



Republic of Tunisia

Ministry of Economy and Planning

Tunisian Institute of Competitiveness and Quantitative Studies

ITCEQ REPORT

Business climate

**Results of the 22nd survey
and Tunisia's positioning
in international reports**



Competitiveness Department

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Introduction

By the end of the Covid-19 crisis, the Tunisian economy showed signs of quivering after the gradual return to activity, but remained below its potential. The sluggishness of investment, particularly private investment, continues to be the ultimate weakness of the economic recovery. Aware of this reality, the public authorities have embarked on a process of reforms to improve the business climate.

In line with this, the annual survey on the business climate and the competitiveness of companies is set up as a reference decision-making tool, in the sense that it has a triple objective : i) to collect and analyze the assessments of business owners on the business climate in which they operate in order to identify the main shortcomings that need to be addressed, ii) assess the actions and strategies undertaken by companies to improve their competitiveness and iii) collect their expectations in terms of activity, investment and employment.

The 22nd survey on competitiveness and business climate was undertaken from June 17 to July 22, 2022. It covered a sample of 1041 private, structured companies (employing 6 or more employees), operating in industry and services and distributed throughout Tunisia.

Data collection was carried out through computer-assisted telephone interview (CATI) and the exploitation of the answers by using the adjustment technique which makes it possible to generalize the results to all targeted productive field (i.e. more than 17,000 companies) and not **only** be limited to the sample.

The specificity of this report on business climate lies on the analysis, not only of the results of the survey, but also of Tunisia's position in international reports relating to different aspects covered in this survey.

I. Overall results

Entrepreneurs' perception of the business environment is becoming increasingly gloomy

The business climate barometer (IPCA) **further widened** in 2022 with a drop of 3.4 points compared to 2020¹ following the decline observed in 2019 after an improvement recorded in 2018.

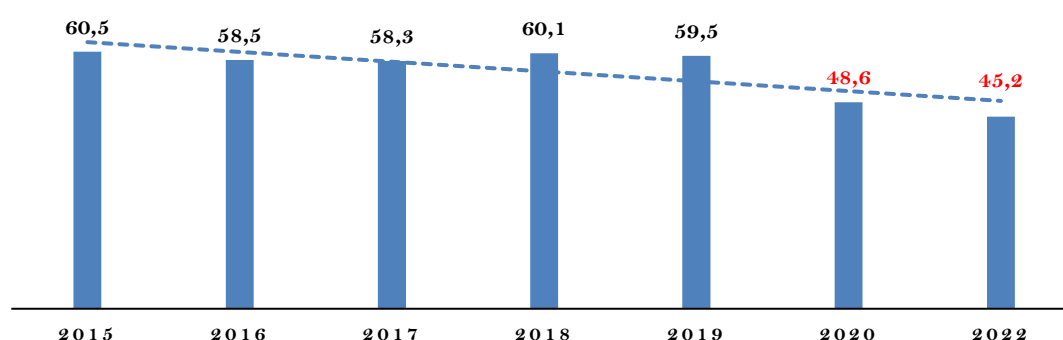
Business climate assessment methodology

Business climate assessment is based on the perception that business leaders have of the following 12 areas : infrastructure, human resources, macro-economic and legal framework, administrative procedures, judicial system, bank financing, taxation and social charges, market practices, political climate, corruption, security and social climate.

To consider all perceptions of the different areas of the business climate, whether positive or negative, a synthetic business climate perception indicator (IPCA) has been developed by the ITCEQ. This indicator varies from 0 to 100 and the closer it gets to 100, the more favorable the business climate is. Monitoring the evolution of the IPCA over time makes it possible to see whether or not there is an improvement in the perception of the business environment.

Indeed, and for the second time **successively** since its **first** calculation (in 2007), the IPCA is below 50, with a score of 45.2 out of 100, attesting to a gloomier perception of the ecosystem and the business environment in general.

Chart 1. Evolution of the Business Climate Perception Indicator (IPCA)



Source : Competitiveness and business climate surveys (2015-2022)

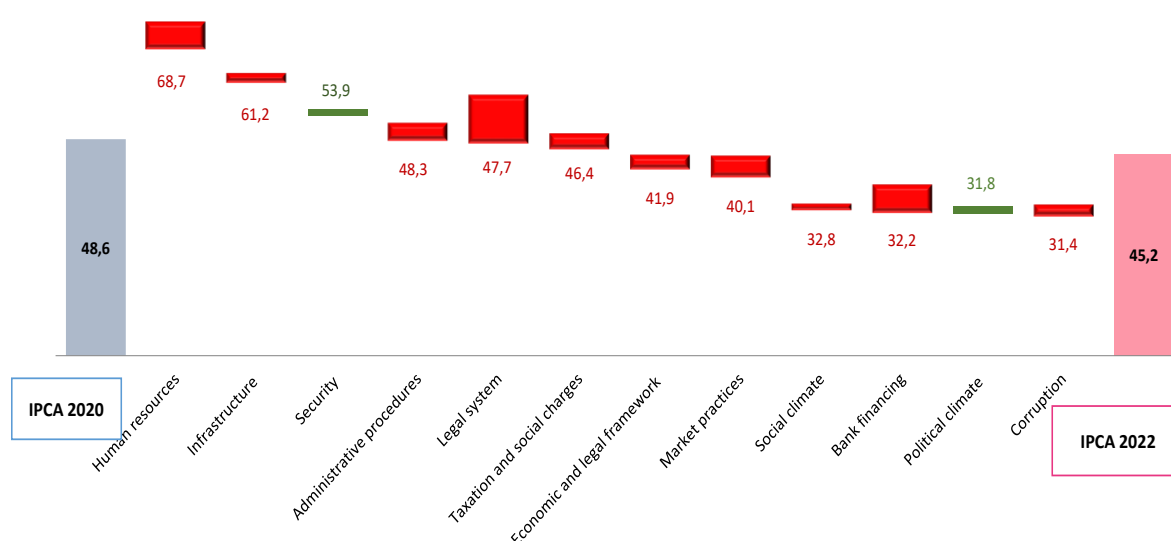
1- Following the health crisis where distancing between people is essential, the ITCEQ has digitized the data collection process. This transition to other digital channels required the updating of the VISA with the National Statistics Council (CNS), the development of specifications in order to select a company specializing in intelligence and artificial intelligence in within the framework of a call for tenders. This is why the collection of data for 2020 (2020 survey) took place in the field during the first quarter of 2021.

The worst performance

10 areas out of the 12 business climate aspects covered by the survey showed a drop in their partial indicator compared to 2020

Examination of the partial perception indicators' evolution between 2020 and 2022 shows that **10 out of 12 sections used in the calculation of the IPCA, showed a decline**. The greatest decreases are noted at the level of the judicial system (10.9 points), bank financing (6.4 points), human resources (6.2 points) and practices in the market (4.9 points).

Chart 2. Evolution of the Business Climate Perception Indicator (IPCA)

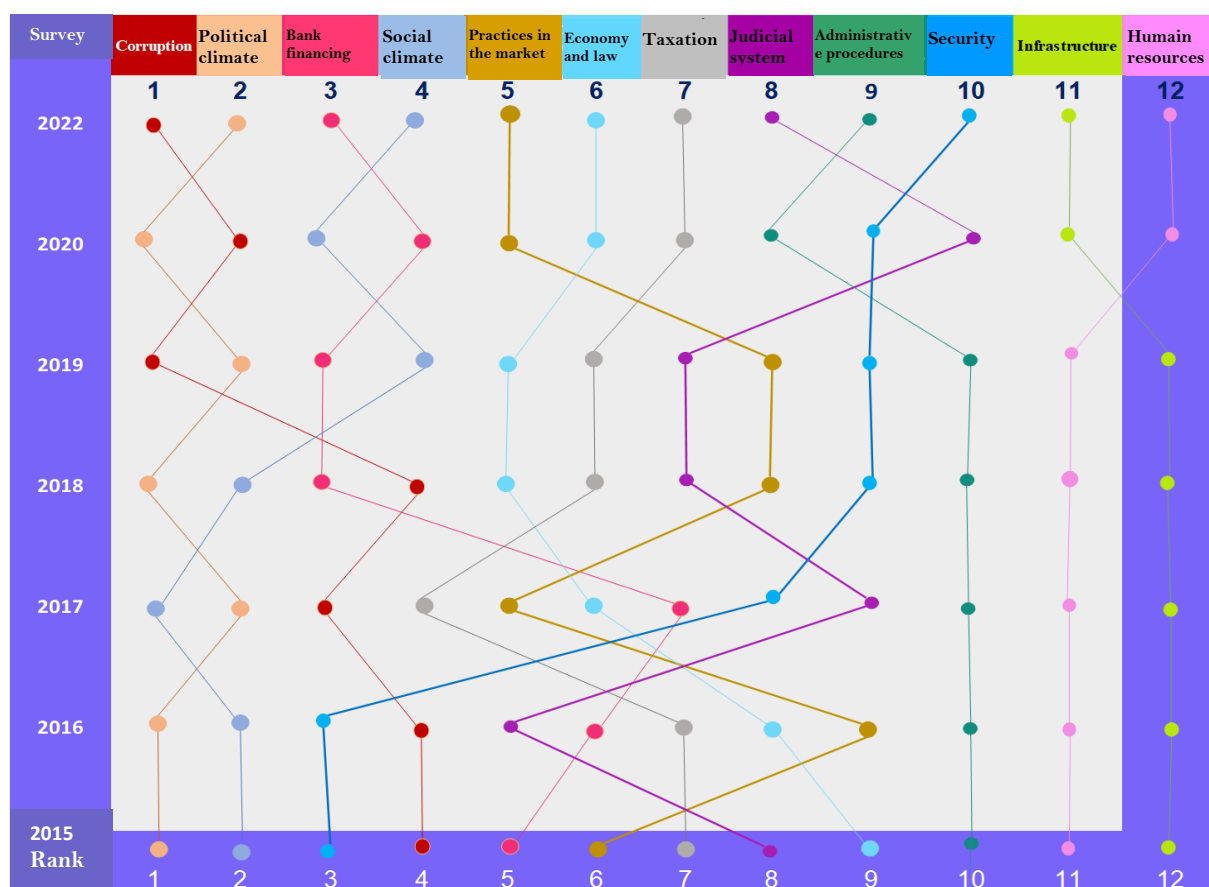


Source : 22nd Business Climate and Business Competitiveness Survey

Corruption, political climate, bank financing and social climate are the main constraints in 2022

With perception's indicators below the average, corruption (31.4/100), followed by the political climate (31.8/100), bank financing (32.2/100) and the social climate (32.8/100) are considered as the main constraints for business development in 2022. This result is not specific to this year but dates back to 2018, the year from which these areas constitute the 4 main constraints of the business climate.

Chart 3. Ranking of the areas of the business climate from the most constraining to the least constraining (2015-2022)



Source : Competitiveness and business climate surveys (2015-2022)

- Corruption is identified as the main business climate constraint in 2022 and 2019.
- The political climate overlaps between the main and the second constraint of the business climate since its integration in the battery of domains.
- Bank financing is repositioned in 3rd place as the most constraining domain.

The number of domains with a score below the symbolic threshold of 50/100 continues to increase over time

Examination of the evolution of the indicators specific to the pillars covered by the survey shows that in 2018 only “the political climate” recorded a score lower than 50/100. In 2019, the number increases to 2 with the addition of “corruption”, then to 6 in 2020, with the entry of 4 other areas, namely: “the social climate”, “bank financing”, “practices in the market” and “the macro-economic and legal framework”. In 2022, “taxation and social charges”, “the judicial system” and “administrative procedures” join the group of the least well perceived areas to reach number 9, i.e. 3/4 of the areas covered by the survey.

Good performance though

The perception of the security situation improves further

The pillar relating to “the security situation” has experienced a substantial improvement in its perception by business leaders. Indeed, the security situation changed from the 3rd constraint in 2015 to the 10th in 2022. This reflects the recognition of the effort made by the security system to restore security in the country.

Infrastructure and human resources maintain their position as the best perceived areas

Two areas continued to stand out as business climate strengths and maintained their ranking as the best perceived. These are “infrastructure” and “human resources” even if they hide certain shortcomings.

II. Results by domain

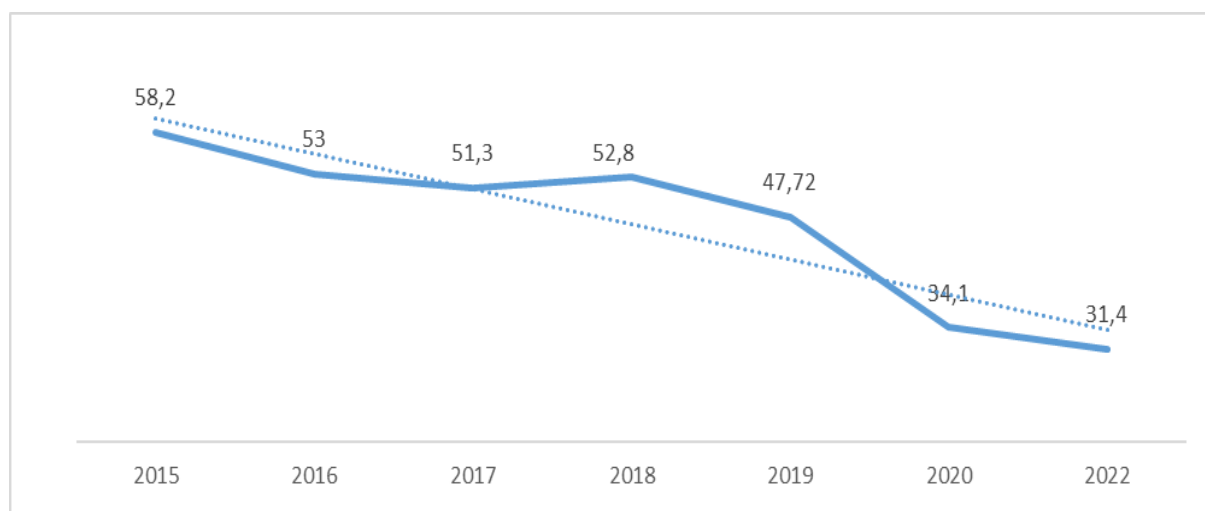
The analysis of the results for the 12 pillars of the business climate retained in the survey will be done, in what follows, in descending order of the degree of severity as perceived by companies. Moreover, and for each of the areas, the analysis will be compared with the ranking of Tunisia in the international reports relating to the area in question, to see to what extent the results of the survey corroborate those published at the international level.

1. Corruption

Corruption in public sector is increasingly under-perceived

With a value of 31.4/100, the partial perception indicator relating to corruption continues its downward trend.

Chart 4. Evolution of the corruption perception indicator



Source : Competitiveness and business climate surveys (2015-2022)

The results of the 22nd survey show that business leaders have an increasingly negative perception of corruption in the institutional sector, with 70% considering it as major constraint.

Corruption is reported more by small businesses than by others

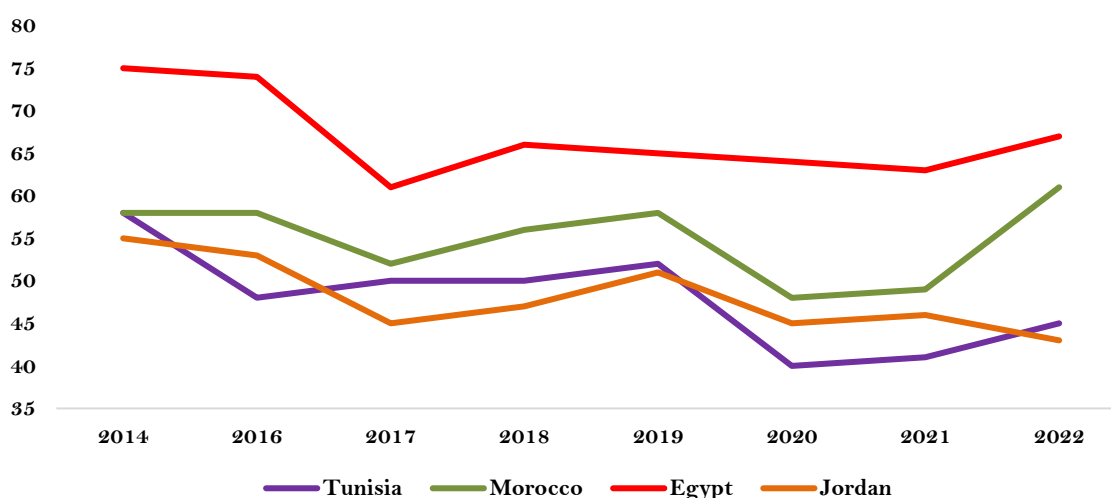
Analysis by company size shows that corruption weights much more heavily on small businesses (72%) than on medium and big ones (61% and 63% respectively).

