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WHERE CREDIT IS DUE: MICROFINANCE REGULATORY REFORM, TUNISIA, 2011–2014

SYNOPSIS

In the wake of the 2011 civil uprising that toppled a longtime dictator, Tunisia's transitional government struggled to meet citizens' demands for economic opportunity. Interim Finance Minister Jaloul Ayed saw limited access to financial services as a barrier to building the private sector and creating jobs, but the microfinance industry was overregulated and dominated by a majority-state-owned bank that loaned government funds to nonprofit associations, which in turn loaned to clients at unsustainably low rates. Ayed and his deputy, Emna Kallel, crafted a strategy to expand small businesses' and entrepreneurs' access to loans by revising requirements and opening the door to private-sector lenders under the watch of a new supervisory authority. The law upended the existing microfinance industry, creating new opportunities but also disrupting the government-funded associations. Four years later, uncertainties remained, but Tunisia's microfinance sector had begun to move toward a market-based system under a new regulatory environment that allowed for the industry's future expansion.

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INTRODUCTION

In June 2011, Mokhless Miled finished a training program in furniture upholstery in Kairouan, a city in Tunisia's interior. Then with 1,000 dinars (US$730 at the time) borrowed from a local microfinance organization, he bought a sewing machine and other tools and opened a business repairing and refurbishing furniture. Four years and another loan later, he had four employees and was looking forward to further expansion. Miled said that if he had not been able to take out a loan, he would be jobless.

Other Tunisians had financial needs similar to Miled's. In 2010, a European Union (EU)–funded study estimated that 1 million Tunisian citizens were potential customers for microloans.[1] Later research put the figure as high as 3 million out of a population of almost 11 million for the full range of financial services.[2] Unlike Miled, however, most people in rural areas or from poor households were unable to obtain small loans to start their own enterprises.

In many other countries, microfinance—including loans, payments, savings, insurance,

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transfers, and other financial services—served poor consumers whom traditional banks and other institutions passed over either because the loan amounts were too low to justify administrative costs or because the risks of default were too high or because the potential customers were in hard-to-reach rural areas. In many other countries, a combination of for-profit and nonprofit financial institutions, public and private banks, and other nongovernmental organizations offered such services.[3] But in Tunisia, a government-funded microfinance operation—wherein a state-owned bank financed hundreds of small, independent borrowing associations—dominated the industry. Vulnerable to budgetary and political pressures, the program limited access to financial services, which had negative consequences for entrepreneurship, job creation, and social equality.

In January 2011, nationwide protests ousted Tunisia's long-ruling autocratic president, Zine el-Abidine Ben Ali. With Ben Ali gone, policy makers had an opening to dismantle his political and economic policies, which had often favored government control, enriched his allies, and marginalized millions of Tunisians.[4] Responsibility for addressing this challenge fell to an interim government and the interim finance minister, Jaloul Ayed. Ayed had just returned to Tunisia after an long career in international banking and finance that included 18 years at Citibank and most recently at Morocco's BMCE Group, a commercial bank. He saw broader access to financial services as an important way to empower citizens and jump-start the economy. Ayed realized that to extend the availability of small loans, the government would have to reform the regulations that governed Tunisia's state-led microfinance sector and open the industry to private sector investment while protecting vulnerable borrowers. And he had to act fast because the interim government would be in place less than a year before Tunisians elected a replacement government.

To analyze the shortcomings of the existing microfinance institutions and recommend changes, Ayed appointed Emna Kallel, executive director of Axis Capital, a BMCE subsidiary financial institution.

For months after Ben Ali's departure, street demonstrations continued in the capital. Ayed and Kallel had only to step outside the Ministry of Finance building, located in central Tunis near other government offices, to remind themselves of the importance of their work. "It was a real revolution outside," Ayed said. "Demonstrators were shouting, and I was encouraging my colleagues to focus on elaborating the necessary reforms the country needed, including microfinance."

THE CHALLENGE

The Tunisian government had a strong presence in the microfinance sector, as it did in many other aspects of the economy. Microfinance was part of the mission of the Tunisian Solidarity Bank (Banque tunisienne de solidarité, or BTS), which began operating in 1997 with 30 million dinars (US$22 million at the time) in initial capital. The government and state entities owned about 54% of BTS shares, while the rest was privately held.[5]

The government provided BTS with funds to lend to legally recognized, community-level nonprofit associations at zero interest. The associations then provided small loans to clients at an interest rate of no more than 5%, with a onetime commission of 2.5%.[6] The government capped the size of individual loans at D5,000 (US$3,800 in 2010), but most loans were about 1,000 dinars (US$750).

BTS lent money to the associations on a quarterly basis—on the condition that a minimum of 80% of the money loaned to the associations was repaid to the bank on time—allowing for up to 20% in losses. In 2010, a little more than 10 years after the program started, BTS-funded associations were serving an estimated 237,000 clients, or an average of 850 per association.[7] BTS general director of microfinance Khalifa Sboui and CEO Mohamed Kaaniche declined to comment for this report.

Although the state-funded system had earned initial praise for providing much-needed financing options for some of Tunisia's small borrowers—including Miled the upholsterer—the approach had serious problems. The maximum 5% interest rate and the nominal processing fees charged by BTS-funded associations were too low to enable the associations to break even, leaving them reliant on state subsidies in the form of capital investment, on personnel support in the form of paid temporary staff, and sometimes on free or subsidized office space. Globally, microfinance institutions charged an average interest rate of 28% on microloans, half of which went to operating costs (median figures were similar).[8] The global rate reflected not only the risks inherent in making loans to new businesses and budding entrepreneurs but also the administrative costs of processing and managing many small transactions.

Because Tunisia's microfinance associations earned almost nothing on their loans, they were unable to invest in the computers, financial software, and specialized workers needed to improve and expand their operations. Many associations recorded loan data on paper and sent reports manually to BTS. Without the tools used by modern microfinance institutions worldwide, many of the associations also were in a weak position to adapt to any changes in the ways the subsidized system worked or to seek other sources of capital.

