This Report's Retail Consumer Survey provides us with the following major insights into current financial services usage, satisfaction and areas of opportunities specifically relating to Islamic banking:

A retail banking environment full of opportunities:

1. *Low satisfaction level highlights opportunity to gain customer loyalty:* The survey showed an overall low satisfaction level with their existing financial service providers (57% either dissatisfied or indifferent). Islamic compliant services most desired 'additional' Financial Service: A strong indication toward the potential demand of expanding Islamic banking in Tunisia.

2. *A strong savings culture among Tunisians:* From the survey results, the most used financial service category of a Savings Deposit Account showing a strong savings culture among Tunisians.

3. *A sizeable unbanked population:* The survey also revealed a sizeable percentage (7%) of consumers not using any financial services, which has implications toward Islamic banks' potential role.

4. *ATM services and low fees top considerations in using financial services; Islamic compliance a top four consideration:* This shows areas of focus for banks as well as highlights interest in Islamic banking.

Major interest in Islamic banking with key expectation around adherence to Islamic rules:

5. Majority do not currently bank with an Islamic bank: From among the respondents 11% said they bank with an Islamic bank.

6. *A sizeable interest in Islamic banking from those currently not using it:* From those respondents who are not using Islamic banking today or any financial services, 46% said they would be interested in Islamic banking. Again, this is a strong indication toward the potential demand of expanding Islamic banking in Tunisia.

7. *Interest in Islamic banking high regardless of risk to capital or lower rate of return:* The abovementioned interest from those not using Islamic banks, is further clarified when the interest is regardless of guaranteed capital (40%) or a lower rate of return (53%).

8. *Sizeable numbers open to Islamic banking 'windows':* While a large percentage 36% said they would not use Islamic banking "windows," a larger number 38% said they would, while 26% said maybe.

9. *'Adhering to Islamic rules' critical challenge to Islamic banking adoption:* 'adhering to Islamic rules' by far (55%) was the most important criteria for consumers to encourage them to deal with Islamic banking. The next important considerations at (14% and 13%) were 'competitive rates' and 'quality'.

Target audience seeking better education on Islamic banking:

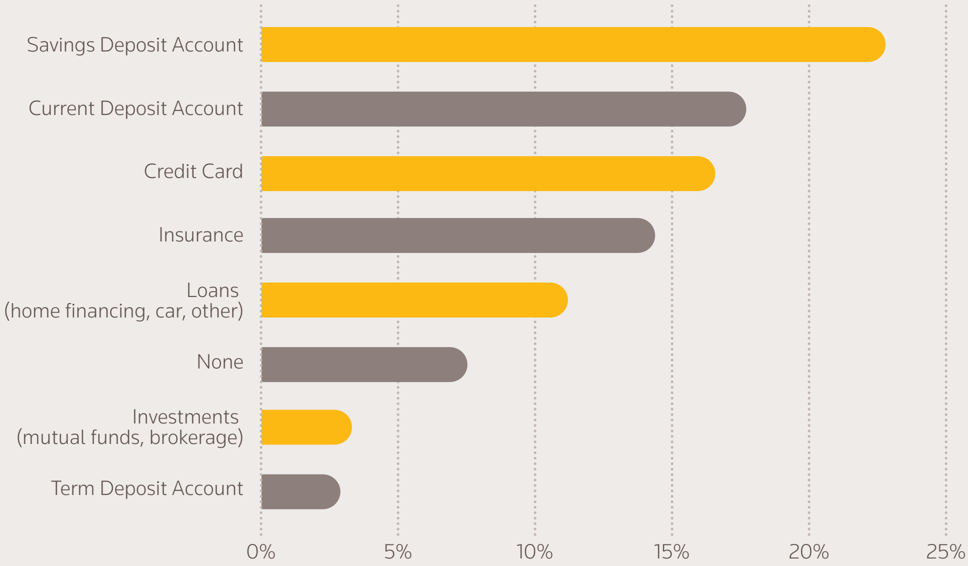
10. *A big gap in understanding of Islamic finance:* From among those respondents who were either Islamic banking customers or were interested in it there is a big gap in understanding of Islamic banking. This highlights a key challenge for the growth of Islamic banking.

11. *'Education' of Islamic banking a big need:* In terms of general views about Islamic banking respondents expressed need for better education again illustrating a general ignorance about Islamic finance but that there is significant demand for more understanding and education.

RETAIL SURVEY RESULTS — FINANCIAL SERVICES USAGE & SATISFACTION

1. Most used financial service was a Savings Deposit Account while a sizeable percent don't use any financial services

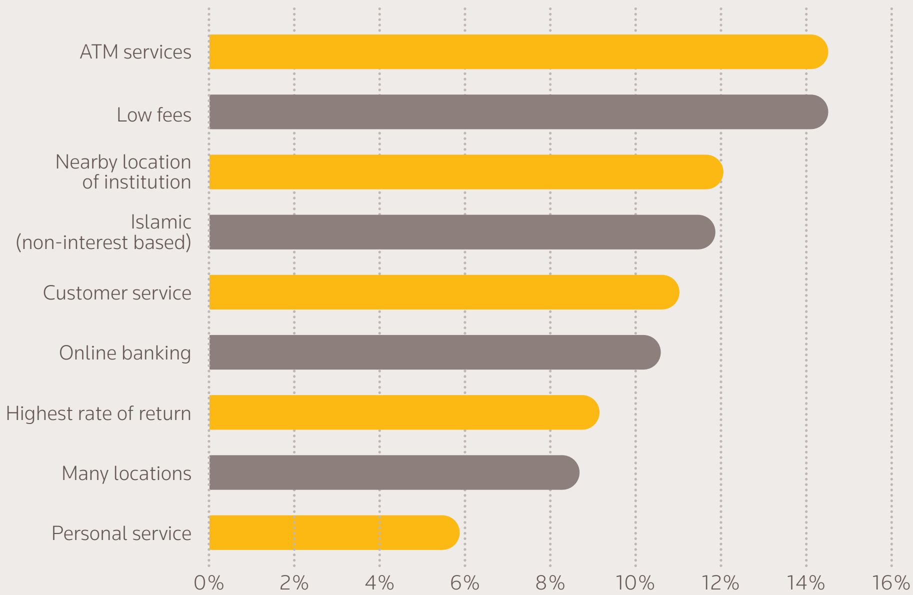
Question: Which financial services do you use today or have used in the last five years?



2. ATM services and low-fees top considerations in using financial services; Islamic compliance a top four consideration

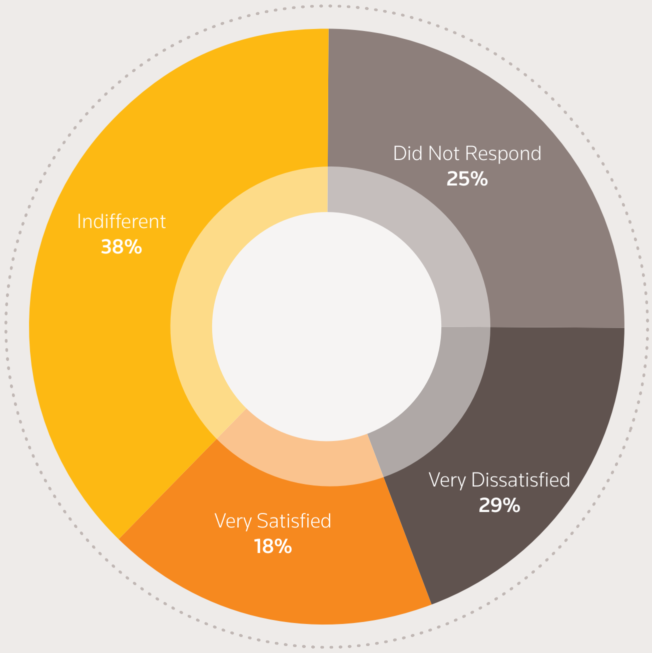
Important to note the significant importance of Islamic finance as a top four overall consideration in choosing financial services by Tunisian retail consumers as well as the opportunity to increase and or highlight ATM services.

Question: which of the following is important to you when using financial services?



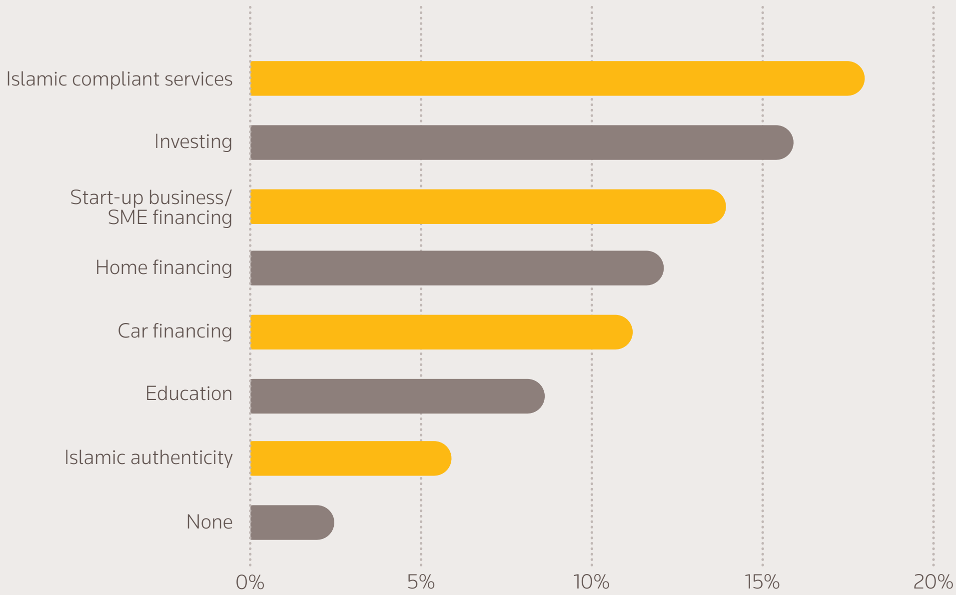
3. Low satisfaction level highlights opportunity to gain customer loyalty

Question: How satisfied are you with your primary financial service provider?



4. Islamic compliant services most desired 'additional' financial service

Question: What additional financial services do you need or will use in future?