A perception corroborated by "TRACE Bribery Risk Matrix" of TRACE International and "Corruption Perception Index" elaborated by International Transparency

The probability of asking for bribes in the private sector increased by 4 points between 2021 and 2022 according to the "TRACE Bribery Risk Matrix" ranking

According to TRACE International's "Bribery Risk Matrix²", Tunisia has seen the probability of asking for bribes from the private sector increase by 4 points, from 41³ in 2021 to 45 in 2022, placing Tunisia in 76th place, compared to 68th in 2021.

Chart 5. Evolution of Tunisia's score in TRACE Bribery Risk Matrix



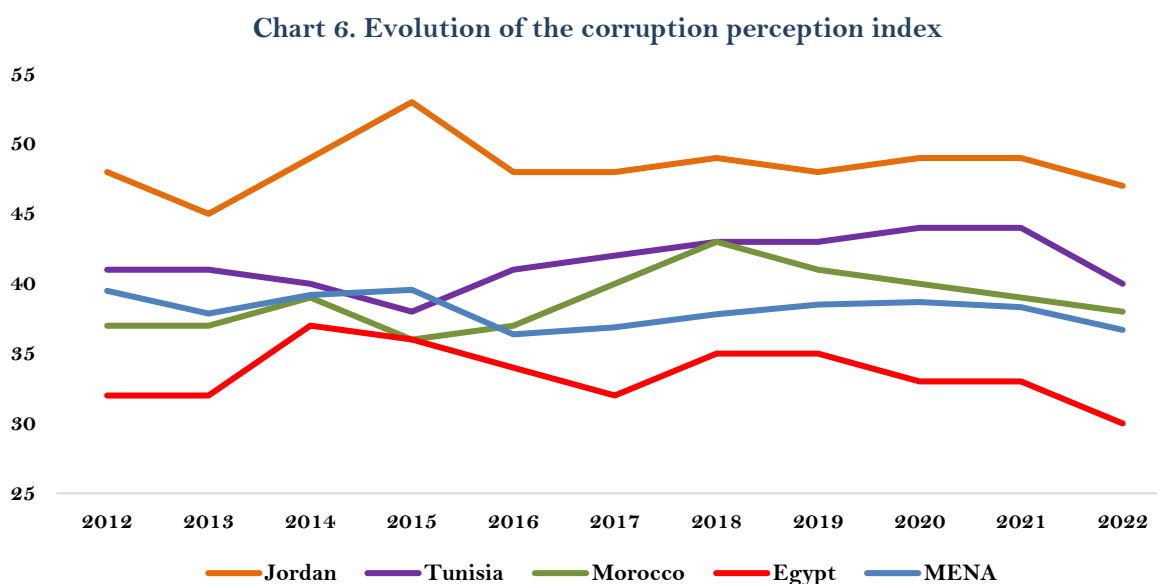
Source : TRACE Bribery Risk Matrix of TRACE International 2022

2- See "Ranking of Tunisia according to The TRACE Bribery Risk Matrix", Hajer Mehouchi : <http://wagon-citerne/files/climat-des-affaires-competitivite/2022/trace-bribery-risk-matrix-fr.pdf>

3- The score « Bribery Risk Matrix » varies from 1 (low corruption) to 100 (high corruption), the closer it gets to 1, the better the country is positioned.

Tunisia lost 15 positions between 2021 and 2022 in the "Corruption Perception Index" report⁴

Moreover, the "**Corruption Perception Index**" report for the year 2022 shows that Tunisia has seen its score drop by 4 points, from 45/100 to 40/100. This decline resulted in a loss of 15 positions compared to 2021, ranking Tunisia 85th out of 180 countries.



Source : International Transparency 2022

This decline in the ranking is explained by several factors, including, in particular, the closure of *the premises of the National Anti-Corruption Authority* (INLUCC) for more than a year and a half. According to the report, such measures have hampered the proper implementation of laws relating to whistleblowers' protection and illicit enrichment.

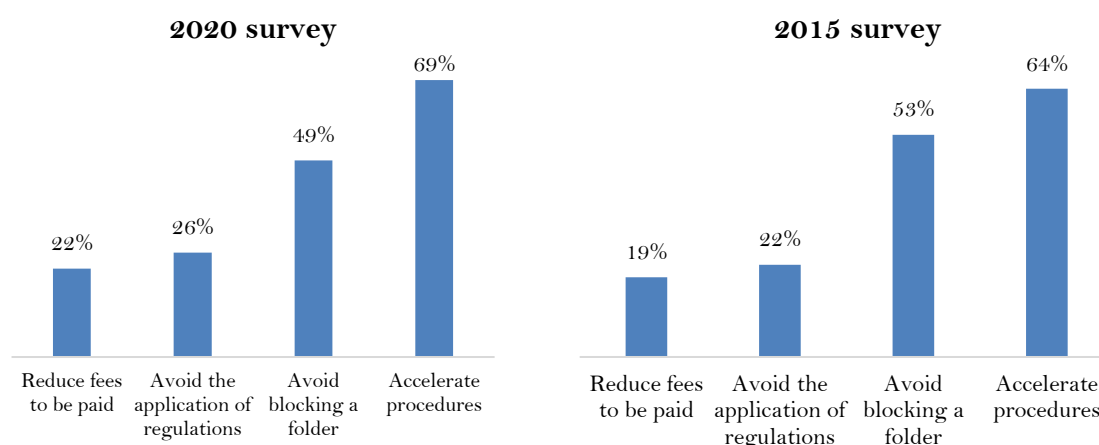
According to International Transparency, the global average is 43/100, more than 2/3 of countries have a score below 50/100 and 26 countries, including Tunisia, recorded their lowest score in 2022. Moreover, and in a comparative perspective, Tunisia comes in 8th position in the MENA region. It is ahead of Morocco (94th with a score of 38/100), Turkey (101st with a score of 36/100) and Egypt (130th with a score of 30/100).

⁴- The Corruption Perceptions Index published by International Transparency ranges from 0 (high corruption) to 100 (no corruption) depending on the perception of corruption in the public sector.

The complexity and cumbersome nature of administrative procedures largely explain the proliferation of the phenomenon of corruption

The 2020 and 2015⁵ investigations conducted by the ITCEQ pointed a number of reasons that may be at the origin of corruption in Tunisia. Some are the responsibility of the company itself, which seeks to avoid the application of the regulations or to reduce the costs to be paid, and others (more mentioned), are more related to the functioning of the public administration and which are explained, essentially, by the complexity and cumbersome procedures.

Chart 7. Reasons for the use of corruption



Sample : 1726 responding companies
Data adjusted by sector and company size
Period : January 7 – April 1, 2021

Sample : 833 responding companies
Unadjusted data
Period : October 1 - November 15, 2015

Source : Competitiveness and business climate surveys

Digitalization would be the main means of fighting corruption

The results of the 2020 survey showed that the digitalization of administrative services would be the main way to adopt to fight corruption⁶, yet it is still necessary that operators adhere to it.

The use of administrative services by enterprises is more evident at the level of mandatory services

Overall, the survey highlights that companies' use of e-Government services depends on whether it is mandatory or hybrid. Indeed, membership of these online services is more important in those of a mandatory nature such as electronic tax declaration (94%) than in those of a hybrid nature such as the payment of electricity and water bills (54%).⁷

5- Corruption was the subject of a thematic focus as part of the 2015 survey, which was updated in 2020.

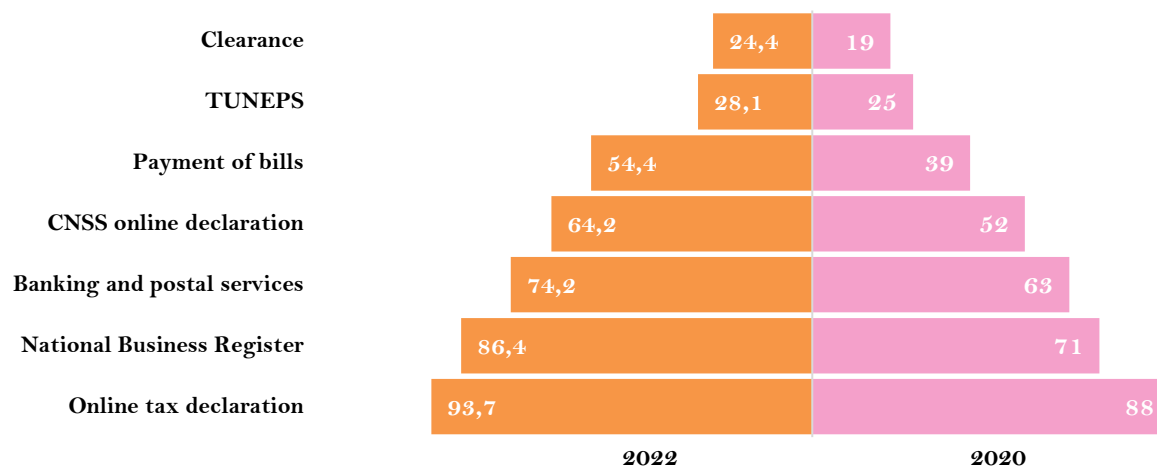
6 - See the Report of the 2020 survey on the business climate and the competitiveness of companies (www.itceq.tn).

7- Online administrative services were covered in more detail in a forum "The digitalization of administrative services : perception of business leaders".

Companies' embrace of digitalization encourages optimism

In 2022, and as shown in the graph below, the use of e-Government services is consolidating at the level of all services covered by the survey.

Chart 8. Enterprises using eGovernment services (%)



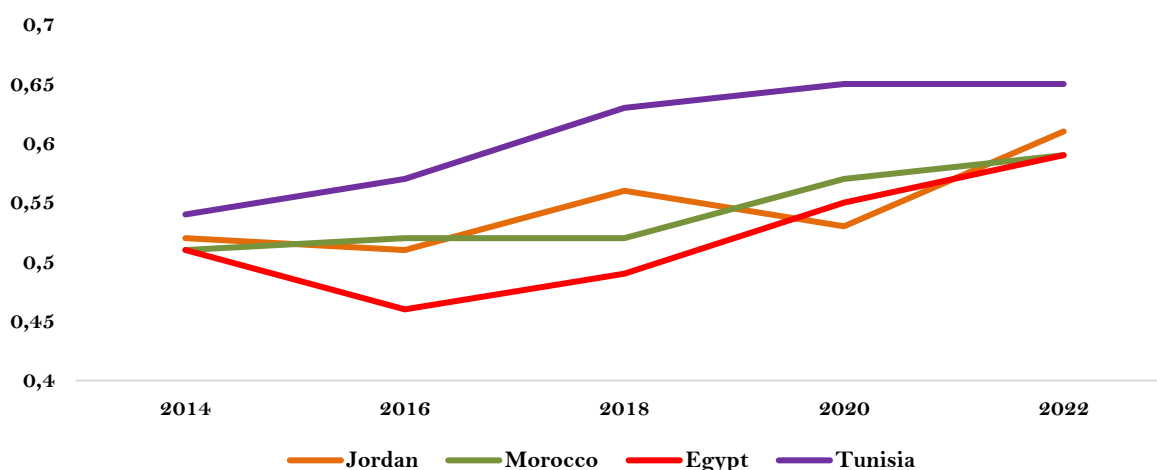
Source : Competitiveness and business climate surveys

Better yet, since 2014 Tunisia is classified among the countries with high EGDI

As evidenced by the 12th edition of the United Nations report on the "e-Government Development Index" (EGDI) 2022, Tunisia is ranked among the countries with high EGDI (between 0.5 and 0.75) with the score of 0.65.

Moreover, and as shown in the graph below, Tunisia has been well rated in this area since 2014 with an upward trend in its score.

Chart 9. Tunisia's positioning according to the E-Government Development Index (EGDI)



Source : United Nations E-Government Survey 2022

This improvement in score allowed Tunisia to move up three places in 2022 to 88th place (from 91st in 2021).⁸

Moreover, these efforts have allowed Tunisia to be at a level above the global and regional average (Africa), thus ranking the country at the 4th position at the African level after South Africa, Mauritius and Seychelles as shown in the following table.

Table 1. Positioning of Tunisia according to the EGDI

| | Tunisia | Africa | World |
|---------------------------------------|---------|--------|--------|
| E-Government Development Index (EGDI) | 0,653 | 0,4054 | 0,6102 |

Source : United Nations E-Government Survey 2022

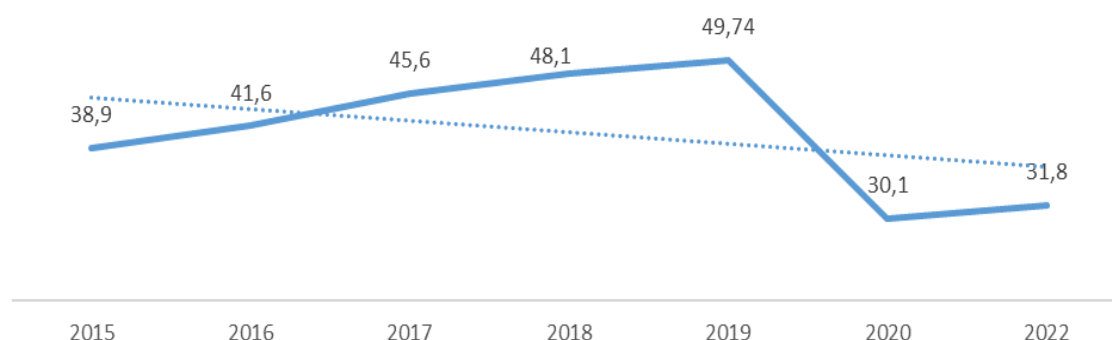
2. The political climate

Despite a slight improvement, the score of the political climate remains too low

Since its introduction in the battery of business climate indicators, the political climate has always swung between first and second place as a constraint that is detrimental to the smooth running of business in Tunisia. However, the examination of the evolution of its perception indicator over time, shows an upward trend during 2015-2019, even if the score still remains below the value of 50/100. This trend was, unfortunately, followed in 2020 by a remarkable fall (loss of nearly 20 points).

An improvement is certainly noted in 2022, but it still keeps the score at a very low level (31.8/100) with 68% of companies considering the political climate as a major constraint.

Chart 10. Evolution of the political climate perception indicator



Source : Competitiveness and business climate surveys (2015-2022)

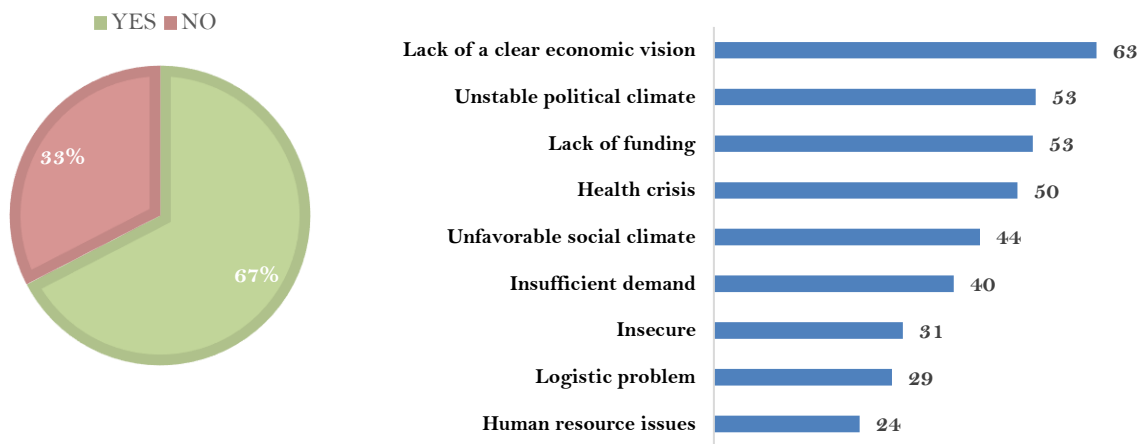
8 - « The E-Government Development Index » is calculated for each of the 193 UN member countries and is published in a bi-annual in the report "United Nations E-Government Survey" since 2001. The EGDI is between 0 and 1 and the closer it is to 1, the more administrative services are digitized.

