Diagnostic Report on the Legal and Regulatory Environment for Microfinance in Tunisia

By Xavier Reille and Timothy R. Lyman

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DIAGNOSTIC REPORT ON THE LEGAL AND REGULATORY ENVIRONMENT FOR MICROFINANCE IN TUNISIA

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I. OVERVIEW

Tunisia has emerged in recent years as a significant regional player in the development of microfinance, with an estimated 63,736 active borrowers as of the end of 2003 as reflected in *Microfinance in the Arab States*.[2] This figure placed Tunisia third in the number of active borrowers in the Middle East/North Africa region (MENA). Of this figure, approximately 84% were estimated to be clients served by a heavily subsidized lending program overseen by the Banque tunisienne de solidarite (BTS). The remaining active borrowers at the end of 2003 were being served by an operationally and financially sustainable microlending program operated by the representative office of a foreign NGO. Significantly, there are no banks engaged in microlending or even in any substantial volume of consumer lending in Tunisia, due to extremely low interest rate caps imposed on all relevant types of lending. These caps constitute the single most significant feature of the legal and regulatory environment affecting the development of microfinance. Thus, despite some recent liberalization in financial sector regulation that has permitted, for example, significant new foreign investment in the banking sector, the prognosis for institutions delivering financial services profitably to low-income Tunisians under the current regulations is uncertain.

This Report outlines the observations of a preliminary fact-finding and diagnostic mission led by CGAP's Xavier Reille and Timothy Lyman in late September 2004[3] and preparatory and follow-up research conducted by the authors with the assistance of local

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[1] Xavier Reille is the director of the MENA initiative at CGAP and Tim Lyman is CGAP's policy advisor. Country-specific legal and regulatory diagnostics are a key component of the CGAP MENA initiative, which was launched in October 2004 to accelerate the provision of microfinance services within the Middle East/North Africa region. This diagnostic was carried out in partnership with SANABEL, the network of MFIs in the Arab world, and the Rockdale Foundation. The Rockdale Foundation underwrote Mr. Lyman's research expenses, for which the authors express their gratitude. The authors would also like to thank Nicole Jacobs for her in-country research on the Tunisian microfinance sector and editorial assistance. The authors also acknowledge the contribution of CGAP interns Haitham El-Kady and Anne Baverel, who conducted significant desk research. CGAP has retained information concerning the sources of the information and statistics cited in this Report. Except as noted, in-country research for this Report was conducted in September 2004.

[2] Judith Brandsma and Deena Bujorjee: *Microfinance in the Arab States - Building inclusive financial sectors*, September 2004.

[3] The persons consulted during the mission are listed in Appendix A. The authors are grateful to these persons for sharing their time and insights.

legal counsel[4] in Tunisia. Part II provides an overview of the financial system and a general description of the current state of development of the microfinance sector in Tunisia. Part III describes the current legal and regulatory environment. Part IV provides a summary of some current policy-related obstacles to the development of microfinance. Part V concludes this Report with CGAP's recommendations as to microfinance policy-related interventions worthy of consideration, whether to be undertaken by CGAP or other actors.

II. STATE OF DEVELOPMENT OF THE MICROFINANCE SECTOR IN TUNISIA

Overview of the Financial System.[5] The Tunisian banking system has similarities in common with the French system, with which it also has an historical connection. As of 2003, 13 commercial banks and 8 development banks are currently licensed to operate. The state exercises direct control over six commercial banks and all eight development banks. Specialized nonbank financial institutions include 2 financial companies (basically merchant banks), 11 leasing companies, and 2 factoring companies. There is one Islamic bank in Tunisia, Beit Ettamouil Tounsi Saoudi, which translates as 'best bank.' With one significant exception, no Tunisian bank currently targets low-income clients. The exception is the BTS, described in detail below. The entire banking sector, including the BTS, is regulated by the Tunisian Central Bank.

Other aspects of the Tunisian financial system of potential interest for the development of microfinance in Tunisia include: (1) the postal savings system (there are currently 2,254,000 postal savings accounts amounting to 1,205,763,000 Tunisian Dinars (TD) or approximately US$ 884,639,031), with an average of one savings account per household, although many are dormant (the system deploys a network of 504 urban offices, 466 rural offices and 42 mobile offices); (2) the insurance and pension sectors, which remain modest (the vast majority of insurance policies offered in Tunisia are for automobiles, and the pension sector is comprised of two public social security funds); and (3) the Tunis Stock Exchange, which consisted of only 44 listed companies in 2004, including some financial companies, telecommunications companies, and agricultural firms. (There is also a growing number of investment funds in the country, including over 30 mutual funds and 85 investment funds.) Capital markets are regulated by the Conseil des Marchés Financiers (Financial Market Council).