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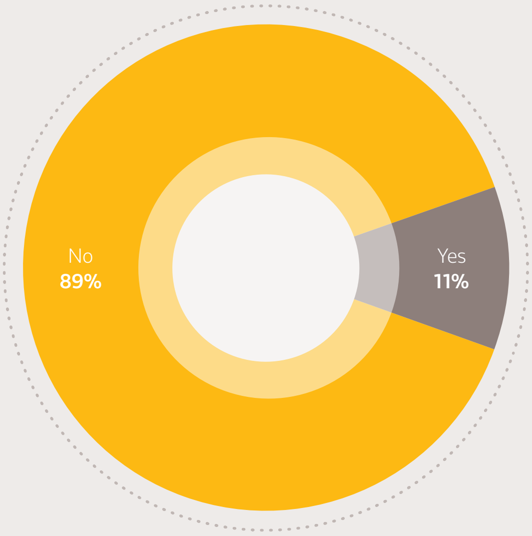
RETAIL SURVEY RESULTS — INTEREST IN ISLAMIC FINANCE

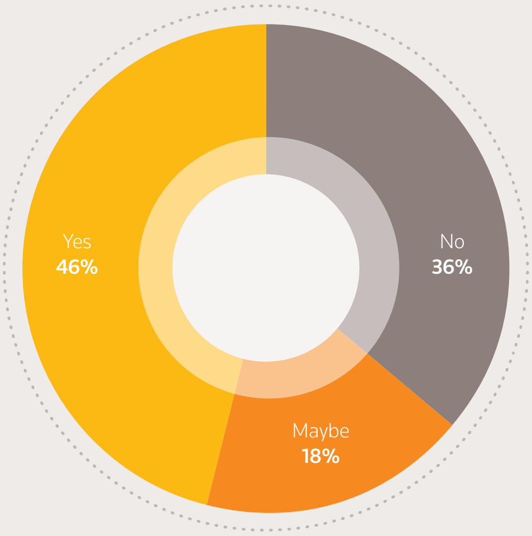
5. Majority (89%) do not currently bank with an Islamic bank

Question: Do you bank with an Islamic bank?



6. A sizeable interest in Islamic banking from those currently not using it

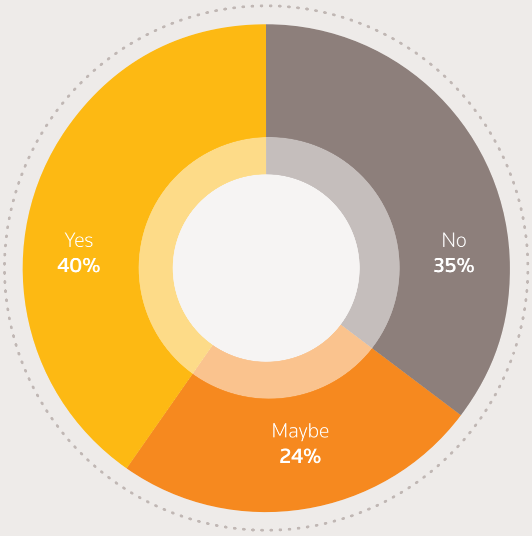
Question: Would you be interested in Islamic banking?



7. Interest in Islamic banking high regardless of risk to capital

From among those who are not Islamic banking customers but are interested in Islamic banking, most respondents (40%) said they would still deal with an Islamic bank even if capital is not guaranteed.

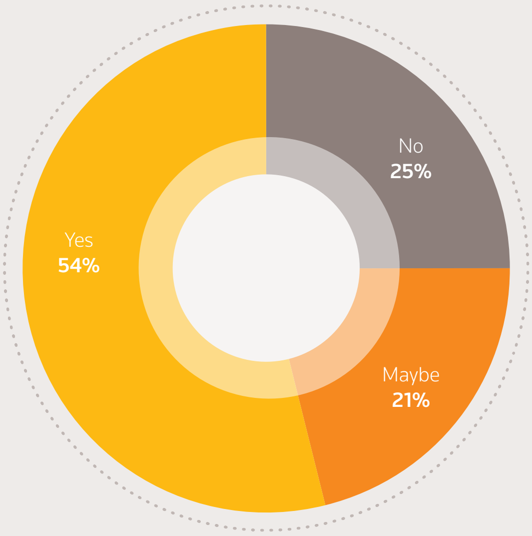
Question: If the Islamic bank says that your capital is not guaranteed, will you still deal with them?



8. Interest in Islamic banking high even with lower rates of return potential

From among those who are not Islamic banking customers but are interested in Islamic banking, majority (54%) said they would switch to an Islamic bank even with lower rates of return.

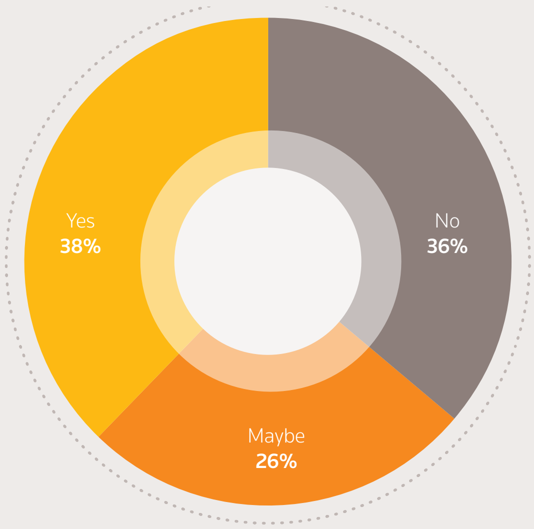
Question: Will you switch to an Islamic bank even if the conventional one offers better rate of return?



9. Sizeable numbers open to Islamic banking 'windows'

From among those who are not Islamic banking customers but are interested in Islamic banking, 38% of respondents said they would use an Islamic banking service if offered by a conventional bank.

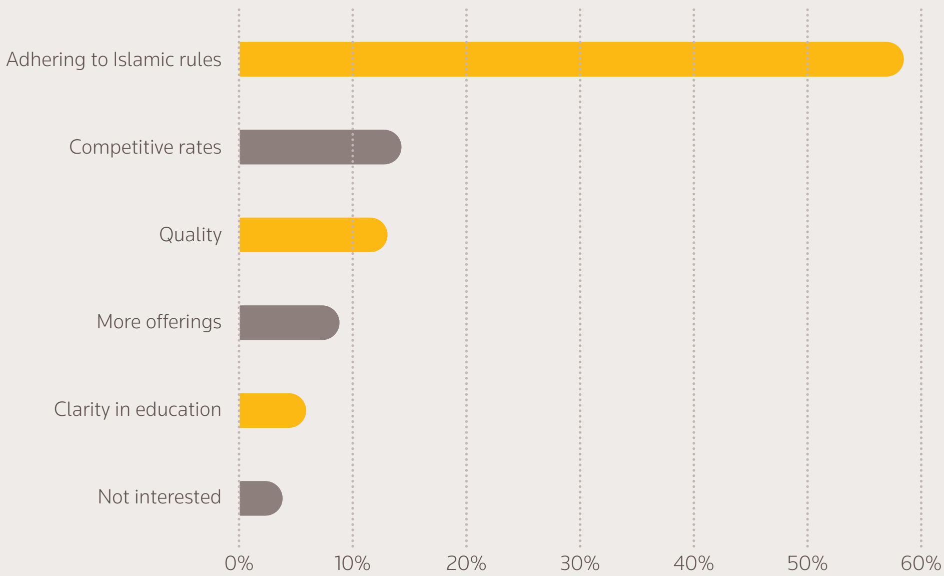
Question: Will you use Islamic banking services if a conventional bank with an Islamic "window" offers it?



10. 'Adhering to Islamic rules' critical to Islamic banking adoption

From among those who are not Islamic banking customers but are interested in Islamic banking, the most important factor in determining whether respondents would deal with an Islamic bank was overwhelmingly the bank's adherence to Islamic rules (56%).

Question: Choose the most important factor that would encourage you to deal with Islamic bank



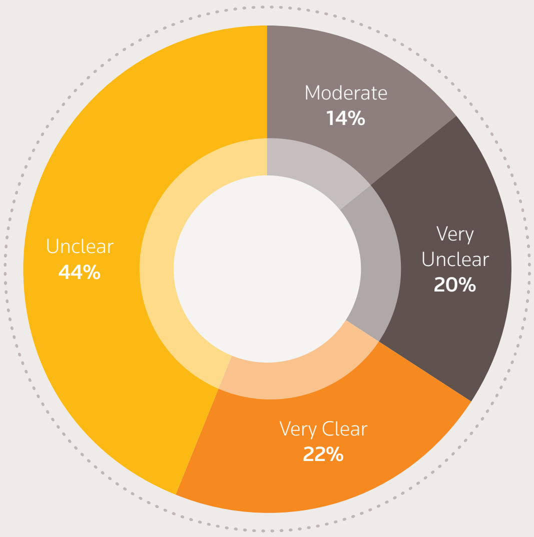
BIG PROPORTION OF POPULATION INCLINED TOWARD SHARIA COMPLIANCE

RETAIL SURVEY RESULTS — PERCEPTION & UNDERSTANDING OF ISLAMIC FINANCE

11. A big gap in understanding of Islamic Finance

From among those who are Islamic banking customers or are interested in Islamic banking, 64% did not have a clear understanding of Islamic finance concepts (20% very unclear and 44% unclear.)

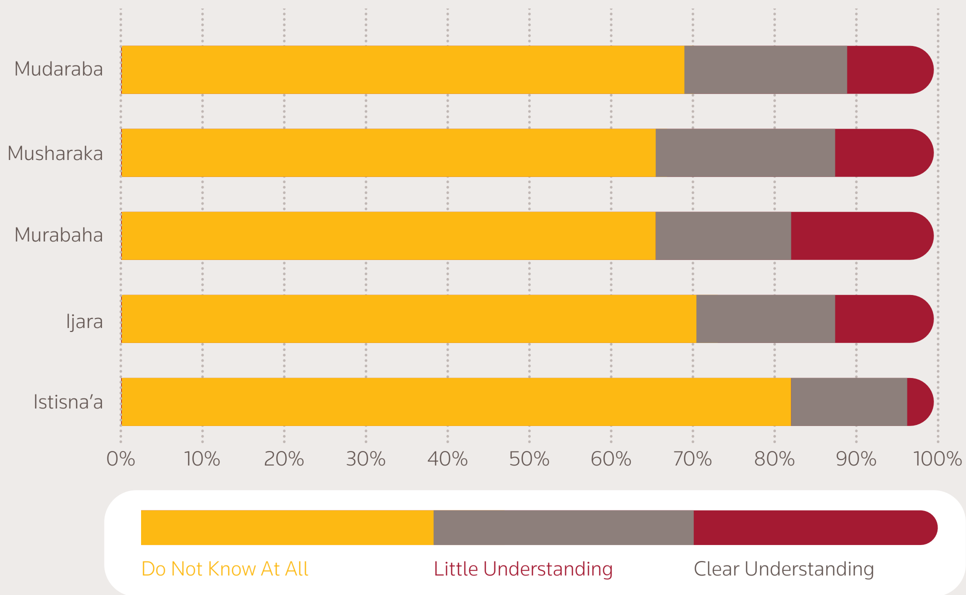
Question: How well do you understand Islamic finance concepts?



