Overcapacities in the Tunisian tourism industry

Philippe Adair, Ali Abdallah

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Philippe Adair[1] and Ali Abdallah[2].

Abstract

We provide an overview of the Tunisian tourism industry on the long run, wherein investment has been on rise since the early 1990s and is obviously facing overcapacities. We document the trend of the fundamentals of tourism industry in terms of ongoing supply, harsh competition and lagging market share. We examine its performance as regards low receipts, declining value added and the lack of employment absorbing capacity. Investment overcapacities are fuelled by lax financing triggering non-performing loans and large regulation incentives. We suggest a tentative explanation of path dependency from the supply side in terms of rent-seeking behaviour of private entrepreneurs and we emphasize long-lasting State capture and the grip of cronyism.

Keywords: diminishing returns; investment overcapacities; rent seeking; State capture; Tunisia.

JEL: D72, D73, D78, L83, O14, O16

INTRODUCTION

The tourism industry is a composite of goods and services that is not clearly identifiable in the System of National Accounts. According to the narrow definition of World Travel and Tourism Council (WTTC), it sums up hotels, restaurants (ISIC division 55) and transportation (ISIC division 62 and 63). From the supply side, the focus is on tourism GDP, whereas tourism expenditure spreads across all economic sectors from the demand side (Mitchell and Ashley, 2010). The correlation between tourism and economic growth is documented, albeit little spillover effects from the former upon the latter as for European countries (Antonakakis et al, 2015) and this relationship is a controversial issue (Dwyer and Seetaram, 2013).

Tunisia benefits from a natural advantage, its ‘sun rent’, which entailed massive investment. Since the late 1980s, investment in the Tunisian tourism industry has been rising and is still currently important. However, the evolution of fundamentals of the industry is characterised by lagging market share and extended international competition that severely limits average overnight receipts; hence, investment should have experienced a slowdown.

Hotel building is financed thanks to subsidies and bank loans that prove non- performing; it drives the setup of infrastructures funded by public expenditure. Given the low price of a mediocre mass tourism service keeping returns down, the high level of investment expenditure is therefore a paradox.

The official issue assumed that tourism is a high potential growth industry; hence, it recommends improving performance by means of promotion and communication, upgrading and diversifying the quality of services in order to meet the customers’ aspirations. In contrast, as tourism seems to have reached maturity, overcapacities cannot justify. Thus, we analyse investment in terms of governance, emphasizing the employment issue as well as the rent-seeking behaviour of private entrepreneurs that both fuel an ongoing supply-side policy.

Section 1 sketches the characteristics and trend of the industry since Independence, and especially since the late 1980s. Strong incentives sustain the growth of tourism supply, which faces both expanding demand as well as harsh competition among Mediterranean countries; it results in both shrinking receipts and a stagnant market share for Tunisia.

Section 2 assesses the fundamentals of Tunisian tourism. Receipts experienced a serious fall in real terms, as the occupancy rate and average duration declined. Thus, the contribution of tourism to overall value added declines, whereas job creations within and outside this labour intensive industry cannot absorb the growth of overall labour supply.

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Section 3 focuses on the financing of investment. Foreign capital inflows to the industry remain poor, and funding operates through bank loans whereas agency theory applies. Due to an easy access to cheap capital, moral hazard is high: up to one loan out of four is not performing. The costs of investment are curtailed thanks to fiscal and regulation incentives, albeit reinforcing an opportunistic behaviour of many entrepreneurs.
Section 4 examines various governance indicators and emphasizes rent-seeking behaviour of entrepreneurs and the role of State capture, which prove detrimental to an efficient investment policy.

1. SALIENT CHARACTERISTICS OF THE TUNISIAN TOURISM INDUSTRY: SUPPLY, COMPETITION AND DEMAND

The development of Tunisian seashore tourism begins in the late 1950s and speeds up since the late 1980s, covering up five steps each of which been driven by an ongoing policy of incentives. An expanding demand and extended competition among Mediterranean countries result in a stagnation of the relative market share of Tunisia and receipts shrinkage.

1.1. The trend of tourism supply throughout the past sixty years

For an incipient State, tourism is the fastest way to drain foreign currencies. Each of the five main steps tourism industry has experienced is triggered by the State, first through direct intervention, then through the grant of incentives and a stimulating legal framework.