Types of Institutions in Microfinance. One hundred-two indigenous nonprofit associations currently hold permits from the Ministry of Finance to operate as

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[4] Mr. Noureddine Ferchiou and Mr. Mohamed Amine Ben Lakhal of the Tunis office of Cabinet Ferchiou et Associés Meziou Knani served as local legal counsel in the preparation of this Report, with assistance from Céline Dupont of the same firm. Mr. Ben Lakhal participated in all meetings during the mission. In addition to assembling various relevant legal and regulatory materials in French for the authors' review, local legal counsel also provided significant strategic advice and reviewed a semi-final draft of this Report to confirm the accuracy and completeness of statements made regarding laws and regulations currently in effect in Tunisia.

[5] This overview relies on information from the FIRST Initiative website (www.firstinitiative.org), unless otherwise mentioned.

microlenders in Tunisia under the 1999 law that established the microlending program of the BTS (Microcredit Law), further described below.[6] They receive interest-free loan capital from the BTS, which must be onlent at a rate not exceeding 5% per annum, declining balance, and to continue participating, they must maintain a principal repayment record of 80% of the funds borrowed from the BTS, as discussed further below.[7] Under the Microcredit Law, all must be registered as associations in accordance with the 1959 Law on Associations, as amended (Law on Associations), and no other legal forms are permitted to participate. Existing associations of any character permitted under the Law on Associations are allowed to apply for a permit to operate a BTS-funded microlending program (and newly formed associations of any legally permitted character may also apply), without the necessity of forming a separate association dedicated only to microlending. The result is an heterogeneity of different types of associations engaged in BTS-funded microlending and other (often unrelated) activities.

In addition to the lending program implemented through the BTS microcredit associations, where the BTS operates as an apex institution, the BTS also implements a direct lending program to recent graduates of vocational and technical schools and other institutions of higher education who come forward with a plan for a business start-up. These loans are in larger amounts, up to a maximum of 10,000 TD (or approximately US$ 7,337) for undergraduates and 50,000 TD (or US$ 36,584) for university graduates, and have an employment generation objective for the large number of young Tunisians entering the job market. This later program is plagued by a low repayment rate (reported at less than 40%) and is not performing well. It is not discussed further in this Report.

A single registered representative office of a foreign NGO, ENDA Inter-Arabe (ENDA), makes up the remainder of the currently active microfinance sector in Tunisia. ENDA started its microcredit program in 1994. It operates outside the regulatory regime applicable to the BTS-funded associations, which has permitted it to engage in best practice microlending.

There are no other types of institutions engaged in any activity that could be described as microfinance except for several specialized state-controlled financial institutions.[8]

Operational Situation of BTS Microcredit Associations. Although the associations operating within the BTS microlending system are quite various in their character, some generalizations are nonetheless possible. None has established itself as an industry leader as measured by standard criteria such as: number of active clients served, geographic

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[6] Six of the most significant of these associations are described in Appendix B.

[7] A reported 94 of them have complied with the requirement of at least 80% repayment rate imposed by the BTS to keep receiving funding.

[8] Among these, perhaps the most significant is the postal savings system, discussed above.

territory covered, depth of outreach, or aggregate volume of portfolio outstanding.[9] For example, none them has more than 4,000 active clients. The dual constraints of the 5% interest cap (excluding explicitly all fees and commissions) and low (and in some cases time-limited) levels and types of external subsidies mean that all participating associations are pressed for resources and must rely on a combination of significant volunteer effort, favors granted by interested parties, and internal cross-subsidy from non-BTS-related revenue sources. Although legally permitted to borrow for onlending from Tunisian commercial banks, such borrowing is not economically feasible, even assuming a bank found a BTS microcredit association to be creditworthy (due to the 5% cap on the rate a BTS microcredit association can charge on its loans). While the microcredit associations are legally permitted to attract foreign funding directly (and even to borrow from foreign sources for onlending), only a few have been able to attract such funding (through foreign grants). This situation is certainly due at least in part to the associations' dependence on subsidies and the low prospects for their future sustainability.

In addition to these resource constraints, the BTS microcredit associations suffer from insufficient access to training, as the BTS does not have the funds or personnel to supplement the meager offerings of the government training center for the nonprofit sector that is legally assigned the task. (The quality of the trainings, due in part to the lack of compensation available for trainers and absence of 'training of trainers' opportunities, is poor enough that the BTS and the BTS microcredit associations both report significant difficulties in getting people to attend.)

