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TUNISIA

Doubts over banks sell-off

Privatisation looms for the state's big stake in banking but the public could end up paying the debts of ex-President Ben Ali's cronies

Secret audits of Tunisia's anaemic state banks have turned up a host of bad loans from the era of former President **Zine el Abidine Ben Ali**. Now that economic policy is back in the hands of pre-Jasmine Revolution politicians, some fear that many improper loans to allies of the ruling circle will be quietly wiped away and no one held to account. There are no realistic prospects that the holders of the unpaid loans found in the audits will be revealed, however. 'Why should we give all the information on that?' asks **Chedli Ayari**, the Governor of the central bank, the *Banque centrale de Tunisie* (BCT), an octogenarian who served under Ben Ali (AC Vol 53 No 25).

The outgoing Finance Minister, **Hakim Ben Hammouda**, told *Africa Confidential* that a balance had to be struck between transparency and disclosing information that was not 'necessarily good for the stability of the banks' (AC Vol 55 No 20).

The state has large minority shares in eight banks and their disposal to the private sector is about to begin, Ben Hammouda said. Privatising the Big Three, state-controlled institutions – the *Société tunisienne de banque* (STB), *Banque nationale agricole* (BNA) and *Banque de l'habitat* (BH) – is on the cards. Once their balance sheets have been cleaned up, the banks will be 'open to the Gulf', Ayari told us. Investors from **Kuwait**, **Qatar** and the Gulf sheikhdoms will be offered the stakes. They have already expressed interest.

One alternative would be to sell to wealthy Tunisian families already in banking or to include them in the sell-off. The Mabrouk family, which has a 34% shareholding in the largest privately-owned bank, the *Banque internationale arabe de Tunisie*, grew exceptionally wealthy under Ben Ali through monopoly positions in the economy. That included the *Orange Tunisie* mobile telephone network and the *Monoprix* supermarket chain. In the 1990s, the *Groupe Mabrouk* kicked out the then Chief Executive, **Mansour Moalla**, a founder of BIAT, in a Ben Ali-backed bank coup, said several banking sources. One of the Mabrouk brothers, **Marouane Mabrouk**, married one of Ben Ali's daughters, **Cyrine Ben Ali**.

A broad consensus supports selling off state shares in eight of the dozen state banks, Hammouda said, excluding STB, BNA and BH 'for the moment' as they are the most exposed to bad debt. They hold almost 5 billion dinars (US$2.64 bn.) in deposits, according to Hammouda and other banking sources, but the only information to come out from the audits said their balance sheets were undercapitalised by D1 bn. Parliament has been asked to vote through the money but seems reluctant. Preliminary stress tests have already shown that the state banks need a capital injection, says a senior government source close to the process.

The non-performing loan portfolio of the three banks is thought to amount to D6.7 bn. These were the most political banks in the system. They found it as hard to refuse credit to favoured members of Ben Ali's inner circle as they did to demand repayment when the loans fell due. Said one Tunisian banker, 'The banks are hiding the secrets of the past. All the big families that dominate the economy were working with the regime. All of them! If you give details about the Big Three state banks beyond how much they need to be recapitalised by, you make public all the historical relations between the families and the regime.' The problem, he says, has been a 'cannibalistic' system that was eating itself from the inside. 'That's what led to the fall of the regime. The CEO of a big state bank received a call saying, "Give 100 mn. to someone". If he didn't do it, he's fired. The call could come from an advisor to the President, a minister, an advisor to a minister or from outside the ministry, the brother of the sister of the cousin of the wife of the President!'

BAD GOVERNANCE AND DEBT

The Big Three have suffered from decades of bad governance and accumulation of debt, and had previously been inspected only by internal auditors. STB was founded in 1958, BNA in 1959 and BH in 1989, the year Ben Ali became President. STB has such a commanding presence in the economy that its collapse would threaten the entire financial system, Ayari and Hammouda agree.

