Doing Business in Tunisia

2009

Contents

1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Tunisia has been provided by the office of UHY representatives:

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Inevitably, the information contained in the following pages is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions.

This publication is current at January 2009.

We look forward to helping you do business in Tunisia.

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2. Business environment

Political stability

Tunisia is situated between Algeria and Libya in North Africa. It has a 1,300km coastline running along the Mediterranean and is ideally located along some of the world's major shipping routes. Tunisia is the northernmost of the African countries. French and Arabic are widely spoken by the 10.4 million population. English is also widely used in business.

Tunisia achieved independence from France in the mid 1950s but maintains good diplomatic and trade links with France.

President Zine el-Abidine Ben Ali is currently serving his fourth consecutive term since he came to power in 1987. The Tunisian constitution has since been re-written twice to allow him to stay in office. The campaign to re-elect the president in the October 2009 elections is gathering pace, but he is unlikely to face any serious competition.

Tunisia is a republic with a severely limited democratic system. The president runs the country on similarly autocratic lines to his predecessor. The President's Rassemblement constitutionnel democratique (RCD) party dominates parliament, the executive and the judiciary. Islamist parties are banned and, although several secular opposition parties have been licensed, all are too weak to challenge the RCD.

Economic progress

The government's control of economic affairs, while still heavy, has gradually lessened over the past decade through moderately increased privatisation in some industries, simplification of the tax structure, and a more prudent approach to debt.

Progressive social policies also have helped raise living conditions in Tunisia relative to the region – Tunisia is more prosperous than its neighbours.

The Tunisian workforce is well educated as a result of free education based on the French system. The adult literacy rate is 74%.

Agriculture is the mainstay of the Tunisian economy – around half the working population is engaged in this sector, although agriculture accounts for only around 11% of GDP. Industry accounts for 28% and services 61%.

Tourism (millions of European tourists visit Tunisian resorts every year), manufacturing, oil and mining are important contributors to the economy.

Tunisia has strong trade links with Europe: France is its main partner for both imports (23%) and exports (31%).

Real growth, which averaged almost 5% over the past decade, declined to 4.7% in 2008 and will probably decline further in 2009 because of economic contraction and the slowing of import demand in Europe – Tunisia's largest export market.

Tunisia's exports will also face growing competition from the new European Union accession countries and from rival exporters in Asia and the Middle East (such as Jordan and Egypt) as trade liberalisation accelerates.

However, development of non-textile manufacturing, a recovery in agricultural production, and strong growth in the services sector have somewhat mitigated the economic effect of slowing exports.

GDP per capita in 2008 was USD 8,000 – one of the highest rates in Africa.

Assuming some government success in implementing structural reforms, economists forecast that growth will average 5.4% a year across 2008-12, significantly strong in Africa but below the government's official target of more than 6%.

Unemployment was 14% in 2008; inflation stood at 5%. With food and oil costs rising sharply and the Tunisian dinar weakening against the euro – the currency in which most of Tunisia's imports are denominated – rising inflation is expected to ease during 2009.

Economic reforms

The government's 6%+ growth target annually is aimed at cutting unemployment and raising living standards. It hopes to achieve this through measures such as boosting investment in manufacturing; promoting high-value knowledge-based industries; modernising agriculture and infrastructure; strengthening the financial sector; restructuring education; and reforming the bureaucracy to provide better services for the private sector.

3. Foreign investment

The government plans to continue with its programme of structural reform, including fiscal consolidation and a reduction in public debt as a proportion of GDP.

As a result, fiscal incentives to increase private-sector investment are being implemented and a liberalised investment code, the Investment Incentives Code, has been drawn up to encourage foreign investment. The code is the law that governs both national and foreign investment.

The code covers all businesses except mining, energy, local trade and finance, which are governed by specific regulations. Some businesses become eligible for incentives offered under the code by self-declaration; others require prior authorisation.

Incentives include:

- Tax relief on reinvested profits and income up to 35% of the income or profits subject to tax
- Customs duties exemption for capital goods that have no locally-made counterparts
- VAT limited to 10% on capital goods imports
- Possibility to choose a reducing balance method of depreciation for production material and equipment where its useful life exceeds seven years.

Fully-exporting companies have additional benefits including:

- Full tax exemption on exports-derived profits for the first 10 years, and a 50% exemption from the 11th year for an unlimited period
- Full exemption on reinvested profits and income
- Duty-free profits for capital goods including merchandise, transport vehicles, raw materials, semi-finished products and services needed by the business.

The code also grants advantages for investments carried out in ‘encouragement zones' and ‘priority zones’; for investments that promote agriculture; for investments in environmental protection; for investments that control and develop technology through a local integration effort; and for investments that support education, training, culture, health and transport.

