TUNISIA Covid-19 Response Report

www.oxfordbusinessgroup.com
I

Macroeconomic Overview & Government Response

04 Pre-Covid-19 Macroeconomic Overview
05 Covid-19 Economic Impact
06 Covid-19 Timeline
07 Response
10 Interview: Abdelbassat Ghanmi, General Manager, Foreign Investment Promotion Agency-Tunisia

PART

Nationwide Mobilisation

12 Introduction
15 Financial Sector
16 Textiles
18 Pharmaceuticals
19 Technology & Innovation
20 Engaging Civil Society

PART

Foundation for a Solid Recovery

22 Social & Economic Priorities
24 Evolving Business Models
26 Business Outlook
28 Skills & Entrepreneurship
Part 1: Macroeconomic Overview & Government Response

Pre-Covid-19 Macroeconomic Overview

Tunisia's economy has been gradually recovering from the economic woes that arose as it transitioned towards democracy, marked by the end of Zine El Abidine Ben Ali’s regime in 2011. GDP grew at an annual average of 4.4% between 2005 and 2010, before dropping to 1.8% between 2011 and 2019.

This explains why, even prior to the outbreak of Covid-19, Tunisia's business community was cautiously optimistic about future growth prospects. In OBG’s 2019 Tunisia CEO Survey 50% of the C-suite executives surveyed held positive or very positive expectations for 2020, compared to 77% in 2017.

That said, Tunisia has progressed favourably in a number of metrics, namely foreign direct investment, which increased by 28.6% in 2018 to TD2.7bn, according to the Foreign Investment Promotion Agency-Tunisia (FIPA-Tunisia), with growth mainly attributable to the expansion of existing business activities. Participants of the CEO Survey pointed to energy and mining, followed by ICT, as the sectors holding the most potential for growth-enabling foreign direct investment.

The regulatory landscape in Tunisia prior to Covid-19 was marked by new legislation aimed at improving the business environment. This included Law No. 47 of 2019, which was adopted in April and aims to simplify the process of starting a business, strengthen corporate governance, and align Tunisian standards with international best practices; and the Start-up Act, which was approved in 2018 and lays the foundations for the development of a start-up ecosystem. Incentives include corporate tax exemptions for start-ups, state funding and support in obtaining international patents.

The crisis revealed the importance and potential held by early-stage businesses in helping address many of the challenges that emerged, with innovative solutions devised by local start-ups, such as telemedicine.
Part 1: Macroeconomic Overview & Government Response

Covid-19 Economic Impact

The Covid-19 outbreak in Tunisia took place only days after Parliament approved a new government on February 26, 2020 under Prime Minister Elyes Fakhfakh.

According to Tunisia’s National Institute of Statistics, exports dropped by 23.8% in the first five months of 2020, accounting for TD14.9bn compared to TD19.5bn during the same period in 2019. The fall stems from a decline in textiles, clothing and leather exports (33.3%); mechanical and electronic industries (30.1%); and mining (7.8%).

Conversely, exports of foodstuffs and processed agricultural goods increased by 6.6% on the back of higher sales of olive oil, the value of which increased from TD687.3m in the first five months of 2019 to TD1.1bn in the same period of 2020. Meanwhile, energy exports increased by 6.8% over the same period.

In terms of export destinations, goods shipped to the EU – Tunisia’s primary trade partner, accounting for over 70% of exports – dropped by 26.1% over this period. Exports to France fell by 37.9%, while those to Germany and Italy dropped 33.8% and 20.9%, respectively. Exports to Bulgaria and Spain, however, increased by 62.3% and 42%, respectively.

Imports to the country fell by 24.1% to TD21bn in the first five months of 2020, compared to the TD27.6bn recorded in the same period of 2019. Imports from Europe, which accounted for 47.3% of the total, dropped by 31.3%, or TD9.8bn, with France seeing the sharpest decline (36.1%), followed by Italy (33.3%) and Germany (30.7%). This resulted in a narrowing of the country’s trade deficit by TD2bn to TD6bn. According to the IMF, Tunisia’s GDP will contract by 4.3% in 2020 before recovering to 4.1% growth in 2021.
Phase 1 of the easing plan begins, with some businesses allowed to resume work. Public administration and the transport and construction sectors can operate at 50% capacity, while liberal professions can operate at 100%. People over the age of 65 with pre-existing conditions, children under the age of 15 and pregnant women required to remain under lockdown, and bans on public gatherings continued.

Prime Minister Elyes Fakhfakh announced a TD2.5bn package to combat the economic and social impact caused by the pandemic.