Despite challenging obstacles, some of the associations show a deep commitment to serving their clients. Moreover, many appear to have a serious interest in having the tools to do so more effectively and sustainably, including legal authority to lend at sustainable rates of interest.

For a variety of reasons, including (i) the limitations of the MIS system available to the BTS to administer its apex operations with the BTS microcredit associations and (ii) lack of publicly available independently confirmed data, it is difficult to provide a meaningful summary of the performance of the BTS microcredit associations by customary measures such as aggregate portfolio at risk or progress towards operational or financial sustainability. In fact, even establishing from the available reliable data the number of truly active clients and aggregate portfolio outstanding has proved challenging, when the fact is taken into consideration that the BTS microcredit associations can make use of funding from sources other than loan repayments to meet the required 80% return of principal borrowed from the BTS.

Operational Situation of the BTS as Apex to the BTS Microcredit Associations. The BTS commenced its operations with initial capitalization of 30 million TD (approximately US$ 22 million), most of it rolled over from the Fonds de solidarite national (National

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[9] Due in part to the lack of available training for both the BTS microcredit organizations and staff of the BTS itself, discussed below, many of these measures are not familiar to the personnel involved and are not being tracked or reported.

Solidarity Fund), or Fund 26 26. This fund was created as a national development fund, financed in part by contributions which all Tunisian businesses and individuals are encouraged by the government to make during an annual 'national solidarity day' held every December 8. At the end of 1999, a second fund, known as Fonds national de l'emploi (National Employment Fund), or Fund 21 21, was created and became the intermediary through which funds pass from Fund 26 26 to the BTS. This fund pays for a wide array of projects dedicated to job creation. In addition to the 'national solidarity day' funding it receives from Fund 26 26, Fund 21 21 also receives revenues from an assortment of excise taxes such as the cigarette tax and exit taxes paid by Tunisians and foreign residents every time they leave the country. Of the approximately 80 million TD (approximately US$ 59 million**)** received annually by Fund 21 21 from all these sources, approximately 28 million TD goes as a grant to the BTS to fund its onlending program through the BTS microcredit associations.

BTS receives the majority of its funding for its direct and indirect lending programs from Fund 21 21. Additional funding has come in comparatively smaller amounts from one-time sources such as: funds received from the public sale of its shares (46% of the BTS is owned by 220,000 shareholders from the general public who were encouraged to purchase as an additional demonstration of national solidarity and the state owns the remaining 54%); negligible funding from the government of Japan; 6 million TD from the Islamic Development Bank; 50 million TD (approximately US$ 36.7 million) from the Kuwait fund; and a 15 million TD (approximately US$ 11 million) bond issue (again, marketed to the public as an additional demonstration of solidarity). The BTS has also recently begun introducing savings products marketed to the general public through its 25 retail branches spread throughout the country. (According to the BTS's Director General, however, these products do not target the low-income savers.) With the exception of its new savings products, the BTS has no new sources of revenue to increase its apex operations through the BTS microcredit associations to keep pace with the growth in the program and satisfy projected demand. For this reason, the BTS has expressed an interest in improving the image of its microlending program with potential international donors.

Operational Situation of ENDA. ENDA has been able to develop its best practices lending program to the point of financial sustainability with significant assistance from a wide foreign donor base.[10] However, it finds itself currently starved for new capital to lend, even to meet demand from current borrowers, let alone to meet its growth projections. ENDA would like to borrow funds for onlending. Its balance sheet positions it very well to do so. It is currently negotiating with several foreign and local sources of loans and/or guarantees and has hopes of concluding one or more agreements during 2005. To satisfy the requirements of their funding sources, it entered discussions with the Tunisian authorities with a view to clarifying its legal situation, and in particular to obtaining an authorization to provide microcredit using best practices. On May 26, 2005, a written autorization was issued to ENDA by the Ministry of Finance, permitting the charging of cost-recovering interest rates.

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[10] During an audience with ENDA's Co-Director at the presidential palace at Carthage on February 4th, 2005, Tunisian President Ben Ali congratulated ENDA on its achievements.

Table 1: ENDA's performance in figures* as of December 2004

	2003	2004
Outstanding Portfolio	2,315,322	3,961,871
Number of Active Clients	10,534	15,946
PAR>30 Days	0.65%	0.34%
Return on Equity	9.84%	15.73%
Operating Cost Ratio	36.03%	35.87%

*All figures are in US Dollars.
Source: Microfinance Information Exchange (www.mixmarket.org)

Operational Situation of Other Players. As mentioned, Tunisian banks are unable to participate directly in microfinance due to the low interest rate caps. They have also thus far been unwilling to extend loans to the BTS microcredit associations or to ENDA, as noted above.

