Snapshot

Financial Inclusion in Tunisia

Low-Income Households and Micro-Enterprises

September 2015

WORLD BANK GROUP
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This snapshot provides an overview of financial inclusion trends and challenges in Tunisia. It follows the recent expiration of the Coordinated Vision for the Development of Microfinance in Tunisia 2011-2014, national strategy published in 2011.1

Financial inclusion is defined as a state in which households and businesses have access to a range of financial services that meet their needs: savings, payments services (including money transfer), credit, and insurance.2 Such services are ideally delivered in a responsible and sustainable manner, within a legal and regulatory environment conducive to their development, by a range of formal financial service providers (banks, non-banking financial institutions, the Post, microfinance institutions, insurance companies, money transfer companies, and mobile network operators).

This document does not examine all aspects of financial sector development, but rather concentrates specifically on financial inclusion for low-income households and micro-enterprises.3

Although Tunisia enjoys a well-developed postal network that provides affordable basic savings services to low-income populations, and has recently made regulatory reforms to its microcredit sector, the overall offer of inclusive financial services in Tunisia remains fragmented, incomplete, and difficult to access. Payment services are limited and/or under-utilized. Financing sources remain too few and are often too complex for businesses (due to guarantees and administrative procedures required). Insurance is almost non-existent. Besides, the market is geographically concentrated in the Greater Tunis and the coast.

Despite 12 million bank and postal accounts registered, there remains an estimated demand for microfinance services ranging between 2.5 and 3.5 million individuals and their income-generating activities, or 30% to 40% of the adult population, and between 245,000 and 425,000 formal businesses, or more than half of the estimated enterprises in Tunisia. These figures are approximate since they are extrapolated from secondary sources that are outdated and imprecise. However, they are corroborated by two market studies: the 2014 Findex study,4 in which only 27% of adults reported holding an account with a formal financial institution; and the 2015 study by the World Bank and the Center of Arab Woman for Training and Research (CAWTAR), which found that two-thirds of adults are excluded from or underserved by the formal financial sector. Extensive research shows that these people have active financial lives, yet are forced to resort to informal financial services that may be risky and costly.

The microfinance sector is struggling to expand in part due to the lack of comprehensive studies examining consumer demand, financial behavior, and the current

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1 In French: Vision Concertée pour le Développement de la Microfinance en Tunisie 2011-2014.
2 There is no official definition in Tunisia. This one is based on that proposed by the Consultative Group to Assist the Poor (CGAP), a consortium of 34 international donors whose goal is to advance financial inclusion.
3 A 2014 IFC study focuses on financial inclusion for very small, small, and medium-sized enterprises in Tunisia.
4 The Findex survey, developed by the World Bank with financing from the Gates Foundation, are based on representative surveys of the population covering 148 countries and comprise a series of indicators on the use of financial services.
supply of financial services. The absence of such a study prevents Tunisia from developing effective public policies and an appropriate legislative framework to support inclusive finance.

The advantages of developing access to financial services and promoting their use have been widely proven: economic growth, financial stability, employment opportunities, reduction in inequality, asset accumulation, and risk management, amongst others. For these reasons, the importance of financial inclusion is now recognized by high-level bodies such as the G20 and the United Nations.

Tunisian policymakers have prioritized the development of microcredit in recent years. However, the demand for other financial services—such as inexpensive savings services and payment means—is greater, as is their socio-economic impact. In order to translate the economic opportunities related to financial inclusion into reality, Tunisia must overcome several challenges.

A high-level champion of financial inclusion should be appointed among public authorities to establish priorities and advocate for a coordinated national financial inclusion strategy. Such a strategy should be based on a market study analyzing the unmet financial needs of key segments.

The strategy should also outline a clear vision for the role of different public and private actors, as well as an action plan for each (including the Post, banks, Tunisian Solidarity Bank, microfinance institutions including microcredit associations, mobile network operators, the State, etc.).

Besides, it should include solutions to key market issues including access to liquidity for microfinance institutions.

In this effort, Tunisia can count on many international donors who have the willingness and expertise to work towards developing more inclusive financial systems.

This snapshot refers to a number of studies published between 2011 and 2015 on financial inclusion in Tunisia (full references at the end of this document). Its seeks to consolidate available information in order to facilitate debate and knowledge sharing around the financial inclusion challenges facing both public authorities and private actors in Tunisia.
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Acronyms

ACM  Autorité de Contrôle de la Microfinance—Microfinance supervisory authority
AFD  Agence Française de Développement—French development agency
AfDB  African Development Bank
AFI  Alliance for Financial Inclusion
AMC  Association de MicroCrédit—Microcredit Association
AML  Anti-Money Laundering
APR  Annual Percentage Rate
ATM  Automatic Teller Machine
BFPME  Banque de Financement des Petites et Moyennes Entreprises—Investment bank for small and medium enterprises
BTS  Banque Tunisienne de Solidarité—Tunisian solidarity bank
CAWTAR  Centre of Arab Woman for Training and Research
CBT  Central Bank of Tunisia
CFT  Combating the Financing of Terrorism
DD  Demand Deposits
EIB  European Investment Bank
GIZ  Gesellschaft für Internationale Zusammenarbeit—German development agency
FTD  Fixed Term Deposits
IFC  International Finance Corporation
IMF  International Monetary Fund
LLC  Limited Liability Company (SA – Société anonyme)
MFI  Microfinance Institution
NGF  National Guarantee Fund
NGO  Non-Governmental Organization
RNE  Registre National des Entreprises—National business registry
TND  Tunisian Dinar
VSSME  Very Small, Small, and Medium Enterprise
I. Why Financial Inclusion as a Development Objective?

The relevance of implementing a nation-wide program to promote financial inclusion has become indispensible. Numerous impact studies have shown the benefits of financial inclusion and helped to better understand its limits. Public authorities are paying more attention to the risks linked with financial exclusion and its negative impact on economic, social and political stability. In effect, the G20 has recognized financial inclusion as one of the global development pillars, the World Bank has established an objective of universal access to financial services by 2020, and the General Secretary of the United Nations appointed Queen Máxima of the Netherlands as its Special Advocate for financial inclusion. Since 2011, more than 60 countries have initiated reforms to improve financial inclusion.

Financial inclusion has several positive effects on an economy. First of all, it improves the effectiveness of financial intermediation by increasing the number of actors in the financial system, together with the volume and value of transactions. At the macroeconomic level, a developed financial system, measured by its level of financial intermediation, has a positive correlation with growth, employment, poverty and, through this, a reduction in inequality. Gross Domestic Product (GDP) growth is also positively correlated with access to credit and the opening of bank branches. As a result, countries with advanced levels of financial development have seen the proportion of those living in poverty decrease more rapidly and their Gini coefficient improve (see Figure 1).

