

Interview of the Month – September 2015

Guest: Mr. Jaloul Ayed

Jaloul Ayed served as Minister of Finance in the second and third post-revolution governments in Tunisia. He was previously Board Member and President of the Management Committee of the BMCE Group in Morocco. He held several other senior positions in FinanceCom, the holding company of the group. He started his early professional career with Citibank where he spent 18 years holding several country management positions in the MENA region, and in the capital markets in London. He presently serves as President of MED Confederation and Vice President of Euromed Capital Forum. He also is an active member in several associations of the Tunisian civil society, and a frequent speaker in professional and academic circles. Mr. Ayed is an author and a classical music composer. He holds an MA from the University of Maryland and was the recipient of several academic, professional and political distinctions.

Reforms and Economic Development

- 1. Many delays were observed in the finalization of several announced reforms (e.g., tax reforms and investment law reforms). As a former Minister in the Tunisian Government, what would you suggest to accelerate the process?**

Political vision and audacity are the two necessary ingredients necessary to embark on a serious reform program. Indeed, several necessary reforms should have been initiated shortly after the revolution. However, the short tenure of the successive governments and the lack of strong political backing, have frustrated their efforts to conduct meaningful reforms. However, we have expected the present government, which emanated out of free and democratic elections, to leverage the majority votes it enjoys in the parliament and promptly set the tone for change to occur. That didn't yet happen, but I have reasons to believe that the government will bring forth several bold actions in the near future that will set the stage for serious reform programs.

2. Please share summarized comments on the draft orientation note prepared by the Ministry of Economic Development for the period 2016-2020.

What I like about it is that it has been worked out bottom-up, instead of top-down as has been historically the case. The Plan has been structured from the base of the pyramid where needs have been identified and objectives defined. That said, I will reserve my final judgement on the Plan until such time that new Investment Code as well as the new Banking Law are released, and the government's resolve to carry out the needed reforms is tested.

3. What were the main measures of the Tunisian Marshall plan (i.e., "plan Jasmin") presented to the G8 summit in Deauville? Why, after validation, the G8 countries didn't provide the necessary funding?

The 'Jasmine Plan' set forth Investment as the back-bone of the Tunisia's social and economic program post-revolution. Remember that the two main causes of the Tunisian Revolution are unemployment and lagging regional development. Promoting investment in general, and private investment in particular, were the main drivers of the Plan. Of course, other conditions needed to be met such as stability of the security situation, a favorable labor environment and a solid financial system. The Jasmine Plan embodied innovative schemes such as the creation of the 'Ajyal Fund' aimed at significantly promoting private investments, and the Caisse de Depot et Consignation (CDC) aimed at promoting private equity, financing PPP transactions and being an active player in the capital markets. Whilst we were successful in creating the CDC, the Ajyal Fund never saw the light of day despite its formal approval by the Cabinet at the time.

A warm welcome greeted the 'Jasmine Plan' by the Deauville partners at the time. However, their promises for financial backing never materialized. This created great disappointment for all of us, and we soon realized that we should only count on ourselves to meet the challenges ahead. This was true then, and it is still very much true today.

Tax Regulation and Transparency

- 1. What are the required actions and reforms to ensure tax transparency and significantly reduce tax frauds and parallel economy in the country, specifically in the fields of tax audit methodology and processes, tax regulation, Human resources, IT infrastructure for tax authority, and internal controls for tax administration?**

The Tax Reform Program has been in the works for the last four years. I have reason to believe that 2016 will finally witness the implementation of the reform. The main objectives include the simplification of the tax grid, more transparency, and administrative efficiency. In order to combat tax evaders the Government will likely beef-up the Tax Administration and reinforce audits and controls. Regarding indirect taxes (viz. Customs Tariffs), I expect a notable simplification of the tariff grid (which will likely be reduced to 2 or 3 standard tariffs).

Clearly such measures, if they were to be implemented, will be welcome news but their efficiency will largely hinge upon a host of other factors such as the reform of central government administration, a comprehensive overhaul of the legal and regulatory frameworks, and a serious program to fight the parallel economy. Furthermore, the Central Bank must also play its part in supporting such reforms by modernizing the outdated foreign exchange policy and by introducing new instruments to enhance foreign investments (e.g. long-dated foreign exchange swaps).

- 2. How could Tunisia follow the international best practices to address these critical issues?**

No point in reinventing the wheel. If it worked elsewhere there is a fairly good chance it will work in Tunisia. Obviously, we need to adjust our approach by taking into account the specificities of the country including the cultural, legal and business environments. Take for example the 'Ease of Doing Business Index': would you think it is that hard for Tunisia to decide that in the next five years it aims to be in the top 10 countries instead of being lost in the middle of the ranking? Of course not! The hard part is to do it, and that is where political audacity comes into play.

Banking System

- 1. Many reforms have been established for the Tunisian banking system over the previous years and some others are being finalized. What are the most urgent reforms and actions that you would think about in the Tunisian banking system in general?**

The Tunisian banking system is trichotomic: it is formed by public banks on one hand and by private banks, both domestic and foreign, on the other. Banks operating in each one of these clusters have different objectives and report to different types of shareholders. In my opinion the main reason why the public banks have suffered damage historically, it is because they were precluded to operate in a level playing field with their private competitors. Indeed, public banks abide by two laws (Banking and Civil Service). They were grandly abused by the cronies of the old regime. They suffered bad political decisions such as forced mergers with ailing development banks. Therefore, no reform of the banking system will be successful without the reform, first and foremost, of the public banks. The sad news is that such reform has been dragging for a long time and the corrective actions that are being initiated may not bring about, in my opinion, the required results.

On a different note, we often talk about the need for a banking system reform but we forget that the reform must encompass the entire Tunisian financial system. For instance, it is unforgivable, in my opinion, that Tunisia still didn't develop a bond market nor established a yield curve.