III. CURRENT LEGAL AND REGULATORY FRAMEWORK FOR MICROFINANCE ACTIVITIES IN TUNISIA

Currently Available Legal Forms. Currently, the only legal form explicitly intended for carrying out retail microlending activities is the BTS microcredit association, operating under the system created under the Microcredit Law. As noted, this law calls for provisions of the 1959 Law on Associations to apply to the basic structure and organization of BTS microcredit associations, with certain important exceptions and special additional requirements added. BTS microcredit associations are required to seek an operating permit from the Ministry of Finance, for which there are few prerequisites beyond a proposed operating budget and the CVs of its staff. Once a permit is issued, a BTS microcredit association is entitled to a one-time start-up grant of 15,000 TD (approximately US$ 11,000), regardless of the number of proposed branches or range of geographic coverage, and can then begin lending activities using the funds it borrows interest-free from the BTS and can lend to eligible borrowers at a rate of up to 5%, declining balance. BTS microcredit associations are paid by the BTS a per dossier bonus of 20 TD (approximately US$ 15) for loans that are repaid in full in a timely manner, up to an annual maximum per association of 10,000 TD (approximately US$ 7,340). Fund 21 21 (described above) operates a subsidy program for which the BTS microcredit associations are eligible, which pays for a period of up to 3 years 50% of the salaries of recent graduates who are hired by a microcredit association.

As mentioned, the BTS provides funds for loan capital to permit-holding microcredit associations at 0%. These funds are extended in four annual tranches based on a proposal submitted annually to the BTS by each participating microcredit association. In order to continue to access the 0% loan capital, a BTS microcredit association must transfer back to the BTS amounts equal to at least 80% of the previous received installments. There is no mechanism in place for the BTS to check whether repayments made by participating microcredit associations are in fact paid from clients' loan repayments, however, and some BTS microcredit associations candidly admit to using other available resources to assure they don't fall below the 80% threshold. There is no clear system for dealing with an association that fails to achieve the 80% principal repayment threshold. Two possible options are: permanently withdrawing its operating permit or conditioning reinstatement upon improved lending performance.

BTS microcredit associations (along with commercial banks and a variety of other state-supported credit programs) are required to participate in a credit guarantee program operated by the Central Bank-controlled Fonds national de garantie (FNG). The FNG guarantees 90% of the principal amount of each BTS microcredit association loan, with the risk of the remaining 10% of principal and 100% of the interest assumed by the microcredit association. The BTS pays the FNG's commission on behalf of the participating microcredit associations, for which the BTS charges a commission of 4% (3% for management and 1% for the FNG). In order for a microcredit association's claim to be paid by the FNG, the microcredit association must demonstrate it has exhausted all possible means of obtaining repayment and prove the insolvency of the debtor, a requirement which has apparently prevented any BTS microcredit association from getting a claim paid by the FNG (although the BTS reports that some claims have now been approved for payment even though they have not yet been paid).

BTS microcredit associations are permitted under the Microcredit Law to offer two basic kinds of microcredits. The first involves loans to persons classified as needy or vulnerable and who have the capacity to engage in a productive activity or who have the qualifications to exercise a profession, trade or agricultural activity or to provide a non-salaried service. This type of microcredit must not exceed 4,000 TD (approximately US$ 2,940). The second type of microcredit is referred to as a 'life condition improvement' credit, which is essentially a consumer loan for the same socially vulnerable category of borrower. These are capped at a maximum of 700 TD (approximately US$ 514). Both loan types are subject to the 5% maximum interest rate and may go out for a maximum three-year term, exclusive of any grace period allowed. The microcredit associations are largely free to determine the remaining loan conditions, such as grace periods (widely practiced), payment schedules and whether to structure the loans on the solidarity group or individual lending model. No other financial services, such as savings products, are permitted to be offered, although the BTS microcredit associations are permitted to (and many do) operate social welfare programs funded from other sources that may have little or no connection with their microcredit activities.

ENDA operates outside the purview of the Microcredit Law, as a representative office of a foreign NGO. Although it received permission to begin operations in 1990 as an urban social and economic development agency, it did not commence microcredit operations until 1995. In 1999, four years after starting its microcredit activities, it received a decree confirming its authority to operate as a representative office. As mentioned, in May 2005, the Ministry of Finance provided ENDA with a written authorization to charge cost-recovering interest rates.