![Figure 1. Correlation between financial intermediation...](image)

In addition, partly due to risk diversification (e.g. wide and varied deposit base, portfolio of small and lowly volatile loans), financial inclusion contributes directly to financial stability. It also positively impacts stability as it leads to the formalization of businesses, which in turn improves the effectiveness of monetary policy and reduces the use of informal or unregulated financial services, themselves a source of instability (e.g. through fraud and over-indebtedness). In addition, financial inclusion promotes the rise of new economic models, which pushes the entire financial system to professionalize. Financial stability is of particular concern to central banks, particularly since the 2008 financial crisis.

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5 There is a two-way causal relationship between the financial system development and economic growth. According to economic theory, financial system development impact growth through increased capital accumulation and improved productivity, two key elements of GDP growth. In addition, access to savings promotes investment. The resulting economic growth stimulates employment and reduces poverty. See Where is the Cheese? Synthesizing a Giant Literature on the Causes and Consequences of Financial Sector Development, Pasali, World Bank, 2013.

6 The Gini coefficient or index indicates the level of equality of income distribution within an economy. The Gini coefficient ranges from 0 (perfect equality) to 100 (perfect inequality).

At the microeconomic level, access to financial services has a positive effect on employment and on household consumption, and stimulates the local economy. In Morocco, access to credit led to a 52% increase in the number of days worked outside of the household and a 10% increase in the in-kind savings and consumption levels. Access to savings allows people with low, and frequently irregular, incomes to better manage emergencies and spikes in spending, and therefore maintain a more stable level of consumption over time. Additionally, access to finance is an essential growth driver for very small, small, and medium-sized enterprises (VSSMEs), which is of particular importance since the most dynamic small and medium-sized businesses have been demonstrated to create the largest number of jobs in an economy.

Finally, financial inclusion allows for a cost-effective implementation of social policies, such as government-to-person payments. In Brazil, the administration costs of the Bolsa Família (family allowances) program have fallen by more than 80% following the introduction of prepaid cards and the payment of several allowances at once.

In sum, the empirical evidence shows that financial inclusion, even if it does not eradicate poverty on its own, helps to achieve the goal of social and economic inclusion, in conjunction with other public policies. At household level, this is achieved by expanding income-generating opportunities and by improving risk management. For businesses and the wider economy, it is through more efficient capital mobilization for investment and growth (see Table 2). This is especially important in a country like Tunisia, which has an unemployment rate above 15% (42% among young people) and a large number of informal businesses.

<table>
<thead>
<tr>
<th>Table 2. Impacts of Financial Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Households</strong></td>
</tr>
<tr>
<td>Savings: accumulation of assets and working capital, emergency management, consumption smoothing</td>
</tr>
<tr>
<td>Credit: mixed impact (wide variety of results)</td>
</tr>
<tr>
<td>Insurance: risk reduction, management of shocks</td>
</tr>
<tr>
<td><strong>Businesses</strong></td>
</tr>
<tr>
<td>Credit: increase in investments, production and employment (hiring)</td>
</tr>
<tr>
<td><strong>State</strong></td>
</tr>
<tr>
<td>Electronic payments: reduction in the cost of paying allowances</td>
</tr>
<tr>
<td><strong>Microeconomic</strong></td>
</tr>
<tr>
<td>Job creation, growth in income, female economic empowerment</td>
</tr>
<tr>
<td><strong>Macroeconomic</strong></td>
</tr>
<tr>
<td>GDP growth, financial stability, reduction in inequalities</td>
</tr>
<tr>
<td>Source: Financial Inclusion and Development: Recent Impact Evidence, CGAP Focus Note no. 92, 2014.</td>
</tr>
</tbody>
</table>

Capturing the benefits of financial inclusion is in line with the Coordinated Vision for the Development of Microfinance, published by the Tunisian Finance Ministry in 2011 and aimed at developing a “socially responsible and durable microfinance sector that, by promoting access for as many people as possible to quality financial services, would contribute to the fight against financial exclusion, to harmonious regional development, and to the strengthening of the national economic structure.”

Since November 2013, the Finance Ministry and the microfinance supervisory authority (ACM or Autorité de Contrôle de la Microfinance) have been members of the Alliance for Financial Inclusion (AFI), an international network of policy-makers, central banks, supervisory and

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10 Source: International Monetary Fund (IMF).

11 www.acm.gov.tn

12 Created in 2008, the AFI works to advance financial inclusion through knowledge exchange. Since the Maya declaration of 2011, under which its members recognized the importance of financial inclusion and committed to achieving concrete results, AFI has 47 institutional commitments across the world, of which 27 are quantitative.
regulatory financial authorities in developed and emerging countries, with the objective of improving access to quality financial services to low-income populations. AFI count over 80 member countries today.

II. The Demand for Financial Services

Today, there is significant demand for financial services in Tunisia stemming from both private individuals (2.5 to 3.5 million) and businesses (245,000 to 425,000 micro and very small enterprises). These figures are approximate.

Numerous studies have shown that all socio-professional categories make use of financial services. Low-income populations, however, need them even more than other groups, owing to the irregularity of their incomes. Despite limited resources, low-income populations have very active financial lives: they save, borrow, manage different cash in-flows and outflows and lend money—often all at the same time. They fall back on social solidarity mechanisms in case of problems. The financial services they use, however, are not always reliable and could be insufficient, risky and/or expensive (e.g. family, friends, money-lenders, in-kind or under the mattress savings). This underscores the importance of developing formal financial services that respond to their needs.

In Tunisia, although the supply of inclusive financial services is more advanced than in other countries in the region—not least thanks to the postal network—it remains far from comprehensive. The World Bank/CAWTAR study identified a level of financial inclusion of just 36% of the adult population (see Box 1 below). Recent efforts by the government and private sector have focused on certain microcredit products (see section III), and have not responded to the demand for savings services, insurance, and payment services. Various studies have highlighted a demand falling between 950,000 and 1.4 million individuals for microcredit, but an even larger demand of 2.5 to 3.5 million individuals for a wider range of microfinance services, equivalent to 30% to 40% of the adult population (see Table 3).

Similarly, many enterprises have financing needs that are far from being met by existing supply. It is estimated that 245,000 to 425,000 micro and very small enterprises require a specific range of financial services, equivalent to 37% to 65% of those registered in the national business registry (RNE). The 2014 IFC study estimated that approximately 15,000 small and medium-sized enterprises (SMEs) should be added to this figure. It found that only 15% of very small, small, or medium-sized enterprises (VSSMEs) have taken out bank loans whereas 58% have expressed the need for financing in order to make investments or for working capital. This gap is significant enough to indicate a lack of supply, even if not all of this demand was credit-worthy. It may be explained by a

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13 This section is based on different studies carried out on microcredit demand and financial services in Tunisia. These include: IBM Belgium 2009; Finance Ministry, 2011; Mercy Corps, 2012; Coopération Luxembourgeoise-ADA-EIB, 2013 and 2014; IFC 2014; World Bank/CAWTAR 2015.

14 The demand for savings services is generally higher than for credit. At the global level, including the Arab world, specialized microfinance institutions serve between 4 and 10 times more savers than borrowers.