Tunisia currently has 28.51 billion (2008 figures) in foreign direct investment (FDI). More is forecast as a result of the government's privatisation programme, mostly in industry sectors. But, so far, privatisation has been only moderate: since the start of 2008 the state has received less than TND (Tunisian dinar) 160m (USD 114m) from privatisations, and economists believe prospects for the rest of 2009 are not encouraging.

The government, however, aims to cut unemployment and lift living standards to Organisation for Economic Co-operation & Development (OECD) levels by increasing foreign and local investment, production and exports, while keeping inflation and the fiscal and current-account deficits under control.

Priorities include addressing financial sector weaknesses, which act as a drag on growth; fiscal consolidation; paying down external debt; upgrading industrial infrastructure; and enhancing labour market flexibility.

Oil exploration plans are also expected to stimulate FDI: Malta and Tunisia are discussing the commercial exploitation of the continental shelf between their countries. And, in recent times, Tunisia has attracted unprecedented interest from the monarchies of the Gulf. Their investments in services, tourism and banking to date have more than doubled in recent years. Arab capital accounts for more than 20% of all foreign investment.

Foreign investment could also be encouraged by the government eliminating the need for prior authorisation for the acquisition of small and medium-sized companies and for the purchase and rent of land and premises in industrial and tourist areas.

The government – with its official target of 6%+ economic growth per annum – is expected by economists to favour boosting investment in manufacturing; promoting high-value knowledge-based industries; modernising agriculture and infrastructure; strengthening the financial sector; and restructuring education.

Foreign investors benefit from the free transfer of their profits and capital.

4. Setting up a Business

Regulatory reforms

Government regulatory reforms – easing the process for investors and entrepreneurs to set up a company in the country – have boosted Tunisia's ranking in tables published by the World Bank and International Finance Corporation (IFC). The organisations jointly rank 181 economies globally for their ease of doing business.

With a significantly improved ranking, Tunisia is reported to be 'a top regional performer' in the Middle East and Africa for regulatory reform in the World Bank and IFC *Doing Business 2009* assessment.

Recent reforms, through a new Law on Economic Initiative, include abolishing a 'paid-in minimum capital requirement' for limited liability companies.

The Central Bank of Tunisia now collects and distributes more detailed credit information from banks, both positive information (such as loan amounts) and negative information (such as arrears and defaults) and individuals and firms can check their credit data in all Central Bank offices.

The Ministry of Finance has introduced a new option for paying taxes, 'téléliquidation'**.** Firms can file their tax returns online and determine the exact amount of their payment before paying taxes at the tax office.

Set-up procedures

Procedures to start a company can be undertaken at a 'one-stop window', The Agency for the Promotion of Industry (API).

The process is:

- Deposit capital in a bank opened in the name of the company to be incorporated.

- Register the Articles of Association with tax administration at the API and obtain a certificate attesting that a declaration has been filed.

- File a declaration of existence with the Tax Control Desk at the API and obtain 'carte d'identification fiscale'.

The documents required to make the declaration are:

- Printed signature form
- Registered copy of the articles of association.
- Copy of the minutes of the nomination of the managers, if not designated by the articles
- Copy of the managers' national identity cards (copy of passports for foreigners)
- Copy of the rent agreement or the certificate of ownership of the premises where the head office is located
- Any administrative authorisation that would be required to start the business.

- Deposit documents at the Greffe du Tribunal.

  The following documents are required:

  - Printed forms (provided by the Greffe du Tribunal office) for the depositors to complete and sign
  - Declaration of honour signed by the managers
  - Registered statutes
  - Minutes that nominate the managers, if not designated by the articles of association
  - Arabic translation of the main clauses of the articles
  - Declaration of commencement of business with the tax administration and the tax identification card
  - Document providing the headquarters address
  - National identity card (or passport for foreigners) of the company manager(s)
  - Fiscal stamp
  - A proxy, if the formalities are undertaken by a party other than the manager.

- Advertise in the Official Gazette (JORT) with the Government Printing Office and in two dailies, one preferably in Arabic.

- Register with the Registre du Commerce at the Greffe du Tribunal.

- Register for social security.

- Get inspected by the National Social Security Fund (CNSS).

- File a declaration with the labour inspectorate.

Company founders must file with the labour inspectorate a declaration that specifies various requirements including the number of permanent seasonal positions at the time of the declaration, and the name, age, nationality and professional skills of the employees.

Set-up structures

A standard start-up company in Tunisia adopts the legal form of **Société à Responsabilité Limitée (SARL)**, a limited liability company. A SARL has two shareholders or more whose liability is limited to their contributions. When a limited liability company (LLC) is made up of only one shareholder, it is called a **Company Owned by a Sole Proprietor.**

The minimum start-up capital for a LLC is TND 10,000 (USD 7,000), which should be fully paid up at the time of the company' constitution. The minimum nominal value for one share is five dinars.