12. Most consumers unclear about Islamic finance structures

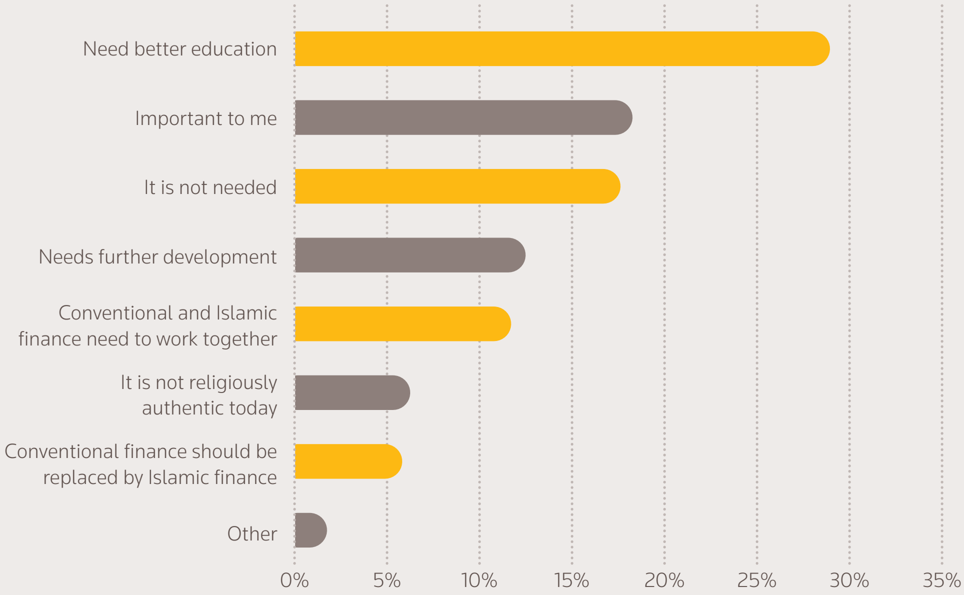
From among those who are Islamic banking customers or are interested in Islamic banking, most did not know anything at all about mudaraba (68%), musharaka (64%), murabaha (64%), ijara (71%) and istisna (82%).

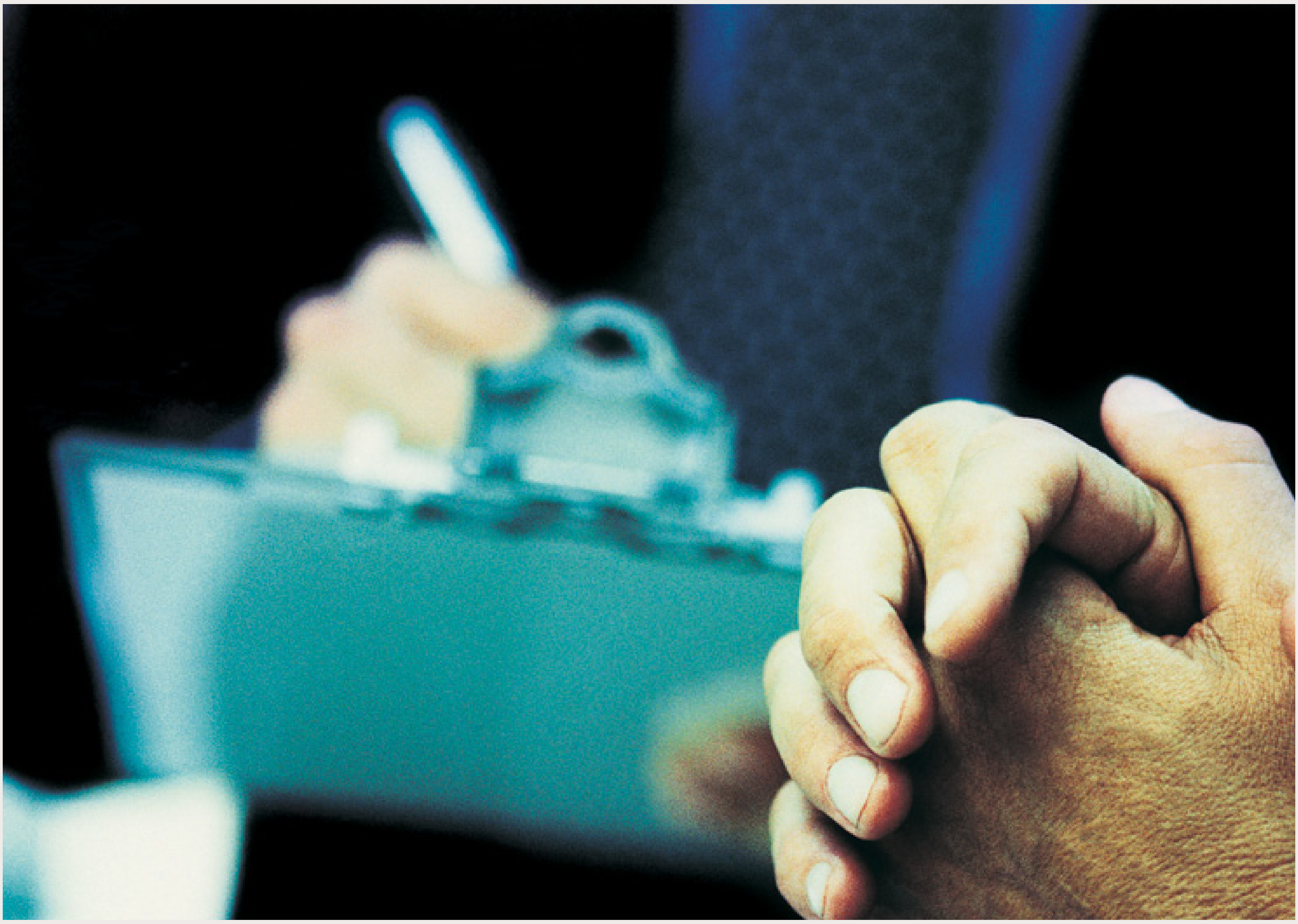
Question: Do you have an understanding of the following structures in Islamic finance?



13. 'Education' of Islamic banking a big need

Question: What are your views about Islamic Finance?





E. ISLAMIC FINANCE MARKET POTENTIAL/ DEMAND

- The demand for Islamic financial services has been validated by the retail survey presented in this Report. This demand is further validated by the socio-political dynamic in Tunisia, that shows a suppressed Islamic finance market need that is ready to be realized in a post-revolution environment.

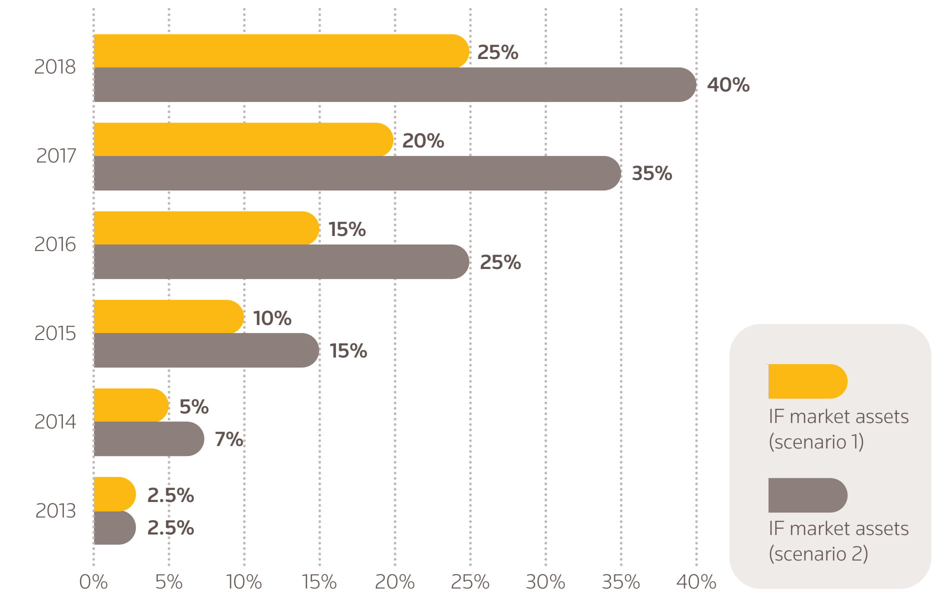
- Based on the survey results, **we estimate the demand for Islamic financial assets to be 40% of the total financial assets in Tunisia with a minimum potential of 25% of total assets.** It is also estimated that Islamic finance can bring into the fold additional 7% of assets from the un-banked population base.

- **Islamic finance regulations in place and future political stability is a key assumption:** Specific to Islamic financial institutions (banking, corporate sukuk, takaful, and investments) the potential for the Islamic finance market assumes a successful passing of the proposed comprehensive legislation on Islamic finance in 2013 and a peaceful transition and continuation of the political environment in Tunisia.

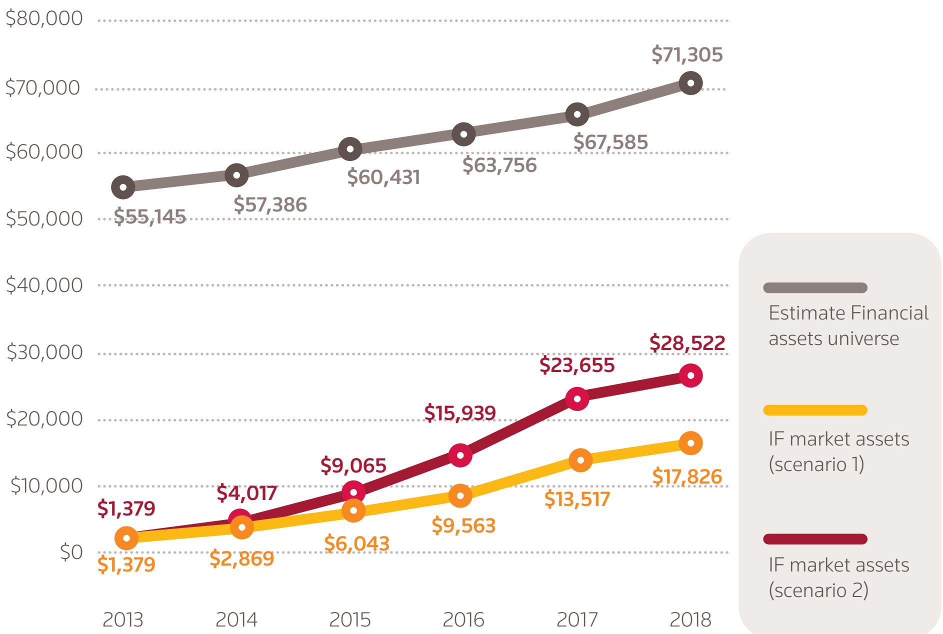
- Assuming the regulations are passed (relating to sukuk, banking, takaful,) and a stable future government is functioning, we present two scenarios of Islamic finance growth. Scenario 1 assumes efficient and effective government support to development and operation of Islamic finance in the coming five years. In this scenario, Islamic finance assets should achieve 40% of total financial institution assets by year 5 (2018). Scenario 2 assumes inefficient government support to development and operation of Islamic finance. In this scenario, Islamic finance assets should achieve 25% of total financial institution assets by year 5 (2018).