15 For a comparison, the number of adults living on less than 4 TND per day (or 1,500 TND per year) is estimated at around 2.7 million adults (Source: Study on Financial Inclusion in Tunisia, MicroMED, February 2014).

16 Formal enterprises are those that have a tax identification number and are registered with the RNE. There were 654,000 formal enterprises in 2013. By conservative estimates, 245,000 is the number of enterprises that reported their sales. Informal enterprises are included in the demand for individual persons since lending to an informal enterprise, in practice, means lending to an individual.

17 The frontier between micro, very small, small, and medium-sized enterprises remains vague given the lack of a national definition.
number of inefficiencies in the financial system, such as bankruptcy procedures, the underdeveloped guarantee system, the lack of genuine competition between banks, and the under-use of credit bureau information.18

<table>
<thead>
<tr>
<th>Table 3. Estimated demand for microfinance</th>
<th>Microfinance</th>
<th>of which microcredit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong> (including informal micro-entrepreneurs and businesses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active working population</td>
<td>~1.2 to 1.6 million</td>
<td>~0.5 to 1 million</td>
</tr>
<tr>
<td>Salaried private sector employees</td>
<td>~1,000,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Business owners</td>
<td>0 to 425,000</td>
<td>0 to 425,000</td>
</tr>
<tr>
<td>Farmers</td>
<td>160,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Public sector employees</td>
<td>90,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Partially active or inactive population</td>
<td>~1.2 to 1.5 million</td>
<td>~360,000</td>
</tr>
<tr>
<td>Young adults/Students</td>
<td>0 to 350,000</td>
<td>0</td>
</tr>
<tr>
<td>Inactive people</td>
<td>~1,000,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Poor families</td>
<td>150,000</td>
<td>0</td>
</tr>
<tr>
<td>Unemployed</td>
<td>100,000 to 700,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total private individuals</strong></td>
<td>~2.5 to 3.5 million</td>
<td>~0.95 to 1.4 million</td>
</tr>
<tr>
<td>Formal businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro-enterprises (revenues &lt; 30 K TND)</td>
<td>213,000 to 395,000</td>
<td></td>
</tr>
<tr>
<td>Very small enterprises (revenues of 30 to 200 K TND)</td>
<td>30,000 to 32,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total businesses</strong></td>
<td>245,000 to 425,000</td>
<td></td>
</tr>
</tbody>
</table>


However, quantifying this demand was based on secondary sources and gives rise to the possibility of significant margins of error, since the data is 5 or even 10 years old. Tunisia currently lacks the data required to properly understand the market demand for financial services and hence create appropriate financial inclusion policies and conducive legislative frameworks. Market players, including financial service providers, also lack this data, which could be used to refine their growth strategies and avoid focusing on narrow market segments.

Detailed studies analyzing financial behavior and use of financial services have never been carried out in Tunisia. This prevents a solid understanding of the varied financial needs of key market segments, including employees, temporary workers, unemployed people, students, farmers, micro-entrepreneurs, and registered businesses. For example, it is not known why, according to Findex 2014 data, less than 10% of adults save in a formal account while more than 27% indicate having access to a formal financial account (bank or postal account). Qualitative studies suggest that Tunisians do not plan their expenses and can quickly find themselves in financial difficulty in cases of unexpected events or illness. This suggests the need for savings and insurance services, as well as the necessity to encourage a better savings culture over the long term.

Islamic financial services appear to be a niche market in Tunisia. According to a study by the European Union,19 only 1.4% of the people interviewed had voluntarily excluded themselves from microcredit for religious reasons. Findex indicators corroborate this point, with only 5% of people interviewed stating they do not have an account for religious reasons.

In terms of geographic distribution, the target population is divided into two regions: the interior region for low-income households, and the coastal region—where the majority of economic activity is concentrated—for enterprises. The distribution of the financial services market broadly follows this geographic division, with banks mainly concentrated in coastal areas, while the post office and microcredit associations, though spread throughout the country, particularly well-developed in the interior.

19 Study on the Microfinance Market in Tunisia, IBM Belgium for EuropeAid, 2009.
Box 1. Access to and Use of Financial Services in Tunisia

In 2015 the World Bank and the Center of Arab Women for Training and Research (CAWTAR) launched a market study on digital finance in Tunisia. This study was based on a survey of 1,200 Tunisians over 15-year old in 17 governorates across the country, and allowed data to be gathered on the use of traditional non-mobile financial services as well. It concluded that 64% of the Tunisian population over the age of 15 either does not have access or has very limited access to formal financial services (segments 1 and 2 below). The rate of financial inclusion thus stands at 36%.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Current Account</th>
<th>Savings</th>
<th>Payment</th>
<th>Credit*</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>No account or account not in use</td>
<td>No savings</td>
<td>In cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x/✓</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Postal account, sometimes bank account (&lt; 1 operation/month)</td>
<td>Postal savings but low and irregular</td>
<td>In cash</td>
<td>Sometimes access to microcredit</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓/✓</td>
</tr>
<tr>
<td></td>
<td>Postal account (1 or more, &gt; 1 operation/month), sometimes bank account (1 withdrawal/month)</td>
<td>In cash, sometimes with a debit card (limited to cash withdrawal)</td>
<td></td>
<td>Microcredit or bank loan</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>✓✓</td>
<td>✓✓</td>
<td>✓✓</td>
<td>✓✓</td>
<td>x/✓</td>
</tr>
<tr>
<td></td>
<td>Bank or postal accounts (1 or more, several operations/month)</td>
<td>Regular savings</td>
<td>Debit card (cash withdrawal and payment)</td>
<td>Bank loan</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>✓✓</td>
<td>✓✓</td>
<td>✓✓</td>
<td>✓✓</td>
<td>✓✓</td>
</tr>
</tbody>
</table>

* Access to credit over the past 5 years.
Box 2. Financial Inclusion of SMEs

Financial inclusion efforts are often targeted to low-income households and micro-enterprises—the focus of this document—however also concerns very small, small, and medium-size enterprises (VSSMEs). This second segment was the subject of a market study led by the IFC in 2014, which comprised a survey of approximately 1,400 VSSMEs and interviews with 17 financial institutions. The primary conclusions of this study are summarized below.

The IFC study focused on formal enterprises having between 1 to 199 employees, or nearly 80,000 enterprises in Tunisia, of which 15,000 are SMEs. Half of the commercial banks and nearly all leasing firms view these VSSMEs as a priority segment. 71% of these VSSMEs are considered financially included and 80% of those that applied for banking financing were successful in receiving it.

However, access to finance for VSSMEs is far from simple: 29% of the VSSMEs examined had never attempted to open a bank account; 37% reported needing financing although never entering into contact with a financial institution; 78% used cash to pay their supplier and 91% to pay their employees. The gap between supply and demand is explained by a combination of shortcomings and inadequacies at the level of VSSMEs (often incomplete financial information), financial institutions (products and systems not entirely suitable to serve this segment), and infrastructure (limited effectiveness of guarantee funds and public banks; underutilized credit registry data; training and supervision of VSSMEs not sufficiently effective).