The impetus for banking privatisation remains strong. Ayari's mandate at the BCT is expected to last until 2017. The country's new constitution allows the President to choose a new Governor but that doesn't look imminent: regulatory sources say Ayari is close to the new

	Bank	Listed on Tunis Stock Exchange?	State shareholding: Direct	State shareholding: Indirect
ONSHORE	*Banque Zitouna*	NO	87.00%	0%
	Banque de financement des petites et moyennes entreprises	NO	60.00%	30.00%
	Banque Tuniso-Libyenne	NO	50.00%	0%
	Stusid Bank	NO	49.24%	0.76%
	Banque de Tunisie et des Emirates	YES	38.89%	0%
	Banque d'Habitat	YES	32.62%	16.57%
	Société Tunisienne de Banque	YES	24.81%	13.85%
	Banque Nationale Agricole	YES	23.49%	0%
	Banque Tuniso-Koweitienne	NO	20.00%	0%
	Banque tunisienne de solidarité	NO	38.00%	
	Banque Al-Baraka	NO	21.60%	
	Banque Franco Tunisienne	NO	0%	78.16%
	Amen Bank	YES	0%	0%
	Arab Banking Corporation	NO	0%	0%
	Arab Tunisian Bank	YES	0%	0%
	Attijari Bank	YES	0%	0%
	Banque de Tunisie	YES	0%	0%
	Banque Internationale Arabe de Tunisie	YES	0%	0%
	Citi Bank	NO	0%	0%
	Qatar National Bank Tunisie	NO	0%	0%
	Union bancaire pour le commerce et l'industrie	YES	0%	0%
	Union internationale de banques à Tunis	YES	0%	0%
OFFSHORE	*North Africa International Bank*	NO	50.00%	0%
	Tunisian Foreign Bank	NO	0%	56.00%
	Alubaf International Bank	NO	0%	0%
	Loan Investment Company	NO	0%	0%
	Tunis International Bank	NO	0%	0%

President, **Béji Caïd Essebsi** (AC Vol 55 No 23). Ayari thinks the government should simply 'get out of the whole banking sector' and says the Gulf investors or Tunisian capital offer the best options.

Backed by the World Bank, a plan to restructure the Big Three is under way. After some members of the last Parliament protested at the secrecy, the BCT and Finance Ministry relented but still handed MPs only an abstract of the plan, says Ayari. 'It is the essential things: the results of the financial, social, and institutional auditing, how much money is needed, how much losses were incurred. The MPs don't need to go into detail: these are publicly quoted banks. The basic information required by investors, would-be investors, is published and disclosed by the Tunis Stock Exchange.' Few parliamentarians are satisfied. The Rapporteur of the last Parliament's Finance Committee, **Lobna Jeribi**, says she questioned the 'opacity' of the audits and couldn't support the vote to inject the D1 bn. in recapitalisation because she hadn't got enough information. Last December, Parliament again failed to vote the recapitalisation funds for the national budget for 2015.

A draft law on a 'bad bank' entity to absorb the toxic loans without identifying the defaulters is still bogged down after three years. The delay stems from the issue of naming and potentially penalising some of those responsible for the bad debts. Although members of the pre-Revolution elite have kept the law in play, the question is holding up foreign assistance. The World Bank told AC that $500 million of budget support in the pipeline couldn't be disbursed by the end of 2014 as planned, in part because the banking sector was not yet being restructured. The bad debt issue has to be resolved as part of the restructuring.

A major part of the bad debt problem derives from the Big Three's loans to state-owned firms. A steel products manufacturer, the *Société tunisienne de sidérurgie* SA (aka *El Fouladh*) and the wheat monopoly, the *Office des céréales,* are just two state-owned companies that borrowed heavily but cannot repay. Their privatisation is attractive to many in policy terms but some fear that most would collapse when exposed to the marketplace. That could spell disaster for many poor Tunisians. The BNA, for instance, is a major financial prop for agriculture.

Tourism, once a milch cow for the rest of the economy and a massive earner of foreign currency, also became heavily indebted. Ben Ali's patronage included giving hotels to members of his entourage. The beneficiary would then often use the hotel as collateral and take out big loans, especially from the STB, according to bankers in Tunis. The tourism sector's bad loans grew by D30 mn. every month between 2010 and 2013, the World Bank says. The rate of increase of bad debts has now slowed to about D10mn. a month but they are still growing.

Slim Tlatli, a Tourism Minister under Ben Ali and an advisor to the outgoing Tourism Minister **Amel Karboul**, says tourism represents a quarter of the Big Three's D6.7 bn. exposure to bad loans, which Ayari confirmed. It seems the economic managers are more worried about the banks than about tourism. 'Now we're talking about this issue not because of the tourism sector but because of the banks,' Tlatli told us. 'We need to recapitalise these banks.'