March 16
International flights suspended and borders closed

March 22
Full lockdown announced until April 4, later extended to April 19

April 19
Lockdown extended to May 3

April 29
The government revealed a plan to gradually ease the lockdown in three phases starting on May 4

Phase 1 of the easing plan begins, with some businesses allowed to resume work. Public administration and the transport and construction sectors can operate at 50% capacity, while liberal professions can operate at 100%. People over the age of 65 with pre-existing conditions, children under the age of 15 and pregnant women required to remain under lockdown, and bans on public gatherings continued.

April 29
The government revealed a plan to gradually ease the lockdown in three phases starting on May 4

May 4-24
Non-essential shops closed

Phase 2 of the easing plan begins, with the businesses previously operating at 50% capacity allowed to operate at 75%.

May 24 - June 4
Non-essential movement banned

Phase 3 of the easing plan begins, with businesses that were operating at 50% and 75% capacity allowed to operate at 100%. This also includes public administration.

June 4-14
Public events suspended

June 27
International air space reopened

Part 1: Macroeconomic Overview & Government Response

Graph source: OBG research; Oxford Covid-19 Government Response Tracker
Following the first confirmed Covid-19 case in Tunisia, which took place on March 2, the country ramped up measures to contain the virus.

Overall, the government has responded to the crisis in a preventative and proactive manner, introducing social-distancing measures and border closures in mid-March, as well as providing economic support by way of assistance packages aimed at safeguarding both businesses and jobs.

In mid-March 2020, when Tunisia only had a limited number of confirmed Covid-19 cases, the Tunisian authorities took a series of actions to contain the spread of the pandemic. These included enforcing social-distancing measures, implementing a curfew and quarantining those arriving from abroad, ultimately culminating in a national lockdown on March 22.

The Tunisian military was deployed to ensure strict adherence to the curfew. This early and aggressive national response made it possible to relatively quickly contain the spread of the virus domestically and ensure a gradual end to confinement measures by early May.

The first stage in lifting the lockdown took place on May 4, when those employed in sectors such as transport, construction and services such as hairdressing were allowed to return to work. This was followed by the reopening of retail stores around the country, as well as open-air markets and supermarkets on May 14, while mosques, restaurants and cafes were allowed to open their doors to the public again starting from June 4.

The lifting of the evening curfew, which had been relaxed to 11.00pm to 5.00am in mid-May, marked the next stage in the process, with final lockdown measures lifted on June 14, and sea, land and air borders reopening on June 27.

Number of active cases per 1m inhabitants in Mediterranean countries as of July 7, 2020

Graph source: Targa Consult
On March 21 Prime Minister Fakhfakh announced that the government would release a stimulus package worth TD2.5bn. Measures included postponing tax payments for small and medium-sized enterprises (SMEs) for three months, delaying tax debts, and financial assistance for unemployed workers and underprivileged families. Approximately TD950m in financial support was provided to low-income households and self-employed individuals.

By the start of June, stimulus money had been granted to 623,000 low-income families, 10,000 recently unemployed individuals and an additional 350,000 affected by the crisis.

The government also made efforts to ensure the availability of essential products, setting aside TD500m for strategic stocks of medicine and basic foods.

In an effort to raise even more money, the government set up a Covid-19 solidarity fund named the 1818 Fund, for which businesses and individuals could make financial donations to fight the pandemic.

Nearly TD200m in contributions had been received by early May 2020, according to the Ministry of Finance.

Government aid is also focused on supporting businesses related to tourism, given the sector’s importance to the Tunisian economy. Pre-virus tourism accounted for around 8% of GDP and indirectly employed approximately 400,000 people, with a record 9.4m tourists visiting the country in 2019. According to officials, the sector could lose an estimated $1.4bn in revenue in 2020 due to the Covid-19 crisis.

Meanwhile, the Ministry of Development, Investment and International Cooperation (MDICI) set up a private sector support unit (PSSU Covid-19) to support Tunisian and foreign investors in accordance with government procedures to ease restrictions. In coordination with the Tunisian Investment Authority, FIPA-Tunisia and representatives of the private sector, the MDICI provides support to investors via a platform for enquiries and requests for information and assistance. The platform is also intended to help measure the impact of the Covid-19 pandemic on companies operating in Tunisia.
Part 1: Macroeconomic Overview & Government Response

International Support

In late March 2020 the EU granted Tunisia €250m in aid. This was followed on April 10 by $745m in emergency financing from the IMF – a sum equivalent to 2% of Tunisia’s GDP – under the Rapid Financing Instrument programme aimed at helping the Tunisian authorities cope with the Covid-19 pandemic. The investment supported the government’s efforts to contain the spread of the virus and mitigate its human, social and economic toll. The funds have supported increased expenditure on health care, social safety nets and relief for SMEs affected by the crisis.