- This Report estimates an overall Tunisian market size for financial institutions to be worth $55 billion of financial assets in 2013 reaching $71.3 billion in 5 years (2018.) Estimated total Islamic finance assets were $ 1.07 billion in 2012 which is 2% of the total financial assets. This estimation covers banks, non-resident banks, leasing institutions, factoring institutions, merchant banks, Insurance firms, and investment companies. Based on the two scenarios, **Islamic finance assets are estimated to reach $28.5 billion in 2018 under scenario 1 or $ 17.8 billion in 2018 under scenario 2.**

Tunisia Islamic Finance Assets as a % of toal Financial Institution Assets (Estimated poptential 2013 - 2018)



Tunisia Financial Institution Assets (Estimated potential 2013 -2018, USD million)



- Methodology applied and key assumptions to the above projections are as follows:
  - Projected Islamic finance (IF) market as % of total financial assets = 40% demand as derived from survey response (40% minimum of non-Islamic banking customers interested in dealing with Islamic banks regardless of increased risk to capital or lower rate of return potential. Further supported by other responses)

- Projected scenario #1 takes this 40% estimate to be realized by year five of market growth looking at other IF markets' growth trajectory. This scenario assumes political, security and efficient comprehensive IF regulatory environment

  - Projected scenario #2 adjusts the estimate of IF estimates as a percent of total financial asset down to 25% to be realized by year five of market growth assuming political, security stability but sluggish IF regulatory environment

  - Actual projected numbers based on 2011 total financial assets as baseline * projected GDP growth (also incorporates 7% of additional non-banked customers to be brought in by Islamic financial services)

  - Estimated non-banked customers assets expected to be brought in by Islamic finance offerings = 7% (Survey response showed 7% of respondents not using any financial services)

- **Potential Demand of Islamic Finance** — Key comments summary from Regulators, Islamic Bank representatives & Conventional Bank representatives (See Appendix for full comments):

  Regulators:
  - Regulators' discussions with experts in Islamic banks and fund managers in the GCC have given them the confidence that Tunisia has a good opportunity to benefit from the growing Islamic finance space.

  - Regulators also see that there is a segment of Tunisians who are currently keeping their money at home, waiting for Islamic banks. They cite the example of some customers who only utilize the Provident Fund as an escape from usury. They see these will be the first segment that Islamic banks will attract from conventional banks.

  - Regulators expect more Islamic banks in the market bringing competitiveness and offering better rates and services.

  - They also see Islamic finance expansion attracting savings both for religious or profitability reasons and it could attract those institutions that are looking for funds, because at least in the first stage there is a kind of weakness in the financial market.

  - However they would like to see more projects and companies financing rather than financing for individuals.

  Islamic banking representatives:
  - Islamic banking representatives see the demand to be from individuals and corporates in parallel assuming new laws are in place and level of knowledge and awareness of Islamic finance improves.

  - Many universities in Tunisia are helping to support the spread of Islamic finance education and awareness by offering Masters programs in Islamic finance. AlBaraka Bank is currently supporting three universities in the Masters program of Islamic finance.

  - Zitouna Bank had expressed interest towards foreign expansion as well, particularly at the level of Europe, because there is a large Muslim community. They have a plan in place to expand in Europe and in the North African region as a whole. The Bank has a capital base of around 70 million TND ($ 44.9 million) and their target is to raise this figure to 100 million TND ($ 64.3 million) by the end of the year. They are also aiming towards opening an institution for investment funds to provide investment opportunities across different classes with collaboration with many institutions in this sector.

Conventional Bank representative
  - Conventional Bank representative highlighted that the selection of Ennhadha party in the political sphere predicts that there is interest in Islamic products in the economy as there is a clear link between politics and the economy.

  - They also highlighted the Tunisian communities abroad who are used to Islamic windows in markets such as France. Therefore, if they can find in their own country such Islamic banks, this will provide Tunisia with cash flows in hard currencies.

- **Investment opportunities for Islamic financial services** – Key comments summary from Regulators (See Appendix for full comments):

  - Regulators want to position Tunisia to attract global Islamic funds looking for sharia-compliant opportunities.

  - They also do not see any barriers to prevent **the issuance of new licenses**, as there is no law that sets the number of banks operating in Tunisia. New licenses will be looked into based on the bank's model, business plan, capital structure and other license terms that will govern the issuance of this license.

  - Conventional Banks will be allowed to have '**windows**.' There is also no limit to the number of windows. They will have some guidelines and be required by law to have a sharia board. An Islamic bank representative highlighted that there are many conventional banks that are currently seeking to develop their staff in the Islamic finance field in anticipation of Islamic windows.

  - In 2013 state's budget, the Ministry of Finance included funding with **sukuk**. The amount that they have included in the draft budget is about 1 billion TND. The goal is by issuing sukuk at the level of the domestic market and the level of the foreign market should open the way for the rest of local corporations to issue sukuk overseas.

  - This **sukuk** issue will target foreign investors as 66% of the offering will be for foreign market and the remaining is for the local market.

  - The Central Bank sees Islamic finance facilitating fund companies, as the Tunisian economy needs to now set up institutions and companies that are able to create jobs. An important area highlighted is **SME financing**.

- **Investment opportunities for Islamic financial services** – Key comments summary from Regulators, Islamic Bank representatives, and Research institution (See Appendix for full comments):

  Regulators
  - Regulators highlighted **financial literacy** in Tunisia and the Arab region and the European Union in general is poor, especially banking knowledge, as it is surrounded by complex banking transactions. On top of that, Islamic products are new products and most people do not distinguish between the two. This is an issue.

  - Another area of focus regulators highlighted is ensuring a **competitive market** in the sense that there is no monopoly on Islamic finance activities.

  Islamic Banking representatives
  - Islamic Banking representatives also confirmed that the understanding of the Islamic finance concept in the Arab-Muslim world is weak and some of the attention arises from passion or merely following the trend. There is an evident issue in the process of **understanding and awareness** of the concept.

  - Zitouna Bank has set goals in 2013 to try to work in the **educational process** across various channels. They have different channels that they are using, including: general media, and digital media.

  Research Institution representative
  - Another challenge highlighted for Islamic financial institutions' growth in Tunisia was their **authenticity**. This was also highlighted as a top concern in the Retail survey. These banks are expected to adhere to moral principles and not just to focus on business. As the representative highlighted passionately, "We in Tunisia, need to purify the financial climate in the country, as the banking sector has suffered a long period of fraud and manipulation. The market now is open for Islamic banks to succeed, and I wish success for the Islamic finance sector."

F. SHARIA ECOSYSTEM

- The Tunisian population is overwhelmingly Muslim at 98 %, with Christians and Jews representing less than 2 % of the population.

- The Maliki doctrine is dominant in Tunisia and the Hanafi doctrine emerged in the country since the Ottoman period (1534-1881). These two doctrines were represented in the sharia courts (دار الشريعة) established in 1856 and abolished in 1956 a few months after independence. The scholars of these courts were alumni of Ez-Zitouna Mosque (مسجد الزيتونة .)

- **Ez-Zitouna Mosque (مسجد الزيتونة) the first teaching establishment in the Muslim World** was founded in 737 (120 A.H). Mohamed Tahar Ben Achour (1879-1973) the author of Ettahrir Wa Ettanouir (an exegesis of the Holy Quran published in thirty volumes and written over forty years) is one of the famous scholars who studied and taught in Ez-Zitouna. Other famous alumni include the historian and philosopher Abdul-Rahman Ibn Khaldun (1332-1406), the trade unionist and writer Tahar Haddad (1899-1935), the politician and writer Abdelaziz Thâalbi (1876-1944) and the Tunisian national poet Aboul-Qacem Echebbi (1909-1934). The educational role of Ez-Zitouna Mosque was assigned to a newly established Zitouna University in 1956 and the Zitouna Faculty of Shari'a and Theology in 1961.

- The Superior Islamic Council (SIC) which was created in 1989 under the authority of the Prime Minister is the higher consultative religious authority in the country. The SIC is responsible for providing the government with proposals aiming to ensure the respect of the first article of the constitution stipulating that Islam is the religion of the country[17], the proper functioning of Islamic institutions and the training of imams and preachers. It is worth noting that the special commission on Islamic finance set up ztby the Ministry of Finance after the revolution is finalizing a regulatory framework for the revival and organization of Awqaf, which have been removed from the country in 1957. This special commission is also preparing a project for the establishment of "Tunisian Zakat House" a public independent institution responsible for the collection and distribution of Zakat.

LOGO

ISLAMIC FINANCE INVESTMENT SCENARIOS

A. ISLAMIC FINANCE SECTOR INVESTMENT CONSIDERATIONS & KEY CHALLENGES

Given the developing political/ regulatory environment and latent potential for Islamic financial services, the following are some key considerations for Islamic financial sector investment opportunities:

New Islamic finance regulations expected to be in place: Based on this Report's analysis, core aspects of Islamic finance regulatory framework can be expected to be in place by late 2013 or early 2014. Part of this development is a special tax regime and contracts registration which is expected to provide Islamic transactions a level playing field. Even in the backdrop of the political crisis and chances of delay in election, we see the Government keen to institute Islamic financing as an economic development stimulant as well as for government financing through a sukuk issuance.

Fundamentals conducive for Islamic financial services expansion: External trade activity trend is positive as both exports and imports are expected to increase. Diverse export activity that includes mechanical and electrical products, textile, food and agriculture, with strong connectivity to European market bodes well to continued opportunities. Domestically, an increase in public investment, notably in the area of basic infrastructure is expected. The same trend is projected for private investment, especially in inland regions, as well as continued modest gain in disposable income. In addition, growing interest in trade and investment opportunities from MENA and North Africa region also bodes well for Islamic financing needs.

