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## Tunisia's Flawed Bank Bailout

*Paid By the People, But Not For the People*

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At the beginning of August, several parliamentarians in Tunisia angrily called for the government to disclose the findings of secret audits for two state-owned banks. A bank bailout vote would be taking place only days later, on August 7, and most of the loan portfolios of the two banks in question—Société Tunisienne de Banque and Banque de l'Habitat—were abused or laid to waste by the regime of former president Zine el-Abidine Ben Ali. These banks hold a [tsunami of still unresolved bad debt](#) and are now publicly known to be illiquid and possibly insolvent.

The audits detail the lending activity of the two banks during more than two decades of mismanagement under state bankers installed by Ben Ali. During that time period, the bankers had been forced to finance most, if not all, loan applications presented by Ben Ali and his entourage. They did so by counting these loans as gifts, according to a local Tunisian banker who has seen one of the secret bank audits. Once granted, most of the loans were never repaid. Since the [fall of the Ben Ali regime after the 2011 revolution](#), the banks have remained largely unreformed, although the government is promising a shakeup of executive-level management.

Some figures from within Ben Ali's inner circle are indebted to these banks and have since transformed themselves into key allies of the new Nidaa Tounes majority party, led by Tunisia's new 88-year-old president, Beji Caid Essebsi, in order to protect their political influence and financial transactions, an official who is knowledgeable about state bank transactions told me. As a result, the planned management shakeups have themselves become tangled in a power play, he said, in which Nidaa Tounes and its closest allies need to change key bank appointees selected after 2011 in order to create "a new distribution of the cake."

The taxpayer-funded bailout will thus allow sitting and former officials and their allies to sweep their debts under the rug. Indeed, as Souad Bayouli, a member of the Front Populaire party, told parliament, the bailout was an "attempt to camouflage the truth." Hafedh Zouari of the right-of-center Afek Tounes party proposed a public blacklist of officials with unpaid loans, saying he couldn't otherwise support a bailout. And the Courant Démocratique party's Samia Abbousaid that it would be dishonest to bail out the banks without an awareness of the "real situation."

In the end, the audits were never officially released. However, before the bailout vote, it came to light that the audit of Banque de l'Habitat had been entrusted to a consulting firm owned by Mongi Baccar whose brother, Taoufik Baccar, served as Ben Ali's finance minister in 1999 and then as Tunisia's central bank governor from 2004 until 2011, when he was removed from office. Under Ben Ali, Taoufik reportedly pressured a former chief executive from Société Tunisienne de Banque to grant Mongi an unsecured loan so that he could purchase a property that would otherwise have been rented to a state company (an allegation that Taoufik has denied).

The public was incensed by the revelation. Even so, a few days later, Tunisia's representative assembly voted overwhelmingly in favor of the bailout: 867 million dinars (\$440 million) of taxpayer money to help wipe out the bad debts of the two banks. After the bailout passed, senior Tunisian government advisers told me that they worried that key structural issues—such as the procurement and auditing processes, as well as having indebted state-owned firms as their main clients—remain unresolved. They believe that, before long, the banks will be asking for more cash.

### TOO BIG TO FAIL

So why did the bailout pass? One senior government adviser told me that even some members of parliament who had been opposed to the August bailout on the grounds that it lacked provisions to hold former regime figures accountable, felt obligated to vote yes. Like

the United States, Tunisia seemed caught in a “too big to fail” situation: its three big state banks command a large footprint in the country’s financial system, in that they make up about 40 percent of total banking assets, a large portion of which are loans. Tunisian banking sector insiders calculate that the total bad loan portfolio for the three state banks (one state bank was not up for a bailout, and remains unaudited) is about 6.7 billion dinars (\$3.4 billion). Meanwhile, then Finance Minister Hakim Ben Hammouda and other banking sources told the journal [Africa Confidential](#) late last year that these banks hold almost 5 billion dinars (\$2.64 billion) in deposits.