On April 30 the World Bank announced a support project worth $20m designated for the health sector and SME relief. The funds complement an early release of $15m, which had been diverted from a World Bank irrigation initiative.

Additional international aid in the form of a €180m loan from the African Development Bank was announced on June 3. The loan will support an employment and social inclusion programme known as PARISE, which will provide broad economic relief as well as rapid testing equipment for 450,000 people in an effort to strengthen early detection.
Interview

Abdelbasset Ghanmi
General Manager, Foreign Investment Promotion Agency-Tunisia

What are some changes investors can expect to see in Tunisia as a result of the Covid-19 pandemic?

Global value chains are expected to be restructured, leading to many European investors becoming increasingly interested in the southern rim of the Mediterranean. This will be a great opportunity for North Africa in general, and Tunisia in particular, to attract new greenfield investments.

The pandemic has accelerated Tunisia’s repositioning on the global investment map. A recent survey conducted by CEO WORLD magazine ranked the country as the most promising destination for foreign direct investment (FDI) in Africa for the next three years. We have to capitalise on this and leverage the government’s effective management of the health crisis.

Covid-19 has also helped to facilitate and speed up the country’s digital transformation, which is already at the heart of the development plans of most Tunisian public institutions and businesses.

Which sectors of the economy hold the most investment potential in the aftermath of Covid-19?

The crisis has highlighted the opportunities to invest in high value-added activities in the digital sector, where firms have demonstrated their strength and creativity throughout the pandemic. Tunisia is also well positioned to develop its health industry – in terms of pharmaceuticals, medical and paramedical equipment manufacturing – and agri-business.

We are also anticipating the recovery of the aeronautical and automotive industries, which have recorded significant growth over the last decade and are expected to attract new high value-added projects in the coming years.

How can Tunisia increase FDI inflows post-Covid-19?

Two main assets will enhance Tunisia’s attractiveness to foreign investors. First, the country’s geostrategic location will facilitate its repositioning in new global production chains, particularly with the rise of nearshoring, as many companies look to move production closer to their main consumer markets. Post-Covid-19, Tunisia will also be able to leverage its position as a hub between Europe and Africa, thanks to the numerous free trade agreements that have been signed.

The country’s second main asset is our talent pool and highly skilled human resources. Our challenge in the coming period will be to attract further investments that are in line with our competitive advantages. In this sense, the crisis has accelerated our move towards directly contacting foreign operators through a lead generation approach.
Tunisia

Part 2: Nationwide Mobilisation

Introduction

Since gaining independence in the 1950s, Tunisia has focused on developing and expanding its industrial base. With over 5300 companies and more than 522,000 employees, the sector has become an important driver of economic growth, exports and employment. Traditionally dominated by textiles, the industrial sector is increasingly attracting investment in higher-value segments such as pharmaceuticals, electronics, automotive manufacturing and aeronautics, supported by the country’s skilled and educated workforce.

This strategy has borne fruit, as Tunisia is now the most complex industrial state in Africa, according to a recent Harvard Business Review study, and Bloomberg identified Tunisia as one of the 60 most innovative nations in the world. These developments have helped create a foundation for flexible and productive businesses, which have been crucial in Tunisia’s rapid and effective response to the crisis.

The pandemic resulted in the closure of all factories for a month, with the exception of those producing medical strategic and protective equipment. Medical equipment producer Consomed stood out among the manufacturers that mobilised during the crucial initial response period. Around 150 employees of the Kairouan-based company self-isolated at the factory’s dormitory in order to prevent contamination while continuing to produce 50,000 masks per day.

A report released by the Tunisian Confederation of Industry, Trade and Handicrafts (Union tunisienne de l’industrie, du commerce et de l’artisanat, UTICA) in April highlights the important role that the private sector has played during the pandemic. Key initiatives included monetary contribution to the solidarity fund, donations of medical equipment and supplies, digitalisation efforts and the provision of hotel rooms for quarantine. UTICA estimated the total value of the private sector’s contributions at TD114.7m.

FIPA-Tunisia also identified examples of private sector mobilisation. For example, China’s tech giant Huawei donated prevention materials and video conferencing equipment, while France’s Orange Foundation and its local partners produced protective visors.

On March 20 FIPA-Tunisia established a Covid-19 crisis unit to provide foreign operators in Tunisia with regular updates and guidance. The agency offered administrative support to help firms continue or resume operations following the lockdown imposed on March 22, and issued up-to-date information on the fiscal and financial support available.

The private sector has also rallied behind scientific research initiatives, such as the “Yes, We Breathe” project, launched in mid-March by the National School of Engineering in Sousse and the Faculty of Medicine.