The study recommends several improvement areas for both financial institutions and authorities, and stresses on three key principles: the need for a more organized national coordination, the development of the entire range of financial services beyond credit (insurance, payment methods—salaries, suppliers, cash management tools—debt collection, financial education, etc.), and recognition of the segment’s diversity (by sector but also by profitability profile for the financial institution—four strategic segments are identified in the study).


III. The Legislative and Regulatory Framework

Financial inclusion in Tunisia is regulated by a series of specific laws governing each type of actor.

- **Banks** are regulated by law no. 2001-65, dated July 10, 2001 relating to credit establishments, which recognizes leasing and factoring as credit operations. It was amended and completed by law no. 2006-19 of May 2, 2006. Banks have the exclusive right on payment operations. Banking law is currently under review.

- **Leasing companies** are regulated by law no. 94-89, dated July 26, 1994.

- The National Post Office (“the Post Office” or “Post”) is a public industrial and commercial enterprise, created by decree no. 98-1305, dated June 15, 1998, which established its administrative and financial organization and operational model. This decree conferred it with, among others, the responsibility for managing postal savings and current accounts, which are regulated by law no. 90-97, dated November 1, 1990. The Post is the only non-bank institution authorized to collect savings, and to provide means of payment. It is not, however, authorized to grant credit.

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20 Banks must adhere to the Code of Obligations and Contracts (COC). In the absence of a specific legislation, this text also applies to Islamic financial products. Offshore banks are subject to law no. 2009-64 dated August 12, 2009 (financial services for non-residents).

21 Postal current accounts have existed since 1918. The national savings bank was created in 1956.
• **Microfinance institutions** (MFIs) are regulated by decree-law no. 2011-117, dated November 5, 2011, amended by law no. 46 of July 24, 2014, and by five consecutive orders issued between 2012 and 2014 (box 3 below provides a timeline and implementation details pertaining to the regulatory framework for microfinance). In this document, “MFI” refers to associations and companies authorized in the context of the decree, together with associations created earlier and currently operating in the context of the compliance period.

• **Insurance companies** are regulated by the Insurance Code created by law no. 92-24, dated March 9, 1992.

At present, legislation places limits on the outsourcing of banking operations. Only some operations, such as gathering customer data or currency exchange, can be outsourced under certain conditions and with the prior agreement of the Central Bank of Tunisia (CBT). The CBT circular dated January, 2011 sets out a framework for the development of mobile financial services, permitting SIM cards to be linked to a bank account or to a prepaid card (see part on digital finance under Section IV).

### Supervision

Table 4 below presents an overview of how Tunisian financial institutions are supervised. In line with the 2011 Concerted Vision, the ACM now supervises the microfinance sector. This is an interim arrangement prior to a secondary stage where monitoring would be transferred, at least in part, to the CBT. The ACM’s general management has been in place since November 2012 and employs a team of 9. Its board of directors is made up of 8 members who meet regularly.

<table>
<thead>
<tr>
<th>Table 4. Supervision of Financial Establishments by Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks*</td>
</tr>
<tr>
<td>Tunisian Post Office</td>
</tr>
<tr>
<td>Microfinance institutions</td>
</tr>
<tr>
<td>Insurance companies</td>
</tr>
<tr>
<td>Central Bank of Tunisia</td>
</tr>
<tr>
<td>Ministry of Telecommunications</td>
</tr>
<tr>
<td>Microfinance Supervisory Authority (ACM)</td>
</tr>
<tr>
<td>General Insurance Committee (Comité Général des Assurances), under the supervision of the Ministry of Finance</td>
</tr>
</tbody>
</table>

* Including the Tunisian Solidarity Bank (BTS) and leasing companies.

### AML/CFT Norms

Laws no. 2003-75 of December 10, 2003 and no. 2009-65 of August 12, 2009, as well as the order of January 24, 2014, govern anti-money laundering (AML) and combating the financing of terrorism (CFT) efforts, and apply to all financial institutions, including MFIs.

### Consumer protection

Tunisia has a general framework for consumer rights and a Consumer Protection Association but no specific law or organization related to financial services. For **credit institutions**, since 2006, the law provides for a mediation service to resolve disputes between banks and their clients. This service is free for the client, and the Banking Services Observatory (BSO), created by law no. 2006-26 of May 15, 2006 to ensure the quality of banking services, issues an annual report on the subject. Decree no. 2000-462 of February 21, 2000 established the methods of calculating the Annual Percentage Rate (APR) and the average interest rate, as well as their method of publication, while the BSO carries out publically-available studies of banking charges. For **MFIs**, article 8 of law no. 99-67 makes it compulsory to publish lending conditions in the branches. Publishing the APR is not

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22 Associations are also regulated by decree-law no. 2011-88 of September 24, 2011. The decree-law no. 2011-118 dated November 5, 2011 outlines tax provisions for MFIs.

23 The ACM’s General Director also presides its board, which comprises a high-level magistrate, an advisor to the national administrative court, a representative from the Ministry of Finance, a representative from the General Committee of Insurance Providers, a representative of the National Committee of Accountants, a representative from the Central Bank, and a member selected on the basis of his or her knowledge of the microfinance sector.
mandatory, however this may change in light of the forthcoming order on fair treatment of clients. Articles 34 and 36 of decree-law no. 2011-117 detail the relationship between MFIs and their clients in terms of information about products, avoiding over-indebtedness, and handling client complaints. A code of ethics is being written, in parallel with the creation of a professional association for MFIs.

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**Box 3. History and Legislative Context Related to Microfinance Institutions**

**1995:** Enda, an association operational since 1990, first introduces microcredit in Tunisia. The legislation of the time did not provide a legal structure suited for non-bank financial institutions.

**1997:** The Tunisian Solidarity Bank (BTS) is created.

**1999:** The first law on microcredit, law no. 99-67 dated July 15, created the status of Microcredit Association (AMC), and established the BTS as the national refinancing organization (at 0% interest provided 80% of the amount is repaid) and the National Guarantee Fund (NGF) as a risk-protection mechanism (covering 90% of bad debt from AMC and BTS clients). The order of August 27 defines the maximum microcredit amount (1,000 TND, which will progressively increase to reach 5,000 TND in 2009) and places a cap on interest rates (5% on a declining balance, to which commissions capped at 2.5% will later be added).

**2005:** Enda obtains special authorization from the Ministry of Finance to charge a rate that covers its costs, which de facto exempts it from the interest rate cap.

**2010:** An order dated September 29 frees the portion of the microcredit portfolio not refinanced by the BTS from the interest rate cap.

