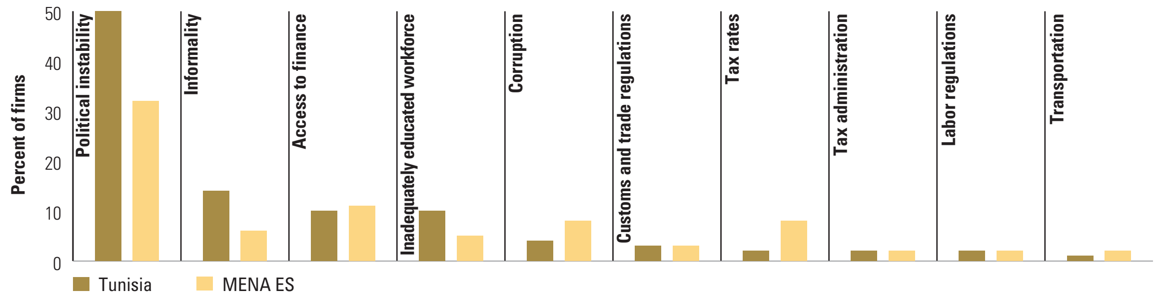
## TUNISIA

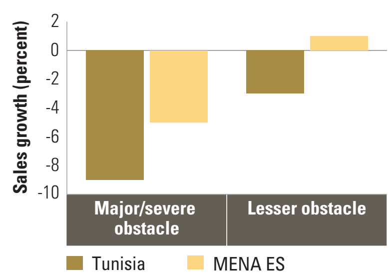
**FIGURE 1: Ranking of the top business environment obstacle for firms in Tunisia**




### *Political instability is the top obstacle reported by Tunisian firms*

Tunisian firms perceive political instability as the most important obstacle to business activity, with half of all firms identifying this issue as their top obstacle (figure 1). Many firms suffered from the uncertain business environment that followed the Jasmine revolution in 2011, notably the uncertainty about policy directions. Economic performance was at a low and most firms saw their sales contract significantly in this difficult environment. Considered independently of the other obstacles, political instability is identified as a major or severe obstacle by 60 percent of firms in Tunisia. Those firms saw their sales decline most dramatically over the survey reference period 2009 to 2012, by 9 percent, compared with a decline in sales of 3 percent for the firms that identify political instability as a lesser obstacle (figure 2). Informality ranks second as top obstacle in Tunisia, where 45 percent of firms report competing against unregistered or informal firms. Access to finance emerges in third place, despite Tunisian firms relying more heavily on external financing than firms in any other MENA ES economy, with only 59 percent of working capital and investment financed through internal sources.

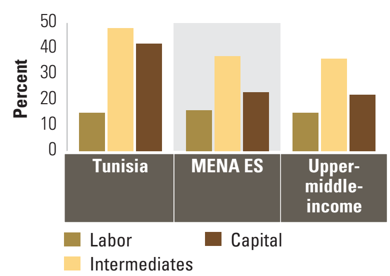
**FIGURE 2: Political instability and sales growth**




### *Tunisian manufacturers have high capital intensity and the use of capital seems inefficient*

Manufacturing firms in Tunisia are significantly more capital-intensive than firms in upper-middle-income economies on average (figure 3). When comparing the median factor shares of three main inputs used by manufacturers, that is, their labor, intermediate inputs, and capital costs, Tunisian manufacturers stand out as the most capital-intensive in the MENA ES region. This can partly be explained by the presence of energy subsidies, which distort production structures by promoting energy and capital-intensive industries. Indeed, while Tunisian manufacturers have labor productivity levels comparable to those of manufacturers in upper-middle-income economies, their TFP lags behind, indicating that capital is used inefficiently.

**FIGURE 3: Median factor shares**



## *Tunisian firms have a lower degree of financial disconnect, but high collateralization of loans is hampering access to finance*

Despite ranking third, access to finance is identified as top obstacle by only 10 percent of Tunisian firms. This compares favorably with the averages of both the MENA ES region (11 percent) as well as upper-middle-income economies (16 percent). Tunisian firms report a relatively low degree of disconnect of the private sector from financial markets, with 37 percent of firms disconnected in Tunisia compared with 58 percent of firms in the MENA ES region on average (figure 4). Disconnected firms are those that did not apply for any loan in the survey reference year and explicitly state that they did not need a loan thanks to sufficient capital. Tunisian financial institutions rely heavily on the use of collateral as guarantees for loans. Both the collateral ratio (the ratio of the value of collateral to the value of the loan) and the collateral incidence (the share of loans that are collateralized) are high, the former being above any other MENA ES upper-middle-income economy at about 252 percent, and the latter (at 87 percent) being above the MENA ES average of 83 percent (figure 5). These two measures of collateral requirements also compare poorly with upper-middle-income averages (190 percent for the collateral ratio and 75 percent for the collateral incidence).

**FIGURE 4: Financial sector disconnect**

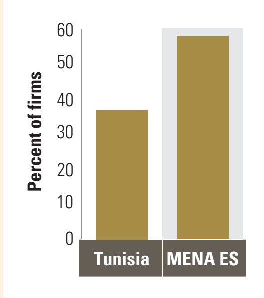
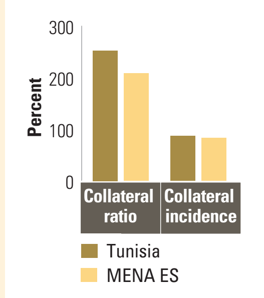



**FIGURE 5: Collateral characteristics**




## *Tunisian firms are competitive by regional standards*

Tunisia has the highest proportion of two-way traders—firms that both export and import—in the MENA ES region, with 35 percent of firms exporting 10 percent or more of their sales directly and importing 10 percent or more of intermediate inputs (figure 6). This can partly be explained by the importance of the offshore industry in Tunisia, which comprises fully export-oriented firms that benefit from tax exemptions, duty free access to inputs and equipment, and streamlined customs procedures. Given this special status, these firms tend to be well integrated into GVCs. Moreover, a higher percentage of Tunisian firms are engaged in innovation than in the MENA ES region on average (figure 7). The proportion of firms undertaking process innovation is particularly high at almost a quarter of all firms—this may be related to the knowledge transfer from their GVC partners.

**FIGURE 6: Firms by trade status**

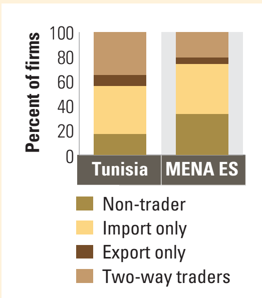
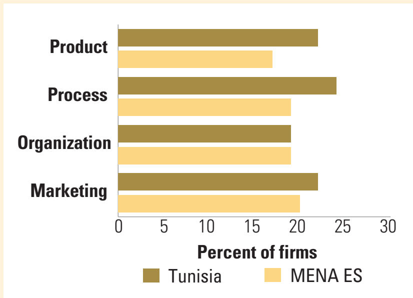



**FIGURE 7: Different types of innovation**




*The Economy Fiches summarize the economy-specific findings of the report "What's Holding Back the Private Sector in MENA?" Note that annualized sales and employment growth statistics are calculated using the reference years 2009 and 2012; these reference years are used due to when the Enterprise Survey was administered. The findings, interpretations, and conclusions expressed in this fiche are entirely those of the authors. They do not necessarily represent the views of the European Bank for Reconstruction and Development/European Investment Bank/World Bank and its affiliated organizations, or those of their Executive Directors or the governments they represent.*