Graph source: Ministry of Industry and SMEs

Industrial investment, 2019-20 (TD m)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Jan-May 2019</th>
<th>Jan-May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture of food products</td>
<td></td>
<td>26.3%</td>
</tr>
<tr>
<td>Manufacture of construction</td>
<td></td>
<td>20.4%</td>
</tr>
<tr>
<td>Manufacturing, ceramic &amp; glass</td>
<td></td>
<td>31.8%</td>
</tr>
<tr>
<td>Mechanical &amp; electrical</td>
<td></td>
<td>36%</td>
</tr>
<tr>
<td>industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical industries</td>
<td></td>
<td>68.4%</td>
</tr>
<tr>
<td>Manufacture of textile &amp; apparel</td>
<td></td>
<td>592.9%</td>
</tr>
<tr>
<td>Manufacture of leather &amp; footwear</td>
<td></td>
<td>1.5%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Graph source: Ministry of Industry and SMEs
The project aims to encourage students to conduct research related to the development of ventilators for Covid-19 patients. Industry stakeholders such as the Hedi Bouchamaoui Foundation, a charitable arm of private equity firm HBG Holding, and Mohammed ben Hamida, founder of an engineering company and sponsor of the National School of Engineering in Sfax, have provided financial aid for the initiative. According to the Ministry of Higher Education and Scientific Research, around 100 initiatives operated by 1000 researchers across Tunisia are currently seeking ways to fight the virus. Nevertheless, the shutdown – combined with a decline in international and domestic demand and delays in the supply chain – is expected to result in a dramatic reduction in output. Salah ben Youssef, minister of industry and SMEs, predicted in June that industrial activity would fall by 30% in 2020. Aeronautical and automotive manufacturing are expected to be two of the most affected segments. In a meeting held in late June, representatives from the mechanical and electrical segments, which account for 50% of industrial exports, said their exports fell by 62% in April and 50% in May. In response to the immediate consequences of the pandemic, the government permitted factories to apply for technical unemployment for their workers, who would then be given 50% of their monthly salary. Factories were also allowed to postpone the payment of taxes and social security contributions for three months from April 1. An emergency complementary fund of $300m was similarly set up to help SMEs.
Part 2: Nationwide Mobilisation

Ferid Belhaj, vice-president for MENA at the World Bank, told local media that the pandemic could provide opportunities for Tunisia to reposition itself in the global economy by improving the investment climate and creating jobs in the private sector. The EU’s dependence on Chinese imports quadrupled in the first 10 years after China joined the WTO in 2004, according to France’s Centre for Research in Economics and Statistics. In the medium to long term, Tunisia could capitalise on the phenomenon of nearshoring as European companies seek to reduce their reliance on Chinese manufacturing. FIPA-Tunisia took this into account when forming its strategy for 2021, which aims to attract foreign investors looking to shorten their supply chains. This could involve both EU companies relocating certain aspects from China, and Chinese firms seeking more direct access to the European market. “Taking into consideration the current trend with respect to relocating some of the value chains of EU companies closer to home as one of the unavoidable consequences of the pandemic, I think that Tunisia, given its competitive assets, is well placed to benefit from these European considerations,” Beligh Ben Soltane, president of the Tunisia Investment Authority, told OBG.

Industrial exports, Jan-May 2020 (TD bn)

Graph source: Ministry of Industry and SMEs
Financial Sector

Given constrained public finances, the financial sector in Tunisia has borne a significant share of the cost of the crisis. “The share of the burden incurred by the state compared to that carried by the financial sector is among the lowest in the world,” Mondher Ghazali, general manager of commercial bank Union Internationale de Banques (UIB), told OBG.

One source of those costs stems from the decision to postpone all credit maturities and cancel interest charges for individuals: those earning more than TD1000 were granted a three-month reprieve, while those earning less than TD100 got a six-month postponement. According to Ghazali, this has cost UIB between TD60m and TD70m, with the total cost to the broader sector estimated at TD600m to TD700m. A similar measure was imposed on business credit, with a six-month postponement of maturities without the cancellation of interest, resulting in a lack of repayment flows during this period. In addition, the banking sector as a whole has reportedly made approximately TD180m in voluntary contributions to the national Covid-19 response fund.

At the same time, Covid-19 has accelerated digitalisation in the sector. During the lockdown, both individual and corporate use of digital banking applications and personal and corporate internet banking increased. This digital shift has also been driven by initiatives and measures from the central bank, including a cardless withdrawal method at ATMs and compulsory free ATM withdrawals.

Case Study

The International Arab Bank of Tunisia (Banque Internationale Arabe de Tunisie, BIAT) is a universal bank founded in 1976. BIAT has emerged as a key player in Tunisia, with subsidiaries in the fields of insurance, asset management, private equity, stock market intermediation and advisory services. The bank has 205 branches across Tunisia and more than 2000 employees, serving both individual and corporate customers, including SMEs, large companies and institutions.

