

HORTICULTURE IN TUNISIA

EXPORTS, INCENTIVES,
FINANCING INSTRUMENTS,
MARKETING AND
SUPPORT STRUCTURES

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INTRODUCTION

Agriculture has always played a prominent role in Tunisia. Known as Tunisia the fertile by the Arabs - and inheritors of Carthage -, the country was considered for a long time as the granary of Rome.

Today, agriculture in Tunisia represents one of the founding mechanisms for progress and development as can be seen by its contribution to realizing national goals which is assessed at 15% of GNP, 12% of the total of export goods and 22% in relation to employment.

Over the last decade much incentive and encouragement has been granted to the agricultural sector to increase production and exports. These measures have been made effective by the promulgation in 1993 of the "*Code d'Incitations des Investissements dans l'Agriculture et la Pêche*" (Code for Encouraging Investment in Agriculture and Fishing) and by a major programme for exports development through the facilitation of external trade.

My text will focus on the following points:

- 1/ Presentation of the horticultural sector in Tunisia (production and export)
- 2/ Presentation of the Code for Encouraging Investment in Agriculture
- 3/ Presentation of financial instruments for agricultural exports and production as well as support structures for marketing:
 - **COTUNACE** (the Tunisian Company for Insuring Foreign Trade)
 - **CEPEX** (the Centre for Exports' Promotion)

The method followed by this text is to point out all the measures which have been taken in Tunisia to meet the concerns of the exporter, namely, the need to finance an activity at the lowest cost, to find the necessary credit to invest, produce, sell and insure exports' operations against the risks of non-payment.

I PRESENTATION OF THE HORTICULTURAL SECTOR IN TUNISIA (PRODUCTION AND EXPORTS)

The land devoted to horticulture in Tunisia stretches over 2.27 million hectares over a total agricultural area of 8.57 million hectares. The main agricultural wealth of Tunisia lies in cereal crops, market garden crops, nuts, citrus fruit, date growing and fishing. The main products exported are olive oil, dates, vegetables and wine.

A/ Olives

Since Roman times olives have played a major part in Tunisian economy. There are almost 60 million olive trees across a surface of 1,6 million hectares.

Olive production has significantly increased during the decade of 1990-1999 and it has reached an average of 711 thousand tons. The olive oil produced from this was of an average of 170 thousand tons. This level of production plays a crucial role in foreign trade policies. 110 thousand tons of olive oil are exported annually which brings in capital revenue in the order of 202 million dinars on average and contributes 46.3% to the value of agricultural and food exports. In 1999, thanks to an exceptional harvest, exports of olive oil brought in 382.7 million dinars. Tunisia is the second largest exporter of olive oil in the world after the European Union.

B/ Dates

Date production is on average of 100 thousand tons on average: 95 thousand tons in 1998, 103 thousand tons in 1999 and 102 thousand tons for the year 2000. Exported quantities relating to those years were respectively 25.2; 29; and 25 thousand tons.

Dates are second in position behind olive oil in exported horticultural goods and the amount exported has risen in 1999 to 53.5 million dinars.

C/ Citrus Fruit

Citrus fruit production is on average about 200 thousand tons. Over the 1998-1999 season it was 210 thousand tons and it is predicted to be at 225 thousand tons for the 1999-2000 season. Exports relate principally to oranges and the export value of this product reached 8.5 million dinars in 1999.

D/ Vines

- Wine-growing

Vineyards for table wines are planted across a surface of 11 000 hectares with most crops in the North East of the country. National production is estimated to be at a level of 60 000 tons on average. Export initiatives by some private companies to Europe and the Middle East have been reported over the last three years and 15.36 thousand tons were exported in 1998.

- Wine production

Annual production of vintage wine is in the order of 45 000 tons and processing enables an annual production of 300 000 hectolitres of rosé, red and white wine; annual exports are over 100 hectolitres either in bulk or ready bottled.

E/ Market Gardening

135.4 thousand hectares of land is devoted to market garden produce. Production has increased at a noticeable rhythm, particularly in the case of tomatoes (930 thousand tons), potatoes (320 thousand tons), melons and watermelons (350 thousand tons in 1999).

