Competition Market Study of Tunisia's Retail Banking Sector

OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

Access to finance and payment services that are fast, secure and affordable are crucial for promoting financial inclusion and supporting private sector investment. However recent surveys in Tunisia have consistently shown that approximately two-thirds of the population lack current accounts, and limited access to finance remains a major obstacle for businesses. This has resulted in a low share of bank credit compared to international standards.

A well-functioning banking sector is of utmost importance to both consumers and businesses, relying on effective competition that drives efficiency and brings benefits like lower prices, improved quality, increased innovation and higher productivity. The report takes a holistic approach by considering market practices, consumer behaviour and regulation to assess how competition works in the Tunisia's retail banking sector and it identifies the areas where market outcomes for consumers and businesses could be improved.

This project has been undertaken in close consultation with the Tunisian Government, the Central Bank of Tunisia, and other local stakeholders. The report evaluates competition in three main financial services sectors: individual and business current accounts; bank finance to micro, small and medium-sized businesses (with a focus on bank loans), and mobile payments. The report puts forward four sets of recommendations aimed at promoting competition and improving market outcomes for consumers and small and medium-sized businesses.

This project builds on the previous work on market studies of the OECD Competition Division. Between 2014 and 2016, the OECD provided support to several countries in their use of market studies as an important competition tool and the OECD helped them to develop their legal framework on market studies, to support the production of market studies in line with international best practices and to develop internal policy guidance documents. In 2016, market studies were chosen as a long-term theme for discussion at the OECD Competition Committee and between 2016 and 2018 the OECD held roundtables, hearings and workshops on various related subjects including characteristics of market studies, powers available to competition authorities to collect information, procedural safeguards for stakeholders, interaction on market studies between competition authorities and other public bodies and ex-post evaluation of market studies. Finally, in 2018 the OECD published a Market Study Guide for Competition Authorities.

This report will contribute to Tunisia's ongoing endeavours to promote competition within its economy. Other initiatives include the OECD's 2019 competition assessment of the country's wholesale and retail trade sectors, and road and maritime freight transport, the OECD's 2022 Peer Review of Tunisia's Competition Law and Policy, and the OECD 2023 competition assessment of Tunisia's tourism sector.

Acknowledgements

This report was developed by the OECD in close co-operation with the Delegation of the European Union to Tunisia, the Central Bank of Tunisia, the Ministry of Finance, the Competition Council and other Tunisian stakeholders, who improved the team's understanding of the markets in focus and added value to the analysis.

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We are also grateful to Ridha Ben Mahmoud, former President of the Competition Council and the whole team, especially Fathia Hammed, former Vice-President, Mohamed Mnasser, Vice-President and Mohamed Cheikhrouhou, *Rapporteur Général* for their valuable contribution.

The OECD also wishes to express its gratitude for the valuable discussions with the management and staff of the different government departments and associations interviewed, including:

- Institut Tunisien de la Compétitivité et des Etudes Quantitative (ITCEQ)
- Banque de Financement des Petites et Moyennes Entreprises (BFPME)
- Société Tunisienne de Garantie (SOTUGAR)
- Caisse des Dépôts et Consignations (CDC)
- La Poste tunisienne
- Societé Monétique Tunisie (SMT)
- Conseil Bancaire et Financier (CBF)
- Consumer Defence Organisation (ODC)

We would also like to thank the management and staff of the different banks and financial institutions, payment service providers and credit information bureaus for the informative exchange and for their valuable input though direct interviews.

The project team had productive meetings with international partners involved in banking related projects and the authors would like to thank particularly the International Money Fund, the World Bank, the International Finance Corporation, the *Kreditanstalt für Wiederaufbau (KFW) and* the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ).

The opinions expressed in the report do not necessarily reflect the views of the above-mentioned organisations or individuals.

This report was prepared by Tommaso Majer within a team led by Saïd Kechida composed of Matteo Giangaspero, Takuya Ohno, Matei Farcas and Manuela Sanchez Parra from the OECD Competition Division and Caroline Roulet from Capital Markets and Financial Institutions Division under the strategic supervision of Ori Schwartz, Head of the OECD Competition Division. Federica Maiorano and Richard May also of the Competition Division, peer reviewed it and provided extensive and valuable comments. Special thanks go to the OECD experts who provided their input and offered useful comments and feedback. These include Nicolas Pinaud, Deputy-Director for Financial and Enterprise Affairs and Hans Christiansen, Miles Larby, Chiara Monticone and Iota Nassr from OECD’s Capital Markets and Financial Institutions Division. We would also like to thank EMRHOD Consulting for their contribution as well as the consumers and MSMEs who participated to the surveys and provided valuable input.

The report was edited by Padraic Convery and prepared for publication by Erica Agostinho of the Competition Division.

Table of contents

FIGURES

TABLES

BOXES

Abbreviations and acronyms

ATB	Arab Tunisian Bank
BCA	Business current account
BCT	*Banque Centrale de Tunisie* (Central Bank of Tunisia)
BFPME	*Banque de Financement des Petites et Moyennes Entreprises*
BH	*Banque de l'Habitat*
BIAT	*Banque Internationale Arabe de Tunisie*
BT	*Banque de Tunisie*
BTE	*Banque de Tunisie et des Emirats*
BTS	*Banque Tunisienne de Solidarité*
BVMT	*Bourse des Valeurs Mobiliéres de Tunis* (Tunis Stock Exchange)
CBF	*Conseil Bancaire et Financier* (Banking and Finance Council)
CDC	*Caisse des Dépôts et Consignations* (Deposits and Consignments Fund)
EBRD	European Bank for Reconstruction and Development
EDIBTA	Earnings before interest, tax and amortisation
EIB	European Investment Bank
FDI	Foreign direct investment
FinCoNet	Financial Consumer Protection Organisation
HHI	Herfindahl-Hirschman Index
IMF	International Money Fund
INS	*Institut National des Statistiques* (National Institute of Statistics)
ITCEQ	*Institut Tunisien de la Compétitivité et des Etudes Quantitative* (Tunisian Institute of Competitiveness and Quantitative Studies)
MENA	Middle East and North Africa
NPL	Non-performing loan
OCD	*Organisation Tunisienne de Défense du Consommateur* (Tunisian Consumer Defence Organisation)
OIF	*Observatoire de l'Inclusion Financière* (Financial Inclusion Observatory)
PCA	Personal current account
PMR	Product market regulation
ROE	Return on equity
SME	Small and medium-sized enterprises
SMT	*Societé Monétique Tunisie*
SOTUGAR	*Société Tunisienne de Garantie*
STB	*Société Tunisienne de Banque*
UBCI	*Union Bancaire pour le Commerce et l'Industrie*
UIB	*Union International de Banques*

Executive summary

This report investigates the state of competition in Tunisia's retail banking sector and, where relevant, provides suggestions to improve it. The report focuses on three broad sectors:

- current accounts for individuals and businesses, used to store money and access it quickly, to make and receive payments and access short-term credit using overdraft facilities.
- bank finance to micro, small and medium-sized businesses (MSMEs), focusing on bank loans.
- mobile payments, including opening payment accounts, cash payments and withdrawals, and money transfers.

Key findings

Competition in Tunisia's retail banking sector needs to be effective to promote financial inclusion and support private sector investment. However, the findings of this report highlight several areas in which competition is not working as well as it could.

Customer engagement in the current account sector is low

For competition to work well, customers must be sufficiently well-informed to buy products or services offering the best value for money. Customers must be able and willing to access and understand information about products' characteristics, and they must be able to choose their preferred products. If they do not engage with products and if banks expect them not to act, incentives to compete are weakened, which may result in higher prices and poorer quality products and services.

Customer engagement in the current account segment is low. Surveys of consumers and MSMEs carried out as part of this study found that four in five consumers and two of three small businesses did not compare fees when opening accounts, and two in every three consumers said they did not know how much they paid. Only 3% of consumers and 4% of small businesses had switched current accounts in the previous year, and they tended to stay with their providers for a long time. When seeking finance, businesses tended to use only their current account providers.

Consumers and small businesses find it costly to gather, understand and act on information about financial products. Banks in Tunisia do not make it easy for consumers to find meaningful and comparable information on fees. For example, banks create monetary and non-monetary barriers to closing accounts that ultimately reduce the ability of customers to switch providers, undermining competitive pressure on banks to lower prices and improve service levels. Low customer engagement also represents a barrier to entry and expansion by making it harder for banks to attract new customers.

Limited lending to micro, small and medium-sized enterprises

Small businesses in Tunisia struggle to access finance, and the OECD's analysis highlights the importance of relationship banking. Among micro, small and medium-sized enterprises, 45% use financial products supplied only by their current account providers, and more than half do not compare offers across banks.

The analysis identified several factors that increase barriers to shopping around. For example, the lack of a private credit information bureau reduces the information available to banks to assess new borrowers' risk profiles, exacerbating the effects of banks' information advantages relating to existing customers. The cap on lending interest rates further reduces the ability of banks to assess and price credit risk accurately, which may lead them to rely disproportionately on collateral. Lengthy legal proceedings to take ownership of collateral when borrowers default and the lack of a registry for movable assets further increase banks' risk aversion.

Stakeholders interviewed by the OECD shared concerns about banks favouring borrowers with which they have corporate relationships. The 2022 OECD Peer Review of Competition Law and Policy in Tunisia found that in 2019, five industrial groups controlled more than 60% of the turnover of the country's most important private companies. These five groups also have direct links to banks. This has the potential to reduce access to credit for firms unrelated to the five groups. Given the lack of granular data, the OECD has not been able to analyse the effects of this issue in detail but notes the significant potential for links between banks and industrial companies to affect lending in the broader economy.

Unnecessary regulatory restrictions for payment service providers

Several legal provisions create unnecessary barriers to entry for payment service providers and hinder competition. The licensing process for payment service providers includes minimum capital requirements that are between 12 and 76 times higher than in other countries for similar services. Moreover, ad hoc provisions and lengthy processes reduce transparency and increase costs for applicants. In practice, the licensing process has favoured affiliates of existing banking groups and excluded independent fintech companies.

In other jurisdictions, fintech companies have played an important role in boosting competition and financial inclusion by providing innovative and cheaper alternatives to traditional banks' services, but regulation in Tunisia deters new firms from entering the retail banking sector and reduces the ability of the country's many unbanked individuals to access payment services.

Market structure and regulatory framework stifle competition

Several other factors may weaken competition across the markets that form the focus of this report. A number of legal provisions and market practices, alongside banks' ownership structures, may facilitate the sharing of commercially sensitive information and monitoring of price strategies, increasing the risk of co-ordinated conduct. The presence of the Tunisian state in the banking sector as a majority shareholder in three of the country's largest banks further undermines competition. State-owned banks have fewer incentives to improve efficiency and to innovate, and management is insulated from incentives to reduce costs and increase profits.

Competition and choices of suppliers are restricted by the limited take-up of online banking and the role of branch networks. Consumer choice is limited, especially in rural areas, where branches are rarer, and building an extensive branch network represents a significant cost for banks wanting to expand their customer base.

Market outcomes are consistent with weak competition. Fees and revenues on current accounts, and the overall profitability of banks, have increased steadily over the past decade, and innovation in the financial sector is low, as shown by the very low take-up of mobile payments, for example.

Key recommendations

The report identifies a suite of recommendations to improve the effectiveness of competition. It is possible to quantify the benefits for only a subset of the recommendations, but the OECD estimates that implementing even this subset would yield around EUR 325 million annually in the form of lower prices and interest rates for consumers and businesses, which corresponds to 0.8% of Tunisia's 2021 GDP. These figures are likely to underestimate the benefits because it was not possible to quantify the effects of all individual recommendations due to the limited availability of detailed data. The estimates also exclude the dynamic benefits of competition, which can be substantial, but are difficult to measure.

In summary, the OECD makes four packages of recommendations:

- Measures to increase customer engagement: These include recommendations to empower consumers to access, assess and act on information, and to reform the mediation mechanism to provide consumers and businesses with an effective tool to make complaints.
- Measures to improve competition in the market for MSME finance: These include recommendations to increase the ability of MSMEs to make informed decisions about lending products and to encourage the creation of a credit information bureau and of a registry for movable assets.
- Measures to eliminate unnecessary regulatory provisions stifling competition in the payment services sector: These include recommendations to adopt a risk-based approach to lower regulatory barriers to entry.
- Measures to strengthen incentives for banks to compete: These include recommendations to reform the *Conseil Bancaire et Financier* (CBF), or Banking and Finance Council, to strengthen the role of the Competition Council, to increase the independence of banks' board members and to reconsider the role of the state in the retail banking sector.

In addition, the OECD reiterates the recommendations it made in the 2022 OECD Peer Review of Tunisia's Competition Law and Policy, aimed at increasing co-operation between the Competition Council and the country's finance sector regulators.

1 Introduction

Tunisians' standard of living has improved and the country's poverty rate has declined in recent decades. However, the COVID-19 pandemic, and the economic crisis it ushered in, has deeply affected tourism, industrial activity and exports, and has had a severe impact on Tunisia's economic and social fabric. As part of the European Union's *Programme d'Appui à la Gouvernance Economique*, the OECD was invited in 2021 to conduct a market study and competition assessment of the country's retail banking sector, jointly with the Competition Council. The programme has also included a Peer Review of Competition Law and Policy, published in 2022, and a Competition Assessment of the Tourism Sector, published in 2023. In 2019 the OECD conducted a competition assessment of wholesale and retail trade, and road and maritime transport. This chapter describes the services in the scope of the review and the approach and the sources used.

1.1. Services in focus

The banking services included in the scope of this report are: personal current accounts (PCAs), business current accounts (BCAs), bank loans for micro, small and medium-sized enterprises (MSMEs), and mobile payment services.

- Current accounts are typically used to store money and access it quickly, make and receive payments, and access short-term credit through overdraft facilities. Current accounts are provided by banks and by *La Poste Tunisienne*, or the Tunisian Post Office. Current accounts are often regarded by businesses as a means by which to establish banking relationships with current account providers.
- A wide range of debt and equity financing instruments is available to MSMEs. Debt instruments include bank lending, leasing, factoring and microfinance. Equity instruments include the stock market and venture capital. This report focuses on bank loans, and it includes some information on leasing and factoring when relevant. Bank lending to MSMEs in Tunisia includes overdraft facilities, short-term credit (with maturity of less than one year), medium-term credit (with maturity of between one and seven years) and long-term credit (with maturity longer than seven years). Microfinance products are not included in the scope of this review.
- Mobile payment services include all financial operations initiated using mobile phones, such as opening payment accounts, making cash payments and withdrawals, transferring money, making electronic payments, and using pre-paid electronic cards. The mobile payment services segment in Tunisia is still developing and concerns among stakeholders revolved around potential barriers to entry. For this reason, Chapter 6 uses the OECD Competition Assessment Toolkit to examine relevant legislation and identify barriers to competition.

1.2. Approach

This project is a market study combined with a competition assessment. The market study follows the approach set out in the OECD Market Studies Guide (OECD, 2018[1]). A market study involves assessing how competition works holistically to understand the impact of market forces and structures. It is in-depth and evidence-based, and it considers the behaviour of consumers and firms (both those currently operating in the market and potential market entrants) alongside the regulatory framework. Market studies can be used for a variety of purposes. One aim is competition advocacy to identify poor outcomes for consumers and reforms needed to make markets work more effectively for consumers. A market study can also enhance knowledge of a specific sector, which can be leveraged in future work by policy makers, or it can be used to support competition authorities' enforcement activities by uncovering evidence of anti-competitive conduct.

The competition assessment follows the framework set out in the OECD Competition Assessment Toolkit (OECD, 2019[2]), developed by the OECD Competition Committee's Working Party 2. The toolkit outlines the methodology for identifying potential obstacles to competition in laws and regulations. This project adopts a combined approach using both the Market Studies Guide and the Competition Assessment Toolkit.

Financial services are extensively regulated because of their importance to the entire economy. Consumers rely on banks to receive and make payments, store savings, and obtain credit. Businesses need to access finance to engage in and develop their activities. One key objective of financial regulation is to mitigate the risks that financial institutions may pose to financial stability, for example by taking excessive risks without considering the effects of their conduct on the rest of the economy.

However, restrictions imposed on financial firms must be proportionate to their expected benefits. If not, excessive regulation may negatively affect competition by increasing barriers to entry or expansion in the market. To identify poor outcomes in financial markets, it is vital to understand how those markets work, because harm often arises from a combination of multiple causes and because interactions between market practices, consumer behaviour and regulation determine market outcomes.

The relationship between banking competition and financial stability is complex. According to Vives (2016[3]), competition may hinder financial stability through either the liability or the asset side of financial intermediaries' balance sheets. First, competition may exacerbate the co-ordination problem between depositors and investors, increasing the likelihood of bank runs. Second, competition may add to incentives to take risks and increase the likelihood of bank failures.

However, Vives (2016[3]) suggests that the trade-off between competition and financial stability can be mitigated by introducing regulation to internalise the effects of externalities and capital requirements, and by co-ordinating competition with prudential policies. For example, competition policy that eases market entry and increases contestability – for example by lowering switching costs and improving the availably of information to consumers – may be accompanied by stricter prudential requirements. Or prudential regulation may represent a barrier to entry, especially for smaller banks, and particularly when compliance costs increase because of new regulation.

There are also areas in which competition policy aligns with and complements prudential policy. For example, increased competition mitigates the "too big to fail" problem and reduces distortions associated with the funding advantages of larger banks. Also, the introduction of market infrastructure such as credit information bureaus may both reduce lending risk by shrinking information asymmetries and reduce the competitive advantages enjoyed by larger banks with larger customer bases.

The OECD has in this assessment adopted a holistic approach, using its competition toolkit and market study tools to identify market dynamics and make recommendations that consider market practices and Tunisia's regulatory framework.

1.3. Sources of evidence

The analysis presented in this report is based on information obtained from a wide range of sources, including information gathered during interviews with several stakeholders, reviews of legislation for the banking sector, a survey of consumers, a survey of MSMEs, data publicly available from Tunisian stakeholders and international bodies, data from analytics supplier Refinitiv, and qualitative and quantitative data provided by the Central Bank of Tunisia (BCT). This section provides a brief description of each source.

1.3.1. Meetings with stakeholders

The OECD project team held 52 meetings with different stakeholders, 19 virtual and 33 in person. The project team met with representatives of Tunisian public institutions, private market participants, senior staff of several banks and international organisations.

1.3.2. Legislation

To identify relevant regulatory provisions, research was carried out using the Qanouni online legal database and a list of relevant legislation available on the website of the BCT. This research was complemented by input received from the BCT. The research resulted in 68 pieces of legislation applicable to the banking sector being analysed during the course of the project.

1.3.3. Surveys

The OECD commissioned two surveys by Emrhod Consulting, a market research company with offices in Tunis and Algiers. A consumer survey was carried out among individuals and an enterprise survey was conducted among MSMEs.

The main research questions in the consumer survey concerned:

- whether individuals had PCAs or deposit accounts (or neither).
- which PCA providers individuals used.
- what factors influenced individuals' decisions when choosing PCA providers.
- how individuals engaged with the PCA market; for example, their propensity to shop around for PCAs, whether individuals had switched PCAs, and what factors had motivated their choices.

The main questions in the MSME survey involved:

- whether MSMEs had BCAs.
- which BCA providers they used.
- what factors influenced individuals' decisions when choosing BCA providers.
- how MSMEs engaged with the BCA market.
- what MSMEs' perceptions were concerning international transaction services.
- the MSME journey to obtaining financing and the key barriers preventing MSMEs from accessing it.

Annex C provides details of the methodology used in both surveys.

1.3.4. Publicly available data

The analysis relied on a wide range of publicly available data.

- World Bank Enterprise Surveys: Firm-level surveys of a representative sample of private enterprises that collect data on companies' characteristics and performance, and on a range of topics including access to finance. The enterprise surveys are conducted on a rotating basis throughout Europe, Central Asia, the Middle East and North Africa, South Asia, East Asia and the Pacific, and Latin America and the Caribbean (World Bank, 2022[4]).
- The World Bank's Global Findex Database: The 2021 database provides almost 300 indicators for 160 countries on account ownership, payments, savings, credit and financial resilience. Data can be broken down by gender, income, labour force participation, age and rural or urban residence (World Bank, 2021[5]).
- Global Financial Development Database: This dataset includes 108 measures of the depth, accessibility, efficiency and stability of financial systems for 214 economies (World Bank, 2022[6]).
- The International Monetary Fund's World Economic Outlook Databases: These databases include information on national accounts, monetary policy, trade, government finance and balances of payments (International Monetary Fund, 2023[7]).
- Data from the World Federation of Exchanges' databases that include information on national equity and corporate bond markets (The World Federation of Exchanges, 2022[8]).
- Data from the website of the BCT: The BCT's site and reports provide a wide range of information on Tunisia's banking sector.
- Data from the website of the *Bourse des Valuers Mobiliéres de Tunis (BVMT)*, or Tunis Stock Exchange. The exchange's site provides information on major shareholders (those with stakes exceeding 5%) of listed companies and membership of companies' boards of directors (Bourse des Valuers Mobiliéres de Tunis, 2023[9]).

- Data from the website of the *Institut National des Statistiques*, or National Institute of Statistics: This site offers information on the number of enterprises in Tunisia, broken down by a number of characteristics such as geographical location, numbers of employees and economic activity.
- Data from the annual reports of Tunisian banks.

Where appropriate and feasible, data on Tunisia's retail banking sector has been compared with data from a set of peer countries. This offers an opportunity to understand whether outcomes are different from what could be expected under more competitive conditions. Although a perfect benchmark does not exist, because financial services may differ and competition may not work well in peer countries, Tunisian data has been compared with data available from MENA, EU and OECD countries. One the one hand, countries geographically close to Tunisia may share cultural, economic and regulatory characteristics that make them insightful benchmarks. On the other hand, geographically proximate countries may also share some of the factors contributing to the market outcomes observed in Tunisia. Given that the MENA countries in each comparison may vary, a note will specify which countries are included.

1.3.5. Proprietary data

The report uses data from Refinitiv, a provider of financial market data and infrastructure, that includes high-level information on banks' balance sheets, income statements and shareholders.

1.3.6. Information from the BCT

Following initial conversations with stakeholders, the OECD prepared detailed qualitative and quantitative questionnaires requesting a range of information from public and private stakeholders.

The BCT provided qualitative information on the cap on lending interest rates, public registries of credit information, and the public policy objectives of certain legal provisions. It also provided anonymised aggregate data on: 1) average interest rates charged by banks over time on various lending products; 2) the largest banks' loan portfolios; 3) the volume of current accounts and related non-interest revenues; 4) listed fees for current accounts; 5) banks' branch networks; and 6) average interest rates charged by banks for lending products over time.

However, a significant portion of the qualitative and quantitative information requested was either not available or not shared. Notably, the OECD did not have access to: 1) detailed qualitative information on banks' strategies and practices; 2) data on the volume of lending to related borrowers to assess concerns around practices favouring lending to connected borrowers; 3) granular, loan-level data including prices, amounts and borrower characteristics (such as information on the size of borrowers to identify MSMEs) to assess the impact of the cap on lending interest rates; and 4) comprehensive information on ownership structures and membership of boards of directors, especially for non-listed banks.

Limitations on the information available made assessing how competition works in the focus sectors challenging and, in some instances, made it impossible to assess the impact of certain market features on market outcomes.

1.4. Structure of the report

The structure of the report is as follows:

- Chapter 2 presents an overview of Tunisia's retail banking sector, the main market participants, and the institutional and regulatory framework.
- Chapter 3 discusses several factors in Tunisia's banking sector that affect how competition works. These include the presence of the state in financial services, the influence of large industrial groups on banks, the role of the *Conseil Bancaire et Financier*, the ineffective mediation mechanisms

available to Tunisian consumers, and the limited co-operation between the BCT and the Competition Council.

- Chapter 4 presents an assessment of competition in the market for the provision of current accounts for individuals and businesses.
- Chapter 5 presents an assessment of competition in the market for the provision of bank loans to MSMEs.
- Chapter 6 assesses legislation relating to mobile payments, using the OECD's Competition Assessment Toolkit.
- Chapter 7 presents an assessment of the barriers to entry and expansion in the retail banking sector.
- Chapter 8 presents a summary of the study's findings.
- Chapter 9 presents the OECD's recommendations.
- Chapter 10 concludes with the quantification of consumer benefits that would result from the implementation of the OECD's recommendations.

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World Bank (2021), *The Global Findex Database 2021*, https://www.worldbank.org/en/publication/globalfindex (accessed on 22 May 2023). [5]

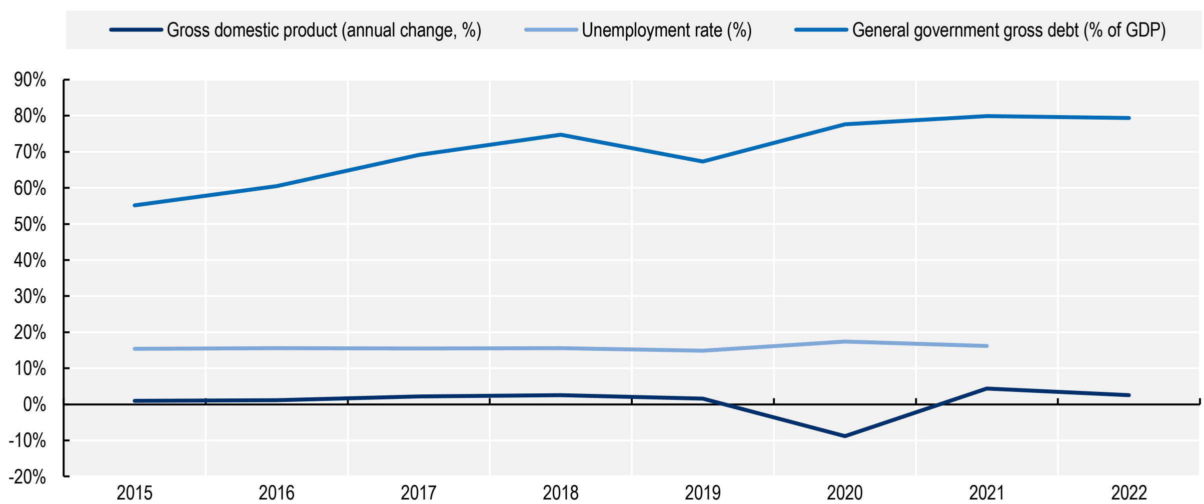
2 The retail banking sector in Tunisia

Banks in Tunisia are the cornerstone of financial intermediation, and bank loans are the main source of financing for Tunisian companies. Twenty-two domestic banks account for 96% of banks' assets, including five state-owned lenders, five banks whose largest shareholder is a Tunisian private investor, nine banks controlled by non-Tunisian investors, and three mixed banks jointly controlled by the Tunisian state and another Arab country. The overall profitability of listed banks, which account for more than 80% of the country's banking assets, increased in the years leading up to the onset of the COVID-19 pandemic. This chapter describes the economic environment in which this review was carried out. It also provides an overview of Tunisia's retail banking sector, including a description of the main players, the overall profitability of listed banks, and the institutional and regulatory framework.

2.1. Economic environment

The economic situation in Tunisia, like that in other countries, has been negatively impacted by the COVID-19 pandemic. According to the OECD's 2022 Economic Survey of Tunisia, the country's GDP fell 8.8% in 2020 as economic activity shrunk across most sectors before rebounding 2.9% in 2021. In 2022, public debt increased by around 20 percentage points to almost 90% of GDP. Unemployment reached 16.2% in 2021 (see Figure 2.1).

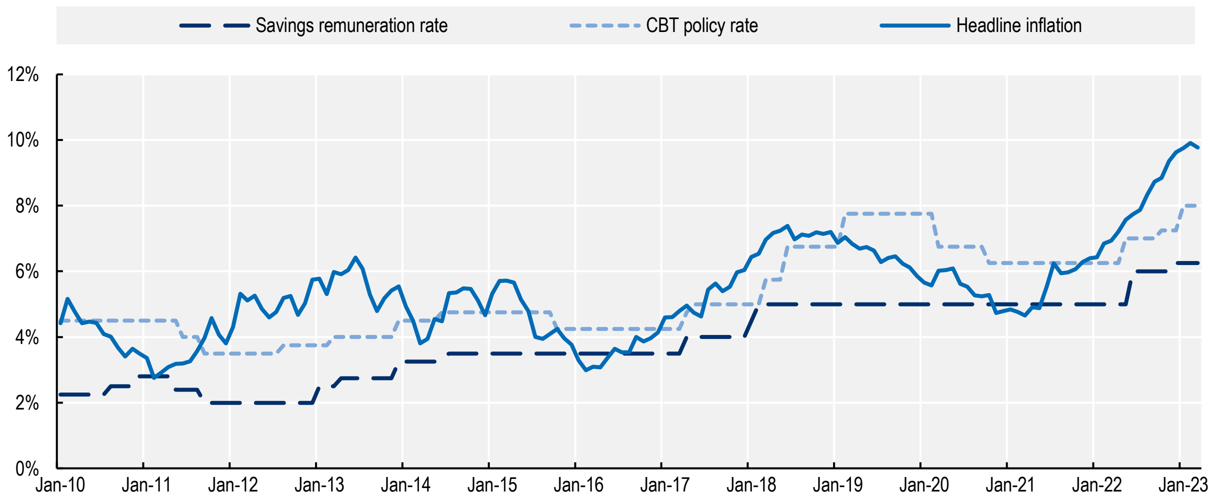
Figure 2.1. Key economic indicators, 2015-22



Source: OECD (2022[1]). OECD Economic Surveys: Tunisia 2022, https://doi.org/10.1787/7f9459cf-en.

Tunisian authorities have implemented policies to mitigate the effects of the COVID-19 pandemic on households and businesses (OECD, 2022[1]), including a fiscal package that amounted to 4.3% of GDP in 2020. As in other jurisdictions, these subsidies have been gradually replaced by more targeted support for vulnerable households and enterprises. The Central Bank of Tunisia eased monetary policy to support financial conditions, cutting the benchmark lending rate by 100 basis points in March 2020 and by a further 50 basis points in October 2020 (see Figure 2.2). However, growing inflationary pressures led the BCT to raise interest rates at the end of 2022 and beginning of 2023.

Figure 2.2. Base interest rate, savings rate and money market rate



Sources: BCT, National Institute of Statistics, Refinitiv.

Since the onset of the pandemic, Tunisian sovereign debt has come under pressure, having been downgraded several times between 2020 and 2023, according to Fitch Ratings and Moody's. As of June 2023, Moody's rating is Caa2 and Fitch's rating is CCC-, indicating substantial risk of default (Fitch Ratings, 2023[2]). Tunisia also experienced rising inflationary pressures in 2022 and at the beginning of 2023 due to global increases surveys in food and energy prices, and difficulties accessing financial markets have resulted in a major grain supply shock.

The government has benefitted from loans granted by both domestic banks and international organisations. These include:

- Domestic lenders granted three syndicated loans between January 2020 and February 2021 of more than EUR 1 billion to help finance the state budget amid restricted access to international capital markets (Banque Centrale de Tunisie, 2022[3]).
- In April 2020, the executive board of the International Money Fund (IMF) approved a USD 745 million emergency assistance loan to support Tunisia's proactive policy response to the COVID-19 pandemic (International Monetary Fund, 2020[4]).
- The World Bank approved budget support of USD 175 million under its Resilience and Recovery Emergency Development Policy Operation in June 2020 (World Bank, 2020[5]) and a USD 130 million loan for food security in June 2022 (World Bank, 2022[6]).
- In October 2022, Tunisian authorities and IMF reached a staff-level agreement to grant a USD 1.9 billion fund facility (International Monetary Fund, 2022[7]), conditional on the implementation of several economic and social reforms (International Monetary Fund, 2022[8]). As of June 2023, the deal had not been approved (International Monetary Fund, 2023[9]).

2.1.1. Previous reviews of the banking sector in Tunisia

Although this is the first competition market study of Tunisia's retail banking sector, several reviews of the sector have been performed by international organisations over the last 10 years. The list below includes a selection of these reviews, starting with the most recent.

- A 2021 report by the World Bank identified several factors preventing Tunisian banks from performing effective and efficient financial intermediation. These included the absence of a private credit information bureau, difficulties enforcing collateral rights, and a cap on lending interest rates (World Bank, 2021[10]).

- In 2018, the European Bank for Reconstruction and Development (EBRD) found that limited access to finance was a major obstacle for the private sector, exacerbated by the cap on lending interest rates. In addition, the EBRD highlighted the weak prudential position of banks and the high level of non-performing loans (NPLs) caused by, among other things, subsidised loans from public banks to the tourism sector in the 1980s and loans to related borrowers in the 1990s and 2000s (Morsy, Kamar and Selim, 2018[11]).
- In 2015, the World Bank recommended a series of reforms to improve financial inclusion in Tunisia (World Bank, 2015[12]). These included the creation of a financial inclusion champion with the ability to bring together a diversity of public and private institutions and to allow the development of a varied range of financial services. The report advocated a bigger role for *La Poste Tunisienne* in the provision of banking services and the development of legislation to encourage mobile payments and digital financial services.
- In 2015, the European Investment Bank estimated that around one-quarter of Tunisia's small and medium-sized enterprises (SMEs) regarded access to finance as a major or severe obstacle to the operation of their business (European Investment Bank, 2015[13]).
- In 2014, the World Bank recommended a restructuring of state-owned banks, stronger enforcement of banking regulation, the modernisation of Tunisia's bankruptcy regime to improve debt recovery and to reduce banks' risk aversion, and the introduction of private credit bureaus to reduce information asymmetries between borrowers and lenders (World Bank, 2014[14]).
- The recommendations of the IMF in its 2012 review of Tunisia's financial system stability included a restructuring of the balance sheets of state-owned banks, a restructuring of their governance, and a strengthening of bank supervision (International Monetary Fund, 2012[15]).

This report will refer to these reviews in more detail on selected issues as appropriate.

2.2. Overview of the banking sector

This section provides a high-level overview of the retail banking sector in Tunisia. The section first covers banks and presents a brief description of their business models and their overall profitability. The section then moves to look at other institutions that provide financial services to micro, small and medium-sized enterprises (MSMEs) and to consumers.

2.2.1. Banks

As of June 2023, the financial sector in Tunisia comprised 46 financial institutions, including:

- 22 domestic banks
- seven offshore banks[1]
- eight leasing companies
- two factoring companies
- two investment banks[2]
- five payment service providers.

Banks are the cornerstone of financial intermediation in Tunisia in the absence, or very limited development, of other channels (OECD, 2018, pp. 83-89[16]). In 2021, domestic and offshore banks owned more than 96% of Tunisian financial sector assets and issued more than 95% of credit. The asset and credit shares of leasing and factoring companies fell between 2018 and 2021 (see Table 2.1).

Table 2.1. Distribution of total assets and credit by type of financial institutions

		2018	2019	2020	2021
Total assets	Banks	95.8	96.3	96.5	96.7
	Leasing companies	3.9	3.5	3.4	3.2
	Factoring companies	0.2	0.2	0.2	0.2
	Total	99.9	100	100.1	100.1
Total credit	Banks	94.7	95.2	95.5	95.9
	Leasing companies	5.2	4.7	4.2	3.9
	Factoring companies	0.2	0.2	0.2	0.2
	Total	100.1	99.9	99.9	100

Note: Banks refers to all institutions with a banking licence to operate in Tunisia. Total may not add up to 100 due to rounding.
Source: BCT (2022, p. 56[17]), Rapport Annuel sur la Supervision Bancaire : Exercice 2020 ; BCT (2022, p. 58[18]), Rapport Annuel sur la Supervision Bancaire : Exercice 2021.

Tunisia's 22 domestic banks account for 96% of banks' assets and include:

- five state-owned banks (of which the majority shareholder is the Tunisian state);[3] two of the five state-owned banks are development banks[4] (see Section 2.3.1 for more details on development banks).
- five banks of which the largest shareholder is a Tunisian private investor.
- nine banks controlled by non-Tunisian investors.
- three mixed banks jointly controlled by the Tunisian state and another Arab country.

Table 2.2 shows the banks' ownership breakdown over time. Three domestic banks are Islamic banks (see Box 2.1 for a brief overview on Islamic finance and banking). The three largest foreign-owned banks are former state-owned banks.

Tunisia's state-owned banks are formally separated banking institutions with a common owner, the Tunisian state. Table 2.2 counts them as separate institutions and Section 3.1 discusses the risks to competition arising from the state's role as a sole common owner. The remaining banks do not have common majority shareholders, although some have minority shareholders in common. Section 3.3 discusses the risks arising from the existence of common minority shareholders.

Table 2.2. Breakdown of domestic banks by ownership, 2015-22

	2015	2016	2017	2018	2019	2020	2021	2022
State-owned banks	7	7	7	7	6	6	6	5
Banks whose largest shareholder is a Tunisian private investor	3	3	3	3	3	3	5	5
Banks controlled by non-Tunisian investors	9	10	10	10	11	11	9	9
Mixed banks	3	3	3	3	3	3	3	3
Total number of domestic banks	22	23	23	23	23	23	23	22

Note: State-owned lender *Banque Franco-Tunisienne* (BFT) was liquidated in April 2022.
Source: BCT (2021, p. 28[19]), Rapport Annuel sur la Supervision Bancaire : Exercice 2019 ; BCT (2022, p. 57[20]), Rapport Annuel sur la Supervision Bancaire : Exercice 2021.

Box 2.1. Islamic finance and banking

Traditional and Islamic finance providers coexist in many countries. Islamic finance is a way to manage money within the moral principles of Islam, also known as *Shariah*. *Shariah* does not allow the receipt or payment of *riba* (interest), *gharar* (excessive uncertainty), *maysir* (gambling), or activities or investments that are considered harmful to society, such as investment in alcohol or weapons.

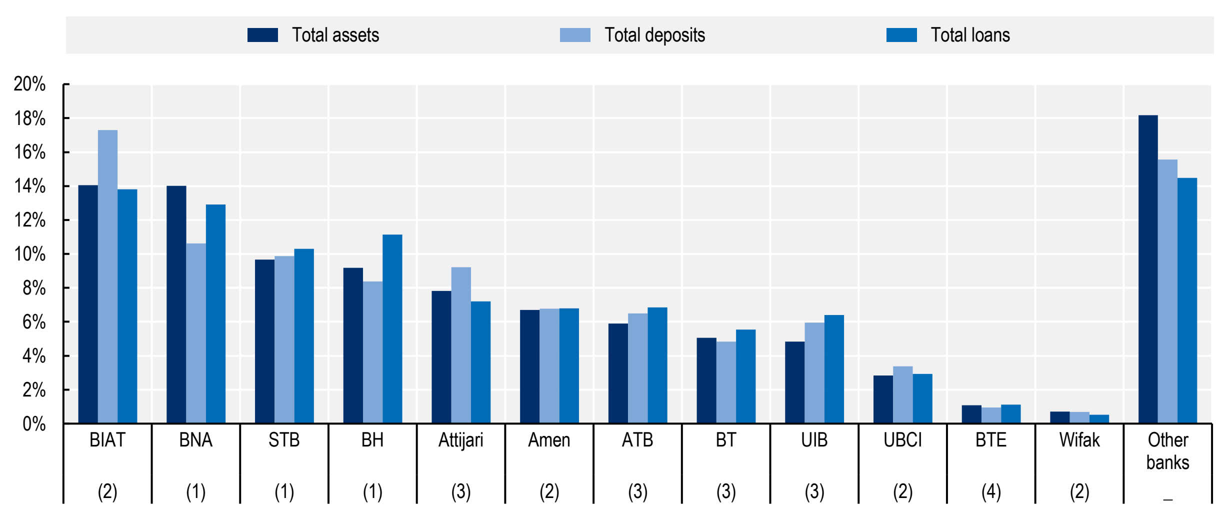
Shariah-complaint financial products may work differently from traditional banking services. For example, a *Shariah*-complaint current or savings account does not pay interest but may give the customer access to interest-free loans known as *qard.* Islamic banks cannot invest deposits in anything that in *Shariah* is considered harmful, and they may pay customers a share of the profits they earn.

When a customer buys a home, an Islamic bank can offer alternatives to traditional mortgages. Either the bank can buy the property and then sell it to the customer at a profit, allowing the customer to pay the bank back in instalments, or the customer can buy the property together with the bank and then buy the bank out of its share over time.

The value of assets held by Islamic financial institutions globally almost doubled between 2015 and 2021, from USD 2.17 trillion to USD 3.95 trillion.

Sources: IMF (2017[21]), The IMF and Islamic Finance, https://www.imf.org/external/themes/islamicfinance/; Bank of England (2022[22]), , What is Islamic finance?, https://www.bankofengland.co.uk/explainers/what-is-islamic-finance; Refinitiv (2022[23]), Islamic Finance Development Report 2022: Embracing Change | Refinitiv, https://www.refinitiv.com/en/resources/special-report/islamic-finance-development-report-2022.

Figure 2.3. Distribution of banks' main balance items, 2021



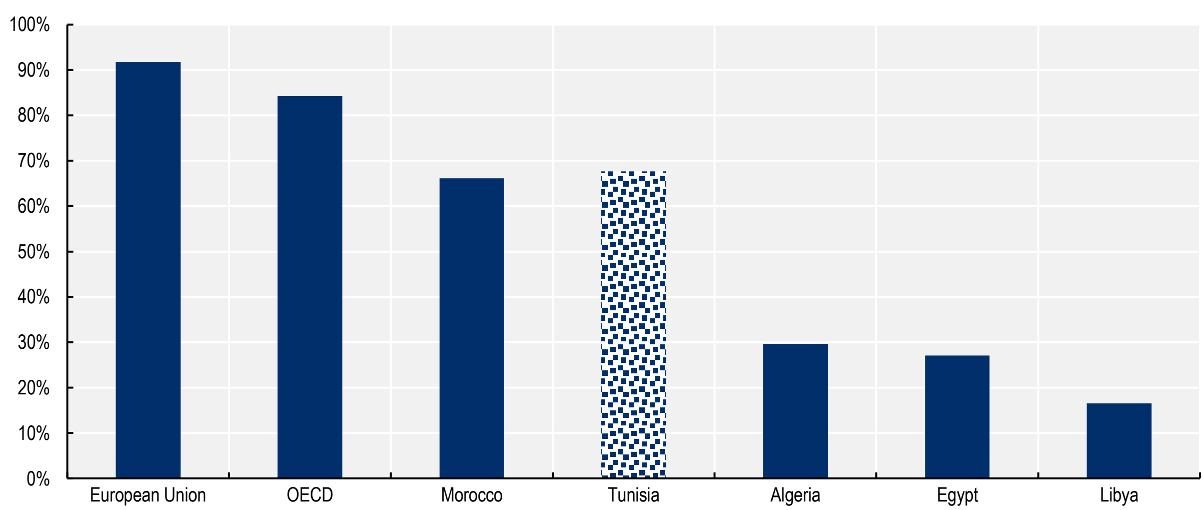
Note: (1) state-owned banks; (2) banks whose largest shareholder is a Tunisian private investor; (3) banks controlled by non-Tunisian investors; (4) mixed banks.
Source: Refinitiv, OECD calculations.

Due to data limitations, a large portion of the analysis in this report focuses on the 12 banks listed on the *Bourse des Valuers Mobiliéres de Tunis (BVMT)*, or Tunis Stock Exchange, which held more than 80% of banking assets in 2021.[5] At the end of 2022, listed banks account for 43% of the exchange's market capitalisation (BVMT, 2023, p. 80[24]). The largest bank had around 14% of the banking sector's total assets in 2021 (see Figure 2.3). The second-, third- and fourth-largest banks are state-owned and accounted for a combined share of more than 30% of banks' total assets.

The size of Tunisia's banking sector increased significantly over the decade to 2020. Although the total assets of non-listed banks recorded a stronger increase than those of listed banks, the former having almost tripled and the latter having doubled between 2010 and 2020, listed banks accounting for most of the increase in nominal terms. In relative terms, listed and non-listed banks' total assets amounted to 86.6% in 2021 (IMF, 2021[25]).

The ratio of credit extended to private sector over GDP compares well to that in other Middle East and North Africa (MENA) region countries, but it is lower than the average in both the European Union and OECD economies (see Figure 2.4).

Figure 2.4. Tunisian financial intermediation vs. financial intermediation elsewhere



Note: Data for bank domestic credit-to-GDP are as of end-2020.
Source: World Bank, Refinitiv.

Overall profitability

Competition authorities typically assess firms' profitability in the relevant economic markets. High and sustained levels of profits can indicate that firms are able to exercise market power and increase prices significantly above costs. However, high profits can also be driven by factors other than a lack of competition, such as efficiency improvements, and profits – especially if they are enjoyed by a subset of firms – can be consistent with a well-functioning competitive process. Similarly, low levels of profit do not necessarily imply high levels of competition. For example, firms facing limited competition may not achieve high profitability if they are inefficient.

Profitability must be measured over a sufficiently long period. In markets in which firms can freely enter and exit, profits in the long run are expected to be equal to the cost of capital. In fact, if profits are persistently above the cost of capital, new firms would enter and make profits. Similarly, if profits are below the cost of capital, firms would exit. Over short periods of time, profits could diverge from the cost of capital because of economic cycles or the nature of markets (for example, in markets characterised by high levels of innovation). The focus of this competition analysis is therefore on the sustained nature of any high profits.

Establishing whether profit levels are high is not straightforward and typically involves three steps. The first step is to establish the level of profitability within the relevant firm or sector. The second is to establish a relevant benchmark for profitability. Finally, the level of profitability is compared with the benchmark over a significant period to establish whether returns appear high.

The data available to the OECD did not allow a detailed assessment of profitability. The remainder of this section relies on publicly available information and presents high-level profitability measures of Tunisia's listed banks. The information is based on banks' balance sheets and income statements, and it is not specific to the economic markets on which this report focuses. The analysis therefore provides background information for the remainder of the report. Despite the data limitations, the evidence shows levels of profitability inconsistent with high levels of competition. In fact, overall profitability measured using a variety of indicators increased in the years before the COVID-19 pandemic and return on equity (ROE) is higher than in peer countries.