BIAT undertook a series of support measures during the health crisis, chief among them was the Engagés - Moltazimoun initiative, which offered solutions for clients facing difficulties caused by Covid-19, as well as support for the national community at large to cope with the economic and social repercussions of the pandemic. Under the initiative, BIAT allocated TD500m in additional credit to meet corporate clients’ financing needs for day-to-day operations.

BIAT has also undertaken studies of the specific requests of its clients and adapted its support to match their evolving needs. The bank encouraged clients to contact their customer advisers and business managers by telephone, email and any other means of remote communication. Advisers were available to provide advice and support, and to ensure that requests were handled with the responsiveness required in the exceptional context of the pandemic. Furthermore, the bank’s decision-making process was adjusted to make it more decentralised, and to simplify and streamline the provision of funds.

In response to economic uncertainty, and in line with Central Bank of Tunisia measures aimed at reinforcing the financial soundness of Tunisian banks to protect against future risk, BIAT also decided to allocate its 2019 profit to its reserves, enabling the bank to continue to finance the economy in compliance with prudential ratios.
Part 2: Nationwide Mobilisation

Textiles

Historically the most significant industry in Tunisia, textiles manufacturing continues to play an important role in the economy. The industry contributes 20% of the country’s GDP and provides €2.2bn per year in export earnings. There are more than 1600 textile companies in Tunisia, which represent 30% of manufacturing employment. The textiles industry was the best-performing manufacturing segment in the country in 2019, with investment up 45% from 2018 to reach TD156.6m, while the value of exports increased by 3.9% to TD7.7bn. As the country has faced heightened competition amid shifting international trade agreements, the government and unions signed a pact in 2019 to improve the attractiveness of Tunisian goods in the export market. The agreement aims to create 50,000 new jobs by 2023, increase the share of the European market by 4%, boost exports to €4bn and position Tunisia among the top-five exporting countries to the EU. While the deal was suspended in the wake of Covid-19, the pandemic brought manufacturers together in a successful effort to produce protective face masks.
Established in 1984, Sartex is one of Tunisia’s largest denim and sportswear manufacturers, employing approximately 4500 people. The company has factories in Kasr Helal, Oueslatia and Tozeur, and produced 4m units in 2019. The manufacturer works primarily with foreign high-end brands and exports around 89% of its goods to Europe.

As the number of Covid-19 cases picked up in Europe – and given Tunisia’s proximity and connections to the EU market – Sartex introduced a number of preventative measures before Tunisia registered its first case. These included reinforcing hygiene practices, raising awareness of the importance of handwashing, measuring employees’ temperatures and regularly disinfecting work stations. Staff returning from abroad were asked to self-quarantine and work remotely if possible. These measures were piloted by the company’s newly formed crisis committee, which has been in charge of monitoring the situation on a day-to-day basis since early March.

As of March 20 Sartex reduced its operational capacity by 50% and imposed working hours from 8.00am until 2.00pm to limit the risk of contagion. On March 22 the government imposed a full lockdown, on the back of which the company reduced the number of employees to 100 and worked on addressing urgent client requests as well as manufacturing masks.

While the company has since resumed most of its normal activity, it continues to manufacture masks to support the country’s efforts to fight Covid-19 and generate much-needed foreign currency through exports. As of late June Sartex had donated more than 40,000 masks to local hospitals and communities, and exported 3m masks to France.
Part 2: Nationwide Mobilisation

Pharmaceuticals

A major pillar of Tunisia's industrial sector, the pharmaceuticals segment has posted average annual growth of 7.5% since 2013 and 11% since 2000. The segment employs 8800 people, with approximately 1000 in service roles, across 32 industrial units. Currently, the country’s pharmaceuticals coverage rate exceeds 72% – among the highest rates in the region – and exports represent 18% of local production.

In recent years, there have been a number of initiatives seeking to capitalise on the industry’s strength to encourage further growth, and the pandemic has provided significant momentum for these efforts. In response to the crisis, the state accelerated registration procedures for medications to encourage local manufacturing, and allowed pharmaceuticals companies operating in the export market to sell 100% of their goods to domestic customers. Meanwhile, FIPA-Tunisia has been directed to offer aftercare services for investors in the health sector and redirect production lines to the most needed supplies.

Longer-term initiatives that had stalled prior to the pandemic also received renewed attention. In June Salah ben Youssef called on the swift adoption of a public-private partnership charter outlined in 2014. The charter aims to improve the competitiveness of local drug manufacturers, increase the share of pharmaceutical exports to 40% of local production and create 4000 jobs by 2024.