Exports relate almost exclusively to early vegetables produced under non-heated greenhouses. In 1999 the figures were: 3 500 tons of artichokes, 2 050 tons of potatoes and 1 306 tons of tomatoes. Exports of these items came to 3,48 million dinars. Lastly, alongside exports of early produce, exports of harissa, a product formed by processing fresh pepper, reached a level of 2.2 thousand tons and a value of 6.3 million dinars.

F/ Flower-Growing

Flowers in Tunisia are expanding slowly in comparison with other horticultural sectors such as fruit trees and vegetable crops. Floral crops extend over 75 hectares; 10 of them are under glass greenhouses, 20 hectares under plastic and 45 hectares in the open air. Exports of cut flowers increased in 1998 to 1 million dinars.

Exports of horticultural products has brought in currency to Tunisia to the equivalent of 455.5 million dinars in 1999 and many efforts have been made to develop this sector as we shall see in the next few chapters of this text to develop this sector.

II PRESENTATION OF THE CODE FOR ENCOURAGING INVESTMENT IN AGRICULTURE AND FISHING

The State body which is responsible for promoting and developing the agricultural sector is the *Agency for the Promotion of Agricultural Investments* (APIA). This body, established through Law No. 82/67 of 6 August 1982 has the following website address: <http://www.tunisie.com/APIA/index.html> (Prom.Agri a Apia.COM.TN).

APIA's goal is to contribute to the development of private investments likely to increase production and to improve productivity in agricultural sectors, the fishing industry and related services by means of:

- identification of investment opportunities
- assistance to promoters in compiling their investment files and working alongside them while projects are being carried out
- placing Tunisian and foreign investors in contact with each other in order to promote agricultural partnerships
- providing sweeteners and financial and fiscal advantages for investment projects.

Declarations of investment projects in the agricultural sector must be lodged with the APIA. Resident or non-resident foreigners can invest freely in the agricultural sector in terms of setting up operations by renting agricultural land; however, such investments can never lead to ownership by foreigners of agricultural land.

Incentives for agricultural investment mean a contribution to the financing of the project in the form of subsidies, grants and either partial or total tax exemptions. As a rule the promoter is asked to finance 30% of the total cost of the project him/herself, the other 70% being financed by medium-term bank credit for investment without, however, any reduction in interest rates (the rate of interest being the Money Market Rate in Tunisia [the MMR] - which is currently at 8.5% and which can increase by a margin of 4%).

Incentives for agricultural investment relate to investments for creation, expansion, renovation, redesign or transformation of a business.

The Incentive Code also includes the horticultural sector.

Incentives for agricultural investments are both fiscal and financial.

A/ Fiscal Incentives

- **Partially exporting resident enterprises** not only benefit from financial incentives but also from the following tax benefits:
 - Exemption from VAT and from consumption duty on goods, products and services.
 - Complete deduction of exports' revenue from the tax base relating to personal income for the first 10 years.
 - Reimbursement of customs' duty and taxes on imported capital goods which have not been manufactured locally.
- **Totally exporting enterprises.** Enterprises in this category are those agricultural enterprises which export at least 70% of their produce with a possibility of selling the remainder to the local market.

In Tunisia these businesses have only to pay the following taxes, duties, levies and contributions:

- Tax and duty relating to private vehicles.
- A one-off countervailing tax for road transport.
- Taxes and duties for services supplied.
- Social security contributions and payments.

- Personal income tax and a tax on businesses after a deduction of 10% of exports' revenues from this tax base for the first ten years.

To conclude, these companies are free to recruit four managerial and supervisory agents of foreign nationality simply by notification.

B/ Financial Incentives

Partial financing of the investment cost is also done through financial incentives: these incentives are granted according to the classification of the investment. There are three categories under this classification:

Category "A" - Investment equal to or lower than DT 40.000 - with at least 10% financed by the promoter him/herself.

Category "B" - Investment of over DT 40.000 - to a maximum of DT 150.000 - with at least 10% financed by the promoter.

Category "C" - Investment of over DT 150.000 - and with at least DT 30.000 - financed by the promoter.