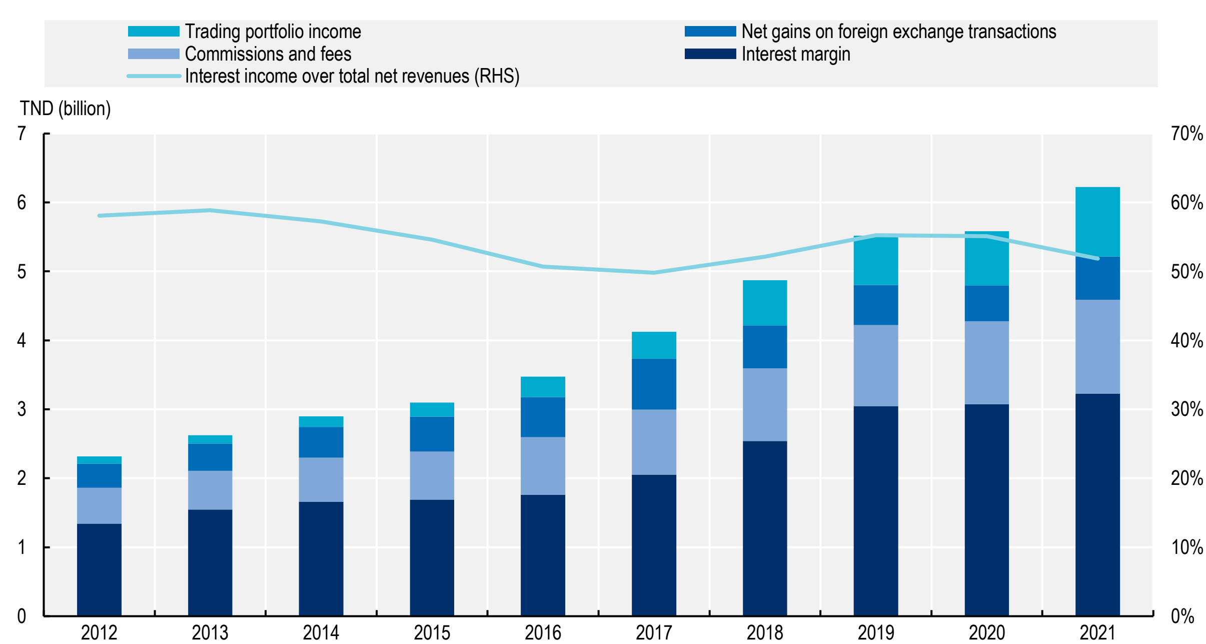
This section presents evidence on revenues and profitability across all activities of Tunisia's listed banks. Chapter 4 presents information on revenues specific to current accounts.

Income sources of Tunisia's listed banks

Retail banks typically rely on income earned from interest charged on loans to customers and on commissions and fees. Retail banks' main costs include operating costs that relate to the costs of personnel, IT and property, and impairments, which are represented by losses on NPLs.

The total revenues of Tunisia's listed banks have increased steadily since the Global Financial Crisis. Interest income represents the largest source of income and fluctuated between 50% and 58% of total revenues over the decade to 2021 (see Figure 2.5). This reflects extensive lending activity earning substantial revenues from the interest charged on loans to customers.

Figure 2.5. Tunisian listed banks' revenues and net profits, 2012-21



Note: Total revenues are calculated as the sum of interest and non-interest income less interest expenses. The chart shows the non-weighted averages of all domestic banks.
Source: BCT (2022[20]), Rapport Annuel sur la Supervision Bancaire : Exercice 2021.

Nevertheless, new banking business lines generating non-interest revenue have emerged, such as securities trading and investment banking. Although commissions and fees remained stable at around 20% of listed banks' total revenues over the decade to 2021, the share of trading portfolio income increased from 4% in 2012 to 16% in 2021.

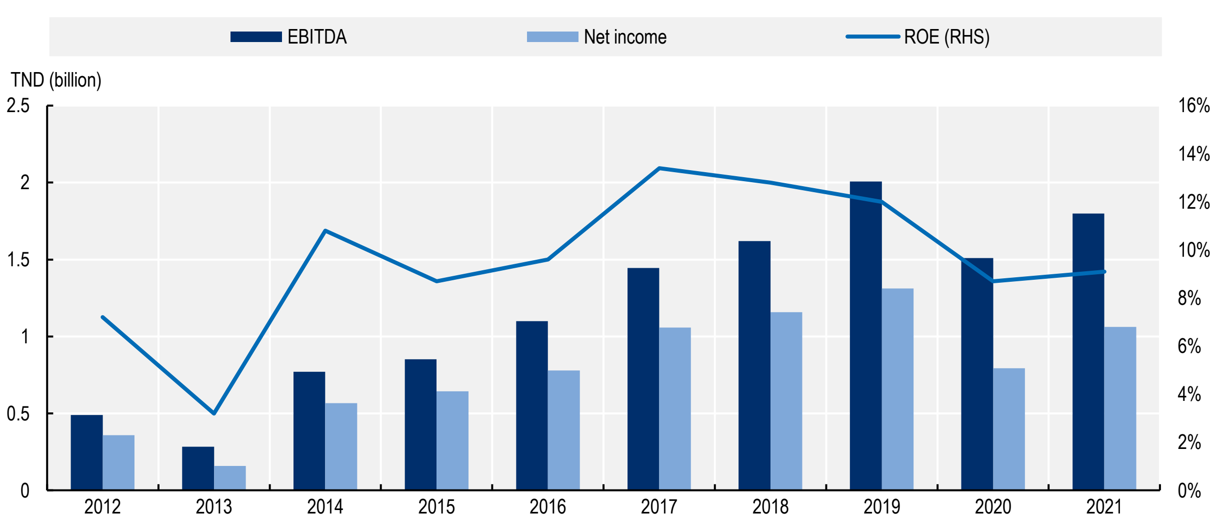
Profitability of Tunisian listed banks

A common measure of profitability in the banking sector is the net interest margin – the difference between interest earned on loans and interest paid on deposits – divided by average assets. Other measures of profitability commonly used include ROE, which captures factors such as operating costs and impairments, earnings before interest, taxes, depreciation and amortisation (EBITDA), and net operating income (net interest income plus net fee income). These indicators are accounting measures of profitability and differ from measures of economic profits typically used by competition authorities to assess profitability.

Despite the limitations, all measures show that listed banks' overall profitability has increased:

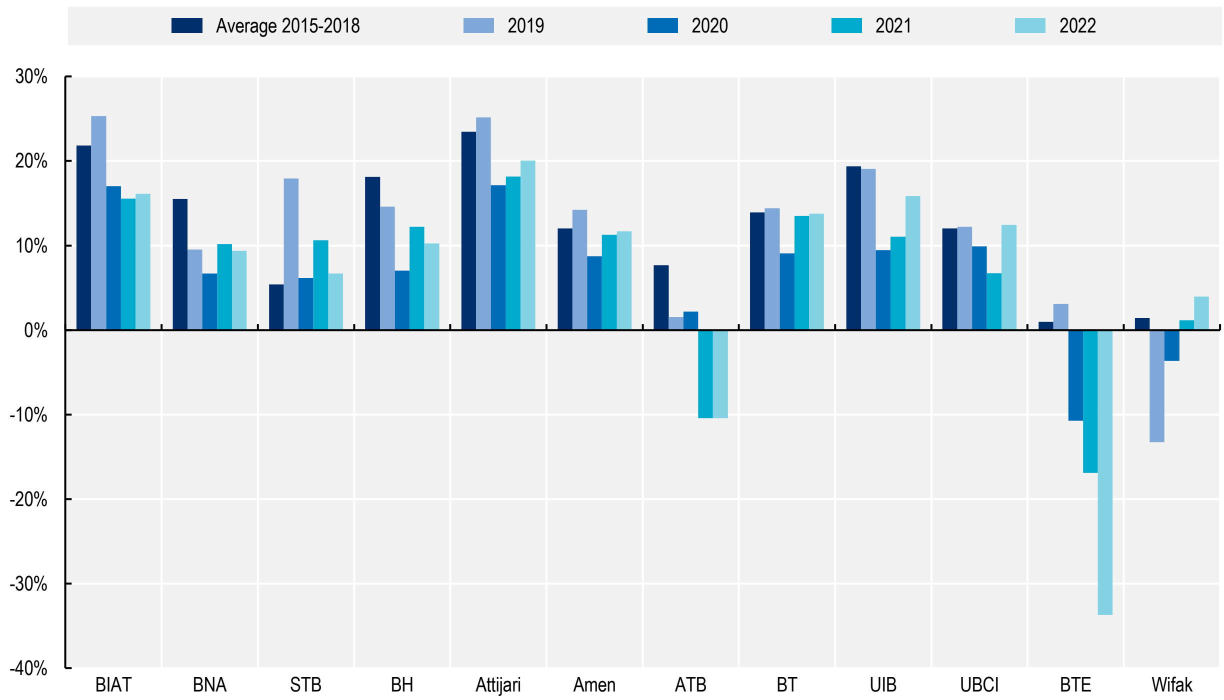
- Interest margin steadily increased from 2013 but were negatively impacted by the COVID-19 pandemic (see Figure 2.6). Tunisian listed banks' ROE continuously increased, from about 5% in the early 2010s to 9.1% in 2021, although it declined to 8.7% in 2020.
- Considering individual listed banks, the ROE of the largest banks tends to be higher than that of small banks (see Figure 2.7). In addition, the ROE of listed state-owned banks is lower than that of large non-state-owned banks.
- Banks' net operating income has grown faster than Tunisia's GDP, from TND 2 billion in 2010 (3% of GDP) to TND 5.6 billion in 2020 (4.7% of GDP; see Figure 2.8). The average ROE of Tunisian banks over the period 2015-19 is slightly lower than 12%. This is comparable with countries in the MENA region for which data is available and higher than the average in OECD countries and the European Union (see Figure 2.9).

Figure 2.6. Tunisian listed banks' revenues and net profits, 2012-21



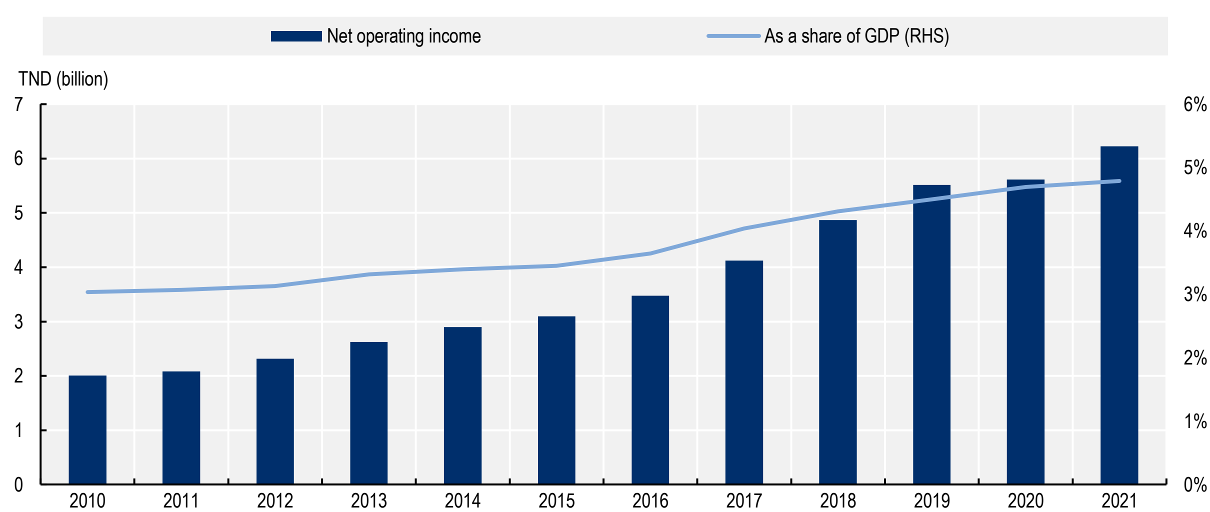
Note: Total revenues are calculated as the sum of interest and non-interest income less interest expenses. The charts show the non-weighted averages of all domestic banks.
Source: BCT (2022[20]), Rapport Annuel sur la Supervision Bancaire : Exercice 2021.

Figure 2.7. Tunisian listed banks' return on equity, 2015-22



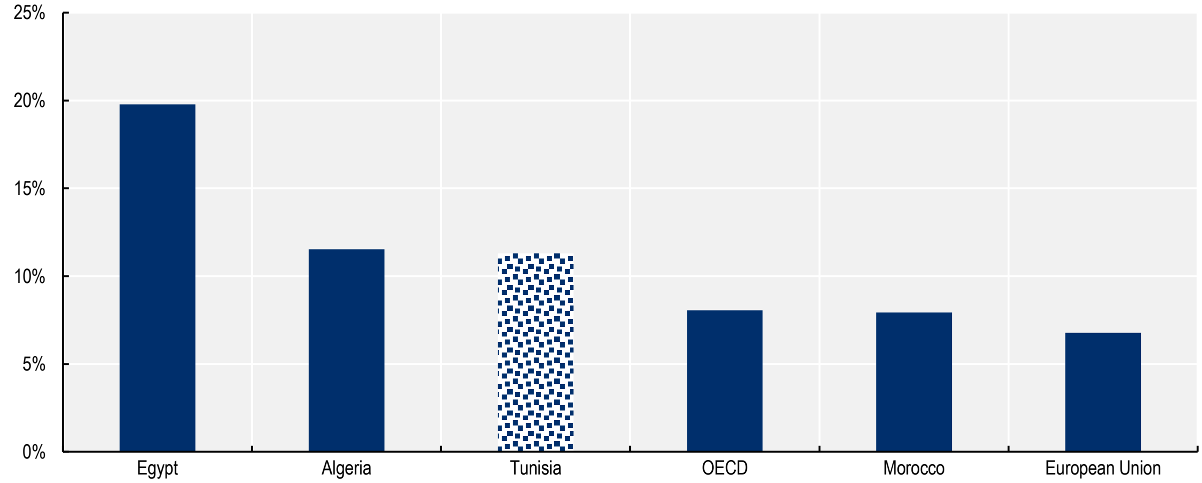
Sources: Refinitiv; OECD calculations.

Figure 2.8. Tunisian listed banks' net operating income, 2010-21



Sources: Refinitiv; BCT; OECD calculations.

Figure 2.9. Tunisian listed and non-listed banks' ROE vs. banks' ROE elsewhere



Note: ROE is calculated as the ratio of net income to total shareholder equity. Average data for listed and non-listed banks are calculated over the period 2015-19.
Source: World Bank Global Financial Development Database; OECD calculations.

Development banks

Two state-owned banks in Tunisia have public policy functions. The *Banque Tunisiennes de Solidarité* (BTS), was established in 1997 and specialises in making small loans of up to TND 150 000 to professionals and micro-enterprises that are unlikely to be able to access bank loans because of a lack of collateral. The BTS has 25 branches distributed across governorates.

The *Banque de Financement des Petites et Moyennes Entreprises* (BFPME), was established in 2005 to promote the growth of MSMEs and support their access to finance. The BFPME provides loans of between TND 100 000 and TND 15 million that cover up to 65% of the total cost of projects (European Investment Bank, 2015[26]). The BFPME finances only projects guaranteed by the *Société Tunisienne de Garantie* (SOTUGAR). Around 60% of its portfolio includes projects in non-coastal (less developed) areas[6] (see Section 2.2.3 for a description of the SOTUGAR). Between 2005 and the end of 2020, the BFPME granted loans for around 1 600 projects (BFPME, 2023[27]). A large portion of BFPME loans is granted in partnership with commercial banks (mostly the three largest state-owned banks and the three largest banks controlled by Tunisian investors).

Since 2017, the Ministry of Finance has been working on a project to create a *Banque des Regions* (BdR), or Bank of the Regions, which is supposed to merge the BTS, the BFPME and the SOTUGAR.

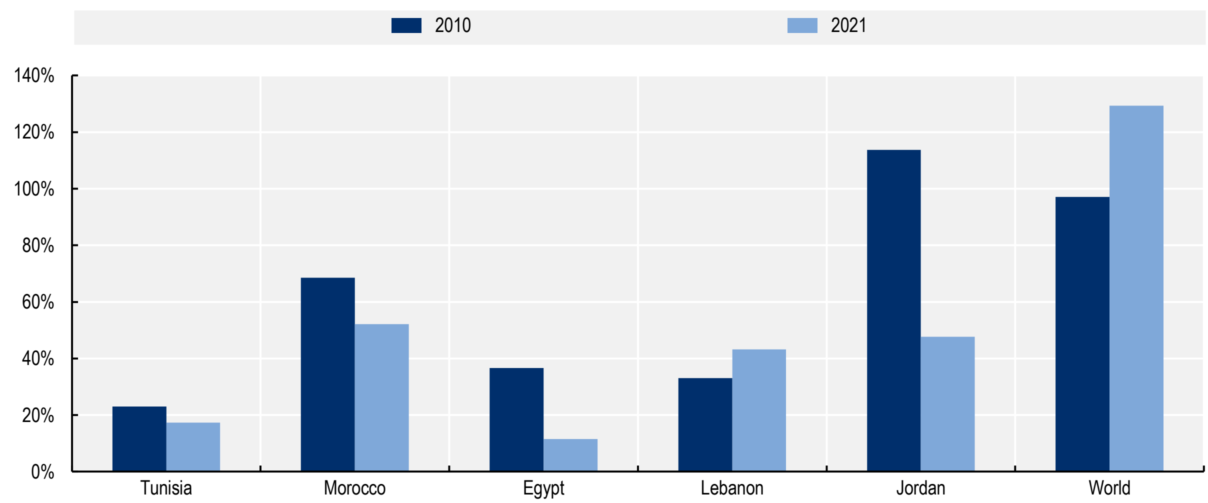
2.2.2. Other sources of corporate finance

Corporate financing comes from three main sources in Tunisia. Retained earnings is the main means by which companies can mobilise resources internally to finance investment, using net income remaining after the payment of expenses and obligations. Debt financing – funds companies raise by borrowing money through loans or corporate bond issuance – is a second source. The main source of financing for Tunisian corporates is bank loans. Equity capital – cash that public companies obtain by issuing shares – is the third key source of funds. The remainder of this section briefly discusses alternative sources of finance.

Equity market

Figure 2.10 shows that the size of Tunisia's equity market in 2010 was around 20% of GDP, falling 6 percentage points by 2021. Tunisia's equity market is small compared to those of other MENA countries and to the world average.

Figure 2.10. Size of Tunisia's equity market vs. equity markets elsewhere



Sources: World Federation of Exchanges; IMF Economic Outlook Database; OECD calculations.

Corporate bond market

Tunisia has no corporate bond market. According to data from the World Federation of Exchanges, no capital was raised on the domestic corporate bond market in Tunisia over the period 2010-20 and the number of bond issuers has consistently been zero.

Leasing

Leasing is a contractual arrangement whereby a customer (a lessee) obtains the right to use an asset owned by a leasing company (a lessor) subject to payment of periodic leasing instalments. It is typically used to acquire vehicles, industrial equipment or buildings. Leasing is often used by MSMEs because it allows them to use equipment without investing capital. As of June 2022, eight leasing companies were operating in Tunisia, and domestic banks are the main shareholders in six of them (MACSA, 2022[28]).

Leasing finance offers two main advantages compared to loans. First, a company applying for leasing finance does not need to provide collateral or a credit history, as legal ownership of the leased assets remains with the lessor. Second, the time between application and approval is typically shorter than for a loan. Leasing companies may request deposits.

Factoring

Factoring is a contractual agreement in which the factoring company takes responsibility for collecting the debts of another company. In Tunisia, factoring companies also provide other services, such as consulting, protection from non-payments of invoices, and debt recovery litigation (World Bank, 2009[29]). Two factoring companies currently operate in Tunisia, one of which has the country's largest banks as shareholders (CBF, 2023[30]).

2.2.3. Other participants in the retail banking sector

La Poste Tunisienne

Since 1999, the state-owned postal operator has provided a range of financial services, such as current accounts, savings accounts, insurance products and payment services. *La Poste* plays an important role in the country's financial inclusion strategy and is its largest provider of current accounts. Based on the OECD's consumer survey, around 10% of Tunisians have a current account at *La Poste*, around 29% have a current account with a bank, and around 64% do not have a current account.[7]

La Poste's customers typically have lower incomes than banks' customers, and its fees are typically lower than those charged by banks (Altai Consulting, 2018, p. 41 and following[31]). Young people often open current accounts at *La Poste* (for example, to make payments for school or university), but when they need access to credit (for example, to buy a property) they switch to a bank. Retirees are also more likely to use postal current accounts. *La Poste* does not provide lending products as it does not hold a banking licence and is not supervised by the BCT. Chapter 4 and Box 4.1 provide details on the role of *La Poste* in Tunisia's current account market.

The SOTUGAR

The SOTUGAR is a partial credit guarantee scheme established in 2003 to provide collateral to entrepreneurs and SMEs applying for bank loans. It is jointly owned by Tunisian banks that sit on its board and by the state. When a bank receives a credit application, it may contact the SOTUGAR to ask for a partial guarantee of up to 75% of the loan. If the guarantee is granted and the loan is not repaid, the SOTUGAR immediately pays 55% of the unpaid loan and the remainder at the end of legal proceedings, which can be very lengthy (on average 6-7 years). The cost of the guarantee – 2.6% of the loan value – is paid up front by the borrower. During interviews with the OECD, the SOTUGAR said the guarantee has little impact on interest rates paid by borrowers.

Caisse des Dépôts et Consignations

The *Caisse des Dépôts et Consignations* (CDC), was established in 2011 by Decree-Law No. 2011-85. Its objectives are to fund large infrastructure projects and to provide finance to SMEs. In 2021, the outstanding credit lines and loans were around TND 110 million (Caisse des Depots et Consignations, 2022[32]).

Public credit information registries

The BCT manages four registries providing information on the credit histories of individuals and businesses. The objectives of the registries are to provide information on the overall indebtedness of economic players and monitor the performance of loans granted, to assist in credit risk management, and to supervise financial stability. The data is collected from banks, debt collection companies, and other financial institutions.

Data collected by the BCT is organised in four registries:

- the *Centrale des Risques*, or Risk Centre, which lists outstanding loans to SMEs and self-employed individuals
- the *Centrale des Credit aux Particuliers*, or Individual Credit Centre, which lists outstanding loans to individuals
- the *Central des Chèques Impayés*, or Unpaid Cheques Centre, which lists defaulted cheque payments

- the *Central des Bilans*, or Balance Sheet Centre, which lists information from enterprises' balance sheets and income statements, financial indicators, and comparisons with other enterprises in the same sector.[8]

Microfinance institutions

Microfinance is outside of the scope of this review, as stakeholders did not identify preliminary concerns in this market. Microfinance institutions are regulated by the *Autorité de Contrôle de la Microfinance (ACM)*, or Microfinance Supervisory Authority, rather than by the BCT.

For many consumers and small businesses, microfinance loans may be an alternative to bank finance. Microfinance loans in Tunisia cannot exceed TND 40 000 in value and are typically aimed at retail customers, professionals or micro-enterprises that may lack a credit history or collateral (ACM, 2023[33]). Microfinance loans and microfinance institutions are not subject to the cap on lending interest rates applied to bank loans, leasing and factoring products (see Section 5.3.1 for a discussion of the cap and its potential impact on the lending market).

Interest rates on microfinance products are typically significantly higher than rates on bank loans. In 2021 the *taux effectif global*, or global effective rate, on products offered by microfinance institutions was 31.8% [see Autorité de Contrôle de la Microfinance (2021[34]), Section 2.10], far above the rate of 9-13% for loan products from banks and leasing companies (see Table 5.2). Eight microfinance institutions operate in Tunisia, some of which count banks among their shareholders.

2.3. Institutional overview

2.3.1. Main institutions

The main institutions responsible for regulating and supervising Tunisia's banking sector are the BCT and the Ministry of Finance. This section also briefly presents the banking association. Annex B includes a brief overview of the country's banking regulatory framework.

The Banque Centrale de Tunisie

The BCT was established by Law No. 1958-90 and started operating in November 1958. During the past 30 years, the BCT's role and functions have undergone various reforms.[9] The last major reform occurred in 2016 with the adoption of Law No. 2016-35, which recognised the BCT's independence and financial autonomy. The BCT's capital is held entirely by the state and is subject to parliamentary supervision.[10] Its key mission is to ensure price stability and to support the government's economic policy objectives. To pursue this mission, the BCT is responsible for a wide range of policy areas, formulating designing and implementing monetary policy, ensuring the stability, efficiency and security of payment systems, supervising banks and financial institutions and regulating banking activities, and protecting users of banking services.[11] It also acts in an advisory role to the government and interacts with other public stakeholders on financial matters.[12] Its governor, vice-governor and board of directors are responsible for its management. For the purposes of this report, the BCT's banking supervision department and the department for the development and surveillance of payment systems are of particular relevance (see organigram of the BCT (BCT, 2023[35])).

Article 26 of Law No. 2016-48 established a *Commission d'Agréments*, or Licensing Commission at the BCT. The commission is chaired by the BCT governor (or her/his representative) and comprises four independent members appointed by the BCT's board.[13]

Box 2.2. The Central Bank's policy for a healthy banking market

I. Legal mandate

The Central Bank of Tunisia (BCT) has a mandate to work to protect users of banking services (Article 8 of Law No. 16-35). The BCT supervises authorised banks and financial institutions and works to ensure that they carry out their activities in accordance with its provisions and implementing regulations in order to preserve their financial soundness and protect their depositors and the users of their services (Article 63 of Act No. 2016-48).

II. Operational tools

The BCT monitors market practices with a view to protecting users against unhealthy practices, in particular through :

- monitoring the legality of new banking products marketed ;
- monitoring banking practices through customer reports and on-site inspections;
- price monitoring;
- monitoring the advertising of banking products and practices;
- monitoring customer information, in particular through standard contracts;
- monitoring the complaints handling system set up by banks and financial institutions.

III. Recent regulatory and operational developments

Circular no. 2021-05 on the governance framework for banks and financial institutions required banks' management bodies to devise a user protection policy guaranteeing the principles of listening to customers, keeping them well informed and conducting business in their best interests.

This circular paved the way for a framework for the BCT's intervention policies, including in disciplinary matters. Circular no. 2022-08 on the handling of complaints by banks has standardised the way in which customer complaints are dealt with, making it easier for customers to access an after-sales service within a short timeframe and standardising the way in which complaints are dealt with.

BCT is currently working on a circular to be published shortly on commercial and pricing practices with the aim of:

- Guaranteeing commercial conduct in the interests of customers.
- Guaranteeing that customers are fully and clearly informed at all stages of the marketing process.
- Providing justification to the BCT for any tariff revisions and set up a database of tariffs and financial products for monitoring purposes.

The BCT is currently working with the Ministry of Finance on a draft decree-law setting out a series of obligations to be imposed on banks with regard to the management of inactive accounts.

BCT has taken the preliminary steps to become a member of OECD’s FinConet (the International Financial Consumer Protection Organisation).

Source: Central Bank of Tunisia, 2023

In addition, in 2016, by extending the prerogatives of the *Observatoire des Services Bancaires*, or Banking Services Observatory, the *Observatoire de l’Inclusion Financière* (OIF), or Financial Inclusion Observatory, was established within the BCT to gather information relating to the usage and quality of financial services and to improve access to these services.[14] Among its tasks, the OIF is responsible for establishing indicators to measure the cost of financial services, customer satisfaction and financial inclusion, issuing recommendations to market players, preparing annual reports on banking mediation, and carrying out studies on the sector.

The Ministry of Finance

The Ministry of Finance plays an important policy and regulatory role in Tunisia's banking sector. Within the ministry, two departments are relevant to this report: the *Direction Générale du Financement*, or Directorate General of Financing, and the *Direction Générale des Participations*, or Directorate General of State Participations. The *Direction Générale du Financement* issues opinions and contributes to legislation on all legal, technical and economic issues relating to banks and credit institutions, interacting with the BCT and banking associations, and it participates in the formulation and execution of monetary and credit policy, support for SMEs, investment promotion and supervision of the *Autorité de Contrôle de la Microfinance* (Ministère des Finances, 2023[36]). The *Direction Générale des Participations* exercises the state's ownership rights in state-owned banks, other banks and financial institutions in which the state holds minority stakes, and it supervises the management of state-owned banks (Ministère des Finances, 2023[37]).

The Conseil de la Concurrence

The *Conseil de la Concurrence*, or Competition Council, was established in 1991 as a special commission to hear applications relating to anti-competitive practices and provide opinions on competition-related draft legislation or regulation. The commission became the council in 1995 [see OECD (2022[38]) for more details on its history, composition and operations; Section 3.6 discusses the council's role in financial services].

The banking association: Conseil Bancaire et Financier

Banks and other financial institutions established the *Association Professionnelle Tunisienne des Banques et des Etablissements Financiers*, or Tunisian Professional Association of Banks and Financial Institutions, in 1972. It was renamed the *Conseil Bancaire et Financier* (CBF), or Banking and Finance Council, in May 2022. The role of the CBF is discussed in Section 3.4.

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Notes

[1] Law No. 2016-48, Art. 188 : *Les banques et les établissements financiers non-résidents ayant leur siège social à l'étranger.*

[2] Information based on (Banque Centrale de Tunisie, 2022[3]) and updated after the *Banque Franco-Tunisienne* was declared bankrupt In March 2022.

[3] Law No. 89-9, Article 8. – (nouveau) (Law No. 96-74): The following shall be deemed to be State-owned enterprises within the meaning of this law

- non-administrative public establishments, the list of which is set by decree.
- companies whose capital is wholly owned by the State.
- companies whose capital is held by the State, local authorities, public establishments and companies in which the State holds more than 50% of the capital, either individually or jointly.

Public shareholdings are those held by the State, local authorities, public bodies and companies whose capital is wholly owned by the State.

[4] Two state-owned banks specialise in microfinance and SME financing: the BTS and the BFPME. More details on these two banks will be provided later in the report.

[5] The 12 listed banks are all domestic. Four are state-owned, seven are private commercial banks, and one is Islamic.

[6] Meeting with BFPME.

[7] Around 2% of individuals have an account both at *La Poste* and at a bank.

[8] Response of the BCT to information request and *Service de consultation à distance,* https://online.bct.gov.tn/scd/.

[9] In 1988 (Law No. 1988-119), 1994 (Law No. 1994-25), 2000 (Law No. 2000-37), 2006 (Law No. 2006-26), 2007 (Law No. 2007-69) and in 2016 (Law No. 2016-35).

[10] See Articles 2 and 5 of Law No. 2016-35.

[11] See Articles 7-8 of Law No. 2016-35.

[12] See Article 29 to 32 of Law No. 2016-35.

13 See *Décision de la commission d'agréments No. 2017-1, fixant règlement intérieur de la commission d'agréments ; and Décision de la commission d'agrément No. 2017-04, relative aux procédures de dépôt des demandes d'agrément.*

14 See Article 94 of Law No. 2016-35.

3 Factors weakening competition in Tunisia's retail banking sector

Several factors weaken banks' incentives to compete in the markets on which this study focuses. Common shareholders and indirect interlocking directorates reduce banks' incentives to compete and increase the risks of co-ordination. This is exacerbated by legal provisions and market practices that facilitate the sharing of commercially sensitive information among members of the banking association. State-owned banks seem unable to vigorously compete with other lenders. Stakeholders indicated that state-owned banks remain subject to political influence, and that they are used to provide finance to state-owned enterprises.

This chapter describes several issues in Tunisia's retail banking sector that may weaken competition in the markets on which this study focuses, and provides the background for an analysis of banking services. These issues include the presence of state-owned financial institutions (Section 3.1), the ties between large Tunisian industrial groups and banks (Section 3.2), the connections among listed banks via common shareholders and board directorships (Section 3.3), the banking association (Section 3.4), the mediation mechanism (Section 3.5) and the limited co-operation between Tunisia's financial regulator and competition authority (Section 3.6). Each of these factors has the potential to weaken the incentives of banks to compete and thus negatively affect outcomes for consumers.

3.1. Role of state-owned financial institutions

Many Tunisian financial institutions are owned by the state. This section describes the role of state-owned financial institutions and its potential impact on market dynamics.

3.1.1. Involvement of the state in financial services

As of the end of 2022, five of Tunisia's 22 domestic banks were state-owned. Two – the *Banque Tunisienne de Solidarité* (BTS) and the *Banque de Financement des Petites et Moyennes Entreprises* (BFPME) – have a mandate to provide credit to micro, small and medium-sized enterprises (MSMEs). The remaining three are the second-, third- and fourth-largest commercial banks in the country based on total assets (see Section 2.2.1).

The state also owns *La Poste Tunisienne*, which even without a banking licence is a major player in the retail banking sector and the country's largest provider of current accounts and savings accounts to individuals (see Chapter 4). Three other banks are mixed, jointly owned by the Tunisian state and by another Arab country.

Although state-owned banks with specific public policy mandates are common internationally and may be used to mitigate certain market failures by, for instance, improving MSMEs' access to finance amid information asymmetries, it is unclear why Tunisia's government needs to control almost one-third of the country's banking assets.

3.1.2. Potential effects on competition

The existence of universal state-owned banks in Tunisia creates risks both in the financial sector and the broader economy.

First, the state has the potential to act as the unique owner of state-owned institutions and co-ordinate their strategies. This is not necessarily an anti-competitive practice, but given the combined size of state-owned entities, the state is able to affect market dynamics. Table 3.1 shows that the three largest state-owned banks account for around 30% of all banking assets in Tunisia and around 46% of business loans. Combined with *La Poste*, state-owned entities account for around 44% of personal current accounts (PCAs) and 24% of business current accounts (BCAs).

Table 3.1. State-owned banking sector entities' shares of selected market segments

Entities	Total assets	Personal current accounts	Business current accounts	Business loans
Three largest state-owned banks	30%	22%	19%	46%
La Poste	n.a.	22%	5%	n.a.
Other banks	70%	56%	76%	54%
Total	100%	100%	100%	100%

Note: Business loans include four types of loans (overdrafts, short-term, medium-term and long-term loans). Total assets as of the end of 2021; shares of PCA and BCA segments as of 2022; shares of business loans as of the end of 2021.
Source: OECD consumer survey; OECD MSME survey; BCT data; OECD calculations.

Second, competition in the finance sector may be affected by state-owned banks as they may have fewer incentives to improve efficiency and innovate if management is insulated from standard marketplace incentives such as pressure to reduce costs and increase profits. This is consistent with the findings on overall profitability presented in Section 2.2.1, showing that state-owned banks are less profitable than other listed banks although the OECD understands that the profitability issue is also the result of other constraints set by the State.

Third, the role of the state as both the owner of the largest banks and the financial regulator may create significant conflicts of interest and result in preferential treatment that may distort market dynamics. For example, state-owned banks may be allowed to have higher shares of non-performing loans (NPLs), as shown in Table 3.2. NPL levels are high for three main reasons. The first is that the government has historically attempted, through state-owned banks, to expand Tunisia's tourism sector. This has left state lenders exposed to the sector, which has faced a number of difficulties and in which revenues have been decreasing, especially after the 2011 revolution and the 2015 terrorist attacks in Bardo and Sousse (OECD, 2023[1]). The second is that state-owned banks used to grant easy credit to borrowers connected with former President Zine El Abidine Ben Ali. It is estimated that nearly 30% of that credit was provided with no guarantees of repayment (Morsy, Kamar and Selim, 2018[2]) and (World Bank, 2014[3]). The third is that law no. 89-9 on public holdings, companies and establishments restricts the ability of management to negotiate and resolve NPLs.

Table 3.2. Tunisian listed banks' non-performing loans

Year	Listed bank average	Three largest state-owned bank average	Other listed bank average
2021	12.0%	15.5%	10.8%
2020	12.2%	15.9%	11.0%
2019	12.3%	15.4%	10.3%
2018	11.8%	16.0%	10.4%

Note: Simple average of proportion of NPLs.
Source: Listed banks' annual reports 2018-21.

Fourth, state-owned banks may also affect competition in non-finance parts of the economy, for example if state-owned banks suffer from political interference and are used by the government to direct funding to state-owned enterprises or other connected businesses. The (World Bank, 2014[3]) found that Tunisia's state-owned banks were not independent of political interference and that the role of the state as the largest finance provider and largest borrower, in addition to its role as the regulator of the financial sector, created significant conflicts of interest, resulting in poor financial performance. Several stakeholders interviewed by the OECD stated that state-owned banks are still subject to political influence, a situation exacerbated by the current context where the country is experiencing an unprecedented budget deficit and all major public companies are facing serious financial disequilibrium.

3.1.3. Conclusions

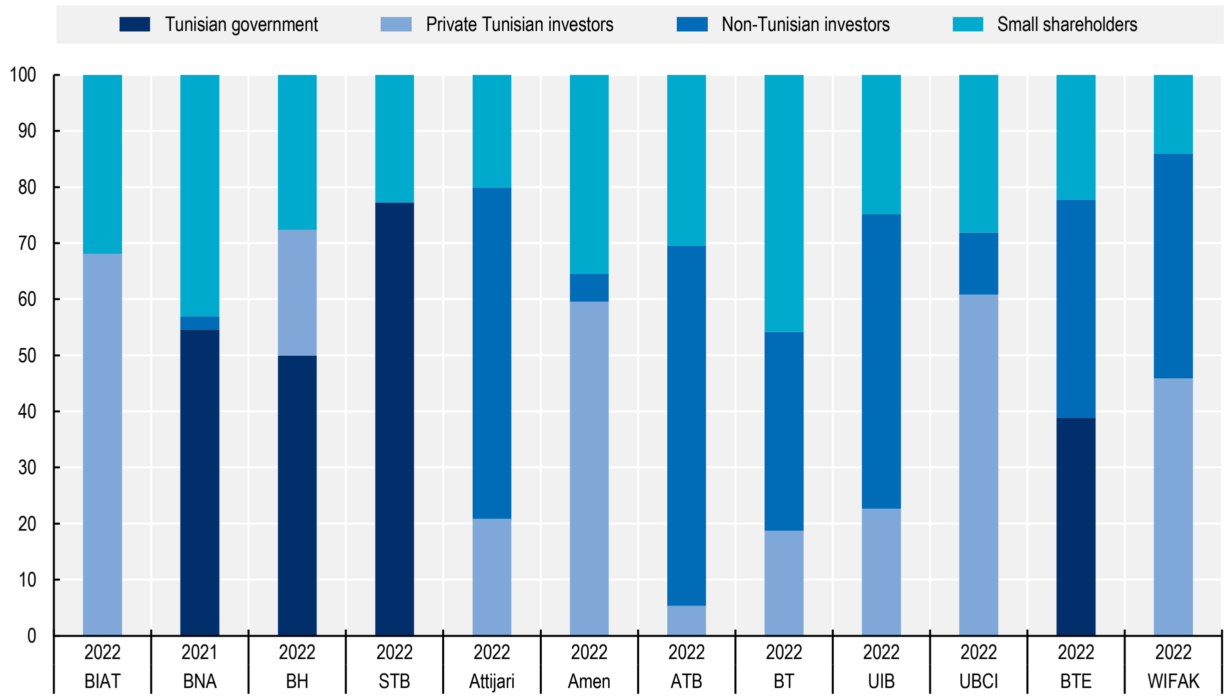
The vast presence of state-owned companies in the financial sector poses risks to competition in both Tunisia's finance and non-finance sectors. Evidence suggests that state-owned banks account for a large proportion of Tunisia's financial markets, that they tend to be less efficient and are subject to political influence, and that they are used to facilitate access to finance for state-owned enterprises. The level of exposure shown in 2022 by a major public bank towards a state-owned company - considered as a related party within the meaning of the Banking Act - in breach of Circular No. 2018-06 is probably an edifying illustration of this influence (see section 5.2.3).

3.2. Ties between large industrial groups and the banking sector

Since independence in 1956, the state has played an important role in Tunisia's economy. The objective of the country's industrial policy was to develop certain sectors and create large enterprises and state-owned banks. Several waves of privatisation in the mid-1980s and in 2006-07 have consolidated the economic power in the hands of a few big industrial groups that control large swathes of the Tunisian economy (OECD, 2018[4]). The 2022 OECD Peer Review of Competition Law and Policy in Tunisia found that in 2019, five industrial groups controlled more than 60% of the turnover of the most important private companies in Tunisia. These industrial groups have some connections in different markets, but each is controlled by a different majority shareholder. These five industrial groups also have direct links to banks (OECD, 2022[5]).

The participation of private Tunisian investors – namely the country's large industrial groups – has increased in seven among Tunisia's 12 listed banks. Figure 3.1 shows the most recent available breakdown of listed banks' shareholders. The figure considers four types of investors: the government, private Tunisian investors, foreign investors, and small investors with stakes of less than 5%. Banks are ordered from the largest (left) to the smallest (right), based on total assets at the end of 2021.

Figure 3.1. Ownership of Tunisia's listed banks



Note: Data are expressed as a share of total shareholder equity outstanding by type of shareholder. Data for UIB, STB Bank and WIFAK Bank were not available for 2015, so more recent data have been used. Banks are ranked by total assets, from left to right, as of the end of 2021.
Source: Refinitiv; OECD calculations.

Evidence suggests that the influence of large industrial groups on the finance sector has a negative impact on competition in Tunisia's financial and non-financial markets alike. Stakeholders interviewed by the OECD expressed concerns over the governance of large banks controlled by private Tunisian investors. Stakeholders said informal decision-making mechanisms at banks could reduce the importance of boards and increase the ability of industrial groups to influence decisions, and that the process of selecting independent boards of directors remains ineffective despite the independence criteria set out Circular No. 2021-5, possibly resulting in banks lacking truly independent directors. This is an important context within which to consider the competitive landscape of Tunisia's banking sector. Poor governance structures increase the influence that large industrial groups have over banks and pose risks to the ability of smaller businesses without such connections to access bank finance. These risks are discussed in Section 5.2.3.

Finally, the analysis finds that some of Tunisia's large industrial groups have ownership stakes in several listed banks (data for non-listed banks was not available). This raises competition concerns across all the markets in the scope of this study. These concerns are discussed in Section 3.3.

3.3. Common ownership and interlocking directorates

Several banks in Tunisia are connected via either common shareholders or directors linked to common shareholders. This may reduce incentives to compete and may facilitate co-ordination among banks. This section describes the potential risks to competition arising generally from common ownership and interlocking directorates, and describes the specific situation in Tunisia. The OECD's analysis is based on publicly available information.

While the literature has typically focused on common shareholders that manage passive index funds, such as large institutional investors, in Tunisia common shareholders are represented by large domestic industrial groups that are family-owned and which hold minority equity shares in the country's banks.

Common ownership refers to a situation in which firms competing in a market have shareholders in common, typically investors that hold minority equity stakes. One way in which minority shareholders can exert influence over companies is by voting on the selection of their boards of directors (OECD (2017[6]) discusses other ways shareholders may influence management). This may result in competing firms having individuals connected to the same shareholder sitting on their boards. The literature refers to this situation using the term "interlocking directorates". Interlocks may be direct if the same person sits on the boards of two competing companies, or indirect if the two companies are linked to different people who are related in some way (for example, because they are part of the same family) to the same shareholder (OECD, 2008[7]). The effects of interlocking directorates may reinforce the effects of common ownership.

3.3.1. Potential effects on competition

There is growing debate on the effects of common ownership and interlocking directorates on competition, and the extent to which common minority shareholders exert influence over firms [see OECD (2017[6]) and (2008[7])]. This section briefly presents the theoretical effects on competition. Box 3.1 presents a selection of empirical work to assess the impact of common ownership and interlocking directorates on competition.

First, a shareholder with holdings in several competing firms may find it profitable if a controlled firm unilaterally increases prices. Given that a price increase may result in some customers switching to rivals, the common shareholder will benefit from both the increased price paid by customers staying with the current provider and from the increased sales of the rival firm. In other words, the cost of losing customers to rivals is mitigated for the common shareholder if the shareholder also has equity shares in rival companies that acquire new customers. Interlocking directorates may strengthen these effects, especially if board membership comes attached to financial interests and remuneration is tied to the firm's performance (as may be the case if a director is linked to a shareholder also holding shares in the firm).

Second, common ownership may facilitate co-ordination among firms in investors' portfolios. Common shareholders may facilitate the transmission of information between rival firms and monitor compliance, allowing them to sustain a jointly profit-maximising position. As for the unilateral effects described above, co-ordination may be strengthened by the existence of common board members. In fact, board members are aware of and can influence strategic and commercial information on rival banks that can facilitate tacit or explicit co-ordination. Information shared in a board meeting at one bank can affect the decisions taken in a board meeting at a rival bank sharing the same board members. In addition, interlocking directorates can be a monitoring tool to prevent deviation from co-ordinated behaviours, as well as potentially undermining incentives to compete more generally, for example to innovate (OECD, 2017[6]).

Finally, the existence of common ownership and interlocking directorates has implications for measuring market concentration. The measurement of the concentration in a market is an important means of assessing how competition works, as the structure of a market may affect firms' incentives to compete, and increased concentration may be associated with higher mark-ups and increased market power. Two of the most widely used metrics to measure concentration are the Herfindahl-Hirschman Index (HHI) and concentration ratios (CRs) [see for example OECD (2018[8]) and (2021[9])]. Measures such as the HHI and CRs assume firms behave independently from one another. However, when one shareholder owns shares in, or exerts influence over, several companies competing in the same market, this may not be true.[1]

Box 3.1. Empirical evidence on the effects of common ownership and interlocking directorates

Several empirical studies have investigated whether firms act on incentives to dampen competition created by common ownership and interlocking directorates. However, the literature is still at a nascent stage and there is no consensus on whether common ownership reduces competition.

For example Azar, Schmalz & Tecu (2018[10]) and Park & Seo (2019[11]) found that common ownership measured using the Modified Herfindahl-Hirschman Index (MHHI) increased prices in the US airline industry. Dennis, Gerardi & Schenone (2022[12]) challenged these results, noting that the correlation between MHHI and ticket prices arose from the market share component of the MHHI rather than the ownership and control components.