'OPEN THE GAME TO THE GULF'

Eight of the banks are relatively unscathed and there is hope that if the state's shares in them can be sold on successfully, the money received can be used to lower the cost of rescuing the Big Three. This is the 'Fund for the Modernisation of the Tunisian banking sector,' which the newly elected Parliament authorised in mid-December and would potentially pave the way for selling the Big Three's shares within 'a year or two,' Hammouda says. Advisors are still being recruited for the process of selling state shares in the eight banks, he revealed.

The idea is for the eight to be privatised in phase one, and the big three in a later phase. The eight are the *Banque Zitouna* ('Your Islamic Bank in Tunisia'), which was founded by **Mohamed Sakher el Materi**, who accumulated a fortune after marrying presidential daughter **Nesrine Ben Ali** and is now in **Seychelles** (AC Vol 52 No 2); *Banque de financement des petites et moyennes entreprises*; *Banque Tuniso-Libyenne*; Stusid Bank (formerly *Société tuniso-saoudienne d'investissement et de développement*); *Banque de Tunisie et des Emirats*; *Banque tuniso-koweïtienne* (formerly *BTK de développement*); *Banque al Baraka* (Islamic banking); and *Banque tunisienne de solidarité*. The state has an indirect shareholding in some of these, meaning that it holds shares in another entity that holds shares in a bank (see Table). The *Banque* ***franco***-*tunisienne* can't be sold since it's in litigation and the state shareholding of 78.1% is totally indirect, which would complicate a sale.

How the state shares are sold would vary according to the peculiarities of each bank, says **Radhi Meddeb**, head of consultancy Comete Engineering SA and a board member of BTK. If a state bank already has a foreign partner in a strategic position, as does BTK, it would make sense to sell the shares to that existing partner, says Meddeb, who until mid-2011 was a member of the central bank's Board of Directors.

Ayari agrees and says that if a bank hasn't already got such a foreign partner, 'we'll fetch for one.' The Qatar National Bank has already expressed interest in purchasing Tunisian state bank shares, according to Ayari, who says there are also plans to speak to Kuwait. 'We'll open the game to the Gulf banks to see if they're interested to get into the game.' Maghreb countries such as **Morocco** have also shown interest, 'so let's study that,' says Ayari, declining to identify any such Maghreb or private bank.

The STB begins the year with abysmal losses. It needs close to the equivalent of $500 mn. to recapitalise and is 'probably the systemic bank in the country,' says Ayari. Publicly available market capitalisation figures show that the Big Three have all declined over the last months. Ayari acknowledges private shareholders are 'uneasy about things' but 'they're still in. You don't have any of them saying they're quitting. I had a meeting with private shareholders, including from STB, who told me they will follow up and pledge some capital.' That figure is an 'important amount,' he said. The problem remains of how to salvage the STB.

Even if the bank passes the stress tests and the recapitalisation goes through, a clean sweep of management will be needed and job losses lower down the bank hierarchy will be inevitable, which would have huge implications, given that unemployment now stands at over 15%. 'If you have the same board of directors and same management, it's like you kick this money out of the window,' he says. 'This is a major discussion between the multilateral lenders and the state.' For his part, Ayari says there are now plans to recruit directors 'on the basis of their CVs and that state banks have excessive staff members who should get out. We cannot keep them.' Yet outgoing government Spokesperson **Nidhal Ouerfelli**, who worked under ex-Prime Minister **Mehdi Jomaa**, had said publicly last April that there would be no bank lay-offs.

GUARDING AGAINST A RUN

The financial managers believe the risks of a run on the banks is low. 'Physical persons', or depositors, are not allowed to use their bank accounts to exchange dinars for foreign currency and this will continue, Ayari says. Foreign exchange reserves cover 110 days of imports, he says. The implications of past state control of the banking sector are likely to remain for a while, even if the privatisations and sell-offs continues apace.

Ayari and Hammouda are confident of Tunisia's basic financial stability but major problems remain. The issue of recovering the corruptly loaned money from Ben Ali's era will not be resolved soon and until it is, the much vaunted 'liberalisation' of Tunisia's financial services must wait. ●