The Arab Society of Pharmaceutical Industries, one of the largest labs in Tunisia, is a major player in generic medicines and was able to anticipate the immediate challenges after the first outbreak of Covid-19 in China. As a result, the lab integrated hydroxychloroquine into treatment protocols in Tunisia.
Tunisia’s emphasis on science and technology in recent years has meant that the country is well placed to adapt in response to the disruption caused by the pandemic. Indeed, having demonstrated exceptional digital abilities, many of its African peers have identified Tunisia as a cradle of innovation during the crisis. In OBG’s Africa CEO Survey conducted at the end of April, Tunisia was found to be the country where companies invested the most in innovative tech solutions during the crisis.

Tunisian start-up Enova Robotics developed a robot known as Veasense, which is being used to safely assist Covid-19 patients in Abderrahmen Mami Hospital in Tunis. The robot allows medical staff to remotely conduct preliminary diagnoses and monitor patients without any physical contact. The Ministry of the Interior also acquired Enova Robotics’ PGuard, a robotic ground vehicle used to assist with the enforcement of the country’s lockdown rules. Controlled remotely by government officers, the robot includes infrared and thermal cameras, an audio system, GPS tracking, and a sound and light system that can be used to request identification papers and issue verbal warnings.

Another example of the application of new technology amid the pandemic is the Corona Bot, a digital application that can provide information and support for individuals over Facebook. The app uses artificial intelligence and has sent over 200,000 messages to 10,000 individuals.

The pandemic has also dramatically accelerated the implementation of mobile payment systems. Prior to the outbreak, some private sector players had been calling for the removal of red tape that had held back the widespread adoption of mobile transactions since 2013, but there had been little success. The crisis created an urgent need to quickly and securely transfer small amounts of money to a large number of people, after a TD200 exceptional aid package was rolled out for 350,000 low-income citizens. “Covid-19 has showcased the importance of embracing digitalisation and improving digital infrastructure,” Adnane Ben Halima, vice-president of public relations for the Mediterranean region at Huawei, told OBG. “Changes since the start of the pandemic have been accompanied by political will and a shift in mentality in favour of digitalisation. This has led to an expedited delivery of projects that have been on standby for years in just a matter of weeks.”
Part 2: Nationwide Mobilisation

Engaging Civil Society

Since the outbreak of Covid-19, many Tunisians have sought to offer humanitarian and medical aid. This led to the creation of the “Solidarité Tunisie” movement, which has helped to coordinate and encourage acts of support for people affected by the crisis. Both individuals and businesses have responded to medical workers’ requests for supplies such as face shields and masks. In collaboration with the Ministry of Health, the Orange Foundation supported six facilities in Tunis, Sfax and Gabes to produce face shields for health care staff using laser-cutting machines, as part of the Solidarity FabLabs programme. Adaptors for ventilators were also created in these labs, allowing doctors to connect more than one patient to the same machine.

A number of similar initiatives have been rolled out throughout the country, as many other labs made their 3D machines available for students and engineers to produce protective equipment for people on the front line of the pandemic. In mid-March staff and students at the Tunisian Institute of Engineering and Technology launched a web-based platform that can perform an x-ray scan of the lungs to detect whether the patient is likely to be suffering from the virus. This was created with support from the German Corporation for International Cooperation, Italian Society of Medical and Interventional Radiology and US tech giant IBM. As of April the platform was in its test phase, but if approved, this type of technology will be particularly useful in remote areas of the country that lack major hospitals and specialised staff. These initiatives are clear examples of the resourcefulness of Tunisia’s manpower during this time of difficulty, and demonstrate the skills and potential that exist in the country.

Number of registered engineering students, 2008-18

Graph source: INES
PART 1
Macroeconomic Overview & Government Response
04 Pre-Covid-19 Macroeconomic Overview
05 Covid-19 Economic Impact
06 Covid-19 Timeline
07 Response
10 Interview: Abdelbassat Ghanmi, General Manager, Foreign Investment Promotion Agency-Tunisia

PART 2
Nationwide Mobilisation
12 Introduction
15 Financial Sector
16 Textiles
18 Pharmaceuticals
19 Technology & Innovation
20 Engaging Civil Society

PART 3
Foundation for a Solid Recovery
22 Social & Economic Priorities
24 Evolving Business Models
26 Business Outlook
28 Skills & Entrepreneurship
Social & Economic Priorities

Thanks to its strategic location and affordable skilled labour force, Tunisia is well positioned to continue attracting investment. However, a number of underlying structural, social and economic challenges, some of which are at risk of being exacerbated by the crisis, must be addressed to ensure a sustainable recovery.

One major concern for the economy is public debt, which increased from 40.7% of GDP in 2010 to 76.7% in 2018. In May 2020 Fitch Ratings downgraded Tunisia’s long-term foreign currency issuer default rating from “B+” to “B”, partially due to the expectation that debt would rise further to a record 86% of GDP.