Azar, Raina & Schmalz (2022[13]) developed a Generalised HHI that captured both the degree to which banks were commonly owned by third-party investors and the extent to which banks owned shares in one another. They found that retail banking fees across US states were positively correlated with the prevalence of common shareholders but not with measures of concentration that did not take connections into account.

In 2011, Italy banned interlocking directorates in the financial sector, preventing members of boards of directors, members of internal control bodies and top managers at banking, insurance and other finance businesses from holding other such positions at competing companies. Before the introduction of the ban, 18 of the 25 largest banking groups in Italy were connected to at least one other banking group via interlocking directorates (Ghezzi and Picciau, 2022[14]). Barone, Schivardi & Sette (2020[15]) assessed the effects of the ban on interlocking directorates and found that the reform had reduced interest rates charged by banks that were previously interlocked by between 10 and 30 basis points.

3.3.2. Common ownership and interlocking directorates in Tunisia's banking sector

This section presents the relevant regulatory framework and the prevalence of common ownership and interlocking directorates in the banking sector in Tunisia.

Legislation

Regulation limits interlocking directorates in Tunisia's banking sector. Article 57 of Law No. 2016-48 prescribes that no individual can be a member of a board or of a supervisory board at more than one bank or "financial institution of the same category" (this means, for example, that an individual can be on the board of a bank and also the board of an insurance company).[2]

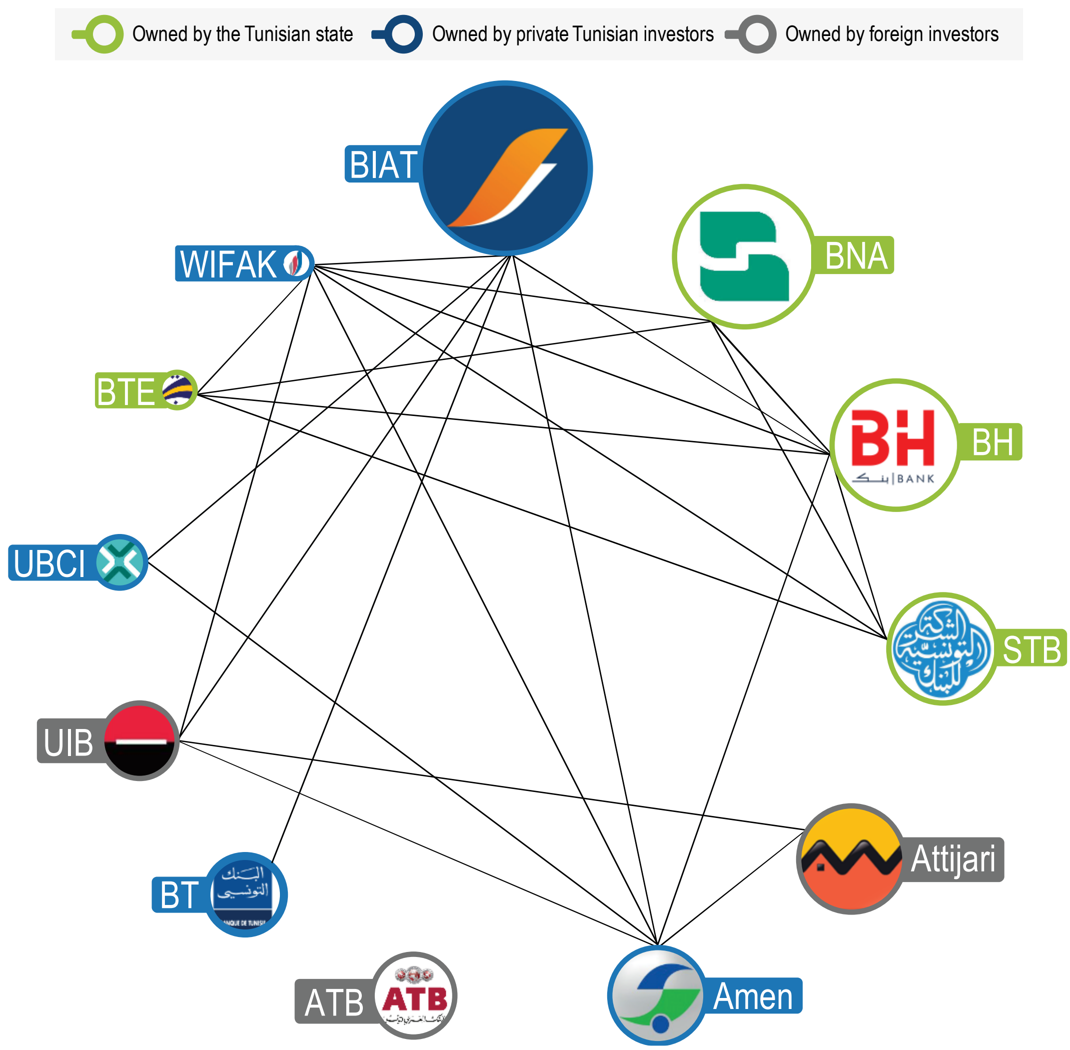
Circular No. 2021-5 sets out the conditions to be met by board members in the selection process and throughout their term of office. The BCT may also oppose the appointment of individuals for such positions based on qualifications, integrity and reputational criteria prescribed in Article 56 of Law No. 2016-48. Listed banks must notify changes in the equity owned by shareholders with stakes of more than 5% to the *Bourse des Valuers Mobiliéres de Tunis* and the BCT.[3]

Prevalence of connections between Tunisia's listed banks

This section describes the prevalence of common shareholders and indirect interlocking directorates at Tunisia's listed banks using the latest data available, from either April 2022 or April 2023.[4]

Based on the most recent available data, most listed banks were connected with at least one other bank, either via board membership or common shareholders or both.

Figure 3.2. Common shareholders at Tunisia's listed banks, 2022-23



Notes: Green circles indicate state-owned banks (including BTE, which is a mixed bank), blue circles indicate banks controlled by private Tunisian investors and grey circles indicate foreign-owned banks. The size of the bubble indicates the size of the bank. Lines between two banks indicate the existence of at least a shareholder in common.
Source: Based on Bourse des Valuers Mobiliéres de Tunis (2023[16]), Listed companies, https://www.bvmt.com.tn/fr/entreprises/list.

Figure 3.2 illustrates such connections. Green circles indicate state-owned banks, blue circles indicate banks controlled by private Tunisian investors and grey circles indicate foreign-owned banks. The size of the bank indicates the size of the bank. Lines between two banks indicate the existence of at least a shareholder in common. The OECD validated these connections with the BCT. The OECD also notes the existence of links via the board of directors, either because of indirect interlocks, who are linked the same family or industrial group or because a director is linked to a family or industrial group who is also a shareholder in another bank. The OECD identified a number of such connections but could not validate them at the time of writing. For this reason, the number of connections shown in Figure 3.2 might be an underestimate of the links between banks. Figure 3.2 also shows that larger banks have more connections than smaller banks, potentially exacerbating the risks.

3.3.3. Conclusions

The analysis above shows the prevalence of common shareholders at Tunisia's listed banks. Most listed private banks were connected with at least another bank, either via common shareholders or via board members. The number of indirect interlocking directors identified by the OECD is relatively low and did not represent the majority on the boards at any of the listed banks, even if linked directors were counted together. However, this might be an underestimate due to the prevalence of informal connections that the OECD was informed about but was not able to identify precisely and the fact that the information available did not include banks not listed on the stock exchange.

The OECD's analysis was based on publicly available information and the OECD was not able to assess the extent to which common ownership and interlocking directorates in retail banking in Tunisia are worsening competition. However, connections among banks, together with certain legal provisions and market practices (see Section 3.4) increase the risk of weakening incentives to compete and of co-ordinated behaviour.

3.4. Tunisia's banking association: the *Conseil Bancaire et Financier*

Banking associations, like other trade associations, represent the interests of their members. Banking associations perform important functions not only for the sector, but for the wider economy. They engage with stakeholders such as regulators and customers to advocate the interests of their membership and can provide valuable input to inform legislative decisions. They are also key for the development and implementation of guidelines and codes of conduct to ensure compliance, and for the dissemination of best practices among members. Trade associations can also play a beneficial role by, for instance, establishing industry standards.

However, case law across various jurisdictions shows that business associations often play a significant role in the development or facilitation of collusive and other anti-competitive practices (Autorité de la Concurrence, 2021[17]). For instance, the exchange, processing, and dissemination of information within an association – for example, through the collection of business data from its members – can lead to collusive practices. Other practices raising antitrust concerns relate to restrictions on access to certain activities, the implementation of unduly restrictive standards, and the misuse of an association's role in the representation of the interests of its members. In light of these risks, business associations must be particularly careful when it comes to their internal exchanges and organisational rules.

3.4.1. Regulatory framework

Article 186 of Law No. 2016-48 (and previously Article 31 of Law No. 2001-65), describe the purpose of the *Association Professionnelle Tunisienne des Banques et des Etablissements Financiers* (APTBEF), which in May 2022 was renamed the *Conseil Bancaire et Financier* (CBF). The CBF currently comprises 22 universal banks, two offshore banks, two investment banks, eight leasing companies and two factoring companies (Conseil Bancaire et Financier, 2023[18]).

Among its other activities, the CBF acts as an intermediary between its members and public authorities, including the BCT. Pursuant to Article 2 of its statute (Association Professionnelle Tunisienne des Banques et des Etablissement Financiers, 2001[19]), it also ensures that its members comply with applicable regulations and aims to maintain regular relations between its members and to harmonise their internal rules. The general assembly of the CBF usually meets once a year and it appoints a council of 12 representatives (eight from banks and four from other financial institutions, all from among its members). The council meets every quarter and decisions are reached by a simple majority.

3.4.2. Risk of co-ordinated behaviour

Although the law recognises the CBF's intermediary role, evidence suggests that, without the appropriate safeguards, the association may facilitate co-ordination and reduce competition among its members. In fact, stakeholders indicated that, in several instances, discussions within the CBF aimed to reach agreements on commercial terms applicable to the provision of banking services.

Certain legal provisions may facilitate co-ordination via the CBF. Article 34 of Circular No. 1991-22 requires that new fees are subject to consultation within the CBF, which then liaises with the BCT. This increases the risks of co-ordinated behaviour and of exchanges of commercially sensitive price information. For example, consultations with a number of stakeholders revealed the existence of discussions within the CBF in 2020 aimed at reaching a "gentlemen agreement" on commercial terms applicable to the provision of savings accounts.[5] Moreover, Article 2 (13) of the CBF's statutes states that the Council "*shall study questions relating to the practice of the profession and shall bring about agreements on such questions* (...)". The sharing of such commercially sensitive information among competitors is incompatible with the functioning of a competitive market. Information on future commercial behaviour, such as pricing strategies, raises particularly significant risks. The purpose of this report is not to assess these allegations, but they should be considered by the appropriate authorities.

Moreover, in 2017 the APTBEF developed three *codes de deontologie*, or codes of conduct, regulating interbank relationships and banks' relationships with clients and employees. The code of conduct regulating interbank relationships reaffirms the principle of fair competition, essentially prescribing that banks should refrain from unfair commercial practices vis-à-vis other banks [see Article 7 of Association Professionnelle Tunisienne des Banques et des Etablissement Financiers (2017[20])]. The CBF is currently developing a code of corporate governance for its members.

Restrictions from hiring personnel employed by rival banks

Article 11 of the code of conduct regulating interbank relationships establishes restrictions on banks' ability to recruit personnel already employed by other banks. These restrictions include: 1) a requirement to inform the bank whose personnel have been hired away (referred to as the "affected" bank in the code of conduct) immediately after recruitment; 2) a requirement to co-ordinate among banks before an employee moves to another bank; 3) a requirement to refrain from assigning executives or operational managers to the same areas in which they previously worked for the other bank for a period of two years, unless agreed by the former employer; and 4) a requirement not to harm the interests of the "affected" bank by soliciting clients when recruiting portfolio managers.

These provisions can have two main effects:

- First, they may weaken competition between banks by preventing them from hiring their rivals' staff. They artificially reduce workers' mobility and – in particular by limiting new hires' ability to operate in certain areas and to solicit customers of their previous employers – can restrict competition among banks and negatively impact consumers.
- Second, they may weaken competition in banking labour markets (see, for example, OECD (2022[21])]. Several competition authorities have investigated labour market practices and developed guidelines in this area in the past few years. One type of collusive practice involves agreements through which companies agree to refrain from (or agree on strict conditions for) recruiting one another's employees, essentially restricting competition for employees' labour. With such agreements, companies deprive workers of job opportunities, and of the potential to increase their salaries and improve their working conditions.

3.4.3. Past and ongoing antitrust investigations in Tunisia’s financial sector

The OECD is aware of two instances in which interactions among banks facilitated by the banking association resulted in alleged or actual co-ordinated conduct.

- In 2004, the *Conseil de la Concurrence* fined 19 banks over an anti-competitive agreement on fees charged for electronic cheque clearance. The *conseil* also fined the banking association for facilitating and monitoring the agreement (see Decision No. 3 150 of 25 June 2004).
- In June 2021, the *Conseil* launched an investigation of a potential anti-competitive agreement among banks on how to restructure loan payments during the COVID-19 pandemic. The *conseil* is investigating the role of the banking association. As of June 2023, the *Conseil* had not reached a decision.

In 2020, several banks filed a complaint to the BCT about an attempt to reach an agreement on capping the interest rate offered on savings accounts. Several stakeholders told the OECD that the CBF played a prominent role in negotiating this alleged agreement.[6] However, the OECD understands that these complaints did not result in a formal investigation.

3.4.4. Conclusions

The banking association is an important means of protecting its members’ interests and can aid the efficient functioning of the banking system. However, without the appropriate safeguards to mitigate the risks of anti-competitive conduct, such as exchanges of information, the CBF, in its intermediary role conferred by Tunisia’s legal framework, may facilitate collusive practices and reduce competition among its members. The analysis found that existing regulation and codes of conduct may weaken competition and facilitate co-ordination. This is consistent with practices and attempts to reach anti-competitive agreements described by stakeholders to the OECD.

3.5. The mediation mechanism in Tunisia’s retail banking sector

Mediation is an alternative dispute resolution mechanism whereby parties try to reach agreements on disputes, guided by a mediator. Countries offer various types of mediation services under different frameworks (e.g. service providers can be courts or private) and for a wide range of disputes, including disputes of a commercial or contractual nature. Mediation can be an efficient, flexible, and non-adversarial alternative to formal judicial proceedings, which in many countries tend to be slow and costly.

An effective mediation mechanism improves both consumer protection and competition. It protects consumer rights and has the potential to build trust and create incentives for consumers to be more engaged. An effective tool to lodge complaints helps consumers to exert pressure on suppliers, especially where firms enjoy market power, for example because of high switching costs. Ensuring that the mediator is – and is perceived to be – impartial and independent of any of the parties involved (including any bank) is crucial to customers’ ability to use this mechanism on a regular basis. This section describes the mediation mechanism in Tunisia’s banking sector and its effectiveness.

3.5.1. Regulatory framework

With the objectives of protecting customers and ensuring the swift resolution of disputes that may arise between banks and customers, Article 187 of Law No. 2016-48 prescribes that the banking association shall establish a mediation body, and that each bank may appoint one or more mediators. It also prescribes that mediators should formulate resolution proposals within two months of receiving complaints, and that banks must duly inform customers of the possibility of, and procedures for, accessing mediation. Finally, Article 187 of the law refers to a government decree to regulate the conditions under which the mediation body would operate. However, the OECD understands that, as of May 2023, no decree has yet been adopted and no mediation body has been established.

Circular No. 2022-08, introduced in October 2022, sets minimum standards for mediation services offered by banks and other financial institutions. The circular introduces a requirement to notify customers of the receipt of complaints and to provide reasons for complaints being partly or wholly rejected.

3.5.2. How the mediation mechanism works in practice

Stakeholders interviewed by the OECD suggested that Tunisia's bank mediation mechanism is ineffective. Banks do not always inform customers about the service and mediators are not independent but are appointed and paid by banks. The process is lengthy and resolution rates are very low (approximately 17%) compared to other countries (OIF, 2020[22]). The *Observatoire de l'Inclusion Financière* (OIF) has called on banks to consider the establishment of a better functioning system beyond one merely complying with their legal obligation.

A report the OIF published in December 2021[7] shows that 301 complaints were filed in 2020 regarding lending (37.9%), payment services (20.7%) and current accounts (20.2%, two-thirds of which involved procedures for closing accounts). Table 3.3 shows the annual number of complaints in Tunisia between 2018 and 2020. Individuals made 222 of the 301 complaints in 2020 and firms filed 71.[8]

Table 3.3. Complaints against Tunisian banks

	2018	2019	2020
Number of complaints	217	217	301

Source: OIF (2020[22]), Rapport Annuel de la Médiation Bancaire : Année 2020.

The low number of complaints might be seen as an indication that the market is functioning well, but the OECD's consumer survey shows that this is unlikely the case, as 70% of consumers[9] were not even aware of the existence of a mediation process. Among those who were aware of the service, the main reasons for not using it were because they said they were satisfied (three in four), because they did not expect any benefit (one in five) and because the process was cumbersome (one in six).[10]

3.5.3. Conclusions

The OIF report, alongside information received from stakeholders and the survey results, indicates that the current mediation mechanism is not working well and remains largely unused by customers. This may be explained by the fact that customers are not aware of the service and by the lack of actual or perceived independence of mediators, which are appointed and paid by banks. Moreover, in cases where customers decide to opt for mediation, only a few disputes are resolved, which indicates that the system is ineffective.

3.6. Regulatory set-up in financial services

Prudential regulation, competition policy and financial consumer protection are necessary ingredients for the effective regulation of financial services. (OECD, 2022[5]) identified several areas in which the existing regulatory set-up and practices in Tunisia do not foster co-operation between *Conseil de la Concurrence* and the BCT:

- Financial services are subject to a special merger control regime, and the BCT's *Commission d'Agréments* has the power to approve mergers based on a report prepared by the BCT. The *Conseil de la Concurrence* does not have powers regarding mergers in the finance sector.

- The *Commission d'Agréments* is composed of the governor of the BCT or their representative (who acts as chair) and four independent members recognised for their integrity and competence in the financial, banking or economic fields who are appointed by the BCT's board. The *Conseil de la Concurrence* is not represented on the commission.
- The BCT does not consult the *Conseil de la Concurrence* when introducing new regulation.
- The *Conseil de la Concurrence* is not particularly active in financial services.

In addition to this, the BCT, which is responsible for both prudential supervision and consumer protection, seems to dedicate limited resources to the OIF, the team within the BCT that leads on financial consumer protection.

The limited co-operation between *Conseil de la Concurrence* and the BCT hinders the ability of the competition authority to stop potentially anti-competitive practices, limits its advocacy role when new regulation is introduced, and ultimately risks reducing compliance with competition law.

3.7. Conclusions

This chapter describes several aspects of Tunisia's retail banking sector that negatively affect competition for consumers and small businesses across the three markets in focus. It highlights a number of factors that weaken banks' incentives to compete and which in fact facilitate co-ordination.

Common shareholders and interlocking directorates reduce incentives for banks to compete and increase the risks of co-ordination. This is exacerbated by legal provisions and market practices that facilitate the sharing of commercially sensitive information among members of the banking association. Weak incentives to compete result in poor outcomes for consumers and small businesses, such as high prices and low levels of innovation (see Chapters 4, 5 and 6 for a description of market outcomes).

State-owned banks, despite having fewer shareholders and directors linked to other listed banks, do not seem to be able to compete vigorously with other banks. Stakeholders indicated that they are still subject to political influence and are used to provide finance to state-owned enterprises. In addition, consumers do not have the tools to exert competitive pressure on banks. Section 3.5 shows that the tools to make complaints are ineffective and unused.

To address these issues and improve competition, the OECD recommends a package of measures to reform the banking association and the mediation mechanism, and to strengthen banks' corporate governance and the role of the *Conseil de la Concurrence* in financial services. The OECD also recommends considering the role of the state in financial services and the divestiture of state-owned banks through an open and transparent process (see Chapter 9 for a detailed description of the recommendations).

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Notes

[1] Alternative measures have been developed to take into account these linkages [see for example Salop and O'brien (2000[23]) and Azar, Raina and Schmalz (2022[13])].

[2] More stringent rules apply to the general manager, the deputy general manager or a member of the management board of a bank or financial institution. Such individuals may not exercise these functions in another bank, financial institution, insurance company, stock insurance company, stock exchange intermediation firm, securities portfolio management company or investment company. The same restrictions on board and supervisory board members already applied before 2016, on the basis of Article 17 of Circular No. 2011-06.

[3] Décision de la Commission d'Agrément No. 2017-04, relative aux procédures de dépôt des demandes d'agrément, in particular Annexe 8: Agrément pour le changement de l'actionnaire de référence suite à la cession de sa participation dans le capital d'une banque ou d'un établissement financier. Also for : Annexe 3: Agrément pour une opération de fusion ou de scission, Annexe 5: Agrément pour la réduction du capital d'une banque ou d'un établissement financier, Annexe 7: Agrément pour l'action de concert entre actionnaires d'une banque ou d'un établissement financier entraînant le dépassement de l'un des seuils prévus à l'Article 34 de la Loi No. 2016-48.

[4] The analysis is based on information available on the website of the Bourse des Valeurs Mobiliéres de Tunis. The information from the exchange is more recent but includes only shareholders with more than 5% shares as of April 2023 for all banks except Amen, BH, STB and UBCI for which the most recent information available is from April 2022. Given that the only information available is that published on the website of the exchange, the analysis focuses only on listed banks. The BCT did not provide information beyond what was publicly available.

[5] It is not the role of this report to assess these allegations, but the OECD recommends that these should be considered by the appropriate authorities.

[6] These comments were picked up by the local media: https://africanmanager.com/la-guerre-des-depots-fait-rage-entre-les-banques-et-letat-en-veut-sa-part/

[7] Pursuant to Article 187, the mediation body and mediators shall submit annual reports to the OIF.

[8] The remaining eight complaints were made by professionals and associations.

[9] OECD consumer survey (Q13, N=1 089).

[10] OECD consumer survey (Q14, N=324).

4 Current accounts

Competition in Tunisia's current account segment is not working as well as it could. Given the limited use of online banking services, banks rely on their branches to serve and attract customers, which limits consumers' choice of suppliers, especially in rural areas. Market shares have been stable since at least 2015, and very few consumers and small businesses shop around for current accounts, compare services across providers, or know how much they pay. Very few switch providers. This is partly due to bank practices that prevent consumers from easily accessing information and making informed decisions about the products they buy. Market outcomes are also affected by the factors described in Chapter 3, which weaken banks' incentives to compete. As a result, revenues from current accounts – a proxy for fees – and the overall profitability of banks have increased significantly in the past decade, and two-thirds of Tunisians do not have personal current accounts; one in five say that high fees are one of the reasons for this.

The chapter provides an assessment of competition in Tunisia's current account segment. For competition to work well, customers must be sufficiently well informed to buy products offering the best value for money, and suppliers need to have incentives to compete vigorously. After a brief description of the main characteristics of current accounts, the chapter discusses the key role of bank branches in serving and attracting customers (Section 4.2), and market structure and concentration (Section 4.3). Section 4.4 turns to market outcomes, providing an assessment of recent price trends, quality measures, and an estimate of the proportion of individuals and micro, small and medium-sized enterprises (MSMEs) with current accounts. The chapter then presents an assessment of customer behaviour (Section 4.5) and a discussion of bank practices that exacerbate customer inaction (Section 4.5.4). It ends with a discussion of payment cards and potential reasons for their low take-up.

4.1. Parameters of competition

Current accounts are typically used to store money, access it quicky, and make and receive payments. Additional services are linked to current accounts that consumers and businesses may or may not use, including additional payment methods such as debit or credit cards, cheques, cards to make cross-border payments, and borrowing facilities such as overdrafts. Current accounts may vary according to the characteristics of the product or the type of customer.

Current accounts offer functionalities that overlap with other products. For example, savings accounts are typically used to store money and obtain interest, but typically offer limited or no payment functionality. Some banks redirect consumers without regular incomes towards savings accounts. Other products that partly overlap with current accounts are digital wallets offering mobile payment facilities. These services have the potential to compete at least partly with current accounts (for more information on digital wallets and related payment services, see Chapter 6). However, the take-up of mobile payments in Tunisia is currently very low.

MSMEs often use current accounts to create banking relationships and improve their access to finance to expand or obtain financial assistance. MSMEs' needs for banking services differ from consumers' needs and vary widely depending on their characteristics. Micro businesses tend to behave like consumers; they may use a personal current account (PCA) for business purposes, they are more likely to use cash, they are less likely to use overdrafts, business loans and credit cards, and are less likely to engage in cross-border transactions. Larger businesses are more likely to use a wide range of banking services and financial products.

Strong linkages exist between business current accounts (BCAs) and business loans. MSMEs are more likely to obtain business loans from their BCA providers than from other banks. This is more common among smaller or newer enterprises, as banks may rely more on existing banking relationships where credit information is limited, especially if a credit information bureau does not hold comprehensive information (see Section 5.5).

Different providers focus on different market segments. For example, consumers with accounts at *La Poste Tunisienne* are more likely to have lower incomes, to live in rural areas, and to be unemployed. Also, branch networks appear to be a very important means by which banks can attract new customers and for consumers and businesses using current accounts, due to personal preferences and the limited availability or high cost of online services. Proximity to a branch is a key reason for choosing account providers, so geographical markets are likely to be local, and competitive dynamics vary across regions, based, for example, on the density of banks' branch networks. Given the role of branches and the different customer segments, where appropriate this chapter presents the results of analysis at different geographical levels and broken down by the main consumer demographic factors.

4.2. How banks compete

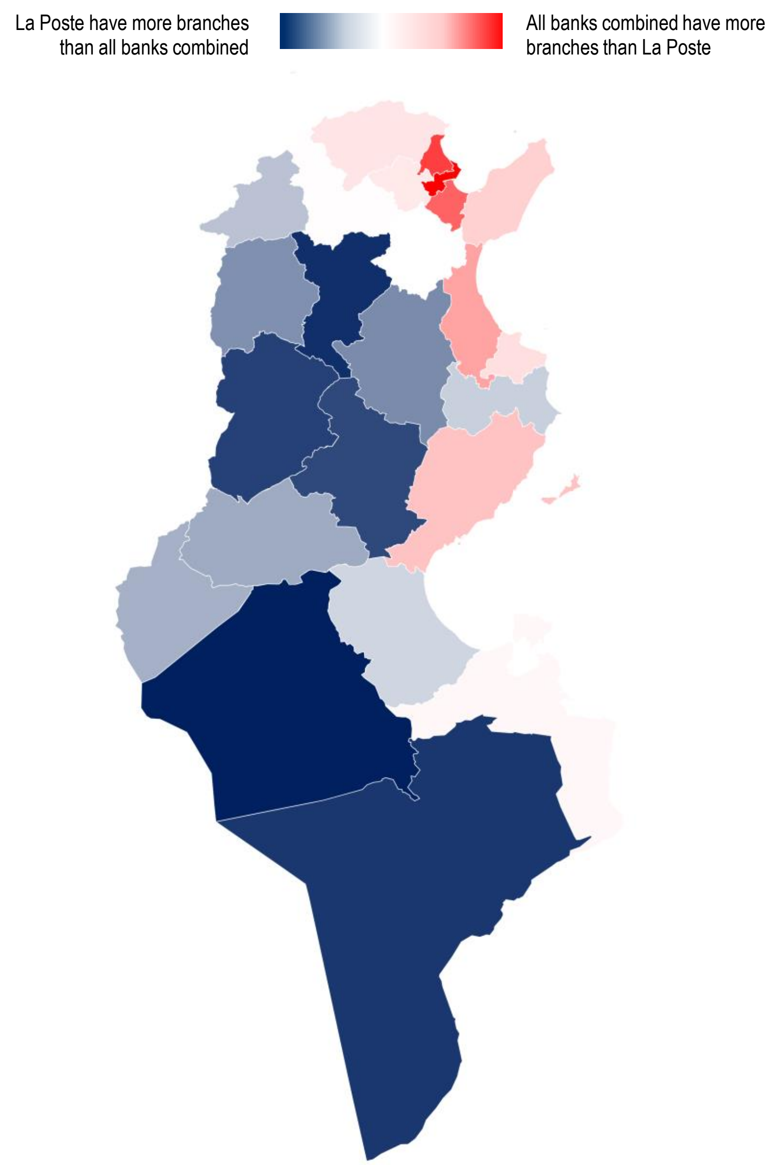
This section looks at some key characteristics of the competitive landscape, such as the importance of branch networks for both customers and banks, and the use of current accounts as a gateway for cross-selling other products (especially finance for MSMEs).

Geographical markets are local and defined by the density of banks' branch networks. Customers are very unlikely to choose providers that do not operate a branch nearby. The analysis showed that:

- Banks rely heavily on their branch networks to attract new customers and serve existing ones. According to the OECD's consumer and MSME surveys, 95% of consumers[1] and 99% of MSMEs[2] opened their current accounts at bank branches. Many consumers also use cash to make payments and use branches to withdraw money, which is the most common reason for having a PCA (53% of consumers).[3]
- Proximity to branches is the most common criterion for choosing a current account provider, with 36% of consumers and 34% of MSMEs valuing proximity to a branch when choosing their current account providers. Other reasons for choosing current account providers are fees and other terms (30% of consumers and 25% of MSMEs), and whether friends or family members have accounts at the same bank (22% of consumers), alongside whether they know someone working at the bank (22% of MSMEs).[4,5]
- Only 7% of consumers said they typically managed their current accounts online.[6]
- Banks interviewed by the OECD consider the expansion of branch networks a key element of their strategy for attracting new customers.[7]

Current account providers compete by expanding branch networks. The number of bank branches in Tunisia increased from 1 774 in 2016 to 1974 in 2020. The branch network of *La Poste Tunisienne* is comparable to those of banks. In 2020, *La Poste* had 1 046 branches and 427 ATMs (La Poste Tunisienne, 2021[1]) compared to a total of 1974 branches and 3 029 ATMs among all banks combined (Banque Centrale de Tunisie, 2022, p. 59[2]). Figure 4.1 shows that banks tend to concentrate their branches in Tunis and in the east of the country, regions characterised by higher per capita incomes. Areas with lower per capita incomes have fewer bank branches and relatively more *La Poste*'s branches. For example, central western Tunisia has only 80 bank branches serving around 1.5 million people, which means on average one bank branch for every 18 671 people. See Section 7.3 for a discussion of branches and barriers to entry and expansion.

Figure 4.1. Prevalence of banks' and *La Poste*'s branches by region

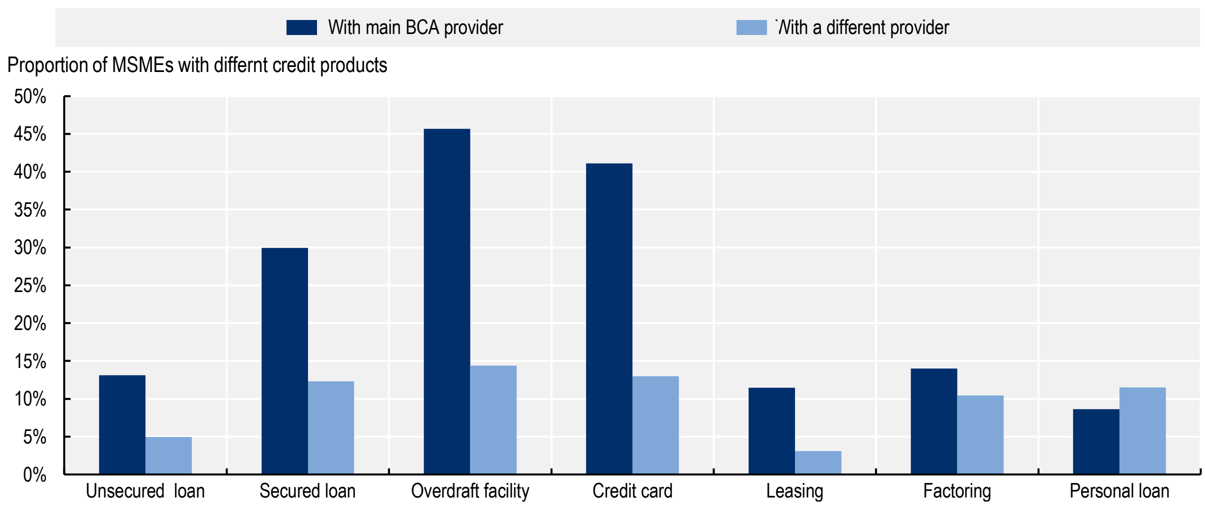


Note: Data on La Poste branches is from July 2022. Data on bank branches is based on data provided by the BCT.
Source: La Poste; BCT; OECD calculations.

Some MSMEs use their BCAs as gateways to establish relationships with banks and obtain additional services such as finance (around 16% of the respondents to the OECD's MSME survey said they chose BCAs for that reason).[8] Banks typically rely on their customers' credit histories to assess creditworthiness and banks may therefore be better placed to assess risks associated with existing MSME customers than those associated with other MSMEs. This is reflected in their MSME credit product holdings. MSMEs typically hold several credit products with their BCA providers. For example, 41% of MSMEs hold credit cards with their BCA provider and around 13% hold them with another provider (see Figure 4.2 for a breakdown of credit products).[9]

More generally, 45% of MSMEs with current accounts said they held credit products only with their BCA providers[10] and 31% said they had credit products with both their BCA providers and other banks.[11] Among respondents, 21% did not hold credit products[12] and only 3% said they held no credit products with their BCA providers but held credit products with other banks.[13]

Figure 4.2. Credit products held with BCA providers vs. with other banks



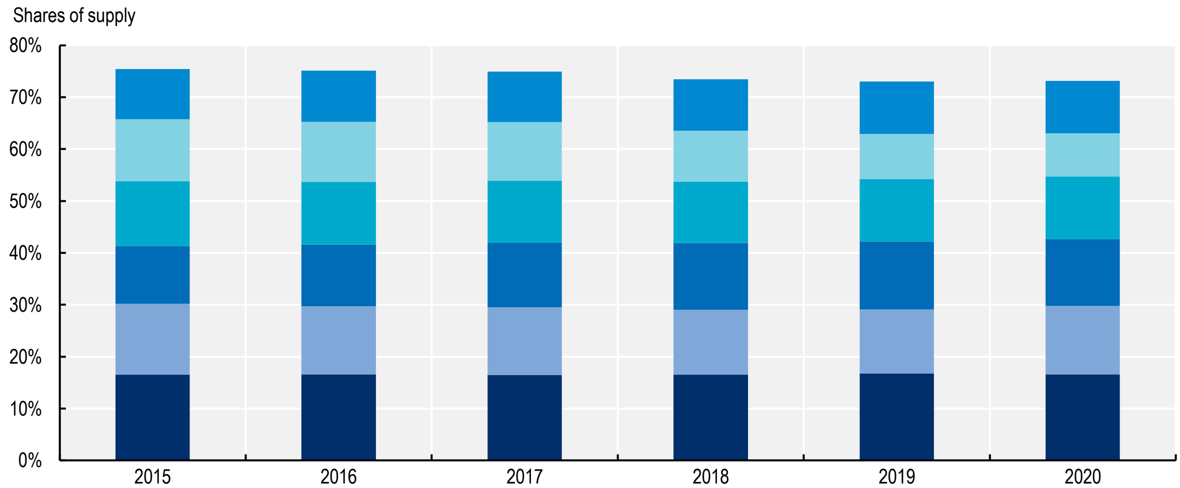
Note: MSMEs could choose more than one answer.
Source: OECD MSME survey (Q27, N=804 and Q28, N=1 005).

4.3. Market structure and shares of supply

The structure of the banking sector may affect the incentives of firms to compete within it. For example, larger firms may have fewer incentives to compete with their rivals. Also, market shares that are stable over time may be consistent with weak competition.

The Central Bank of Tunisia provided annual data on the number of current accounts by bank for a six-year period between 2015 and 2020. The data had several limitations as they did not include current accounts at *La Poste*, they could not be broken down by PCAs and BCAs, they could not be broken down by demographic characteristics, and they included dormant accounts, which the OECD understands represented a significant proportion of the total. However, despite these limitations, the data were useful for analysing shares of supply over time. Figure 4.3 shows that the six largest providers (excluding *La Poste*) accounted for between 73% and 75% of all current accounts (PCAs and BCAs) in each year between 2015 and 2020. Moreover, the share of supply of each bank remained stable over the period.

Figure 4.3. The six largest banks' shares of Tunisia's current account sector



Note: Each colour corresponds to a bank. Data is anonymised.
Source: BCT; OECD calculations.

The next section presents the findings on concentration at the national and regional levels, and for certain demand segments based on the OECD's consumer and MSME surveys. Although geographical markets are likely to be local and to follow the density of branch networks, given the usage of branches and the very low take-up of online banking, the shares of supply at the national and regional levels show differences in market participants' strategies and overall size.

4.3.1. Shares of supply of PCAs and geographical markets

Shares of supply in the PCA market were calculated using information on current accounts that respondents to the OECD's consumer survey identified as their main accounts.[14] In 2022, *La Poste* was the largest provider of PCAs in Tunisia, with a share of around 22%. The largest bank and the second-largest provider of PCAs was BIAT, with around 14% of PCAs. The top ten providers accounted for around 91% of PCAs and state-owned entities combined accounted for 44% of PCAs.

Table 4.1 shows the most granular geographical breakdown available. Shares of supply varied significantly across regions, indicating that competitive dynamics appeared to vary by locality. BIAT was the largest PCA provider in Greater Tunis, followed closely by *La Poste*. *La Poste* was the largest provider in each region outside Greater Tunis. The share of *La Poste* was 34% in the southwest of the country, which is more rural and characterised by lower income per capita. *La Poste*'s customers were more likely to have lower incomes, to live in rural areas, and to be unemployed than banks' customers.

Some of the largest providers accounted for a very small proportion of accounts in certain regions. This could reflect the differing competitive strengths of banks in different regions, as well as business strategies, as a bank may target higher-income individuals and thus be less present in lower-income areas. State-owned entities had a larger share of accounts in the west of the country, which is characterised by lower income per capita. Given the cost of growing branch networks, as discussed in Section 7.3, the shares could also represent historical branch networks and reflect the difficulty of expanding into new areas.

Table 4.1. Shares of supply in the PCA market by geographical region

Greater Tunis		Northeast		Northwest		Central east		Central west		Southeast		Southwest	
Provider	%	Provider	%	Provider	%	Provider	%	Provider	%	Provider	%	Provider	%
BIAT	16	La Poste	22	La Poste	28	La Poste	23	La Poste	25	La Poste	23	La Poste	34
La Poste	15	BIAT	14	Attijari	13	BIAT	20	BNA	19	BIAT	18	Attijari	11
Attijari	14	UIB	12	BNA	12	BNA	8	Amen	10	Attijari	12	STB	10
Amen	10	Attijari	8	STB	9	UIB	8	UIB	9	BH	7	UIB	10
BH	10	BNA	8	BIAT	8	STB	8	Attijari	6	Zitouna	7	BIAT	6
UIB	8	BH	7	BH	7	BH	7	STB	6	STB	6	BNA	5
Others	27	Others	29	Others	24	Others	26	Others	24	Others	27	Others	24
Total number of responses	**325**		**164**		**76**		**174**		**102**		**178**		**67**

Note: State-owned companies are shaded.
Source: OECD consumer survey (Q3 and D2, N=1 086).

Consistently, shares of supply varied significantly also depending on the job status of consumers. Table 4.2 shows that self-employed and unemployed individuals were more likely to hold current accounts at *La Poste*, while BIAT was the largest provider for employed consumers.

Table 4.2. Shares of supply in the PCA market by job status (selected categories)

Employed		Self-employed		Unemployed	
Provider	%	Provider	%	Provider	%
BIAT	16	La Poste	18	La Poste	43
La Poste	14	BIAT	16	Amen	11
UIB	11	Attijari	13	BIAT	10
Attijari	11	BNA	10	Attijari	9
BH	9	Zitouna	7	Zitouna	5
BNA	7	STB	6	BNA	5
Others	32	Others	31	Others	16
Total number of responses	**551**		**204**		**75**

Note: State-owned companies are shaded.
Source: OECD consumer survey (Q3 and D5, N=830).

4.3.2. Shares of supply of BCAs and geographical markets

Shares of the BCA market were calculated using information on the current accounts that MSMEs responding to the OECD survey identified as their main accounts. In 2022, BIAT was the largest provider of BCAs, with a share of around 16%. The second-largest provider was Attijari, with 15%. The top seven providers accounted for around 79% of current accounts.[15] Table 4.3 shows that shares of supply varied significantly depending on the size of enterprises. The largest provider of BCAs for micro-enterprises was Attijari, with 18% of accounts. The most common BCA provider for businesses with 50-199 employees was BIAT, with 27% of accounts.

Table 4.3. Shares of supply by enterprise size

1-5 employees		6-19 employees		20-49 employees		50-199 employees	
Provider	%	Provider	%	Provider	%	Provider	%
Attijari	18	BIAT	21	Attijari	20	BIAT	27
Amen	13	Amen	13	BIAT	17	ATB	11
La Poste	10	Attijari	11	ATB	12	STB	10
BIAT	10	ATB	9	BNA	11	BNA	10
STB	8	UIB	9	STB	9	BH	9
Zitouna	7	BNA	8	Amen	7	Amen	8
Others	35	Others	30	Others	24	Others	26
Total responses	**255**		**240**		**186**		**123**

Note: State-owned companies are shaded.
Source: OECD MSME survey (Q3 and S1, N=804).

Table 4.4 shows that Attijari was the largest BCA provider in Greater Tunis, followed by BIAT. BIAT was the largest provider in Tunisia's northeast, central east and southeast.

Table 4.4. Shares of supply by geographical region

Grand Tunis		Northeast		Northwest		Central east		Central west		Southeast		Southwest	
Provider	%	Provider	%	Provider	%	Provider	%	Provider	%	Provider	%	Provider	%
Attijari	17	BIAT	16	Amen	19	BIAT	19			BIAT	22		
BIAT	15	Zitouna	12	Attijari	17	Attijari	13			BNA	15		
Amen	12	STB	12	BIAT	10	ATB	13			BH	10		
ATB	8	UBCI	11	La Poste	10	Amen	12	Not enough observations		Zitouna	8	Not enough observations	
UIB	8	Amen	8	BT	10	STB	8			STB	8		
Zitouna	7	BT	8	ATB	7	UIB	7			Attijari	7		
Others	27		29		22		23				24		
Total responses	**401**		**50**		**73**		**188**		**5**		**77**		**10**

Source: OECD MSME survey (Q3 and S3, N=804).

4.3.3. Conclusions on market structure

Given the importance of branches, geographical markets are local. Shares of supply at an aggregate level are useful for identifying market participants' strategies and overall size. At a national level, in 2022, the ten largest providers accounted for around 91% of PCAs and the largest seven providers accounted for around 71% of BCAs.[16] Given that the state-owned banks are controlled by one single entity (i.e. the state), it is possible to consider state-owned banks as a single entity, and, in that case, concentration levels would be higher. Figure 4.3 shows that the shares of supply of the largest banks remained stable from at least 2015 to 2020. State-owned institutions collectively account for around 44% of PCAs at a national level. Shares of supply vary among local markets and the competitive strength of banks differs by region, likely as a result of historical branch locations and strategies. Shares of supply broken down by geographical and demographic characteristics show that providers may target different market segments. For example, consumers opening accounts at *La Poste* are more likely to have lower income and live in rural areas.

4.4. Market outcomes

This section describes three market outcomes: price, quality and quantity. Analysis of market outcomes provides information about the how competition works and may offer insights on harm to consumers.

4.4.1. Pricing outcomes

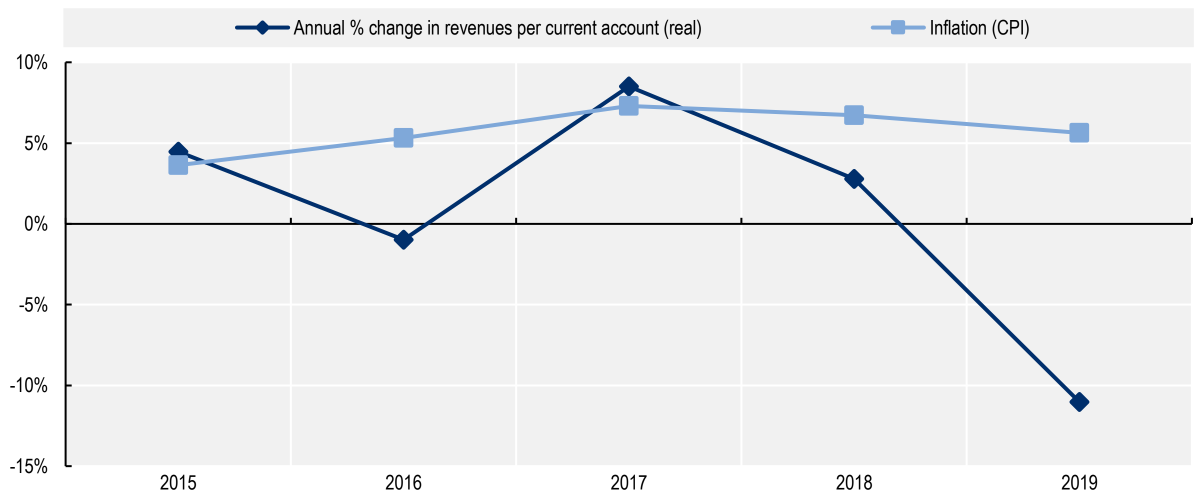
Analysis of fees may provide information on competition in the market. For example, significant price dispersion combined with market shares that are stable over time and low rates of consumer switching are consistent with weak consumer engagement. Given that current accounts are complex products involving many services, each with an associated fee, comparisons are challenging. This section describes the trend towards non-interest revenues from current accounts, an index of current account fees, and comparisons of account maintenance fees (the most common fees) for the main account types.