Recent FDI trends are good benchmarks: FDI historically has been focused on energy, manufacturing (e.g. textile, electronics) and tourism sectors. Recent activity provides good benchmark scenarios. Overall, in 2012 FDI investments resulted in 123 new companies starting production and 185 expanding operations. The number of companies with foreign participation equals 1,895 where 1,171 are totally owned by foreign investors (out of a total of 5,731 industry firms with minimum 10 employees.) Some key transactions in 2012 have included:

- Capital Increase of Ettijari Bank: 25.1 million TND
- Acquisition of 13% stake in BT by the French Crédit Mutuel: 218 million TND
- Purchase of a hotel unit in Tabarka by the Qatari group MEJDA LEL ESTITHMAR: 70 million TND
- Acquisition of 15 % of shares in the capital of the telecommunications operator Tunisiana by Qatar Telecom (636.9 million TND)
- GBNA project of the group WEISSKER in the sector of IMCCV (construction material, ceramic and glass industries) for a global amount of 50 million TND ($ 32.1 million)

Sukuk issuance will kick start Islamic finance growth potential: A key milestone of Islamic finance growth in Tunisia will be the execution of the government's announced plan for a sukuk issuance. This will give investors confidence in regards to wider investment interest as well as kick start domestic corporate sukuk issuances.

Investments in local Islamic banking a key area to follow: The core area of investment potential could be the Islamic banking landscape in Tunisia where the existing two Islamic banking players are gearing up for significant expansion. They themselves could be potential partners to new investments. However, given the demand potential, the competitive landscape can accommodate additional players, providing the market with depth of services and diversity of options — focused both on retail and corporate. Acquisition of conventional banks with an eye toward Islamic banking conversion or 'window' activity based expansion would be one key consideration. New banking licenses would be another key consideration as the Central Bank has made clear its intention to entertain all applications.

Islamic 'Windows' can have a significant play: Although there are concerns to the authenticity of Islamic banking operations under a 'windows' setup, the government and a sizeable portion of consumers have expressed openness toward dealing with 'windows.' However, 'pure-play' Islamic finance operations can be expected to have a stronger impact given general market apprehension toward 'windows' operation.

Takaful market is in its infancy with strong potential: Given that the takaful regulation had been drafted early and there are already a few takaful related license applications in the works, there can be much development in this sector as well. The general penetration for insurance in the market is low and takaful offerings could help fill the void. Given limitations, foreign investments can only be channeled through local joint-ownership holdings.

Islamic private investments funds need to focus on export oriented industries and SMEs: Given a diverse and vibrant economic base with strong export segment including manufacturing, Islamic private equity funds can see significant potential. Current investments from the EU are a testament to its potential along with a gap in servicing the SME segment.

Islamic microfinance can serve a large gap in the market: With a potential to grow current client base to three times its size, and new microfinance regulations in place, Islamic microfinance opportunities could be a key area of social/ impact investments. A varied set of offerings that expand beyond micro-credit and include micro-savings and micro-insurance would be key opportunities as well.

Key challenges: The three key areas for realizing of the Islamic finance opportunity in Tunisia will be:

1. The obvious initial hurdles toward realizing the scenarios presented above are Islamic finance regulatory approvals and relative political stability and security. As mentioned, we see this going in the right direction and the dust should settle by mid 2014.
2. The ability for all segments of Islamic finance (banks, takaful companies, funds) to stimulate demand and deepen their offerings to attract customers both retail and institutions.
3. Addressing the big gap in educating consumers about Islamic finance is key to building confidence in this market.

B. STRATEGIC ROADMAP FOR ISLAMIC FINANCE INDUSTRY DEVELOPMENT IN TUNISIA

The road map for Islamic finance industry in Tunisia is currently being built with a potential that could see it as a major regional player. Tunisia has an initial momentum toward Islamic finance development relative to its neighbors, and there is potential to serve the diversity of its local market financing needs and become a platform for regional investments.

Based on the examination of Tunisia's overall financial services industry, government initiatives and recent Islamic finance developments, below are some key areas of recommendations broken down into four areas of development:

Industry ecosystem:

- **A professional association:** The Islamic finance sector should build on the momentum of the recent Islamic finance interest and developments to form a professional association to promote industry specific needs. The professional organization can be formed in conjunction with existing Islamic banking, takaful, fund and educational programs. Government can support its initial formation and financing. This professional association will also help foster product innovation, training, networking and provide industry benchmarking studies.
- **Islamic finance training:** Another major obstacle that should be addressed is the education of the labour force. Existing university programs and educational institutions offering Islamic finance education should be supported and further developed. The success of these programs could serve talent not only for local needs but for also for the region.
- **Sharia finance scholarship:** A local pool of sharia finance scholars should be developed and engaged as part of various sharia board or monitoring operations. International interaction and perspectives on sharia rulings can be effectively applied and interpreted for local and regional application. This maybe best developed by having local programs that develop such scholars or sending them to other international institutions on scholarship supported by industry professional associations or government initiatives.

Demand drivers:

- **Education programs:**While the Tunisia Association of Islamic Finance has been active sinc e2010 in educating the population, a big gap in the understanding of Islamic finance among the wider population, ongoing and consistent population education programs or 'awareness campaigns' should be developed. These are different from training programs with the goal to increase the understanding of Islamic finance and its usage.
- **Social impact:** As highlighted in this report, among the non-banked customers and those needing micro-finance, many will be open to

Strategic Priorities for Islamic Finance development in Tunisia

Islamic finance solutions. The industry should develop and pursue this segment. In addition, quality CSR programs should become part of the business model to further build trust and loyalty with customers and meet its 'authenticity' perception needs.

Offering depth & reach:

- **Sub-sector focus & depth:** All key sub-sectors of Islamic finance should be developed to give customers the full suite of sharia-compliant finance and investment options. The areas of focus should include: Sukuk — corporate & government, SME financing, Retail banking, Microfinance, Takaful, investment funds, Zakat and Waqf services. Within each sub-sector depth of product offerings with competitiveness should be pursued.

Supportive environment:

- **Legislative support:** A comprehensive Islamic finance regulatory framework should be in place to give the industry a minimum level of an equal playing field with special incentives to attract increasing FDI opportunities through Islamic finance.

- **Regulatory efficiency:** Regulatory processes should be streamlined to international best practice standards. Risk management should be effectively managed.

- **Governance best practices:** Best practices in Islamic finance governance should be established and monitored. In addition, to the element of sharia supervision, transparency and overall governance best practices should be encouraged.

APPENDIX

A. COUNTRY BACKGROUND

Introduction

- Tunisia is a Presidential Republic with a developing economy located on the Mediterranean coast of North Africa, roughly halfway between the Atlantic Ocean and the Nile Delta. Tunisia is a tourist-friendly country, popular especially among out-doors and adventurous types who enjoy the country's mountains, coasts and deserts. An abrupt southward turn of the Mediterranean coast of northern Tunisia gives the country two distinctive Mediterranean coasts, west-east in the north, and north-south in the east, in total over a thousand miles of coastline. The country's landscape is varied with the Atlas Mountains in the north, the Sahara Desert in the south, and woodlands and valleys in the interior. Tunisia's economy is diverse with important agricultural, mining, energy, tourism and manufacturing sectors.

Full name:	Tunisian Republic
Population:	10.6 million (UN, 2011)
Capital:	Tunis
Area:	164,150 sq km (63,378 sq miles)
Major languages:	Arabic (official, commerce); French (commerce)
Major religion:	Islam
Life expectancy:	73 years (men), 77 years (women) (UN)
Main exports:	Agricultural products, textiles, electrical, oil
GNI per capita:	US $4,070 (World Bank, 2011)

Geography

- Tunisia is situated on the Mediterranean coast of North Africa, midway between the Atlantic Ocean and the Nile Delta. It is bordered by Algeria on the west and Libya on the south east. Though it is relatively small in size, Tunisia has great environmental diversity due to its north-south extent.

- Tunis, the capital, is the biggest city in the country with a population of almost one million, followed by Sfax 900,000 and Nabeul 733,000.

Largest cities or towns of Tunisia

Rank	City Name	Population
1	Tunis	993,000
2	Sfax	904,900
3	Nabeul	733,500
4	Sousse	590,400
5	Ben Arous	555,700
6	Kairouan	553,800
7	Bizerte	538,900
8	Monastir	494,900
9	Ariana	473,100
10	Medenine	447,400

People & Culture

- Ethnic groups: Arab 98%, European 1%, Jewish and other 1%
- Language: Arabic (official, one of the languages of commerce), French (commerce), Berber (Tamazight)
- Climate: Temperate in north with mild, rainy winters and hot, dry summers; desert in south
- Muslim (Islam — official) 98%, Christian 1%, Jewish and other 1%
- Population: 10,732,900 (July 2012 est.) most populous country in the world; Growth rate: 0.964% (2012 est.) ranked 118 in global comparison of population growth.
- Literacy: total population: 74.3% (male: 83.4%, female: 65.3% (2004 census)) definition: age 15 and over can read and write
- Total urban population account for 67% of total population

Economy

- Total Gross Domestic Product (GDP) is estimated be $45.5 billion in 2013. The economy is expected to grow by 2.3% this year, compared to a growth of 2.7% last year. (IMF)
- According to the IMF, unemployment rate is estimated to be around 17% in 2012.
- Tunisia has a free trade agreement with the European Union, Turkey, Morocco, Egypt Libya and Jordan (Tunisia Ministry of Commerce).
- Tunisia currency is the Tunisian Dinar, a managed float currency that is made up of 1,000 millimes. (Reuters)
- General government gross debt as a % of GDP (Public Debt) is 43.5% (2012 estimate). Estimated inflation is 5% and unemployment is 17% (both 2012 estimates).
- Export commodities include clothing, semi-finished goods and textiles, agricultural products, mechanical goods, phosphates and chemicals, hydrocarbons, electrical equipment. Import commodities include textiles, machinery and equipment, hydrocarbons, chemicals, foodstuffs.
- Total exports reached $16.11 billion in 2010 (estimate) and total imports reached $23 billion in 2008 (estimate).
- Major export partners include France 29.4%, Italy 19.2%, Germany 10.3%, and Libya 6.6% (2009 estimate). Major import partners include France 21%, Italy 17.5%, Germany 8.8%, Spain 4.9%, China 4.7%, and Russia 4.5% (2009 estimate)

Facts

- The opening sequence of "Stars Wars" was filmed at Douz in Tunisia - known as the 'gateway to the Sahara.'
- Tunisia is home to a number of archaeological sites, particularly those of Roman origin.
- The Tunisian oasis at Kebili has been found to contain evidence of Stone Age settlements.