According to companies’ leaders the political climate instability is one of the reasons behind reluctance to invest.

With such a perception, companies’ leaders fail to have a clear vision to commit to investments. Indeed, surveys show that 63% of companies that have not invested since 2020, was due to the lack of a clear long-term economic vision and more than half (53%) mention political instability as the reason for this choice.

Chart 11. Main reasons for investment reluctance since 2020 (%)

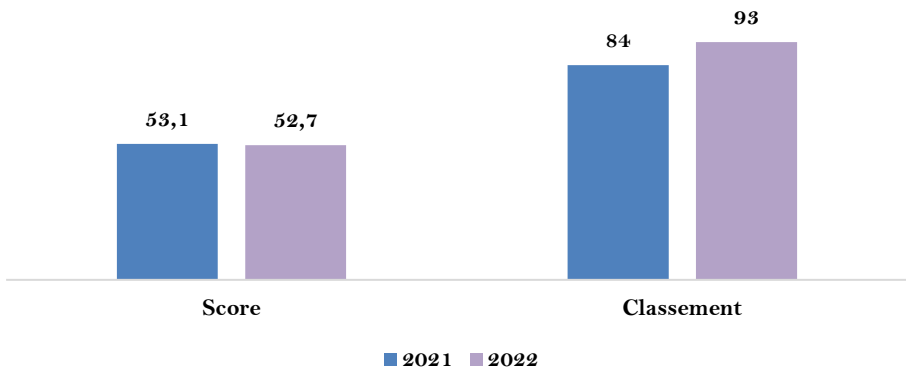
Investment intentions



Source : Competitiveness and business climate survey (2022)

This observation goes hand in hand with Tunisia's ranking in the "Global Innovation Index GII 2022" report, according to which the score relating to the "political environment" indicator decreased between 2021 and 2022, causing Tunisia to lose 9 places at this level.

Chart 12. Tunisia's positioning in the political environment



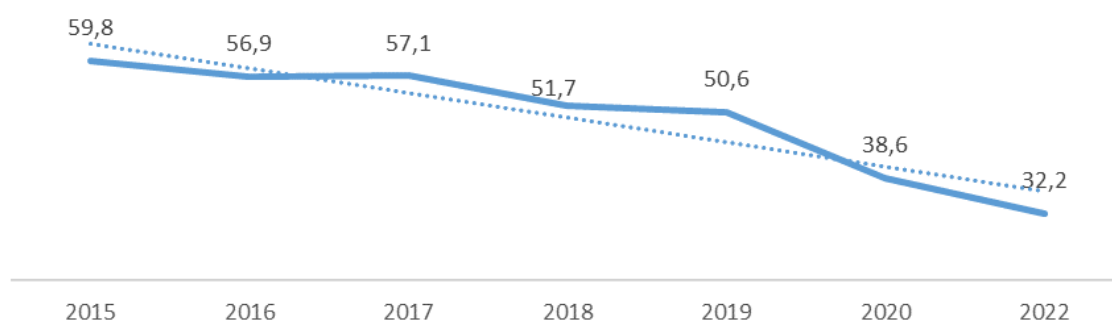
Source : Global Innovation Index Report 2022

3. Bank financing

Bank financing is a structural constraint that persists especially in terms of costs

The bank financing indicator continues its downward trend to stand at 32.2/100 in 2022, showing a decline of 6.4 points compared to 2020.

Chart 13. Evolution of the bank funding perception indicator



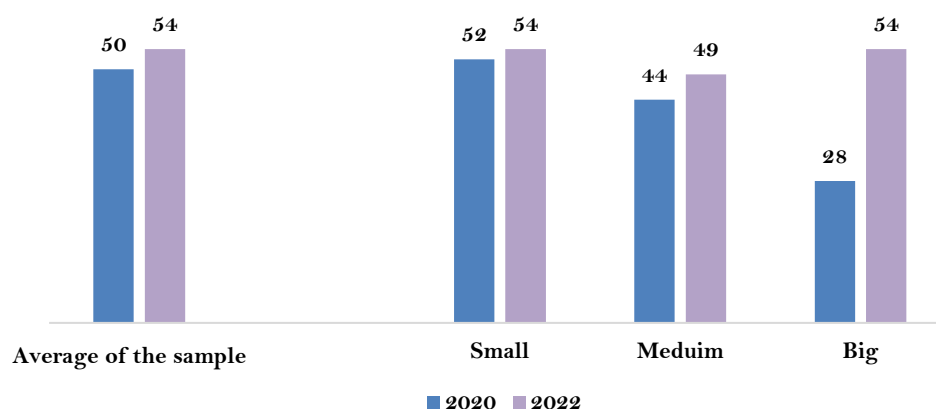
Source : Competitiveness and business climate surveys (2015-2022)

Regarding **access to finance**, 54% of companies interviewed in 2022 blame the credit cost compared to 50% in 2020.

Even big companies are increasingly complaining about access to credit

Refinements by company size reveal that access to credit has become increasingly restrictive even for big companies (54% compared to 28% in 2020), as well as small and medium-sized enterprises, which have become increasingly vulnerable and in short of liquidity in a context marked by the fallout from the health crisis and the war in Ukraine.

Chart 14. Enterprises considering access to credit as a major constraint (%)



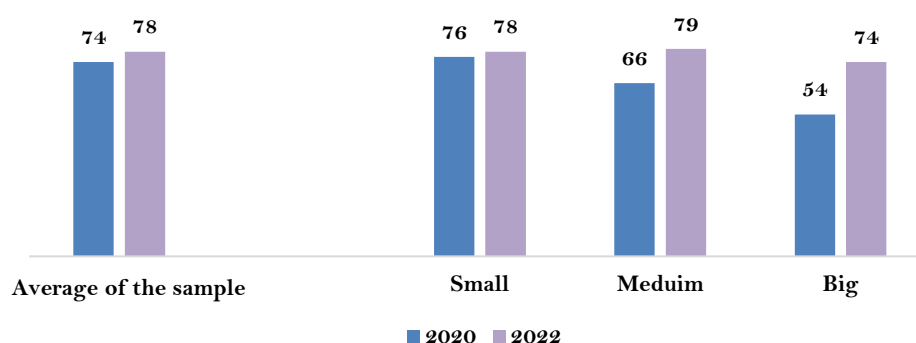
Source : Competitiveness and business climate survey (2022)

The cost of financing also weighs more and more heavily on big companies

The bank funding costs is increasingly considered binding for 78% of companies identifying it as a major obstacle in 2022 against 74% in 2020.

The analysis by size shows that in 2022, the perception that big companies have regarding the cost of bank financing is also increasingly turning negative (74% against 54% in 2020), reflecting the acuteness of the difficulties encountered by the big in the same way as small and medium-sized enterprises.

Chart 15. Enterprises considering the cost of credit as a major constraint (%)

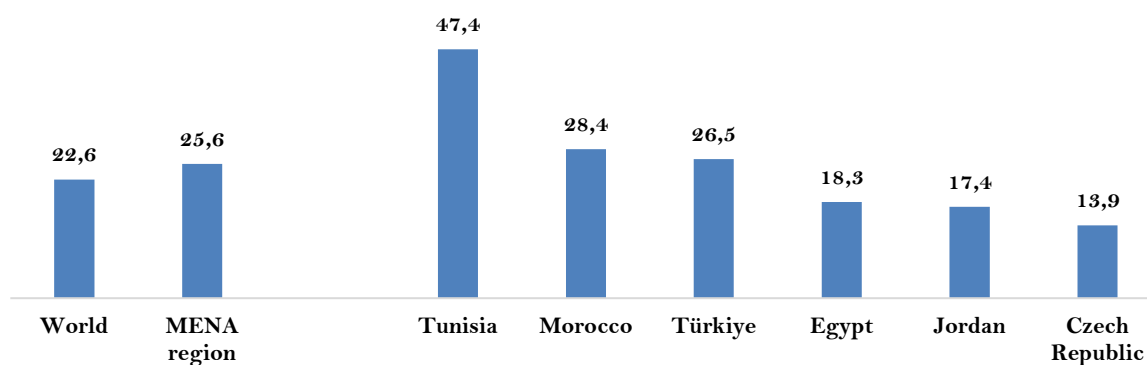


Source : Competitiveness and business climate survey (2022)

Access to finance is more severe in Tunisia than in MENA region

The latest 2020 **Enterprise Survey** conducted by the World Bank, where Tunisia is surveyed, indicates that the percentage of companies considering access to credit to be a severe constraint is relatively high compared to that found in some competing countries such as the Czech Republic, Jordan, Egypt, Turkey and Morocco. Similarly, this percentage is well above the MENA region and the global average.

Chart 16. Enterprises reporting access to bank credit as a major constraint (%)



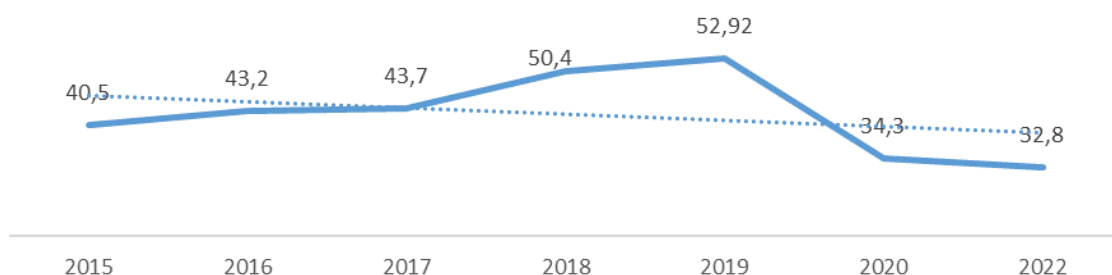
Source : World Bank Enterprise Survey (2020)

4. The social climate

The downward trend in the indicator perception that began in 2019 continues

The social climate indicator continues its downward trend to 32.8/100 in 2022. This area is thus ranked 4th of the most severe constraints of the business climate.

Chart 17. Evolution of the social climate perception indicator

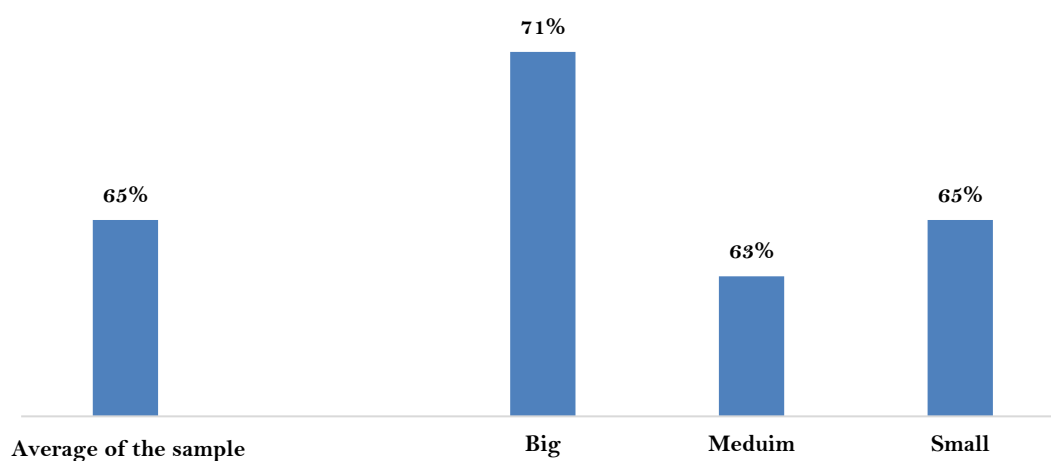


Source : Competitiveness and business climate surveys (2015-2022)

The acuteness of the constraint related to social movements is more expressed by big companies

Social protests are considered by nearly 2/3 of business leaders as a major constraint that hinders the smooth running of their activity. Its acuity is much more felt by big companies (71%) than by small and medium-sized enterprises.

Chart 18. Percentage of companies identifying social climate as a major constraint in 2022



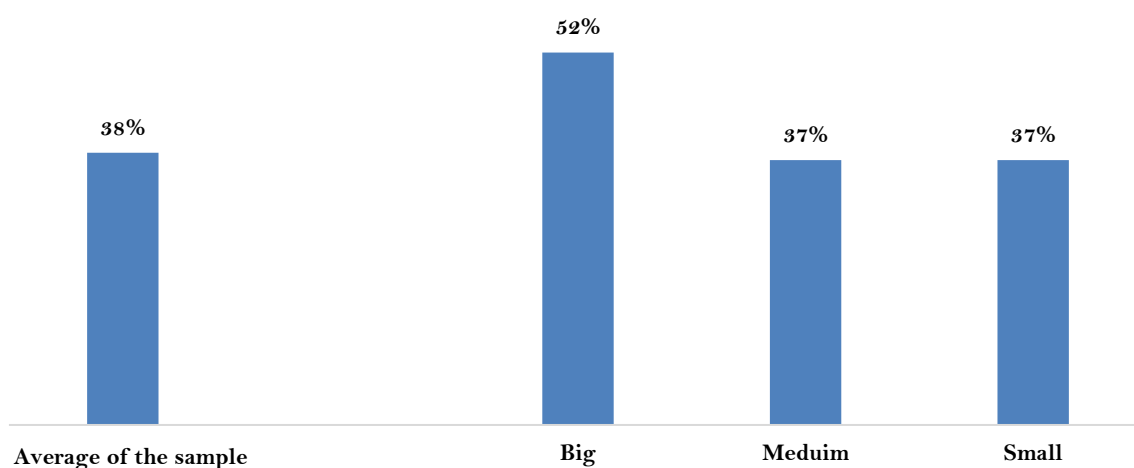
Source : Competitiveness and business climate survey (2022)

Nearly half of the companies that have not invested since 2020 explain it by the social tensions characterizing the country

The perception of the social climate has contributed to the reluctance of companies to engage in investments. Among operators who have not invested since 2020, 44% explain it by social tensions.

This social instability is considered all the more harmful as the strikes carried out during 2021, were behind the disruption of the supply chain for 38% of the surveyed companies. Surveys by size show that this rate rises to 52% for big companies.