The devaluation of the dinar is another challenge the country will need to overcome, with the value of the local currency dropping by one-third against the euro since 2015 and the IMF estimating that the dinar remains overvalued by around 10-15%.

Revitalising sectors such as tourism, agriculture and industry will be essential for the country to build up much-needed foreign currency reserves. According to OBG’s Tunisia CEO Survey conducted in early June, 38% of respondents expect ICT and innovation to offer the most potential to drive growth in 2021, followed by industry (14%), energy (8%) and agriculture (8%).

Which of the following sectors has the greatest growth potential to stimulate the national economy in 2021?

Graph source: OBG
The same OBG survey of CEOs found that 54% of the business community believe that the Covid-19 crisis is likely or very likely to drive greater efficiency in public administration, while 24% said that it was unlikely or very unlikely, and the remaining 24% were uncertain.

Since the outbreak, the government has taken a number of steps to improve public services. In May it launched a single identifying number for all citizens, which was regarded as a positive step in terms of boosting the efficiency of public administration and monitoring and responding to the needs of vulnerable members of the population.

On June 25 the government unveiled its Rescue and Recovery Plan to support the sectors most affected by the crisis and foster safety and social autonomy. The plan aims to kick-start economic growth by injecting TD3bn into stalled public projects.
Part 3: Foundation for a Solid Recovery

Evolving Business Models

For many companies, the pandemic provided the time and opportunity to review business models and internal strategies. One of the main changes that is likely to remain a feature of the post-Covid-19 environment is remote working. According to the Tunisia CEO Survey, 48% of participants say that remote work will significantly or very significantly become a common feature of their business operations, while 40% said that it will feature to a lesser extent.

To what extent will your firm allow remote work to replace office-based work?

- Very significantly
- Significantly
- Insignificantly
- Very insignificantly
- Do not know or N/A

Case Study

While Covid-19 has heavily impacted sectors such as tourism, transport, leisure and handicrafts, KPMG Tunisia expects it will create new opportunities and generate jobs in two key sectors: health, and remote work and services.

The pandemic has clearly demonstrated the failure of the current economic model to take health care into account, especially for the elderly, whose demographic share and subsequently saving capacity are growing. Looking ahead, new jobs must be created by developing the social economy, with funding provided by the beneficiaries either on an individual basis, or collectively through NGOs or local communities with the backing of large companies and wealthy individuals.

The pandemic has also demonstrated that remote work and online commerce can hedge against losses resulting from lockdown situations. Remote training and education were expanded, while many companies used the slowdown to review their internal organisation and working habits. Online communication platforms became common and many businesses were able to operate outside of normal working hours, which increased productivity. Lastly, the rise in online commerce and services has boosted digitalisation levels.

The delocalisation of industrial activity, notably outside Asia, that began with the US-China trade war was intensified by the pandemic. While the trend could benefit emerging markets in proximity to developed countries, KPMG Tunisia expects delocalisation to first benefit importers in developed countries. In addition, the financial crisis resulting from the pandemic, which necessitated quantitative easing interventions by central banks, could help speed up certain projects such as public-private partnerships.
The ability to carry out remote work remains contingent on the composition of the economy. In Tunisia’s case, while the services sector has seen its share of GDP increase in recent years, sectors that depend on manual labour remain large contributors. For example, the industrial and agriculture sectors employ 526,000 and 500,000 people, and represent 15% and 10% of GDP, respectively.

Corporate social responsibility (CSR) and environmental policies are also expected to become more ingrained in business conduct and decision-making. Some 94% of survey respondents said that such policies were important or very important. CSR policies first took root in Tunisia after the introduction of the Global Compact, a UN-driven corporate sustainability initiative launched in 2000, and took shape with the establishment of the Institute for CSR in 2013. In 2018 the government introduced legislation governing CSR.

Moving forwards, the adoption of CSR and sustainability policies will be vital to encouraging social and regional development in Tunisia and boosting the attractiveness of local companies, as demonstrated during the Covid-19 pandemic.

How important are environmental and CSR policies for your company?

- Very important: 52%
- Important: 42%
- Unimportant: 6%
- Do not know or N/A: 6%
Part 3: Foundation for a Solid Recovery

Business Outlook

According to the Tunisia CEO Survey, 68% of companies expect that their annual turnover for 2020 will decrease compared to the previous year, while 18% expect turnover to remain stable, 10% are anticipating an increase and the remaining 4% were unsure. When asked the extent to which they are anticipating a fall in turnover, 46% of CEOs forecast a decline of between 0% and 40%, 18% expected a decline of over 41% and the remaining 36% remained uncertain.

How will your company’s turnover evolve in 2020 compared to 2019?