Other legal forms for a start-up company are:

Partnership Company Limited by Shares

Such a company has two types of associates:

- Active partners, who are traders and jointly and severally liable for the debts of the company
- Silent partners who are shareholders and whose liability is limited to their capital contributions.

The number of silent partners cannot be fewer than three. The minimum start-up capital for a Partnership by Shares company is TND 50,000 (USD 35,750).

Partnership Company

General partnerships

General partnerships are made up of two or more partners who are jointly and severally liable for the debts of the company. The partners, belonging to the company at the time when the commitment was entered into, are jointly liable for their separate assets.

Limited Partnerships

Limited Partnerships have at least two active partners who are jointly and severally liable for the debts of the partnership and at least two silent partners whose liability is limited to their capital contributions.

Company by Participation

Company by Participation is a contract by which the contracting parties freely agree among themselves to determine their reciprocal rights and duties and how to allocate profits and losses from the project and they include their allocable shares of profits and losses in their taxable income.

Joint ventures and branches

No specific legal status exists for a joint venture in Tunisia. Generally, joint ventures operate as partnerships in the form of a company.

The incorporation of a branch is relatively simple. The time limit and registration procedures are identical to those relating to a Limited Liability Company. The directors of a branch act on behalf of the parent company and should therefore have a delegation of power.

5. Labour

The government is aiming to achieve higher economic growth levels to create sufficient employment opportunities for an already large number of unemployed people as well as a growing population of university graduates.

Economic commentators, such as from the OECD, have in recent years expressed concern about skill shortages among the 3.7 million (2008 figures) labour force. Those in employment are predominantly skilled in sectors other than those sectors from which most growth is expected. (Figures from 1995 suggested that 55% of the labour force were skilled in agriculture, while only 23% were skilled in industry and 22% in services.)

However, gradual increases in educational opportunities are forecast to at least in part redress the balance.

Employment of labour statutory terms include:

- The maximum number of working days per week is six. The duration of fixed-term contracts (including renewals) is four years
- Minimum paid annual vacation for an employee with 20 years' service is 18 working days
- A third party must be notified before terminating the employment of even one redundant worker
- The notice period for redundancy dismissal after 20 years of employment is just over four weeks
- Severance pay for redundancy dismissal after 20 years of employment is 13 weeks' salary.

Statutory social security contributions, jointly between employer and employee, total 16% of gross salary. Work accident insurance contributions are 3.8% of gross salary.

6. Taxation

Income tax

Income tax is levied at 15% for annual incomes of TND 1,500 (USD 1,000) or more, rising on a scale to a maximum rate of 35% on earnings above TND 50,000 (USD 35,750).

Foreign staff working for fully exporting and offshore companies pay a flat income tax rate of 20%.

Corporation tax

In 2007, the government widened the scope of taxation on company revenues, while at the same time reduced the corporate tax rate from 35% to 30%, and even to 20% for companies listed on the Tunisian stock exchange.

Corporation tax is 10% for agriculture and fishing companies.

Tax incentives

Investments made by companies that set up in free zones (see below) are allowed a tax deduction against income or profits invested in the initial corporate capital subscription.

Companies established in free zones are subject to only the following taxes, duties, rights and fees:

- Duties and taxes related to passenger cars
- Single countervailing duty on land transport
- Contributions and shares for the social security legal scheme
- Corporate tax payable from only the 11th year of the operation (dating from the first effective export sale) and only after a 50% deduction for exports-derived profits.
- Foreign firms exporting at least 80% of production, or investing in agricultural or regional development projects, are eligible for full tax exemption on profits for 10 years and 50% thereafter.

VAT

Tunisia's basic value-added tax rates are 18%, 10% and 6%, with most goods charged at the 18% rate. Consumption taxes of 10-700% are applicable to luxury products.

EU free trade zone

An agreement signed with the European Union (EU) created a free trade zone from 2008 allowing European industrial products to be introduced to the Tunisian market without duties. (Tunisian industrial products have been able to enter the EU market free of duty since 1998.)

Negotiations on the liberalisation of trade in agricultural products and fish, and trade in services, have also been under way.

Tax outlook

Fiscal revenues are under pressure from the increasing share of revenues represented by export sectors enjoying a favourable tax regime, (as well as the fall in customs revenues caused by free trade agreements and the privatisation of profit-making public sector companies).

Economists expect pressure on tax levels to increase as the share of tax in GDP has been falling (25% in 2005 to 23.9% in 2008).Tunisia's commitment to trade liberalisation is also posing problems related to the economy's capacity to find alternative revenue sources to make up for the fall in customs duties.