As observed above, commercial banks in Tunisia, though fully legally empowered to engage in microcredit, either directly or through the BTS microcredit associations, cannot do so profitably due to interest rate restrictions, discussed further below.

Feasibility of 'Transformations.' The Tunisian Law on Associations does not explicitly prohibit ownership of equity securities by associations, leaving the door open to the theoretical possibility of a 'transformation,' whereby a BTS microcredit association exchanges its portfolio for shares in a commercial microlending company. Associations are also not expressly prevented from being a bank's principal shareholder. However, unless licensed as a bank, which requires minimum capital of 10 million TD (approximately US$ 7,337,000), the legality of a company's lending activities would be subject to question (as lending activity under Tunisian law is limited to licensed banks and the BTS microcredit associations).[11] More importantly, it would still be subject to the interest rate caps discussed below, which have prevented existing banks from moving into this market.

Interest Rate Policies. As noted, the BTS microcredit associations are prohibited from charging interest in excess of 5%, declining balance. Even though they get the great majority of their lending capital (for many 100%) from the BTS at 0%, both anecdotal evidence from the microcredit associations themselves and prior research shared with the authors suggest that it is extremely difficult if not impossible for them to keep their operational costs within the allowable 5% spread, meaning that they must find other sources of subsidy to subsist. Moreover, the 5% cap on the interest they may charge also makes them unattractive candidates as borrowers from either Tunisian commercial banks or sustainability-oriented foreign lenders.

As mentioned, in May 2005, the Ministry of Finance provided ENDA with a written authorization to charge cost-recovering interest rates. The authorization creates a special exception to the cap applicable to the BTS microcredit associations.

The strict interest rate caps applicable to licensed Tunisian financial institutions are also a significant impediment for the development of sustainable microfinance. A relatively complicated set of formulas[12] determines the maximum rate chargeable on 8 different classes of loans (short-term credit, overdrafts, consumer credit, medium-term credit, long-term credit, housing credit, student credit and financial leasing). All licensed financial institutions are required to compute and report to the Central Bank their overall effective interest rate in each category during the previous six months, by taking the weighted average of the effective interest rates in each category. For each category of credit, the Central Bank determines for the next semester the average effective interest rate – and then the usury rate – by computing the average of overall effective interest rates charged by licensed financial institutions over the previous semester. The applicable cap for each loan class is 130% of the average effective interest rate charged during the previous semester for the same category of loan.[13]

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[11] It is unlikely that 'transforming' BTS microcredit associations could meet the relevant prudential requirements for commercial banks, given the fact that 100% of their portfolios are uncollateralized.

[12] Source: Tunisian Central Bank (www.bct.gov.tn)

[13] Currently, the average maximum rate for all classes of bank loans is more than double the 5% maximum that the BTS microcredit organizations are permitted to charge.

Tax Issues. The BTS microcredit associations are exempt from tax on the interest that they earn from lending activities and, unlike banks, they are exempt from charging their clients VAT on their microcredits. In general, Tunisian associations are permitted to invest net surpluses from economic activities without profit tax liability, although they are prohibited from distributing net profits.

As the beneficiary of a government decree confirming its authority to operate as a representative office of an international NGO, ENDA as a registered nonprofit organization pays no tax on net profits and does not charge VAT on its loans.

Credit Information Services. There are no credit bureaus operating in Tunisia that collect data on the clients served by either the BTS microcredit associations or ENDA. However, BTS loans to microcredit associations are registered in the 'centrale des risques' managed by the Central Bank. The BTS has expressed a desire to have a broader database modeled on a French-style 'central de risque' that would include not only the BTS microcredit associations and the BTS direct lending program to recent graduates, but also all other outstanding direct government loans and other non-bank sources of credit. There is already an informal system used among the BTS microcredit associations to verify client credit history, particularly in rural areas: microcredit associations check with local community development committees before selecting their clients.

Foreign Investment and Foreign Exchange Issues. Banks and business corporations are free to borrow in foreign currency up to 10 million TD (approximately US$ 7,337,000) and 3 million TD (approximately US$ 2,201,000) per year, respectively. Associations, however, have to obtain prior authorization from the Central Bank.[14]

IV. SUMMARY OF POLICY-RELATED OBSTACLES

The following represents a general summary of significant policy-related obstacles observed by the authors that face microfinance in Tunisia given the current state of the legal and regulatory framework, or that appear likely to become important relatively imminently:

Subsidy dependence of the BTS system and lack of new funding sources. Both the BTS microcredit associations and the BTS itself are dependent on ongoing and costly subsidy draining the state budget for their operations, and the BTS lacks new sources of funding for the system to grow.