As explained in Section 2.2.1, competition authorities typically assess firms' profitability in their relevant markets. High and sustained levels of profit indicate that firms are able to exercise market power and increase prices above costs. Unfortunately, granular data on profitability specific to the current account segment was not available to the OECD. Data presented in Section 2.2.1 shows that Tunisian banks have increased overall profits in recent years and have been more profitable than the OECD and EU average. The profitability of Tunisian banks is comparable with those in other Middle East and North Africa (MENA) region countries for which data are available. Given the limited data, it was not possible to compare fees on current accounts across countries.

Recent trends: fees

The BCT provided the OECD with data on total non-interest revenues earned on current accounts and the number of accounts open at each current account provider (excluding La Poste) for the period between 2015 and 2020. Although the data received could not be broken down by PCAs versus BCAs, total revenues divided by the total number of accounts were a proxy for the average all-in price that customers paid for their current accounts.[17] Figure 4.4 shows that non-interest revenues per current account adjusted for inflation increased in three of the five years observed. In 2016 non-interest revenues per account increased 4.6% above the rate of inflation. In 2018 they increased 8.5% above inflation. In 2019 they increased 2.8% above inflation. In 2017 they were in line with inflation, and they fell 11% below the inflation rate in 2020, almost certainly due to the COVID-19 pandemic. Ideally, prices should be compared with costs, however, given that information on cost was not available, prices were adjusted for inflation.

Figure 4.4. Non-interest revenues per current account adjusted for inflation



Note: Weighted average of non-interest revenues per account at 18 banks.
Source: BCT; OECD calculations.

Higher revenues per account may reflect more frequent usage of current accounts. In fact, banks typically charge fees for single transactions, such as making bank transfers, receiving bank transfers, making payments by cheque, cashing in cheques, resetting PIN numbers on cards, making cash payments into accounts at branches and withdrawing cash. Thus, revenues per account could be driven by consumers making more payments over time.

However, evidence shows that listed fees on current accounts have increased significantly. Between 2010 and 2017 the *Observatoire de l'Inclusion Financière* (OIF) calculated the *Indice de Prix des Services Bancaires* (IPSB), or Banking Services Price Index, which tracks current account fees. Monthly fees, online banking fees, fees on payments and fees on bank transfers have the largest impact on the index.[18] The OIF calculated that the index increased by 65.8% between 2010 and 2017. Several stakeholders said that banks increased fees to cover 70% of their fixed costs. The same stakeholders said the cost of personnel had increased in recent years, and that this justified the increase in fees for consumers.

To counter the trend of increasing fees, in January 2020, the BCT announced a list of 14 banking services, including the opening and closure of bank accounts, as well as deposits and withdrawals, should be provided free of charge (OIF, 2023[3]). This initiative seems not to be legally binding, as stakeholders noted that banks continue to charge fees for the provision of some of these services. The OECD understands that, as part of ongoing financial inclusion reform, the government is considering legislation forcing banks to offer certain services free of charge, at least to a certain category of customers, namely those deemed more vulnerable. As of June 2023, the exact scope of the proposal, both in terms of services and customers, is currently under discussion.

Price dispersion in PCAs

This section shows the distribution of the maximum fees on selected services for current accounts listed by banks and *La Poste* on their websites. The data was provided by the BCT.

At one end of the scale, price dispersion in a market may indicate that consumers are not shopping around and that providers offering higher fees are not constrained by providers offering lower fees. At the other end, little price dispersion may be consistent with weak competition. This could be particularly concerning, given the frequent interactions among banks and the process for communicating price changes to the BCT via the banking association, as discussed in Section 3.4.

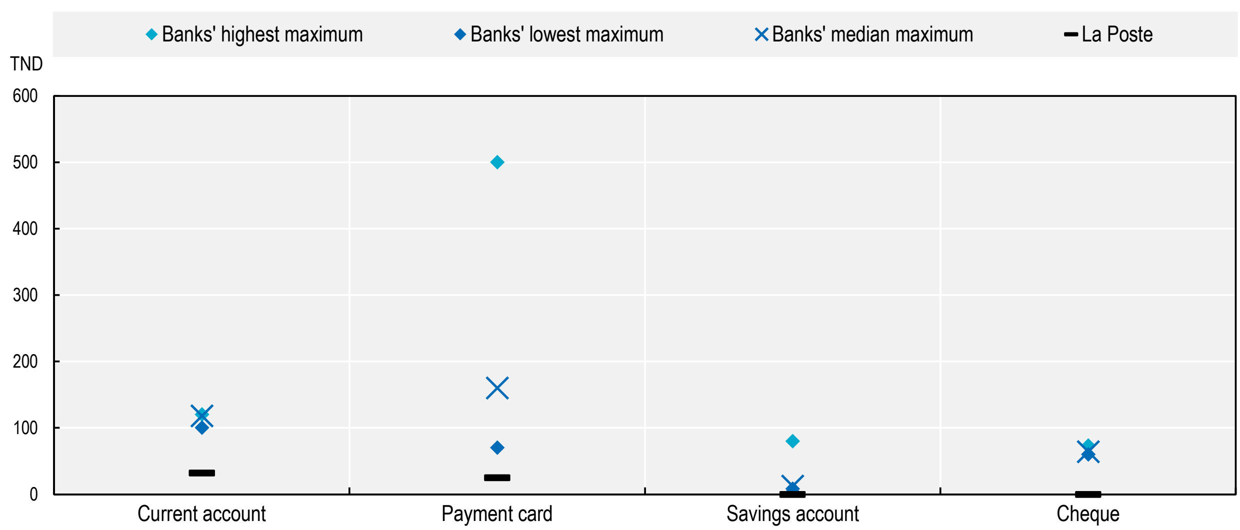
Data available from the OIF include the minimum and maximum fees listed on each bank's website for various operations associated with PCAs. Figure 4.5 shows the minimum, median and maximum values of the distribution of the maximum annual maintenance fees on various account types. This information does not include the proportion of consumers paying those fees. However, it is also the only information available to consumers when shopping around, so it serves as a proxy for what consumers expect to pay.

Figure 4.5 shows that in October 2021:

- The maximum annual management fees listed on banks' websites for current accounts and cheques are similar across banks. The maximum fees on current accounts are typically around TND 120 and the maximum fees for cheques are typically between TND 60 and TND 70. There is a large dispersion for maximum listed fees on cards.
- The maximum fees listed by *La Poste* are significantly lower than those advertised by banks for current accounts, cards and cheques.

The low degree of dispersion of listed fees for current accounts is consistent with concerns expressed by stakeholders relating to market practices involving exchanges of information on fees.

Figure 4.5. Distribution of maximum management fees for individuals, 2021



Note: The chart shows the distribution of the maximum listed fees for selected services for 12 listed banks and *La Poste*.
Source: OIF; OECD calculations.

4.4.2. Quality outcomes

A comparison of quality outcomes among providers can provide information on competition in the market. Significant differences in quality and low switching rates are indicative that competition is not working well.

The proportion of individuals in the OECD consumer survey saying they were satisfied or very satisfied can be used as a proxy to assess and compare quality among providers. The limitations of this analysis, however, mean the results should be interpreted with caution. For example, the stated level of satisfaction may not be an accurate proxy for quality because of consumers' poor understanding of services. In fact, the results of the survey suggest that most consumers do not shop around when they open accounts, and that they are unaware of the fees they are paying.

Level of satisfaction and dispersion across providers

More than one in five consumers in the OECD consumer survey was unsatisfied or very unsatisfied with their PCAs. Customers of *La Poste* were typically happier, with only 8% saying they were unsatisfied or very unsatisfied, while the proportion of bank customers varied between 6% and 44%, depending on the bank.[19]

The responses on satisfaction levels may reflect the low expectations that consumers have of services. Responses may also take into account the basic and limited use that consumers make of PCAs. In fact, only 12% of respondents said they used current accounts to make or receive payments, while 37% said they used current accounts to receive salaries from their employer and 53% said they used them to withdraw cash.[20] There was no statistically significant correlation between market share and the proportion of satisfied respondents.

According to the OECD's MSME survey, almost one in four MSMEs was unsatisfied or very unsatisfied with their BCA and more than one in four was dissatisfied with the cross-border functionality of their account.

4.4.3. Quantity outcomes (proportion of consumers and MSMEs with current accounts)

This section presents the proportion of consumers and MSMEs with current accounts. This is an important competitive outcome, as one in five individuals said they did not have a PCA because fees were too high. The section also presents an international comparison using data from the World Bank.

Two thirds of Tunisians do not have a PCA

In 2022, around two-thirds of Tunisian consumers did not have PCAs. Of the 36% of individuals with current accounts, 29% used banks and 10% used *La Poste*. Proportions varied according to demographic characteristics. Table 4.5 shows that men were more likely to have current accounts than women and Table 4.6 shows that current accounts were more common among higher-income individuals. Among consumers who said their household had a monthly income of less than TND 1 000, 76% did not have a current account, compared to 36% of those whose households had a monthly income of more than TND 2000.

Table 4.5. Banking penetration by gender

Individuals with:	Total	Men	Women
A bank current account	29%	36%	22%
A postal current account	10%	10%	9%
No current account	64%	57%	70%
Total no. of responses	2 995	1 493	1 500

Note: Around 2% of respondents had current accounts at both La Poste and a bank. Two respondents refused to disclose their gender.
Source: OECD consumer survey (Q1 and D3, N=2 995).

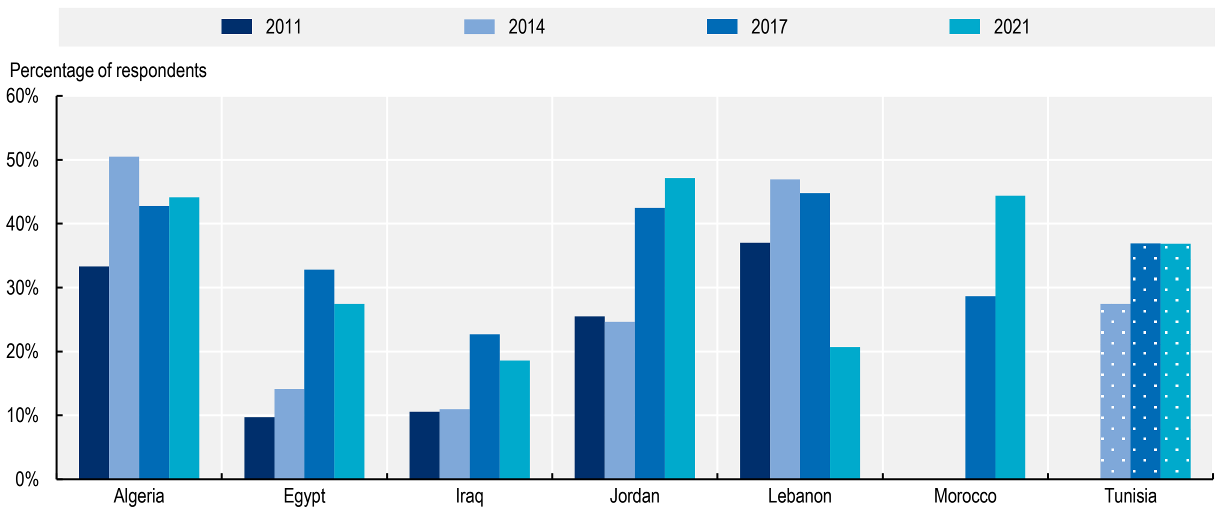
Table 4.6. Banking penetration by income brackets

Individuals with:	Total	TND<1 000	TND 1 000-2 000	TND >2 000	Refused to say
A bank current account	29%	17%	45%	56%	25%
A postal current account	10%	8%	13%	11%	8%
No current account	64%	78%	42%	35%	68%
Total no. of responses	2 995	1 488	535	390	582

Note: Around 2% of respondents had current accounts at both *La Poste* and a bank. The sample in the consumer survey was representative of the population according to key demographics such as gender, geography and age, but respondents to the survey may have underreported data on income.
Source: OECD consumer survey (Q1 and D6, N=2 995).

While not perfectly comparable, these estimates are consistent with the estimates of the 2021 World Bank Global Findex Database. According to that database, 37% of Tunisians had an account (by themselves or together with someone else) at a bank or another type of financial institution, or had used a mobile money service in the past year. The proportion was stable compared to 2017 and increased by 10 percentage points from 2014. Other MENA countries for which data was available had comparable banking penetration rates in 2021 and some, such as Morocco, registered an increase compared to previous years.

Figure 4.6. Banking penetration in Tunisia and other MENA countries



Source: 2021 World Bank Global Findex Database.

The OECD consumer survey also asked consumers without PCAs an open question on the reasons they did not have an account. Among the respondents, 55% said they did not need an account, 19% said the fees were too high, and 8% said they did not have the necessary documents. Around 3% said a family member already had an account.[21] According to the 2021 Global Findex Database, the most common reasons in Tunisia for not having an account was a lack of funds (71%), followed by the fact that another family member had an account (30%), high fees (18%), a lack of trust in financial institutions (16%) and a lack of necessary documents (14%). The responses were comparable to the average for other MENA countries for which data was available. [22]

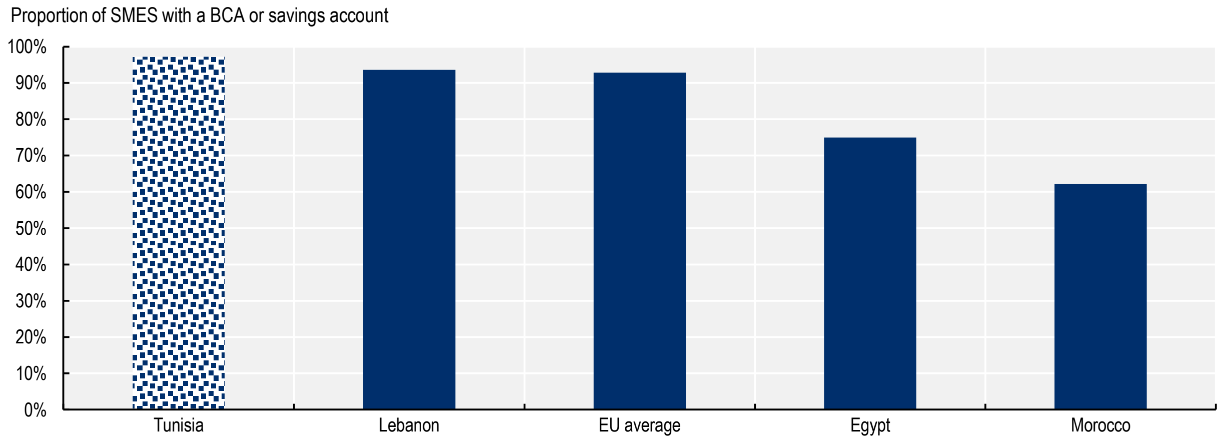
The large proportion of respondents who said they did not need an account could be explained by the lack of funds (as shown by the Global Findex Database). Another reason could be a preference for using cash and Tunisia's large informal sector.

Most MSMEs have BCAs

Unlike the market for PCAs, the proportion of MSMEs with BCAs was high. In the survey, 77% of MSMEs said they had BCAs, but results varied significantly according to enterprises' size.[23] Around 70% of micro businesses used BCAs, compared to 94% of enterprises with between 50 and 199 employees.[24] The survey showed that 78% of MSMEs without BCAs used PCAs as current accounts for their enterprises.[25] This is consistent with a World Bank Enterprise Survey showing that banking penetration rates among MSMEs in Tunisia were higher than in other MENA countries (see Figure 4.7).

As discussed in Annex C, the contact details of respondents to the MSMEs survey come from the registry of the *Registre National d'Enterprises* (RNE). This means that informal companies were not represented in the sample, which thus likely overestimated the true proportion of businesses with current accounts.

Figure 4.7. Proportion of SMEs with BCAs or savings accounts in Tunisia and MENA countries



Note: Data for Tunisia were from 2020. Data for Morocco and Lebanon data were from 2019 and Egypt data were from 2016.
Source: World Bank Enterprise Surveys.

Among the MSMEs without BCAs, 57% said they preferred to use PCAs and 41% said they did not need a formal financial institution. Around 6% said fees were too complex and another 6% said fees were too high.[26]

4.4.4. Conclusions on market outcomes

Despite the limited availability of data, evidence suggests that between 2010 and 2020, the overall profitability of banks increased both in absolute terms and as a share of GDP (see Section 2.2.1), that revenues per current account increased above inflation between 2016 and 2020, and that fees increased in nominal terms between 2010 and 2017. The consumer survey found that around one in five Tunisians considered high fees the reason for not having PCAs. Among those with accounts, one in five consumers and one in four MSMEs were unsatisfied with their current accounts. Finally, higher fees were a reason for not having personal current accounts for almost 19% of the two-thirds of Tunisian consumers without accounts.[27]

The next section describes the analysis of customer behaviour, which is a key part of the assessment of competition. This includes an assessment of how customers engage with their current accounts, the competitive pressure exerted by the demand side, and companies' practices that prevent consumers from accessing, assessing and acting on information.

Box 4.1. La Poste Tunisienne

La Poste Tunisienne plays an important role in Tunisia's retail banking sector. Current accounts offered by *La Poste* are typically cheaper than those offered by banks and are particularly popular among lower-income customers often excluded by traditional banks, which prefer to focus on consumers with regular and higher incomes. *La Poste* is also a major player in the savings market, with around 4.1 million savings accounts, representing around 45% of all savings accounts in Tunisia (see Table 4.7). In 2020, deposits held in savings accounts at *La Poste* were worth around TND 6.7 billion and accounted for around 16% of the total value of deposits in Tunisia. Deposits held in postal savings account are managed by the Ministry of Finance, which remunerates *La Poste*'s customers at a fixed rate of 2% per annum.

La Poste cannot provide loan products such as overdrafts, personal loans or mortgages because it does not have a banking licence (the OECD understands that *La Poste* unsuccessfully applied for a banking licence in December 2018). As a result, Tunisians are likely to open current accounts with *La Poste* after they turn 18, but they typically switch to banks when they need credit.

Table 4.7. Proportion of individuals with current and savings accounts

Individuals with:		Individuals with:	
A current account at a bank	29%	A savings account at a bank	16%
A current account at La Poste	10%	A savings account at La Poste	13%
No current account	64%	No savings account	73%

Note: Proportions do not add up to 100% because some individuals said they held accounts at both a bank and La Poste.
Source: OECD consumer survey (Q1, N=2 995).

National postal operators have played an important role in increasing financial inclusion in many countries. Using the World Bank Global Findex database, Anson et al. (2013[4]) found that postal operators were more likely than traditional financial institutions to serve clients with lower incomes, lower levels of education, and a higher likelihood of being unemployed. Unsurprisingly, they found that the larger the postal branch network was (both in absolute terms and relative to the country's population), the greater the number of individuals with postal accounts was.

Given *La Poste*'s extensive branch network, its low fees compared to those of banks, and its large share of supply in the current and savings account segments among young people, *La Poste* has the potential to exert significant competitive pressure on traditional banks. However, this potential is hindered by its inability to offer lending products.

4.5. Customer behaviour

Effective competition requires well-functioning demand and supply sides. In particular, the ability of consumers to choose products and providers is a key driver of effective competition. Consumers need to be well informed to buy products and services that offer the best value for money, otherwise competition may not work well. Indeed, when consumers are relatively inactive and only poorly informed, and do not switch when better products or services appear on the market, suppliers have few incentives to offer cheaper or higher-quality products and services.

Several aspects of consumer behaviour are important drivers of competition in Tunisia's banking sector. Consumers need to have sufficient awareness to consider shopping around for current accounts. They need to be able and willing to access and understand information on the features of current accounts and assess available products to identify the most suitable ones. Consumers also need to be able and willing to choose, and switch to, their preferred products. And finally, firms need to perceive consumers as likely to act on better offers in order to have incentives be incentivised to make such offers.

If consumers do not engage with products and if banks expect them not to act, incentives to compete are weakened, which may result in higher prices and lower quality. As discussed at the beginning of this chapter, high prices are one of the main reasons why consumers in Tunisia do not open PCAs. Firms have incentives to weaken competition and create user experiences that make consumers less active. For example, firms may attempt to create barriers limiting consumers' ability to understand information or to act on that information.

This section considers evidence on customer behaviour in the markets for PCAs and BCAs, and the potential effects on competition. The results of both of the OECD's surveys suggest that the level of engagement among both consumers and MSMEs is low. Potential reasons for low engagement include a range of barriers to accessing and assessing information to use in searching and shopping around, and barriers to closing and switching accounts.

4.5.1. Low levels of consumer engagement

Consumers engage in the PCA market by understanding the features of the products available, accessing information, comparing and shopping around for products, making conscious decisions on which providers to use, and whether to stay with existing providers or switch to new ones. This section considers the length of time consumers stay with their PCA providers, searching and switching rates, and awareness of fees.

- Tunisian adults tend to stay with their PCA providers for a long time. The OECD's consumer survey showed that 25% of consumers had stayed with their current providers for 5-10 years and that 40% had stayed with their providers for at least ten years. Breaking down the results by age, the survey results showed that almost 68% of consumers aged 44 or older had been with their banks for more than ten years.[28]
- The level of searching and shopping around is low, with 80% of consumers saying that they had not compared fees and conditions with those offered by other providers when they opened accounts. This means that prices and other conditions are not a key competitive dimension for many consumers.[29]
- The level of awareness of fees is low, with 62% of respondents to the survey saying they did not know anything about the fees associated with their current accounts. Just 31% said they had a vague idea and 7% said that they knew precisely what fees were charged.[30]
- Switching rates are low. Around 3% of account holders had switched current accounts over the previous year (and around 10% had switched over the previous three years). Around 1.5% had closed an old account and around 1.5% had kept an old account open.[31] The annual switching rate was comparable to the UK PCA market in the 2010s (Competition and Markets Authority, 2017[5]). Low banking penetration combined with a low switching rate create a significant barrier to entry and expansion in the PCA market. This is discussed in Chapter 7.

4.5.2. Low levels of MSME engagement

MSME engagement is low and switching rates are low, with MSMEs tending to stay with the same providers for a long time. MSMEs are unlikely to search for information on fees and conditions, and they typically do not know how much they are paying.

- Around 33% of respondents to the OECD's MSME survey had stayed with their existing BCA providers for 5-10 years and 40% had stayed with their BCA providers for at least 10 years.[32] Breaking down the results by business age, the survey showed that 91% of enterprises established more than five years ago had been with their account providers for at least five years.[33]
- The level of searching and shopping around is low. In the MSME survey, 67% of respondents said they had not compared fees or other conditions among providers when they opened their accounts. Just 12% had compared fees or other conditions with only one other provider.[34] This suggests that fees are not a key competition dimension for many enterprises.
- Around one in four MSMEs said they knew nothing about the fees they paid.[35]
- Around 10% of MSMEs had switched current accounts over the previous year and around 22% had switched over the previous three years. Among the 22% that had switched accounts in the previous three years, 44% had closed an old account and 56% had kept an old account open.[36] Among the respondents to the survey that said they had switched their BCAs, 50% said they had done so because the new provider offered better service and 14% because it offered lower fees.[37] Among the respondents that had not switched, around 73% said they had not done so because they were satisfied with their current accounts and 10% said they were not aware of alternatives.[38] However, although the results of the survey indicate that MSMEs have a better understanding of fees than individuals, 22% of MSMEs said they knew nothing about the fees on their BCAs.[39]
- One in three MSMEs had accounts at more than one bank and, among these, 4% had more than one account at the same bank.[40] Of the MSMEs that "multi-home" in this way, 81% did so because they wanted access to financial products from different banks, and 21% did so because they needed accounts for cross-border transactions.[41]

4.5.3. Conclusions on customer engagement

The evidence suggests that engagement among both consumers and MSMEs is low. This weakens the incentives for providers to compete and offer better-value products. This is consistent with high profitability and the trend towards higher fees. Customers' inactivity may be exacerbated by regulation and market practices. The next section presents several of these practices.

4.5.4. Banks' practices exacerbate customer inaction

Banks' practices make it difficult for consumers and MSMEs to engage in the current account market. Evidence suggests that banks' practices raise barriers to accessing information, barriers to assessing information, barriers to closing and switching accounts, and barriers to opening accounts. In addition, linkages between BCAs and PCAs, alongside linkages between BCAs and financing, may affect competitive dynamics in the BCA market. The remainder of this section considers each of these barriers.

Barriers to accessing information

Article 3 of Circular No. 2006-12 requires banks to adopt communication policies based on principles of transparency. However, Section 4.5.1 shows that 62% of respondents in the consumer survey said they did not know anything about the fees associated with their current accounts. Only 31% said they had a vague idea, and 7% said they knew precisely what fees were charged. Among the enterprise respondents in the MSME survey, 22% said they knew nothing about the fees associated with their current accounts, 45% said they had a vague idea, and 43% said they knew precisely what fees were charged.[42]

Article 37 of Circular No. 91-22 requires banks to publish fees and terms in brochures made available to customers. However, this information is typically not available at bank branches, and websites feature only vague information. A review of current account providers' websites was carried out to check the availability of information on fees. The review included the websites of Tunisia's seven largest listed banks.

Information on fees and interest rates was typically available only in an aggregate form and was not specific to the accounts offered. When information on fees for a given transaction was available, it was often presented as a range and it was not clear what the exact sum of the fee depended on. In addition, the time validity of the fees was often not specified. In some instances, it was not clear even whether tariffs related to PCAs or BCAs. Current bank practices showing minimum and maximum fees for the entire range of products do not allow customers to access meaningful information on specific products.

Article 2 (d) of Circular No. 2006-11 stipulates that banks are required to notify account holders at least 45 days in advance of any changes to fees or other conditions . However, in practice, banks appear not to comply with this obligation. The OECD understands that the BCT is working on a circular with the objective of increasing banks' transparency vis-à-vis their customers.

Barriers to assessing information

Low levels of searching may be caused by a lack of tools with which to compare information and barriers to shopping around. Information on fees is complex, as banks typically charge monthly fees plus a fee for each banking operation. This makes comparisons across products and providers difficult. To make a realistic comparison of fees (without taking into account products' other dimensions), consumers would need to combine information on each charge with considerations of their expected use of accounts.

In addition to that, tools to compare prices and other features of current accounts are lacking. Although price comparison websites exist in Tunisia for certain products, none compares the fees and conditions associated with current accounts.

Barriers to closing and switching accounts

Monetary and non-monetary barriers exist to closing and switching accounts.

- Regarding monetary costs, the OECD understands that the BCT published in January 2020 a note to prescribe that closing current accounts should be free of charge (see Section 4.4.1) (OIF, 2023[3]). However, some banks continue to charge fees (directly or indirectly) related to account closures.

  Based on data provided by the BCT, at least two banks charge fees of up to TND 60 for closing PCAs. Banks also typically charge consumers fees of approximately TND 100-200 to provide "indemnity letters" showing that customers closing accounts have no outstanding loans with the bank. In addition to representing an extra monetary cost for customers, indemnity letters further delay the closure of accounts because banks' internal procedures means it may take up to three months for them to issue such letters. This practice also conflicts with Article 2(1) of Circular No. 2006-12, which prescribes that banks must set maximum time limits for granting indemnity letters and strictly adhere to these time limits.

  In addition, banks typically require customers closing accounts to repay loans outstanding to them. To do this, customers must have sufficient funds to repay their loans and associated early repayment charges, which stakeholders say amount to approximately 5% of outstanding capital and represent a significant obstacle to switching.
- In terms of non-monetary costs, several practices make the process of closing and switching PCAs burdensome for consumers. Several stakeholders interviewed by the OECD said banks may not close accounts after they receive closure requests from consumers. One reason may be that the remuneration of branch managers is linked to the number of existing current accounts associated with each branch, making branch managers reluctant to close them. Regulation does not seem to require banks to notify customers in a timely fashion when their accounts are closed. Banks do not typically provide documents stating that accounts have been closed, and as a result consumers are charged maintenance fees even after they have requested that their accounts be closed.

Such practices may be in breach of Article 2(1) of Circular No. 2006-12, prescribing that banks set maximum time limits for closures of accounts and strictly adhere to them. They also clearly conflict with the 2018 code of conduct regulating the relationships between financial institutions and their clients, in particular with what is prescribed for accounts that have remained dormant for at least 12 months. Indeed, Article 33 of the 2018 code of conduct states that banks are required, among other things, to refrain from charging fees and from demanding fee payment, and to inform customers of their year-end balances. The OECD understands that the BCT is considering introducing an obligation for the timely closure of accounts and reinforcing its surveillance powers to ensure compliance and protect customers.

Finally, switching accounts is burdensome and the expected benefits of doing so are low (for example, because of the low degree of price dispersion observed). If consumers want to switch to new accounts, they must close their existing accounts and open new ones with a new provider. Apart from going through the process of opening and closing accounts, and the related barriers discussed above, consumers need to transfer existing direct debits and standing orders and notify their employers and other parties to make future payments to their new accounts. Unlike banks in many countries, Tunisian banks offer no automated switching services.

Although these barriers exist for both individuals and enterprises, MSMEs may find them harder to overcome for several reasons. First, switching accounts may be particularly risky for MSMEs, as they are likely to make and receive many payments, and they need to ensure that these originate from and arrive in their new accounts. Second, given the reliance of MSMEs on financing, some banks' requests for the early repayment of outstanding loans can be particularly expensive.

MSMEs also face additional barriers to switching accounts. The linkages between BCAs and finance represent an additional barrier to switching. Given that banks rely on in-house information on payment data relating to existing customers to make lending decisions, an MSME switching BCA providers may lose its existing banking relationship and need to establish a new one with a provider that has limited credit information. Thus, the risk of losing access to financing may deter MSMEs from switching BCA providers. The lack of a fully functional credit information market exacerbates this problem, increasing the cost of switching.

Barriers to opening accounts

Two banks interviewed by the OECD said they charged fees to open current accounts online. Banks typically require an electronic signature certified by the *Agence Nationale de Certification Electronique* (Tuntrust), or National Electronic Certification Agency. This certification costs banks approximately TND 100 and the OECD understands that it is required by law. Banks typically pass this cost on to account holders. Consistent with this, around 95% of Tunisians and 98% of enterprises have opened their current accounts at branches (see Table 7.2). This limits choice for consumers and may represent a significant barrier to access to current accounts, especially for individuals and enterprises in rural areas.

Although there is no legal requirement in this regard, in practice, banks often require new PCA customers to prove they have a regular income and to have it credited to their new account. This has the effect of excluding potential customers that do not have regular incomes. The banking association and several banks argued that this practice is justified by the delays in crediting transactions such as cash withdrawals to accounts, concerns that consumers may withdraw sums larger than their balances, and the limitations of the public credit information bureau, which make checking the credit histories of a large segment of the population – those who have never accessed credit – impossible. As a result, customers without regular incomes are often redirected towards savings accounts, which typically have limited functionality, lacking such facilities as overdrafts or payment cards. This is consistent with the results of the consumer survey, showing that banking penetration is significantly higher among employed individuals (see Table 4.8).

Table 4.8. Banking penetration by job status (selected categories)

Individuals with:	Total	Employed	Unemployed	Other
A bank current account	29%	57%	11%	19%
A postal current account	10%	12%	9%	9%
No current account	64%	35%	82%	74%
Total no. of respondents	2 995	841	409	1 745

Note: Around 2% of respondents had current accounts at both *La Poste* and a bank.
Source: OECD consumer survey (Q1 and D5, N=2 995).

4.5.5. Conclusions on customer behaviour

Section 4.2 shows that Tunisian bank customers' high degree of reliance on branches and their limited use of online banking services limit their choices of providers, especially in rural areas, where branches are scarcer. Choosing providers is further constrained by several market practices that prevent customers from accessing meaningful product information, shopping around, closing and switching accounts.

For example, analysis of the websites of Tunisia's major banks showed that detailed and meaningful information on fees is not available. The only information available includes wide ranges of fees, and they are not product specific. In addition, a lack of tools for comparing fees (such as a price comparison website for current accounts) increases barriers to shopping around.

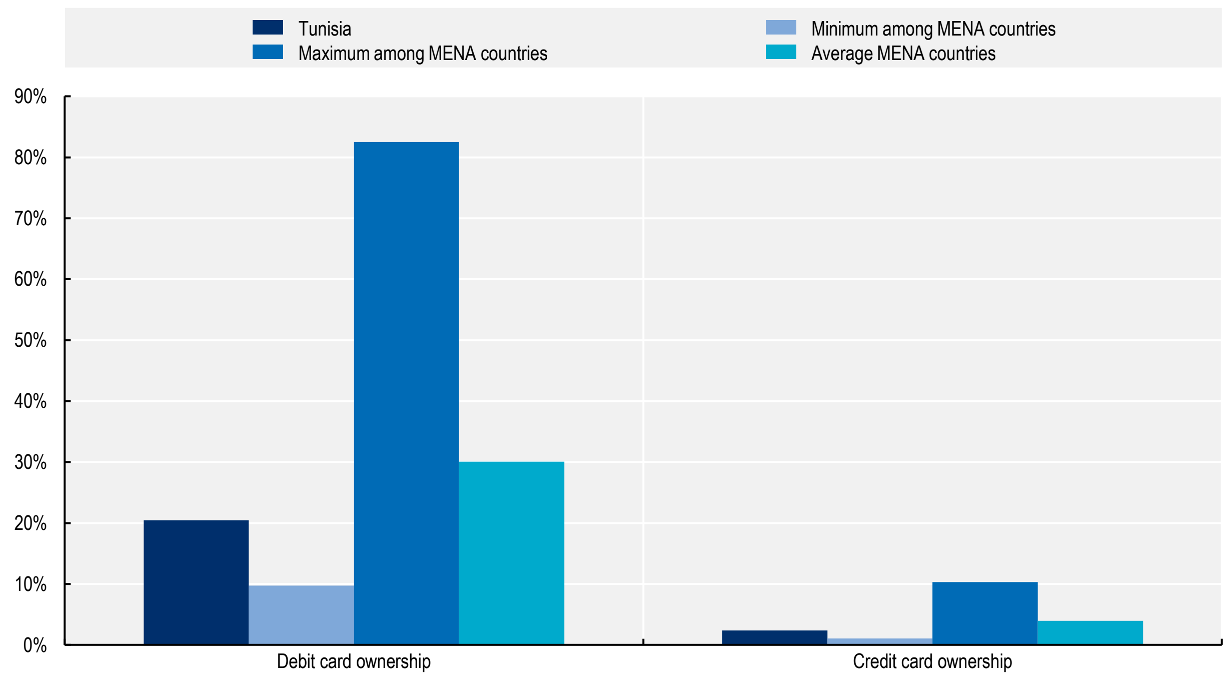
Significant barriers also exist to closing and switching accounts. Acting on information and the ability to choose providers is essential to well-functioning markets. However, several monetary and non-monetary barriers exist to closing and switching accounts. Several banks charge direct or indirect fees associated with account closures (such as fees for early repayments of outstanding loans or fees for indemnity letters showing a lack of outstanding loans). The OECD also understands that the process of closing accounts is lengthy and uncertain, resulting in customers continuing to pay account fees even after requesting the closure of accounts.

4.6. Payment cards

Several stakeholders interviewed by the OECD shared concerns that the high cost of using payment cards makes consumers reluctant to use them. This section presents the proportion of consumers with payment cards in Tunisia and discusses potential reasons for their low take-up.

In Tunisia, PCAs do not typically come with a card to make payments. Cards are considered an additional service that consumers can request, and they come at an additional cost. According to the Global Findex Database, the ownership of debit and credit cards in Tunisia is lower than the average in other MENA countries (see Figure 4.8).

Figure 4.8. Debit and credit card ownership in Tunisia compared to selected MENA countries

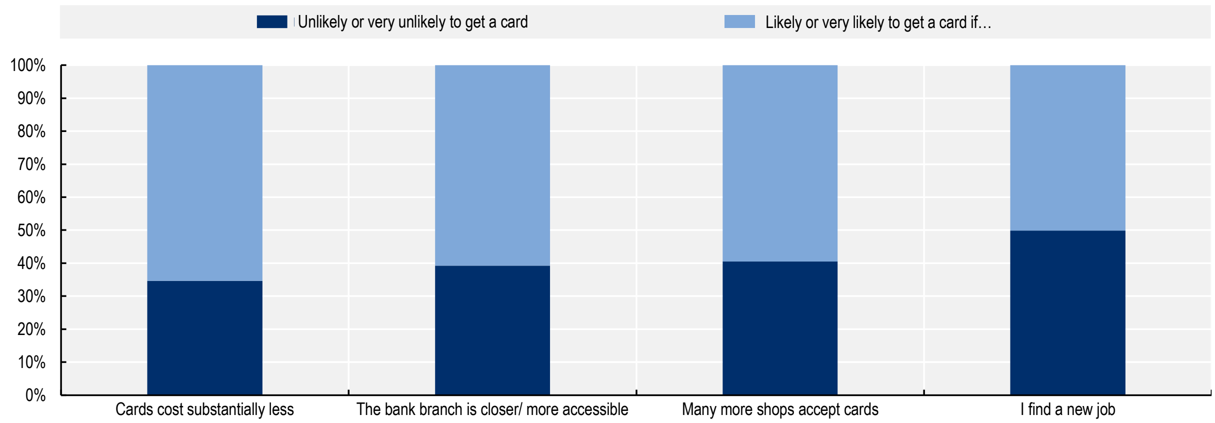


Note: The MENA countries included are Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Libya and Morocco. The minimum, maximum and average of MENA countries does not take Tunisia into account.
Source: 2021 World Bank Global Findex Database.

According to the OECD consumer survey, among the one-third of consumers with PCAs, 47% did not have a card to make payments.[43] Among consumers with cards, only 6% used their cards daily, 35% used them at least once a week, 43% used them at least once a month, and 16% used them less than once a month.[44] In the 12 months leading up to the survey, 35% used their cards to make purchases and to withdraw money, 43% used them to withdraw money but did not make any purchases, 1% made purchases but no money withdrawals, and 20% neither purchased anything nor withdrew money.[45]

The consumer survey also asked PCA customers without cards an open question on the reasons they did not have cards, to which 78% of respondents replied that they did not need one and 13% said card fees were too high. Among the respondents, 1% said shops did not accept cards.[46] The survey asked the 78% of consumers who said they did not need cards whether they were likely to change their minds in the following certain hypothetical scenarios: 1) a substantial reduction in the cost of cards; 2) closer or more easily accessible bank branches; 3) a substantial increase in the number of shops accepting cards; and 4) if they found a new job. Figure 4.9 shows that one in three respondents said they were likely or very likely to obtain cards if there were a substantial reduction in fees.

Figure 4.9. Proportion of consumers likely to use a card in certain hypothetical scenarios



Source: OECD consumer survey (Q23, N=140).

The evidence described above suggests that high fees discourage a significant proportion of consumers from using cards as a means of payment. Although fees for using cards are set by banks, stakeholders interviewed by the OECD said that high fees were caused by certain market practices in the payment services industry.

Stakeholders indicated that a potential reason for the high cost of cards was that card issuers such as banks sourced cards from a single provider (MS Solution) via the *Societé Monétique Tunisie* (SMT), which processes card payments. SMT is owned by banks and was set up in 1989 to process interbank electronic payments. Stakeholders told the OECD that the prices charged by MS Solution were high, in the range of EUR 4-6 per card, which banks typically passed on to consumers. Anecdotal evidence from stakeholders suggests that this cost is significantly higher than in other countries (for example, the same kinds of cards cost around EUR 0.50 in France).

Stakeholders also indicated that the cost of point-of-sale (POS) terminals and readers to process card payments was high. This has an impact on the usage of payment cards, as the high costs of terminals make merchants reluctant to accept cards or more likely to pass on costs. The OECD understands that the largest provider of POS terminals is MS Solution, although other providers have recently been authorised to provide such devices. Stakeholders told the OECD that POS terminals cost around TND 1 000.

4.6.1. Conclusions

This section shows that few Tunisians have payment cards and that even fewer use them regularly. A number of factors contribute to this. First, high costs for consumers, which may be the result of market practices such as using a single provider for some inputs and by the factors identified in Chapter 3 that weaken incentives to compete and increase the extent to which banks pass costs on to consumers. Second, few merchants accept cards, partly due to the high cost of renting the equipment to process card payments. Third, many consumers may have a preference for cash payments.

4.7. Conclusions

Competition in the market for current accounts does not work as well as it could. The choice of providers is limited and determined by availability of branches near customers, which in rural areas may be limited. The analysis found that demand-side engagement with current accounts is low. Very few individuals and businesses shop around and compare fees and conditions when opening current accounts, and very few are aware of how much they are paying in fees once they use them. Switching rates are also low. Limited consumer choice and low demand-side engagement weaken incentives for banks to compete.

The analysis finds that revenues per current account – a proxy for fees – increased at above-inflation rates between 2016 and 2020, and that fees advertised on banks' websites increased in nominal terms between 2010 and 2017. This is consistent with an increase in the overall profitability of banks observed in recent years and discussed in Chapter 2. Two-thirds of Tunisians do not have PCAs and one in five said the high fees were a reason why. The shares of supply of current account providers have been stable since at least 2015, which is consistent with a market in which competition is not working well.

The chapter also identifies bank practices limiting the ability of current account customers to make informed decisions. In particular, the limited availability of meaningful information on fees and other conditions, and the barriers to switching accounts when better offers are available blunt banks' incentives to compete. This is exacerbated by the ineffective mediation mechanism and the risk of co-ordinated behaviour described in Chapter 3.

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Notes

[1] OECD consumer survey (Q6, N=1 086).

[2] OECD MSME survey (Q5, N=804).

[3] OECD consumer survey (Q20, N=1 086).

[4] OECD consumer survey (Q10, N=1 086) and OECD MSME survey (Q9, N=804).

[5] OECD MSME survey (Q9, N=804).

[6] OECD consumer survey (Q16, N=1 086).

[7] Meetings with banks.

[8] OECD MSME survey (Q13, N=804).

[9] OECD MSME survey (Q27, N=804 and Q28, N=1 005).

[10] OECD MSME survey (Q27, N=804 and Q28, N=1 005).

[11] OECD MSME survey (Q27, N=804 and Q28, N=1 005).

[12] OECD MSME survey (Q27, N=804 and Q28, N=1 005).

[13] OECD MSME survey (Q27, N=804 and Q28, N=1 005).

[14] Note that this analysis does not consider that consumers may be using two personal current accounts, however the results of the survey suggest that “multi-homing” is not very prevalent.

[15] Shares of supply based on the data submitted by the BCT are broadly consistent. Note that the BCT data cannot distinguish between primary and secondary accounts.

[16] OECD MSME survey (Q3, N=804).

17 Note that the number of accounts includes dormant accounts.

18 The IPSB measures the change in the price of banking services. It is based on a set of services comprising payment methods (cash, cheques, withdrawals, domestic and international transfers, and bank cards), account maintenance fees, and other services such as online banking.

19 OECD consumer survey (Q12, N=1 086). Banks with fewer than 22 observations were excluded from this calculation.

20 OECD consumer survey (Q20, N=1 086).

21 OECD consumer survey (Q42, N= 1 086).

22 The average in MENA countries does not include Tunisia.

23 OECD MSME survey (Q1, N=1 005).

24 OECD MSME survey (Q1 and S1, N=1 005).

25 OECD MSME survey (Q2, N=201).

26 OECD MSME survey (Q24, N=201).

27 OECD consumer survey (Q42 and Q1, N=1 899).

28 OECD consumer survey (Q5 and D1, N=1 086).

29 OECD consumer survey (Q7, N=1 086).

30 OECD consumer survey (Q15, N=1 086).

31 OECD consumer survey (Q33 and Q34, N=1 086).

32 OECD MSME survey (Q1 and Q4, N=804).

33 OECD MSME survey (Q4 and S4, N=804).

34 OECD MSME survey (Q1 and Q6, N=804).

35 OECD MSME survey (Q12, N=804).

36 OECD MSME survey (Q17 and Q18, N=202).

37 OECD MSME survey (Q17 and Q20, N=202).

38 OECD MSME survey (Q17 and Q22, N=602).

39 OECD MSME survey (Q1 and Q12, N=804).

40 OECD MSME survey (Q15, N=804).

41 OECD MSME survey (Q16, N=203).

42 OECD MSME survey (Q12, N=804).

43 OECD consumer survey (Q23, N=1086). The results of the consumer survey are consistent with the results of the World Bank survey. The OECD estimates that 52% of individuals with PCAs also hold either a debit card or a credit card (i.e. 36%*52%=19%) and the World Bank estimates that 22% of Tunisians gold either a debit card or a credit card (i.e. 20%+2%=22%).

44 OECD consumer survey (Q28, N=561).

45 OECD consumer survey (Q26 and Q27, N=561).

46 OECD consumer survey (Q24, N=525).

5 Bank loans to micro, small and medium-sized enterprises

Competition in Tunisia's market for bank loans to small businesses does not work as well as it could. The market for business loans is concentrated, with the five largest banks accounting for between 70% and 75% of all lending in 2021. Micro, small and medium-sized enterprises – 45% of which hold finance products only with their current account providers, and more than half of which do not compare offers among banks – tend to obtain finance from their current account providers and face significant barriers to shopping around. While aiming to protect vulnerable customers, the cap on lending interest rates has negative effects on lending markets, and historically Tunisian banks have imposed very high collateral requirements on borrowers – almost 300% of the value of loans, according to the World Bank. The lack of a private credit information bureau exacerbates larger banks' credit information advantage and increases the cost of shopping around for credit, especially among small businesses, which has the effect of limiting their ability to do so. Finally, the influence of large industrial groups over banks increases small businesses' barriers to access finance.