Chart 19. Enterprises explaining supply problems by strikes (%)

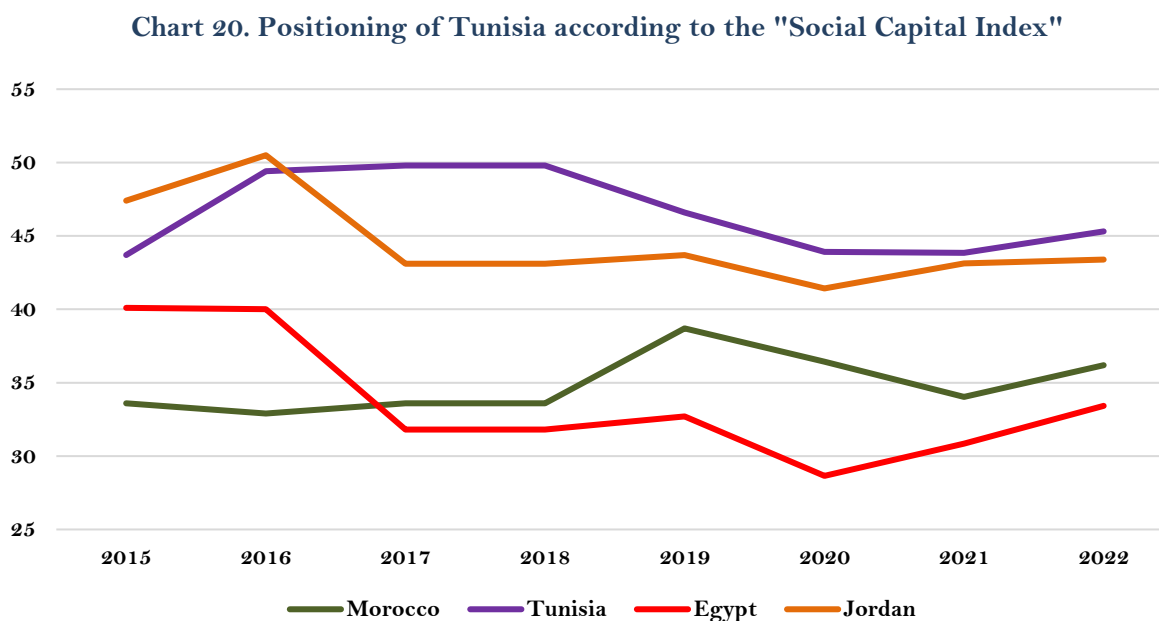


Source : Competitiveness and business climate survey (2022)

On the other hand, a slight recovery in 2022 is noticed by the "Global Sustainable Competitiveness Index"

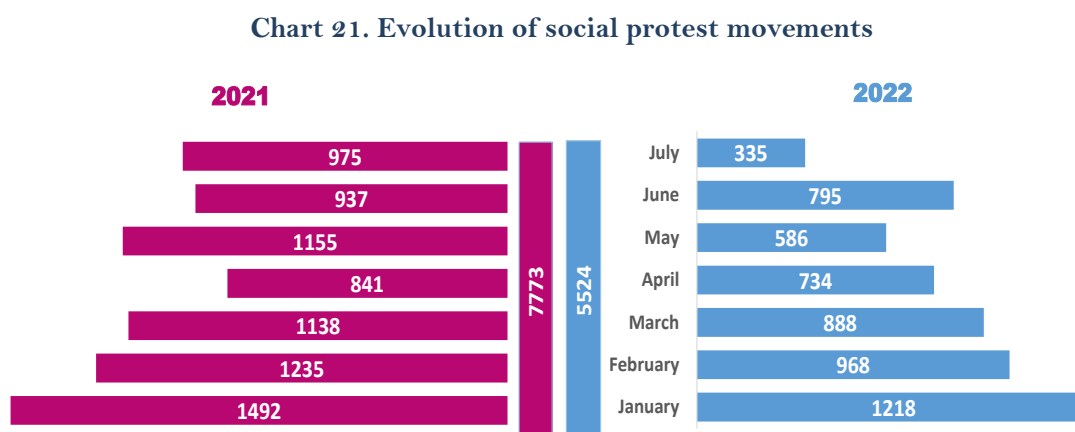
The "Social Capital Index⁹", established by the think tank "SolAbility" in its report entitled "Global Sustainable Competitiveness Index", has seen a slight recovery in 2022 compared to 2021 after a consecutive decline observed since 2018.

9- According to this indicator, the social capital of a nation is the sum of the social stability and well-being (perceived or real) of the entire population. Social capital generates social cohesion and a certain level of consensus which, in turn, provides a stable environment for the economy.



According to the Tunisian Forum for Economic and Social Rights, there was a decrease in protest movements in 2022 compared to 2021

This slight recovery that emerges from the "Global Sustainable Competitiveness Index" report is supported by the report of the Tunisian Forum for Economic and Social Rights (FTDES), indicating that the number of protest movements in Tunisia, whether organized or anarchic, has decreased during the first 7 months of 2022 compared to the same period of 2021.



Source : Tunisian Forum for Economic and Social Rights (FTDES)

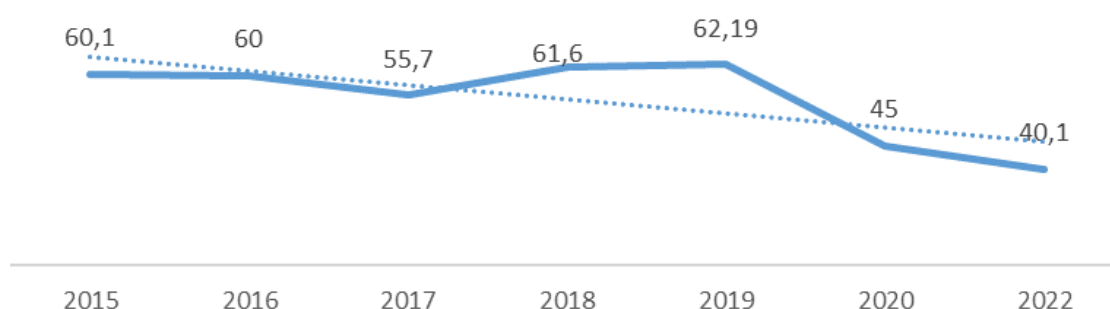
5. Market practices

The perception of practices in the market is increasingly negative

With an indicator of 40.1/100, market practices¹⁰ rank 5th among business climate constraints.

Looking at the indicator evolution for this area shows a loss of 5 points between 2020 and 2022, suggesting an increasingly negative perception.

Chart 22. Evolution of the partial indicator of market practices

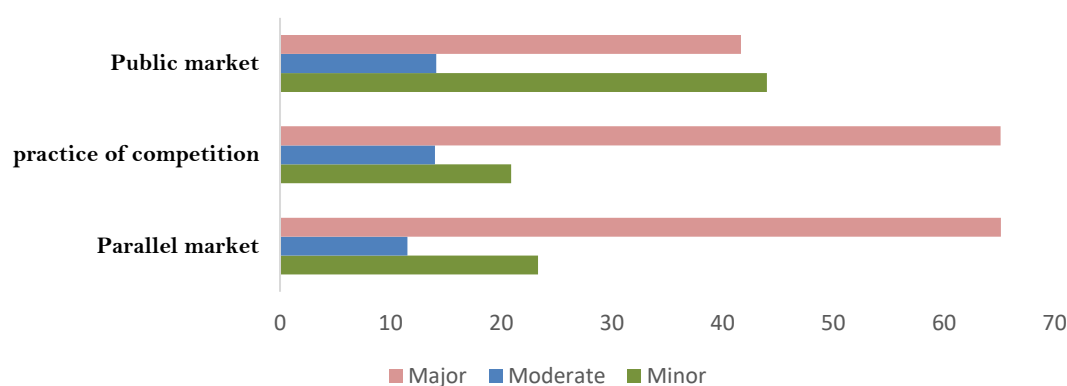


Source : Competitiveness and business climate surveys (2015-2022)

Poor competition practices and the parallel market are denounced by two-thirds of companies as major constraints

Nearly two-thirds of business leaders consider bad competition practices such as implicit cartels, illegal imitation, tax evasion ... etc., as well as the parallel market, as major constraints that hinder the smooth running and development of their activity.

Chart 23. Perception of practices in the market

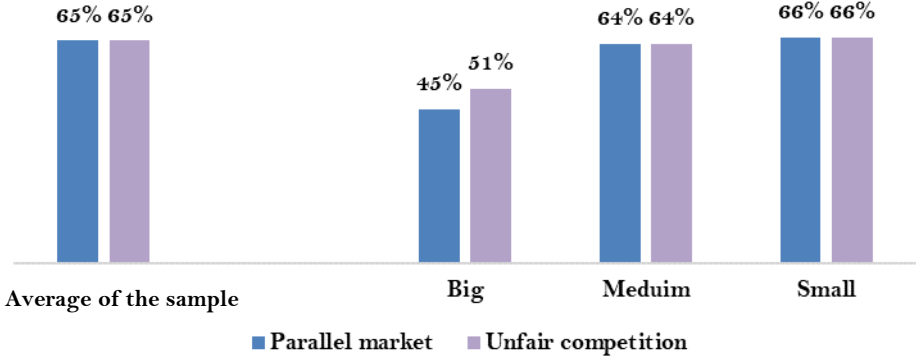


Source : Competitiveness and business climate survey (2022)

10- The Competitiveness and business climate Survey addresses market practices through three pillars : "parallel market", "anti-competitive practices and unfair competition" and "public procurement".

Analysis by size shows that these two types of practices are denounced more by small and medium-sized enterprises than by big ones.

Chart 24. Enterprises considering the parallel market and competition practices as major constraints (%)

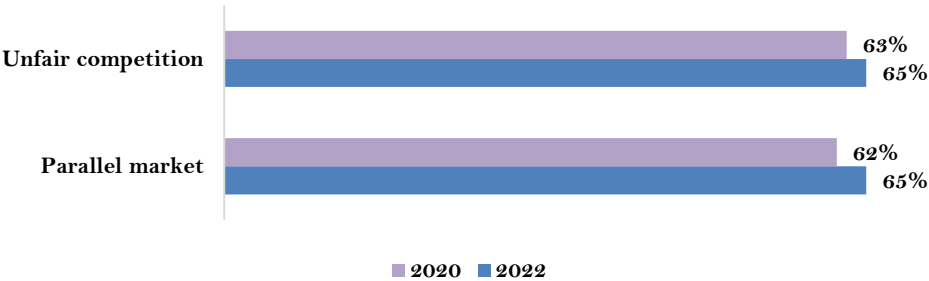


Source : Competitiveness and business climate survey (2022)

Bad ratings are more pronounced in 2022

The examination of the companies' perception evolution shows that these two aspects are more poorly perceived than two years ago with 65% of companies considering them in 2022 as major constraints (compared to 63% and 62% respectively in 2020).

Chart 25. Enterprises considering the parallel market and competition practices as major constraints (in %)



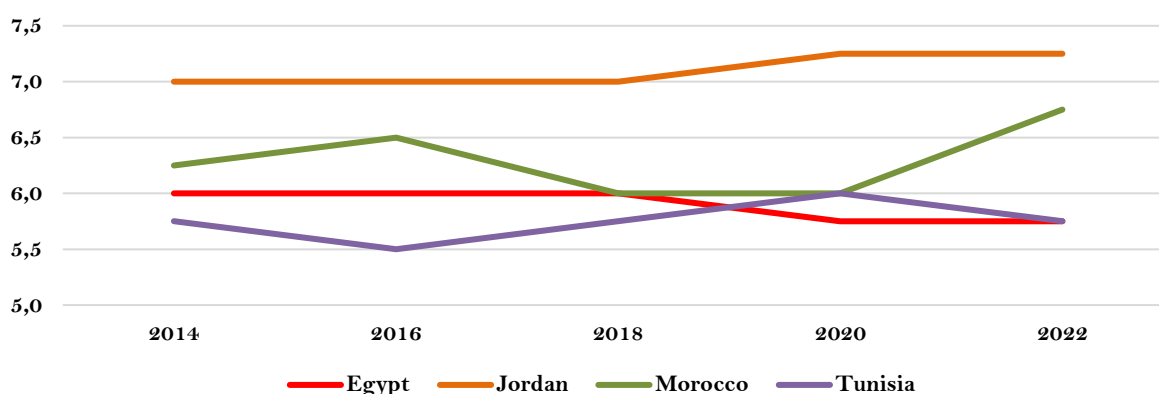
Source : Competitiveness and business climate surveys (2020-2022)

Tunisia's lower score in the Bertelsmann Stiftung Transformation Index report corroborates the results of the ITCEQ business climate survey

The examination of the evolution of this partial indicator "Organization of the market and competition"¹¹ published by the annual report "Bertelsmann Stiftung Transformation Index (BTI)"¹² shows that Tunisia has experienced a slight decrease in its score to 5.8/10 in 2022.

11- This sub-indicator, which is part of the economic transformation pillar, measures the degree of organization and regulation of the market and the degree of control of competition practices by the government.
 12- The Bertelsmann Stiftung (BTI) Transformation Index ranks 137 countries according to a score that varies from 1 (bad) to 10 (Good). This index is based on 3 pillars : political transformation, economic transformation and governance

Chart 26. Tunisia's positioning at the level of the "Organisation of the market and competition"



Source : Bertelsmann Stiftung Transformation Index 2014-2022

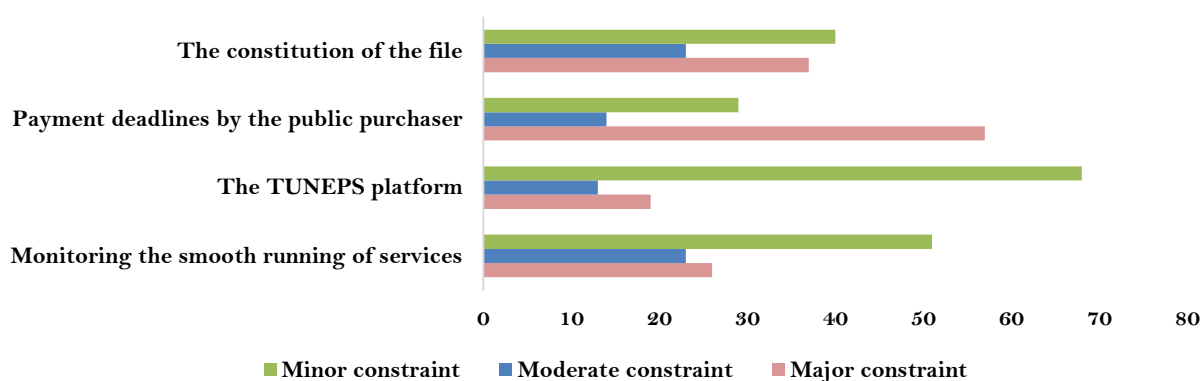
The public market is also less positively perceived than in 2020...

As for "public procurement"¹³, the results of the survey reveal that the related constraint is also tightening as 42% of companies consider it in 2022 as a major obstacle to the development of their activity (compared to 34% in 2020).

TUNEPS is a public procurement strength while the payment terms of the public purchaser are a handicap

However, this result must be reinforced. In fact, the real problem in the public market lies above all in the payment deadlines by the public purchaser denounced by 57% of business leaders. On the other hand, the TUNEPS platform is positively perceived by more than two-thirds of the surveyed companies.

Chart 27. Perception of public procurement in its different phases



Source : Competitiveness and business climate survey (2022)

13 - A thematic zoom was made as part of the 22nd Survey and which concerns the perception of the public contract in its three phases :

- Upstream : at the level of the constitution of the file,
- Ongoing : at the level of the TUNEPS platform and the monitoring of the progress of the service by the public sector,
- Downstream : at the level of payment terms by the public purchaser

According to the Organization for Economic Cooperation and Development (OECD), TUNEPS offers several advantages

This result is further highlighted if we refer to the report carried out by the OECD in 2020 and entitled "Improving the E-procurement Environment in Tunisia: Supporting vulnerable groups in gaining better access to TUNEPS".

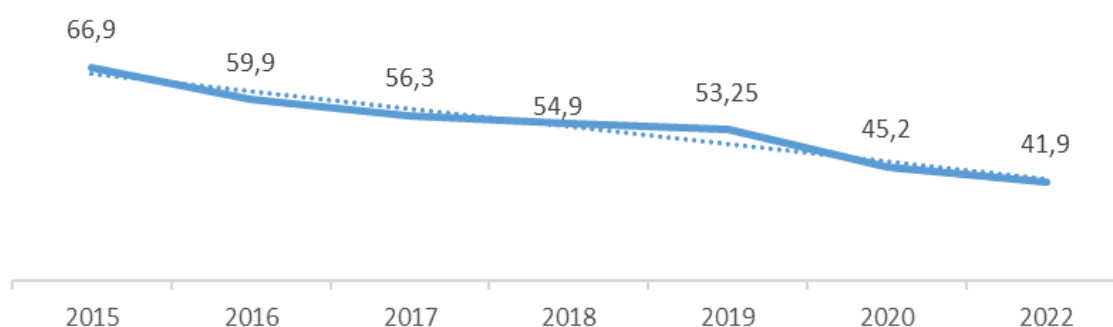
It should be noted that this report stressed that this platform offers several advantages, **including**, among others, the confidentiality and security of transactions, the reduction of the number of procedures, the facilitation of instant exchange between suppliers and public purchasers and the improvement of traceability and accessibility.

6. The macroeconomic and legal framework

Growing dissatisfaction

The indicator for this area continues its downward trend which began in 2015 to settle, for the second time in a row, at a value below 50/100 (41.9 in 2022). This result reflects a growing dissatisfaction of entrepreneurs with the macroeconomic and legal framework in which they operate.