Tunisian microfinance associations also had lower rates of on-time repayment than did other microfinance institutions worldwide. In 2010, the associations' nonperforming loans after three months—or outstanding loans with at least one payment three months or more late—represented 27% of their total loan portfolio.[9] Globally and in the Middle East and North Africa region, the same figure was around 2%.[10]

The associations used their limited funds to pay into a national guarantee fund designed to cover loan losses, but access required an association to prove that the debtor in question was unable to repay the loan and demonstrate that it had tried all available methods of being repaid.[11] The cost of the process was prohibitive, and no association successfully accessed the guarantee fund, according to a 2015 World Bank report.[12]

Because the associations relied on subsidized, interest-free loans from BTS, their loan capital depended on how much the government gave the bank. "BTS had a limited budget, and it did not permit them to fulfill the needs of the population," said Souhir Taktak, general director of the finance department of the Ministry of Finance from 2011 to 2014. Government support of BTS failed to match the demand for microloans. In other countries, private investors often stepped in to capitalize microfinance institutions, but in Tunisia, investors were wary of the interest rate cap and many associations' weak organization and management.[13]

Ayed and Kallel also had to confront an image problem that clouded the understanding of microfinance and the role of the associations. Many political and social leaders had little appreciation of how microfinance worked worldwide or how it could meet the needs of Tunisians. After years of state domination of microfinance, many had come to think of the industry as a social service directed toward poor people in rural areas rather than a legitimate financial enterprise that had profit potential. Khaled Ben Jilani, a private-equity fund manager with investment company AfricInvest, said that prior to the ouster of Ben Ali, Ministry of Finance officials thought of microfinance as "charity."

Others recalled the cronyism of the Ben Ali years and thought of the BTS-funded associations as political tools whose leaders had little interest in reform.[14] Although some of the

BTS-funded associations were led by prominent community members and provided loans equitably, the Ben Ali government had used others as a way to channel subsidized loans to political supporters among the rural poor.

Mohamed Hannachi, secretary-general of the Moustaqbal microfinance association in the town of Menzel Bourguiba, said the situation allowed for the use of state money for political and personal ends.

To help more low-income Tunisians access financial services, Ayed and Kallel had to work with civil society, donors, and the private sector to restructure the microfinance sector. New regulations had to offer widespread access to loans and other services, had to protect borrowers, and had to attract much-needed investment. As appointees in a transitional government that would end in less than a year, they also had to act quickly to secure long-lasting support for their reforms.

FRAMING A RESPONSE

In early 2011, Ayed and Kallel worked with a group that included representatives from the central bank, BTS, microfinance associations, the French Development Agency (Agence Française de Développement, or AFD), the World Bank, the African Development Bank, the European Investment Bank, and the EU to discuss ways of extending access to microfinance services in Tunisia. The group also included Enda Inter-Arabe, Tunisia's only nonsubsidized microfinance lender at the time. Enda, a member of the Senegal-based network of microfinance institutions Enda Third World, had opened in Tunisia in 1990 by providing microloans as parts of an urban development program in 1995.[15] The organization was a working example for those looking to reform the sector.

Ben Jilani, who managed a fund that invested in a handful of microfinance companies throughout Africa, wanted to test the waters in Tunisia. He and his colleagues at AfricInvest were instrumental in bringing together a group of government representatives, donors, the private sector, and civil society.

Alice Nègre, who worked with the Consultative Group to Assist the Poor (CGAP), a partnership housed at the World Bank that advocated for increased financial inclusion, was an important participant. She had had a long

Textbox 1. Enda Inter-Arabe

Starting in a poor district of Tunis, Enda charged interest rates of 25 to 30% depending on loan type.[1] Originally, the organization obtained capital via grants, but by 2003, it had become financially self-sufficient and in 2005 received its first commercial loan. Cofounder Michael Cracknell said President Ben Ali had exempted Enda from the national 5% interest rate cap on microloans. (In September 2010, months before the start of the uprising, the exemption was extended to any nonprofit organization using funding that did not come from the BTS, but no organizations took advantage.[1]) By 2010, Enda alone had roughly 160,000 clients—compared with 237,000 served by the BTS-funded associations—and a loan portfolio of 80 million dinars, or about US$58 million.[1]

Provided their enterprises benefited from the services, Enda's clients were willing to pay the higher interest rates because of the higher-quality services the group offered, said Alice Nègre, a consultant to the World Bank–associated Consultative Group to Assist the Poor. Because the BTS-funded associations received their capital from the BTS on a quarterly basis, loan applicants often had to wait two months or longer to get their money. Enda clients could have cash in hand two weeks after applying for a first loan, and if they successfully repaid that first loan, they could renew and have more money in only two days. Enda also offered borrowers professional counseling and a network of fellow microentrepreneurs.

career in microfinance and had started Planet Rating, a rating agency for microfinance institutions, which gave her deep knowledge of the sector worldwide.

After a conference in April 2011, the Ministry of Finance decided to work on two parallel processes: the drafting of a national strategy document for microfinance and the development of a law to regulate the new sector. The donor agencies paid for consultants, including Nègre, to work with the ministry.

Speed was important. As interim finance minister, Ayed knew he had only months before elections and a new government, and there was no guarantee a new minister would see microfinance as a priority. Kallel led both the national strategy and the legislative process. She worked with Nègre on the strategy and with Taktak and a legal consultant on the legislation.

Developing a strategy

Nègre and Houda Ghozzi, a strategy consultant and business professor at the Mediterranean School of Business in Tunis, worked together on the strategy document. They quickly realized that their biggest hurdles were lack of market data and the time crunch.

For insight into the size of the potential market, Nègre and Ghozzi needed accurate figures on national poverty rates, information on the credit histories of targeted borrowers, and statistics on the profits and credit histories of small businesses. The National Statistics Institute (Institut national de la statistique, or INS) issued official poverty and business-related statistics in Tunisia. However, after the interim government released figures on poverty that used a definition that differed significantly from the numbers published by INS, officials at the institute became less cooperative, Ghozzi said. She had to build relationships with people at the institute and spend valuable time explaining the microfinance project and its needs. "I spent days in the corridors of the INS" to get usable material, she said. "It depends on people; it doesn't depend on processes. And that's the difficult part in Tunisia."

Nègre and Ghozzi also met with representatives of Enda, a few banks, other microfinance associations, relevant government ministries, BTS, the central bank, and other relevant parties. Nègre said she and Ghozzi usually opted to meet with each group individually because representatives were more open to sharing their positions and interests in one-on-one conversations. People were more cautious when giving their views at the several meetings attended by all the groups, she said.