- Bursaries

Investments which come under categories "B" and "C" may benefit from a study award. The highest level of these, respectively, is of DT 1.500 and DT 5.000.

- Investment awards

Awards known as "investment awards" are also granted to investors at a level of 25%, 20% and 7% of the total cost of the project respectively for categories "A", "B" and "C".

- Land loans

Incentives can also be in the form of a land loan at a favourable rate. The level of this land loan is limited to an upper level limit of DT 100.000 - and goes down to DT 30.000 - in the case of a purchase from ascendants: the reimbursement period is of 25 years with a five year grace period and a 5% interest rate.

➔ Benefits granted to new promoters

"New promoters" are individuals of Tunisian nationality who are under 40 years of age, whether they are part of a company or not and who at the time of their first project have the required experience and bonuses.

The minimum rate of the fund itself is set at 10% for projects in categories "A" and "B" and 25% for projects under category "C".

New promoters benefit from the following incentives:

- An investment award set at 6% of the cost of the project.
- An undertaking by the State to pay the employers' contributions to Social Security for salaries for Tunisian employees for the first five years of the business operating at full levels.
- A reimbursable grant not exceeding 70% of the amount self-financed with a ceiling of DT 100.000 - an interest rate of 3%, and a length of reimbursement period of 12 years with a five year grace period.

III FINANCIAL INSTRUMENTS FOR PRODUCTION AND EXPORTS AND SUPPORT STRUCTURES

A/ Financial Instruments for Production and Exports

1/ Operational credits

In addition to the investment credits to finance agricultural projects, farmers may also receive operational credits from banks. It concerns short-term credits in the form of:

- *Seasonal crop credit* granted to producers with a duration and amount fixed by the Central Bank of Tunisia according to geographical areas.

Example: Taking the case of an agriculture enterprise growing potatoes, this enterprise can obtain, according to its geographical situation, a 920 dinars /hectare loan to face the expenses related to the purchase of insecticides, fertilizers, soil preparation etc...

This credit is granted for a period of 5 to 6 months and its reimbursement is fixed, depending on the region, on 31st May or 31st July.

- *Seasonal credit* granted in order to buy agricultural products for marketing locally or for exporting and at a value representing one month's purchase.

Example: In the case of an enterprise acting in tomatoes processing with a production capacity of 4,500 tons of concentrate, and considering the crop period which extends over 3 months (April-May-June).

The credit which can be obtained by this enterprise to buy tomatoes will represent a month purchase being 75 000 dinars for 0.05 dinar value per kilo.

- *Advance credit on merchandise* to cover the costs of storage and packaging at a maximum level of 80% of the expenses.

Example: In the case of an enterprise specialised in dates conditioning and with regard to the stock provisioning which extends over 10 months, the advance credit can be granted in order to allow it to pay the cost of the dates packaging and storing. Reimbursement will be made in 2 instalments, the first being payable 5 months from the drawdown date and the second 5 months later.

- A *cash facility* granted to cover the needs of rolling funds.

2/ Export credits

In terms of exports there are two types of credit: *Advance credit* and *credit financing*

- **Advance credit**

This type of credit is granted on the basis of a contract for an order and is intended to cover the costs of production for exports for a duration of 180 days maximum. It covers 80% of the export value.

Given the reluctance of banks to grant advance export credit either because they do not know the exporting company sufficiently or because the company does not supply the customary guarantees, a fund to insure export financing before dispatch was set up in 1999. This Fund guarantees reimbursement of the credit advanced by the bank.

Given the importance of this Fund, it will be discussed in a separate section further below.

- **Credit for financing exports**

This is provided by mobilizing accounts receivable from abroad and covers 80% of the export value which has actually been realized, on display of proof of shipment and the final invoice.