The first step, so-called "primitive accumulation", starts with the creation of the National Office of Tourism and Hydrotherapy (ONTT) in 1956, which is attached with the Minister for the Economy, ensuring orientation and the control over this industry. In 1959, the Tunisian Hostel and Tourism Company (SHTT) is established in order to build and rent hotels on a public funding basis.

The second step (1966-1975) is marked by the enactment of a decree followed by a series of legal provisions enhancing hotel construction and tourist accommodation that grant any private investor –whether Tunisian or foreigner – some tax and financial as well as customs advantages. Cumulative investment is almost multiplied by five while the accommodation capacity is almost multiplied by six: both the number of beds and hotels rise respectively from 8,726 to 62,397 and 85 to 273; non-resident entries increase from 166,000 up to a million (Table 1).
The third step (1975-1986) proceeds from the first regulation specific to the industry: the 1973 law relating to the adjustment of the tourist zones and, the same year, the decree founding the Tourism Estate Agency, which ensures the control over real estate; it governs also construction, the management and supervising of operating tourism units. Cumulative investment more than triples, both the number of units (420) and beds (93,275) increase by 50%; while the number of non-resident entries doubles and reaches two million (Table 1).
The fourth step (1986-2000) starting with the Structural Adjustment Program is characterized by the intensification of investment in tourism and restructuration of the industry as well as rising private contribution. This is particularly obvious since 1992: cumulative investment amounts from TD 1,093 million in 1990 up to over 2.5 billion in 1995 and 4 billion in 1999 (Table 1). Since 1986, provisions specific to tourism were booming: management of the tourism industry is entrusted in 1987 to a Ministry of full exercise; the industry is endowed in 1990 with an exclusive code governing investment in the overall activities dealing with lodging, tourist transport and entertainment. In 1993, a new general code includes the tourism industry; it coins the framework of setting up projects creation and incentives for the investments carried out in Tunisia by Tunisian or foreign promoters, as well as advantages specific to investments in the regional development areas and additional advantages endowed to new promoters. The 1995 law establishes the Development Fund for Competitiveness in Tourism; the July 1997 decree founds the National Council of Tourism, and the Observatory of Tourism is installed in 1998.

The last step starts in the early 2000. Investment becomes more stable: cumulative investment reaches nearly six billion in 2005 and eight billion in 2013. The non-resident entries increase from five million in 2000 up to seven million in 2008, which is the peak ever experienced. During this step, tourism suffers from the global crisis and political change since 2011 (Table 1).

Table 1:Tunisian tourism indicators

Years	Number Of hotels	Bed capacity	Non resident Entries	Overall night stays	Non resident night stays	Cumulative Investment (million TD)
1965	85	8,726	165,840	1,320,153	1,129 416	40.670
1975	273	62,397	1,013,851	9,172,900	8,652,556	195.930
1985	420	93,275	2,002,997	13,798,086	12,671,218	638.130
1995	612	161,496	4,119,847	25,746,259	23,914,405	2,644.850
2000	736	197,453	5,057,193	35,423,862	33,168,450	4,369.240
2005	816	229, 837	6,378,435	36,309,734	33,587,183	5,870.200
2008	836	238, 495	7,048,999	38,112,352	35,048,653	6,541.520
2010	856	241,528	6,902,749	35,496,335	32,066,857	7,227,199
2011	861	242,146	4,785,119	20,636,847	17,207,634	7,435,403
2012	846	241,997	5,990,464	30,035,419	25,920,529	7,657,903
2013	847	240,249	6,268,585	30,001,358	25,761,750	7,957,445

Source: ONTT (2014), our calculation.

The development of Tunisian tourism - seven million entries - and sustained high growth in supply– 856 units provide a capacity of 241,000 beds in 2010 - result from a massive effort supported by the strong commitment of authorities. Strangely, it occurs during the 1990s that is also the decade of privatization and economic liberalization. The vector of this development includes infrastructures carried out by the Tourist Estate Agency, the channelling of long-term credits at improved rates as well as the setting up of specialized banking institutions and especially the implementation of a favourable legal framework for investment that secures promoters.

1.2.Tunisian and Mediterranean tourism: an expanding demand and harsh competition

During the two last decades since 1990, ongoing expansion on the supply side is paralleled on the demand side (ONTT, 2014): non-resident entries increase from two million to seven million, and receipts rise from TD 415 million in 1985 up to TD 3.5 billion in 2010 and TD 3.2 billion in 2013 (Figures 1 and 2). According to the authorities and professionals of the industry, this trend legitimates the intense effort in investment, although it must be set in perspective on the worldwide tourism scale.