**2011-2013:** Decree-law no. 2011-117 of 2011 and the subsequent orders lay the foundation for a sound development of the sector by: authorizing the emergence of new actors and the restructuring of existing ones under the status of either associations or limited liabilities companies (LLCs); defining working standards; creating the Microfinance Supervisory Authority (ACM), which provides advice on licensing and oversees the sector; and authorizing MFIs to act as agents for insurance companies. This legal framework also established the maximum loan amount (5,000 TND for associations and 20,000 TND for LLCs) and confirmed an interest rate cap for loans refinanced through budgetary resources. Decree-law no. 2011-117 gives associations a one-year deadline to comply with these new measures. In November 2012, the vast majority of AMCs were not yet in compliance and find themselves outside of the legal framework. This leads the BTS to suspend its financing, causing a considerable contraction of the microcredit market. The AMCs subsequently jointly defend their cause at the National Constituent Assembly, in addition to organizing protests in May 2013.

**2014:** Law no. 2014-46, issued in July, lowered the minimum capital required for AMCs (from 200,000 to 50,000 TND), but not the minimum capital requirement for LLCs (3 M TND). For loans refinanced outside of budgetary resources, the law introduces a cap on interest rates, which remains to be defined by ministerial order. This cap could follow the method used in calculating the banking cap and be based on the average of the microcredit market, excluding loans refinanced through budgetary resources. Differentiation by product or customer segment is also being studied. The law postponed the deadline for compliance to December 2016, potentially extendable by decree, which means ACMs will have had in total over 5 years to reorganize themselves.24 An order dated November 17, 2014 established the external audit modalities for MFI accounts.

It is expected that the microfinance regulatory framework will be completed by forthcoming legislation covering accounting norms, loan loss provisioning policies, authorized micro-insurance products, governance, financial transparency, audit committees, contractual conditions between MFIs and their clients, and contributions to the ACM.

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24 By following well-documented and often publically available international good practices, it is currently possible to set up a microcredit institution and make it sustainable within 5 years. This supposes that the institution can cover its costs (operations, risk, financing) with its income (interest, commissions).
IV. The Current Supply of Financial Services

The Tunisian financial sector is dominated by banks, with assets equal to approximately 100% of GDP. This figure is somewhat lower than in other countries of the region such as Egypt, Jordan, Lebanon, and Morocco. More than half of total bank credit is provided to firms in the industrial, trade, and tourism sectors. The non-bank financial sector is relatively small, with microfinance accounting for only 0.2% of overall financial sector assets. Despite the size of the untapped market, for the majority of services, it is clear that supply is not adapted to existing demand, as suggested by the frequent use of informal financial services, both for savings and for credit.

**Figure 5. Comparison Between Potential Demand and Current Supply of Savings and Credit**

Note: The total market is estimated as follows: 1) Savings: total = adult population or 8.4 million individuals; 2) Credit to individuals = estimate of 950,000 for microcredit only (2014 study); 3) Credit to formal enterprises = all businesses in the national registry RNE (654,200 in 2013). Further studies are required to better quantify the numbers and relevant amounts, especially for credit.

**Banks**

The Tunisian banking market comprises 21 commercial banks and has seen an 8% growth since 2010, reaching 1,449 branches and 1,857 ATMs as of December 31, 2013. Even if these figures put Tunisia ahead of its peers in the Arab world in terms of coverage per inhabitant, the geographic distribution of these branches remains uneven. There is a heavy concentration in larger cities and the most productive regions (North-East and Center-East; the Greater Tunis area and the coastal region comprise the majority of bank branches). Banks have not developed a range of services adapted to low-income populations, micro-entrepreneurs, or small businesses. For example, fees for holding an account can be in excess of 80 TND/year, and significant guarantees are required for credit.

The number of fixed-term deposits (FTD) in banks saw an increase of 18% between 2010 and September 2013. In the absence of a market study, it is difficult to know if this represents a cultural change in attitudes towards savings or demonstrates a greater propensity to save during periods of economic slowdown, or if it is simply a reaction to a temporary improvement in the conditions offered by banks seeking liquidity.

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25 Source: Central Bank of Tunisia.
Banks have low portfolio quality (around 15% of loans in arrears) and lend primarily to:

- **Individuals, particularly salaried workers** who can legally borrow up to 40% of their income (1.3 million borrowers for 16 billion TND outstanding in 2013 according to the CBT, with an increase of 17% per year since 2010 but a stable average loan size of around 13,000 TND per borrower and a borrowing period of 3 years; 85% of the outstanding loans are used for housing and/or home improvement).

- **Formal businesses** (338,000 financed businesses in 2013, i.e. around 50% of formal Tunisian businesses, with an outstanding total of 41 billion TND) and in particular medium-sized and large businesses (less than 1,500 businesses account for nearly 70% of total outstanding loans to companies; 50% of the outstanding amount is for large groups).

The majority of financial institutions consider the VSSME market risky and opaque, but inevitable given its importance in the Tunisian economy. VSSMEs already represent a significant part of leasing companies’ portfolios. However, apart from the two banks specialized in VSSME financing (see Box 4), no Tunisian financial institution has a strategy dedicated to this market (IFC, 2014).

### Box 4. Specialized Banks

**Tunisia Solidarity Bank (BTS)**

Besides refinancing AMCs, the BTS directly provides credit for enterprise creation or expansion, with amounts going up to 150,000 TND for university graduates (average loan size of 10,000 TNS and arrears above 30% in 2014). Its direct outreach has been increasing over the past few years (112,000 active clients and 620 M TND of outstanding portfolio in 2014 according to the BTS, as compared to ~47,000 and 422 M TND in 2010 according to the Concerted Vision).

**Investment Bank for Small and Medium Enterprises (BFPME)**

Created in 2005, the BFPME is focused on financing existing and new SMEs, by granting credit under favorable conditions (100,000 to 5 million TND, over 2 to 12 years, with a 7% rate and a public guarantee). In 2013, it adopted a co-financing rule with other local banks. Its impact remains very limited (2,000 projects financed between 2005 and 2012) and the quality of its portfolio is very weak (over 30% of loans in arrears).

**National Agricultural Bank (NAB)**

The NAB is a State bank created in 1959 to respond to agricultural financing needs, and now one of the most important universal banks in Tunisia. It finances around 20% of the food and agriculture industry, but does not reach all farmers, notably due to its bureaucratic procedures. In addition, the majority of the 110,000 smallholders to whom it has granted credit are in arrears. As a result, the bank no longer serves this sector and focuses on providing loans over 4,000 TND.\(^{26}\)

**Islamic Banks**

The Tunisian financial system currently includes two universal banks offering products compliant with the principles of Islamic finance. Al Baraka was created in 1985 (12 branches, subsidiary of the Bahraini banking group) and Zitouna in 2009 (~50 branches). The Tunisian State is a minority shareholder in the former and a majority shareholder in the latter. Little information is available on the number and profile of their clients.