In 2018, 30% of small and medium-sized enterprises (SMEs) in Tunisia regarded access to finance as a major barrier to growth, while 50% considered the cost of finance to be a major obstacle to expansion.[1] This chapter assesses how competition works in the market for bank loans to micro, small and medium-sized enterprises (MSMEs), their most common form of financing. Section 5.1 provides details of the main characteristics of loan products. Section 5.2 discusses the structure of the supply side, which is important because the relative size of providers has a significant effect on competition and market outcomes. Section 5.2.3 finds that state-owned banks and banks connected with large industrial groups account for around 75% of total lending, which may restrict access to finance to small businesses in non-finance sectors. Section 5.3 discusses market outcomes. Given that granular data on loans is not available, the section relies on the perceptions of the businesses that use these products, expressed in the OECD's MSME survey. Section 5.4 provides an assessment of demand behaviour. This is important because, for example, incentives to compete are weakened if borrowers do not shop around, or if banks expect them not to. The chapter also discuss potential effects of the cap on lending interest rates in Section 5.3.1.

5.1. Parameters of competition

MSMEs' choices of loan products depend on whether they need finance in the short term to manage cash flow or in the longer term to grow their business or make investments.

Overdrafts are typically short-term loan facilities associated with business current accounts (BCAs). Business loans are often used by larger and more established MSMEs that need longer-term financing. Based on the OECD's MSME survey, micro-enterprises are more likely to apply for unsecured loans requiring no collateral than larger businesses (28% vs. 5% of enterprises with more than 50 employees). Larger businesses are more likely to apply for secured loans that require collateral. In the survey, 64% of loan applications were for either secured or unsecured loans.[2]

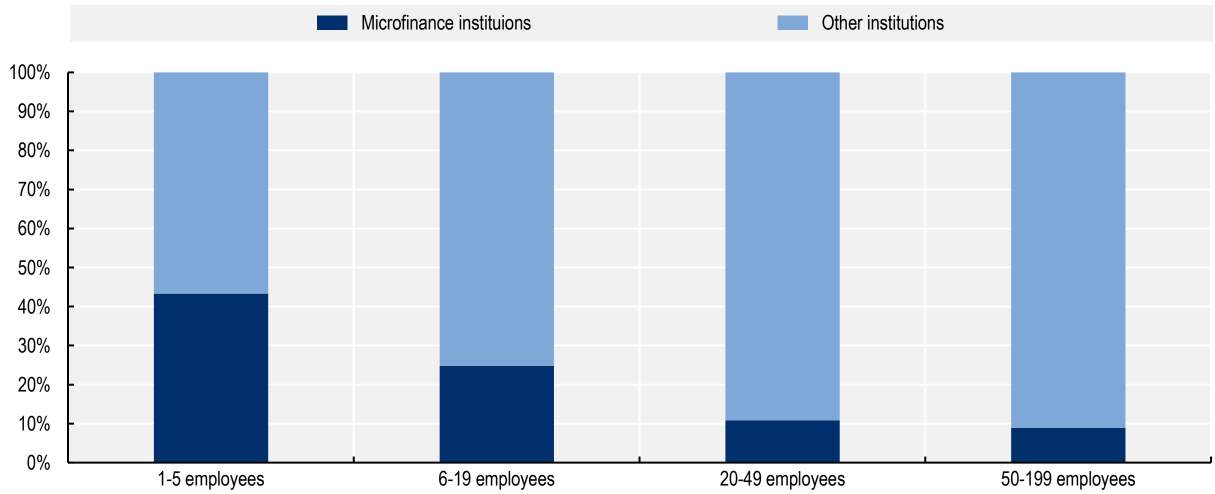
Leasing finance does not require MSMEs to provide collateral or a credit history, as lending risks are lower because the ownership of leased assets remains with the finance provider. Factoring is a tool used to facilitate cash flow as it allows MSMEs to sell debt and transfer the risk of the debtors' insolvency to the factoring company. As for leasing, factoring finance does not require MSMEs to provide collateral or credit histories.

The reasons why MSMEs need finance vary widely and may depend on characteristics of businesses such as their size, age and activity. For example, smaller firms are more likely to need finance to start up operations, while larger businesses need it to grow.

Loan products offered by banks may overlap with loan products offered by microfinance institutions. Microfinance loans in Tunisia cannot exceed TND 40 000 and are typically targeted at retail customers, professionals or micro-enterprises that may lack credit histories or collateral. Interest rates on microfinance products are typically significantly higher than rates on bank loans. In 2021, the average *taux effectif global*, or global effective rate, on products offered by microfinance institutions was 31.8% [see *Autorité de Contrôle de la Microfinance* (2021[1]); Section 2.10], compared to 9-13% for loan products from banks or leasing companies (see Table 5.2). Figure 5.1 shows that micro-enterprises are more likely to use microfinance.

Loan products offered by banks, leasing firms and factoring companies are subject to a cap in Tunisia. Section 5.3.1 provides details of how the cap works and its potential effects on competition. Unlike bank finance, microfinance loans offered by microfinance institutions are not subject to the cap.

Figure 5.1. Proportion of MSMEs applying for loans from microfinance institutions, by firm size



Source: OECD MSME survey (Q31.1 and S1, N=183).

As opposed to the market for current accounts, in which the main criterion for choosing a provider is proximity to a branch, the most common reason for choosing a lender are the fees and conditions it offers (22% of respondents). The second most common reason is the range of services offered (19%). The fact that the lender is also a firm's BCA provider is the third most common reason (17%). Branch proximity is the fourth most common reason (10%).[3] Given MSMEs' differing financing needs, where appropriate the chapter presents the results of the analysis broken down by different sizes of MSMEs.

5.2. Market structure and shares of supply

This section provides an overview of the supply side of the market for SME finance, presenting the main loan products available and the market shares of banks. This is a key element of the assessment of competition, as the structure of the sector may affect firms' incentives to compete. The focus is on bank loans for businesses. Using a classification drawn up by the Central Bank of Tunisia, banks offer six loan products to businesses:

- overdraft facilities
- short-term credit (maturity of less than one year)
- medium-term credit (maturity of one to seven years)
- long-term credit (maturity longer than seven years)
- leasing
- factoring.

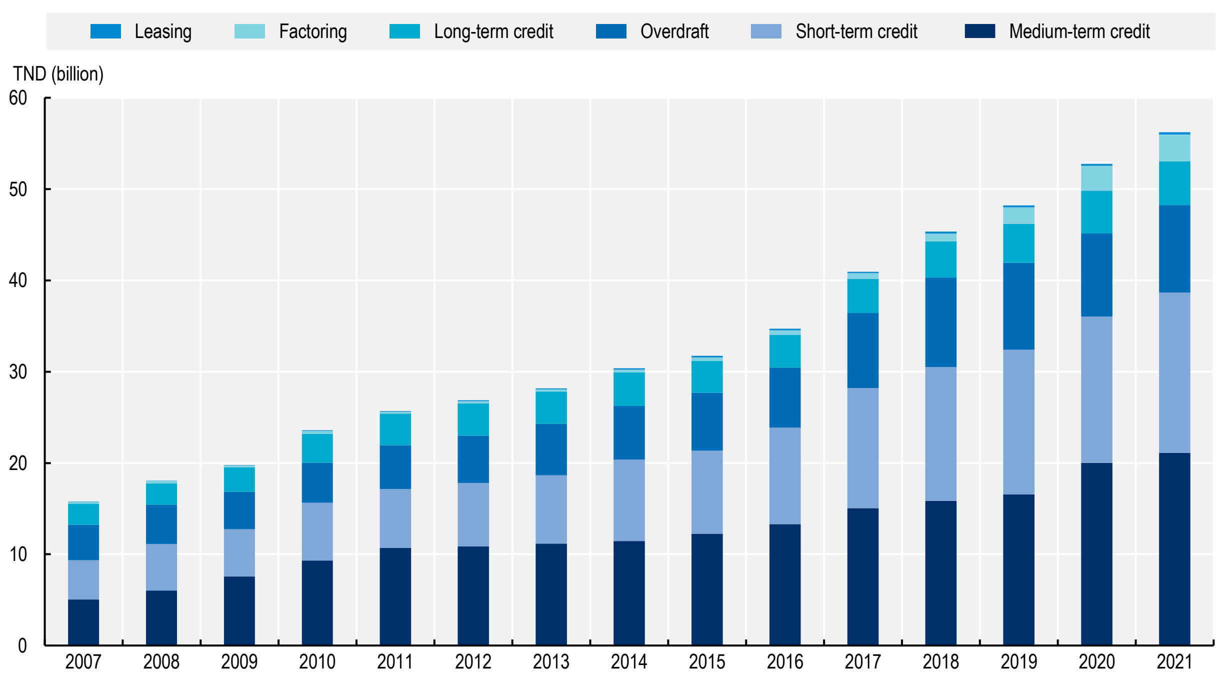
5.2.1. Recent trends in lending value

The BCT provided biannual data on the value and volume of various loan categories by bank for the 15-year period between 2007 and 2021. The data had several limitations: it could not be broken down by borrower characteristics (thus, it includes both lending to MSMEs alongside larger businesses), it included loans for only the ten largest banks, and it did not include data on leasing and factoring companies. Despite these limitations, the data was useful for assessing trends over time and the relative importance of different types of loans.

The total amount loaned using these six products increased by around 250% between 2007 and 2021, from around TND 30 million to more than TND 100 million (see Figure 5.2). Over the same period, the total number of loans fell 13%. The total value of medium-term loans (the most common type of loan, accounting for around 32% of lending value), increased 320%, while the number of medium-term loans decreased 22% over the same period. As a result, the average value of medium-term loans increased 437% between 2007 and 2021, from TND 132 000 to TND 709 000. This was not driven by any single bank, as the average medium-term loan size increased at eight of ten banks. The average value of long-term loans increased 1 025% over the same period, from TND 65 000 to TND 737 000 (the average long-term loan size increased for nine of ten banks). By comparison, the average size of loans to consumers grew at the same rate. In fact, between 2007 and 2021, the average value of mortgage loans grew 118% and the average value of consumer loans increased 126%.

Although the analysis was limited by a lack of granular data, the significant increases in the average size of business loans were consistent with increased obstacles to accessing finance experienced by smaller enterprises.

Figure 5.2. Total lending value for selected products, 2007-21

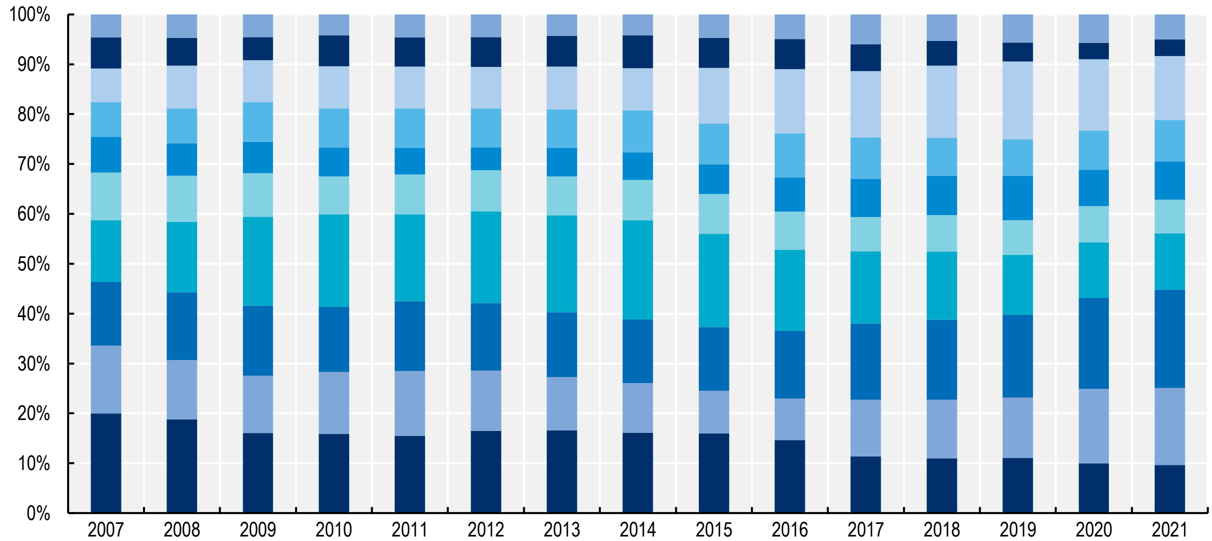


Note: Lending value of short-term credit (with and without overdrafts), medium-term credit, long-term credit, leasing and factoring by Tunisia's 10 largest banks.
Source: BCT; OECD calculations.

5.2.2. Shares of supply

Based on the data provided by the BCT, the aggregate shares of the five largest banks as of the end of 2021 were 69-75%, depending on the product. Given that the state-owned banks are controlled by one single entity (i.e. the state), it is possible to consider state-owned banks a single entity, in which case the aggregate share of the five largest banks would be much higher. Figure 5.3 shows the shares of the ten largest banks, measured as outstanding loans at the end of each calendar year between 2007 and 2021, for medium-term loans, the most common loan type. Data provided by the BCT could not be broken down by borrower characteristics, and thus included both lending to MSMEs and to larger businesses. The aggregate shares of the largest five banks were 68% in 2007 and 69% in 2021. Four of the five largest providers in 2007 were also the largest providers in 2021.

Figure 5.3. Medium-term loan shares of supply of Tunisia's ten largest banks



Note: Each colour corresponds to a bank. Data is anonymised.
Source: BCT data; OECD calculations.

Conclusions

Over the last decade, the market shares of Tunisia's five largest banks have remained stable, accounting for around 70-75% of lending value. Concentration levels would be significantly greater if state-owned banks were considered to act as a single entity and if common shareholders and indirect interlocked directorates weakened incentives to compete, as described in Section 3.3 Moreover, the average size of business loans has increased significantly, which is consistent with increased obstacles to access to bank finance among smaller businesses, which typically apply for smaller loans.

5.2.3. Links between financial firms and non-financial industrial groups, and lending to related parties

Several stakeholders interviewed by the OECD were concerned about the connections between firms in the financial sector and non-financial industrial groups, and the effects of these links on access to finance among MSMEs. Stakeholders said that such connections may result in banks lending at favourable conditions to borrowers related to them via their ownership structures. This concern has also been expressed by the (World Bank, 2014[2]).

The OECD requested data on banks' loan portfolios, including information on which loans had been granted to related borrowers over time. However, some of the key information in the dataset was not shared, so it was not possible for the OECD to assess the prevalence of these practices and their impact on competition. The following sections discuss the potential risks to competition and the relevant regulatory framework.

Potential effects on competition

Firms belonging to industrial groups connected to banks may have easier access to finance. While lending to related borrowers may reduce information asymmetries and therefore the cost of credit, related lending may also have negative effects on the economy. For example, if banks have some degree of market power and capital is a scarce resource, related lending may result in unrelated borrowers being excluded from financing.

As a result, related lending may create barriers to entry in non-financial sectors for borrowers that do not have connections with banks. This may negatively affect competition in other sectors by reducing the number of providers, weakening incentives to compete and reducing innovation. This may be particularly problematic for firms that are actual or potential competitors of the large domestic industrial groups that control banks. When related lending is performed by state-owned banks, it may give state-owned enterprises an advantage by providing easier access to finance than that obtained by private firms.

A condition for foreclosure effects to arise is that downstream firms – in this case Tunisia's large domestic industrial groups – control a significant proportion of the upstream market – in this case the provision of bank loans to enterprises. Based on BCT data (which among other limitations included only loan data from the ten largest listed banks), Table 5.1 shows that as of the end of 2021, state-owned banks and banks controlled by Tunisian industrial groups had granted around three-quarters of all business loans.

Table 5.1. Proportion of outstanding loans by bank type, end-2021

Bank type	Number	Medium term	Long term	Overdraft	Short term
State-owned	3	38%	38%	51%	56%
Controlled by Tunisian private investors	3	34%	35%	26%	20%
Controlled by non-Tunisian investors	4	28%	27%	23%	24%
Total	10	100%	100%	100%	100%

Sources: BCT data; OECD calculations.

Regulatory framework on lending to related parties

The regulatory framework in Tunisia contemplates safeguards aimed at mitigating the concerns raised above. Circular No. 2018-06 provides for specific rules limiting banks' exposure to related borrowers and to multiple borrowers belonging to the same industrial group, with the primary objective being to avoid conflicts of interest and insufficient portfolio diversification. In particular, as of the end of 2018, Article 52 set the maximum amount of risk/exposure vis-à-vis "related parties" at 25% of banks' net equity, down from 75%.[4] Article 43 of Law No. 2016-48 contemplates a broad definition of "related parties", comprising connections through common directors and top management as well as through shareholdings exceeding 5% of a bank's capital.[5] [6]

Stakeholders interviewed by the OECD noted that these rules are not as effective as they could be. Despite a warning issued by the BCT, at least the three largest banks have exceeded the limit, according to annual reports. Table 5 of the BCT's 2020 annual report on banking supervision shows aggregate information on the disciplinary measures taken by the BCT (Banque Centrale de Tunisie, 2022, p. 36[3]). However, given the aggregate nature of the information, it was not possible to understand which rules were breached.

Moreover, banks appear to engage in agreements whereby they lend to one another's related parties, *de facto* exceeding the 25% threshold. One bank interviewed by the OECD said that when it approached the 25% threshold, it co-ordinated with other banks to swap customers to remain below the limit. This conduct may be in breach of competition law as in so doing, banks share information on and allocate customers. It is not the role of this report to assess these allegations, but the OECD recommends that they should be considered by the appropriate authorities.

Box 5.1. Separation of financial and non-financial institutions

Other countries facing similar challenges involving links between financial and non-financial businesses have introduced legislation to limit the influence of large industrial groups on financial institutions. For example, in 2013, Israel introduced a Law for the Promotion of Competition and Reduction of Concentration to mitigate the control that a small number of people had over a significant proportion of Israeli economy. To reduce market concentration, its provisions prohibit large, non-financial corporations from holding majority stakes in large financial entities. The law also prevents financial entities from holding stakes of more than 10% in large non-financial institutions.

Source : Israel Competition Authority (2013[4]), Law for Promotion of Competition and Reduction of Concentration, https://www.gov.il/en/departments/legalInfo/concentrationlaw.

5.2.4. Conclusions

Related lending can lead to foreclosure for borrowers without connections to banks. This risk is higher for actual or potential competitors of the industrial groups that control banks. Stakeholders expressed concerns over related lending, and it is considered a significant barrier to entry and expansion for MSMEs in all sectors of Tunisia's economy.

The analysis shows that connections between industrial groups and banks are widespread, and that a significant proportion of Tunisia's 100 largest firms are connected to banks. It also shows that state-owned banks and banks controlled by large industrial groups account for around three-quarters of all business loans. The measures in place to mitigate this situation are not effective as they could be, as some banks have exceeded the threshold set by the BCT on lending to related parties.

Although the limited information available did not allow a detailed assessment of the prevalence of related lending and its potential negative effects on competition, these practices, combined with other aspects of the banking sector in Tunisia described in Chapter 3, may increase barriers to accessing finance among MSMEs and have negative effects on all parts of Tunisia's economy.

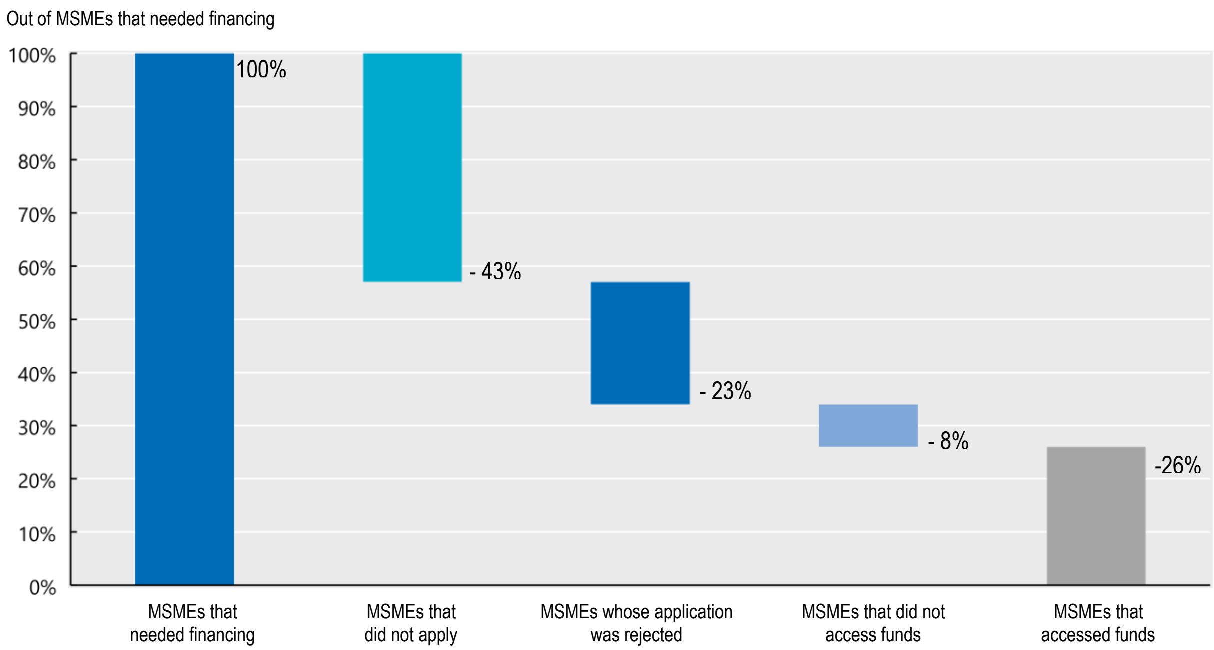
5.3. Market outcomes

Analysis of market outcomes can provide useful information for understanding competition in markets and potential harm to customers. Given the lack of granular data on loan prices, and on the value and volume of lending to MSMEs, this section relies on the responses to the OECD's MSME survey. The perceptions of businesses are useful for identifying the perceived obstacles when accessing finance and the reasons why, for example, firms that need finance do not even apply.

Respondents to the MSME survey indicated that the three major obstacles to accessing finance were excessive interest rates (83% of MSMEs agreed or strongly agreed), excessive collateral requirements (79%), and the length of the process (72%). Perceptions did not change significantly among different sizes of businesses.[7]

Figure 5.4 shows that among the MSMEs that needed finance over the five years leading up to the survey, 43% did not apply for finance,[8] and 23% saw their applications rejected.[9] 8% of MSMEs did not withdraw funds, for example because banks' loan decisions arrived too late, the amount granted was insufficient or the collateral too high.[10] Among the respondents, 26% accessed funds.[11] Lenders did not communicate the reasons for rejecting credit applications in more than half of cases.[12]

Figure 5.4. The MSME experience of accessing finance



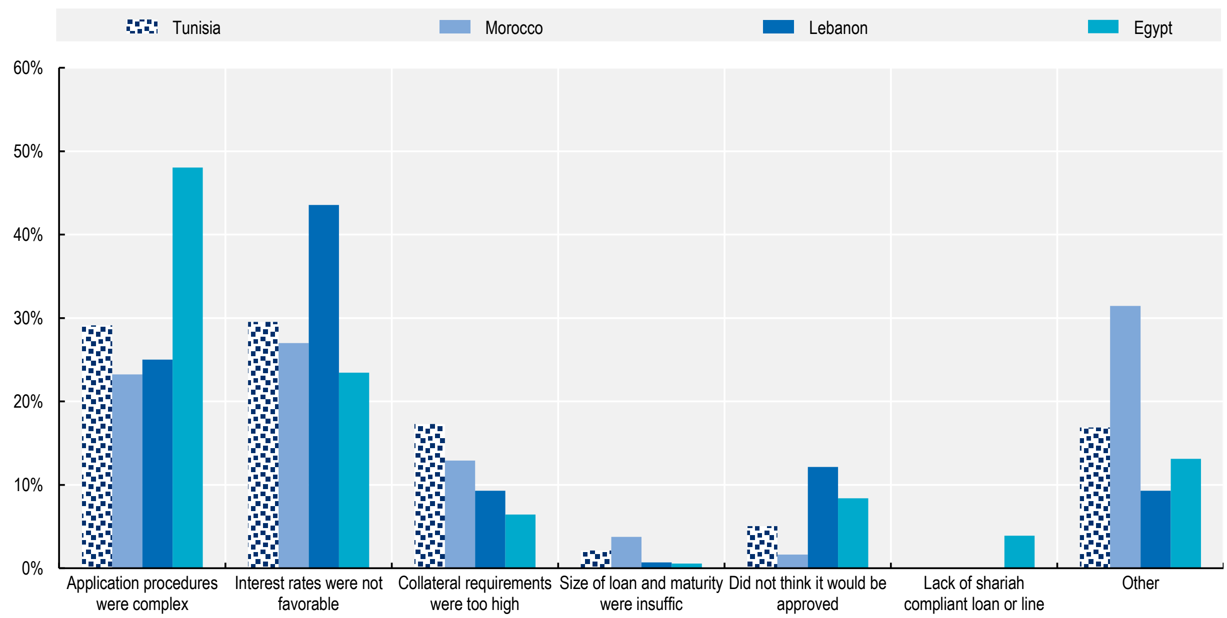
Source: OECD MSME survey (Q29, Q31, Q41 and Q44, N=140).

Around 25% of the firms who needed finance and did not apply expected interest rates to be too high, and around 15% did not do so because the expected collateral requirements were too high. 43% used a source of finance other than a formal financial institution.[13]

This is consistent with the results of the World Bank Enterprise Surveys, shown in Figure 5.5. In the World Bank surveys, Tunisian MSMEs considered high interest rates and high collateral requirements to be two of the biggest obstacles to accessing finance. Compared to other Middle East and North Africa (MENA) region countries, collateral was mentioned as a reason for not applying for loans more often in Tunisia than in Morocco, Lebanon and Egypt.

The next two sections discuss the cap on lending interest rates and collateral requirements in Tunisia.

Figure 5.5. Main reasons for not applying for new loans or new credit lines



Note: Due to data limitations, the OECD average and MENA average include only a selection of countries. Data is from surveys conducted between 2013 and 2020 (only four of 26 surveys were conducted before 2019). The chart is based on the most recent data for each country.
Source: World Bank Enterprise Surveys.

5.3.1. Cap on lending interest rates

Banks and financial institutions in Tunisia such as leasing and factoring companies are subject to a cap on lending interest rates set by the BCT every six months and which varies by loan product.[14] Caps on lending interest rates are widely used in both developed and developing economies (see Box 5.2 for an overview). The cap on lending interest rates in Tunisia has been discussed in various reports by international organisations in recent years. According to the (World Bank, 2021[5]) Tunisia's cap on lending interest rates prevents the optimal allocation of resources at the expense of riskier borrowers and SMEs. (Morsy, Kamar and Selim, 2018[6]) and the (World Bank, 2014[2]) said the cap led banks to exclude start-ups and businesses with insufficient guarantees. Unfortunately, no report includes an empirical assessment of the effects of Tunisia's cap on its credit market.

Although one bank interviewed by the OECD said the cap did not create obstacles to financing, for some banks it represents a barrier to the accurate pricing of risk. One bank, for example, said the cap prevented it from engaging in price discrimination between low- and high-risk borrowers, as it could not charge higher interest rates to reflect higher risk. Another bank said that if a borrower were considered too risky and the price of a loan to it would be higher than the cap, it explored alternative finance arrangements, including equity financing or higher collateral requirements. A third bank said that it often priced loans at the level of the cap, suggesting that the cap is binding on a large proportion of its loans. Another stakeholder said leasing companies faced higher refinancing costs than banks (which also offer leasing products), so the cap on leasing products had the potential to squeeze leasing companies out of the market.

The remainder of the section provides a description of the cap in Tunisia and its potential impact on lending markets.

The cap on lending rates

Law No. 1999-64 and secondary legislation drafted by the Ministry of Finance and the BCT introduced a cap on the interest rates of eight different loan products.[15] The cap is calculated for each lending product and is relative to the average interest rate observed during the previous six months. The cap was originally set at 133% of the average rate of the previous six months. It was reduced to 120% in 2008 (Law No. 2008-56) and restored to 133% in November 2022 to take effect from January 2023. The cap is set on the annual effective interest rate, and it covers all fees and charges (Article 2 of Law No. 1999-64). [16] The cap does not apply to microfinance products.

There is no clear timeline for the periodic publication of the next period's cap. This may increase market uncertainty and compliance risks as to which interest rate conditions to apply.[17] Table 5.2 shows the average market rate between January and June 2022, and the value of the cap between July and December 2022.

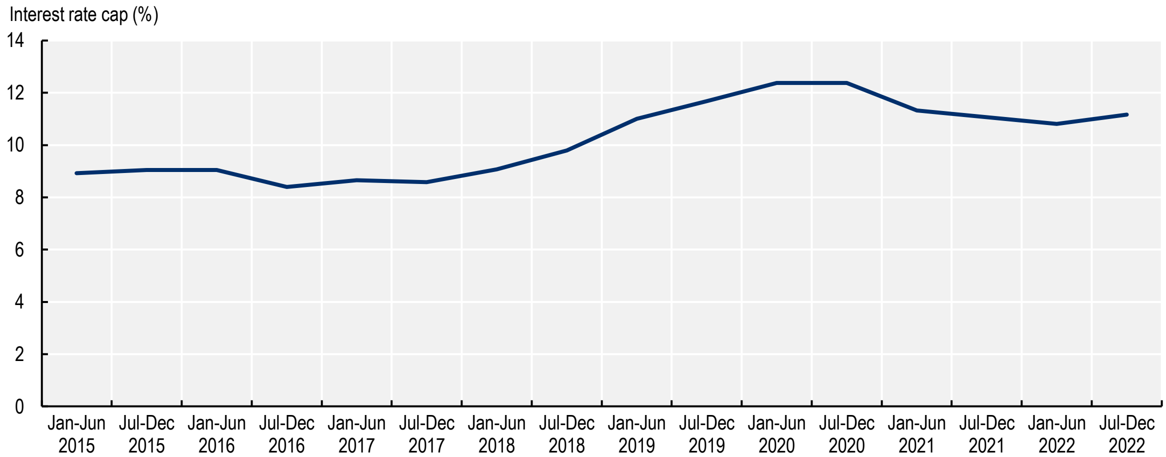
Table 5.2. Average market rate, January-June 2022 and cap, July-December 2022, by credit product

Credit product	Average market rate in Jan-Jun 2022 (%)	Cap in Jul-Dec 2022 (%)
Short-term loans	8.84	10.60
Long-term loans	8.94	10.72
Medium-term loans	9.30	11.16
Mortgages	9.30	11.16
Factoring	10.37	12.44
Consumer credit	10.56	12.67
Overdrafts	10.63	12.75
Leasing	13.33	15.99

Source: Order of the Minister of Finance, 17 August 2022.

Figure 5.6 shows that the cap on medium-term loans – the most common loan product – remained relatively stable between January 2015 and January 2018. The cap was 8.92% in the first half of 2015 and equal to 9.07% in the first half of 2018. It then increased to 12.38% in the first half of 2020 (given that the cap is based on the market average of the previous six months, this increase was not due to the COVID-19 pandemic). The fact that the cap was relatively stable between January 2015 and June 2018 implies that it was not binding on all loans offered during that period (if it had been, it would have increased 20% in each period). Nevertheless, the cap may still bind some loans, for some banks or in some periods. This is discussed in the next section. Trends among caps on other loan products were similar.

Figure 5.6. Cap on medium-term loans, January 2015 to December 2022



Sources : Jurisite Tunisie (2023[7]), *Les taux d'intérêts effectifs moyens (TIEM) et les seuils des Taux excessifs correspondants*, https://www.jurisitetunisie.com/tunisie/index/taux/index.html#topcontent; OECD calculations.

The cap is binding on some but not all loans

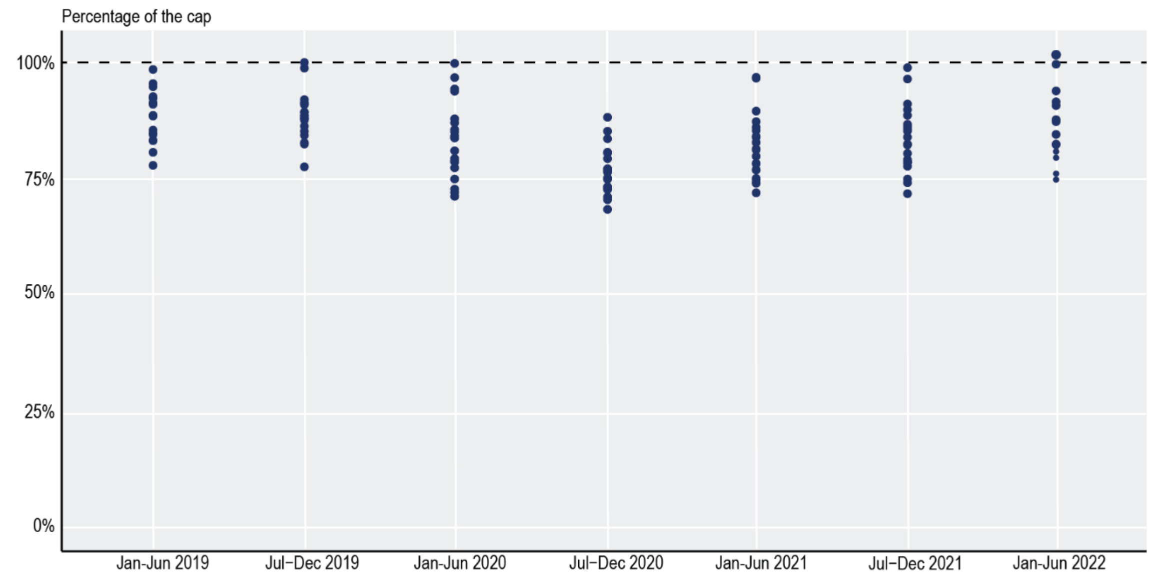
A bank offers many loans in each period, each with a potentially different interest rate. Without the cap, the interest rates charged would form a distribution. The introduction of the cap may cut the higher end of the distribution. If that happens, applications for loans that would have been priced higher than the cap may either be rejected or may be accepted with lower interest rates (for example, equal to the cap) and banks may compensate for that through such measures as requiring higher levels of collateral.

The OECD did not have access to loan-level data on interest rates or to the distribution of interest rates across loans. It was thus not possible to assess how often banks price their loans at rates equal or close to the cap. The BCT provided the six-month average interest rates charged by each of the 22 banks on each lending product over the period from January 2019 to December 2021. This is the same data that banks submit to the BCT for the calculation of the cap.

Each dot in Figure 5.7 is the average interest rate charged by a bank in a six-month period for medium-term loans, the most common type of business loans. Figure 5.7 shows that in the six months between June and December 2019, the average interest rate charged by one bank were equal to the cap. This means that the bank charged an interest rate equal to the cap for each loan granted in the period. The average interest rate charged by another bank was equal to 99% of the cap. This means that most of the loans offered by the bank were priced at the cap. Conversely, in the same period, another bank charged an average interest rate equal to 77% of the cap. Based on this information, the bank may or may have not priced some loans at the cap, and it certainly priced many loans well below the cap. In other periods, such as during the six months between June and December 2020, no bank charged on average more than 85% of the cap.

This suggests that pricing strategies vary significantly across banks, with some pricing closer to the cap than others. The average interest rates charged by some banks are sometimes very close or equal to the cap, which means that, for these banks, most loans are priced at (or very close to) the cap.

Figure 5.7. Average medium-term loan interest rates charged by banks as a proportion of the cap, January 2019 to December 2021



Note: Each dot is the average interest rate charged by a bank in a six-month period for medium-term loans.
Source: BCT data; OECD calculations.

The dispersion of average interest rates charged by banks over time varies between loan products.

Potential effects of the cap on competition

Despite its stated objective of protecting vulnerable consumers and reducing the overall cost of credit, the cap may have negative consequences. It may prevent banks from pricing risk accurately, which leads to distortions in the lending market that may reduce access to financing.

- Credit providers may decide not to serve riskier borrowers or seek to obtain higher guarantees for loans in the form of collateral, which may exclude firms that lack such collateral. Smaller enterprises and start-ups are more likely than other businesses to be affected by this, because they are typically riskier (for example, because they do not have long credit histories), they are less likely to have collateral, and they are more likely to request smaller loans, which are less profitable (Reifner, Clerc-Renaud and Michael Knobloch, 2010[8]).
- The cap also reduces the ability of providers to respond to cost shocks. For example, given that the cap is set relative to the average of past market rates, an unexpected increase in costs, such as in the base rate, may reduce firms' profitability and, in certain cases, may make it unprofitable to serve riskier customers.
- The effects of the cap could also be asymmetric, and it may have a greater impact on providers that already have higher overheads, such as leasing companies, which have higher financing costs than banks, as discussed above. To mitigate this risk, under Article 6 of Decree No. 2000-462, in exceptional circumstances, the BCT may adjust its calculation to consider large variations of economic conditions within a given six-month period. The OECD is not aware of any instances in which the BCT has used this power. Data on average interest rates and lending volumes provided by the BCT show that banks that make smaller loans on average charge higher prices, closer to the cap. This is consistent with concerns that the effect of the cap is asymmetric, and that smaller banks are more constrained by it than larger banks.

- The cap may also be used as a focal point to facilitate co-ordination. For example, (Knittel and Stango, 2003[9]) found that credit card providers in the US in the 1980s used price caps to facilitate co-ordination. This may be inconsistent with BCT data showing that average interest rates vary across banks, but given that the data is aggregated (making it impossible, for example, to observe the distribution of interest rates) and does not include information on borrowers, it is not possible to conclude whether the cap is a focal point for co-ordination.
- Finally, stakeholders said the BCT's guidelines for banks on calculating effective interest rates on lending products leave room for interpretation and that, as a result, banks use differing methodologies. This may create an uneven playing field.

Conclusions on the cap

Identifying the effects of caps on lending interest rates is complex because they are often introduced as a response to the economic environment, and this makes it difficult to observe their causal effects and distinguish them from other factors. In addition, an assessment of caps involves trade-offs of different effects, as they may decrease interest rates, at least for some categories of customers.

Several banks interviewed by the OECD said that Tunisia's cap prevented them from pricing risk accurately, leading them to exclude riskier borrowers and making them vulnerable to shocks.

The data available to the OECD did not allow a detailed assessment of the cap, but the OECD's analysis found that the cap was likely to be binding for at least some banks on a significant proportion of loans, and that smaller banks with lower lending volumes charged on average higher prices, closer to the cap. This is consistent with the theory whereby the effect of the cap represents a more significant constraint for smaller banks.

Box 5.2. Lending rate caps: international experience

In 2018, the World Bank found that 76 countries imposed some restrictions on interest rates on loan products (Ferrari, Masetti and Ren, 2018[10]). It found 30 instances since 2011 in which new caps on lending rates had been introduced or existing restrictions had been tightened (and, in more than 75% of cases, these instances were in lower-income countries).

Interest rate caps can take many forms. They can vary in terms of the scope of products covered and they can be set at differing levels for different product types. Caps can also vary in how they are calculated, as they can be absolute or relative. Relative caps can be calculated based on a variety of benchmarks (e.g. the central bank base rate or an average market rate). Caps can be a multiple of the benchmark rate, or they can be calculated as the benchmark plus a fixed spread. Finally, caps can be applied to all financial costs of loans (i.e. interest rates, fees and commissions), see (Munzele, Claudia and Gallegos, 2014[11]) and (Ferrari, Masetti and Ren, 2018[10]).

Caps typically have two broad sets of objectives. First, in many jurisdictions, the objective is to avoid the charging of extortionate rates in order to protect vulnerable consumers. The caps in these countries are typically set at a high level to affect only extreme prices. Second, in other jurisdictions, caps are used to reduce the overall cost of credit and are set at levels closer to or lower than market rates.

Empirical evidence

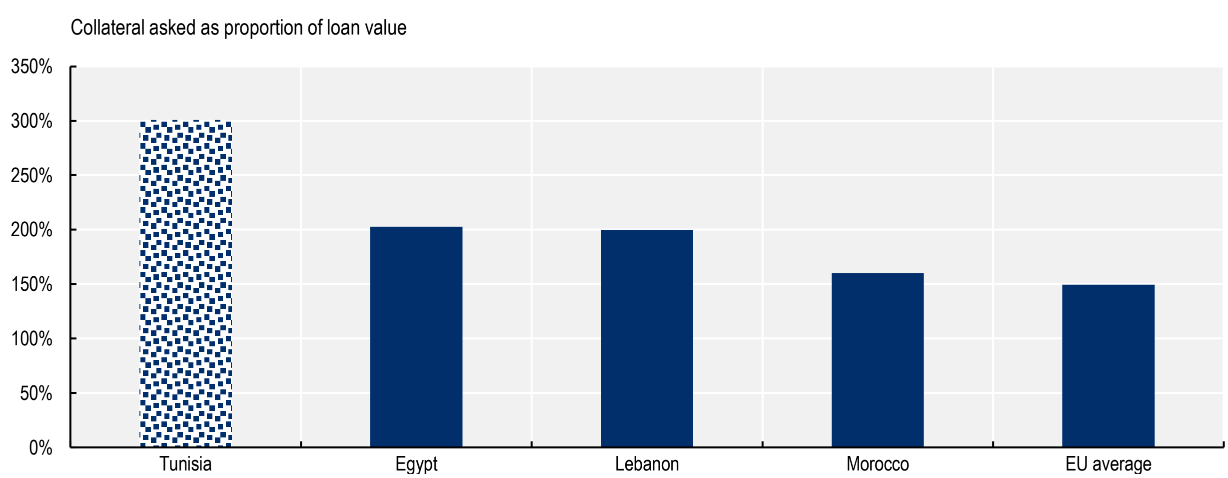
The policy objectives of caps make quantitative analyses of their effects particularly challenging. This is because caps are often introduced as a response to the economic environment, which makes it difficult to identify their causal effects and distinguish them from other factors. Also, the heterogeneity of caps between countries makes international comparisons difficult. Despite these challenges, many studies have sought to identify the effects of interest rate caps around the world. Caps typically reduce lending interest rates and reduce access to credit for riskier borrowers, and total lending may or may not be affected. For example:

- Comparisons of caps in relatively homogenous states in the US suggest that low interest rate caps typically reduce total consumer credit and reduce access to credit for lower-income borrowers. (Reifner, Clerc-Renaud and Michael Knobloch, 2010[8]).
- Comparisons among EU countries, whose interest rate caps are typically higher than those in the US and are specific to certain high-cost credit products, found that although credit to high-risk borrowers is reduced, this market segment is relatively small and unlikely to have an impact on total consumer credit. (Reifner, Clerc-Renaud and Michael Knobloch, 2010[8]).
- The IMF assessed the impact of the introduction of a cap on interest rates on microfinance loans in Cambodia in 2017. Using a difference-in-difference approach, it found that the cap led to a significant increase in non-interest fees (that were not included in the calculation of the cap), a reduction in the number of borrowers, and an increase in the total sums loaned out. The last two findings suggest that banks served larger borrowers at the expense of smaller ones (Heng, Chea and Heng, 2021[12]).
- The World Bank assessed the introduction of a cap on lending interest rates in Kenya in 2016. It found that total lending declined, non-performing loans increased, and that banks loaned more to safer corporate borrowers at the expense of SMEs. It also found a negative effect on interest rates paid on deposits (Safavian and Zia, 2018[13]).

5.3.2. Onerous collateral requirements

This section considers banks' requests for collateral and the extent to which these are a significant barrier to accessing finance. According to the World Bank Enterprise Surveys, the average collateral requested of MSMEs in Tunisia is almost 300% of loan values, the highest among the countries in the enterprise surveys dataset (see Figure 5.8).

Figure 5.8. Collateral requirements in Tunisia vs. other countries



Note: Due to data limitations, the OECD average includes only a selection of countries. Data is from surveys conducted between 2013 and 2020 (only four of 26 surveys were conducted before 2019). The chart is based on the most recent data for each country. Egypt has a cap on lending interest rates but Lebanon and Morocco do not.
Source: World Bank Enterprise Surveys.

Article 25 of Circular No. 2006-19 prescribes that to assess credit risk, banks should consider elements relating to the financial situation of the beneficiary (in particular its ability to repay) and that collateral obtained should be considered only of secondary importance. In practice, in Tunisia, collateral is required for most loans. Based on the OECD's MSME survey, 82% of firms that successfully applied for credit were asked to provide collateral. This is consistent with the results of the World Bank Enterprise Surveys, which found that in 2020, Tunisian banks required collateral on 83% of loans approved. This was a similar proportion to Egypt and Lebanon, and significantly higher than Morocco and any of the OECD countries in the database.

Despite the widespread use of collateral, stakeholders indicated that creditors struggle to enforce collateral rights in a timely manner and take ownership of collateral after defaults. It appears that this is due mainly to lengthy court proceedings and, in cases involving movable goods, to the absence of a collateral registry. A large body of research examines how laws on collateral affect access to finance. For example, (Calomiris et al., 2017) showed the importance of borrowers' ability to use movable assets as collateral and they found that loan-to-value ratios (the value of a loan divided by the value of its collateral) of loans collateralised with movable assets was lower in countries with weak collateral laws.

Existing schemes to provide guarantees to MSMEs, such as those operated by the *Société Tunisienne de Garantie* (SOTUGAR) are not as effective as they could be. Stakeholders interviewed by the OECD said the existence of a SOTUGAR guarantee does not significantly affect the conditions of the loan, such as its price, and that banks typically ask for collateral in addition to a SOTUGAR guarantee. The SOTUGAR is used mostly by Tunisia's five largest banks (two private and three state-owned) and by the development-focused *Banque de Financement des Petites et Moyennes Entreprises* (BFPME). Around one-quarter of SOTUGAR guarantees are on loans granted by BFPME and around half of guarantees are on loans granted by the country's three large state-owned banks.

5.3.3. Conclusions on market outcomes

High interest rates and collateral requirements have been consistently identified as the main obstacles to accessing finance in Tunisia. In particular, the collateral requested by banks is the highest among the countries in the dataset of the World Bank Enterprise Surveys.