Government officials viewed microfinance from varying perspectives. The ministry of labor wanted to understand how microfinance could be used to improve the job market, while the ministry of social affairs considered microfinance as a way to help the poor, Nègre said.

Nègre said she studied several other countries' national microfinance strategies and exchanged ideas with a CGAP colleague in Jordan who was developing a national strategy at the time.[16] But Tunisia's context was specific, and Tunisians doubted that what worked elsewhere might be applicable for them.

The Ministry of Finance issued the *Vision concertée pour le développement de la microfinance en Tunisie (2011–2014)* [*Shared Vision for the Development of Microfinance in Tunisia (2011–2014)*] in October 2011, the same month as the elections. The 57-page document described Tunisia's microfinance sector as having two speeds. The faster one, Enda, was well run, it said, whereas the slower, BTS-funded network of associations was "currently unsustainable and did not allow for the development of effective microfinance."[17]

The strategy made four major policy suggestions. The first called for regulatory changes to open the sector to for-profit companies and encourage the BTS-funded associations to consolidate. The new regulations would raise industry standards on transparency, increase lenders' minimum capital requirements, and strengthen risk management policies to reduce default rates. The second recommendation endorsed extending rural areas' access to microfinance through more market research, incentives for private-sector companies, and coordination between the government, donors, and other groups to ensure the strategic use of resources.

A third recommendation proposed a reevaluation of BTS's role as well as that of the national post office, which offered savings accounts to customers. The strategy also suggested offering incentives for private banks to fund the existing microfinance associations.

Finally, the strategy document called for the creation of a credit bureau that would collect data on individuals' microfinance and traditional credit histories, the creation of a research center that would collect data on financial inclusion, and the implementation of better training of lenders and clients on international microfinance practices.[18]

Writing new regulations

Kallel said civil servants in the Ministry of

Textbox 2. Microfinance Regulations in Jordan

The Jordanian government, working with donors, civil society, and the private sector, has gradually implemented and refined the country's microfinance policy framework since the 1990s. In 1998, the Ministry of Planning and International Cooperation worked with the United States Agency for International Development to launch the Achievement of Market-Friendly Initiatives and Results (AMIR) program, which promoted sustainable microfinance-lending practices and helped establish three microfinance institutions. In 2005, with help from the World Bank–associated Consultative Group to Assist the Poor, Jordan issued a national strategy document for microfinance. The strategy called for the private sector's taking the leading role in providing loans and a policy environment that would encourage sustainable interest rates.

From 2005 to 2011, lenders took steps to professionalize the industry, including sharing credit histories to prevent overlending, creating a network of lenders to standardize lending practices, and developing a code of ethics. The sector grew during that period from 76,830 clients in 2006 to 203,579 in 2010. However, by 2011, the 2005 national strategy had expired. Microfinance supervision was still divided between different government agencies based on a lender's legal status (for-profit, commercial bank, nonprofit, etc.), and one report estimated that almost 50% of potential microfinance clients remained unserved. In response, the Jordanian government developed a new microfinance strategy, released in June 2011, that planned for a centralized regulatory framework through legislation, Central Bank supervision of all microfinance lenders, and strategies to enhance market penetration, including by way of improved financial literacy and product diversification. In 2015, the Central Bank took on supervisory responsibilities for microfinance institutions, subjecting lenders to a minimum capital requirement and a licensing process.

Sources: Nahil Saqfalhait, "Microfinance Regulation in Jordan: A Comparative Perspective with MENA Countries and Other Areas," Applied Econometrics and International Development 11, no. 1 (2011), http://econpapers.repec.org/article/eaaaeinde/v_3a11_3ay_3a2011_3ai_3a1_5f11.htm; National Impact and Market Study of Microfinance in Jordan, Planet Finance, October 22, 2007, http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-national-impact-and-market-study-of-microfinance-in-jordan-oct-2007.pdf; "The Jordanian National Policy Framework for Microfinance: Towards Inclusive Finance," Ministry of Planning and International Cooperation, June 2011, accessed February 23, 2016, http://inform.gov.jo/en-us/By-Date/Report-Details/ArticleId/57/The-Jordanian-National-Policy-Framework-for-Microfinance-Towards-Inclusive-Finance; "Jordan: Activities and Results," GIZ, accessed February 23, 2016, http://microfinance-mena.org/?page=Pages_Activities&id=2.

Finance did not think it would be possible to draft an entirely new law in the brief period between the April conference and the elections, which were initially set for July and then postponed to October. However, even though time was against her, other factors worked in her favor. First, because Tunisia had no parliament at the time, the president could enact the law by decree, which sped passage but also limited debate. Second, there was clear political will—at least on the part of the finance minister. Third, donor organizations active in Tunisia took a strong interest in the project. Corinne Salinas, who was involved in programs to support the private sector with the EU, said donor groups looked at microfinance as a potential "quick win" for everyone. CGAP and AFD funded consultants to help Kallel write the legislation, and both AFD and the EU pledged additional funding to support new private-sector ventures in microfinance.

Kallel supervised Nègre and Ghozzi, attending many of the meetings they held to research the industry, but she also focused on making the initial decisions the new decree would codify.

It was clear to Kallel and others that the 5% interest rate cap had to be removed to make the sector sustainable. Private companies, with badly needed capital, would not enter the market with such a low interest rate cap. But the question of how to regulate lenders so as to protect borrowers as the microfinance sector expanded was more complicated. Microfinance served a vulnerable part of the population, and Ayed and Kallel wanted to ensure those people were protected. The central bank in Tunisia regulated the country's banks—which granted larger personal and business loans and accepted larger deposits—but Enda and the smaller associations had operated essentially without any oversight.

Ayed wanted the central bank to regulate the microfinance industry much like it did the traditional banking sector. He sought to avoid creating a category of microfinance institutions that existed alongside but separate from the traditional finance industry. "I really wanted the microfinance industry to be part of the overall system," he said. "That meant it also had to fall under supervision by the central bank."

The central bank, however, wanted nothing to do with microfinance. Mohamed Rekik, a manager at Tunisia's central bank before he became its deputy governor in 2012, said bank officials saw their roles as protecting depositors, not borrowers. Microfinance in Tunisia involved only loans and thus was not under the bank's purview, he said. Rekik further said the central bank did not have the capacity to regulate the more than 280 existing associations plus new entrants, especially because the bank had its hands full trying to make major changes in Tunisia's banking sector.