Of the bad debts, 40 percent come from the tourism sector. Assembly member Fayçal Tebbini stated during a parliamentary session that some of Ben Ali’s cronies within the tourism sector took loans of 10 million dinars (\$5.1 million) and then pocketed half. Ben Ali also gave hotels to his clan to use as collateral against loans from state banks. A former member of Tunisia’s tourism sector reform committee told me that instead of paying back their loans these cronies bought cars for their girlfriends and increased their own wealth through other investments. Many such “hoteliers” still refuse to declare their full income, according to the same tourism reform committee member, and they no longer have the funds to operate their hotels or pay back their loans. The tourism industry was hit hard after [the 2011 revolution](#) and slammed again this year by two terrorist attacks—first at the National Bardo Museum and then [at a popular resort in Sousse](#). Tourism is now down 76 percent from 2010, the year before the fall of Ben Ali, according to the central bank. The International Monetary Fund (IMF) said in a report last week that these attacks led to the cancellation of around half of existing hotel bookings and resorts were emptied at the height of the summer season. The National Tourism Office estimates that around 90 percent of Tunisia’s more than 800 registered hotels are already experiencing financial difficulties or are in the process of shutting down. For the year as a whole, the IMF says losses from tourism inflows are expected at almost \$1.1 billion, or a 45 percent decrease, with “significant” implications for the broader economy.

It is easy to see, then, why almost 30 percent of debts owed to Société Tunisienne de Banque, the biggest of the three state-owned banks, have “probably” not been repaid, according to the bank’s chief executive, Abdelwahab Naji. He explained on national radio two weeks after the August bailout vote that ailing state-owned enterprises and a variety of sectors affected by Tunisia’s economic slowdown continue to face challenges in repaying their debts.

#### STEPS IN THE DARK

Only a month after the August vote, the IMF’s Christine Lagarde and the governor of Tunisia’s central bank, Chedly Ayari, spoke together at a press conference about yet another bailout. Ayari said that negotiations would soon be under way for an IMF emergency loan for at least \$1.7 billion. By the end of that month, the IMF handed over a loan of a little over \$300 million, and then, at the beginning of October, the World Bank approved a long-delayed \$500 million loan to aid restructuring of Tunisia’s state banks and to help spur economic growth. These loans were in part conditioned on some initial recapitalizing and restructuring of Tunisia’s three state banks, but this process to recapitalize has been opaque.

Recapitalizing the state banks has been an urgent priority since the fall of Ben Ali. The bailout cash, which comes at taxpayers’ expense, will reduce the state banks’ capital deficits when they publish their balance sheets by the end of this year. But in terms of a new state strategy for these banks, which now serve little purpose as a source of credit to spur economic growth, a senior government adviser told me that nobody knows what will happen next. “Even the ministers don’t have the information because there’s no transparency,” he said. “We’re taking steps in the dark.”

There is also a lack of clarity as to how the bank restructuring will help reform the banking sector. In September of this year, Naji assured the press that a restructuring plan was under way. Alongside the August taxpayer bailout, he said that the restructuring would allow the Société Tunisienne de Banque to stay liquid. Tunisia’s finance minister, Slim Chaker, has likewise promised to restructure all three banks by the end of this year, and in June a new chairman, Jamelddine Chichti, was appointed to head Société Tunisienne de Banque. The bank’s board decided to separate the powers of the chairman and CEO, which would ostensibly increase the independence of the board and provide checks against improper or corrupt lending. But Chichti had served as a financial adviser to Ben Ali, and is also a former CEO of the state-owned airline, Tunisair. Other candidates who Chaker proposed as CEOs or chairs of the three state banks were all turned down for political patronage

reasons, according to a senior official involved in the process. Further, since core governance problems are essentially unresolved, he said, any structural change or change in leadership is simply a process of redistributing the cash cow.

Indeed, the taxpayer bailout cash will have been spent on reducing the banks' capital deficits instead of on other investments to spur Tunisia's economy. Banking sector insiders still complain that neither confidence in the banking sector has improved, nor has central bank policy. Still, banking reform is necessary, because without it there will certainly be no economic recovery for Tunisia.

In its report last week, the IMF said reforming banking supervision itself remains an "absolute priority." As one assembly member, Fayçal Tebbini, said in parliament, Tunisia's need to make cronies account for their actions in the midst of banking reform is "not less important than the fight against terrorism." These banks, he said "are the very symbol of corruption."