High collateral requirements may have several causes. The cap on lending interest rates may lead banks to require high collateralisation ratios and banks may reduce the risk of customers not repaying their loans by requiring collateral. Another cause may be the limited ability of Tunisian banks to assess risks, due to, for example, limited information on the creditworthiness of existing and prospective customers. This is discussed in Section 5.5. Finally, the risk of not being able to enforce collateral rights increases credit risk and may lead banks to require higher levels of collateral from all borrowers.

5.4. MSME behaviour

An important element of the assessment of competition is the analysis of how MSMEs behave when seeking finance. For example, if banks expect MSMEs not to compare loan conditions among providers, banks do not have incentives to offer cheaper loans to prevent borrowers from seeking alternatives. This section reports evidence from the OECD's MSME survey on credit product holdings, the propensity to shop around, and barriers to seeking financing. The MSME survey shows that:

- Some MSMEs use BCAs as a gateway to establish relationships with banks and obtaining additional services such as financing (around 16% of the respondents to the MSME survey said they chose their BCAs for that reason; see Section 4.2).[18]
- MSMEs are significantly more likely to obtain financing from their BCA providers than from other sources. Among respondent MSMEs, 45% held credit products only with their BCA providers and

31% said they had credit facilities with both their BCA providers and other banks, while 21% did not hold credit products and only 3% of respondents said they held no credit products with their BCA providers and some credit products with other banks (see Figure 4.2).[19] MSMEs may do so for a variety of reasons. For example, they may value the convenience of sourcing all their financial products from their BCA providers, reducing the sunk costs of searching and establishing several banking relationships, and making it easier to manage their credit holdings. MSMEs may also have increased access to financing when using their BCA providers. Lenders rely on credit and payment histories to assess creditworthiness and make lending decisions, and in Tunisia they may not have reliable sources of information on new customers. Thus, lenders may be unable to accurately assess risk among new customers and may therefore charge high interest rates, impose high collateral requirements, or decline credit applications.

- Around 67% of respondent MSMEs did not compare fees and other conditions among providers. The propensity to shop around varied significantly by firm size. Only 14% of micro-enterprises compared terms offered by more than one provider, compared with around 35% of firms with between 50 and 199 employees. Smaller firms were more likely to be newer and may not have extensive credit histories, limiting their options when shopping around for financing.[20]
- Among the MSMEs that compared fees and conditions, around 22% used information from the websites of financial institutions and around 43% used financial advisers.[21] Almost one in three MSMEs that compared fees and conditions found it hard or very hard.[22] 37% said they found it hard or very hard because information was presented in differing formats.[23]

This section first presents the main obstacles to accessing finance as understood by MSMEs. It then considers the MSME journey to finance and quantifies the proportion of MSMEs that drop out at each stage of that journey.

5.5. Lack of a credit information bureau

Tunisia does not have a private credit information bureau. Although the BCT maintains a registry with information on consumers' and enterprises' outstanding loans (see Section 2.2.3),[24] several banks and other stakeholders said the information held by the BCT was insufficient to make accurate lending decisions because it does not include information on companies and individuals with no outstanding loans, because it includes only negative information on such events as missed payments or defaults but no positive information on payment histories and balances, and because it does not include information on non-financial products.

Other reviews have described the lack of a private credit information bureau as hinderance to the growth of credit markets in Tunisia. For example, the World Bank (2021[5]) said the introduction of a private credit information bureau in Tunisia could improve access to credit among MSMEs because it would offer a means by which credit providers could assess risk.

5.5.1. A credit information bureau could reduce information asymmetries and reduce related arbitrage among big banks

When deciding whether to grant loans, banks typically assess borrowers' creditworthiness. To do this, they may use information they hold in-house on prospective borrowers (for example, because they are existing customers or if they have previously requested loans), they may rely on the information provided at the application stage, or they can use information from other sources, such as credit information bureaus or credit referencing agencies. The information made available by bureaus can vary widely and may include information on financial products such as a borrower's total number of loans, repayment history, previous defaults, and on non-financial products such as utilities payment histories. Credit information bureaus reduce information asymmetries between lenders and borrowers by consolidating information on (potential) borrowers from a range of sources and making it available to lenders. The effect is greater when the lender is an institution that has no existing relationship with a prospective borrower.

Credit information bureaus reduce adverse selection by allowing lenders to assess applicants' credit risk more accurately, therefore reducing overall risk and the cost of lending. Credit information bureaus also reduce moral hazard by sharing information on missed payments and defaults, and therefore increase the cost of defaulting. Finally, credit information bureaus have a positive impact on competition, as they reduce the information advantages of larger banks, which rely on the amount of data on their larger customer bases. These larger customer bases allow them both to gain a better understanding of credit risk and more complete information on credit applicants.

Credit information bureaus can be public or private. While in principle the ownership structures of bureaus do not necessarily make a difference, (OECD, 2010[14]) suggests that credit markets with state-owned credit information institutions are associated with greater perceived barriers to accessing finance. This may be because the objectives of public bureaus vary from those of private bureaus. The main objective of state-owned bureaus is typically banking supervision. This implies, for example, that non-financial information, such as payments for utilities, is not included. As a result, such bureaus may have no information on firms that have never accessed financing. Public bureaus may not include smaller loans, as these are less likely to pose a threat to financial stability. Finally, public bureaus may not offer services to help banks making lending decisions, such as credit-scoring or anti-fraud services.

5.5.2. The regulatory framework for credit information bureaus in Tunisia

In 2014, Mitigan Credit and Insurance Bureau, a Tunisian financial services company, launched a project to establish a private credit information bureau in Tunisia. However, the bureau is still not operational.

Stakeholders interviewed by the OECD indicated that several potential reasons, including delays in introducing a legislative framework to offer the service in the country and a lack of co-ordination between commercial banks. Given the first-mover disadvantage, the benefits of sharing information with a credit information bureau materialise only when several banks have already joined. Other reasons mentioned include the reluctance of the BCT to allow a private company to offer credit information services that would compete with its public registry.

In January 2022, Tunisia's president adopted Decree-Law No. 2022-2 to regulate the establishment of credit information bureaus, the exercise of their activities, and exchanges of relevant information.[25] The decree introduces a capital requirement of at least TND 3 million (Article 10). It also introduces several elements that give the BCT the discretion to reject authorisation, such as "fit and proper" status considerations and requirements relating to the professional experience of credit information bureau directors.

5.5.3. Conclusions

A well-functioning market for credit information is an important component of a lending market. However, the delays in adopting a regulatory framework in Tunisia have so far prevented the entry of a private provider of services based on credit information. The 2022 decree regulating credit information bureaus introduces several unnecessary barriers to entry, such as the high capital requirements of TND 3 million (in European countries, by contrast, no such capital requirements exist).

The limited availability of high-quality credit information may prevent lenders from accurately assessing risk, especially risk associated with new borrowers that may lack existing banking relationships. This reduces incentives to lend to new borrowers such as start-ups or less established MSMEs and may make banks excessively reliant on collateral. The absence of credit information-sharing arrangements also increases barriers to entry and expansion for smaller and newer banks, because larger banks have larger databases and a superior ability to assess risks. Finally, the lack of a credit information bureau increases barriers to switching for existing borrowers.

5.6. Other regulatory restrictions affecting lending conditions

Circular No. 1987-47, as further amended and complemented, requires banks to comply with stringent conditions for lending to businesses, including MSMEs and professionals. These conditions are complementary to the cap on interest rates described above, and they concern such issues as the maximum maturity of loans and the maximum amount of capital that banks can grant, often calculated as a percentage of the value of the relevant project/product/sales. This imposes additional unnecessary constraints on the ability of banks to set the terms of loans and it seems to lack justification by any public policy objective.

5.7. Conclusions

Competition in the market for bank loans to small businesses is not working as well is it could in Tunisia. The market for business loans is concentrated, with the five largest banks accounting for 70-75% of total lending in 2021. The shares of supply of these banks have been stable between 2007 and 2021.

The MSME survey highlights the importance of relationship lending and MSMEs' limited propensity to shop around for financial products. Establishing banking relationships is an important reason for choosing BCA providers, and for 45% of businesses, BCA providers are the only sources of financing. The survey also found consistently that more than half of all MSMEs did not compare fees and other terms of loans among providers, reducing the competitive pressure that they could exert. The lack of a private credit information bureau can exacerbate the information advantages of larger banks and increase the cost of shopping around for credit and switching providers, especially among small businesses.

The analysis also shows that Tunisian banks rely heavily on collateral when granting loans. According to the World Bank Enterprise Surveys, the average collateral required of MSMEs in Tunisia is almost 300% of loan values, the highest among the countries in the enterprise surveys dataset (see Figure 5.8). This is due partly to the cap on lending interest rates, which aims to protect vulnerable customers but prevents banks from accurately pricing risk.

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Notes

[1] The *Institut Tunisien de la Compétitivité et des Etudes Quantitatives* (ITCEQ) is a public market research agency based in Tunis.

[2] OECD MSME survey (Q31, Q33 and S1, N=804).

[3] OECD MSME survey (Q35, N=183).

[4] At the end of 2017, the limit was reduced from 75% (Article 23 of Law No. 2001-65) to 25% of banks' net equity.

[5] Moreover, Article 51 prescribes that the level of risk vis-à-vis the same beneficiary shall not exceed 25% of net equity, with borrowers affiliated to the same group regarded as the same beneficiary.[5] For breaches of Articles 51-52, the BCT may impose fines of up to 2.5% of the amount above 25% (see Circular No. 2018-06, Article 55, and Annex *Relative à la Grille des Sanctions Pécunières*). In addition, Article 43

of Law No. 2016-48 requires banks and other financial institutions to adopt policies to manage conflicts of interest.

[6] Article 43 of Law No. 2016-48 requires banks and other financial institutions to adopt policies to manage conflicts of interest and, to this end, it entrusts the BCT to lay down rules governing transactions with (and in particular lending to) related parties. In addition, from a governance perspective, Article 58 of Law No. 2016-48 prohibits individuals from holding top management functions (such as director general or deputy-director general) at banks and other businesses concurrently.

[7] OECD MSME survey (Q48, N=986).

[8] OECD MSME survey (Q29 and Q31 and N=322).

[9] OECD MSME survey (Q29 and Q41 and N=183).

[10] OECD MSME survey (Q44, N=141).

[11] OECD MSME survey (Q44, N=141 and Q42, N=127).

[12] OECD MSME survey (Q45, N=29).

[13] OECD MSME survey (Q31 and Q32, N=139).

[14] Microfinance institutions and crowdfunding platforms are not subject to the cap (the interest rate for services offered by the latter is set by law).

[15] The cap was imposed initially on short-term loans, overdrafts, personal loans, medium-term loans, long-term loans, mortgages, student loans and leasing. In 2006 the BCT removed the cap from student loans and in 2013 the BCT imposed it on factoring products.

[16] Under Article 5 of Law No. 1999-64, breaches of the cap are subject to criminal fines and imprisonment. Decree No. 2000-462 provides guidance to calculate the effective interest rate and the average interest rate. Each bank submits to the BCT (see Article 5 of Decree No. 2000-462) the unweighted mean of the interest rates it has charged in the previous six months. The market average is the unweighted mean of rates submitted by each bank. The BCT then conducts spot checks with credit providers to check compliance. Pursuant to Article 5 of Decree No. 2000-462, the average effective interest rates and the corresponding excessive interest rate thresholds are published in the Official Journal in the form of a Ministry of Finance order.

[17] For example, the average market rate for the period January-June 2022 and the value of the cap for the period July-December 2022 were published on 17 August 2022. Also, the average market rate for the period July-December 2021 and the value of the cap for the period January-June 2022 were published on 31 January 2022, and the average market rate for the period January-June 2021 and the value of the cap for the period July-December 2021 were published on 1 September 2021. See Nouveaux seuils des taux d'intérêt excessifs des crédits au titre du deuxième se (ilboursa.com).

[18] OECD MSME survey (Q13, N=804).

[19] OECD MSME survey (Q27, Q=804 and Q28, N=1 005).

[20] OECD MSME survey (Q6, N=804).

[21] OECD MSME survey (Q6 and Q38, N=44).

[22] OECD MSME survey (Q6 and Q39, N=44).

[23] OECD MSME survey (Q40, N=21).

[24] Access to information held by the BCT is regulated under Circular No. 2019-09. Fees are charged for offline access to most information (Article 5 and Annex 2). Online access is subject to the creation of an account, which still requires an offline registration procedure (Article 3).

[25] Circular No. 2022-09 sets out authorisation procedures and documents to submit to the BCT.

6 Mobile payments

Tunisia’s existing licensing process for payment services providers has favoured providers with ties to traditional banks. As a result, consumers are missing out on innovative services that could significantly increase competition.

Mobile payments and fintech companies are playing an important role in boosting competition and financial inclusion in developing countries, but take-up of mobile payments is still very low in Tunisia. Mobile payments and greater use of online banking could increase consumers' choice of banks and significantly intensify competition. Chapter 4 showed how the reliance of banks on their branch networks has effectively excluded a large proportion of consumers in rural areas, where branches are less common, from access to financial services. Yet e-wallets in Tunisia remain rare. Given that Tunisia's mobile payment services sector is still developing, and that concerns expressed by stakeholders centre on potential barriers to entry, this chapter presents an analysis of relevant legislation using the OECD Competition Assessment Toolkit and identifies barriers to competition.

The chapter describes two main barriers to competition in the mobile payments sector. First, the process for obtaining licences to offer mobile payment services favours fintech companies with ties to traditional banks. Second, certain provisions may lead payment service providers (PSPs) to exclude customers that tend to make small payments.

6.1. Structure of the sector

Circular No. 2018-16, introduced in December 2018, regulates the activities of payment service providers. The range of services defined by the circular includes all operations initiated with mobile phones, such as opening payment accounts, making cash payments and withdrawals, transferring money, making electronic payments, and using pre-paid electronic cards. Payment accounts are divided into three groups:

- level-1 accounts with a ceiling of TND 500, with transactions capped at TND 250 daily
- level-2 accounts with a ceiling of TND 1 000, with transactions capped at TND 500 daily
- level-3 accounts with a ceiling of TND 5 000, with transactions capped at TND 1 000 daily.

Different types of accounts require differing levels of authentication; accounts with higher limits require stronger authentication.

6.1.1. Payment service providers

As of May 2023, companies allowed to offer mobile payment services in Tunisia included several traditional banks and five fintech companies. The five fintech firms licensed to offer mobile payments were ViaMobile, Zitouna Paiements, Enda Cash, Wafacash and Payvago. The OECD understands that out of the five fintech companies, ViaMobile and Zitouna Paiements are the only ones actively offering payment facilities.

ViaMobile obtained a payment services licence in April 2021. Zitouna Paiements obtained a license in November 2021 and launched its mobile payment application in March 2022 (IlBoursa.com, 2022[1]). Enda Cash obtained a licence in August 2022, Wafacash in October 2022 and Payvago in February 2023 (Banque Centrale de Tunisie, 2023[2]). In addition to these providers, the Central Bank of Tunisia has said it is reviewing applications by other institutions (the OECD understands that the three telecoms operators in Tunisia jointly received preliminary authorisation, but that they subsequently withdrew their application). Most of the licensed payment service providers are firms either connected to traditional banks or to the large domestic industrial groups.[1]

As of December 2022, around 200 000 e-wallets were in use in Tunisia (Banque Centrale de Tunisie, 2022[3]), and the majority of them was provided by traditional banks. Although there is no requirement that consumers have a current account associated with an e-wallet, there is no evidence that consumers in Tunisia are substituting e-wallets for personal current accounts (PCAs).

6.1.2. The mobile payment system

The payment system that processes mobile payments was established in 2022 and it is operated by the *Société Monétique Tunisienne* (SMT). The SMT defines the standards for interoperability, which includes technical standards, rules related to disputes and how revenues are distributed between the providers that participate to the payment system. The SMT was established in 1989 to process card payments, and it is jointly owned by the largest domestic banks and *La Poste*. Bank transfers, direct debits and cheques are processed by the *Société Interbancaire de Télécompensation* (SIBTEL) (Banque Centrale de Tunisie, 2023[4]).

6.2. The licensing process for payment service providers

The main regulatory framework for payment services is provided by Law No. 2016-48, circulars of the BCT No. 2018-16 and No. 2020-11, and the decisions of the *Commission d'agréments* No. 2017-04 and No. 2019-20. This sub-section covers only the key principles and provisions of relevance to the analysis.

Article 10 of Law 2016-48 defines payment services as: 1) cash deposits and withdrawals; 2) direct debits; 3) payments in cash, by cheque, bills of exchange or postal orders; 4) transfers of funds; and 5) execution of payments remotely, including electronic transactions.

The provision of payment services, as defined under Article 10 of Law No. 2016-48, is subject to a licence granted by the BCT that includes two steps: a preliminary authorisation and a final authorisation. The same licensing procedure applies across the industry, irrespective of the specific payment services being offered. Annex 9 of Decision No. 2019-20 provides an exhaustive list of information and documents required to obtain a preliminary authorisation.

Several parts of the licensing process may represent a barrier to entry:

- First, conditions for obtaining licences include minimum capital of at least TND 5 million (see Article 32 of Law No. 2016-48), unless – as in the case of banks – the BCT requires more capital in accordance with the applicant's business plan. Although ad hoc capital requirements are common across jurisdictions, stakeholders indicated that the level of capital the BCT requires on a case-by-case basis may represent a barrier to entry, particularly for fintech start-ups. Capital requirements for similar services are significantly lower in other countries. For example, Box 6.1 explains that capital requirements in the EU and the United Kingdom are between 12 and 76 times lower, depending on the service provided.
- Second, in addition to complying with the applicable capital requirement, pursuant to Article 21 of Law No. 2016-48 and Article 3 of Circular No. 2018-16, a payment service provider must hold an insurance policy or obtain a bank guarantee proportionate to its funds and in accordance with the conditions set by the BCT.[2]
- Third, regarding the procedure, Article 30 of Law No. 2016-48 states that a preliminary decision should be taken within four months of the date upon which all required information and documents have been submitted, and that a final authorisation should be granted within two months of compliance with all the requisite conditions. In practice, however, stakeholders indicated that the procedure takes 12 to 18 months. Moreover, stakeholders indicated that, despite the "checklist" in Annex 9 of Decision No. 2019-20, the conditions and requirements in place are still not transparent and seem to favour bank affiliates.
- Finally, Article 20 of Law No. 2016-48 states that governance rules (Section IV) that apply to banks and financial institutions do not apply to payment service providers. Nevertheless, governance rules prescribed for payment service providers under articles 5 to 13 of Circular No. 2018-16, and

information on governance to be submitted under Annex 9 of Decision No. 2019-20, largely mirror the framework applicable to banks.

Box 6.1. Capital requirements for payment service providers in the EU

The capital requirements for payment service providers are significantly lower in the European Union than in Tunisia.

The EU's Payment Services Directive 2 requires payment institutions to hold between EUR 20 000 and EUR 125 000, depending on the services they provide. For example, the capital requirement for institutions providing money transfer payments is EUR 20 000, while the requirement for institutions providing cash withdrawal services is EUR 125 000.

Source: Payment Services Directive 2, Title II, Chapter 1, Section 1, Article 7.

To conclude, some of the requirements and elements of the process for obtain a licence represent a barrier to entry to the payment services market. Higher capital requirements than other countries, ad hoc provisions, and uncertainty about the length of the process increase costs for applicants. Furthermore, the governance and infrastructure requirements, which are in many respects similar to those for traditional banks, considerably increase the costs for potential applicants. Indeed, BCT's licensing commission confirmed to the OECD that almost all the applications received at the time of writing had a much higher capital than the required TND 5 million. As a result, the licensing process and the required conditions do not seem to favour potential new players – particularly fintech start-ups – which generally do not have the required financial resources.

6.3. Fee structure

Stakeholders interviewed by the OECD said that the combination of the fees charged by the SMT to PSPs to process mobile payments and the cap on the fees that PSPs can charge to their customers risk to make the business model of PSPs not financially viable.

Article 21 of Circular No. 2020-11 states that for fund transfers and for payments made to purchase a good or a service, the maximum fees that PSPs can charge to their customers is equal to either 0.3% of the value of the transaction if the latter is greater than TND 15, or zero if the transaction value is equal or smaller than TND 15. Article 21 also states that the mobile payment system, operated by the SMT, can charge a fixed tariff for such payments (regardless of the value of the transaction).

As a result of Circular No. 2020-11, payment service providers have to provide payments under TND 15 effectively at a loss. As the market is still in its infancy, it is difficult to assess the impact of this regulation. However, it creates two main risks. First, PSPs may focus on higher-value transactions and thus on higher-income segments of the population, ignoring or excluding a segment of the population already unserved by traditional banks. Second, if the provision of payment services is not financially viable, standalone PSPs may be at disadvantage when competing against traditional banks who may cross-subsidise payment services.

6.4. Other restrictions on payment service providers

Other provisions include barriers to competition.

- Pursuant to Article 2 of Circular No. 2018-16, licensed payment service providers must offer services exclusively in local currency and within the country. This limits the range of services that payment services operators can offer, restricting their ability to compete with traditional banks, which can open current accounts in foreign currencies.
- Article 20 of Law No. 2016-48 requires payment service providers to distribute only pre-paid cards issued by banks or *La Poste*. Payment service providers are thus prevented from issuing other payment cards.

6.5. Conclusions

The licensing process for payment service providers creates unnecessary barriers to entry. Law No. 2016-48 introduces capital requirements that are between 12 and 76 times higher than capital requirements for similar service providers in the EU. The process for obtaining licences also appears to be very lengthy and includes ad hoc requirements that increase the discretionary power of the BCT. Finally, Law No. 2016-48 requires that payment service providers have governance structures like those of traditional banks, which increases costs for potential market entrants.

These barriers are likely to discourage smaller firms from applying for licences. In fact, the only firms that have applied successfully are either traditional banks or firms with ties to traditional banks. This has a negative effect on competition and innovation as it reduces incentives for new entrants to compete.

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Notes

[1] ViaMobile is a subsidiary of Menix Holding, a minority shareholder of three listed banks (BIAT, Amen Bank and UBCI). Zitouna Paiements is a subsidiary of Banque Zitouna, which obtained a universal banking licence in 2010 and has grown significantly in recent years (see Chapter 7 for a description of recent entrants to Tunisia's retail banking sector). Wafacash is a subsidiary of Attijari, one of Tunisia's largest banks. Payvago's owners are shareholders of some of the largest Tunisia's industrial groups. Enda cash

is a subsidiary of Enda, Tunisia's largest microfinance institution. The largest traditional banks in Tunisia are financial partners of Enda. The connections between payment service providers and traditional banks weaken their incentives to compete by offering cheaper and more innovative services.

[2] According to Article 21, the insurance company or the bank issuing the guarantee must not be part of the same group to which the payment service provider belongs.

7 Barriers to entry and expansion

Significant barriers to entry and expansion exist in Tunisia's retail banking sector. One of the main challenges for new and smaller banks is acquiring new customers. The weak customer responses observed in the current account and micro, small and medium-sized enterprise lending markets make attracting new customers difficult and expensive. The cost of expanding branch networks is another significant barrier to entry. The limited use of online banking services makes branches essential for attracting and serving customers, but opening new branches is expensive and branch network growth rates have fallen during the past decade.

The entry, or the prospect of entry or expansion, by firms in a market can stimulate competition and mitigate market features that weaken competition. Thus, barriers preventing new firms from entering or smaller firms from growing can significantly harm competition. After discussing recent entries, expansions and exits in Tunisia's retail banking sector, this chapter presents several barriers to entry and expansion. First, it addresses regulatory requirements put in place by Tunisian authorities that providers must satisfy, focusing on authorisation processes. Second, it examines organic barriers that any firm entering the market will face, such as the need for a branch network. Other potential organic barriers to entry in the sector are the cost of IT equipment and access to payment systems (although the OECD did not have access to information to assess whether these represent a significant barrier for new firms). Third, it looks at strategic and first-mover advantages, such as the cost of acquiring new customers.

7.1. Recent entries, expansions and exits

In the past decade, a number of firms have entered Tunisia's retail banking sector. Three Islamic banks have entered the market (Banque Zitouna, Al Baraka and Wifak International Bank) and have organically acquired customers in the current account and micro, small and medium-sized enterprise (MSME) finance markets, although only Banque Zitouna has achieved a significant share of the market. One non-Islamic bank, Banque Franco-Tunisienne, was liquidated. This section provides a brief description of entry and exit trends.

- Banque Zitouna obtained a banking licence in 2010 and offers banking services that are consistent with Sharia law. Despite only 1% of respondents to the OECD consumer survey saying that they had chosen their personal current account (PCA) provider based on religious factors,[1] Banque Zitouna quickly acquired a significant share of customers in both the personal current account (PCA) and business current account (BCA) markets. It also built one of the country's largest branch networks, comprising 177 branches in 2022.[2]
- Al Baraka Bank Tunisia was an offshore bank until 2013, when it obtained an onshore banking licence. Al Baraka Bank Tunisia offers banking services consistent with Sharia law.
- El Wifak Leasing was a leasing company that obtained a banking licence in 2015 and changed its name to Wifak International Bank. Wifak International Bank offers banking services consistent with Sharia law.

No market entry by a conventional bank has occurred in the past decade. The OECD understands that the Central Bank of Tunisia is reluctant to grant new banking licences because of the large number of banks currently operating in Tunisia, which may affect the likelihood that new players will attempt to enter the market. The BCT's rationale for authorising Islamic banks in the past decade was to fill a perceived gap in the banking sector and because some consumers and small businesses may prefer to bank with them. *La Poste* unsuccessfully applied for a banking licence in December 2018.

March 2022 saw the first exit from the Tunisian banking sector since the country's independence in 1956, when Banque Franco-Tunisienne, which was nationalised in 1964, was liquidated.[3] Free entry and exit are an important feature of a competitive market and exit rates are used to measure competition. In fact, in a competitive market, new challengers enter, and inefficient providers leave. However, failures in the banking sector may have significant negative effects on financial stability and directly impact consumers, who may lose their savings, and non-financial markets.

The OECD is not aware of any recent mergers in the banking sector. Nevertheless, there have been several significant changes in the shareholder structure of some banks. In 2018 the then state-owned Banque Zitouna was sold to a foreign investor. Between 2020 and 2022, Tunisian investors connected with large industrial groups became the main shareholders of three publicly listed banks that had previously been owned by foreign entities.

Given the importance of branch networks, expansion of networks is a key factor in a bank's customer acquisition strategy and an important driver of competition, as new branches increase consumers' choice of suppliers, especially in areas where only a few banks have a presence. However, the aggregate growth of branch networks has slowed significantly in recent years, from around 7% in 2013 to less than 1% in 2021 (see Table 7.1). This may be consistent with a weakening of competition in the retail banking sector.

7.2. The bank licensing process

Banking activities are subject to a licence granted by the BCT's *Commission d'Agréments*.[4] Licence applications follow a two-step process involving a preliminary authorisation and a final authorisation.[5] Conditions include, for instance, minimum capital of TND 50 million for banks and TND 25 million for other financial institutions (see Article 32 of Law No. 2016-48). The *Commission d'Agréments* can impose a minimum capital requirement higher than that prescribed by law, depending on the applicant's business plan.

In addition to the initial licence, *Commission d'Agréments* Decision No. 2017-04 requires banks to seek preliminary authorisations from the *Commission d'Agréments* in circumstances involving:

- changes of category and the nature of their activities (Annex 2 of the decision)
- merger or demergers (Annex 3 of the decision)
- transactions involving the sale of a substantial portion of assets or liabilities, resulting in substantial changes to financial structure, category or nature of their authorised activity (Annex 4 of the decision)
- reductions of capital (Annex 5 of the decision)
- transactions exceeding capital thresholds (Annex 6 of the decision)
- concerted action between shareholders resulting in one of the thresholds provided for in Article 34 of Law No. 2016-48 being exceeded (i.e. acquisition of control, or acquisition of 10%, 20%, 33%, 50% or 75% of voting rights; Annex 7 of the decision)
- changes in "sizeable shareholders" following the sale of their stakes of capital (Annex 8 of the decision).

A significant number of banks and financial institutions are active in Tunisia, and a few licences have been granted in recent years. Moreover, legitimate prudential and financial stability objectives appear to largely justify licensing regulation, meaning that the process and conditions for obtaining banking licences do not seem to constitute significant regulatory barriers to entry. However, discussions with stakeholders suggest that the licensing process gives the BCT a level of discretion that may result in delays to decisions on licence applications for certain entities.

7.3. Branch networks

Tunisia's banks rely heavily on their branch networks to attract new customers and serve existing ones. Consumers and small businesses use branches to open accounts, make payments, handle cash and obtain advice. Several banks offer online banking services, although these services typically involve extra fees, and some services, such as account opening, are not always available.

The number of bank branches in Tunisia increased from 1 774 in 2016 to 1974 in 2020. *La Poste* had 1 053 branches in July 2022. At the end of 2019, two banks each had around 11% of branches and the ten largest branch networks (which broadly correspond to the ten largest banks) accounted for around 81% of all branches.

Table 7.1. Numbers of bank branches, 2012-21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of bank branches	1 420	1 518	1 625	1 701	1 774	1 860	1 913	1 945	1 974	1 992
Percentage change (%)	n.a.	6.9	7.0	4.7	4.3	4.9	2.8	1.7	1.5	0.9

Sources: Banque Centrale de Tunisie (2022, p. 59[1]), Rapport Annuel sur la Supervision Bancaire : Exercice 2020 ; Banque Centrale de Tunisie (2021, p. 65[2]), Rapport Annuel sur la Supervision Bancaire : Exercice 2019.

7.3.1. Conditions for opening and operating branches

Circular No. 2006-05 prescribes a list of detailed conditions for already licensed banks to open subsidiaries or branches. These conditions include specific requirements for premises, including a minimum floor area of 75 m^2, an ATM, and a location not in proximity to risky buildings or equipment such as fuel or gas depots. Moreover, branch managers must meet educational and professional experience requirements, while staff should include at least three employees, at least two of whom must always be present during opening hours. These requirements increase the costs of opening branches and may limit the ability of providers to do so. Given the importance of branches to competition, as discussed in Chapter 4, this provision reduces the ability of smaller or newer banks to build branch networks and compete effectively in the market.

7.3.2. The importance of branches to customers

Table 7.2 shows that most current accounts are opened at bank branches (95% of individuals and 98% of MSMEs).

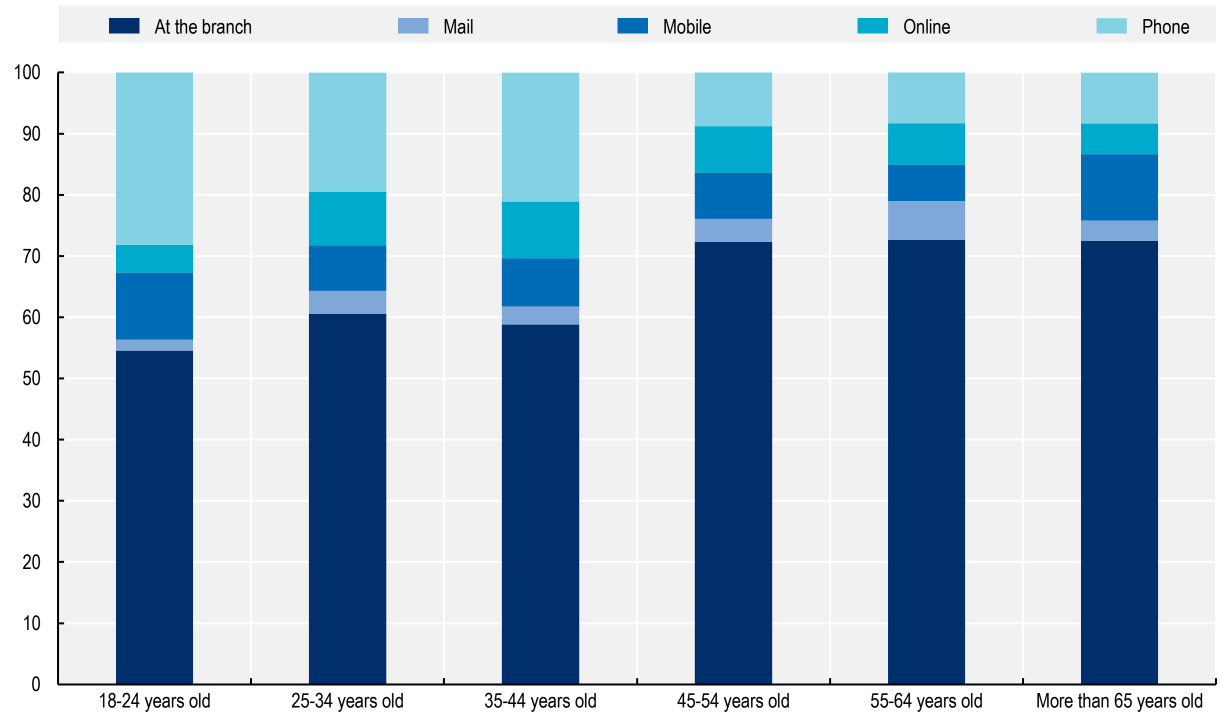
Table 7.2. How customers open current accounts

How customers opened their:	PCA (%)	BCA (%)
At a branch	95	98
Online	1	0
By mail	3	0
Don't remember	1	1
Total	100	99

Note: Total may not add up to 100 due to rounding.
Source: OECD consumer survey (Q6, N=1 089); OECD MSME survey (Q5, N=804).

Also, the most common way to access current accounts is at branches (64% of respondents to the OECD consumer survey).[6] For individuals, preferences on how to access current accounts varied significantly across demographics. For example, younger consumers were more likely to access current accounts using smartphones (see Figure 7.1).

Figure 7.1. Most common ways to access PCAs, by age



Source: OECD consumer survey (Q16 and D1, N=1086).

Proximity to branches was also an important factor that consumers considered when deciding which providers to use, especially among individuals, 35% of whom said the most important reason for choosing a PCA provider was the vicinity of a branch.[7] However, this varied by age, and for younger consumers the most common reasons for choosing providers were fees and the conditions applied to current accounts. The consumer survey also asked whether individuals would like online access to services currently available only at branches, to which 80% said that they would not be interested.[8] Among those saying they would like more online services, 66% said they would like to make and receive payments online and 17% said they would like to be able to open an account online.[9]

Finally, when asked a hypothetical question on what they would do if their most-used branch closed, 46% of respondents to the consumer survey said they would stay with their bank, 34% said they would certainly change banks, and 17% said they would consider changing banks. Just 4% said that they would close their accounts and not open new ones.[10]

7.3.3. The importance of branches to banks

Given that proximity to branches is the most important factor determining customers' choices of providers, banks are unlikely to have customers in areas where they lack branches. Three banks the OECD spoke to said that branch networks were a very important element of their strategies for acquiring new customers and growing market shares in the current account segment. Stakeholders told the OECD that banks made significant investments to build extensive networks. For example, when Banque Zitouna entered the market in 2010, it announced a plan to open 20 branches annually.

There is a high correlation between banks' shares of branches and their shares of the PCA market. However, it is not possible to identify any causal relationship as the banks with the largest shares of the

PCA market are also the banks that have been in the market the longest and which have thus had the greatest opportunity to build large customer bases.

Several stakeholders told the OECD that building and maintaining extensive branch networks is expensive. For example, the *Conseil Bancaire et Financier* and several banks said that the salaries of bank employees working at branches are one of the most significant drivers of costs. This represents a barrier for banks entering the market or seeking to grow their business.

7.3.4. Conclusions on branches

Banks rely on branches to serve existing customers and attract new ones. Consumers and small businesses use them to open and manage their accounts. The limited take-up of online banking in Tunisia makes branches the only meaningful distribution channel, and they are expensive to open and manage. This increases costs, especially for smaller or newer banks that want to attract new customers.

Several supply- and demand-side factors may contribute to this. The results of the survey suggest that consumers may prefer using branches to manage their accounts. However, these responses need to be treated with caution, as it may be difficult to assess ways to use current accounts that are rare or unavailable. Figure 7.1 shows that younger generation customers are more likely to use online banking services, but the pace of change is slow. The factors that weaken competition described in the previous chapters are likely to reduce incentives to innovate and offer newer and alternative ways to access banking services. This is consistent with the limited take-up of mobile payments. Finally, the OECD is not aware of any regulatory provisions requiring customers to use branches.

7.4. Low consumer engagement

Acquiring new customers is one of the main challenges for new and smaller banks due to the small size of Tunisia’s market, its low banking penetration rate, and low consumer engagement. The factors described in Chapter 4 show that the markets for current accounts are characterised by low consumer engagement and that customers have only limited ability to respond to changes in price or quality.

Chapter 4 identifies many barriers to customers shopping around and to closing and switching accounts. Awareness of fees is low and the tools available to customers to shop around and compare providers are limited. Customers also face significant barriers when closing accounts and switching to new providers. Current account providers may make it difficult for customers to close accounts and some banks may also charge fees (for example, consumers typically need to repay their loans when switching current account providers, and banks typically charge early repayment fees on loans). These factors make individuals and MSMEs less likely to respond to differences in prices or quality, reducing incentives for banks to compete. As a result, it is costly for new entrants and small banks to acquire new customers, and the high cost of acquiring new customers represents a barrier to entry and expansion.

7.5. Conclusions

The challenges of building branch networks and low consumer engagement are the most significant barriers to expansion in Tunisia’s retail banking sector. Given the importance of branches to consumers and the relatively scarce use of online banking, building extended branch networks is an essential part of banks’ growth strategies and a key driver of competition. For example, Banque Zitouna has gained significant market share by building an extensive branch network. However, this represents a significant cost for newer and smaller banks.

Low consumer engagement is also a significant barrier. Chapter 4 shows that consumers possess limited tools for accessing and comparing information on prices, and that they face barriers to closing and switching current accounts. This makes it hard for a new and smaller bank to attract customers.

References

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Notes

[1] OECD consumer survey (Q10, N=1086).

[2] Meeting with Banque Zitouna.

[3] Its 7 500 customers and depositors are covered up to TND 60 000 by the *Fonds de Garantie des Dépôts Bancaire* (FGDB), or Bank Deposit Guarantee Fund; (Web Manager Center, 2022[3]).

[4] Article 25 of Law No. 2016-48.

[5] The conditions for obtaining licences are set out under Section 2 of Law No. 2016-48 and further detailed in two decisions by the BCT's *Commission d'Agréments*: Decision No. 2017-04 and Decision No. 2019-20.

[6] OECD consumer survey (Q16, N=1086).

[7] OECD consumer survey (Q10, N=1086).

[8] OECD consumer survey (Q17, N=1086). This question is hypothetical, so the interpretation of the responses must be cautious.

[9] OECD consumer survey (Q18, N=215).

[10] OECD consumer survey (Q45, N=850).

8 Summary of findings

Although Tunisia’s retail banking sector delivers vital services to consumers and businesses, this report identifies several areas in which competition is not working as well as it could. The report finds several features of the market that weaken competition, limiting the ability of banks to compete and the ability of consumers and small businesses to exert competitive demand-side pressure on banks. The report also identifies several regulatory provisions that reduce banks’ incentives to compete.

This chapter brings together the key findings of the market study and competition assessment, forming the basis for a discussion of the recommendations. It summarises the market outcomes emerging from the analysis and their key drivers, starting from those more likely to negatively affect competition and create harm to consumers.

The report finds that the market delivers for many consumers. However, while there are undeniably a range of prudential and public policy objectives to consider in relation to banking services, competition is not as strong as it could be in a number of areas, creating a market that does not function as well as it should and leading to worse outcomes for consumers and small businesses than could be the case.

8.1. Market structure and regulatory framework stifle competition

Competition between banks in Tunisia is not as vigorous as it could be, and there is a risk of co-ordinated conduct among them. Several legal provisions, market practices and ownership structures may facilitate the sharing of commercially sensitive information and the monitoring of price strategies. For example, Article 34 of Circular No. 1991-22 states that banks need to consult with the banking association before introducing new fees. This increases opportunities for banks to share information, making it easier for them to operate in a co-ordinated manner rather than competing. Stakeholders interviewed by the OECD said that banks indeed tend to share their plans to increase fees on financial products with competitors. Such communications are likely to undermine incentives for banks to compete vigorously. Section 3.4 also discusses elements of the codes of conduct designed by the CBF such as principles of fair competition vis-à-vis other banks and restrictions on hiring rival banks' personnel that weaken competition. The OECD has also been made aware of at least two separate allegations that banks have engaged in illegal conduct in relation to information sharing. It is not the role of this report to assess these allegations, but the OECD recommends that the allegations should be considered by the appropriate authorities, as well as a broader strengthening of the role of the competition authority in the sector.

The existence of connections among listed banks reduces banks' incentives to compete vigorously. Sections 3.2 and 3.3 show that large domestic industrial groups are shareholders in several listed banks and that, in some instances, listed banks have minority shareholders in common. Sections 3.2 and 3.3 also show that the boards of listed banks include individuals connected to common shareholders. The connections shown in Section 3.3 are an underestimate of the actual prevalence of such linkages, as information on non-listed banks and on informal connections between directors was not available. The OECD was also unable to assess the impact on competition of common ownership and interlocking directorates. However, the economic literature suggests that these connections may reduce banks' incentives to compete and increase the risks of co-ordinated conduct, leading to higher prices, lower quality and lower levels of innovation.

The large presence of the state in the banking sector does not increase incentives to compete. State-owned banks seem to be less efficient than other listed banks and have higher proportions of non-performing loans. Furthermore, stakeholders interviewed by the OECD said state-owned banks are still used by the government to fund state-owned enterprises and typically follow the strategies of other large banks, for example when setting or changing fees.

The analysis found several instances in which regulatory oversight by the Central Bank of Tunisia has been inconsistent. The OECD understands that at least some banks do not comply with many legal provisions requiring disclosures of fees to consumers or limiting the total sums loaned to related borrowers. Although in 2016 legislation was introduced to slow the trend of increasing bank fees and increase transparency around tariffs, the OECD understands that these consumer protection safeguards have not yet been enforced with the required rigour. The OECD has been informed that the BCT has already prepared a draft circular to provide a framework for commercial and pricing practices. The aim of the circular is to guarantee commercial conduct in the interests of customers and to ensure that customers are provided with clear information throughout the marketing phases. The adoption of this text should enable the BCT to devise a disciplinary procedure for offenders breaching the reporting and transparency obligations on products offered and conditions applied to consumers as per Article 84(1) and Article 84(2) of Law No. 2016-48 that gives the power to BCT to impose fines. The fact that BCT enforces this provision systematically should increase the incentives for market players to comply with regulation. Limited control and a lack of sanctions for regulatory breaches create the risk of fostering or worsening an uneven playing field, particularly with respect to incumbent banks and potential new entrants.

The evidence shows market outcomes that are consistent with weak competition. Fees on current accounts have increased over the past decade or more. The *Observatoire de l'Inclusion Financière* has calculated that fees on current accounts increased 67% between 2010 and 2017 in nominal terms. OECD analysis of data provided by the BCT found that between 2015 and 2021, revenues per account increased above the rate of inflation in three out of five years, or 65% in nominal terms. Over at least the past decade, banks' overall profitability has increased steadily. In addition, consistent with the limited incentives to compete described above, listed prices advertised on banks' websites do not vary significantly between lenders. Finally, innovation in the finance sector has been low, for example as shown by Tunisians' very low take-up of online banking and mobile payments.

Finally, co-operation between the Competition Council and the BCT is very limited. This hinders the ability of the *conseil* to stop potentially anti-competitive practices, limits its advocacy role when new regulation is introduced, and ultimately risks reducing compliance with competition law.

8.2. Customer engagement is low

For competition to work well, customers must be sufficiently well informed to buy products or services offering the best value for money. Several aspects of consumer behaviour are important drivers of competition. Consumers need to be sufficiently aware to consider shopping around, and they need to be able and willing to access and understand information on features of products and assess their characteristics to identify the most suitable products. Consumers must also be able and willing to choose, or switch to, their preferred products. And finally, firms need to perceive consumers as likely to act on better offers to have incentives to make such offers. If consumers do not engage with products and if banks expect them not to act, incentives to compete are weakened, which may result in higher prices and poorer quality.

Evidence shows that the engagement of consumers and small business in Tunisia's retail banking sector is low. In the market for current accounts, four in five consumers and two of three small businesses do not compare fees when opening accounts, and two out of three consumers in the OECD's consumer survey said they did not know how much they paid. Only 3% of consumers and 4% of small businesses had switched current accounts in the previous year. When seeking finance, small businesses tend to use their current account providers.

Many factors may contribute to this. Consumers and small businesses may find it costly to gather, understand and act on information about financial products. In addition, firms have incentives to weaken competition and make it more difficult for customers to shop around. For example, evidence shows that banks in Tunisia do not make it easy for consumers to find comparable, meaningful information on fees, and that no tools are available to help consumers, such as price comparison websites for current accounts. Banks also create monetary and non-monetary barriers to closing accounts, which ultimately reduces the ability of customers to switch, undermining competitive pressure on banks to lower prices or improve service levels. For example, the process of closing a current account is slow and uncertain, as banks do not always close accounts promptly upon being instructed to do so. In some instances, banks also require the payment of fees for account closures, which may discourage customers from switching.

The report also finds that the existing mediation mechanism is largely unused and ineffective. In 2020, only 301 complaints were made and, of these, only 17% reached a resolution. The OECD's consumer survey indicated that fewer than one in three individuals was aware of the service and, among those who were aware of it, 18% said they did not use it because they did not expect any benefit, with 15% describing the process as cumbersome. A potential cause of the ineffectiveness of the service is a lack of actual and perceived independence among mediators, who are appointed by the banks (see Section 3.5).

Regulation and market practices that make individuals and micro, small and medium-sized enterprises (MSMEs) less likely to respond to differences in prices or quality also represent a barrier to entry and expansion. Customer inactivity and the inability to choose preferred products and providers increases costs for new entrants and costs for smaller banks seeking to acquire new customers.

8.3. Limited lending to MSMEs

The proportion of lending to MSMEs is low, and surveys have consistently found that access to financing and its costs are a major obstacle to their growth. Chapter 5 provides an assessment of competition in the market for bank lending to MSMEs.