\(^{26}\) **Source**: Study on agricultural financing in Tunisia, World Bank, May 2012.
The Tunisian Post Office

With 1,051 branches (offices and mobile branches) in 2014, the postal network is almost as extensive as that of the entire banking sector, but far more evenly spread across Tunisia. **This network makes it a key player when it comes to financial inclusion.** The Tunisian Post offers a wide range of financial services (deposits, transfers, insurance, payment means) with the exception of credit. Its fees and rates are deemed reasonable for the low-income population and it offers favorable conditions, particularly for current and savings accounts where the average balance is under 1,000 TND (e.g. no account fees, free operations, availability of savings, flexibility of payments and withdrawals). This helps explain the Post’s 45% market share in terms of accounts number. As with the banks, the total number of postal accounts and their amount have grown steadily in recent years.

### Table 6. Comparison of Financial Services Conditions

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Tunisian Post</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Checking accounts/Demand Deposits (DD) &amp; Postal Accounts (checking and savings)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening</td>
<td>No charge</td>
<td>No charge</td>
</tr>
<tr>
<td>Account fees</td>
<td>~45-80 TND/year</td>
<td>Checking Account: 20 TND/year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DD: No charge</td>
</tr>
<tr>
<td>Card fees</td>
<td>Payment for a simple cash card</td>
<td>Cost of a Visa Electron multi-function card: 25 TND</td>
</tr>
<tr>
<td></td>
<td>~12 TND/year</td>
<td></td>
</tr>
<tr>
<td>Minimum amount per transaction</td>
<td>Yes</td>
<td>Checking Account: None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DD: Yes, 10TND</td>
</tr>
<tr>
<td>Number of accounts</td>
<td>2.2 million private individuals</td>
<td>Checking Account: 1.8 million individuals of which 50% are between 18-35</td>
</tr>
<tr>
<td></td>
<td>300,000 businesses</td>
<td>DD: 3.7 million individuals of which 20% are between 18-35</td>
</tr>
<tr>
<td>Average balance</td>
<td>~5,600 TND (incl. businesses)</td>
<td>Checking Account: 678 TND DD: 987 TND, 70% of which with a balance &lt; 100 TND</td>
</tr>
<tr>
<td><strong>Savings accounts/ Fixed term deposits (FTD)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening</td>
<td>~10 TND</td>
<td>-</td>
</tr>
<tr>
<td>Minimum amount per transaction</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td>Number of accounts</td>
<td>4.1 million private individuals</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>56,000 businesses</td>
<td>-</td>
</tr>
<tr>
<td>Average balance</td>
<td>~3,010 TND (incl. businesses)</td>
<td>-</td>
</tr>
</tbody>
</table>

* Postal savings accounts are considered as demand deposits since money can be withdrawn at any point, as opposed to banking savings accounts such as fixed term deposits, where money cannot be withdrawn before a specific period of time.

**Source:** Coordinated Vision, Study of Financial Inclusion in Tunisia, Tunisian Central Bank, APTBEF, Post; latest available figures.

However, with only 178 ATMs, a quarter of its branches not connected to a central server, relatively limited opening hours, and minimum payment amounts, the Post does not yet offer easy-to-use micro-savings solutions (regular withdrawals and deposits of very small amounts) or payment means. Over 50% of postal accounts are inactive (no movement for 2 years).

### Microfinance Institutions (MFIs)

The regulatory framework authorizes MFIs to offer **microcredit services** to finance income-generating activities and improvements to living conditions (see Table 7 for loan conditions), together with training or support services. MFIs can also **enter into micro-insurance contracts** in the name and on behalf of insurance companies. The sale of micro-insurance products is however subject to a framework agreement between the professional insurance and microfinance associations.  

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27 Since the professional association for MFIs has not yet been officially constituted, MFIs cannot yet offer micro-insurance products. In the event of death or invalidity, Enda offers its clients a premium that covers the remainder of the loan, as well as a 500 TND compensation for the families.
Table 7. Conditions for Granting Microcredit

<table>
<thead>
<tr>
<th>Conditions for Granting Microcredit</th>
<th>Association</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microcredit – income-generating activities (cap)</td>
<td>5,000 TND</td>
<td>20,000 TND</td>
</tr>
<tr>
<td>Microcredit – improvements to living conditions (cap)</td>
<td>1,000 TND</td>
<td>3,000 TND</td>
</tr>
<tr>
<td>Maximum duration</td>
<td>3 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Cap for loans refinanced through public resources</td>
<td>5% + 2.5% commission</td>
<td></td>
</tr>
<tr>
<td>Cap for other loans</td>
<td>To be defined (provided for by the 2014 law)</td>
<td></td>
</tr>
</tbody>
</table>

- **First created in 1999, AMCs cover the entire country, and particularly inner regions, but they remain very modest in size** (850 clients on average in 2010) as compared to MFIs within the region and globally (2013 median of over 21,000 clients for MFIs in the Arab world, and 13,500 in the world).\(^{28}\) As of 2011, 289 AMCs were registered in Tunisia, the majority created between 2004 and 2007.\(^{29}\) Their 3-month Non-Performing Loans (NPL) was estimated at 27% in December 2010, according to the Concerted Vision. However, despite strong support from the State and local authorities,\(^ {30}\) AMCs were restricted by a stringent interest rate cap.\(^{31}\) No longer in compliance with the new legal framework at the beginning of 2013, AMCs lost their access to BTS financing and had to limit or cease their lending operations. Their number of active borrowers is estimated to have fallen from 237,000 in 2010 to around 150,000. This situation remained until August 2014, when the deadline to achieve compliance was extended. Since then, around 147 AMCs have renewed their activities and the Ministry of Employment has allocated one million TND to support their restructuring. The Kairouan Association for Integrated Development (AKDI) has received its certificate of compliance with decree-law no. 2011-117, and the Association to Support Self-Development (ASAD) received the authorization to transfer its microfinance activities to a subsidiary. The AMCs in the Bizerte and Siliana regions have taken steps to merge in their respective governorates.

- **With 78 branches and in operation since 1995, Enda covers practically all regions in Tunisia, even if its network is less dense than that of all AMCs taken together.** Thanks to the special authorization that has allowed it to cover its operating costs with higher interest rates (yet still in line with the international average), and thanks also to its strong organization and good management practices, Enda has witnessed faster growth (on average twice that of AMCs) and better repayment rates (less than 2% in arrears). Enda has now reached a size making it a crucial player in the microcredit market (246,788 borrowers and over 240 million TND of assets as of December 2014). Its market share has increased from 30% to near 50% in the wake of the reduction in AMCs’ services. Enda has already obtained a certificate of compliance with decree-law no. 2011-117 and has begun the necessary steps to transfer its microfinance activities to a subsidiary company.

- **In the framework of decree-law no. 2011-117, authorizations have been granted to newly-created companies, Taysir, Microcred Tunisia, Advans Tunisia, and CFE (Entrepreneur Financial Center).** Taysir and Microcred disbursed their first loans in June and November 2014, respectively. Taysir’s majority shareholders are Tunisians and it counts the French NGO Adie International as a shareholder and operator. It has taken the decision not rely on cashiers in its branches and to make all disbursements and reimbursements in partnership with the Tunisian Post, using prepaid e-Dinar cards and the MobiFlouss service offered jointly with the mobile

\(^{28}\) Source: MixMarket, online microfinance information exchange platform.