- Increase
- Remain stable
- Decrease
- Do not know

Case Study

Since the onset of the Covid-19 crisis, the Tunisian financial centre has seen a lull in terms of the movement of capital. Companies are busy minimising losses and ensuring available lines of credit. Only advanced transactions, particularly where banks have already committed themselves, have been finalised.

Since the beginning of 2020, the main capital transactions have been limited to:

1. The acquisition of a majority stake (50.5%) in the capital of Tunisie Valeurs by the Banque Internationale Arabe de Tunisie (BIAT). This transaction values the company at TD72.6m and triggered a mandatory takeover bid on Tunisie Valeurs’ shares. Completed in April, the takeover bid enabled BIAT to increase its stake in Tunisie Valeurs’ capital to 98% and to trigger a public offer of withdrawal. The rapprochement between BIAT and Tunisie Valeurs is part of a broader effort to develop synergies between the two entities and to consolidate their positions in their corresponding market;

2. The $56m investment by Development Partners International in SICAM, the Tunisian leader in tomato processing and agro-industry. The investment aims to strengthen the leading position of the company, and to support its expansion strategy in the national and international market; and

3. The acquisition of a majority stake (42.3%) in Hexabyte by Standard Sharing Software, also known as 3S. The technology company owns the internet service provider GlobalNet. This transaction values Hexabyte at TD15.7m and immediately triggered a takeover bid on the remaining capital.
Similarly, 60% of business executives surveyed by OBG expect their order books to shrink in 2020 compared to 2019, while 24% said they expect them to remain stable and only 12% expect an increase.

Although 44% of respondents were unable to give an estimate when asked, 24% expect the fall in their order books to range between 21% and 60%, while another 24% expected a 0-20% drop.

How will you company’s order book evolve in 2020 compared to 2019?

- Increase
- Remain stable
- Decrease
- Do not know

To what extent are you expecting a fall in your order book in 2020 compared to 2019?

- 0-20%
- 21-40%
- 41-60%
- 61-80%
- 81-100%
- Do not know

24% 14% 10% 2% 6% 44%
Tunisia’s strategic location, business-friendly environment and affordability have traditionally attracted investors. However, as the country has sought to further diversify its economy to integrate science and technology, one of the most sought-after assets in recent years has been its skilled workforce. Boasting an increasingly tech-savvy young population, Tunisia has shifted its attention from affordability to value addition and efficiency. According to FIPA-Tunisia, around 35% of Tunisian graduates are qualified in engineering, computer science, multimedia and technical fields.

While its workforce played a major role in enabling Tunisia to swiftly address many of the challenges brought about by the outbreak of Covid-19, it is still suffering from an ongoing brain drain that may put the nation’s future economic prospects at risk. As a result of the economic conditions and lack of opportunities for skilled workers, many Tunisians are looking for jobs abroad. Technical skills are in high demand worldwide and, with salaries considerably lower in Tunisia than in Europe, foreign recruitment efforts are largely successful. About 10% of Tunisians live abroad, the majority of which reside in Europe, and around 25,000 Tunisians emigrate per year.

Although the migration of skilled workers has resulted in a loss of talent and skills, Tunisia has benefitted from a “brain gain” effect. In addition to providing a significant source of income through remittances – which account for roughly 11% of foreign currency – emigrants accumulate additional skills, knowledge and connections. Therefore, citizens that return to Tunisia have a great deal to offer the already thriving digital economy, and can provide both capital and entrepreneurship to boost the country’s nascent start-up scene.

One example of a government initiative that seeks to provide incentives to prevent further brain drain is Elife, a programme aimed at establishing 10 technology and partnership centres in 10 cities. Elife capitalises on Tunisia’s strong digital economy and is supported by a number of local enterprises, educational institutions and financial organisations. Each centre is able to accommodate 500 individuals per year and offers six months of training sessions followed by a six-month period of professionalisation.

Meanwhile, Tunisia’s start-up ecosystem has continued to grow since the Start-up Act – the first of its kind in Africa – was passed in April 2018. The act forms the centrepiece of the government’s Digital Tunisia 2020 strategy, which comprises 64 predominantly public-private partnerships that aim to develop technological infrastructure and boost socio-economic development. The legislation also offers a number of tax exemptions, allows foreign currency accounts for entrepreneurs and provides a year-long, state-funded salary for up to three start-up founders per company. Since the act came into effect in January 2019, 169 companies have successfully registered as start-ups. While educational reforms and greater investment in marginalised regions will be necessary to scale up the growth of the digital economy and reduce the brain drain, Tunisia has a large pool of skilled labour and a business-friendly regulatory environment, which will provide the foundation for positive change.

Skills & Entrepreneurship
In collaboration with