With the central bank out of the picture, Ministry of Finance officials decided the new decree law would include provisions for a supervisory agency to oversee new and existing lenders. The new agency, named the Microfinance Control Authority (Autorité de contrôle de la microfinance, or ACM), had the job of improving and maintaining the quality of the microfinance industry by scrutinizing all institutions that wanted to operate in the sector. The new agency had its own budget, but the Ministry of Finance appointed its director and board. The ACM vetted all microfinance institutions, but the minister of finance had to sign off on all of those approved.

Although the decree law could have expanded the microfinance sector to include more financial products, like savings accounts, Kallel and ministry staff opted to keep the industry limited to loans and microinsurance services—at least for the time being. The central bank's hesitation to regulate the sector was one reason, but Nejla Ben Abdullah of the Ministry of Finance said many in the ministry, too, said it was better to act gradually: first, bring in higher-capacity microfinance institutions, and then expand the types of services they could offer.

Another major decision had to do with how to help the more than 280 BTS-financed associations adapt to the new regulatory environment. Although Ayed and Kallel embraced the need for reform, they recognized the value of the associations and their role in the system. "We wanted to keep the associations close to disadvantaged populations," Kallel said.

Kallel said she met with some of the larger associations and the head of a newly formed federation of associations, Slah Dhibi, and representatives of a union of association workers, but meeting with representatives from all of them was impossible. Assessing the associations' needs was difficult because they differed in significant ways, and officials in the ministry said few were eager—or had the capacity—to rework the way they did business. Kallel said the associations represented a "fragile system." Some associations failed to respond adequately to the population's expectations and even less to their staff's needs and others had been established for political reasons. However, some associations did manage to do good work with limited means and to serve people in poor, rural areas, she said. The goal was to reorganize those organizations in a more professional structure—without the poorly performing ones.

Ayed decided to provide what he called "a shock to the system." To receive ACM accreditation, associations had to meet a minimum capital requirement of 200,000 dinars (US$138,000 in November 2011) within one year. The amount was significantly lower than the 3 million dinars (about US$2 million at the time) threshold set for private microfinance companies but was still a hurdle for most of the nonprofit associations. Kallel said the drafters had consulted with Dhibi and BTS in setting the new limits. Each association also had to meet other new accreditation requirements, including submitting a five-year business plan and having enough computers and other equipment to fulfill its stated goals.

The regulations aimed to improve efficiency and to expand capacity across the microfinance sector. Kallel said she knew that one year was likely too little time to restructure the associations but that the ministry wanted to send "a clear signal demanding a quick restructuring." She also said the ministry knew the deadline could be extended by changing the law.

Ayed said he decided to introduce the minimum capital requirement to encourage the associations to band together, grow, and find alternative sources of capital. "Those interested in this business—development banks, development institutions, and others—are more interested in talking with stronger institutions than with weaker institutions," Ayed said. "It was a win-win deal for everybody. When you end up with fewer but stronger institutions, you achieve two objectives: First, the institutions will be able to compete on equal footing with the newcomers. And second, you prepare the ground for them to grow adequately in the future."

The proposed law allowed the associations to merge in various ways before applying for ACM accreditation. Eventually, the Ministry of Finance, the ACM, and the BTS were encouraging the associations to create federations in each of Tunisia's 24 governorates, or administrative districts. The law, however, neither appointed a specific person or office to shepherd the associations through the restructuring process nor provided any funds to help the subsidy-dependent organizations through what would be a complicated merge procedure.

The law took effect by presidential decree in November 2011. The council of ministers approved the law in the body's last meeting before disbanding for the newly elected government.

GETTING DOWN TO WORK

The initial job of implementing the strategic reforms went to Taktak—the senior most civil servant in the Ministry of Finance—who worked on the project from the beginning. Ayed and Kallel's interim posts ended when the new government took office. Taktak's involvement in the planning process was a crucial factor in carrying the effort forward.

"A basic principle all along the process was to involve those who would be implementing the decisions," Nègre said. "Taktak had been involved in the decision-making process and therefore understood the rationale and the steps to implement it. She was crucial in moving the implementation process forward."

The ministry had to make decisions regarding personnel and had to issue detailed regulations and orders, including specifying the mechanisms by which the ACM would come into existence and setting forth its operating rules. The process got off to a slow start because the ministry was swamped with budget concerns and other matters, but some progress was made during the first year.

In January 2012, the finance ministry set the maximum lending amount for private companies at 20,000 dinars (US$13,000 at the time); the maximum for nonprofits, including the associations and Enda, remained at US$5,000. Ministry officials did not want microfinance institutions to compete with traditional banks in issuing higher-amount loans, according to Ben Abdullah. In September, another decree specified the operating procedures for the new authority.[19]

To recruit a head for the new supervisory authority, Taktak said she and her colleagues sought a civil servant who had had significant background in banking and finance regulation. In November 2012, one year after the decree law passed, the ministry appointed Mahmoud Mansour as general director of the ACM. Mansour had been a regulator of public banks, including BTS, for 20 years and had advanced degrees in finance and banking.

Meanwhile, the donor agencies involved in the initial microfinance meetings organized by Ben Jilani of AfricInvest—AFD, World Bank, African Development Bank, and others—continued collaborating and coordinating their activities to best meet the expected needs of Tunisia's new microfinance sector. The AFD and the EU, for example, agreed to subsidize new private-sector actors who wanted to open microfinance institutions in Tunisia.

Early on, Nègre spearheaded coordination among donors and between donors and the government. Aware that the new supervisory authority would need management support, staff, manuals, and even office equipment, she and Kallel sought support from German development agency GIZ—which specialized in technical support for institutions in developing countries—to partner with the ACM. GIZ had been working on other projects in Tunisia outside the financial sector but agreed to send staff on a temporary mission to assist the ACM.

The ACM—from paper to practice

By November 2012, Mansour and the GIZ were prepared to set up the new office and devise procedures. The office was in its infancy, but pressure was already building for fast action. Barbara Scola, a GIZ technical consultant who was part of the team that worked with the ACM, said microfinance institutions were asking about accreditation from day one.