3/ National Guarantee Fund (NGF)

It is important to note that neither the operational credits nor the export credits benefit from any interest reduction. However, the operational credits are eligible for cover by the National Guarantee Fund (NGF), which banks insist borrowers without sufficient guarantees be a member of. The NGF was created by the government in 1981 to support small and medium agriculture enterprises and acts in the following three ways:

- **Refinancing outstanding payments**

Action here relates to outstanding amounts on the principal. Conditions, particularly those relating to the amount, duration and interest rates are set by decision of the

Finance Ministry on the proposal of the Inter-departmental Committee. In fact, it concerns the taking on the interest generated by the refinancing of the enterprise which is no longer able to honour its commitments by reason of financial difficulties.

- **Taking on outstanding payments**

Credit is considered to be irrecoverable when the bank has exhausted all legal means to recover the outstanding credit, thus establishing the complete insolvency of the beneficiary.

- **Taking on costs of pursuing and recovering of claims**

The cost of subscription to the NFG is 1% on the amount of the credit granted. This amount is paid by the beneficiary.

The NFG will pay up to 90% of the unpaid monies to the beneficiary: the outstanding 10% is paid by the bank.

Finally, the NFG intervenes when there is a drought officially confirmed by decree and it takes on all the interest relating to the rescheduling of repayments.

B/ Support Structure for Exports

Exports are fundamental to the Tunisian economy and all efforts are made in order to reduce the trade deficit and to improve as far as possible the rate at which imports are covered by exports, thus the Supreme Exports' Council was created in 1997. This Council is chaired by the Head of State and it is, in particular, responsible for fixing objectives, drawing up strategy in the area of exports and adopting measures necessary to achieve the objectives which have been set. Through this Council there is active monitoring of exports with the participation of all the Ministries and Bodies which are directly concerned.

Many bodies are responsible for achieving the goals of the exports' strategy. Alongside **APIA**, the body responsible for the promotion of agricultural investment, there is **COTUNACE** (the Tunisian Company for Insuring External Trade) and **CEPEX** (the Centre for Promotion of Exports) which, in their turn, are responsible for facilitating marketing and promotion of exports in a general manner, including, of course, exports of agricultural goods.

A/ COTUNACE

Website: www.COTUNACE.com.tn.

In a similar fashion to other exporting countries, Tunisia has set up a system for insuring exports which is adapted to the economic situation in the country. This has been in effect for some fifteen years. This insurance system provides the exporter

with the option of being able to have protection against all external risks which might have a negative effect and allow the exporter to work on the global market both with both peace of mind and the necessary security. It also enables the exporter to obtain bank credit in the form of an advance on export operations to countries where the risk is not accepted by the bank. The three risks insured by COTUNACE are the following:

1/ Commercial risk

This covers the risk relating to a private purchaser where the purchaser goes bankrupt, is in financial difficulty or who quite simply refuses to pay.

2/ Risk relating to a public buyer

This relates to the risk of a public buyer defaulting on payment.

3/ Non-commercial risk

Risks here relate to war, troubles, riots and revolutions in the purchaser's country, non-transfer of currency and natural disasters.

Those losses which stem from such risks and which are covered are the risks of non-payment and of losses relating to contract interruption. COTUNACE offers insurance contracts that are adapted to these events and which have been thoroughly researched. These contracts cover the operations of small exporting companies, regular exports' operations and occasional exports operations.

1/ Operations carried out by small exporting companies.

This is a fixed rate insurance which is offered to companies with a turnover of no more than DT 60.000 - and which must not agree to contracts with payment terms of over 180 days with their purchasers.

This contract covers the risk of non-payment, that is to say when the debt has not been settled by the deadline agreed by contract. In the case of a problem (unpaid debts or cancelled orders), COTUNACE pays the insured company a sum for payment of the problem at the latest four months after the date when the debt should have been settled. Where it relates to a commercial risk the sum paid is 85%; it is 95% when it relates to a non-commercial risk. The fixed rate insurance covers the annual turnover. The premium for this is a fixed rate payment of 500 DT for commercial risk and 48 DT for non-commercial risk.

2/ Standard business insurance

This insurance is offered to companies which carry out regular export operations with a payment deadline of maximum 180 days. It covers losses due to non-payment or interruption of flow to the market. The premium is from 0.6 to 0.9% of the monthly turnover for commercial risk and for non-commercial risk it is 0.4%. For risk relating to a public buyer it is 0.7%. Compensation is a full 100%.