The limited availability of granular data did not allow an accurate assessment of market concentration levels. However, analysis of aggregate data suggests that the market for business loans is concentrated, with the five largest banks accounting for 70-75% of all lending in 2021, if state-owned banks were considered as separate entities. The aggregate share of the five largest banks was much higher when state-owned banks were treated as a single entity. The market shares of these banks have been stable over at least the past decade.

The results of the OECD's MSME survey show the importance of relationship lending and MSMEs' limited propensity to shop around for financial products. Establishing banking relationships was an important reason for choosing particular business current account (BCA) providers, and for around 45% of small businesses, their BCA providers were their only finance providers. MSMEs were more likely to seek and obtain finance from their existing BCA providers for a variety of reasons. They may value the convenience of using their BCA providers as a one-stop provider for all their financial needs. MSMEs may also face high costs to shop around and compare fees and conditions for loan products among providers. MSMEs may also place significant weight on their banking relationships with their BCA providers because they perceive they may be more likely to be able to access financing. In fact, BCA providers typically have more information about the credit and payment histories of their customers and may be able to better price risk for existing customers to finance more quickly and cheaply. The MSME survey also showed that MSMEs applying for financing from their BCA providers were less likely to compare fees and conditions associated with loan products. This reduces the competitive pressure that small businesses could exert on finance providers.

The lack of a private credit information bureau can exacerbate the information advantages enjoyed by larger banks and further increase small businesses' costs of shopping around for credit and switching banks, especially for newer customers, which are more likely to use single financial services providers. In Tunisia, information on MSMEs' credit histories is available from the BCT, but stakeholders said that this information is limited, for example because it does not include information on individuals or enterprises that have never used loan products. The lack of tools for sharing accurate credit information reduces the ability of lenders to make accurate lending decisions, reduces the ability of smaller banks to compete, and increases borrowers' switching costs. The BCT has slowly introduced a framework to regulate private credit information bureaus that includes burdensome requirements, such as unnecessarily high capital requirements, that stifle entry (see Section 5.5).

The analysis also shows that Tunisian banks rely heavily on collateral when granting loans. According to the World Bank Enterprise Surveys, the average collateral requested of MSMEs in Tunisia is almost 300% of loan value, the highest among the countries in the World Bank's enterprise surveys dataset (see Figure 5.8). A factor contributing to this may be the cap on lending interest rates, which aims to protect vulnerable customers but prevents banks from accurately pricing risk. The effect of the cap is likely to vary between banks. Smaller providers, which may have higher financing costs, seem to price on average closer to the cap than larger banks. In some periods, the average interest rates charged by some banks on some lending products is equal to the cap, implying that the cap is binding for all loans in that category that are granted during that period (see Section 5.3.1).

Several stakeholders interviewed by the OECD shared concerns about practices of banks favouring related borrowers. (OECD, 2022[1]) found that in 2019, five industrial groups controlled more than 60% of the turnover of the most important private companies in Tunisia. These five industrial groups also have direct links to banks, a situation that has the potential to reduce access to credit for firms not connected to these groups. Stakeholder evidence suggested that this may be affecting lending for many companies. Section 5.2.3 shows that state-owned banks and banks controlled by Tunisian industrial groups account for around three-quarters of business loans, a significant proportion of total loan volume. Although the regulatory framework in Tunisia contemplates safeguards to mitigate these concerns, according to annual reports, at least three large banks have exceeded the limit on lending to connected parties imposed by Circular No. 2018-06. Given the lack of granular data, the OECD was not able to analyse the effects of this issue in detail but notes the significant potential for links between banks and industrial companies to affect lending in the wider economy.

The circular introduced by the BCT to rein in these practices and enforce a limit on the volume of lending to related borrowers is not as effective as it could be. Evidence suggests that some banks do not comply with these measures, either exceeding the threshold or by engaging in agreements with other banks to lend to one another's related parties.

Finally, stakeholders described informal decision-making mechanisms, especially at banks controlled by Tunisia's large industrial groups, which could reduce the importance of boards and increase large industrial groups' influence over banks.

8.4. Unnecessary regulatory restrictions on payment service providers

The licensing process for payment services providers creates unnecessary barriers to entry. Some of the requirements and elements of the process, such as higher capital requirements than other countries, ad hoc provisions, and uncertainty about the length of the process, increase the costs of obtaining licences and limit market entry. For example, Law No. 2016-48 introduces capital requirements that are between 12 and 76 times higher than the capital requirements for similar service providers in EU countries, and the length of process and ad hoc requirements increase the discretionary power of the BCT. Law No. 2016-48 also requires that payment service providers operate governance structures like those of traditional banks, which increases costs for potential entrants.

These barriers are likely to discourage smaller firms from applying for licences, and they risk favouring affiliates of existing banks. In fact, the only providers that have successfully applied for licences are either traditional banks or institutions with ties to traditional banks. Three of the four establishments that have been licensed by the BCT so far are directly linked to banks, while the fourth is linked to a microfinance institution. This has a negative effect on competition and innovation as it reduces incentives for new entrants to compete and eliminates players that could vigorously compete with traditional banks. Section 6.2.2 highlights the fact that banning fees for mobile payments below TND 15 may result in payment services providers excluding customers that are more likely to make small payments.

Tunisia is home to 22 banks, yet a large proportion of its population is not served by them. Two-thirds of individuals do not have personal current accounts and three in four do not have savings accounts. High fees are one of the reasons why individuals remain unbanked. Mobile payment providers have boosted competition and financial inclusion in other developing countries, but regulation in Tunisia risks excluding independent providers that could challenge established banks, reducing innovation and the provision of newer and cheaper banking services.

8.5. Other findings

The analysis finds that Tunisia's geographical markets are local, and that competition is defined by the density of banks' branch networks, upon which consumers and small businesses rely to open and manage their accounts. Customers are very unlikely to choose banks that do not operate branches nearby, and banks have competed by extending their branch networks. However, the growth rate of branch networks has fallen significantly, which is consistent with a weaking of banks' incentives to compete. A few banks have recently started to offer online banking services (often at an additional cost), but take-up of online banking services remains very limited.

The cost of building branches is significant and represents a barrier to entry and expansion for smaller and newer banks. Consistent with the slow pace of growth of banks' branch networks, shares of the current account market and of the bank loan market have been very stable since at least 2015 (see Sections 4.3 and 5.2.2).

The report also discusses the role of *La Poste Tunisienne* in the retail banking sector. *La Poste* plays an important role by offering cheaper banking services and increasing financial inclusion in Tunisia. However, its lack of a banking licence prevents it from providing a full range of financial products. National postal operators have played an important role in boosting financial inclusion in many countries, as they are more likely than traditional financial institutions to serve clients with lower incomes, lower levels of education and who are more likely to be unemployed. Given *La Poste*'s extensive branch network, the fact that its fees are lower than those of banks, and its high market share among young people, it has the potential to exert significant competitive pressure on traditional banks. However, this potential is hindered by its lack of a banking licence.

The report also discusses the low usage of cards to make payments. Around one in five individuals have card to make payments, but even those who have them do not use them often. High fees seem to be one of the reasons for the low take-up. According to the OECD's consumer survey, around 30% of individuals without cards said they would obtain one if fees were substantially lower. The small number of merchants accepting cards is another potential reason for low card usage. Around 40% of respondents to the consumer survey said they would be more likely to use payment cards if more shops accepted them. However, the high cost of card payment processing equipment may be preventing merchants from accepting cards. High fees for consumers and for merchants may be partly due to existing market practices whereby banks, via the *Societé Monétique Tunisie*, source cards and other services from a single provider. This increases costs, which banks then pass on to consumers.

References

OECD (2022), "OECD Peer Reviews of Competition Law and Policy: Tunisia", https://www.oecd.org/competition/oecd-peer-reviews-of-competition-law-and-policy-tunisia-2022.htm. [1]

9 Recommendations

The OECD proposes four packages of recommendations. First, a package of measures to strengthen incentives for banks to compete. This includes recommendations to reform the banking association, to strengthen the role of the *Conseil de la Concurrence*, to increase the independence of banks' board members and to reconsider the role of the state in the retail banking sector. Second, a package of measures to increase customer engagement. This includes recommendations to empower customers to access, assess and act on information, and to reform the mediation mechanism to provide consumers and businesses with an effective means of making complaints. Third, a package of measures to improve competition in the market for MSME finance. This includes recommendations to increase MSMEs' ability to make informed decisions about loan products and to increase banks' ability to assess and price risk, reducing risk aversion. Finally, the OECD proposes a package of measures to eliminate unnecessary regulatory provisions that stifle competition in the payment services sector.

Competition in Tunisia's finance sector should be encouraged. Effective competition is vital to markets working well and a well-functioning banking sector is critically important to consumers and businesses. Competition in the retail banking sector needs to be effective to promote financial inclusion and to support private sector investment. However, the findings of this report highlight several areas in which competition is not working as well as it could for consumers.

This chapter sets out the OECD's recommendations to address the underlying drivers of market outcomes described in the previous chapter. The expected benefits arising from the recommendations amount to around EUR 325 million annually in terms of lower prices and interest rates for consumers and businesses, which corresponds to around 0.8% of Tunisia's 2021 GDP. These figures likely underestimate the full benefits because it was not possible to quantify the effects of all individual recommendations due to the limited availability of detailed data. They also exclude the dynamic benefits of competition, which can be substantial, but which are difficult to estimate.

9.1. Prioritisation of the recommendations

The OECD's recommendations are grouped into several packages aimed at improving competition in Tunisia's retail banking sector. Sub-optimal market outcomes arise from a combination of many drivers, and it is the interaction between market practices, consumer behaviour and regulation that determines outcomes for consumers. Thus, the packages of recommendations tackle these different elements. The recommendations are based on the OECD's understanding of how the market works and rely on extensive discussions with Tunisian and international stakeholders.

The OECD recognises that some of the recommended measures will be easier and quicker to implement than others, which may require complex trade-offs between, for example, competition and other public policy objectives. Similarly, some recommendations are likely to deliver more significant benefits for consumers than others.

The recommendations in each package are therefore listed in order of suggested priority, starting with those that can generate the most significant consumer benefits. However, recommendations of lower suggested priority still have the potential to deliver substantial benefits for consumers. Some of the recommendations are mutually reinforcing, making it important to emphasise that many of their benefits will be realised only when they are implemented together, and it is therefore strongly advisable to consider all of the packages holistically. The order of the packages of recommendations does not reflect their relative importance.

9.2. The principles

To make its recommendations, the OECD followed the following broad principles:

- Businesses should have the ability and the incentives to compete.
- Individuals and small businesses should be able to shop around easily, compare current accounts, and make informed decisions to stay with their providers or switch to new ones as easily as possible. Similarly, small businesses should be able to shop around and compare financial products among lenders.
- Regulation should be proportionate to address market failures without creating unintended consequences that hinder competition.

Building on these principles, the next sections present the four packages of recommendations:

- Measures to strengthen banks' incentives to compete. These include recommendations to reform the CBF, to strengthen the role of the Competition Council, to strengthen the independence of banks' board members, to reconsider the role of the state in the retail banking sector, and to strengthen regulatory oversight throughout the financial services sector.

- Measures to increase customer engagement. These include recommendations to empower consumers to access, assess and act on information.
- Measures to improve competition in the market for MSME finance. These include recommendations to improve the ability of MSMEs to make informed decisions about loan products and to improve lenders' ability to share and access credit information on existing and prospective customers, and to improve creditors' rights. This package also recommends creating an independent commission to investigate the effects of cross-ownership between financial and non-financial entities.
- Measures to eliminate unnecessary regulatory provisions that stifle competition in the payment services sector. These include recommendations to remove regulatory barriers to entry and expansion in the sector.

9.3. Measures to strengthen incentives of banks to compete

The implementation of these measures will have a positive effect on the three services that form the focus of this review, as they address market features and practices weakening banks' incentives to compete, leading to higher prices, lower quality, and limited innovation throughout the retail banking sector.

9.3.1. Reform the Conseil Bancaire et Financier

Vigorous competition is essential for markets to work well for consumers. To mitigate the risk of anti-competitive practices arising from interactions among members of the banking association, the OECD recommends:

- Abolishing the requirement that banks consult the CBF, on the introduction of new fees and the requirement that the CBF act as an intermediary between its members and the Central Bank of Tunisia when introducing new fees. These practices should be forbidden, as they provide an opportunity for monitoring rival banks and co-ordinating price strategies, and risk making the CBF a platform that facilitates co-ordination among banks.
- Collaborating with the Competition Council to identify clearly what the CBF and its members should and should not do. For example, the CBF generates value by bringing together financial institutions to discuss trends, challenges and opportunities common to its members. However, the CBF should not facilitate the sharing of commercially sensitive information, such as discussions of pricing strategies or plans to introduce new services.
- Abolishing the requirement that financial institutions and banks join the CBF.
- Eliminating restrictions on hiring rival banks' personnel specified in codes of conduct. In particular, the OECD recommends removing the requirement to inform employers immediately after recruitment, to co-ordinate among banks before an employee moves to a new employer, and to refrain from assigning executives and operational managers to the same area in which they previously worked for rival banks for a period of two years in order not to harm the interests of their previous employers by soliciting clients.

9.3.2. Strengthen the role of the Conseil de la Concurrence

The OECD reiterates the benefits that competition in the finance sector can bring to individuals and businesses and reiterates its recommendations to remove sector exceptions in merger control (OECD, 2022[1]). The 2022 OECD Peer Review of Competition Law and Policy in Tunisia recommended improving co-operation between the Competition Council and sector regulators such as the BCT, including through drafting formal co-operation agreements to facilitate exchanges of information and open up direct channels of communication. The review also recommended that sector regulators consult the Competition Council on competition-related matters. The OECD reiterates the recommendations of the peer review to remove sector exceptions in merger control and centralise merger control powers within a single competition authority, with the possibility of seeking opinions from sector regulators.

The OECD also recommends strengthening the role of the Competition Council in financial services by:

- Introducing a requirement that the BCT consult the *conseil* when introducing new regulation (such as circulars) to obtain its opinion on potential impacts on competition. Such consultations should be caried out via a transparent process, with clear and realistic timelines and outcomes (e.g. the process should specify what occurs when the *conseil* identifies potential restrictions on competition in new circulars).
- Including the *conseil's* representation on the BCT's *Commission d'Agréments*.
- Organising periodic training programmes on competition law. The OECD recommends that the *conseil* collaborate with the CBF to increase awareness of and compliance with competition law.
- Increase the advocacy activity of the *council*, especially in the financial services. Box 9.1 lists several examples of campaigns run by competition authorities.

Box 9.1. Competition advocacy initiatives

Competition authorities engage in advocacy initiatives to raise awareness of the benefits of competition, promote a competitive market environment, and increase awareness of competition law and the risks associated with non-compliance, all of which may discourage businesses from engaging in anti-competitive practices. Competition advocacy may also encourage pro-competitive regulatory reforms by removing unnecessary regulation or adopting more competition-friendly legislation. Several examples of campaigns by competition authorities are listed below:

- The UK Competition and Markets Authority's "Online Rip-off Tip-off" campaign in 2022 educated consumers about certain unfair sales tactics in digital environments, such as drip pricing, pressure selling, subscription traps and fake reviews.
- The UK Competition and Markets Authority's "Cheating or Competing?" campaign, launched in 2020, focused on cartel conduct.
- The Portuguese *Autoridade da Concorrência*'s "Fair Play" campaign in 2014 explained the benefits of competition to businesses and highlighted the risks of non-compliance. The campaign also included best practices related to trade associations and anti-competitive agreements in labour markets.
- The Australian Competition and Consumer Commission's annual awareness campaign on scams encourages consumers to be alert for swindles and fraud.

9.3.3. Strengthen the independence of banks' board members

The independence of boards of directors, measured as a ratio of the independent directors to the total number of directors, is likely to mitigate the effects of common ownership and interlocking directorships, and to limit the control that large industrial groups may exert over banks. Boards of directors with larger numbers of independent members are less likely to take into account the interests of common investors or be influenced by directors linked to other banks.

Independent boards are also likely to mitigate the negative effects of informal decision-making processes that appear to characterise plans made by listed banks controlled by Tunisia's large industrial groups. Independent directors may also be less likely to favour related borrowers.

The OECD recommends strengthening corporate governance within banks. The OECD does not have best practices for corporate governance at banks, but it recommends following the principles of corporate governance for banks published in 2015 by the Bank for International Settlements (Bank for International Settlements, 2015[2]). Several of these principles are already enshrined in Tunisian regulations. Nevertheless, it is useful to recall some of them and to ensure their strict application, in particular:

- The requirement that the chair of the board is an independent non-executive member. A non-executive member of the board does not have any managerial responsibility within the bank, and is not under any other undue influence, internal or external, political or ownership-related, that would impede the board member's exercise of objective judgment. A non-executive member of the board is not an employee of the bank and may receive a fee for their services.
- The prohibition on chief executive officers being members of boards of directors.
- The requirement that committee chairs are independent non-executive board members.
- The requirement that each committee have a majority of independent non-executive members. Currently, Tunisian legislation stipulates that two of the three special committees (audit, risk, and appointment and remuneration) are chaired by independent board members.
- Strengthening the selection process to ensure the independence of non-executive members.

To improve transparency relating to the ownership structures of listed and non-listed banks, the OECD also recommends:

- Introducing reporting requirements for all (listed and non-listed) banks on minority shareholders to disclose lists of shareholders to the Competition Council and to notify any increase to 5% or more in the shareholdings of other financial services companies.

9.3.4. Rethink the role of the state in the financial sector

Section 3.1 discusses the presence of the Tunisian state in the retail banking sector and the potential risks that entails. The OECD acknowledges the importance of state intervention in cases of market failures and as required by public policy objectives. It also recognises that state-owned development banks may be beneficial means of helping smaller businesses, in particular in overcoming information asymmetries and accessing finance. However, the participation of the state in universal banks may hinder banks' incentives to compete and innovate, creating an uneven playing field if state-owned banks are – or are perceived to be – less likely than others to fail. State-owned banks may also favour state-owned enterprises in non-financial industries, for example by providing finance on more favourable terms.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises make clear that there should be a clear rationale for state ownership, and that the objectives justifying state ownership should be carefully evaluated and disclosed. The guidelines also state that these objectives should be reviewed regularly. In line with these guidelines, the Tunisian state should define the rationale for owning banks and review it regularly. The state should also develop and disclose any public policy objectives to which these banks are subject.

If the state decides to end its participation in universal banks, the OECD has recently developed good-practice guidance entitled "A Policy Maker's Guide to Privatisation" (OECD, 2019[3]), which provides insights on the process of privatising state-owned enterprises. The guide proposes guiding principles, measures to undertake before divesting, best practices to organise the process of privatisation, and steps to take post-privatisation. Among other things, the divestiture process should give careful consideration to the potential to exacerbate the risks to competition highlighted in this report, such as those related to common ownership or to extensive ties between banks and large domestic industrial groups. For example, prospective buyers of state-owned banks should not be investors with ties to other banks or large industrial groups.

As part of its assessment of the role of the state in Tunisia's retail banking sector, the OECD recommends considering the role of *La Poste Tunisienne*. *La Poste* is already an important player in the current account and savings markets, and was among the first providers to introduce mobile payments. In addition, *La Poste*'s extensive branch network and relatively low fees for banking services make it an essential institution for increasing both competition in Tunisia's retail banking sector and financial inclusion. See Box 9.2 for a description of the role of national postal operators to increase financial inclusion in MENA countries.

Box 9.2. Postal operators and financial inclusion in MENA countries

Postal operators in Middle East and North Africa (MENA) region countries have extensive branch networks that are often larger than those of banks, especially in rural areas. Postal operators offer financial products in several MENA countries, including current accounts, savings products, payment services, insurance and credit products.

The Universal Postal Union identifies a number of key factors that make postal operators successful in increasing financial inclusion. These factors are: branch network size (particularly in rural areas), expertise of personnel, financial viability, consumer trust, digitalisation of internal processes, high-quality risk management processes, political support, legislative frameworks, and the ability to attract customers (Universal Postal Union, 2016[4]).

Morocco's Al Barid Bank

Al Barid Bank (ABB), a financial subsidiary of Morocco's postal operator, was created in 2007 and obtained a banking licence in 2010 after a three-year transformation period. ABB is regulated by Morocco's central bank and has a mandate to improve financial inclusion with a focus on rural areas. According to (World Bank, 2012[5]), the Moroccan postal operator hired new management teams with retail banking expertise, it partnered with credit providers, and invested in hardware and software upgrades for its IT systems.

ABB initially offered savings products and payment services, and then overdraft and mortgage products, aimed at lower-income borrowers. (World Bank, 2014[6]) indicated that ABB had been particularly successful in offering payment services, accounting for around 80% of domestic payments.

Sources: Asian Development Bank Institute (2018[7]), Postal Savings – Reaching Everyone in Asia, https://www.adb.org/publications/postal-savings-reaching-everyone-asia; World Bank (2012[5]), Can Postal Networks Advance Financial Inclusion in the Arab World?, https://openknowledge.worldbank.org/entities/publication/604920f6-e285-5eb0-97ea-6ecb3b8e783a; Universal Postal Union (2016[4]), Global Panorama on Postal Financial Inclusion 2016, https://www.upu.int/en/Publications/Financial-inclusion/Global-Panorama-on-Postal-Financial-Inclusion-2016; World Bank (2014[6]), Enhancing Financial Capability and Inclusion in Morocco A Demand-Side Assessment, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/936861468051895341/enhancing-financial-capability-and-inclusion-in-morocco-a-demand-side-assessment.

La Poste's lack of a banking licence hinders its ability to offer a realistic alternative to the country's banks, especially for consumers and businesses that want to access credit. For example, evidence suggests that Tunisian consumers often open current accounts with *La Poste* and then switch to banks when they need credit. Stakeholders mentioned several challenges in granting *La Poste* a banking licence. For example, savings held in postal savings accounts are managed by the Ministry of Finance, which pays *La Poste*'s customers a fixed per annum rate of remuneration. The OECD understands that granting a banking licence to *La Poste* would potentially require its corporatisation (it is currently a department within the Ministry of Telecommunications) and changing the way in which deposits in postal accounts are managed.

In light of the above, the OECD recommends designing a medium-term strategy leading to the issuance of a banking licence to *La Poste*. The strategy should include a plan to either train personnel or hire new personnel with retail banking expertise, to ensure the financial viability of the new entity, and to improve its risk management processes to standards comparable with those of other financial institutions. The strategy should also include a clear business plan that aims to maintain *La Poste*'s status as an energetic competitor in the industry. The OECD acknowledges that this medium-term recommendation involves several risks. In fact, in absence of other changes, it would increase the presence of the state in the retail banking sector, and there is a risk that *La Poste*, once it has obtained a banking licence, could align its conduct with that of other banks.

9.3.5. Encourage consumers to use online banking services

The report shows how the reliance of banks and consumers on branches reduces the choice of providers available to consumers. Consumers in rural areas have fewer alternatives than consumers in urban areas and may need to travel long distances to access banking services. The OECD considers that a greater availability of online banking services could increase the range of providers available to consumers, reduce the costs of attracting new customers for smaller and newer banks, and reduce costs for consumers that prefer to use their accounts online. Thus, the OECD recommends encouraging the online opening and management of current accounts, for example by providing banks with lower-cost alternatives to the existing electronic signature certification process. The OECD also recommends that the BCT develop a media strategy to promote the use of online banking.

9.3.6. Strengthen regulatory oversight

The report presents several areas in which either the BCT lacks tools to enforce existing consumer protection regulation or additional consumer protection safeguards are needed. The BCT's actual and perceived limited supervision and enforcement reduces incentives for banks to comply with regulation.

The OECD recommends:

- Adopting implementing rules for Article 84(1) and Article 84(2) of Law No. 2016-48 to make use of powers of sanction to enforce consumer protection rules.
- Strengthening the enforcement of existing prudential and consumer protection regulation. The list below includes several circulars the OECD understands are not enforced, at least not consistently.
    - Circular No. 2018-06, which limits banks' exposure to related borrowers or to multiple borrowers belonging to the same industrial group (as described in Section 5.2.3).
    - Article 2 (d) of Circular No. 2006-11 requiring banks to notify account holders of changes in fees at least 45 days in advance.
    - Article 3 of Circular No. 2006-12, requiring banks to adopt a communications policy based on the principles of transparency.
    - Article 37 of Circular No. 91-22, which requires banks to publish fees and terms in brochures made available to customers.
    - Article 2(1) of Circular No. 2006-12, prescribing that banks set maximum time limits for closures of accounts and strictly adhere to them.

9.3.7. Eliminate competitive bottlenecks in the payment card supply chain

The OECD recommends requiring the *Societé Monétique Tunisie* (SMT), which processes card payments, to choose providers of services related to issuing and acquiring cards (such as the provision of plastic cards) via a public tender. The OECD understands that *La Poste* uses a different provider of plastic cards from the one used by banks via the SMT and considers that introducing effective competition in this market segment could lower costs for banks and yield savings that could be passed on to consumers.

9.3.8. Additional considerations

Retail financial markets are often characterised by high actual or perceived switching costs and high levels of consumer inaction. Chapter 4 shows that financial services in Tunisia are no exception and that very few individuals and MSMEs shop around before opening current accounts. Consumer inaction weakens competition because it reduces incentives for firms to offer better deals and innovate, and it also represents a barrier to entry and expansion for new providers. In fact, low switching rates reduce the pool of customers available to providers that want to increase their market share.

Many countries have introduced regulatory initiatives to reduce barriers created by consumer inaction. In 2016 the EU implemented the Payment Services Directive 2, aimed at enhancing competition by granting access to customer banking data for non-bank licensed payment service providers and account information services. A similar scheme has been developed in the UK (see Box 9.3). A 2022 survey of the OECD shows that 20 OECD countries have introduced similar data-sharing arrangements (OECD, 2023[8]).

The OECD understands that the BCT has started diagnostic work to assess the feasibility of such "open banking" arrangements in Tunisia. The OECD encourages the BCT to continue its exploratory work on open banking and seek to implement a solution as soon as is feasible. The OECD believes open banking has strong potential to deliver substantial benefits to consumers through enhanced competition.

Box 9.3. Open banking in the UK

Open banking was introduced in the UK following a report on the country's retail banking sector published by the Competition and Markets Authority (CMA) in 2016. The report found that larger, established banks did not have to compete sufficiently intensely to gain customers' business, while newer banks found it difficult to access the market and grow. One of the CMA's recommendations to tackle the problem was open banking.

Banks in the UK are required to introduce an open application programming interface (API) banking standard that enables individuals and businesses to share their banking transaction histories safely and securely with other banks and third parties. This enables customers to, for example, open an app and compare the fees and conditions applicable to financial products tailored to their individual circumstances, making it easier for customers to identify the best deals and switch providers.

Source: Competition and Markets Authority, (2016[9]), Retail banking market investigation – Final report, https://assets.publishing.service.gov.uk/media/57a8c0fb40f0b608a7000002/summary-of-final-report-retail-banking-investigation.pdf.

9.4. Measures to increase customer engagement

The implementation of the measures in this package will deliver benefits in both the current account and the bank loan markets.

9.4.1. *Measures to improve consumers' ability to make informed decisions on current accounts*

Engaged and active consumers are vital to effective competition. The OECD recommends several measures to improve customers' ability to access, assess and act on information. The key recommendations in this package include:

- Improving disclosure and transparency requirements to ensure that customers can easily access meaningful information on the prices and characteristics of products. In particular, the OECD recommends introducing a requirement that current account providers effectively disclose fees and other terms and conditions related to current accounts through all distribution channels.
- Banning fees that are related directly or indirectly to closures of accounts (an example of the latter are fees charged for letters of indemnity, not related to outstanding charges).

Switching costs and searching costs both have the potential to stifle competition. If consumers face barriers to accessing information to compare products, they will not be able to identify their preferred products and will be unduly discouraged from switching. High switching costs may deter consumers from even attempting to obtain information. The OECD recommends:

- Facilitating the switching of current accounts. Specifically, the OECD recommends introducing an automated current account switching service similar to those in use in countries such as Australia, France, Italy, New Zealand, Spain and the UK. This would allow customers to easily switch current account providers, automatically transferring direct debits and standing orders and rerouting payments to new accounts for a period of time such as 12 months (see Box 9.4). Although the OECD acknowledges that this may be a technologically significant undertaking, an automated current account switching service is likely to generate substantial benefits for consumers.
- Facilitating the creation and use of a price comparison website (PCW) for both personal and business current accounts, to be extended potentially to other retail financial products. An effective PCW would make comparisons of current account terms among providers easier and would encourage switching and thus competition. A PCW could be operated either by a public or a private entity. The (World Bank, 2013[10]) describes best practices for designing and operating a state-owned PCW. The cost of setting up a PCW could be covered through levies on financial institutions, which could also be mandated to advertise the PCW, for example on bank statements or on their websites. Finally, the performance of the tool should be reviewed periodically to ensure its effectiveness.

The following recommendations are expected to deliver relatively fewer benefits individually but are mutually reinforcing and are likely to deliver the most significant benefits if implemented holistically. They include:

- Introducing a requirement not to charge fees after the date from which closure of an account has been requested.
- Facilitating procedures for opening current accounts. In particular, the OECD recommends:
  - Introducing a requirement that banks issue letters that include reasoned arguments explaining refusals to open accounts within a specified, reasonable timeframe. Refusal letters should be issued free of charge. Customers can then present these letters to the Ombudsman.
  - Introducing clear and binding rules on legitimate and illegitimate reasons for not opening current accounts. These should be available to customers and should be used to make complaints if customers consider that they have been denied a current account without good reason.
  - Monitoring compliance with Article 4 of Circular No. 2006-12, which requires banks to disclose fees paid in monthly or annual statements.

- Introducing a requirement that accounts are closed within a month (or another specified short timeframe) of receiving closure requests from customers.
- Introducing a requirement that banks contact customers with dormant current accounts (those that that have no credit or debit movement in a 12-month period that are not the result of fees, charges or refunds issued by a retail bank) to ask whether they want to close the account.
- Introducing a requirement to notify customers that their accounts have been closed.
- Adopting rules to issue penalties and vigorously enforce them if banks do not comply with regulations on promptly closing accounts and notifying customers that they have done so.

Box 9.4. The UK's Current Account Switching Service

The Current Account Switching Service (CASS) is a voluntary scheme launched in 2013 by the UK's Payment Council. CASS is owned and operated by Pay.UK, the operator of the UK's retail interbank payment systems, including Bacs, Faster Payment and the Image Clearing System. The scheme makes switching current accounts quick and easy for consumers. More than 40 banks and building societies have signed up to it.

A simple way to switch accounts is an important element of a well-functioning current account market. If consumers can close an account and open a new one quickly and smoothly, they will be more likely to change providers when better deals appear in the market. This provides incentives for current account providers to compete by improving their offers to attract new customers and retain existing ones.

In 2011 the Independent Commission on Banking (ICB), established by the UK Government, found that the process of switching took on average 18 days and required a number of parties to take various actions. The switching process was also perceived as risky, which deterred potential switchers. The ICB thus recommended the introduction of the CASS (Independent Commission on Banking, 2011[11]), whose main features are as follows:

- It is a free service.
- All outbound payments, such as direct debits and standing orders, and inbound payments, such as salary payments, are automatically moved to the new account.
- Payments accidentally made to the old account are redirected automatically for a period of three years after the switch.
- If anything goes wrong, interest paid or lost, and charges imposed on either the old or new accounts are refunded.

Sources: Pay.UK (2023[12]), Current Account Switch Service Annual Report 2022, https://newseventsinsights.wearepay.uk/media/0n3dkaoc/cass-annual-report-2022.pdf; Financial Conduct Authority (2015[13]), Making current account switching easier: The effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability, https://www.fca.org.uk/publication/research/making-current-account-switching-easier.pdf

9.4.2. Reform the mediation mechanism

It is crucial that consumers can make use of an effective and well-functioning mediation mechanism that can be used to make complaints when things go wrong. Box 9.5 describes the principles set out by the International Network for Financial Services Ombudsman Schemes (the INFO Network) for financial services ombudsmen. To make the mediation mechanism more effective, the OECD recommends:

- Establishing a financial services ombudsman, as prescribed by Article 187 of Law No. 2016-48. The OECD recommends considering the most appropriate regulatory set-up and that:
    - Decision-makers involved in resolving complaints should not be appointed and should not be employees managed by banks, as is currently the case in Tunisia.
    - Decisions made by the ombudsman should be binding.
- Raising consumer awareness of the mediation service.
    - The BCT should actively promote awareness of the mediation mechanism.
    - Financial services businesses should be required to inform their existing and prospective customers in writing about the mediation service on their websites, at points of sale, in contracts, if a customer makes a complaint, and in final written decisions on complaints. The financial services business's final written decision on any complaint should include details of how to use the financial services ombudsman scheme, alongside time limits and other conditions that apply.
- Adopting regulation to monitor and enforce the obligations of financial services businesses to raise consumer awareness of the mediation service.

Box 9.5. The International Network for Financial Services Ombudsman Schemes

The INFO Network is an international association of financial services ombudsmen. Its objective is to develop expertise in dispute resolution and share best practices for mediation mechanisms in financial services through exchanges of experience, knowledge and ideas. The INFO Network sets out six fundamental principles for its members:

- Independence: A financial services ombudsman should be independent of both the financial services industry and consumer bodies, and decision-makers should be free of influence by the parties in disputes and by regulators and governments. Decision-makers should be appointed by legislation, government, regulators or bodies with balanced memberships following a transparent process, on terms that secure their independence from the financial services industry, regulators, consumer bodies and those who appointed them.
- Clarity of scope and powers: A financial services ombudsman should publish, among other things, details of the scope of their jurisdiction, their enquiry and complaint-handling processes, their powers, and the status of their decisions.
- Accessibility: Financial services businesses should be required to inform customers about the financial services ombudsman scheme.
- Effectiveness: A financial services ombudsman should employ flexible and informal processes that do not require parties to engage professional advisers. A financial services ombudsman should employ skilled decision-makers and be resourced adequately. They should also provide a clear definition of what constitutes a complaint and clear obligations on financial services businesses to deal with complaints fairly and promptly.
- Fairness: A financial services ombudsman should be prompt, impartial and fair. They should inform parties in writing about their reasoned decisions.
- Transparency and accountability: A financial services ombudsman should consult on the scope of their responsibilities, procedures and business plans, and publish reports on their activities.

Source: INFO Network (2023[14]), A worldwide network of financial services ombudsman schemes, https://www.networkfso.org/.

9.4.3. Financial education

In 2020, the OECD Council adopted a Recommendation on Financial Literacy. This instrument has the objective of helping governments and other public authorities to design, implement and evaluate policies to improve financial literacy. The recommendation covers three main areas:

- national strategies for financial literacy
- financial literacy and the various sectors of the financial landscape
- the effective delivery of financial literacy programmes.

The Tunisian *Observatoire de l'Inclusion Financière* recently joined the OECD International Network on Financial Education (INFE) as a full member (see Box 9.6 for a description of the objectives of INFE). The OECD recommends that public authorities in Tunisia draw from the OECD Recommendation on Financial Literacy and the INFE experience, and in particular that they:

- Collect data to analyse financial literacy levels among the population, with a focus on understanding the financial knowledge, attitudes and behaviours of potential and current retail banking customers.
- Develop a national financial education strategy, and effective financial education programmes with a focus on addressing the needs of potential and current retail banking customers.

Box 9.6. OECD International Network on Financial Education – OECD/INFE

The OECD/INFE promotes international co-operation on financial literacy and education by facilitating the sharing of experience and good practice, developing policy analyses and research, and developing policy instruments. The network includes more than 270 members from over 130 countries and economies around the world, comprising mostly ministries of finance and education, central banks and financial regulators. The OECD/INFE supported the development of the OECD Recommendation on Financial Literacy, adopted in 2020 and welcomed by G20 finance ministers and central bank governors in 2021.

Key policy areas include:

- Co-ordinating the collection of internationally comparable data on financial literacy among adults, young people and owners of micro and small businesses.
- Supporting the development and implementation of national strategies for financial literacy.
- Developing analysis and research on the implications for financial education of emerging and ongoing trends, such as the digitalisation of finance and sustainable finance.
- Developing analysis and research on effective financial education programmes to support relevant target groups, including young people, seniors, women, migrants, and owners of micro and small businesses.
- Overseeing the organisation of the Global Money Week awareness campaign.

Source: OECD (2023[15]), International Gateway for Financial Education, https://www.oecd.org/financial/education/.

9.4.4. Strengthen and clarify the financial consumer protection mandate

Financial consumer protection is a key ingredient of well-functioning retail banking markets. Financial consumer protection refers to regulatory frameworks that have the objective of ensuring fair and responsible treatment of consumers in financial markets. Financial consumer protection regulatory and supervisory frameworks have a positive effect on the finance sector as they strengthen trust in the market and increase transparency and competition. Even well-informed and educated consumers may still make decisions that may not be in their best interests. For example, consumers may find it difficult to assess their future needs or to take risk into account in their decisions.

The OECD recently updated the G20/OECD High-Level Principles on Financial Consumer Protection, which are included in an OECD recommendation (OECD, 2022[16]). These principles are international standards for comprehensive and effective financial consumer protection frameworks that are included in the Financial Stability Board's Compendium of Standards. Among other things, the principles highlight the importance of maintaining an appropriate legal, regulatory and supervisory framework to protect consumers in financial markets and an oversight body explicitly responsible for financial consumer protection.

The OECD recommends that Tunisia:

- Consider joining the International Financial Consumer Protection Organisation (FinCoNet). FinCoNet is an international network of market conduct supervisory authorities that are responsible for financial consumer protection. FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision (Financial Consumer Protection Organisation, 2023[17]).
- Design a national policy framework for financial consumer protection in accordance with the G20/OECD High-Level Principles on Financial Consumer Protection.

9.4.5. Measures to improve MSMEs' ability to make informed decisions when shopping around for financial products

The OECD recommends:

- Introducing measures to increase transparency around the cost of loan products, such as requiring lenders to disclose the total costs of such products over their lifetimes. These should be calculated using a standardised set of assumptions to allow easy comparisons among providers. Compliance with this requirement must be supervised by financial regulators and cannot be left to banking associations in order to minimise the risks of co-ordinated conduct.
- Introducing a requirement that lenders issue letter that include reasoned arguments when they refuse credit applications.
- Introducing clear and binding rules on legitimate and illegitimate reasons for not granting finance. A list should be available to customers and should be used to make complaints if consumers consider that they have been denied credit without good reason. Borrowers that believe that they have been denied credit unfairly can then take their letters to the Ombudsman.

9.4.6. Best Current Account Awards

To increase incentives to compete and awareness among consumers, the OECD recommends encouraging the creation of a Best Current Account Award. The award could be designed and managed by the *Organisation Tunisienne de Défense du Consommateur* (ODC).

9.5. Measures to increase competition in the market for MSME finance

The implementation of the measures in this package will deliver benefits in bank loan markets. The OECD recommends:

- Creating an independent commission to investigate cross-ownership among financial and non-financial entities. The OECD requested information to assess the impact of the connections between banks and non-financial enterprises on lending to MSMEs. This included, for example, detailed loan-level data covering information on lending products and borrowers. The OECD also requested aggregate information on the composition of banks' portfolios and outstanding loans to connected borrowers, which is held by the BCT. However, the OECD was not given access to this data. As a result, it was not possible to assess concerns related to access to financing among businesses that lacked connections to banks.

  However, the OECD recognises that these concerns are widespread and have the potential to increase the barriers that businesses face when accessing finance. For these reasons, the OECD recommends further investigation of these issues. Given the nature of these concerns, the OECD considers the best way to do so would be by creating an independent commission with the mandate to investigate the effects of cross-ownership between financial and non-financial entities in lending markets. One of the main objectives of the commission would be to identify whether banks' practices have the effect of making it harder for unrelated borrowers to access finance or in some instances excluding them altogether.

  The commission should be independent of banks, industrial groups and current regulatory frameworks. It should have sufficient legal powers to compel the provision of relevant information and the necessary resources to perform its role.

- Introducing a registry for movable goods. As described in Section 5.3.2, Tunisian banks require MSMEs to provide high-value collateral for the vast majority of loans. Although the majority of small businesses' capital stock typically resides in movable assets such as equipment and machinery, lenders are reluctant to accept movable assets as collateral. A registry for movable goods may increase access to finance by fulfilling two functions: notifying parties of the existence of a security interest in movable assets, and establishing the priority of creditors. This may reduce the length of court proceedings. See Box 9.7 for a description of an international comparison measuring the impact of the introduction of registries for movable assets.
- Enforcing regulation of prudential requirements, including compliance with Circular No. 2018-06 on related lending, discussed in Section 6.2.3.
- Adopting a proportionate, risk-based approach and considering lowering or abolishing minimum capital requirements for private credit information bureaus.
- Adopting a proportionate, risk-based approach when establishing technical and governance requirements.
- Assessing the impact of new entrants to credit information markets on competition in related sectors, for example if potential entrants have ties with established banks.
- Standardising and enforcing conformity with the methodology for calculating effective interest rates on loan products to ensure that financial institutions calculate the cap in the same way.
- Assessing the impact of the cap on lending interest rates and publishing an analysis. The assessment should include analysis of whether the cap has negative effects on market outcomes, including, for example, whether it leads to the exclusion of riskier categories of borrowers or whether it is used by lenders as focal point to co-ordinate. To do this, the BCT should require granular loan data from lenders over a period of time, potentially including loan-level data including characteristics of the interest rate charged (e.g. interest rate type and associated fees),

characteristics of loans at origination (e.g. origination dates, types of loans, maturity dates, amounts and repayment frequencies), characteristics of borrowers, information on the performance of loans (e.g. missed payments and defaults), and information on rejected applications. Based on the results of the assessment, the OECD recommends considering the removal of the cap on lending interest rates or raising it significantly.

- Abolishing limitations on the maturity and size of loans specified in Circular No. 1987-47.

Box 9.7. The impact of collateral registries for movable assets

Evidence from the World Bank suggests that the introduction of collateral registries for movable assets increases firms' access to finance, especially that of smaller enterprises. Using the World Bank Enterprise Surveys and a difference-in-difference approach, (Love, Martínez Pería and Singh, 2016[18]) compared access to finance for firms in seven countries that introduced a collateral registry for movable assets against three control groups. One group comprised countries that introduced collateral reforms without introducing a registry for movable assets, one group was countries "matched" to the seven "target" countries based on geography and GDP per capita that did not introduce any reforms, and one group was countries without reforms that were not matched to the target countries. The article considered seven measures of access to finance correlated with the introduction of a registry for movable assets, controlling for a set of country-level and firm-level characteristics. (Love, Martínez Pería and Singh, 2016[18]) found that the introduction of a registry for movable assets was associated with an increase of 8% in the number of firms with credit lines and an increase of 7% in the number of firms with bank loans. The impact on access to finance was more significant among smaller firms.

Source: Love, Martínez Pería and Singh (2016[18]) Collateral Registries for Movable Assets Does Their Introduction Spur Firms' Access to Bank Finance?, https://doi.org/10.1007/s10693-015-0213-2.

9.6. Eliminate unnecessary regulatory restrictions on payment service providers

The OECD recommends:

- Considering a proportional, risk-based approach when establishing capital and other requirements for payment service providers. It is important that capital requirements reflect risks to the financial system without lowering standards for payment service providers.
- Amending the licensing process for payment service providers. In particular:
  - Adopting governance requirements for payment service providers more tailored to their specific activities, facilitating licensing and access to market for innovative start-ups and fintech companies offering these services.
  - Lifting the twin requirement of minimum capital and insurance or bank guarantees, especially when capital requirements are already substantial.
  - Drawing from the experience of European countries and considering lowering minimum capital requirements.
  - Introduce differing capital requirements depending on services provided.
  - Increasing transparency and reducing uncertainty in the licensing procedure by: 1) introducing a requirement that the BCT publicly provide a list of conditions triggering ad hoc minimum capital requirements; and 2) complying with existing regulation and providing a response to entities applying for licences in a timely manner.

- Allowing payment services providers to be part of the SMT, similarly to traditional banks.
- Removing restrictions on pricing imposed to payment service providers, such as the prohibition on charging for payments below TND 15, as per Article 21 of Circular No. 2020-11.

9.7. Other recommendations

The OECD considers that the following recommendations may generate benefits for consumers in the longer term.

9.7.1. Branch networks

The OECD recommends:

- Simplifying conditions for opening branches by removing:
    - requirements that branch premises should have a minimum floor area of 75 m^2, an ATM, and should not be near risky facilities or equipment such as fuel or gas depots.
    - the requirement that each branch to have at least three employees with at least two always present during opening hours.
    - requirements related to educational and professional experience for branch managers.

9.7.2. Financial sector regulatory set-up

The OECD recommends considering whether models other than the one currently operating in Tunisia may be better suited to pursuing the financial consumer protection mandate. Potential options include: 1) strengthening the independence of financial consumer protection officials; 2) increasing and ringfencing resources for financial consumer protection; 3) increasing co-operation with international bodies such as FinCoNet to adopt best practices; and 4) creating a separate authority dedicated to supervising market conduct and financial consumer protection.

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10 Quantification of consumer benefits

This chapter quantifies the benefits that would arise from the implementation of the OECD's recommendations. It is only possible to quantify benefits for a subset of recommendations, but the OECD estimates that implementing these would generate around EUR 325 million annually by lowering prices and interest rates for consumers and businesses, corresponding to 0.8% of Tunisia's 2021 GDP. This figure is likely an underestimate of the actual resulting benefits because it was not possible to quantify the effects of all individual recommendations due to the limited availability of detailed data. It also excludes the dynamic benefits of competition, which can be substantial, but which are difficult to estimate.

This chapter describes the general framework for assessing the benefits of competition. It then illustrates the methodology for calculating changes in consumer surplus and quantifies the expected benefits of the OECD's recommendations focussing on selected proposals that include the introduction of a credit information bureau, the introduction of a registry for movable assets, the introduction of a price comparison website for current accounts and granting a banking license to *La Poste*.