\(^{29}\) However, eight of these were never involved in microcredit activity.

\(^{30}\) Notably: activity-related subsidies provided by the State through the BTS, equivalent to 3% of the interest rate paid by the client according to the Concerted Vision; several employees supported by the State through apprenticeship programs; and the provision of equipment and premises through local authorities.

\(^{31}\) Annual rate of 5% on a declining balance and 2.5% of commissions, equivalent to an APR below 10% for loans with a 12-month term. For a comparison, according to the 2013 MixMarket figures, the average MFI portfolio yield, which reflects the APR, was over 30% in the region, and over 26% globally for MFIs able to cover their operating costs.
network operator Ooredoo. Microcred Holding has a majority stake in and is the operator of Microcred Tunisia. Advans Group holds a majority stake in Advans Tunisia, which disbursed its first loans in March 2015. CFE, created by Desjardins International Development (DID) and Tuninvest, disbursed its first loans in July 2015.

Other financial operators

Financial service providers in Tunisia also include 10 leasing companies, 3 factoring companies, and several dozen venture capital firms. National funds also grant social loans of up to 15,000 TND for those they insure (the National Social Security Fund—CNSS, and the National Pension and Social Security Fund—CNRPS). Meanwhile, many micro-entrepreneurs and VSEs have recourse to credit from suppliers, and public companies that distribute water, electricity and gas (SONEDE and STEG) extend payment terms that can be compared to small loans.

Insurance companies

Private insurance services are not widespread in Tunisia, in part because of a lack of insurance culture in the country across all socio-professional categories. The premiums written by all the 19 insurance companies operating in Tunisia represent less than 2% of GDP (the average insurance premium per inhabitant was around 120 TND in 2012). Even with the increasing volume of insurance policies provided by the Post, this figure remains extremely low in comparison with the population. Car insurance, which is obligatory, is most prevalent (46% of written premiums), followed by life insurance (16% of written premiums). The Ministry of Social Affairs and the CNSS provide minimal social coverage but not to the entire population. A mobile network operator and an insurance company are about to launch a micro-health insurance product aimed at students, with monthly online payment of the premium.

Money transfer companies

According to the World Bank, the international person-to-person transfer of money into Tunisia, which has an expatriate population of over 1 million, amounted to 3.7 billion TND in 2012 (5.3% of GDP in 2009). Western Union (1,600 points of service) and Money Gram (500 points of service) are primary providers. The Post processes the majority of domestic money transfers, which in 2012 totaled 785 million TND in 3.3 million transactions. Social transfers represent between 15% and 20% of GDP, including subsidies for more than 120,000 disadvantaged families. The majority of these transfers are conducted through the Post.

Digital finance

The regulatory framework for digital finance in Tunisia is bank-led, and falls under the supervision of the CBT. Partnerships between banks and non-banking institutions may be authorized, notably in order to facilitate the opening of electronic wallets and the implementation of networks to purchase or sell electronic money. In practical terms, implementation of these partnerships remains difficult. To date, only one has emerged (BIAT/Via Mobile for the m-Dinar service) and has seen little uptake. The four services currently on the market (the three postal services—MobiFlouss, MobiDinar, and Mobimoney—and the m-Dinar service) offer limited services and lack interoperability. There are, however, several projects underway led by either mobile network operators, the Post, or the government, which could change the digital finance landscape in Tunisia.

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32 Customers receive an Ooredoo SIM card, and must acquire an e-Dinar card from the Tunisian Post, which will allow them to withdraw the loan amount from a postal ATM. Repayment is made through the e-Dinar card, either at a postal branch or through a Mobiflous transfer.

33 Due to its financial situation, the CNRPS only grants two types of loans: personal loans (to cover urgent social needs) and university loans.
The following table summarizes the available data on the supply of financial services in Tunisia.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Product</th>
<th>Savings</th>
<th>Financing</th>
<th>Payments</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tunisian Post</td>
<td>DD</td>
<td>5.5 M</td>
<td>1.6 M</td>
<td>20 M</td>
<td>~500 K</td>
</tr>
<tr>
<td></td>
<td>FTD</td>
<td>~5 M</td>
<td>1.6 M</td>
<td>~400 K</td>
<td>247 K</td>
</tr>
<tr>
<td></td>
<td></td>
<td>accounts</td>
<td>borrowers</td>
<td>transfers</td>
<td>subscribers</td>
</tr>
<tr>
<td>Banks</td>
<td>Individuals</td>
<td>~2.2 M</td>
<td>~4 MR</td>
<td>n/a</td>
<td>~0 K</td>
</tr>
<tr>
<td></td>
<td>Businesses</td>
<td>~3.0 K</td>
<td>~56 K</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>MFIs</td>
<td></td>
<td>~400 K</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>~1.75%</td>
</tr>
<tr>
<td>CNSS, Ministry of Social Affairs</td>
<td></td>
<td></td>
<td>~14 K</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>12.2 M</td>
<td>2.0 M</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

* Of which 290 K under 20,000 TND; ** Enda’s subscribers. Gray cells indicate services not authorized for the supplier. Source: World Bank, IFC study, Post, CNSS, APBTEF, MixMarket; data at the latest available date; n/a = not available.

V. Market Infrastructure

Market infrastructure in Tunisia has improved since 2011, but remains under-developed, although it is key to harnessing the healthy growth of the financial sector and to developing the market when needed.

Credit Bureau

Created in 1977, the CBT credit registry provides positive and negative information on loans to registered businesses and individuals granted by banks and leasing companies. It includes 30% of adults in Tunisia although it does not comprise all financial products (e.g. suppliers’ loans) or client history. It is not yet possible to use the registry data to conduct analysis (e.g. market segmentation by enterprise size). The CBT and the ACM are currently in discussion to develop a credit registry for MFIs, linked to the existing registry. This platform should be operational by the end of 2015.

National Guarantee Fund (NGF)

The NGF is funded by 1% of the amount of each loan provided by AMCs. In theory, this fund should cover up to 90% of loan in arrears. It has never been used for several reasons, in particular due to the legal procedures required, which are too costly as compared to the loan amount.

Professional associations

The Tunisian financial sector includes several professional associations.

- APTBEF is the professional association for banks and financial institutions (24 universal and investment banks, 9 leasing companies, and 2 factoring companies).

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34 Information is said to be positive when it involves outstanding debt and negative when it involves payment problems (e.g. late loans, unpaid checks). The credit registry allows regulated financial institutions to measure the level and quality of a potential client’s debt before financing him or her, which prevents both risky loans and clients’ over-indebtedness.

• For MFIs, decree-law no. 2011-117 (article 54) makes membership in a professional association compulsory. The scope of such association is limited to representing the sector and ensuring it operates ethically. The professional association is in the process of being created and must be approved by the Ministry of Finance following consultation with the ACM.
• The Tunisian Federation of Insurance companies (FTUSA) represents all insurance companies.