Chart 28. Evolution of the macroeconomic and legal framework perception's indicator



Source : Competitiveness and business climate surveys (2015-2022)

Indeed, 63% of companies consider the macroeconomic framework as a major constraint due, among other things, to low growth rate, galloping inflation, constantly rising key interest rate and an exchange rate in continuous depreciation. This dissatisfaction is understandable since the exchange rate and the inflation rate have caused supply problems for 52% and 72% of companies.

In addition, the exchange code is also increasingly negatively perceived, with 53% of companies considering it as a major constraint in 2022 (against 49% in 2020). Poor ratings are more prevalent at the level of big companies (59%) as well as those operating in services (58%).

Chart 29. Enterprises considering the macroeconomic and legal framework as a major constraint



Source : Competitiveness and business climate survey (2022)

With regard to the legal framework, approached by the frequent change of legal texts, the ambiguity of their reading, the delay in the publication of implementing decrees..., it has also experienced a tightening according to business leaders, 51% of whom consider it a major constraint in 2022, compared to 48% in 2020.

Tunisia loses 5 ranks according to World Justice Project

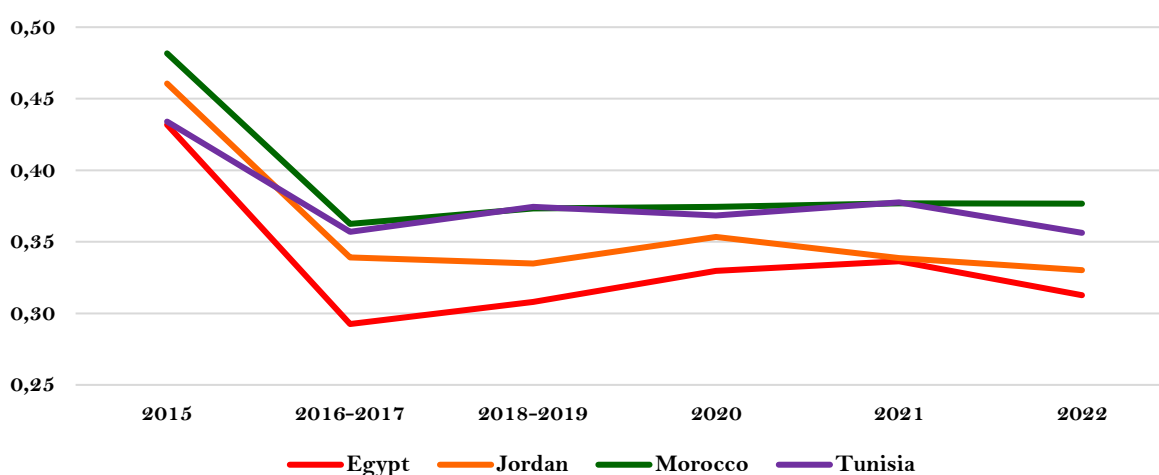
According to the "Rule of Law Index¹⁴", developed by the World Justice Project and more specifically the sub-indicator "Publication of laws and their accessibility" which measures the quality and accessibility of laws published by the government, Tunisia has a score of 0.36/1¹⁵. It fell 5 ranks from 74th place in 2021 to 79th in 2022 with results below the world average (0.45/1). This score remains, however, higher than those recorded in some Arab countries such as Egypt (0.31/1) and Jordan (0.33/1).

14- The World Justice Project's Rule of Law Index draws on in-depth surveys of more than 154,000 households and 3600 lawyers and experts in 140 countries to measure the rule of law across 8 factors: Constraints on the Powers of Government, Freedom from Corruption, Open Government, Fundamental Rights, Order and Security, Law Enforcement, Civil Justice and Criminal Justice. The average of these scores is used to calculate the overall rule of law score for each country. The indicator ranges from 0 to 1, where 1 indicates the highest level of adherence to the rules of law.

This index is used in several international reports such as that : Global Innovation Index, TRACE Bribery Risk Matrix, Corruption Perception Index and Economic Freedom Index.

15- 1 indicates the highest level of adherence to the rules of law.

Chart 30. Publication of laws and their accessibility 2015-2022

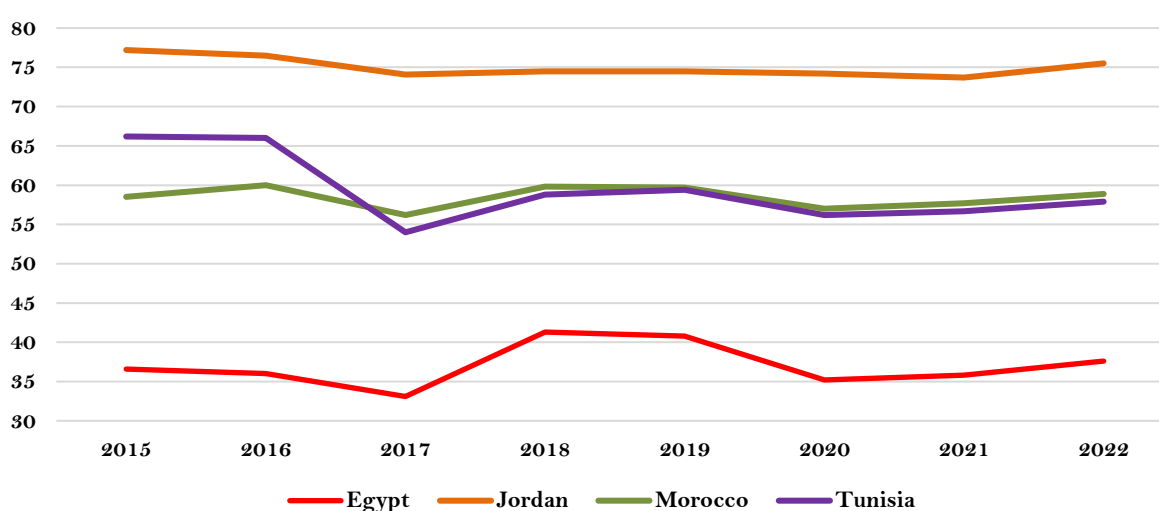


Source : World Justice Project - Rule Of Law Index 2022

According to the Global Innovation Index, the regulatory environment score is almost stable

This observation goes hand in hand with Tunisia's ranking in the "Global Innovation Index GII 2022" report as the score relating to the "regulatory environment" (57.9 in 2022 against 56.7 in 2021) has recorded a decline since 2016 and remains since 2017 lower than the scores recorded in some competing countries such as Morocco (58.9) and Jordan (75.5)

Chart 31. The regulatory environment 2015-2022



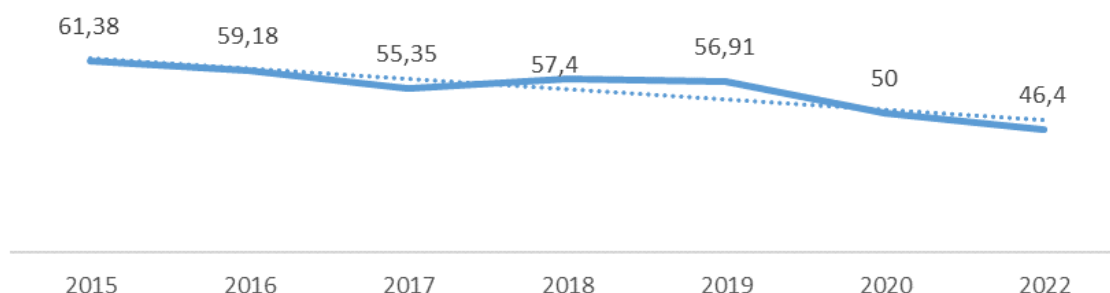
Source : Global Innovation Index 2022, WIPO

7. Taxation and social charges

Tax rates are considered high and the tax system is considered complex

The perception indicator relating to "taxation and social charges" fell by 3.6 points between 2020 and 2022 to stand, for the first time, at a level below 50/100 since 2015.

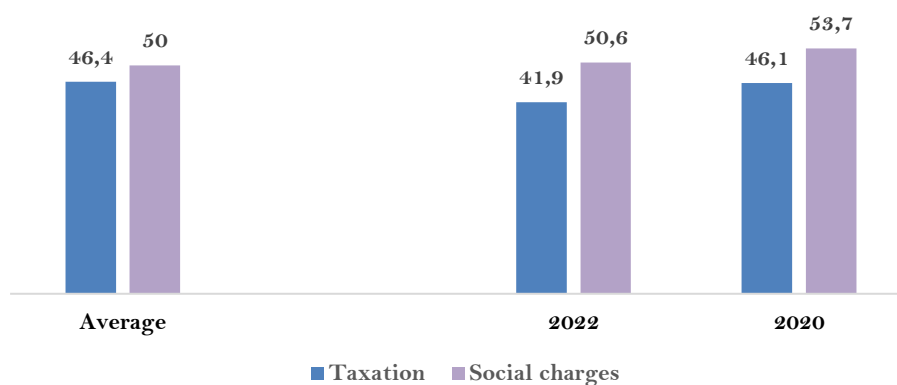
Chart 32. Evolution of the partial indicator of taxation and social charges



Source : Competitiveness and business climate surveys (2015-2022)

This decrease is explained, on hand, by the 4.2 points decline in the partial indicator relating to taxation, synonymous with lower satisfaction with the tax system (which is considered complex) and tax rates (considered high) and, on the other hand, by the fall of almost 3 points in the partial indicator relating to social security contributions.

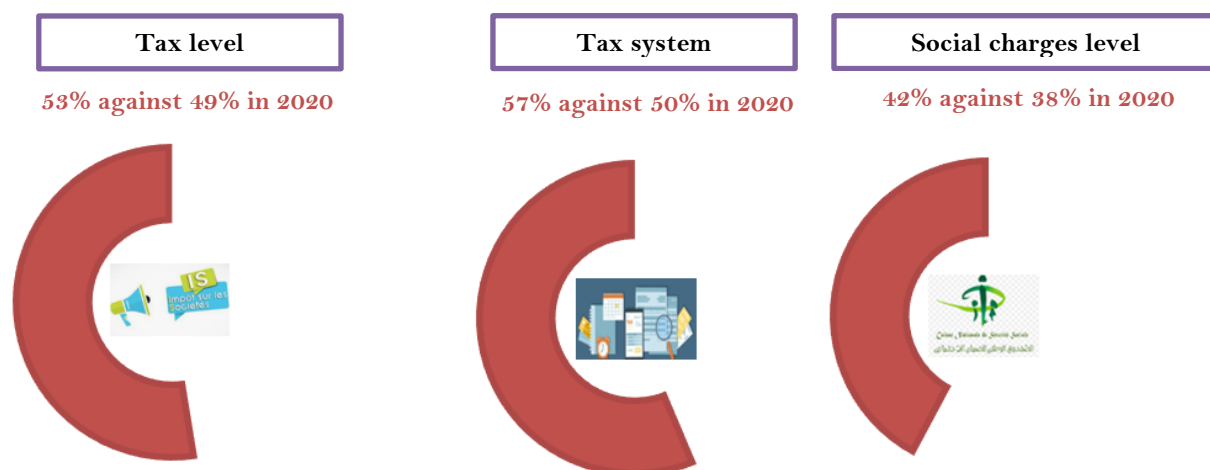
Chart 33. Evolution of the indicator on "Taxation and social charges"



Source : Competitiveness and business climate surveys (2015-2022)

The results of the survey show that the tax system and the level of taxation considerably hinder business development according to 57% and 53% of companies respectively. With regard to social security contributions, 42% of companies say that they are a major constraint for their activity.

Chart 34. Enterprises considering taxation and social security contributions as a major constraint

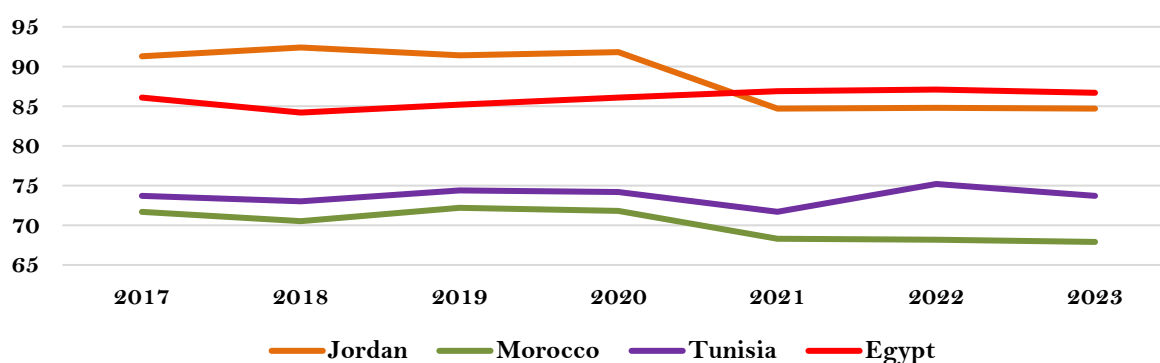


Source : Competitiveness and business climate survey (2022)

Paradoxically, Tunisia ranks in the category of “Mostly free” countries in terms of tax burden according to Heritage Foundation.

The sub-indicator "Tax Burden" of the "Index of Economic Freedom" published by "Heritage Foundation" (estimated by measuring the tax burden of all forms of taxation as a percentage of total gross domestic product), is not considered as a major constraint for individuals and companies in Tunisia. At this level, Tunisia is still considered "Mostly free" according to Heritage Foundation, with a score of 73.7 in 2023¹⁶. This score, which is close to the world average (78.2), is better than that of Morocco (67.9) but much lower than that of Egypt (86.7) and Jordan (85).¹⁷

Chart 35. Positioning of Tunisia according to the "Tax Burden" Index¹⁸



Source : Heritage Foundation, Economic Freedom Index 2022

16- Reference was made to the 2023 edition of the Heritage Foundation because most of the data also covers the first half of 2022, i.e. the same period of data collection for the 22nd business climate survey.

17- For the 2023 index, most data cover the period covering the second half of 2021 and the first half of 2022.

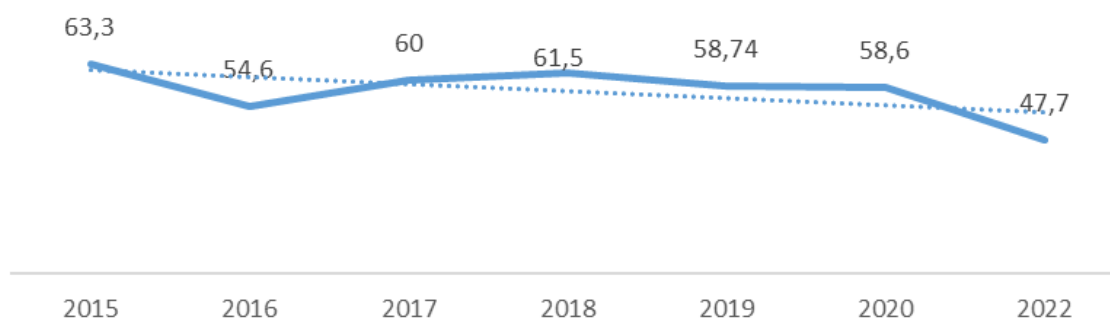
18- This indicator was only added from 2017.

8. The Judicial System

The judicial System is the area that has most dragged down the overall indicator of business climate perception.

The sub-indicator for this area showed the most remarkable decline (10.9 points) in 2022 among the partial indicators of the business climate, to settle, for the first time, at a level below 50/100. It is, therefore, the area that has pulled the IPCA 2022 down the most.