10.1. The benefits of competition

The market study aimed to identify regulations, market features and business practices in the retail banking sector that may prevent competition from working as well as it could. If competition is not effective, productivity and economic growth suffer.

Each recommendation set out in Chapter 9 is likely to have an impact well beyond individual consumers in the segments assessed. When consumers can shop around and freely choose products and services, firms are forced to compete, innovate more and be more productive (Nickell (1996[1]); Blundell et al. (1999[2]); Griffith, Redding and Van Reenen (2004[3])). Industries in which there is greater competition experience faster productivity growth. These conclusions have been confirmed by a wide range of empirical studies and summarised by (OECD, 2014[4]). Competition may stimulate productivity via different channels. It can create incentives to invest in research and development, and it can provide opportunities for more efficient firms to enter and gain market share at the expense of less efficient firms. Increased competition in one sector can also have spillover effects and improve productivity in related sectors. The following paragraphs provide a brief description of some work in these three areas.

Nickell (1996[1]) argues competition affects productivity growth mainly via two mechanisms: managerial capacity and innovation. With respect to managerial capacity, competition makes profits more responsive to managerial effort, which encourages shareholders to ensure managerial effort is high and inefficiency is low. When it comes to innovation, in a more competitive environment, cost-reducing improvements in productivity generate larger increases in profits, raising incentives to invest. Nickell finds that a high degree market power reduces productivity levels in the long run and that competition intensity (measured as reduced rents) is associated with higher productivity growth. Disney, et al. (2003[5]) use data on around 140 000 establishments in the United Kingdom over the period 1980-92, and employing a similar methodology to Nickell (1996[1]), find that competition has a positive effect on firms' productivity.

Similar positive effects of competition on productivity growth are also found in other countries. These include: (Januszewski et al., 2002[6]) in Germany; (Koke et al., 2005[7]) in the UK and Germany; (Okada, 2005[8]) and (Funakoshi et al., 2009[9]) in Japan; (Aghion, Braun and Fedderke, 2008[10]) in South Africa; (Ospina and Schiffbauer, 2010[11]) for 27 countries in Eastern Europe and Central Asia; and (Tang and Wang, 2005[12]) in Canada.

A different set of studies investigates the relationship between competition and productivity development at an economic sector level. This body of work studies the net effects of competition on productivity growth across firms and focuses on market efficiency, i.e. whether more productive firms can attract more resources, resulting in higher productivity at the sector level.

Arnold et al. (2011[13]) investigated the effects of anti-competitive regulation, as measured by the OECD's product market regulation (PMR) indicators. They found that productivity growth is generally faster and the reallocation of resources towards the highest-productivity firms was stronger in countries and industries with lighter regulatory burdens.

Other studies have looked at the spillover effects of competition in related markets. For example, a lack of competition in upstream markets may generate barriers to entry in downstream markets (Bourlès et al., 2013[14]). (Barone et al., 2008[15]) showed that manufacturing productivity growth was harmed by regulations reducing competition in services, especially financial services and energy provision.

In addition to the evidence that competition fosters productivity and economic growth, many studies have shown the positive effects of more flexible PMR.[1] These studies have analysed the impact of regulation on productivity, employment, research and development, and investment, among other variables. Differences in regulation also matter and can reduce significantly both trade and foreign direct investment (FDI) (Fournier, 2015[16]).[2] By fostering growth, more flexible PMR can improve the sustainability of public debt, which is particularly important in countries such as Tunisia (OECD, 2018[17]). A particularly large body of evidence attests to the productivity gains from more flexible PMR. At the company and industry level, restrictive PMR is associated with lower multifactor productivity (MFP) levels (Nicoletti, Scarpetta and Lane, 2003[18]) and (Arnold, Nicoletti and Scarpetta, 2011[13]).[3] The result also holds at the aggregate level (Égert, 2017[19]).[4] Anti-competitive regulations have an impact on productivity that goes beyond the sector in which they are applied, an effect that is more important for sectors closer to the productivity frontier (Bourlès et al., 2013[14]).[5] Specifically, a large part of the impact on productivity goes through the channel of investment in research and development. Moreover, lowering regulatory barriers in network industries can have a significant impact on exports (Daude and de la Maisonneuve, 2018[20]).

10.2. Quantifying the benefits of increased competition

The OECD's quantification exercise draws on the standard analytical framework used in previous OECD competition assessment reports. The framework is built on the classical diagram of consumer surplus, i.e. the difference between consumers' willingness to pay and the price they pay. Savings in the price paid by consumers can be interpreted as an increase in their surplus. The framework allows us to take into account consumer demand in retail banking in Tunisia and estimate the benefits, in terms of price reductions, to be expected following the implementation of the OECD's recommendations. However, the benefits derived from this framework are partial because they look at only one product in question, and static, because they do not take into account changes in productivity and income. Box 10.1 presents the theoretical framework used to calculate consumer surplus.

This section quantifies the annual benefits of the OECD recommendations in the current accounts and the bank loans sectors. This section does not quantify the impact of the recommendations in the mobile payments sector due to a lack of revenue data. To quantify benefits in the current accounts and the bank loans sectors the section focusses on the proposals to introduce a credit information bureau, a registry for movable assets, a price comparison website for current accounts and granting a banking license to *La Poste*. The choice of these recommendations was led by the availability of studies showing the price impact of these interventions and by the availability of data on revenues in the relevant segments.

The OECD recommendations are expected to increase competition in Tunisia's retail banking sector and generate benefits for consumers and small businesses:

- Current account sector. Price comparison websites for current accounts increase the ability of consumers to access and compare information about these products. This increases banks' incentives to compete.
- Bank loans sector: Credit information bureaus reduce credit risk by reducing adverse selection and moral hazard in lending markets. Credit information bureaus also have a positive impact on competition, as they reduce the information advantages of larger banks, which gather data from their larger customer bases. Moreover, a registry for movable assets reduces credit risk and facilitate access to finance by notifying parties of the existence of a security interest in movable assets and establishing the priority of creditors. This may reduce the length of court proceedings.
- Across retail banking sector. Granting a banking license to *La Poste* should increase competition across the retail banking sector, including current accounts and lending markets. *La Poste* is already an important player in the current account market. However, the lack of a banking licence hinders *La Poste*'s ability to offer a realistic alternative to the country's banks, because consumers

and small businesses may use their current account to establish a banking relationship and obtain credit.

As described in Box 10.1, the calculation of the annual consumer benefits generated by the recommendations requires three key inputs: 1) an estimate of the revenues of the product R; 2) an estimate of the elasticity of demand of the product ϵ; and 3) an estimate of the percentage change in price ρ due to the recommendation. Assuming the estimates of the inputs used do not vary significantly over time, these benefits are expected to be realised annually. The following sections describe the sources used to estimate each input and provide an estimate of the consumer benefits generated by the selected recommendations.

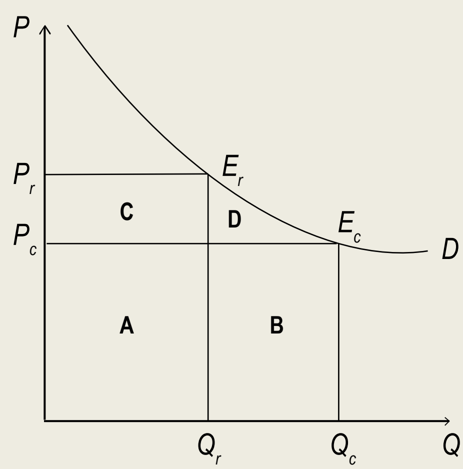
The quantification of benefits focuses on price reductions, but several other benefits are not quantified. For example, cheaper access to finance will reduce costs and increase efficiency in other parts of the economy, and may lead to the entry of new firms, increasing innovation and choice for consumers.

Box 10.1. Measuring changes in consumer surplus

A demand curve describes the relationship between the price of a good or service and the quantity of that good or service that consumers are willing to buy at any given price. Demand curves typically have a downward slope as consumers are willing to buy larger quantities at lower prices. The sensitivity of consumers to price is illustrated by the elasticity of demand, which measures the change in the quantity demanded as a result of a change in price.

The impact of a recommendation that increases competition can often be examined as a movement from one point on the demand curve to another. For example, the introduction of a price comparison website makes it easier for consumers to identify the lowest prices subject to other product characteristics, putting downward pressure on prices. Graphically, the change is illustrated for a constant elasticity demand curve (i.e. a level of demand at which consumers' sensitivity to price does not change). E_r shows the equilibrium in the baseline before the recommendation; E_c shows the equilibrium point once the recommendation is implemented. The new equilibrium is different from previous one in two important ways: lower price and higher quantity. These properties are a well-known result of many models of competition.

Figure 10.1. Changes in consumer surplus



Under the assumption of constant elasticity of demand, the equation for consumer benefit is:

$$CB = C + D \approx (P_r - P_c)Q_r + \frac{1}{2}(P_r - P_c)(Q_c - Q_r)$$

For small price changes, the basic formula for such a standard measure of consumer benefit from improving competition is:

$$CB = \left(\rho + \frac{1}{2}|\epsilon|\rho^2\right)R$$

Where CB is the standard measure of consumer benefits; ρ is the percentage change in price related to a restriction; R is sector revenue; and ϵ is demand elasticity. Thus, the key inputs to calculate the benefits generated by a recommendation are estimates of: 1) the percentage price change; 2) the elasticity of demand; and 3) the revenues of the sector.

When elasticity is not known, past OECD competition assessments have used a value $|\epsilon| = 2$. Under this assumption, the expression above simplifies as:

$$CB = (\rho + \rho^2)R$$

According to the diagram, revenues can either increase or decrease, depending on the price elasticity of demand. By moving to the competitive equilibrium, E_c, rents (the area "C") are eliminated as the price falls from P_r to P_c. The increase in consumer surplus (CB), is explained by the areas "C" and "D". When the equilibrium is shifted to E_c, activity in volume terms increases from Q_r to Q_c. At the same time, total revenue will also include the area "B". Therefore, total revenue is explained by the areas "A"+"C" at the equilibrium E_r, and the areas "A"+"B" at the equilibrium E_c. If the absolute value of the price elasticity of demand is lower than 1, then the area "C" is larger than the area "B", in which case sales value decreases. Conversely, if the price elasticity of demand is higher than 1, the area "B" is larger than the area "C", in which case sales value increases.

Source: OECD (2019[21]), OECD Competition Assessment Toolkit, https://www.oecd.org/competition/assessment-toolkit.htm.

10.2.1. Revenues in Tunisia's retail banking sector

This section describes the assumptions used to estimate the annual revenues (R) in the bank loans and current accounts segments that will benefit from improved competition.

Bank loans

Given that data on revenues from bank loans was not available, this section describes the assumptions used to obtain a reasonable estimate of revenues from bank loans. The BCT provided data on the lending portfolios of banks broken down by loan category. For each loan category, the BCT publishes the average market interest rate, which is then used to calculate the cap on lending interest rates (see Section 5.2.1). Revenues from bank loans are estimated by multiplying total outstanding loans by prevailing average market interest rates. Table 10.1 shows the estimates of revenues for four categories of business loans of Tunisia's ten largest banks.

Table 10.1. Interest rate revenues from selected bank loans

Year	Lending product	Stock ('000 TND)	Average interest rate	Revenues from bank loans ('000 TND)	Exchange rate (TND to EUR)	Revenues from bank loans (EUR)
2021	Medium-term credit	21 120 129	9.21%	1 945 164	0.30	591 329 820
	Short-term credit	17 541 754	9.01%	1 580 512		480 475 662
	Overdraft	9 609 266	10.63%	1 021 465		310 525 353
	Long-term credit	4 773 887	9.03%	431 082		131 048 927
	Total					1 513 379 763

Sources: Information request to BCT; OECD calculations.

These estimates rely on several simplifying assumptions due to data constraints. It is assumed that the prevailing average market interest rate applies to all outstanding loans, while instead it applies only to loans granted in the specific six-month period. This is a reasonable assumption as Figure 5.6 shows that the cap on lending interest rates (and thus the market average) did not change substantially between 2015 and 2020. It is also assumed that interest rate is not compounded. Finally, the estimate of revenues is based on the data available, which covers only the ten largest banks in Tunisia (Figure 2.3 shows that the ten largest banks accounted for slightly less than 80% of banking assets).

Current accounts

The BCT provided the OECD with annual data on the number of current accounts and non-interest revenues generated by current accounts for a six-year period between 2015 and 2020 for 23 banks. These data did not include current accounts held at *La Poste*, which accounted for a significant proportion of the total (see Chapter 4). Table 10.2 presents the aggregate of banks' non-interest revenues generated by current accounts in 2020, in TND and converted into EUR.

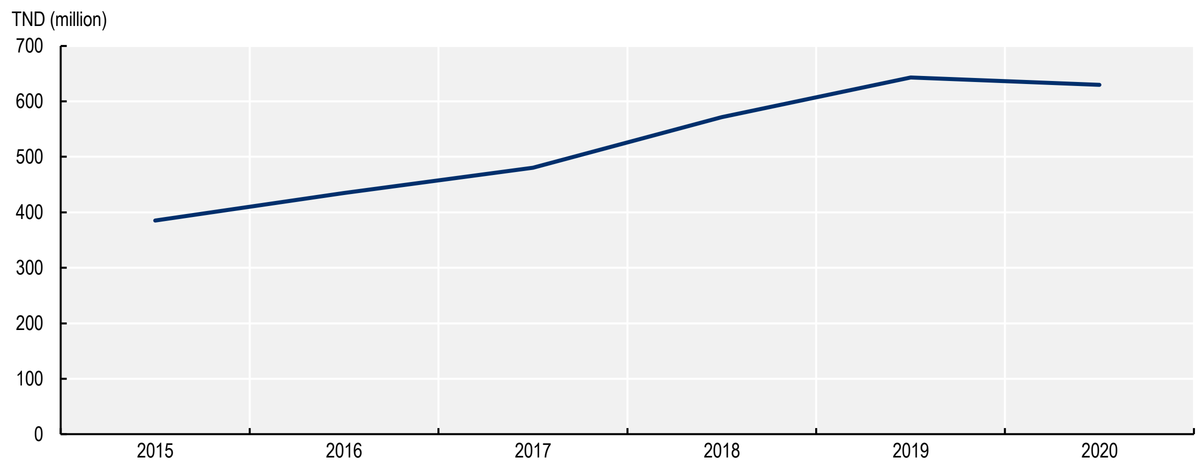
Table 10.2. Non-interest revenues from current accounts

Year	Non-interest revenues from current accounts (TND)	Exchange rate (TND to EUR)	Revenues from current accounts (EUR)
2020	629 908 000	0.32	201 570 560

Source: Information request to BCT; OECD calculations.

Figure 10.2 shows that the total non-interest revenues on current accounts increased significantly between 2015 and 2019 dipping in 2020 at the beginning of the COVID-19 pandemic (see also Chapter 4). Calculations of the annual benefits used revenues from 2020, as these were the latest available figures. This represents a conservative assumption, as using the current account revenues for 2020 may lead to a lower estimate of the benefits of the OECD's recommendations if revenues in this sector recover and follow their pre-pandemic trend.

Figure 10.2. Non-interest revenues from current accounts, 2015-20



Sources: Information request to BCT; OECD calculations.

10.2.2. Demand elasticity

This section describes the assumptions used to select the estimate of the elasticity of demand (ϵ) for bank loans and current accounts. As described in Box 10.1, the elasticity of demand represents consumers' sensitivity to price, in other words, the change in the percentage quantity demanded due to a 1% price rise. Elasticity is negative to reflect the downward slope of the demand curve. A high elasticity value means consumers are very price-sensitive and thus the quantity demanded will decrease significantly if price increases. An elasticity value close to zero means that consumers are not very sensitive to price and a price change has little effect on the quantity demanded.

Bank loans

Several papers have estimated the elasticity of demand for different types of credit. Karlan and Zinman (2019[22]) estimated the elasticity of demand for micro-loans in Mexico in the range of -1.1 to -2.9. This was slightly more elastic than other estimates. For example, Gross and Souleles (2002[23])'s estimate of elasticity of demand for credit cards in the US was between -0.8 and -1.3, and (Dehejia, Montgomery and Morduch (2012[24])'s estimate of elasticity of demand for micro-loans in Bangladesh was between -0.39 and -1.04. To estimate the benefits arising from the OECD's recommendations in the lending markets, Section 10.2.4 uses values equal to -1 as a reasonable mid-point estimate.

Current accounts

No estimate of elasticity of demand for current accounts was found, so Section 10.2.4 considers a value of elasticity equal to -2, consistent with previous OECD competition assessments. An elasticity of -2 means that a 1% price increase results in a 2% decline in the quantity demanded.

10.2.3. Assumptions underlying average price impacts

This section describes the available evidence on the expected price effects (ρ) resulting from the recommendations in the current account and bank loan segments, chosen based on the availability of information on the impact of similar recommendations in other countries.

Bank loans

(Love, Martínez Pería and Singh, 2016[25]) estimated the impact of the introduction of a registry for movable assets on the access to and costs of finance, and loan maturity (see Box 9.7). Using a difference-in-difference approach and controlling for firms' characteristics, fixed country and time effects, their baseline estimate suggests that interest rates in countries with such registries are 2.9 percentage points lower than in countries without them, which corresponds to a 22.3% reduction in average prices.[6] The reduction is larger among smaller firms.

Martínez Pería and Singh (2014[26]) estimated the impact of the introduction of a credit information bureau on the access to and costs of finance, on loan maturity and other outcomes. They estimated that interest rates are 1.3 percentage points lower in countries with a credit information bureau, corresponding to a 9.3% reduction in average prices.[7]

Current accounts

Remedies to increase consumers' ability to make informed decisions when choosing banking products are common across jurisdictions. These can take many forms, from requirements for financial institutions to provide meaningful information to consumers, to services to facilitate account switching. A common tool to allow simple price comparisons are price comparison websites (PCWs), which aim to help consumers easily identify the lowest available prices, subject to products' characteristics. Several studies have provided estimates of the impact of these remedies. (Civic Consulting, 2011[27])assessed the impact of PCWs on prices paid by consumers. In a cross-country, cross-product study, (Civic Consulting, 2011[27]) found that PCWs were associated with estimated savings of around 7.8%.

Finally, granting a banking license to *La Poste* is expected to have an impact across the retail banking sector, including current accounts and bank loans. The price effect of granting a banking license to *La Poste* is based on the meta-studies contained in the OECD Competition Assessment toolkit that estimate that the benchmark price change when regulation limits the ability of some types of suppliers to provide a good or service is around 15% (OECD, 2019[21]).

Conclusions on price impacts

Table 10.3 provides a summary of the estimated price reduction used to calculate the benefits resulting from the implementation of the OECD's recommendations. As described above, each sector is impacted by several recommendations. To use a conservative approach, when multiple recommendations affect the same sector, the price effects are not added together. Instead, only the largest price effect is considered.

Table 10.3. Estimates of selected recommendations' price effects

Sector	Recommendation	Price impact ρ	Source
Bank loans	Credit information bureau	22.3%	(Love, Martínez Pería and Singh, 2016[25]), (Martínez Pería and Singh, 2014[26]), (OECD, 2019[21])
	Movable asset registry		
	Granting a banking license to *La Poste*		
Current accounts	Price comparison website	15%	(Civic Consulting, 2011[27]), (OECD, 2019[21])
	Granting a banking license to *La Poste*		

Sources: Love, Martínez Pería and Singh (2016[25]), Collateral Registries for Movable Assets Does Their Introduction Spur Firms' Access to Bank Finance?, J Financ Serv Res 49, 1-37 (2016) https://doi.org/10.1007/s10693-015-0213-2; Martínez Pería and Singh (2014[26]), The Impact of Credit Information Sharing Reforms on Firm Financing, https://doi.org/10.1596/1813-9450-7013; Civic Consulting (2011[27]), Consumer market study on the functioning of e-commerce and Internet marketing and selling techniques in the retail of goods Final Report Part 1: Synthesis Report, https://op.europa.eu/en/publication-detail/-/publication/24877d5b-a4a0-11e5-b528-01aa75ed71a1.

10.2.4. Estimates of the benefits arising from selected OECD recommendations

Using the expression in Box 10.1, Table 10.4 shows that the benefits arising from the OECD recommendations will generate at least EUR 325 million annually in lower prices and interest rates for consumers and businesses.

Table 10.4. Estimates of selected recommendations' consumer benefits

Sector	Recommendation	Elasticity of demand ϵ	Annual revenues (EUR) R	Price impact ρ	Annual benefits (EUR)
Bank loans	Credit information bureau Movable assets registry Granting a banking license to *La Poste*	-1	1 513 379 763	22.3%	299 854 256
Current accounts	Price comparison website Granting a banking license to *La Poste*	-2	201 570 560	15%	25 700 246
Total					**325 554 502**

Sources: Information request to BCT; OECD calculations.

10.3. Conclusions

As discussed in Chapter 9, the OECD's recommendations are mutually reinforcing, so many of their benefits will be realised only when they are implemented together. It is therefore strongly recommended that all the packages of recommendations are consider holistically. Given the limited availability of data, this chapter provides a quantification of the impact of the OECD's recommendations in the current account sector and in the bank loans sector and it does not quantify the impact of the recommendations in the mobile payments sector due to a lack of revenue data.

OECD's recommendations together are expected to generate around EUR 325 million annually in lower prices and interest rates for consumers and businesses. However, this is a significant underestimate, as many recommendations are not quantified, and this estimate excludes the non-price benefits of competition, which can be substantial, but which are difficult to estimate.

For example, Love, Martínez Pería and Singh (2016[25]) found that firms in countries that had introduced registries for movable assets were 8% more likely to access bank finance and 7% more likely to have access to bank loans. This suggest that such reforms have effects beyond reductions in price. Moreover, credit information bureaus have effects beyond price reduction. For example, Sutherland (2018[28]) found that credit information bureaus reduce borrowers' switching costs, especially those of smaller and newer firms.

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Notes

[1] The methodology followed in this project is consistent with the PMR developed by the OECD. To measure a country's regulatory stance and track progress of reforms over time, in 1998, the OECD developed an economy-wide indicator set of PMR (Nicoletti, Scarpetta and Boylaud, 2000[29]); this indicator was updated in 2003, 2008 and 2013.

[2] Fournier (2015[16]) found that national regulations, as measured by an economy wide PMR index, have a negative impact on exports and reduce trade intensity (defined as trade divided by GDP). Differences in regulations between countries also reduce trade intensity. For example, convergence of PMR among EU member states would increase trade intensity within the European Union by more than 10%. Fournier (2015[16]) studied the impact of heterogeneous PMR in OECD countries and concluded that lowering regulatory divergence by 20% would increase FDI by about 15% on average across OECD countries. He investigated specific components of the PMR index and found that command-and-control regulations and measures protecting incumbents (such as antitrust exemptions, entry barriers for networks and services) were especially harmful in reducing cross-border investments.

[3] Arnold, Nicoletti and Scarpetta (2011[13]) analysed firm-level data in 10 countries from 1998 to 2004 using the OECD's PMR index at the industry level and found that more stringent PMR reduced firms' MFP.

[4] Égert (2017[19]) investigated the drivers of aggregate MFP in a sample of 30 OECD countries over a 30-year period.

[5] The study of 15 countries and 20 sectors from 1985 to 2007 estimated the effect of regulation of upstream service sectors on downstream productivity growth.

[6] Given that the average interest rate paid in their sample was 13%, the average percentage price reduction was 2.9%/13%=22.3%.

[7] Given that the average interest rate paid in their sample was 14%, the average percentage price reduction was 1.3%/14%=9.3%.

Annex A. Competition assessment methodology

This annex describes the methodology used in the competition assessment.

Stage 1: Mapping the sectors and identifying regulations

The objective of Stage 1 of the project was to identify and collate sector-relevant laws and regulations. To identify relevant regulatory provisions, research was carried out using the Qanouni online legal database and a list of relevant legislation available on the website of the *Banque Centrale de Tunisie* (BCT). This research was complemented by input received from the BCT.

Over the course of the project, the lists of legislation were refined, as additional legislation was either discovered by the team or issued by authorities, while other pieces of legislation initially identified were found not to be relevant to the sector or no longer in force. The refined research identified 68 pieces of legislation applicable to the banking sector that were analysed within the scope of the project.

Another important objective of the first stage, which continued for the entire duration of the project, was the establishment of contact with market participants via authorities, industry associations and private stakeholders active in the sector. The OECD team met with government and private stakeholders both virtually and, when the sanitary situation brought about by the COVID-19 pandemic allowed, in person. Interviews with market participants contributed to a better understanding of how the segments under investigation work in practice and informed discussions of potential barriers deriving from legislation.

Stage 2: Screening of legislation and the selection of provisions for further analysis

During the second stage of the project, the main work stream was screening legislation to identify potentially restrictive provisions, as well as providing an economic overview of the relevant market segments. The legislation collated during Stage 1 was analysed using the framework provided by the OECD Competition Assessment Toolkit (OECD, 2019[1]). This toolkit provides a general methodology for identifying unnecessary obstacles in laws and regulations and developing alternative, less restrictive policies that still achieve government objectives.

One of the main components of the toolkit is a competition assessment checklist that asks a series of simple questions to screen laws and regulations with the potential to restrain competition unnecessarily (see Box A.1). Based on the toolkit's methodology, the OECD compiled a list of all the provisions that were affirmative in relation to any issue on the checklist. Authorities were given several opportunities to comment. The final list consisted of 61 provisions with the potential to restrict competition. The OECD also prepared an extensive economic overview of the sector and refined it during later stages, covering industry trends and key indicators, such as output, employment and prices, including comparisons with other Middle Eastern and North African countries and OECD member countries where relevant.

Box A.1. The OECD Competition Assessment Toolkit

Further competition assessment should be conducted if a piece of legislation is affirmative on any of the following counts:

A) Limits the number or range of suppliers

This is likely to be the case if the legislation:

1. grants a supplier exclusive rights to provide goods or services
2. establishes a licence, permit or authorisation process as a requirement of operation
3. limits the ability of some types of suppliers to provide a good or service
4. significantly raises the cost of entry or exit by a supplier creates a geographical barrier to the ability of companies to supply goods, services or labour, or invest capital

B) Limits the ability of suppliers to compete

This is likely to be the case if the legislation:

1. limits sellers' ability to set the prices of goods or services
2. limits the freedom of suppliers to advertise or market their goods or services
3. sets standards for product quality that provide an advantage to some suppliers over others or that are above the level that certain well-informed customers would choose significantly raises the costs of production for some suppliers relative to others, especially by treating incumbents differently from new entrants.

C) Reduces the incentive of suppliers to compete

This may be the case if the legislation:

1. creates a self-regulatory or co-regulatory regime
2. requires or encourages information on supplier outputs, prices, sales or costs to be published

exempts the activity of a particular industry or group of suppliers from the operation of general competition law

D) Limits the choices and information available to customers

This may be the case if the legislation:

1. limits the ability of consumers to decide from whom they purchase
2. reduces the mobility of customers between suppliers of goods or services by increasing the explicit or implicit costs of changing suppliers
3. fundamentally changes the information required by buyers to make purchasing decisions effectively.

Source: OECD (2019[1]), OECD Competition Assessment Toolkit, https://www.oecd.org/competition/assessment-toolkit.htm.

Stage 3: In-depth assessment of the harm to competition

The provisions carried forward to Stage 3 were investigated in order to assess whether they could result in harm to competition. In parallel, the team researched the policy objectives of the selected provisions through discussions with relevant authorities and by studying academic literature. The in-depth analysis of harm to competition was carried out qualitatively and involved a variety of tools, including economic analysis and comparisons with similar regulations in other jurisdictions. All provisions were analysed, relying on guidance provided by the OECD's Competition Assessment Toolkit. Exchanges with government experts and market participants complemented the analysis by providing crucial information on the implementation process and effects of the provisions. In Stage 3, several potential barriers were eliminated from the analysis because the team concluded that the provisions did not harm competition. At the end of Stage 3, 61 barriers remained that were deemed potentially harmful to competition.

Stages 4 and 5: Formulation of recommendations and final report

Building on the results of Stage 3, the OECD team developed recommendations for provisions found to restrict competition and to tackle the drivers of the poor outcomes identified. For this process, the team relied on international experience wherever available. The team also quantified where possible the benefits for consumers arising from the implementation of the recommendations. To do this, the standard OECD methodology for quantifying consumer benefits was used.

References

OECD (2019), *OECD Competition Assessment Toolkit*, https://www.oecd.org/competition/assessment-toolkit.htm. [1]

Annex B. Regulatory framework

Based on the OECD review, the regulatory framework for the banking sector includes sector-related laws, (presidential, governmental and ministerial) decrees, ministerial orders, circulars, notes, decisions and codes of conduct. The legislation includes two core laws: Law No. 2016-48, which relates to banks and financial institutions, and Law No. 2016-35, which affirms the status of the *Banque Centrale de Tunisie*.

Law No. 2016-48 establishes the conditions for operating in the banking sector and for supervising banks and financial institutions to ensure a well-functioning market, to protect customers and to achieve financial stability. Law No. 2016-35 sets out the independent role and key objectives of the central bank. For the purposes of this report, key legislation includes the provisions below. Legislation to combat money laundering and the financing of terrorism, and legislation concerning monetary policy (including currency exchange), Islamic banking, savings, financial investments, interbank transactions, accounting, financial stability, and strictly of a prudential nature is considered outside the scope of this analysis.

Institutional arrangements

- *Décret gouvernemental No. 2017-1259, fixant la composition et les règl's d'organisation et de fonctionnement 'e l'Observatoire 'e l'Inclusion Financière ainsi que la liste des institutions et administrations concernées par son intervention* (Government decree 2017-1259, which sets out the composition and rules for the organisation and operation of the Financial Inclusion Observatory and the list of institutions and administrations concerned by its intervention).
- *Décret No. 2009-88, portant création d'un centre de recherches et d'études financières et monétaires et fixant son organisation et les modalités de son fonctionnement* (Decree No. 2009-88, which establishes a centre for financial and monetary research and studies and determines its organisation and operating methods).
- *Décret No. 2006-1881, fixant les conditions d'exercice de l'activité de médiateur bancaire* (Decree 2006-1881, setting out the conditions for the activity of a banking mediator).

Access to market

- *Décision de la Commission d'Agrément No. 2017-04, relative aux procedures de dépôt des demandes d'agrément* (Decision of the Licensing Commission No. 2017-04, relating to procedures for submitting applications for accreditation).
- *Circulaire No. 86-13, relative à l'activité des banques non-résidentes* (Circular No. 86-13, relating to the activities of offshore banks).
- *Circulaire 2006-05, relative à l'ouverture, à la clôture et au transfert des succursales, des agences et des bureaux périodiques par les établissements de crédit agréés* (Circular No. 2006-05, relating to the opening, closure and transfer of branches, agencies and periodic offices by approved credit institutions).

Current accounts and other banking services

- *Décret No. 2006-1880, fixant la liste et les conditions des services bancaires de base* (Decree No. 2006-1880, setting out the list and conditions of basic banking services).
- *Circulaire aux établissements de crédit No. 2006-12, relative aux attributs de la qualité des services bancaires* (Circular to credit institutions No. 2006-12, relating to the quality of banking services).
- *Circulaire de la Banque Centrale de Tunisie No. 2020-05, portant sur les mesures relatives à la tariffication et à la continuité de certains services bancaires* (Circular of the BCT No. 2020-05, relating to measures involving the pricing and continuity of certain banking services).

Lending

- *Loi No. No. 2008-56, relative aux taux d'intérêt excessifs* (Law No. 2008-56, relating to excessive interest rates).
- *Décret No. 2000-462, fixant les modalités de calcul du taux d'intérêt effectif global et du taux d'intérêt effectif moyen et leur mode de publication* (Decree No. 2000-462, setting out the methods for calculating overall effective interest rates and average effective interest rates and their means of publication).
- *Circulaire aux banques et aux établissements financiers No. 2000-03, relative à la fixation des crédits soumis au même taux d'intérêt excessif et des commissions bancaires entrant dans le calcul des taux d'intérêt effectifs globaux et détermination des taux d'intérêt effectifs moyens sur les crédits bancaires* (Circular to banks and financial institutions No. 2000-03, relating to the fixing of loans subject to the same excessive interest rate and bank commissions entering into the calculation of overall effective interest rates and determination of interest rates average workforce on bank loans).
- *Circulaire de la banque centrale de la Tunisie No. 2019-09 relative aux procédures de consultation des données enregistrées dans la Centrale d'Informations de la Banque Centrale de Tunisie* (Circular of the BCT No. 2019-09, relating to procedures for consulting the data recorded by the Information Centre of the BCT).

Payment services

- *Circulaire de la Banque Centrale de Tunisie No. 2018-16, relative aux règles régissant l'activité et le fonctionnement des établissements de paiement* (Circular of the BCT No. 2018-16, relating to the rules governing the activities and operations of payment institutions).
- *Circulaire de la Banque Centrale de Tunisie No. 2020-11, relative aux conditions de fourniture des services de paiement mobile domestique* (Circular of the BCT 2020-11, relating to conditions for the provision of domestic mobile payment services).

Annex C. Consumer and MSME survey methodologies

The OECD commissioned two pieces of research to understand customer behaviour and outcomes in the consumer current account and the micro, small and medium-sized enterprise (MSME) finance segments. Both surveys were commissioned to EMRHOD Consulting, a market research agency with offices in Tunis and Algiers. This annex describes the methodologies used for these two surveys: one among consumers regarding their current account usage (the consumer survey) and the other among MSMEs on their use of current accounts and finance (the MSME survey).

Consumer survey

The main objectives of the consumer survey were to:

- estimate the proportion of individuals with current accounts, deposit accounts, or neither.
- estimate the shares of supply of providers of current accounts.
- identify the factors influencing individuals' decisions when choosing current account providers.
- understand how individuals engage with current accounts; among other things, this included assessing consumers' propensity to shop around for current accounts and to switch providers, and identifying factors that motivated their choices.
- understand the reasons why some individuals do not have current accounts.

The survey's target population was potential current account customers (18 years old or more). Given that one of the objectives was to estimate the proportion of individuals with current accounts and the shares of supply of providers, the sample was representative of Tunisia's adult population and included both individuals with current accounts and individuals without them, in addition to individuals with bank current accounts and individuals with postal current accounts.

The remainder of the section includes an overview of the methodology and a description of the questionnaire, the data collection methodology, and the weighting used.

Methodology overview

EMRHOD Consulting carried out 2 999 telephone interviews between June and August 2022. To ensure the sample was representative of the target population, EMRHOD Consulting asked screening questions using the key demographic parameters of geography, age and gender.

Participants in the survey were called using a phone number database that included numbers issued by Tunisia's four telecommunications operators. Phone numbers were drawn randomly from the database according to the share of supply of each operator. Although this methodology excluded participants who lacked access to mobile phones, it did not exclude many individuals as mobile phone penetration in Tunisia is high, at 130.5% (Instance Nationale des Télécommunications, July 2021).

The representative robustness of the sample was checked using 2014 population census data, the most recent available. Table A.C.1. compares the target population with the sample used by geographical region.

Table A C.1. Adult population broken down by geographical region vs. sample used

Region	2014 census	Sample
Greater Tunis	24%	25%
Northeast	14%	14%
Northwest	11%	9%
Central East	24%	15%
Central West	13%	13%
Southeast	8%	18%
Southwest	5%	6%
Total	100%	100%

Source: *Institut National des Statistiques* 2014 population census (total population: 10 982 754); OECD consumer survey (D2, N=2 999).

Table A C.2. . compares the target population with the sample by gender and Table A C.3. compares the target population and sample by age.

Table A C.2. Adult population broken down by gender vs. sample used

Gender	2014 census	Sample
Male	49.8%	49.9%
Female	50.2%	50.1%
Total	100%	100%

Source: *Institut National des Statistiques* 2014 population census (total population: 10 982 754); OCDE consumer survey (D3, N=2 999).

Table A C.3. Adult population broken down by age vs. sample used

Age range	2014 census	Sample
18-24 years old	16.3%	16.3%
25-34 years old	20.4%	20.5%
35-44 years old	19.9%	16.1%
45-54 years old	16.9%	13.7%
55-64 years old	22.8%	22.4%
65 years old or more		10.9%
Total	100%	100%

Sources: *Institut National des Statistiques* 2014 population census (total population: 10 982 754); OECD consumer survey (D1, N=2 999).

Survey questionnaire

The survey questionnaire was developed by the OECD in collaboration with EMRHOD Consulting who translated it into Arabic. It was tested in a pilot involving 50 individuals, resulting in some minor edits prior to its launch.

The final questionnaire comprised 53 questions that were a mix of multiple-choice and open-ended questions. All multiple-choice questions included an "other" option in case a respondent's preferred answer was not listed. No respondent was asked all 53 questions, as many questions depended on responses to previous questions. For example, individuals who said that they did not have current accounts were asked why, while individuals who had current accounts were asked questions about its use. As a result, the total number of questions asked of each respondent depended on their experience and engagement with the current account sector.

The questionnaire was developed to minimise framing effects, i.e. the risk of respondents' answers being influenced by the survey design. For example, in addition to the pilot and careful drafting of the questions, EMRHOD Consulting randomised the order of the multiple-choice responses available in some of the questions, for instance in a question asking about the reasons for certain choices. The questionnaire was also designed to be as simple as possible. Questions were restricted to the main account held by consumers and additional questions were asked of consumers with more than one account. In some instances, the questionnaire allowed respondents to choose multiple responses to a single question, for instance, if a question concerned the reasons for certain choices.

The questionnaire included six groups of questions and one set of questions relating to demographics.

- Part A – Introduction: This section included questions asking whether respondents had current accounts and about the providers they used.
- Part B – Shopping around: This section included questions about the propensity to shop around and the criteria used to select providers.
- Part C – Account usage: This section included questions on the frequency of usage of accounts, whether consumers had cards associated with accounts, and about consumer satisfaction.
- Part D – Switching and multi-homing: This section included questions about whether (and if so, when) respondents switched their accounts and for what reasons.
- Part E – Lack of a personal current account: This section included questions about the reasons why some individuals did not have current accounts (if they did not have these accounts).
- Part F – Visits to branches: This section included questions about the reasons for and frequency of visits to bank branches.

Data collection

The survey was conducted on weekdays between 6 June and 10 August 2022. Calls were made between 9:00 and 17:00. Call times were adjusted during July and August according to the *séance unique*, the habit of businesses to work to in a single session between 9:00 and 14:00 during the hottest summer months. The average duration of the calls was 13 minutes and 41 seconds. To ensure the responses were not biased towards individuals more likely to respond during weekdays (for example, because they worked during the week), EMRHOD Consulting also made calls during one weekend. The results showed no significant difference from the other results, which provided confidence that the results were not being affected by any significant bias.

Interviewers were briefed with an explanation of the objectives of the survey, the targeted population, and the questionnaire. Interviewers also engaged in role-playing exercises with each other to ensure a consistent approach. Interviewers also received written instructions in electronic format that could be consulted before and during the interviews.

Quality assurance processes were followed to ensure robust results. EMRHOD Consulting supervisors monitored the quality of at least two complete calls per interviewer on the first day of field work and provided feedback and additional training where needed. Subsequently, supervisors listened to 20% of each interviewer's calls. In addition, the OECD monitored some of the calls for quality-checking purposes. All calls were recorded.

The database was reweighted based on three key demographics: age, gender and geographical region. The weightings used were based on 2014 population census data.

MSME survey

The main objectives of the MSME survey were to:

- estimate the proportion of micro, small and medium-sized enterprises (MSMEs) with business current accounts.
- estimate the shares of supply of providers of business current accounts.
- understand how MSMEs engage with current accounts and identify the factors influencing MSMEs' decisions when choosing current account providers.
- understand how MSMEs shop around for finance and identify the key barriers preventing MSMEs from accessing finance.

The survey's initial target population was small and medium enterprises (i.e. firms with more than 5 and fewer than 200 employees). Given the initial low response rate, the scope of the survey was broaden to include micro enterprises. The remainder of the section includes an overview of the methodology and a description of the questionnaire, of the data collecting methodology and the weighting used.

Methodology overview

EMRHOD Consulting carried out 1 006 interviews between July and October 2022. The initial 489 interviews were done by phone (Computer Assisted Telephone Interviewing or CATI). However, given the low response rate, EMRHOD Consulting completed the remaining 516 interviews face-to-face (Computer Assisted Personal Interviewing or CAPI). To ensure the sample was representative of the target population, EMRHOD Consulting asked screening questions using key demographics parameters of number of employees, geography, and economic sector.

Interviews were pre-arranged and conducted with either the owner of the business, the finance manager or appropriate employees involved in the decisions about opening and managing the business current account and dealing with requests for finance.

The contact details of respondents to the MSMEs survey come from a database that collates information from a range of sources including the *Pages Jaunes de Tunisie*, or Yellow Pages of Tunisia, and the Ministry of Industry's database of industrial enterprises (Ministry of Industry, 2023[1]). This means that informal companies were not represented in the sample, which thus likely overestimated the true proportion of businesses with current accounts.

The representatives of the sample was checked using information from the *Registre Nationale des Entreprise* (RNE), or National Business Registry. Table A C.4. compares the target population with the sample used by number of employees.

Table A C.4. MSMEs broken down by number of employees vs. sample used

Firm type	Number of employees	RNE	Sample
Micro	1-5 employees	50%	35%
Small	6-49 employees	44%	52%
Medium	50-199 employees	6%	12%
Total		100%	99%

Note: Total may not sum up to 100 due to rounding.
Source: *Registre Nationale des Entreprises*; MSME survey (S1, N=1006).

Table A C.5. compares the target population with the sample by geographic region and Table A C.6. compares the target population and sample by economic sector.

Table A C.5. MSMEs broken down by geographic region vs. sample used

Region	RNE	Sample
Greater Tunis	44%	46%
Northeast	4%	5%
Northwest	5%	9%
Central East	30%	29%
Central West	5%	1%
Southeast	8%	8%
Southwest	3%	1%
Total	99%	99%

Note: Total may not sum up to 100 due to rounding.
Source: *Registre Nationale des Entreprises*; MSME survey (S3, N=1006).

Table A C.6. MSMEs broken down by economic sector vs. sample used

Economic sector	RNE	Sample
Agriculture, forestry and fishing	3%	2%
Industry	36%	12%
Construction	8%	6%
Trade. Automotive and Household Goods Repair	23%	6%
Transport and Storage	3%	3%
Accommodation and catering	5%	3%
Information and communication	4%	6%
Other activities	19%	64%
Total	100%	100%

Note: Total may not sum up to 100 due to rounding.
Source: *Registre Nationale des Entreprises*; MSME survey (S2, N=1006).

Survey questionnaire

As for the consumer survey, the questionnaire of the MSME survey was developed by the OECD in collaboration with EMRHOD Consulting, who translated it into Arabic. It was tested in a pilot involving 50 firms, resulting in some minor edits prior to its launch.

The final questionnaire comprised 64 questions that were a mix of multiple-choice and open-ended questions. All multiple-choice questions included an "other" option in case a respondent's preferred answer was not listed. No respondent was asked all 64 questions, because many questions depended on responses to previous questions, for example on whether respondents had a current account or applied for finance. The total number of questions asked to each respondent depended on their experience and engagement with the current account sector and their finance needs.

As for the consumer survey, the survey was designed to minimise framing effects. EMRHOD Consulting carried out a pilot and randomised the order of the multiple-choice responses available. The questionnaire was also designed to be as simple as possible. The questionnaire included seven groups of questions and one set of questions relating to characteristics of the enterprises. The first five groups of questions broadly mirrored the questions in the consumer survey.

- Part A – Introduction: This section included questions asking whether respondents had current accounts and about the providers they used.
- Part B – Shopping around: This section included questions about the propensity to shop around and the criteria used to select providers.

- Part C – Account usage: This section included questions on the frequency of usage of accounts, whether consumers had cards associated with accounts, and about consumer satisfaction.
- Part D – Switching and multi-homing: This section included questions about whether (and if so, when) respondents switched their accounts and for what reasons.
- Part E – Lack of a personal current account: This section included questions about the reasons why some individuals did not have current accounts (if they did not have these accounts).
- Part F – Access to finance: This section included questions about enterprises' journey to finance.
- Part G – Cross-border transactions: This section included questions about the need and use of cross-border payment facilities.

Data collection

The survey was conducted on weekdays between 27 June and 13 October 2022. As for the consumer survey, calls were made between 9:00 and 14:00 in July and August and between 9:00 and 17:00 otherwise. Given that the respondents were businesses, there was no concern about conducting interviews only during weekdays. The average duration of the calls was 17 minutes and 15 seconds. Interviewers were briefed with an explanation of the objectives of the survey, the targeted population and the questionnaire. Interviewers also engaged in role-playing exercises with each other to ensure a consistent approach. Interviewers also received written instructions in electronic format that could be consulted before and during the interviews.

The same quality assurance processes followed for the consumer survey were used to ensure robust results of the MSME survey. The OECD monitored some of the calls for quality check purposes and EMRHOD Consulting supervisors monitored the quality of at least two complete calls per interviewer on the first day of field work and provided feedback. Overall, all calls were recorded and 20% of the calls made by each interviewer were checked.

The database was reweighted based on three key demographics: number of employees, geography, and economic sector. The weightings used were based on number of employees, geography, and economic sector.

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Competition Market Study of Tunisia's Retail Banking Sector

This market study provides an assessment of competition in three broad areas of the retail banking sector in Tunisia: current accounts, bank loans for micro, small and medium enterprises and mobile payment services. The report identifies areas where competition is not working as well as it could, reducing customers mobility and access to finance and limiting the competitive pressure that fintech companies can exert on traditional banks. The report provides a range of recommendations to improve market outcomes for financial services users and it includes estimates of the expected impact of the implementation of the recommendations on the economy. This competition market study is part of a broader project aiming at fostering pro-competitive reforms in Tunisia.

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