Data unavailability. For a variety of reasons, including the limitations of the MIS system available to the BTS to administer its apex operations with the BTS microcredit associations and lack of publicly available independently confirmed data, it is difficult to assess the performance of the BTS microcredit associations according to measures customarily used in microfinance.

[14] Source: Tunisian Central Bank (www.bct.gov.tn)

Lack of training for BTS microcredit associations. The BTS and the BTS microcredit associations recognize the unavailability of training as an important obstacle to their development and improved performance.

Access to new capital for ENDA. As more and more donors move to loan funding rather than grant funding for financially sustainable MFIs such as ENDA, ENDA needs to be able to borrow. However, its 'one-of-a-kind' legal status makes it tough for it to borrow domestically, and the necessity of Central Bank approval of foreign borrowing could present an obstacle to foreign borrowing.

Lack of transformation options for either BTS microcredit associations or ENDA. Although applicable law might be interpreted to permit either a BTS microcredit association or ENDA to 'transform' by forming a commercial company and exchanging its portfolio and other property for shares in the new company, the restrictions applicable to licensed financial institutions (particularly the applicable interest cap) would not permit the new organization to lend profitably to the targeted clientele.

Inability of banks and finance companies to participate directly in microlending due to interest rate caps. This critical barrier is preventing Tunisia from joining the growing ranks of countries such as Egypt where conventional financial institutions are learning to extend services profitably to poor clients. As observed, it is also a constraint to 'transformation' of the BTS microcredit associations and ENDA.

V. GENERAL RECOMMENDATIONS FOR POLICY-RELATED ACTIVITIES IN TUNISIA

The following recommendations would not tackle all of the obstacles identified in this Report. Rather, they focus on interventions that CGAP or specific CGAP member donors or partners – or the indigenous microfinance sector itself – appear to have a clear comparative advantage to address.

Interventions with the BTS System. The BTS system represents a unique model with some impressive aspects. Of particular note is the 'national solidarity day' approach to mobilizing the broad-based financial support from the Tunisian people that subsidizes the operation of the system. Ongoing dialog between the BTS and the donor community is warranted regarding ways the system could be moved in the direction of greater sustainability.

In the meantime, the authors discussed with the BTS management three possible engagements between CGAP and the BTS System: (1) an impact assessment of the BTS System, to be carried out by independent Tunisian researchers under the guidance of a francophone foreign consultant with a track record in microfinance impact evaluation; (2) technical assistance to two or three BTS microcredit associations to identify their potential to develop into more effective institutions and their needs to accomplish this development; and (3) assistance in training for the BTS microcredit associations, including training of trainers, working from existing CGAP training course materials. With the information and spirit of cooperation that could result from these interventions, CGAP would be in a much better position to offer targeted suggestions to the BTS as to how it might improve its approach and the impact of its significant efforts.

Engaging Commercial Banks. The mission began promising work with local legal counsel to investigate the feasibility of customizing to the particular dynamics of the Tunisian environment institutional partnering models for commercial bank engagement in microfinance that have been successful in other countries where banks face difficulties accessing low-income clients directly.

ENDA. ENDA has thrived thus far in the same manner as many pioneer MFIs throughout the world – by doing good work and scrupulously employing global best practices. This has allowed ENDA to reach a population (the urban poor) who are not the focus of the BTS system, but who nonetheless are a concern for the Tunisian government. The global retreat of donors from grant funding to top performers like ENDA in favor of investment-type arrangements is premature in some cases. Donors who were previously reluctant to provide debt financing to ENDA for onlending should be encouraged to do so now by the Tunisian Ministry of Finance's recent written authorization for ENDA to charge cost-recovering rates of interest.

Appendix A: List of Persons Consulted

Ayedi, Mr. Ali – Director, Ministry of Agriculture, (September 28, 2004)

Bechikh, Mr. Hedi – Director General Public Finance, Ministry of Finance (September 27, 2004)

Ben Amor, Mr. Bechir – President, Association de Développement Économique et Social Mednine (September 28, 2004)

Ben Farhat, Mr. Noureddine – Director General, IFEDA (September 28, 2004)

Ben Hamida, Ms. Essma – Co-Director, ENDA (September 28, 2004)

Ben Lakhal, Mr. Amin – Lawyer (September 27, 28, and 29, 2004)

Cracknell, Mr. Michael – Co-Director, ENDA (September 28, 2004)