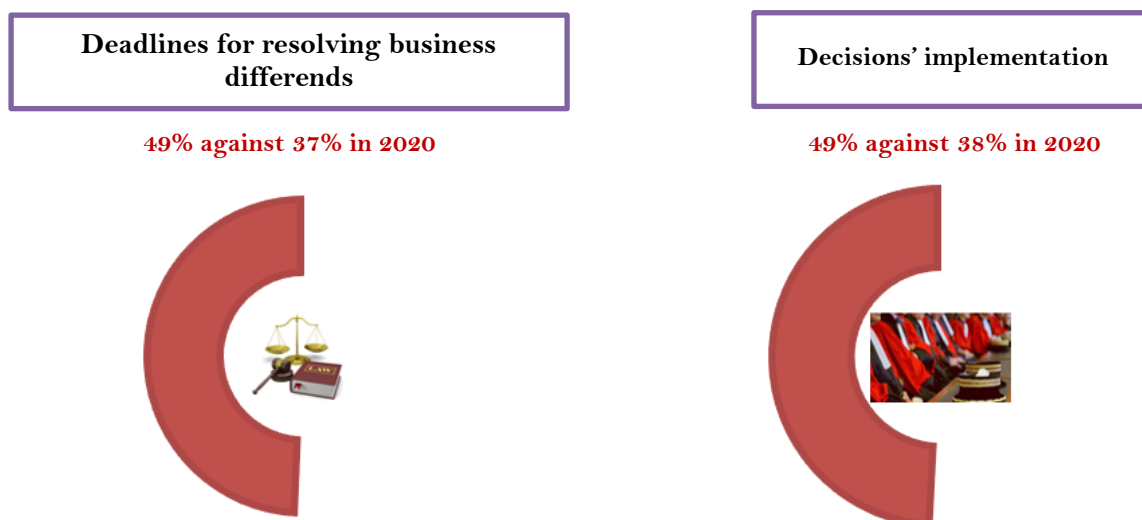
Chart 36. Evolution of the partial indicator of the judicial system



Source : Competitiveness and business climate surveys (2015-2022)

Such a result is understandable regarding the protest movements as well as the strikes that have affected the body of magistrates impacting, consequently, companies activity. Dissatisfaction with this area is due to delays in resolving commercial disputes, as well as the delays of decisions enforcement (49%).

Chart 37. Enterprises considering the judicial system as a major constraint



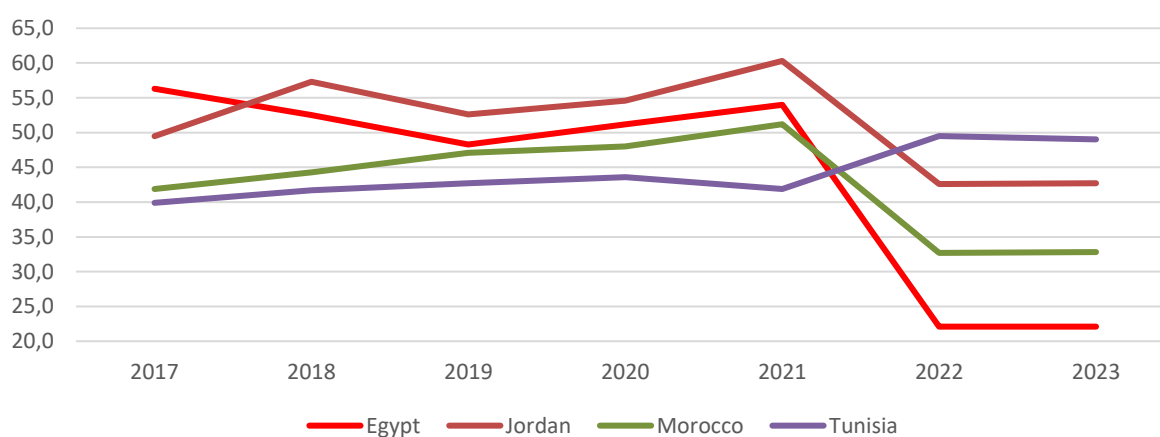
Source : 22nd Business Climate and Business Competitiveness Survey

Despite its score improving by more than 8 points in judicial efficiency, Tunisia remains classified in the category of “Repressed” countries

The Heritage Foundation report on economic freedom and more specifically the sub-indicator "Judicial efficiency" attributes a significant increase in the Tunisia's score from 41.9 in 2021 to 49 points in 2023.

It should be noted that although this improvement, this score did not allow Tunisia to leave the category of "Repressed" countries, the country's score exceeds the global average score (48.54) and the scores recorded by Morocco (32.8) and Egypt (22.10).

Chart 38. Tunisia's position on “Judicial efficiency”¹⁹



Source : Heritage Foundation, Economic Freedom Index

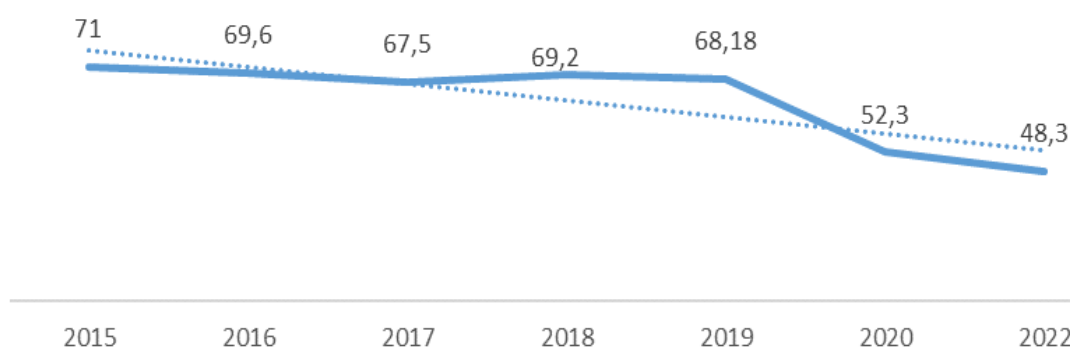
9. Administrative procedures

Administrative procedures perception indicator falls below the average of 50/100 for the first time

As in the previous areas, the partial indicator on administrative procedures has also recorded a value below 50/100 in 2022. This shows that the perception of business leaders of administrative procedures related to "customs", "tax administration", "CNSS administration" and "other administrative formalities" is driven much more by negative than positive perceptions.

¹⁹- Indicator added in 2017

Chart 39. Evolution of the partial indicator of administrative procedures

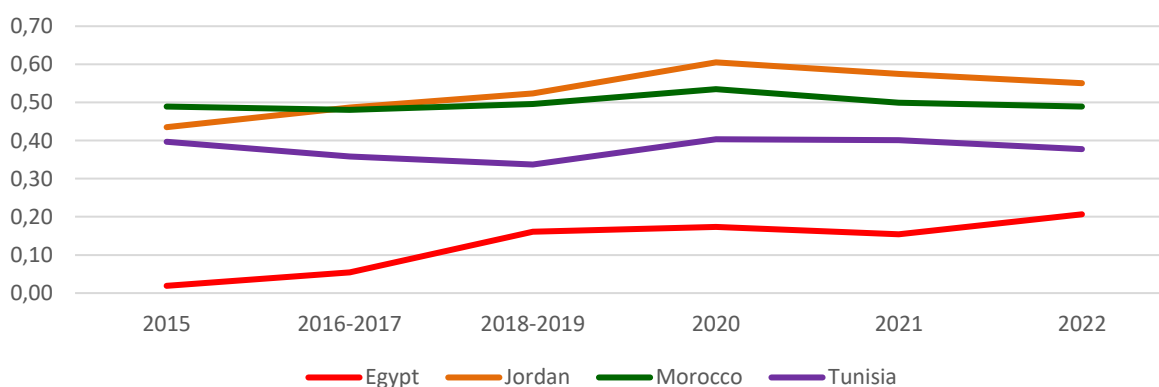


Source : Competitiveness and business climate surveys (2015-2022)

Tunisia ranks 114th in the delays for the execution of administrative procedures according to the "Rule of law index" published by the "World Justice Project"

Tunisia's score in the partial indicator " Administrative proceedings are conducted without unreasonable delay"²⁰ of the "Rule of Law Index" published by the "World Justice Project" is 0.38/1, far below the world average (0.49/1). At this level, Tunisia ranks 114th behind some Arab countries such as Morocco (58th with a score of 0.49/1) and Jordan (37th with a score of 0.55/1).

Chart 40. Administrative proceedings are conducted without unreasonable delay



Source : World Justice Project

It seems that even with the digitalization of administrative procedures, which is increasingly adopted by the various administrations, Tunisia must double its efforts to be able to cross the 0.5/1 limit.

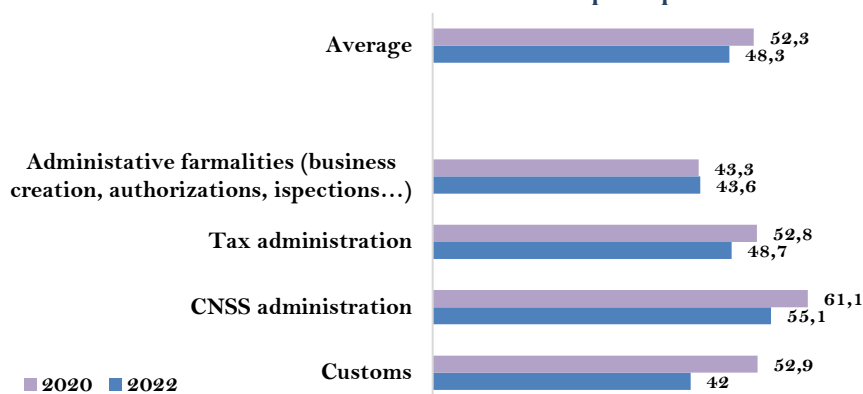
²⁰- This indicator measures whether administrative procedures at national and local level are completed within a reasonable time frame or not. This indicator varies between 0 and 1. The closer it gets to 1, the better the country is positioned.

Customs and business creation procedures are considered severe constraints for more than half of surveyed companies

The investigations carried out at the level of these different types of procedures show that only the indicator relating to "Other administrative formalities" (business creation, authorizations, inspections, etc.) improved slightly (43.6 in 2022 compared to 43.3 in 2020). On the other hand, the perception of other areas of administrative procedures has become more negative, dragging down the related perception indicator.

The largest decrease is recorded by customs procedures, whose collection indicator goes from 52.9 to 42 between 2020 and 2022. Such a decrease reflects the complexity and persistence of certain administrative burdens related to its procedures.

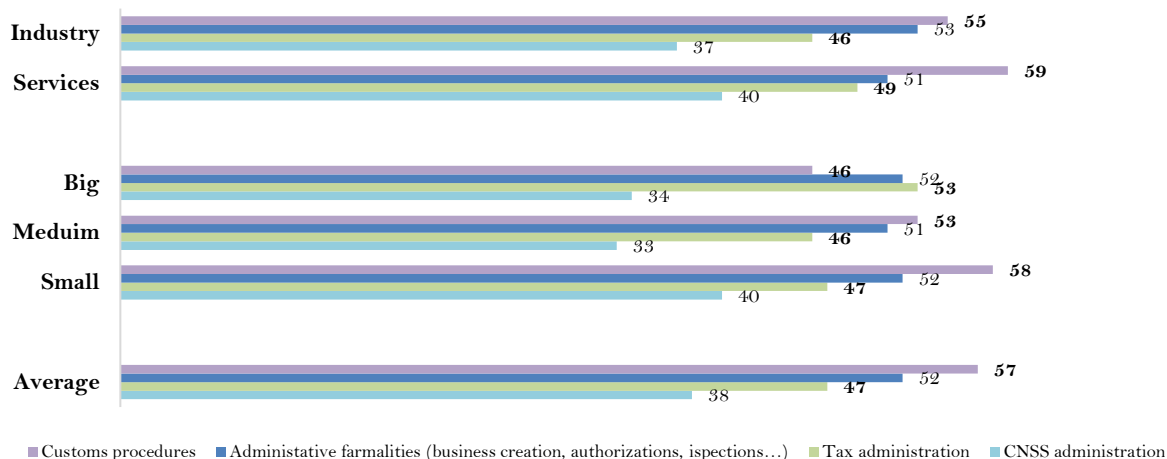
Chart 41. Evolution of the indicator of perception of administrative procedures



Source : Competitiveness and business climate survey (2022)

Further investigations show that these customs procedures weigh heavily on companies whether they operate in industry (55%) or services (59%) or whether they are small (58%) or medium (53%) in size. For big companies, the results of the survey show that administrative procedures related to tax administration (53%) are relatively the most restrictive.

Chart 42. Enterprises considering administrative procedures to be a major constraint (%)



Source : 22nd Business Climate and Business Competitiveness Survey

Referring to the results published in the latest edition of the World Bank's "Logistics Performance Index²¹" (LPI) which provides an aggregated picture over the period 2012-2018 of logistics performance in Tunisia, it is noted that "customs procedures and border management"²² are the main obstacle related to logistics services raised by logistics professionals working in cross-border trade.

Table 2. Aggregate International LPI 2012-2018

| | Average IPL rank | Average score IPL | Customs | | Infrastructure | | Ease of obtaining competitive prices in transport | | Competence and quality of logistics services | | Tracking and tracing of shipments | | Compliance with delivery deadlines | |
|---------|------------------|-------------------|---------|-------|----------------|-------|---|-------|--|-------|-----------------------------------|-------|------------------------------------|-------|
| | | | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score |
| Tunisia | 104 | 2.59 | 130 | 2.27 | 117 | 2.27 | 115 | 2.53 | 113 | 2.45 | 80 | 2.78 | 76 | 3.20 |

Source : World Bank Logistics Performance Index

It seems that this severity still persists in 2022 both in terms of customs procedures and in terms of related delays and costs. Indeed, the results of the 22nd survey show that "Customs clearance" is identified as a severe constraint in terms of procedures (57%) and to a lesser degree in terms of costs (55%) and clearance times (52%). Analysis by sector and size shows that the latter weigh even more heavily for companies operating in services and small ones.

21- Tunisia is not included in the latest Logistics Performance Index (LPI) 2023 report published Apr 21, 2023 by the World Bank (WB).

The ranking results of the 2018 edition :

<http://www.worldbank.org/en/news/infographic/2018/07/24/logistics-performance-index-2018>

The data in the latest edition (2018) is based on a survey of more than 1000 logistics professionals working in cross-border trade, multinational freight forwarders and express carriers. This index covers 160 countries and ranges from 1 to 5. The closer it gets to 5, the more the country is judged to be performing in terms of logistics. In this report, the authors calculated an aggregated index based on data from the last four IPL editions 2012-2018.

22-This pillar covers the entire process of clearance (speed, simplicity and predictability of formalities) by border control agencies, including customs.

Chart 43. Enterprises considering customs clearance delays and costs as a major constraint



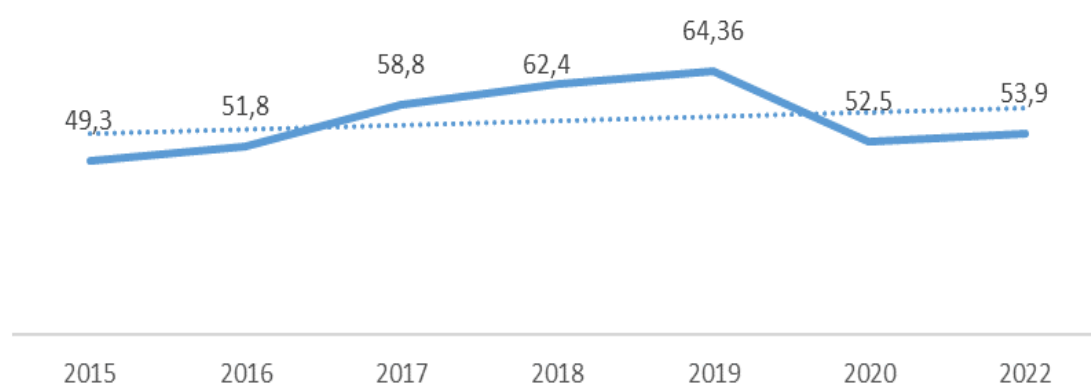
Source : Competitiveness and business climate survey (2022)

10. The security situation

The effort of the security apparatus improves perception of this area

After the decline in the country's security perception indicator in 2020, it returned to its upward trend, improving by 1.4 points in 2022 compared to 2020 to 53.9. Such an improvement reflects a recognition of the effort and actions carried out by the security apparatus to guard against any act that may harm the security of the country. However, this improvement in perception should not hide the fact that a significant proportion of companies (39%) continue to consider this area as a major constraint and, therefore, further efforts are needed to regain investor confidence.