Mansour recalled that on his first day, he had a phone, a desk, a key to his office in the Ministry of Finance building, and little else. He and the GIZ had to set up a new office, help draft administrative procedures, and hire qualified staff. Until the ACM's budget took effect in February 2013, Mansour continued receiving his salary from his previous position, and the GIZ helped cover some costs. In July 2013, the ACM moved into its own office space in a state-owned bank building.

"There was a lot of pressure to get the first license out fast. You're trying to be fast but also trying to put in systems and procedures that will last and be strong and be respected by the different actors," Scola said. "There's a tension between those two objectives, and it was hard for the new authority to manage."

In recruiting staff, Mansour said he favored a mix of recent university graduates—who would bring with them new ways of thinking—and experienced civil servants, who knew government regulatory procedures. Many senior civil servants, however, were reluctant to give up their positions in order to move to a new agency; they viewed microfinance solely as the BTS-funded system—a form of social aid rather than a profitable industry, he said. Young professionals from outside government were easier to train and in some cases, had a better work ethic. Mansour said several training sessions organized by GIZ and CGAP, the financial inclusion group, had been helpful in exposing his staff to international microfinance practice and the experiences of other countries.

"The authority made a good decision to hire young staff," said Scola, who had a background in microfinance and had worked at CGAP. It took time to define the ACM's hiring procedures, Scola said. By 2015, the ACM had just nine staff members. To deal with immediate personnel needs as the authority recruited staff, the Ministry of Finance and the central bank lent staff support to the ACM for short periods.

Board meetings and accreditations

The November 2011 decree law and follow-up rules created an ACM advisory board to review applications for accreditation, deal with all legislation related to microfinance, and approve the budget and other internal actions proposed by the director. The board included representatives from the Ministry of Finance, the central bank, the judiciary, and other arms of government. The respective institutions nominated their representatives, who were appointed by the minister of finance, according to Ben Abdullah of the ministry. Ghozzi, the business professor who worked on the national strategy document, joined the board in a position reserved for someone with special expertise in microfinance. In April 2013, the finance ministry appointed members to the board, which met for the first time in July 2013, Mansour said, and then met about once every six weeks.

To apply for accreditation, private companies had to submit multiple documents in both French and Arabic, including proof that they had met the 3 million dinar (US$1.8-million in mid-2013) capital requirement, had the résumés of their staff, and had detailed business plans, including market studies, explanations of interest rates, strategies for making a profit, five-year outlooks, assessments of risks, organizational charts, and recruiting policies.[20] The ACM and the finance ministry issued tentative approvals to qualifying companies and then final accreditation after inspecting each applicant's offices.

In July 2013, the ACM and its board faced their first test, when a private Tunisian firm became the first company to apply for accreditation. Nidhal Trabelsi, a Tunisian who had been a colleague of Ben Jilani at AfricInvest on microfinance reform, helped start the company, called Taysir, which counted a French microfinance institution and Tunisian banks among its shareholders.

Ghozzi recalled that board members were initially reluctant to approve Taysir's application not because of any problems with the company but because of skepticism about the relatively high interest rates that were part of the private microfinance model. She said her fellow board members did not believe that any poor entrepreneur could afford the 25 to 30% rates that private companies like Taysir and Enda charged. "At the ACM, we battled for hours just to convince them that microfinance should exist," Ghozzi said. She said the GIZ helped arrange training sessions for the board but that many members did not attend.

"The perception of microfinance is not the same for some people, especially when you raise the question of interest rates," Mansour said. "There was definitely a misunderstanding of [the sector]."

Although board members were chosen for their experience in regulation, few had direct knowledge of how the microfinance industry worked outside Tunisia. "Microfinance is a new sector, and the people on the board didn't really have expertise," Ben Abdullah said.

Ghozzi said that when arguments failed to persuade doubters on the board, she recruited help from Enda, which had been doing business in microfinance for almost two decades. Enda agreed to allow the board to talk with some of its clients, including both borrowers who prospered and those who had struggled or were otherwise unsatisfied.

In March 2014, ACM board members met with Enda clients and left the meeting convinced that the loans issued by Enda and similar institutions helped borrowers, Ghozzi said. They still thought the interest rates were high, but now the board understood how Enda's clients, who often received professional or financial training, could afford to gradually pay the small loans and still make a profit. ACM approved the application, and the minister of finance signed Taysir's accreditation later in the month.[21]

Foreign ownership was another sticking point for the board. Taysir was mostly Tunisian owned, but the next applicant, Microcred, was French. Ghozzi said the board hesitated to allow foreign companies to profit from the poorest in their country.

The board approved the application after asking for and receiving a ruling from the Ministry of Finance supporting the approval of foreign-owned microfinance companies, Ghozzi said, adding that the ministry's stance reflected the government's position toward foreign capital, given Tunisia's struggling, postrevolution economy. "These guys are bringing money," she said. "They're bringing millions of euros that our government does not have, and you cannot behave as if you are a rich country. We're a poor country and we need that money."

New companies move in

Support from the EU, AFD, and other funders helped private companies navigate the new regulations stipulated in the decree law and encouraged them to set up microfinance operations in Tunisia. Taysir, founded by Tunisians in partnership with a French nonprofit, used grant funding and experienced leadership to get up and running. The other company, Advans Tunisie, a branch of a microfinance company based in France and Luxembourg, relied on its experience from other countries to start operations in Tunisia.

After the decree law became effective in November 2011, Trabelsi and other founders of Taysir connected with Adie, a French microfinance nonprofit, to work together on building a Tunisian microfinance company. Three months later, the founders applied for €5 million euros (US$6.5 million in February 2012) of funding from the EU as part of an EU initiative to support microfinance institutions reaching rural areas of Tunisia. The application was accepted by May. The new company also received €1 million (US$1.4 million in March 2014) in funding from AFD, contingent on receiving authorization to lend in Tunisia.

Taysir formally began operations in March 2013 and applied for ACM accreditation a month later. Trabelsi, who had resigned from AfricInvest by that time, described the application process as time-consuming but straightforward. "Frankly speaking, it took obviously a lot of effort and time, but once we applied and submitted a bunch of documents, it was quite well organized," he said.

Still, the accreditation process took a full year, during which Taysir had to open its doors for inspection. The Ministry of Finance and the ACM formally accredited Taysir in March 2014.