Fig. 1:Entries of non-residents(1,000)

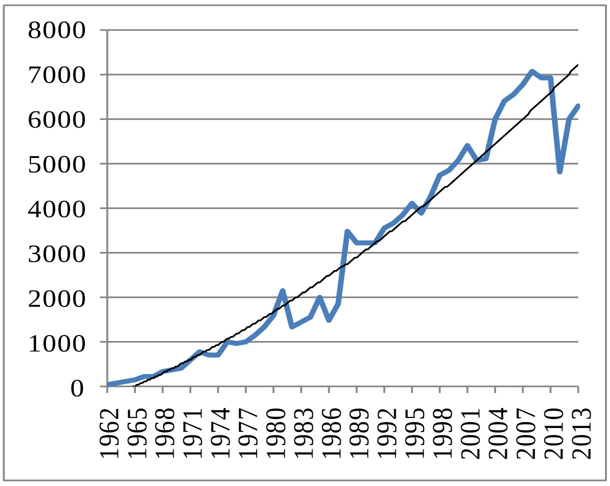
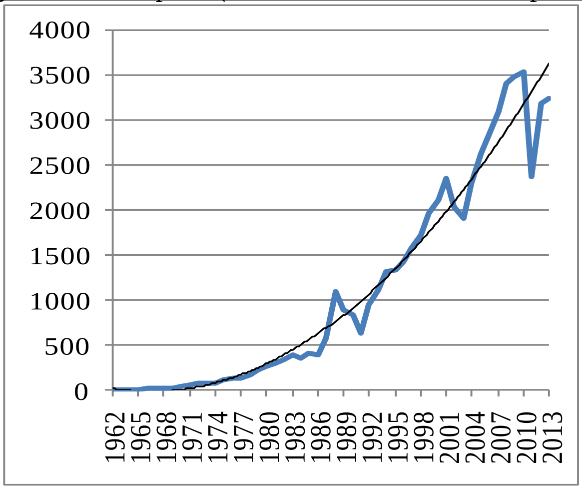


Fig. 2: Receipts (millions TD, current prices)



Source: ONTT (2014),our calculation.

From 1990 to 2013, the number of tourists worldwide increased from 434 to 1087 million and all areas benefited from this growth. In relative terms, Europe gathers over 50% of tourists and generates on average slightly over 50% of world receipts until 2007. Receipts experience a significant decrease thereafter, down to 42% in 2013, due to the emergence of new destinations, particularly in East Asia. The Mediterranean region records nearly 31% of entries and almost 27% of receipts in 2010, standing as the first worldwide tourist destination. Demand is primarily addressing the most developed countries, entries and receipts been concentrated on the northern bank wherein Spain, France and Italy gather 60%. The southern bank holds a modest place among the world destinations: 13.6% of entries and 11.7% of receipts (WTO, 2012).

Table 2:The share of Tunisia in worldwide tourism

	International tourist arrivals (millions and %)						International tourist receipts (billions US $ and %)					
	1990	1995	2000	2005	2010	2013	1990	1995	2000	2005	2010	2013
World	434,0	528,0	677,0	807,0	948	1087	272,9	410,8	476,4	676,0	927,0	1159
% Europe/ World	*60,16*	*57,58*	*57,34*	*55,63*	*50,14*	51,83	*53,39*	*51,66*	*48,80*	*51,60*	*44,38*	42,21
% Mediterranean	*36,55*	*33,74*	*34,72*	*32,38*	*31,34*	*29,27*	*27,44*	*27,28*	*28,07*	*30,82*	*26,69*	*23,27*
Mediterranean =100												
*SME**	*77,17*	*79,30*	*76,53*	*69,04*	*61,40*	*63,98*	*79,31*	*78,02*	*71,38*	*65,36*	*60,48*	*64,60*
*C-G-T***	*9,6*	*10,84*	*10,79*	*14,35*	*16,34*	*18,27*	*9,44*	*9,72*	*14,05*	*16,57*	*15,13*	*6,20*
Balkans	*4,99*	*1,60*	*3,35*	*4,56*	*5,24*	*6,14*	*3,71*	*2,30*	*3,28*	*5,35*	*5,97*	*17,37*
Middle East	*1,39*	*2,55*	*2,76*	*3,63*	*6,14*	*2,74*	*2,98*	*5,02*	*5,12*	*5,95*	*9,46*	*6,15*
Egypt	*1,52*	*1,61*	*2,18*	*3,16*	*4,73*	*2,88*	*1,47*	*2,40*	*3,25*	*3,29*	*5,06*	*2,24*
Morroco	*2,54*	*1,46*	*1,80*	*2,24*	*3,13*	*3,16*	*1,68*	*1,16*	*1,52*	*2,22*	*2,71*	*2,54*
Tunisia	***2,02***	***2,31***	***2,15***	***2,44***	***2,32***	***1,97***	***1,27***	***1,37***	***1,26***	***1,03***	***1,07***	***0,82***