B. RETAIL SURVEY METHODOLOGY & RESPONDENT PROFILE

- **Key Information Objectives:** The survey was focused on determining current retail financial services consumer behavior and preferences as well as satisfaction levels with existing financial services with a particular focus on Islamic finance. In addition to assessing consumers' views toward current practices, the survey's objectives included assessing consumer understanding and perception of Islamic Finance as well as consumer inclination (i.e. desire, usage and willingness to pay a premium) toward Islamic financial services.

- **Data Collection:** The survey was conducted online and offline with a representative target sampling from key geographic areas of Tunis (metropolitan area,) Sfax, Sousse, and others ensuring that the survey's target breakdown was geographically proportional. The survey was limited to Tunisian nationals above the age of 18. The survey was distributed in multiple languages (Arabic, French and English) for widest reach.

- Twenty questions were asked, which fell under the following categories. Responses were collected anonymously, and it was stated to the respondents that demographic data collected will be used in aggregate only:

  Survey question categories
  1 Screening (age group)
  2 Financial services usage and satisfaction
  3 Interest in Islamic Finance
  4 Perception & Understanding of Islamic Finance
  5 Demographics

- **Survey Limitations:** This survey has a limitation that may affect the accuracy of the results. There is a response bias element to the participant profile of this survey. An assumption can be made that those who participated and responded to the survey are predisposed to their Muslim identity and are actively online. This factor limits the survey's ability to truly represent the wide diversity of Muslim views even within the targeted markets.

Respondent Profile

- The survey received a total of 701 fully completed responses. This response rate represents a 95% confidence level with +/- 4 confidence interval. The responses represented a wide mix of Tunisian consumers of financial services as highlighted below.

Geographic Coverage

- 99% of respondents were Tunisian nationals. Geographically, 58% of the respondents live in the capital Tunis, 18% in Sousse, 11% in Sfax and 13% in other parts of Tunisia. In contrast, the national population is distributed mainly in other parts of the country (76%) such as suburbs of the larger cities and rural areas. Tunis makes up about 9% of the country's population and Sfax, and Sousse make up 9% and 6% respectively.[18] Despite similar populations, t**he key affluence center of the capital Tunis is much better represented and there is a higher proportion of Sousse-based responses than that of Sfax-based responses despite Sousse's smaller population.** The figures below represent the geographic coverage of the survey and its relation to the population of the geographies covered.

Gender Distribution

- The gender distribution of the respondents is 65% male and 35% female. This gender distribution is clearly skewed towards males since the general population is about evenly distributed with males making up 50.4% and females making up 49.6%.

Age Structure

- 28% of the respondents were between the ages of 18 and 24 and 28% were between 25 and 34 thus 56% of respondents were between the ages of 18 and 34 years old. Additionally 16% of the respondents were between the ages of 35 and 44, 13% were between the ages of 45 and 54 and finally 5% were aged 55 or over. This age structure representation of the survey respondents is consistent with the **median age of the country of 30.5 years,[19] illustrating a relatively young population**. The charts below show the respondents age structure and national age structure respectively.

Occupation

- 50% of the respondents' primary area of occupation was student (21%), other (16%) or finance (12%). **The representation of students as the largest occupation category is further supported by the median age of 30.5 years mentioned above. Also significant is that the 3rd largest category of occupation was finance (12%)** which forms part of the services sector that makes up 50% of the country's labor force. The diagram below shows the full breakdown of respondents' occupation by category and percentage.

Income Levels

- While 33% of respondents preferred not to disclose their family's income category, 51% made between 201 and 1,500 TND monthly. 13% of respondents' family income was above 1,501 TND monthly and 3% were between 100 and 200 TND monthly. This respondent income level distribution shows **a low proportion of people below the poverty level, consistent with the national population below the poverty line of 3.8%[20]. Also significant is roughly equal distribution of people that fall in the middle income levels showing potential and opportunity for a middle-class.**

Education

- 62% of respondents had received a university level education (40%) and a postgraduate degree (21%). 23% of respondents had received a high school level education leaving only 16% with professional certification (6%), primary school (5%), or elementary school (5%). These figures are supported by the country's literacy rate of 74.3% and school life expectancy (primary to tertiary education) of 15 years, which together present a young, **highly literate and educated population entering the workforce.**

C. INDUSTRY STAKEHOLDERS INTERVIEWED

Organization	Interviewee
Ministry of Finance	**Chaker Soltani** General Director of Debt Management and Financial Cooperation (involved in drafting sukuk law)
Bank International Arabe de Tunisie (BIAT)	**Aicha Zamit Miled** Director / Senior Trader, Responsible Desk Sales
Bank International Arabe de Tunisie (BIAT)	**Lotfi Jebali** Director, Head of Dealing Room
Zitouna Bank	**Ezzedine Khoja** President/General Manager
Central Bank	**Jamel Bin Yacoub** (involved in drafting Islamic finance law) Director of General Supervising and Banking Regulation, General Department of Banking Supervision
Central Bank	**Mohamed Sadraoui** (involved in drafting Islamic finance law) Deputy – Director of General Supervising and Banking Regulation
AlBaraka Bank	**Mahmoud Mansour** Deputy General Manager
AlBaraka Bank	**Mohsen Ghabi** Investment Manager
Tunisian Institute of Strategic Studies	**Mohamed Mabrouk** Head of the Economic Department

INDUSTRY STAKEHOLDER VIEWS – CURRENT STATE:

M. Mansour, AlBaraka Bank (translated from Arabic):

- "Since the establishment of our bank in 1983, the banks' activities have been limited to a set of product financing such as murabaha and ijara. We are currently following conventional banking law that permits such products, which are to some extent similar to that of conventional banks in their legal and technical treatments. We have our own sharia committee that ensures our operations and transactions remain sharia-compliant. Since 1983 we have been offering products that are similar to that of conventional banks and we haven't faced any problems in contracts or in dealing with the banks' customers. The Tunisian revolution has changed the direction of Islamic finance in the country."

- "Today we offer murabaha, ijara and musharaka products. Other products have not been offered because there are no legal and sharia aspects that work together until now. The current law is an ordinary civilian law that is in line with conventional banking operations more than Islamic banking operations.

- We hope that the new Islamic finance laws will be issued soon. It will help expand the Islamic finance field in Tunisia. Issuing the law will give conventional banks the opportunity to convert to being purely Islamic banks, or alternatively open Islamic windows via separate Islamic branches. This will ensure there will be no clients dealing with conventional and Islamic banking within the same branch. A good first step has been taken towards this and soon Tunisia will be able to establish the right foundations for the effective start of Islamic Finance in the country.

In this regard, AlBaraka will have a presence, being the first Islamic bank in Tunisia, we have the most experience in this field with our 30 years in the business. Upon the expansion of Islamic finance activities, we expect this to have positive results in terms of managing liquidity. Currently, there are problems because the market does not have the legitimacy to deal with these banks. In addition, the Islamic ecosystem is severely limited. Also, Al Baraka is an offshore bank and this can be considered as another problem for the bank. The current law does not allow the bank to deal with the Tunisian dinar and to deal with the residents. However, the bank applied for a banking license to be an onshore bank and we expect to get it soon. This will help us open more branches across Tunisia to serve all types of clients, whether individuals or corporate.

E. Khoja, Zitouna Bank:

- Islamic finance started early in Tunisia, but it started at a modest pace. After the revolution more concerted strategies towards the development of the financial sector in the country have been put in place. This development includes the introduction of a diversification of products, including Islamic financial products, to meet the great demand from citizens and the market. This will give a significant impetus to overcome the challenges in the region, such as problems affecting SMEs and job creation. All of this needs new financial instruments and Islamic financial tools have demonstrated the ability to provide essential value to the current financial system.

- In this context, **Zitouna Bank** has a distinctive position in Tunisia, despite only being in the market since 2010. However after two and a half years, Zitouna Bank has been able to reach about 32 branches across the country and in fact we are planning for over 100 branches across the country within the next five years.

A. Miled, BIAT, worked with AlBaraka bank for a number of years:

- AlBaraka Bank has not been able to develop despite being in the market since 1983 because legislation limited its Islamic banking operations — as the total deposits of Islamic banks should not exceed 1% of the conventional and Islamic banks' total deposits. This limits development, and hence these banks were resorting to external funding and private Islamic banks, like Qatar Islamic Bank and Islamic Development Bank, as the Tunisian market is small.

Mr. L. Jebali, BIAT:

- Zitouna Bank faced the challenge of a lack of Islamic finance law to create Islamic products. The political situation in Tunisia, as well, did not encourage Islamic finance, and there was a suppression of anything Islamic, hence economic environment for Islamic finance suffered. AlBaraka Bank, or as it was called (Best Bank), was not allowed to be described as an Islamic bank or have Islamic products; there was no political, economic or cultural direction.

INDUSTRY STAKEHOLDER VIEWS ON REGULATORY ROAD MAP

Mr. C.Soltani, Ministry of Finance:

- Islamic banks today in Tunisia are operating in an environment where there is no legislation or laws for Islamic finance. We are still in the process of establishing the mechanism for Islamic finance. Islamic finance means activity of Islamic banks, Islamic investment funds, takaful, as well as sukuk as a mechanism for Islamic finance and financing the economy in general. Since the beginning of this year we started working on the **national level as a committee** involved in liaising with the legislation areas. At the Ministry of Finance, we have worked on three main committees (which have various sub-committees under them) — Islamic sukuk, General Administration of public debt, and financial cooperation which is chaired by the Subcommittee of Islamic instrument. Souhair Taqtaq chaired the Subcommittee of Islamic and investment funds. We have also worked on the General Insurance Committee which includes Islamic takaful. The Central Bank oversaw the Subcommittee for Islamic Sukuk, some other ministries also oversaw other mechanisms such as the Zakat funds and several other mechanisms. Final drafts from these sub-committees now await submission to the Constituent Assembly.

J. Yacoub, Central Bank:

- Providing the legal framework is a necessary condition but that is not enough. Banks, dealers, takaful companies and Islamic funds must be able to stimulate demand and deepen the market to attract customers, whether individuals or institutions.

  With regards to Islamic banking, the National Committee is with the Ministry of Finance and chaired by the Minister of Finance. The Committee is in an advanced stage and we are working on a project that will be submitted to the National Commission and will be submitted to the Council of Ministers.

M. Mansour, AlBaraka Bank:

- AlBaraka has been involved in two **committees**, one for sukuk and one for general legislation. The Central Bank has the authority to set all the regulatory aspects of Islamic banking and offerings. We have used all the models and have compared them. There are seven committees for Zakat, Waqf, Takaful, Banking, etc and all the committees submitted their reports in September. They have started working on drafting the bills which will be presented to the Constituent Assembly for consideration and approval. The first bill that was submitted to the Constituent Assembly was the one covering takaful. Three takaful companies, including the existing takaful company (Zitouna), have applied for licenses.