- 2. What do you think about the decision from the State to support the capitalization of the public banks? How could we ensure the improvement of public banks' performance compared to private banks?**

As I alluded to earlier, the injection of fresh money in the public banks is a good thing only if other actions would have been taken before-hand. These include, but are not limited to, aligning the public banks to their private competitors, strongly improving their governance, help them internally generate cash by selling out non-core business related assets and equity participations, enhancing their HR quality, enhancing their risk management capabilities, improving their technology (e.g. creating a common technology late form for all the public banks), and reengineering their administrative processes.

3. What do you think about the involvement of these public banks in supporting administration decision such as recent support measures for the tourism sector?

I am totally against it as this will likely result in re-making the same mistakes that were made in the past. Whilst I am fully cognizant of the need by the Administration to rely on certain vehicles in order to carry out its policy. There exist plenty of other alternatives that can be contemplated to this effect. Banks should be spared the over-easy reliance by the Government to turn to them every time they come under financial duress. This does not mean that public banks should not support Government policies or endeavors; quite the opposite, but on the sine qua non condition that they abide by their own risk management policies and procedures.

Capital Market

1. What are the required actions to improve investors' confidence in the Tunisian stock exchange?

Several conditions must prevail, but I will list those I consider carry paramount importance: stable security outlook; steady macro-economic environment; solid legal and regulatory framework; reliable judicial system; favorable business environment; solid financial system; favorable exchange policies; liquid stock exchange (this can be achieved by listing more public companies, fostering the role of institutional investors, promoting a pro-market culture, easing access to foreign investors, and availability of hedging instruments).

2. Specifically, what do you think about the areas of corporate governance and reporting and the role of capital market authority in Tunisia?

Corporate governance and transparency are key drivers at both the micro and macro levels. Corporations should be persuaded (as part of corporate culture initiatives) to promote them not just to meet regulatory requirements but as good business practices. The capital market authority (CMF) certainly plays a critical role in ensuring observance of such attributes, but should also resist any attempt, as was sporadically the case in the past, to succumb to any attempt (political or otherwise) to bend the rules in order to accommodate certain special interests.

3. **During your mandate as Finance Minister, you fought for the development of an active Private Equity market in Tunisia through multiple initiatives (e.g., CDC, Ajyal fund, etc.). What were the major arguments for such strategy and what obstacles blocked its realization?**

The main purpose of the strategy that I put forth was to promote investment throughout the entire chain of value creation. For instance, I initiated a complete overhaul of the regulatory framework for micro-finance in order to cater to the needs of micro-enterprises that operate in Tunisia and, by the same token, encourage them to forego conducting their businesses in the parallel market. The private equity initiative was aimed to address the dire needs of Tunisian SMEs (the missing middle) who find it very hard to have access to bank financing without beefing-up their capital base. As for the creation of the CDC and the stillborn Ajyal Fund, my objective was to promote national investments at a larger scale.

Monetary Policy

1. **After the horrific attack in Sousse, the economy has been hit hard but the Dinar stayed reasonably stable. Should our central bank's intervention be accredited for the Dinar stability or is it due to other factors such as FDI activities and the drop in oil prices?**

Clearly, the terrorist attack in Sousse has had a negative impact on the balance of payments and the Central Bank will have little leeway but to continue, and even reinforce, its depreciation prone policy of the national currency. This is particularly so as the current account deficit is quickly approaching the historical level of 10%. Furthermore, FDIs are not expected to be resumed in the foreseeable future as the country is still perceived by most potential investors to be risky. This is indeed most unfortunate at a time when Tunisia is desperately looking to reinvigorate economic activities in the country. The Central Bank will have to come with new and innovative ways to reverse this situation, or at least keep it from deteriorating further.

Current Topics

- 1. What are your thoughts about the proposed Presidential reconciliation law and its expected financial impact?**

The question, in my opinion, should not be whether reconciliation SHOULD but be initiated, but rather HOW it should be conducted. History teaches us that from time immemorial business communities have always attempted to gain the favors of their ruling elite, or at least secure its protection. Tunisia is no exception. Singling out the businessmen who were granted particular privileges from the previous rulers is tantamount to holding them solely responsible for a piece of history that the entire society must bear the responsibility for. Privileges were indeed granted in different forms and shapes to a wide variety of people, not just businessmen. Conducting such exercise in a fair, just and equitable manner will be quite daunting in my opinion, but one that must be carried out. Those who have amassed undue riches under the previous regime should accept to give back to the community their part of wealth that was acquired illegally, disproportionately or having caused any particular damage to the society. Those who will be called to carry out this exercise must also keep in mind the added value to the society that those targeted businessmen have generated in the past, and more importantly what they stand to bring forth in the future once the page is turned.

Perspectives

- 1. Experiencing the candidacy for the position of President of African Development Bank, what would have been your plans as related to Tunisia?**

My acceptance to be Tunisia's candidate for the AfDB's presidency was motivated, first and foremost, by my desire to serve my country as well as out of personal conviction that I have what it takes to better serve Africa. Political maneuvering stood against my election, but that didn't diminish my resolve to serve my country in many other different ways. I will continue to be an active member of the Tunisian civil society and I support several initiatives for youth employability and entrepreneurship. If some spare time were to be made available I wouldn't also mind resuming musical composition.

2. Do you still believe in a Singaporean scenario for Tunisia, and do you have ambitions to make it happen?

More than ever! Tunisia has what it takes to be a prosperous country if only it gets its act right. Everything in life starts with a dream, and that is precisely what is amiss nowadays in our country. Nurturing a shared dream is the first step to a better future. Our politicians would better reflect on this. A bon entendeur salut!