3/ Individual insurance

This insurance contract is designed for companies which carry out irregular export operations with payment deadlines going from 180 days and up to five years. All commercial, non-commercial risks and risks relating to a public buyer are fully covered.

For commercial risk compensation is 90% of the debt for losses incurred due to non-payment and 100% for losses due to interruption of flow to the market. The premium is set at 0.3% to 0.4% per contract.

Compensation is the same as for non-commercial risk. Here the premium is 1% to 1.5%.

For risks relating to public buyers compensation is the same as for the two risks cited above and the premium is 0.3% per contract.

In 1999 a new fund entitled ‘**Fund for Guaranteeing Financing for Exports**’ was created in order to facilitate exports. Management of this fund has been entrusted to COTUNACE.

This fund has the specific aim of facilitating access of small and medium exporting enterprises to advance credit from banks for exports. The mechanism proposed to achieve this objective consists in covering the risks linked to non-performance at the production level of companies (these risks usually being at the root of banking establishments’ unwillingness to provide the necessary rolling funds for exports’ production).

Those operations, which meet the following conditions, are eligible for this fund:

- They must have irrevocable documentary credit confirmed in Tunisia or else be covered by exports’ insurance against the risk of contract interruption and the risk of non-payment.
- They must be managed in accordance with the environmental norms decreed by the department of the Ministry for Planning and the Environment.

The amount of credit advanced by banks which is to be guaranteed by the fund must be to a maximum of 90% of the cost of the exports marketed and this figure should not exceed the amount of 150 000 dinars. Payment terms must be agreed at a maximum of 360 days. The premium paid by the company to benefit from this possibility is 0.15% per month calculated on the amount of credit advanced.

B/ Centre for the Promotion of Exports (CEPEX)

Website: www.CEPEX.nat.tn

It is not enough for the exporter to simply create a project and to benefit from the advantages and incentives for investment in the activity, nor is it sufficient to find solutions for financing the concern and insuring exports' operations against the risks of non-payment. It is also imperative that markets and purchasers be found to sell the goods.

CEPEX was therefore created in 1973 in order to support Tunisian exporters and foreign operators in their marketing efforts by providing them with a range of customized services.

CEPEX has two Funds at its disposal to promote and improve strategies and the export environment. The two Funds are:

FOPRODEX (Fund for Promoting Exports) and
FAMEX (Access Fund for External Markets)

1/ FOPRODEX

FOPRODEX provides several subsidies for exporters in their activities to launch and promote their operations. The enterprise provides 20% of the budget for the projected activity itself. FOPRODEX subsidies are at a maximum of 80% provided in part as a subsidy and in part as a loan.

The amount subsidized is 30% and the amount loaned is 50%. It is reimbursable over three years with one year's grace period. The interest rate is the current market rate.

Those promotional activities which are subsidized are principally the following:

- Publishing of promotional support material: catalogues, CD-ROMs, setting up of a web site and production of documentary films.
- Creation of the label, design and registering of the mark
- Fashion and other collections
- Participation in international tenders
- Invitations to foreign principals
- Market and implantation studies
- Prospecting of foreign markets
- Participation in trade fairs abroad
- Development of the Exports' Department within the company
- Promotional and marketing days
- Activities aimed at particular segments of the market (tasting, open days, showrooms)

B/ The Access Fund for Foreign Markets (FAMEX)

This Fund was created in the year 2000 to complement the facilities provided by FOPRODEX. FAMEX provides subsidies of 70% at a ceiling of 10.000 dinars which is intended to finance the cost of drawing up of an “Exports’ Marketing Plan” for companies and service providers.

Finally, to bring the Tunisian market closer for exports’ operators CEPEX has devised a website: T@Sdir Net Data (<http://www.cepex.nat.tn/fr/tasdir/default.asp>), which is a database of marketing information providing three types of information:

- Market profiles: a database relating to 70 target markets
- Operator profiles: a database on Tunisian operators which provides up-to-date information on 1 800 Tunisian exporting companies
- External Trade Statistics: a database on annual and monthly statistics relating to external trade, Tunisian trade, etc.