M. Sadouri, Central Bank:

- The committee work has been concluded, and **takaful draft law** as well as Sukuk law **were prepared** and submitted to the Council of Ministers. Same goes for investment funds. There is a committee for Endowments and Zakat, whose draft reports are supposed to be passed over to the Cabinet. The draft however is still an internal document within the Central Bank.

  In terms of a model, we found that the **Malaysian experience** is the closest to us. Our ambition in Tunisia is to be a regional Islamic banking market that is able to attract investments and funds from the Gulf and other Middle Eastern countries.

E. Khoja, Zitouna Bank:

- We have studied and benefited from almost all the different country **models**. Of course, the GCC played a vast role in the development of the Islamic finance industry. Also, the Malaysian model offered fundamental additions. We have learnt from them all, and aim to avoid their mistakes, and start off on the right foot. For example, we here in Tunisia do not consent to tawarruq, a product that is widely spread in the GCC. We don't believe in this product and reject its use for Tunisia, despite its widespread use in other jurisdictions.

  We have the advantage of learning from other models and avoiding their hiccups. We will uphold the trust and transparency demanded of Islamic finance. This is our role and responsibility and we believe that Zitouna Bank is capable of delivering such a sophisticated model.

Sadraoui, Central Bank:

- There is an ongoing debate on a**llowing windows**, that is conventional banks operating Islamic financing activity, regardless of the way it is conducting this business — through a window or a dedicated branch. There are two different views to those windows, there are those who favour the windows to work under an Islamic framework, and there are those who think that such a way of conducting Islamic finance is a failure and must not be adopted. We at the Central Bank will allow those windows to operate on condition that the windows are separated from the conventional operations; we have certain guidelines and conditions that banks must follow if they want to open Islamic windows.

M. Gabe, AlBaraka Bank:

- In regards to conventional banks opening Islamic **windows** I believe clients will be suspicious of such transactions especially if they do not know where funds will be invested. Conventional banks usually invest funds along with non-sharia compliant funds. The Islamic bank, on the other hand, has sharia-compliance frameworks and safeguards. It will be very difficult for windows of conventional banks to compete with Islamic banks like Zitouna and AlBaraka.

Sadraoui, Central Bank:

- To facilitate Islamic finance operations, there is a **special tax regime** for such operations, and there is also special treatment when it comes to contracts registration. Those contracts do not have to be registered twice, in order to avoid double taxation. This is not an incentive but more like a regulation to facilitate the operations of those banks, but in terms of incentives on profits, we do not distinguish between conventional or Islamic banks, but in terms of paying taxes Islamic banks do not have to pay additional taxes. We worked hard to find a kind of harmony between the conventional and Islamic finance frameworks.

J. Yacoub, Central Bank:

- I don't expect the **new election** will have a role to play in the introduction of this law, especially because there were Islamic banks even before the revolution. Islamic finance has developed in non-Islamic countries; these must be purely financial products that meet specific needs. We at the Central Bank worked on the legislation of these laws two years ago, before the revolution. But the developments that took place in Tunisia during the last two years led to the delay in introducing this law.
  There is huge amount of funds that are looking for this type of business, and Tunisia wants to position itself to attract those funds that are looking to be invested in Islamic finance. We have also focused on studying different Islamic finance jurisdictions, and I think that Islamic finance will play a major role in financing infrastructure projects especially through sukuk. We hope corporates to follow the government and issue sukuk, we have in Tunis the Lake project, which was financed through sukuk that was issued in Bahrain by AlBaraka Bank.

M. Mansour, AlBaraka Bank:

- The next **elections** will not affect the enactment of Islamic finance in the country. Islamic finance will act as a supporter to the Tunisian economic system and will help in the development of the economic situation, which has a significant impact on the outcome of the elections. The problems in Tunisia are purely economic problems such as unemployment, the need of development, etc. Therefore, the introduction of Islamic finance will support the Tunisian economy and thus will have an indirect effect on future elections.

INDUSTRY STAKEHOLDER VIEWS — POTENTIAL DEMAND AND VIABILITY OF ISLAMIC FINANCE

L. Jebali, BIAT:

- I believe that the **selection of Ennhadha party** in the political **sphere predicts that there are tendencies for Islamic products** in the economy as there is a clear link between politics and the economy. Zitouna Bank has not collapsed despite it being known that it was owned by the former regime. If Islamic banks do emerge with the Islamic finance law, there will be so many customers demanding Islamic products.

  Pre-revolution the regime did not develop Islamic finance. After the revolution the political barrier no longer exists; therefore, the market is now open for all banks if there is a demand for Islamic finance products. Existing banks in Tunisia are thinking of opening either Islamic branches or Islamic windows. For us, currently there is no strategy in this regard but there is a possibility of including Islamic finance within the strategic plan of the bank. If there is demand for Islamic finance products we expect the bank to step in and take this opportunity as we are currently studying this topic.

C.Soltani, Ministry of Finance:

- Of course there is a good opportunity for Islamic banking in Tunisia. We are not going to continue to rely on conventional finance, whether at the level of the local market, the issuance of bonds and loans for companies, or issuance of sukuk for the international market. However, we **must find the balance in order to target new foreign investors to invest in Tunisia.** Investors must make themselves ready for this new type of investment which may attract different and new investors. From our discussions with experts in Islamic banks and fund managers in the GCC, they ensured us that Tunisia has a good opportunity to make use of this potential market that is developing from year to year. Western markets are making good progress in this type of investment, and I believe we as an Islamic country must benefit from this industry too.

  There is a segment of Tunisians who are currently keeping their money at home, waiting for Islamic banks. For example, some only utilize the

Provident Fund, an escape from usury. This will be the first segment that the Islamic banks will attract from conventional banks. Unfortunately, we cannot calculate the number of people who are willing to bank with Islamic banks only. We still have not yet done in-depth studies, but we think the demand will come from both individuals and companies. Zitouna Bank indicators show that the number of transactions for Zitouna Bank is increasing significantly. Since Zitouna Bank was founded this segment of population has preferred to deal with Islamic banks. As there will be other banks, I believe this number is going to increase significantly, and there will be competition from those Islamic banks as currently we only have Zitouna Bank operating in the country. With the establishment of other banks, banks will offer better rates and services.

M. Mansour, AlBaraka Bank:

- **The demand will be from individuals and corporates in parallel** with the laws and level of knowledge and awareness of Islamic finance. There are many universities in Tunisia that help support the spread of Islamic finance education and awareness by sponsoring Masters programs in Islamic finance. **Al Baraka Bank** is currently supporting three universities in the Masters program of Islamic finance. The culture of Islamic finance has begun to spread and affect individuals and corporates. Also, those who believe in Islamic finance principles such as the prohibition of riba will prefer to deal with an Islamic bank. But for the corporates, it is necessary that owners and employers believe in Islamic finance. But we don't have enough of these companies in Tunisia. A comprehensive system is needed to spread educational and awareness, and then setting laws and regulations to affect both Individuals and corporates.

  For instruments such as **sukuk**, the government must first take this step and issue sukuk. The government has already stated that part of the country's annual budget will be financed through sukuk and this plan was even before the issuance of the sukuk law. Once the government takes this step, this will give a push for others to use this type of financing.

Khoja, Zitouna Bank:

- There is interest towards **foreign expansion** as well, particularly at the level of Europe, because there is a large Muslim community, so this area needs to be covered. There is a plan in place to expand in Europe and in the North African region as a whole. This plan relies on our goal to especially increase our capital in the bank. We have a capital base of around 70 million TND ($ 44.9 million) and our target is to raise this figure to 100 million TND ($ 64.3 million) by the end of the year. This will come through the participation of a number of International Islamic financial institutions. The Islamic Development Bank's involvement with Zitouna Bank, given its triple A rating, will be the beginning of a platform to expand the Islamic financial services at the African level and the European level.

  We are also aiming towards opening an institution for investment funds to provide investment opportunities across different classes with collaboration with many institutions in this sector.

J. Yacoub, Central Bank:

- As a market, Islamic finance is an open and new market, and in my personal belief it has not received much attention in term of statistical studies to determine the size and future potential of this market. I believe that there are good opportunities for this type of finance to develop more and have a crucial part to play in financing the economy and with the mobilization of savings. There is good demand for such financing from both individuals and corporates, and the need in the market is to deal with it as an important new mechanism possibly to compete with conventional finance; I think that there should be integration between Islamic finance and conventional finance.

M.Sadraoui, Central Bank:

- Islamic finance with its different product offerings provide additional solutions that can be combined with conventional financing. It will attract savings both for religious or profitability reasons and it could attract those institutions that are looking for funds, because at least in the first stage there is a kind of weakness in the financial market. But what we have read and seen on the experience of Islamic finance is that it has focused on financing of individuals more than companies. Our economy however, needs more projects and companies financing rather than financing for individuals.

L. Jebali, BIAT:

- Tunisian **communities abroad,** for example in France or Europe in general have these Islamic windows. Therefore, if they can find in their own country such Islamic banks, this will provide Tunisia with cash flows in hard currencies. The main problem is that Tunisian workers abroad do not return their monies to Tunisia, unlike the Moroccans and Algerians. Islamic finance will be an incentive, especially that Islamic finance tools have collateral which can reduce the intensity of concerns and this represents something positive for both individuals and corporates.

A. Miled, BIAT:

- The problem before the revolution was that Islamic banks like Zitouna and AlBaraka offered products that were conventional and not Islamic (mainly because of laws that were not accommodative of Islamic finance). Customers dealt with these banks out of sympathy, even if what they offered is not purely Islamic. However, this has changed with the removal of the political and psychological barriers. Currently there is an opportunity for bankers in Islamic banks to be trained, by taking the Islamic finance Diploma. The Minister of Higher **Education** recently announced a strategy to provide Islamic finance education in high schools, and this will result in better educated and specialized graduates in Islamic banking, and when they introduce the new Islamic law, banks will feel much comfortable to enter into this new market. Islamic finance is expected to be developed in 2013 and 2014 since the government is going to issue sukuk in 2013. It is also expected that the new government will try to develop this industry but without influencing the public in choosing Islamic or conventional banking.