To recruit staff, Taysir focused on young recent university graduates who could demonstrate a strong work ethic and the ability to interact with a wide range of clients. Trabelsi said the company's finance procedures did not require specific education in banking, economics, or finance. Adie, the French nonprofit that owned a minority share of Taysir, helped develop a staff training program.

The new company encountered some early problems. First, Taysir had to develop its own information technology systems to manage lending and data collection. Trabelsi also said the company may have opened too many branches too quickly and without strong central management mechanisms in place. Taysir opened four branches in the first year, including some in rural areas, to meet the European Union's funding conditions, he said.

Advans, another private company that had been operating in Asia and Africa since 2005, decided to expand into Tunisia in 2012. Gael Briot, CEO of the Tunisian branch, said the company started with a market survey before applying for initial accreditation from the ACM. European funders supported Advans with a combined €1 million in grants for the Tunisian branch.

Briot said Advans sent a small team of veteran staff to Tunisia to conduct more-in-depth market studies, scout branch locations, and start recruiting. Briot and two other staffers arrived in Tunisia in September 2014, after Advans received tentative accreditation from the Ministry of Finance. Using the results of the market survey, Advans decided to focus on small and microsize businesses in urban areas, where many people, despite their proximity to banks, could not access loans. "In all areas of Tunis, there are potential clients. There are small traders, small service-industry initiatives, and they have no access to any kind of lending," Briot said.

Advans ran into the same staff recruiting problems that Taysir and the ACM had encountered. Because financially sustainable microfinance was mostly new to Tunisia, few seasoned professionals were available. Still, Briot said, the loans Advans was issuing in Tunisia were not complicated, the methodology was specific to Advans anyway, and he found that recent graduates learned quickly. Advans also took advantage of its 5,000 employees worldwide as a knowledge bank, regularly organizing workshops between experienced loan officers elsewhere and new staff in Tunisia.

Briot, who had worked in microfinance in six countries prior to Tunisia, said that compared with most places Advans worked, Tunisia's relatively high level of development eased the process of getting started.

Advans opened its doors in March 2015 and by September had opened a second branch. The company had about 65 employees, with plans for 100 by year-end.

OVERCOMING OBSTACLES

In November 2012, a year after the microfinance decree law took effect, BTS halted funding for the more than 280 nonprofit associations after deeming that the associations had failed to meet the law's requirements regarding minimum capital levels and other standards. Despite Kallel's meetings with association representatives and the head of their federation, it was unclear whether many of the associations' leaders understood the ramifications of the 2011 decree law—until their funding stopped. Multiple people involved in drafting and implementing the reforms said the law's sudden negative impact for the hundreds of small associations was a predictable consequence of the decree and the lack of follow-up to ensure the associations could comply. "The new law was not drafted for those associations. People expected they would just go away," said Scola, the GIZ technical consultant who worked with the ACM. "That was the weakness of the new law: it didn't think about how to reform the existing system."

Nègre said that after years of state support, the associations could not be expected to restructure so quickly without help. "For years, they had been subsidized by the government, and then suddenly they had to comply with new procedures, a new minimum capital requirement, new governance structure, et cetera," she said. "Although some information had been provided for them by the Ministry of Finance, they were all expecting more guidance, a clear transition plan, and funding to cover the upgrading costs."

The impact was "like a bomb" for the associations, said Katia Mehanneche of MicroMED, a project supported by the government of Luxembourg and the European Investment Bank that started in late 2013 to support the Tunisian microfinance sector. "It was impossible to restructure the sector in one year; everyone knew that."

Almost all of the associations needed support in order to meet the conditions of the 2011 decree law. In some exceptional circumstances, if an association met the 200,000 dinar (US$138,000 in November 2011) minimum capital requirement, which few did, it could choose to apply for accreditation on its own—a process that demanded sphisticated market research and business planning. One association, ASAD, applied for accreditation in December 2014. GIZ funded a consultant to work with the association on the production of a business plan and for meeting other requirements, according to ASAD's leadership. In August 2015, the ACM and the Ministry of Finance accredited ASAD.

The majority of associations that did not meet the capital requirement needed expertise to help them merge with peer associations. Subsequent regulations issued after the November 2011 decree spelled out what the associations had to do to comply.[22] In addition to the paperwork any company or association had to submit to the ACM, associations that wanted to combine had to present the rationale for the merger, defend the financial feasibility of the merger, set forth descriptions of the assets and liabilities of all of the associations involved, produce new organizational charts, and write a business plan. Further, some associations had debts for labor and utility costs that had to be settled before combining with other groups.

For 2013 and most of 2014, the associations starved for funding. "At the time, no one was interested in working with associations, especially ones not known for successful practices," Mehanneche said. "At that time, the authorities didn't ask for technical assistance to help the associations to apply the decree. When people from associations started to come to the ACM to complain, the authorities understood the emergency and that they had to help them."

The Ministry of Finance, BTS, and the ACM agreed that ideally, the more than 280 associations should be reduced to 24—one for each of Tunisia's governorates—but for years after the 2011 decree, no plan emerged on how to help the associations combine to reach that goal. "The associations do not have the means to restructure themselves. There has to be support from the state," Mansour said. "And this is not the ACM's role." The ACM, he said, was meant only to enforce the law and determine which microfinance institutions could receive accreditation.

The Ministry of Finance had other priorities, and at first, officials said either that it was not their role to help the associations or that the associations did not want to be helped. Also, assisting the associations was difficult because of their scattered locations, their differing needs, and their varied governance procedures. "We felt the associations were not prone to change," said Ben Abdullah, who was in the finance department of the ministry at the time. "They wanted to keep things the way they were. We had to set international standards and install transparency and good governance."

Kallel, who left government in December 2011, said she had envisioned greater support for the associations' restructuring from the BTS or elsewhere. "The [2011 decree] law opened the door for restructuring. Afterward, there had to be someone to control and oversee the process. And that, we hoped, would have been the BTS."

"The problem is that the Ministry of Finance underestimated the difficulties and the cost of the restructuring," Mehanneche said. "The ministry also has lots of [public bank] restructurings and other priorities," she said. Taktak said the BTS was not helpful in working with the associations.