Chart 44. Evolution of the partial indicator of the security situation

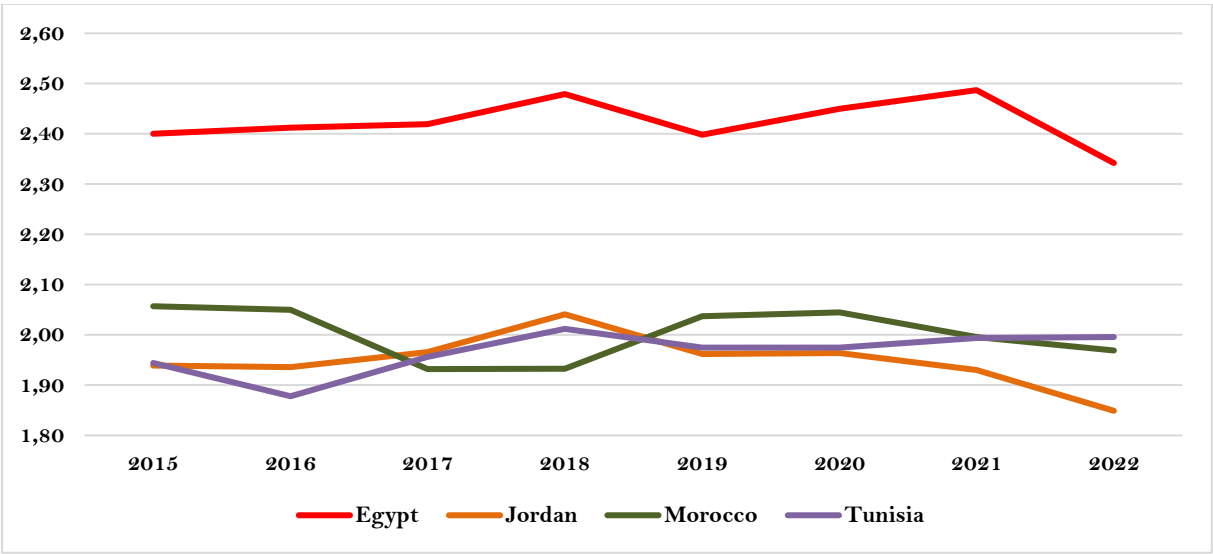


Source : Business Climate and Business Competitiveness Surveys (2015-2022)

In this context and in line with the results of the competitiveness survey, the Global Peace Index²³, produced by the Institute for Economics and Peace (IEP), which is the main measure of world peace, places Tunisia in the zone of moderately peaceful countries with a score of 2/5, almost equal to the overall average score of 2022 (1.99), marking, thus, a certain stability since the year 2018.

Regionally, Tunisia remains in the same area as Morocco (1.96) but is better positioned than Egypt (2.34).

Chart 45. Tunisia's positioning according to the Global Peace Index



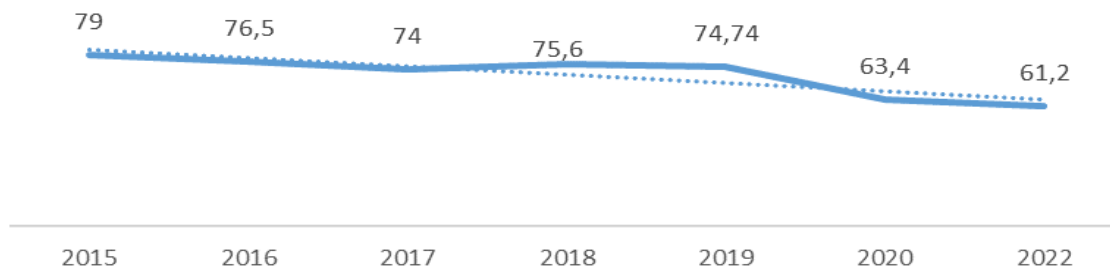
Source : The Institute for Economics and Peace, Global Peace Index

11. Infrastructure : Infrastructure perception continues its downward trend

The infrastructure factor has always been a strong point for Tunisia. However, its perception indicator has been on a downward trend since 2015 to stand at 61.2 in 2022.

23- The Global Peace Index (Global peace index) covers 99.7% of the world's population. It is a composite index measuring the tranquility of countries composed of 23 quantitative and qualitative indicators, each weighted on a scale of 1 to 5. The lower the score, the more peaceful the country.

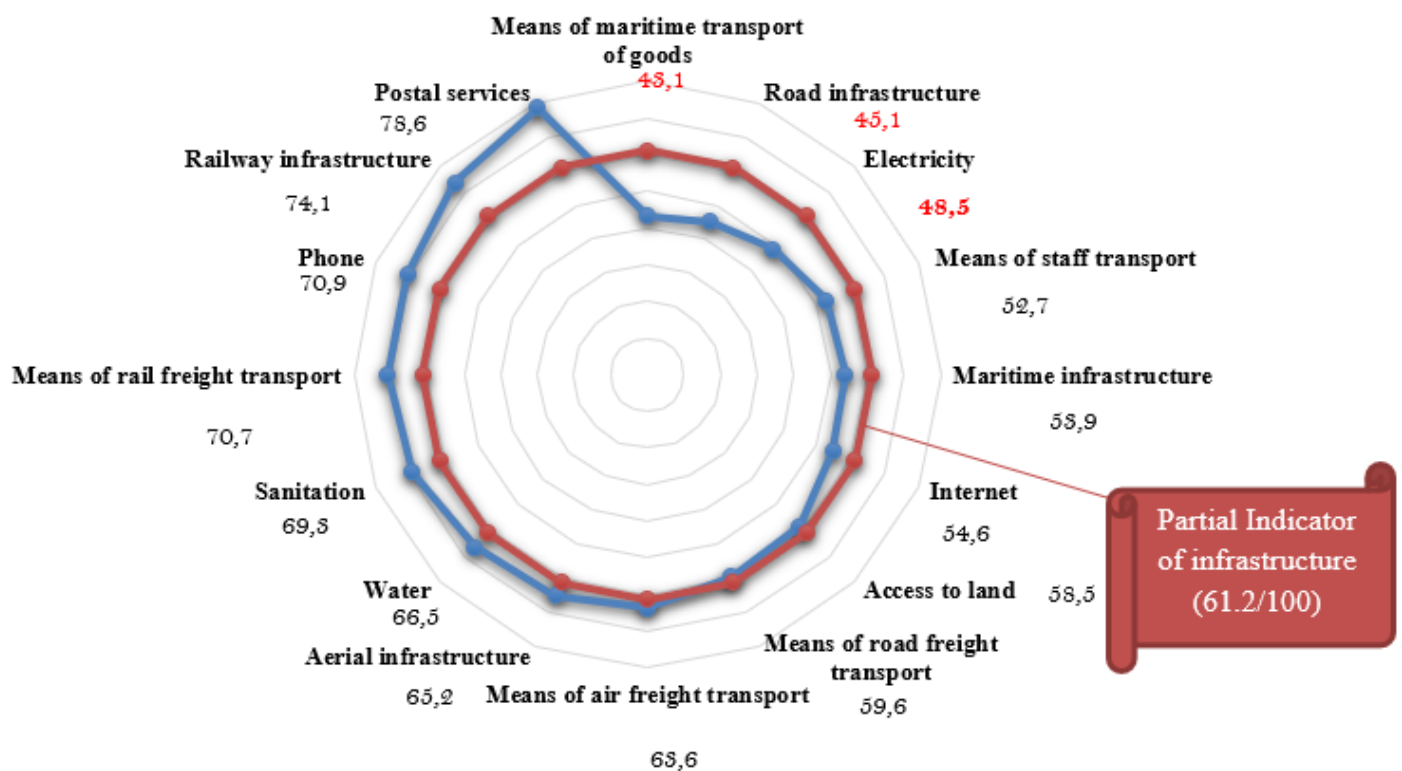
Chart 46. Evolution of the partial infrastructure indicator



Source : Competitiveness and business climate surveys (2015-2022)

Note that the infrastructure sub-indicator covers 16 items, 3 of which recorded a value below 50/100. These are marine freight, road infrastructure and electricity, which are later referred to as weak links in infrastructure in 2022.

Chart 47. Infrastructure perception indicator



Source : Competitiveness and business climate survey (2022)

The percentage of companies identifying means of maritime transport of goods as a major constraint increased from 47% in 2020 to 54% in 2022. The severity of this constraint is the same whether the enterprise operates in industry (54%) or in services (54%), whether it is an exporter (52%) or not (55%) or whether it is small (55%) or medium-sized (54%).

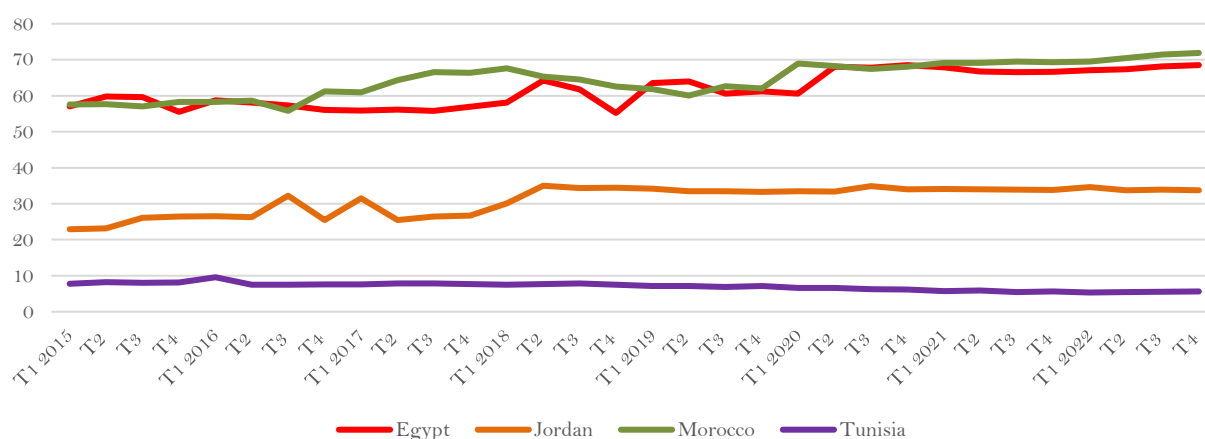
A high dependence on non-resident shipowners

A study conducted by the Ministry of Transport found that the national maritime fleet in 2016 handled only 11% of commercial maritime traffic, leaving the remaining 89% to non-resident carriers. This dependence on non-resident shipowners may be the origin of negative perceptions about the maritime transport quality of goods²⁴.

Tunisia continues its downward trend in the liner shipping connectivity index

In the same context, according to the Liner Maritime Connectivity Index²⁵ calculated by the United Nations Conference on Trade and Development (UNCTAD), Tunisia's index continues its downward trend that began in the last quarter of 2014. It fell from 7.8 in the first quarter of 2015 to 5.6 in the fourth quarter of 2022, remaining well below the performance of neighboring countries such as Morocco (71.8) and Egypt (68.4). According to UNCTAD, Tunisia is obliged to invest more in infrastructure and sustainability in order to reach the levels of neighbouring and competing countries.

Chart 48. Liner shipping connectivity index



Source : UNCTAD. Liner shipping connectivity index

24- Source : "The maritime transport service in Tunisia: role in foreign trade", Hela AYARI, ITCEQ notes and analyses - December 2020 :

<http://www.itceq.tn/files/climat-des-affaires-competitivite/2021/note%2063-service-du-transport.pdf>

25 - The Liner Maritime Connectivity Index (LSCI) published by UNCTAD provides a measure of the level of integration of countries into international liner shipping networks. The base year of the index is (2006=100), and the base value is that of the country with the maximum value in the first quarter (Q1) of 2006, namely China.

... and the performance of the port of Rades is well below the world average

These results go hand in hand with the World Bank's Container Port Performance Index (CPI) ²⁶ and S&P "Global Market Intelligence" according to which the port of Rades is in the 237th place among 370 ports with a score of -0.821 (according to an administrative approach to port performance) and in the 232nd place with a score of -0.164 according to a statistical approach to port performance. It should be noted that Tunisia's scores are negative as well as Egypt's, which means that the performance of the ports of Rades and Alexandria is below average.

Table 3. Global Container Port Performance Index 2021

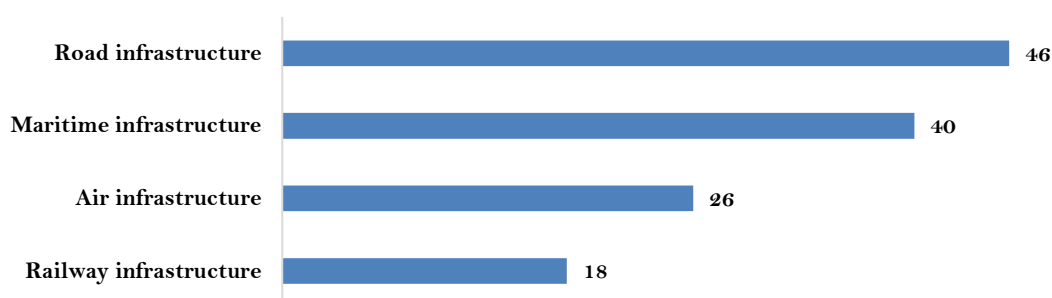
| Port | Administrative approach | | Statistical approach | |
|----------------------------|-------------------------|------|----------------------|------|
| | Score | Rank | Score | Rank |
| Egypt Alexandria | -15.3 | 277 | -5.001 | 266 |
| Tunisia Rades | -0.8 | 237 | -0.164 | 232 |
| Morocco Tangier-Med | 178.1 | 6 | 80.411 | 6 |
| Jordan Aqaba | 101.2 | 35 | 45.327 | 32 |

Sources : World Bank and S&P Global Market Intelligence 2021

Nearly half of businesses lament terrestrial infrastructure

Road infrastructure, identified as the second weakness of infrastructure at the global level, is considered by 46% of companies as a major constraint. The size analysis shows that this constraint is more acute at the level of small enterprises (47%) than those of medium (42%) or big (44%).

Chart 49. Enterprises considering transport infrastructure as a major constraint (%)



Source : Competitiveness and business climate survey (2022)

26- The Container Port Performance Index (CPI) developed by the World Bank and S&P Global Market Intelligence, measures and compares the performance of port infrastructures around the world and serves as a reference for the main players in the global economy.

CPPI 2021 uses two different methodological approaches, an administrative or technical approach, reflecting expert knowledge and judgment, and a statistical approach, using factor analysis (FA). The reason for using two approaches is to try to ensure that the ranking of container port performance reflects as accurately as possible the actual performance of ports, while being statistically robust.

Tunisia remains poorly ranked in the quality of road infrastructure

Referring to the latest edition of the World Economic Forum's Global Competitiveness Index report (2019), Tunisia has, admittedly, made significant progress in the field of road connectivity in recent years, ranking 46th out of 141 countries, gaining 26 places compared to 2018, but it remains poorly ranked in the quality of road infrastructure, ranking 96th at this level.