Ellajmi, Mr. Abdelwehid – Executive Director, APPEL (September 29, 2004)

Ferchiou Mr. Noureddine – Lawyer (September 27 and 29, 2004)

Hammami, Mr. Naceur – President, ADEBA, (September 28, 2004)

Jaafar, Mr. Salim – Member, ASAD (September 28, 2004)

Kouhaa, Mr. Chedly – Member, ASAD (September 28, 2004)

Lahbib, Mr. Hamadi – Director, Fund 2121 (September 28, 2004)

Mansour, Ms. Samia – Director General in charge of microcredit, BTS (September 27 and 29, 2004)

Mansouri, Mr. Fethi – Deputy Director General, AFD Siliana (September 28, 2004)

Naija, Mr. Ahmed – Chief Executive Officer, BTS (September 27, and 29, 2004)

Najar, Mr. Mohamed – President, Association de Développement de Kairouan (September 28, 2004)

Sbai, Mr. Moncef – Member, Association de Développement de Kairouan (September 28, 2004)

Sbani, Mr. Khelifa – Staff, BTS (September 27 and 29, 2004)

Taktak, Ms. Souhir – Principal Inspector of Financial Services, Ministry of Finance (September 27, 2004)

Wali, Ms. Naziha – President, AFRDD (September 28, 2004)

Appendix B[15]

Summary Data on Some Top–Performing BTS Microcredit Associations

The following provides a brief overview of BTS microcredit associations' performance and outlines the outreach of key practitioners in the country and their scope of work. The combined data of six of Tunisia's BTS microcredit associations provide an interesting perspective on the Tunisian microcredit sector and underline challenges that practitioners encounter in providing quality microcredit on a long-term basis. The information documented here was self-reported by six leading BTS microcredit associations which were selected for study due to their recognition by the BTS as principal providers, the scale of their outreach, or their long-standing involvement in the field of microcredit.

While the information reported here on each microcredit association is general, it provides a relevant snapshot of Tunisian microcredit associations that has been difficult to capture. The data presented are current as December 2003; only one of the profiled microcredit associations had disbursed loans in 2004 as of May 2004. Inconsistency in collecting and reporting data among different microcredit associations makes professional attempts to analyze financial and operational viability of the BTS microcredit associations problematic. Estimations of previously uncalculated figures, non-computerized data, and a lack of use of certain basic microcredit indicators (such as portfolio at risk) create data discrepancies and voids. Despite its imperfection, this information provides a first glimpse of the BTS side of the Tunisian microcredit sector.

BTS microcredit associations

The BTS microcredit associations discussed here include:
Association de Soutien à l'Auto-développement (ASAD)
Association Al-WIFAK
Fédération de Tunis de Solidarité Sociale (FTSS)
Fondation Tunisienne pour le Développement Communautaire (FTDC)
Association pour la Promotion de l'Emploi et du Logement (APEL)
Association Tunisienne pour l'Auto-développement et la Solidarité (ATLAS)

All of these microcredit associations commenced as social service organizations prior to providing microcredit; some, such as APEL, started as early as 1972. It is the long-standing experience of these organizations in poverty alleviation work that prompted the BTS to approach them to spear-head microcredit as soon as the Microcredit Law was adopted in 1999. All six of the organizations listed above began providing microcredit at roughly the same time; Al-WIFAK and ASAD started credit services only one year later in 2000. Although some provide credit in more central regions of the country, they are all based in the poorer north and northwestern region and the majority of clients are based in rural areas. FTSS is the exception,being one of the few urban-only BTS microcredit associations. It operates in Tunis and its surrounding suburbs.

[15] This Appendix was prepared by Nicole Jacobs, based on data collected during a Fulbright fellowship in Tunisia in 2003.

The following represents cumulative and average information from the six profiled BTS microcredit associations as of December 2003:

Total # of Loans Issued:	12,018
Total Value of Loans Issued:	8,218,056 TD
Outstanding Portfolio:	1,390,756 TD
# of Active Clients:	8,688
Average Loan Size:	825 TD
Average Loan Duration:	23 months
Average Grace Period:	2.6 months
% of Total Loans for Women:	45% average
Average Cumulative Recovery Rate:	76.3 % (combined annual averages)
Average # Credit Officers:	4.3
Average # Dossiers per Officer:	442.6

As of November 2003, the BTS reported the following data on all of its microcredit associations (then numbering 81):

Total # of Loans Issued:	70,202
Total Value of Loans Issued:	52,381,677 TD
Outstanding Portfolio:	33,792,266 TD
# of Active Clients:	48,592
Average Loan Size:	746 TD
Average Loan Duration:	15 months
Average Grace Period:	4.5 months
% of Total Loans for Women:	37%