In November 2013, a year after the BTS stopped recapitalizing the associations, MicroMED, where Mehanneche was, funded a workshop with representatives of the boards of the associations, the ACM, the Ministry of Finance, and the BTS to explain the law and how to comply.[23] The event went on for a week. Mehanneche said many of the explanations were too technical for the representatives of the associations, who typically did not have backgrounds in finance. "People were very emotional, asking why the ministry would [pass the 2011 decree law]," Mehanneche said.

MicroMED tried to help associations in the interior governorate of Siliana and the northern governorate of Bizerte combine in order to become accredited. Mercy Corps, a Unite States–based humanitarian and development organization, also tried to work with associations in southern Tunisia toward accreditation. However, in 2015, deciding on new governance plans and resolving outstanding debt remained challenges. "The associations were like people watching their house burn down," Mehanneche said. "They were shouting to multiple people for help, but no one came." Many associations cut or suspended staff salaries to stay open. Soon, the workers and their supporters began protesting in front of the Ministry of Finance building in Tunis.

Ghozzi said the demonstrations were surprising: "We didn't expect they would be so revolutionary." She said most of the association leaders and staffs believed the government was simply shutting them down. "They protested, but they didn't understand that there was a way out," she said, referring to options for restructuring and accreditation allowed for in the 2011 decree law. "Maybe we didn't adequately explain things."

The associations eventually found a sympathetic ear in the national constituent assembly, which had been elected in October 2011 to write the country's new constitution and which had the power to overturn or amend the original microfinance decree. "It's an easy argument," said Scola of the GIZ. "They were saying, this [decree] law allows for foreign institutions, French institutions, to come and conquer the Tunisian microfinance market. And you're killing us local associations who have been here for years."

Although the ACM and the finance ministry were open to changing the law, they wanted to protect the private-sector industry they had just created. Donor groups worried that the assembly would reverse what progress they had made. Mansour met with assembly members to explain the nascent private microfinance sector, its usefulness, and changes that could be made to ease the associations' hardships without slowing or reversing progress. Scola said Mansour's lobbying was effective. "I'm convinced it was in large part because of how he defended the project and made people realize this was necessary for Tunisia—and for the people they care about," she said. "That's what kept the project on track."

In July 2014, the assembly amended the 2011 decree. The legislation slashed the minimum capital requirement for associations by 75% to 50,000 dinars (US$30,000 in July 2014), from 200,000 dinars (US$120,000), and gave the associations an additional two years to meet the mandates of the law. Neither the ACM nor the Ministry of Finance opposed the amendment, which provided no public funding or assistance to help associations restructure.

The law also provided for a ceiling on interest rates, to be set by the Ministry of Finance, which worried some microfinance companies and observers. Ben Abdullah of the ministry's finance department, said the upper limit would be determined by a committee and would likely use as a base private-sector microcredit lenders average interest rate. As of late 2015, the ministry still had not set up the committee.

ASSESSING RESULTS

During a politically volatile period and working against tight deadlines, Ayed, Kallel, Nègre, and others managed to change regulations that left Tunisia's microfinance sector stifled and unsustainable. The implementation of those reforms disrupted existing microfinance lenders but left the industry positioned for potential future growth.

Individuals involved in the 2011 microfinance regulatory reforms and the work that followed agreed that extending access to financial services was the primary goal of their efforts. And even though only limited information was available, as of 2015 client growth among new private microfinance companies and Enda had not yet made up for the reduction in clients of BTS-funded microfinance associations.

The four new private companies to open in Tunisia since 2013 were still in their early stages in late 2015 and had yet to grab a significant share of the market. Taysir in late 2015 had 3,500 active loans and a portfolio worth 6.2 million dinars (US$3.2 million in October 2015), according to Trabelsi. Briot said Advans had issued roughly 700 loans and had a portfolio of 2.7 million dinars (US$1.4 million). Two other companies that opened in Tunisia were in a similar range, with numbers of loans in the low thousands to hundreds.

The new private companies filled different niches by offering greater a diversity of loans in the microfinance market and meeting the diverse needs of different groups of borrowers. Taysir, the first private company the ACM accredited, provided loans that varied from 500 to 20,000 dinars (US$250 to US$10,000 in October 2015) for farmers, urban small-business owners, and young people and also offered specialized products, including one for dairy farmers. Advans targeted very small businesses in Tunis and other cities. The Financial Center for Entrepreneurs (Centre financier aux entrepreneurs, or CFE), set up by Canadian company Desjardins, became accredited by the ACM and the Ministry of Finance in April 2015. CFE specializes in larger microloans—ones near the 20,000 dinars (US$10,000 in October 2015) limit—to small and medium-size businesses that were unsatisfied with loans available from banks. (AfricInvest was an investor in CFE, and Ben Jilani helped the company obtain its ACM accreditation.)

Geographically, however, the new companies had yet to establish a major presence in Tunisia's underdeveloped interior, southern, and western regions. In early 2016, protests in western cities demanded easier access to loans as part of a job-creating strategy, which highlighted both the work that remained in expanding financial inclusion and the security and stability challenges involved in opening new lending operations.[24]

Enda's client base and geographic reach grew considerably after 2011, potentially because of disruption of the BTS-funded associations.[25] By the end of 2015, Enda had about 270,000 borrowers and a loan portfolio of D300 million (US$148 million at the time), according to cofounder Michael Cracknell. In January 2016, Enda Tamweel, a for-profit microfinance company set up by the Enda nonprofit, began operations after becoming the sixth institution to receive accreditation from the ACM and the Ministry of Finance.[26] The Enda nonprofit was the majority shareholder. The company was to take over lending operations and be able to lend up to D20,000 (US$10,000 in October 2015), as opposed to the D5,000 (US$2,500) limit on nonprofits. Nonprofit Enda continued providing clients with support services and would be funded in part by dividends from Enda Tamweel.

Compared with Enda, the BTS-funded associations fared far worse. The associations had an estimated 150,000 clients after the BTS resumed funding in July 2014, down from 237,000 in 2010. Of 289 associations in 2010, roughly 150 survived in 2015, according to a World Bank report.[27] ASAD was the only association to receive final accreditation, which its leaders and the ACM credited in large part to GIZ support. ASAD had yet to find a stable source of capital apart from the BTS, its leaders said.