The Financial Inclusion Observatory
In line with the 2011 Concerted Vision, a scoping mission for the creation of an observatory took place in December 2012. It confirmed the need to improve the quality of available information related to financial inclusion, both from the supply and demand sides, as well as the coordination of data gathering. Initially housing the Observatory within the ACM was considered appropriate. The creation of the Observatory is pending the publication of a relevant ministerial decree.

Training, audit, advisory, and support services
Although these services are available on the Tunisian market, including from international firms, none are offered specifically in relation to microfinance. There is, however, a significant need for financial education (for clients), advice and technical support (for associations), and training (for human resources in financial institutions).

VI. Key Financial Inclusion Challenges

The opportunities for financial inclusion in Tunisia are significant. There remains, however, a number of structural and short-term challenges to overcome in order to offer financial services to the largest number of individuals and businesses, and through this channel, contribute to bringing growth and dynamism to the Tunisian economy. While work has been initiated in a number of important areas, particularly those dealing with market infrastructure, other significant projects have yet to be initiated.

1. The designation of a champion

A financial inclusion strategy requires a strong commitment on behalf of at least one public stakeholder. The Ministry of Finance has to date played this role, and the creation of the ACM is an important step forward to continue advancing financial inclusion in Tunisia. In more than 70% of cases around the world, however, financial inclusion strategies are led by central banks, which have the mandate and the technical skills to deal with key elements of supporting financial inclusion, including the regulation of financial activity in all of its aspects, the management of financial infrastructure systems, and the supervision of financial institutions. These areas are beyond the current mandate of the ACM. It is therefore necessary to identify the future champion of financial inclusion in Tunisia, which must possess the ability to bring together a wide diversity of public and private institutions and allow the development of a varied range of financial services, beyond microcredit. In December 2013, aware of the need to pursue current reforms and develop a financial inclusion strategy over the long term, the Tunisian authorities and donor agencies discussed the idea of a national coordination committee. However, this has not yet been implemented.

2. A better understanding of client needs

Tunisia is critically short of up-to-date information on demand, supply, and behavior related to financial services. Current segmentation is insufficient and lacks precision. A representative market

36 Source: Analysis of financial inclusion strategies in 56 countries, World Bank, 2013.
study would be particularly useful for putting in place appropriate public policies, developing adapted financial services, and for modifying the culture around financial services.\textsuperscript{37} International donors have offered financing such a study and assisting the government in the coordination work of the various stakeholders.

3. A better vision of the role of various actors

A restructuring of the microcredit sector is underway, with new operators emerging and established operators undergoing change, but the future remains unclear, particularly because of the confusion generated by the successive legislative changes since 2011, which encourage the consolidation of the sector on the one hand, and the status quo on the other.

- Legal ambiguities concerning unions, mergers, and setting up subsidiaries of associations have not been resolved (e.g. the impossibility for a parent association to continue its credit activities, which prevents it from gradually transferring its portfolio; the complexity and practical difficulties of implementing unions of associations, notably because of a refinancing problem of tax and social arrears).
- The future of AMCs is uncertain, given that the majority of them do not have the means or even the will to update their operational systems (IT, governance and internal controls).
- Enda and the new entrants seem to be on the right path to increase microcredit penetration in Tunisia. However, the reworking of the law in 2014 opened the door to other changes, particularly regarding the interest rate cap. Such cap could jeopardize MFIs sustainability if its calculation method was not suitable.

In this context, the role of the BTS is yet to be determined. Since 2011, several strategic options have been discussed but no decision has been taken. The final choice is particularly sensitive, in light of the BTS weight (735 million TND of assets in 2012), its traditional role as key supporter for AMCs, and the challenges of reforming a public institution.

The Post already plays a very important role in financial inclusion. It could however do more by developing savings services that are better adapted to demand. To achieve this, it must choose the strategy to reach its full potential and implement the significant organizational reforms that this would require. Further analysis on the regulatory and supervisory framework underpinning the Post would be a first step towards broader organizational reforms.

Mobile phone payments and digital financial services represent unique opportunities for swiftly expanding access to financial services, but their development requires a more enabling legislation and infrastructure (e.g. legislation facilitating the development of alternative distribution channels, national switching system for interbank payments).

Different institutions (e.g. donors, AFI) could support Tunisia’s efforts to develop a genuine strategy for financial inclusion, detailing the long-term vision of the financial landscape and clarifying the roles of each type of actor.

\textsuperscript{37} Additional studies would allow, for example, better understanding the financial needs of individuals, particularly the low-income, and enterprises, particularly VSSMEs. What perception do they have of formal financial services and why do only 5% of adults save in a formal way while 25% save informally? What use do they make of financial services, both formal and informal? Why do 53% of businesses appear to have a loan in the credit registry, while access to finance seems to be a major impediment to the growth of Tunisian businesses?
4. Access to liquidity

Until 2011, AMCs were mainly financed by the State through the BTS, while Enda benefited from local and foreign funding. The situation is expected to come under strain, however, given the lack of liquidity troubling the Tunisian financial sector on the one hand, and the entry into the market of new companies seeking funding on the other. If the lack of liquidity in the Tunisian banking sector was to continue, it would impact the refinancing of MFIs and force them to refinance themselves in foreign currency, at a significantly higher cost than local funding. Alternative solutions should then be considered, such as revisiting the role of the BTS, the creation of a new dedicated refinancing institution (commonly called Apex) and/or temporary and value-added mechanisms to support liquidity (e.g. credit lines, partial credit guarantee programs).

Conclusion

Tunisia stands at a crossroad in terms of financial inclusion, with on the one hand a supply that covers the most basic needs for savings and credit, but on the other a significant unmet or under-served demand. Opportunities to improve financial inclusion are many. Some have already been set in motion with the support of international donors, including the African Development Bank (AFDB), the European Investment Bank (EIB), the World Bank Group/IFC, the French Development Agency (AFD)/Proparco Group, German development aid (KfW and GIZ), and the European Union. By building on financial inclusion as a key development pillar, beyond the limited scope of microcredit as it is currently defined, Tunisia would be in a position to both stimulate economic growth and improve the living conditions of its most disadvantaged citizens.

References

This document is based on a number of different studies and legal texts published in recent years, including: The Coordinated Vision for the Development of Microfinance in Tunisia published by the Ministry of Finance (2011); Market Study on Digital Finance to Promote Financial Inclusion, published by the World Bank and CAWTAR (2015); Market Assessment of the Financial Needs of Very Small, Small, and Medium Enterprises in Tunisia, published by IFC (2014); Financial Inclusion Study, completed as part of the MicroMED project (2014); Tunisia Investment Climate Assessment by the World Bank (February 2014); Financial Inclusion in Africa by the African Development Bank (2013); Study of the Tunisian microfinance market, by IBM Belgium (2009).

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