Moreover, offshore companies, which focus partially or wholly on exports, benefit from a wide range of advantages that weigh on the state budget via tax exemptions, customs facilities and the financing of transport costs.

All these factors have persuaded the government to seek compensation through the imposition of other duties and taxes on the consumption of local products and services, such as telecommunications.

7. Accounting & reporting

The Financial Market Council is responsible for monitoring the observance of reporting obligations for all companies listed on the stock exchange, all insurance companies, all banks, companies with more than 100 shareholders, etc.

Its role is to confirm that the information provided or reported conforms to legal and statutory requirements. Economic observers have suggested that the volume of work it monitors is too large for the resources it has at its disposal.

The World Bank, and other global financial organisations, have acknowledged increased transparency in Tunisia's accounts reporting over recent years. Tunisia scores relatively well compared with other countries in the Middle East and North Africa. However, compared against international reporting standards, economic observers consider that further regulatory reforms are still needed.

In a report by the Financial Standards Foundation – a standards compliance index measuring 81 countries globally against key financial systems standards – Tunisia achieves a low overall compliance rating when set against international standards and codes, with a score of 30.83 out of 100 in its standards compliance index.

The foundation also acknowledges, however, that Tunisia continues to improve the quality and dissemination of its statistical data and increase the transparency of its monetary policy.

According to a 2006 World Bank assessment, Tunisia has two professional accountancy bodies authorised to conduct statutory audits. Originally, the Institute of Chartered Accountants (Ordre des Experts Comptables de Tunisie, or OECT) had the exclusive right to conduct audits, but this right was later extended to another professional body, the Society of Accountants.

The OECT adopted International Standards on Auditing (ISAs) in 1999, effective for periods beginning in 2000. Before the adoption of ISAs, the

OECT issued auditing standards which, according to the World Bank, were "seriously deficient". This judgement prompted Tunisia to switch to international standards.

The Society of Accountants, on the other hand, says the World Bank, has never adopted ISAs, raising concerns about the quality of some audits.

The World Bank has recommended all statutory audits should be conducted in accordance with ISAs. It has also pointed out discrepancies in the legal and regulatory framework, stressed the necessity to resolve these discrepancies, and recommended upgrading academic and professional education and training in accounting and reporting standards.

Meanwhile, state-owned banks are gradually being sold off and measures to improve quality of service are being implemented. The banks are also set to take a more active role in providing finance to the private sector. Currency reform is being accelerated and by the end of 2009 the Tunisian dinar is likely to be fully convertible.

The statutes of the Central Bank of Tunisia have also been reformed and its role modified. Indicators relating to bad debt have improved: the reported level of 'bad' loans (deemed to be unproductive or a risk) held by public sector banks has been falling and the government is looking to improve public sector bank management further through privatisation and mergers; restructuring non-productive loans, particularly in the tourism sector, and reducing risky loans to 10%.

8. UHY firms in Croatia

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Générale d'Expertise et de Management (GEM) is based in Tunis, the capital of the Tunisian Republic. Tunis, with a population of more than 2 million in the central municipal area alone, is Tunisia's largest city. It is the centre of Tunisian commercial activity, as well as the focus of political and administrative life in the country.

The development of the Tunisian economy in recent decades is reflected in the booming development and modernisation of the outer city.

GEM is the largest non-Big Four accountancy practice in Tunisia. As well as providing audit and accountancy services to many domestic public companies, GEM also has a broad range of overseas clients in China, Kuwait, Djibouti, Libya and Mauritania.

Established in 1991, the firm provides services in:

- Accountancy
- Audit
- Bookkeeping
- Corporate finance
- Taxation

In addition, it offers specialist services in IT consultancy and management consultancy.

Languages spoken in the firm are Arabic, English and French.

Its principal operating sectors are:

- Agriculture
- Banking and finance
- Energy
- Professional services
- Public sector.

GEM is registered with the Tunisian Institute of Chartered Accountants and is a member of the French chartered accountants association (IFEC).

The firm has 35 staff (technical and administrative) led by Managing Partner Abderrazak Gabsi, who has more than 20 years professional experience. Mr Gabsi is a member of the Tunisian Institute of Chartered Accountants, the National Council of Accountancy, the Tunisian High Fiscal Committee, the Tunisian High Tax-Control Committee and IFEC.

He is also an international university teacher (courses: IAS/IFRS standards & Audit; Level: PhD, Master & Accountants Certificate) and has taught at the IDLO institution (Rome), the Tunisian High Business Studies Institution (IHEC), and the Tunisian Corporate Governance & Business Institution (ISCAE).

GEM joined the UHY network in 2006.

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com