INDUSTRY STAKEHOLDER VIEWS – DOMESTIC AND FDI INVESTMENT OPPORTUNITIES AND CHALLENGES FOR ISLAMIC FINANCIAL SERVICES

J. Yacoub, Central Bank:

- There are no barriers to prevent the **issuance of new licenses**, as there is no law that sets the number of banks operating in Tunisia. This will be looked into based on the bank's model, business plan, capital structure and other license terms that will govern the issuance of this license

(Concern of competition by conventional banks) We have reduced those fears by allowing them to open Islamic windows. There is no limit to the number of windows, there are only the guidelines and regulations that govern how those windows operate. Also they will be required by law to have a sharia board

M. Mansour, AlBaraka Bank:

- There are many conventional banks that are currently seeking to develop their staff in the Islamic finance field in anticipation of **Islamic windows**. There are four or five well know banks in Tunisia that are trying to facilitate the way for their Islamic finance businesses. By giving AlBaraka Bank the license to be an onshore bank, this will help the bank to have presence in all areas of the republic and will support Islamic finance in Tunisia along with Zitouna Bank. In the current situation and with the release of the new law in 2013 there will be an opportunity also for other banks in Tunisia or foreign banks to support Islamic finance in the country.

M. Gabe, AlBaraka Bank:

- In regards to the planned **sukuk issuance**, the Bank is represented by Tawfiq al-Ashraf in the sukuk committee that is formed by the government. This issue will target foreign investors as 66% of the offering will be for foreign market and the remaining is for the local market. Investing in that sukuk will not be limited to local banks, non-residents banks like AlBaraka have the right to invest in the sukuk. The Bank will however, study and analyse the issue and the market conditions before it decides to invest in those sukuk.

C. Soltani, Ministry of Finance:

- Currently the law that governs Islamic sukuk and investment **funds** is being reviewed, as both are very important in financing the economy and the government's budget. In 2013 state's budget, the Ministry of Finance has included funding with sukuk. The amount that we have included in the draft budget was about 1000 million TND. The goal is by issuing sukuk at the level of the domestic market and the level of the foreign market, the ultimate goal is to establish a foreign market, by stepping in the foreign market for the issuance of sukuk for the government and open the way for the rest of local corporations to issue sukuk overseas. Locally, the government will also try to establish local market for sukuk. Given the progress of the legislation, I expect the issuance process to take place in the second half of 2013.

J. Yacoub, Central Bank:

- What we want to see as a central bank, and the national need requires it, is for Islamic f**inance to fund companies**, as the Tunisian economy needs now to set up institutions and companies that are able to create jobs. **An important area is SMEs**, as the national economy is relying on SMEs, we currently have a conventional bank that finances SMEs, but we expect Islamic banks to finance this important segment.

J. Yacoub, Central Bank:

- **(challenge of understanding/awareness)** financial literacy in Tunisia and the Arab region and the European Union in general is poor, especially banking knowledge, as it is surrounded by complex banking transactions. On top of that, Islamic products are new products and most people do not distinguish between the two. Islamic finance presents itself as a pressing economic need in the community rather than an answer to religious belief.

E. Khoja, Zitouna Bank:

- Unfortunately, **the understanding of the Islamic finance concept** in the Arab-Muslim world is weak and some of the attention arises from passion or merely following the trend. There is an evident issue in the process of understanding and awareness of the concept. So we, here in at Zitouna Bank, have set goals in 2013 to try to work in the educational process across various channels. Since this element is of importance to the development of the Islamic finance industry. People need to be aware of the difference between murabaha and a normal conventional loan and the difference between leasing and ijara.

  We have different channels that we are going to utilize; one of course is the media. We are also going to utilize digital media and we believe this is an exceptional approach to communicate our message and that most organizations even outside of Tunisia are not using properly. In addition, we are going to use network events, on top of that we'll use social networks such as Facebook and Twitter to educate certain groups of society. The electronic press is also going to be utilized in this process. We are also in liaison with mosque clergymen and other financial institutions.

M. Sadouri, Central Bank:

- After the revolution there **were many seminars and conferences** held on Islamic finance in Tunisia. Our role remains in putting the laws and regulations that facilitate the launch of these products, and our goal is to ensure that the bank is transparent and in a good position and ensures transparent transactions with the client. Another important role that we play is to ensure a competitive market in the sense that there is no monopoly on Islamic finance activities, we must find a competitive environment.

M. Mabrouk, Tunisian Institute for Strategic Studies:

- There is a big opportunity for Islamic finance. However, we hope those **banks will be based on the principles of sharia and not just to operate under the name of "Islamic bank" to attract people.** Those banks are required to adhere to moral principles and not just to focus on business. We in Tunisia, need to purify the financial climate in the country, as the banking sector has suffered a long period of fraud and manipulation. The market is now open for Islamic banks to succeed, and I wish success for the Islamic finance sector. I do not like to call it Islamic finance sector as I prefer it to be a sector that adheres to morals and ethics since Tunisia is a Muslim country we do not like to describe entities as Islamic and other entities as non-Islamic.

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E. TABLE: SELECT MACROECONOMIC DATA

	2012	2013	2014	2015	2016	2017
Gross domestic product, current prices, USD billion	$45	$46	$47	$49	$52	$55
Gross domestic product, constant prices % change	2.7	3.3	4.1	5.3	5.5	6.0
Gross domestic product per capita, current prices USD	$4,152	$4,187	$4,279	$4,429	$4,602	$4,835
Population, Total Millions	10.8	10.9	11.0	11.1	11.2	11.3
Current account balance — % of GDP	-7.944	-7.709	-6.913	-6.352	-5.848	-5.593
General government gross debt — % of GDP	46.267	51.466	51.569	50.594	49.228	46.965
Inflation, end of period consumer prices % change	5.0	4.0	3.5	3.5	3.5	3.5
Unemployment rate %	17.0	16.0	13.5	12.9	12.3	12.0
Gross national savings — % of GDP*	17.652	18.944	20.234	21.189	21.934	22.592
Total investment — % of GDP*	25.596	26.653	27.146	27.54	27.782	28.185
Value of oil exports (USD billion)	2.752	2.939	3.1	3.361	3.635	3.947
Value of oil imports (USD billion)	3.643	3.798	3.787	3.829	3.894	3.967

Source: IMF World Economic Outlook Database, October 2012; Central Bank Tunisia

** Gross national saving is gross disposable income less final consumption expenditure after taking account of an adjustment for pension funds.*

** Total Investment or gross capital formation is measured by the total value of the gross fixed capital formation and changes in inventories and acquisitions less disposals of valuables for a unit or sector.*

F. TABLE: GDP BY BRANCH OF ACTIVITY

	2007	2008	2009	2010	2011
AGRICULTURE AND FISHING	4309.3	4338.8	4868.6	4654.2	5351.2
INDUSTRY	14365.3	17275.8	16294.4	18153.4	18935
Mining	328.1	642.9	425.7	521.2	495.2
Energy	3519.5	4459.7	3459.4	4269.4	4754.1
Gas and petroleum	2908.7	3746.5	2719.2	3456.2	3872.9
Electricity and water	610.8	713.2	740.2	813.4	881.2
Manufacturing industries	8397.8	9959.1	9877.2	10736.2	10926.3
Agriculture and food processing	1396.3	1542.9	1620.8	1766.5	1839.4
Building materials,ceramics and glass	718.9	780.4	828.3	898.3	924.1
Mechanical and electrical industries	2134.5	2511.6	2512.4	3522.9	3828.7
Textiles,leather & clothing	2019.8	2063.7	1970.2	2120.5	2240.1
Chemical industries	789.9	1222.3	1125.9	1286.6	868.2
Oil refining	420.7	836.7	747.3	6.5	10.7
Tobacco industries	65.9	68.5	81.4	87.6	93.2
Miscellaneous industries	851.8	933	991.1	1047.3	1121.8
Construction & civil engineering	2120	2214.1	2522.6	2626.5	2759.4
HOTELS,CAFES,RESTAURANTS	2590.9	2786	2934.3	3204.2	2697.7
OTHER NON-ADMINISTRATIVE SERVICES	17736.4	19307.1	21515.5	23627.9	23865.3
Trade	3787.1	3949.9	4672.8	5067.6	5067.6
Transport	3999.3	4599.4	4785.2	5254.5	4555.3
Telecommunications	1949.5	2200	2546	2863.7	3176.6
Other services	8000.5	8557.8	9511.5	10442.1	11065.8
Less: imputed financial services	885.2	922.4	864.9	940.2	1011.9
TOTAL MARKET ACTIVITIES	38116.6	42785.3	44738.4	48699.6	49837.3
Non market services activities	7664.3	8268.5	8987.1	9727.6	10619.2
of which: Pub. administration	7449.5	8039.7	8742.2	9464.4	10334.3
GROSS DOMESTIC PRODUCT AT FACTOR COST	45780.9	51053.8	53725.5	58427.2	60456.5
Indirect taxes net of subsidies	3979.1	4066.6	5157.8	5095.1	4913.3
GROSS DOMESTIC PRODUCT AT MARKET PRICES	49765.2	55120.4	58883.3	63522.3	65369.9
GDP GROWTH RATE (in %)	8.8	10.8	6.8	7.9	2.9

Source: Ministry of Regional Development and Planning, Tunisia Central Bank Document

ENDNOTES

1. World Bank Interim Strategy Note, May 2012
2. OIC = Organization of Islamic Cooperation member countries
3. This Report uses a mix of countries for comparative benchmarking based on countries in its region (Egypt,Morocco, Algeria, Libya), countries with similar economy (Bulgaria, Jordan, Lebanon, Uzbekistan) and countries that are G20 markets and/or largest trading partners (France, Germany, Italy, Saudi Arabia)
4. World Bank, Tunisia Interim Strategy Note, May 17, 2012
5. Foreign Investment Balance in 2012, Foreign Investment Promotion Agency, Tunisia
6. National Agency for the Promotion of the Private Investment and Innovation, Tunisia
7. In this perspective it is expected that the IDB Youth Employment Support (YES) Program for Tunisia which provided $ 50 million will help the Tunisian Government resolve such urgent needs to finance already identified profitable projects. The Ministry has also stressed the importance of IDB support via the Vocational Education and Training for Employment Project, which will benefit 7,000 students, 208 trainers and 51 supervisors in three disadvantaged regions.
8. World Bank. "Interim Strategy Note for the Republic of Tunisia for the period FY13-14", Report no. 67692-TN, 2012
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11. The scope of this project consists of: (i) Technical Assistance Program to build an Inclusive sharia compatible Micro & SMEs Financial Systems, (ii) Investment Facility for Micro and SMEs development, (iii) Monitoring and Evaluation, and (v) Project Management Support.
12. Planet Finance Group recently announced its intention to enter the Tunisian microfinance market to support young people undertaking their own projects.
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16. The text of the — Law on Banking establishment dealing mainly with non-resident — available at http://www.bct.gov.tn/bct/siteprod/documents/loi200964.pdf
17. It was reaffirmed that this article will remain in the new constitution which is in the stage of finalization.
18. city population source for greater metro area of capital Otherwise: Tunis 9%, Sfax 9% and Sousse 6%
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