Those who helped set up the ACM and accredited companies described the supervisory agency and the accreditation process as successful aspects of the 2011 decree. By late 2015, the ACM had issued five accreditations to four private microfinance companies and one nonprofit association. Mansour said the agency had rejected one applicant for failing to submit proper documentation. At least two more accreditations were expected in the coming year, Mansour said. Despite delays in setting up the authority and in issuing accreditations, accredited lenders and people who worked with the ACM said they were satisfied with its performance.

"In the big scheme of things, the first license was granted one year and two months after the authority started operating. I think that's not that bad under the circumstances," said Scola, citing the political instability in Tunisia at the time.

Briot of Advans voiced a similar assessment. "In Tunisia, it's a new law, new people, new government, new business: the people in charge of the ACM did not know anything about microfinance before 2011. And considering all of that, to be able to give five licenses in four years, it's quite OK."

Accredited lenders said they thought the accreditation process was fair, and though it was time-consuming, the ACM's procedures were less burdensome than those of licensing systems in certain other countries. From first application to final approval, the process usually took about eight months to a year, including time for companies to physically move in and open their doors for on-site inspections. Briot said that in other countries, even where microfinance is much more established, it can take three or four years for the necessary paperwork.

As of late 2015, the ACM had drafted two manuals with instructions for its staff—one of them about off-site and one about on-site inspections of microfinance institutions—to check ongoing compliance with the terms of accreditation, including the business plan and the terms of lending, Mansour said. He expected to hire more staff members in the coming year and to begin inspections of accredited lenders.

Microfinance specialist Nègre and others involved in drafting the reforms said the ACM has done well in accrediting high-quality lenders. One way of measuring quality, they said, was by evaluating how the system treated borrowers. With no cap on interest rates and while it was still drafting the rules for protecting borrowers, the ACM gave accreditations to companies that had operated successfully elsewhere or were associated with ones that had. Nègre said, "These companies have no interest in becoming loan sharks. They have reputations to maintain."

REFLECTIONS

Jaloul Ayed, interim minister of finance during the tense year between the ousting of Tunisia's autocratic ruler and the seating of a newly elected government, recalled what he would tell his staff when, as protesters demonstrated in the streets outside, medium-term and long-term reforms seemed like abstract concepts. "Don't be bewildered over what is happening today," he remembered saying. "All of this will go, and what will stay is what we're doing now to help society and help those who are in need."

Policy makers and advisers involved in the process of developing and implementing the 2011 decree agreed that Ayed's leadership and dedication enabled gains to be made. Ayed moved quickly, pushing microfinance legislation through in just a few months. Khaled Ben Jilani, who was with a private-equity company in Tunis and who worked with the government on the reforms, said, "Setting close deadlines was extremely important in making this process successful."

The short time frame, however, meant that the changes were disjointing for many association leaders. While Ayed's deputy Emna Kallel met with some association leaders, the president of an organization the associations formed to represent their interests, and officials of the Tunisian Solidarity Bank (BTS), which funded the associations, many association leaders were still confused by the law when they learned about it in workshops held much later. Increased dialogue between the government and the associations could have informed the associations of pending changes and would have given the associations more time to plan responses. But even with more time, the associations would have needed financial and technical support to comply with the 2011 decree.

Ayed and his deputy Emna Kallel said they knew the associations would have a hard time complying with the decree, but because the transitional government they served in was limited to only a few months, they were out of office before getting a chance to organize any government support for the associations. "Things have not happened as I had hoped," Ayed said in 2015. "A lot of these entities, you have to really be behind them and give them solutions. And that, I believe, was the role of the minister of finance and of the government." If he had stayed in office, Ayed added, he would have advocated for a larger government role in helping the associations transition from public-sector financing to market-based operations through consolidation. "I wanted to build some bridges between the banking sector and the microfinance sector."

The high turnover of ministers that was caused by repeated changes of government following the 2011 elections slowed the implementation of the 2011 microfinance decree. In addition to Ayed, Tunisia had four other finance ministers between the 2011 ouster of President Zine el-Abidine Ben Ali and Tunisia's postconstitution elections in October 2014. "The political environment was challenging," said Barbara Scola, who helped set up the Microfinance Control Authority (ACM) while working for German development agency GIZ. "It was difficult to keep microfinance on the agenda."

Civil servants like Souhir Taktak, general director of the Ministry of Finance's finance department, and Mahmoud Mansour, head of the ACM, had to implement the reforms without stable support from above. "Each time the minister changed, you had to go and explain to him from the beginning: what is microfinance, why it's good, et cetera," Scola said.

Officials in the government, people at donor groups, and those in the private sector said that even if Ayed and his staff had more time, restructuring the associations would have been difficult because of inconsistent cooperation from BTS, which funded the groups. One project funded by the African Development Bank attempted in 2011 to assess and help restructure BTS, and the associations stalled for the years. "The BTS never wanted it," said Ben Jilani. "They were extremely against anyone looking into their figures and trying to derive the actual performance."

The ACM, a central point of the 2011 decree law, received high marks from both the people who had worked on its creation and lenders that had to apply to the agency for accreditation. Some, however, expressed doubts regarding reasons for the agency's existence given that microfinance institutions in Tunisia could only provide loans and not take deposits. Consultative Group to Assist the Poor (CGAP) publications suggested that a supervisory body like the ACM for monitoring lenders' financial health was not necessary unless the microfinance institutions also collected savings.[28] "Creating a microlending supervisory authority was not best practice," said CGAP consultant Alice Nègre. "But it was not wrong practice either; it was much needed to drive and supervise the transformation of the sector. The Ministry of Finance preferred to delegate the role to an independent entity rather than perform it itself, and that proved to be a rather good decision later on."

Scola said it would have been too politically difficult for the government to allow private and foreign companies to lend to poor Tunisians without government oversight. "In the Tunisian context, you come away from 30 years of authoritarianism," she said. "You don't just go to total freedom. And I'm not talking just about microfinance."

Still, Scola, who rejoined CGAP after leaving Tunisia in 2015, said the laws that created the ACM made the agency too dependent on the Ministry of Finance, leaving the door open to possible political interference. The 2011 decree gave the minister of finance the authority to appoint the general director and the board and to provide final signature on all accreditations. "In the beginning, people said maybe [the ACM] would be just a paper tiger. But that's not how it played out. The ACM is doing a good job and taking it seriously," she said. "But in the [law's] text, the minister has to sign [accreditations], and who knows what the next minister will do."

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