The information reported by the BTS provides a comparative glimpse of the magnitude and performance of the BTS microcredit associations. In terms of outreach, the six principal microcredit associations are large compared to most in the country: they provide roughly 17% of total BTS loans, and 16% of the total value of loans. At this date, these microcredit associations claimed roughly 18% of total active BTS clients. The average number of active clients for all 81 BTS microcredit associations was approximately 600 clients, while the average number of active clients for the six principal microcredit associations was 1,448 (ranging from 502 clients for FTDC to 2,447 for APEL). Interestingly, however, the aggregate outstanding portfolio for these six microcredit associations comprised only 4% of the total BTS outstanding portfolio, indicating that most other microcredit associations probably had far lower repayment rates. Also, the BTS report for 2003 showed that the total value of loans disbursed equaled 52,381,677 TD and the outstanding portfolio was 33,792,266 TD, which would indicate a very low cumulative recovery rate. A year later, however, the BTS reported a cumulative recovery rate of 81%, but gave no indication of the outstanding portfolio or current value of total loans disbursed to date.

One challenge facing BTS microcredit associations that is revealed by the data is the shortage of credit officers. The six microcredit associations combined have a total of 26 credit officers (including interns and part-time staff) but, with 12 officers, APEL has by far the largest amount of personnel dealing directly with clients. Despite the subsidy microcredit associations receive from Fund 21 21 to help cover partial staff salaries, most microcredit associations do not have the funds to hire sufficient staff and most personnel carry out multiple job functions. This is one factor contributing to poor repayment rates within BTS microcredit associations. ASAD and Al-WIFAK have been the only organizations that have not had to stop lending even though they did not meet the required 80% cumulative recovery rate; for example, FTDC did not receive BTS funding for a full three years and was finally granted further on-lending money in 2002. In an effort to maintain operations, FTDC and ATLAS both provide supplementary loans with non-BTS funds but with limited funds and continuing poor repayment rates, this has not been successful for either microcredit association. Lack of client incentives to repay remains a primary problem within BTS microcredit associations; no penalties, long grace periods, poor client follow-up, and little chance of loan renewals have not created conditions conducive for successful microcredit. Few BTS microcredit associations focus on renewal loans; with 19%, ASAD had the highest percentage of active clients with renewal loans.

Although these six BTS microcredit associations comprise a large portion of outreach under the BTS system, their experiences reflect the challenges BTS microcredit associations are facing with regard to outreach and sustainability. Their client outreach is growing at a very slow pace (or shrinking) and financial viability remains the main obstacle threatening their performance.

Appendix C: Distribution of Credits by Region, Association, Gender, and Sector of Activities

Distribution of Credits by Region, as of the end of August 2004

Region	Number	Amount	Percentage
North East	19 974	15 154	20.5%
North West	13 285	10 254	13.9%
Center East	12 459	9 117	12.3%
Center West	25 403	20 205	27.3%
South East	13 022	10 976	14.9%
South West	13 219	8 183	11.1%
Total	97 362	73 889	100.0%

in TD. Source: BTS

Distribution of Credits among six BTS Associations and ENDA, as of March 2004

Association	Number of Active Clients	Outstanding Portfolio
ASAD	794	209,343
Al-WIFAK	2,095	100,580
FTSS	2,175	276,000
FTDC	502	262,895
APEL	2,447	262,360
ATLAS	824	354,587
Total	*8,837*	*1,465,765*
ENDA	11,825	3,436,131

In TD. Source: Nicole Jacobs, unpublished memorandum, August 1, 2004.
As of November 2003, the 6 BTS associations represented approximately 15% of the total number of BTS active clients and 4% of BTS total outstanding portfolio.

Distribution of Credits by Sector of Activities, as of the end of August 2004

Sector of Activities	Number	Amount	Percentage
Agriculture	35 402	29 309	39.7%
« Petits Metiers »*	14 820	12 108	16.4%
Handicrafts	7 554	5 111	6.9%
Trade	23 189	18 306	24.8%
Services	3 681	3 189	4.3%
Improvement of Life Conditions	12 716	5 864	7.9%
Total	97 362	73 889	100.0%

in TD. Source: BTS
** "Petits Metiers" refers to manual tasks (ex: weaving)*

Distribution of Credits by Gender, as of the end of August 2004

	Number	Amount	Percentage
Women	36 121	26 966	37.1%
Men	61 242	46 923	62.9%
Total	97 362	73 889	100%