Table 4. Tunisia's DAVOS infrastructure ranking

| Pillar | Value | Score | Rank | Score variation | Variation in rank | Better performance |
|---|-------|-------|------|-----------------|-------------------|--------------------|
| Infrastructure | - | 62.7 | 85 | +0.2 | -1 | Singapore |
| Road connectivity ¹ | 82.7 | 82.7 | 46 | +17.9 | +26 | Multiple |
| Quality of road infrastructure ² | 3.6 | 42.9 | 96 | -3.2 | -15 | Singapore |

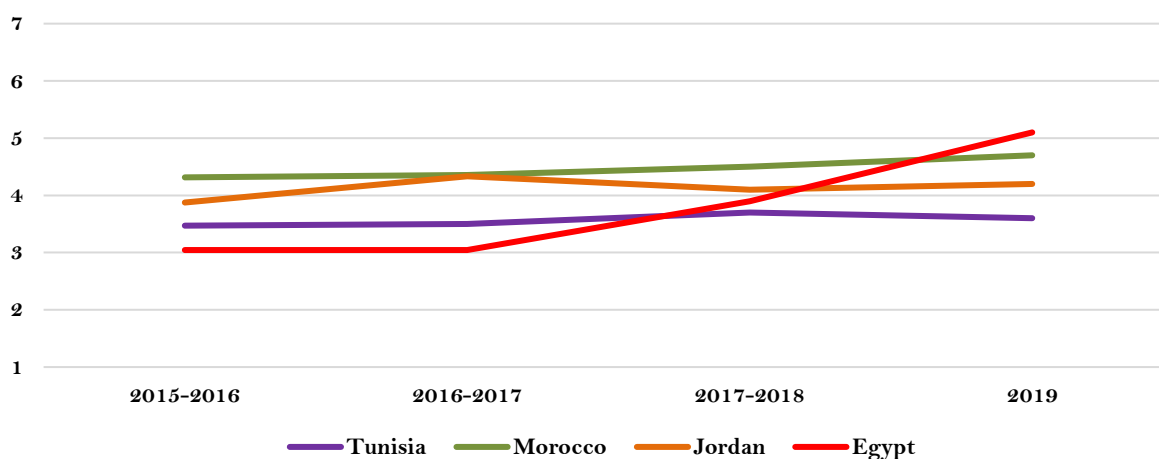
1 : Value varies between 0 (worst performer) and 100 (better)

2 : Value varies between 1 (worst performer) and 7 (better)

Source : World Economic Forum Global Competitiveness Index Report (2019)

At the international level and still according to the latest edition of this report, Tunisia's score is 3.6/7, which shows that the quality of road infrastructure is well below some countries in the region such as Egypt (5.10) which has made remarkable progress in recent years.

Chart 50. Quality of road infrastructure



Source : World Economic Forum, Global Competitiveness Index

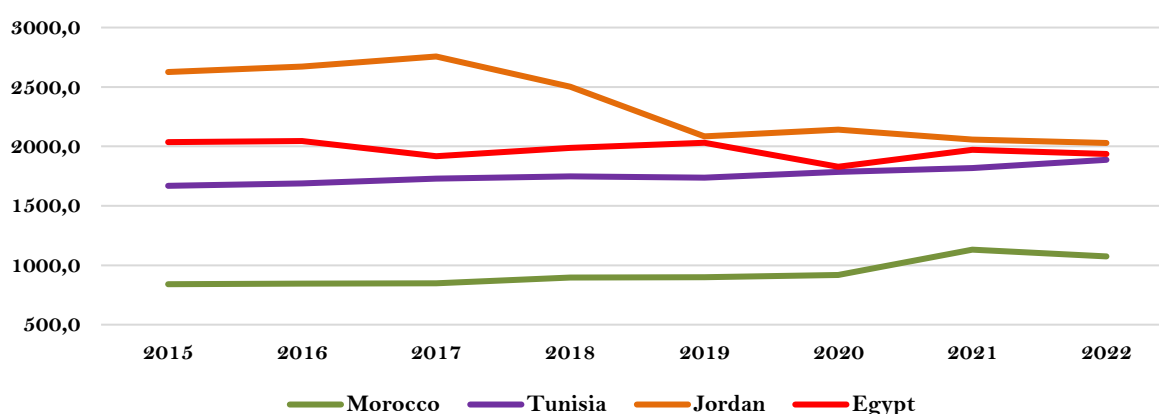
More than half of businesses complain about electricity

Regarding electricity, which is identified as the third weakness of infrastructure, 51% of business leaders consider it as a major constraint (compared to 52% in 2020). This rate rises to

57% for enterprises operating in industry (49% in services) and 53% for medium-sized enterprises (51% for small enterprises and 49% for big enterprises).

In addition, and according to the sub-indicator "Electricity production, GWh/mn pop" of the "Global Innovation Index", electricity production in Tunisia has marked an upward pace since 2015 from 1668.4 GWh / million inhabitants to 1887.2 in 2022. Despite this improvement, electricity production in Tunisia remains lower than some Arab countries such as Egypt (1935.3) and Jordan (2028.7).

**Chart 51. Electricity production in GWh/million inhabitants
2015-2022**

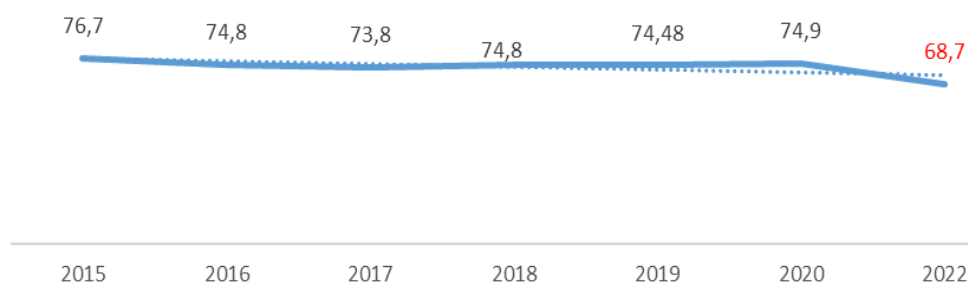


Sources : WIPO, Global Innovation Index

12. Human resources: a considerable decline in its perception indicator compared to previous years

Although human resources are still a strong point of the business climate in Tunisia, the fact remains that its perception indicator has declined considerably by 6.2 points compared to 2020. Thus, for the first time, its score drops to a value below 74/100²⁷ (68.7), indicating that Tunisia is losing ground in this area.

Chart 52. Evolution of the human resources perception indicator



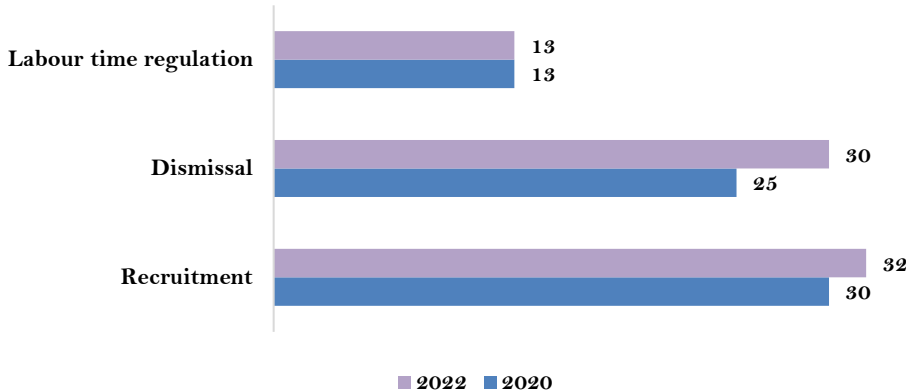
Source : Competitiveness and business climate surveys (2015-2022)

²⁷ - Multi-year recurring value

There are several reasons for such a perception. Some relate to regulatory aspects ("Labour Code" and "Collective agreements"), others relate to the training and qualification of nationals of the training system, whether higher or professional.

The results collected, in this respect, show that the perception of the labour regulations in force is becoming increasingly negative, both in terms of recruitment (32% against 30% in 2020) and dismissal (30% against 25% in 2020). On the other hand, working time does not seem to be a major constraint (13%).

Chart 53. Enterprises considering labour regulation as a major constraint



Source : Competitiveness and business climate survey (2022)

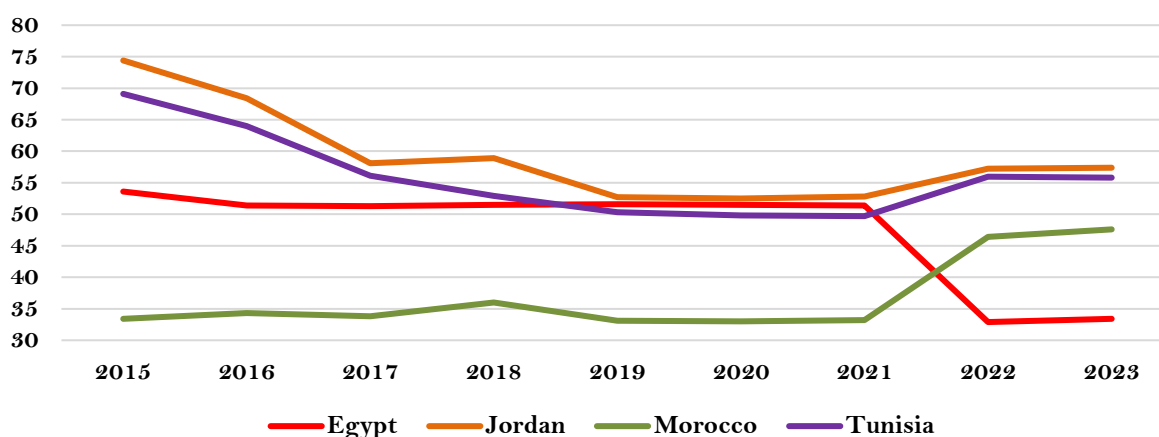
Nonetheless, Tunisia improves its status in freedom of work

Referring to the Heritage Foundation report on Economic Freedom and more specifically to the "Labour freedom"²⁸ sub-indicator, we note that Tunisia has certainly improved its status by moving from the "Repressed" category to that of "Mostly unfree" by improving its score (55.8 against 49.7 in 2021), but this effort remains insufficient to allow Tunisia to be classified in the "Free" category. Achieving this objective remains dependent on the revision of the "Labour Code" on recruitment and dismissal and the review of the "Collective agreements".

In a benchmarking perspective, Tunisia's score is slightly higher than the global average score (55.6) as well as those recorded by Egypt (33.4) and Morocco (47.6) and for the first time, since 2016, it has reached a level higher than that of the MENA region (50.8).

28- The sub-indicator "Labour freedom" takes into account various aspects of a country's labour market legal and regulatory framework, including minimum wage regulation, rights of association, laws preventing dismissals, recruitment, working time requirements, labour force participation rate and labour productivity.

Chart 54. Evolution of the sub-indicator "Labour freedom" according to Heritage Foundation

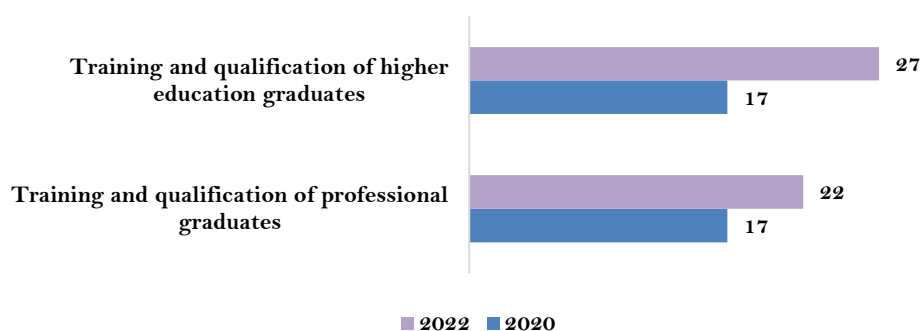


Source : Heritage Foundation, Economic Freedom Index

A better match between the training provided and the needs of the productive fabric is sought

The negative perception of human resources is also manifested at the level of training and qualification of higher education and/or vocational training graduates, and more specifically when it comes to university nationals (27% compared with 22% for vocational training graduates). This calls for the search for solutions capable of ensuring a better match between the training provided and the needs of the productive fabric²⁹.

Chart 55. Enterprises considering the training and qualification of graduates as a major constraint



Source : Competitiveness and business climate survey (2022)

A decline in the competitiveness score on human resources

In this register, the "Global Talent Competitiveness Index (GTCI) ³⁰" report confirms the results of the survey insofar as it highlights the decline in the competitiveness of human

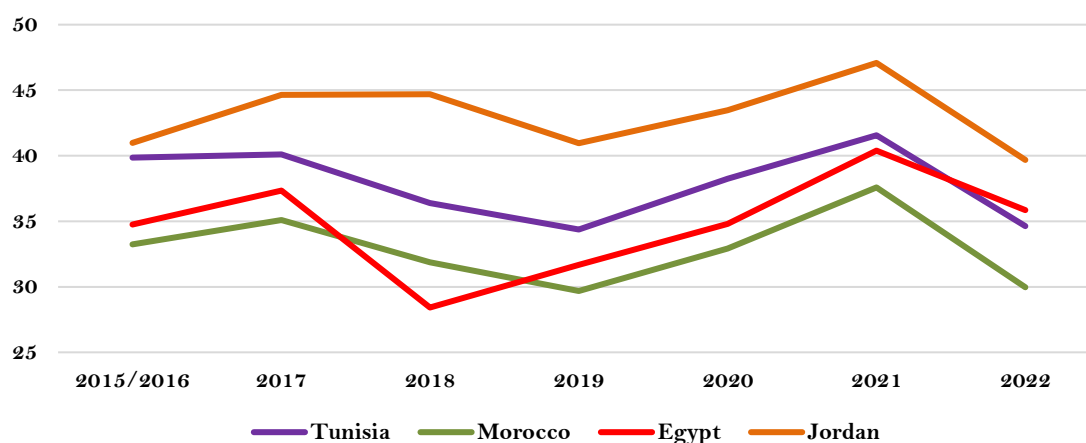
29- See the note "Vocational training reform in search of concrete action" for more details. <http://www.itceq.tn/files/emploi/reforme-de-la-formation-professionnelle.pdf>

30- The GTCI ranks countries according to their performance and their ability to attract, retain and develop talent.

resources in Tunisia materialized by the drop of 7 points in its score to fall to 34.64 in 2022, ranking it 91st among 133 countries.

In a comparative perspective, Tunisia is generally better positioned than its North African neighbors since 2015 with the exception of 2022, when Egypt managed to position itself better than Tunisia.

Chart 56. Positioning of Tunisia according to the Global Talent Competitiveness Index (GTCI)



Source : INSEAD, Global Talent Competitiveness Index

According to this report, Tunisia has less performance, noted in 2022, due more to the technical and professional skills produced by the education and training system (-14 points at the output level) than to the policies and practices to produce and acquire talent (-3.4 points at the input level).

Conclusion and recommendations

The results of the 22nd survey show that Tunisia still has challenges to overcome **in order** to improve its business environment despite the undertaken reforms to inculcate a new investment dynamic, but also has assets that should be preserved and even consolidated.

In terms of **challenges**, the 22nd survey shows that the 3 main constraints of the business climate in Tunisia according to business leaders' statements are essentially "corruption", then "political climate" and "bank financing".

With regard to **corruption**, the fight against this phenomenon will become more effective with the administrative services digitalization's strengthening, reducing bureaucracy and minimizing direct contact between users and the public officials.

However, digitalization needs to be accompanied by institutional reforms to increase transparency and interoperability, promote accountability and consolidate the deterrent policy.

For their part, companies are themselves called upon to adopt codes of conduct and raise awareness among their employees about business ethics to change behaviors and prevent corruption.

When it comes to **the political climate**, stability coupled with an engaging long-term vision is required. In addition, continuity and predictability of laws are essential to ensure business confidence in their legislative and regulatory system. In addition, further simplification of administrative procedures and the promotion of public-private dialogue to understand the needs and concerns of entrepreneurs also deserve consideration.

As for **bank financing** access, which is often considered as a major obstacle for companies, especially small and medium-sized ones, it is a question of persevering in financial reforms capable of reducing credit rationing, in particular through private credit agencies activity development guarantee system's reform, and promotion of alternative types of financing, such as private equity and crowdfunding.

In terms of **assets**, Tunisia has great potential in the field of **digitalization** of administrative services and the promotion of "e-government". The consolidation of this potential calls for the acceleration of the implementation of the various components of the national strategy in this area. These include consolidating investment in technology such as artificial intelligence (1), strengthening infrastructure by expanding access to the Internet (2), training civil servants in new technologies (3), strengthening data security measures (4), pooling efforts to

ensure the interoperability of different public services (5) and encouraging businesses to join the digital transition process (6).

The advantage of a strategic **geographical position**, although not addressed in the survey, must always be established as a leading competitive advantage for Tunisia. Being located at the crossroads of Europe, Africa and the Middle East, Tunisia must take advantage of its privileged geography, facilitating trade and its transformation into a regional hub for innovation and intelligence.

Regional integration deepening through trade agreements multiplication, should also promote the attractiveness for foreign investors and facilitate the Tunisian companies' internationalization.

To overcome weaknesses and seize strengths, it is important to encourage active dialogue between public and private sectors while ensuring good governance of the process of improving the business climate at both programmatic and operational levels.

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