*SME stands for South Mediterranean Europe ** C-G-T stands for Cyprus-Greece-Turkey

Source: WTO (2000,2007, 2012), OMT (2004, 2009, 2014), our calculation.

Three major lessons for Tunisian tourism may be drawn from Table 2.
First, Tunisian performances should be downgraded as regards that of its competitors. Indeed, the number of tourists has doubled and receipts have quadrupled over the last two decades, but these data do not match the performances of the Mediterranean region. The relative share of Tunisia within the region stagnates both in terms of entries (almost 2%) and receipts (almost 1%). Over 1990-2010, entries increase faster than in the overall Mediterranean region and at the worldwide pace, whereas receipts are lagging: from 2000 to 2010: receipts rise by 158% in Tunisia in contrast with the Mediterranean region (183%) and worldwide (195%).

Second, the diverging trends of entries *versus* receipts over the period 1990-2010. Entries (2.32%) outpace receipts (1.07%) in 2010. Despite seven million entries, mass tourism in Tunisia generates a low value added: according to WTO (OMT, 2014), the average receipt per visitor ($383) is far below world average ($ 1,066) and way behind Morocco ($ 722), Turkey ($ 721) or Lebanon ($ 3,626).

Third, competition in the Mediterranean region, whose countries are also affected by seasonal variations and economic shocks, as well as the differentiation in supply attracting diversified customers. In 2005, with an almost identical relative share of entries, Morocco collects over twice as much receipts (2.22%) as Tunisia (1.03%); entries are multiplied by 3.5 and receipts increase by more than five times over the period 1995-2010. A similar observation applies to the bulk “Cyprus-Greece-Turkey” or Egypt. Tunisia is a balneal destination, Morocco is a cultural destination and Egypt as well as Turkey provides both kinds of destination. The strategies tend to blur differentiation: Tunisia seeks to promote an alternative to balneal tourism while Morocco invests in seashore resorts. It seems easier for a cultural destination to become in addition a balneal destination than conversely, its potential does not enable Tunisia to issue a cultural destination and its balneal tourism is under threat.

Moreover, competition between the countries is strengthened by the concentration of large integrated world operators (air fleet, hotels chains, car hire agencies networks, etc.), which exert their bargaining power on both the prices and catalogues of destinations.

2. PERFORMANCES: RECEIPTS, VALUE ADDED AND EMPLOYMENT

Foreign currency receipts experience a serious fall in real terms because occupancy rate and average duration of stays shrink. The contribution of tourism to the value added is declining, while job creation within the industry, as well as its positive externalities regarding other industries, cannot absorb the growing overall labour supply.

2.1.Fundamentals: Foreign currency receipts and demand

The revenue of tourism being calculated in local currency (Tunisian Dinar - TD), then converted into US dollars ($), fluctuations in the exchange rates influence the outcomes. It therefore becomes difficult to compare the growth rates in receipts across countries, particularly when the sources of currencies are different and reflect the evolution of exchange rates as well as that of receipts themselves.

Thus, in particular after 2002, begins a period of appreciation of the Euro currency and overnight receipts shrink from € 58.2 to € 45.4 in 2005 against TD 78 and TD 77. One observes that in three years the Tunisian Dinar was depreciated by more than 20% as compared to the Euro, from TD 1.342 on average for 1 € in 2002 up to TD 1.613 in 2005 and the fall accelerates with more than TD 21.9 at the end of 2010. Taking into consideration the US dollar, which depreciated as compared to the Euro, one notes the opposite trend: TD 1.421 on average for 1 $ in 2002, nearly TD 1.3 in 2005 (IMF, 2006).

Fig. 3: Overnight receipts (constant TD, 2005)

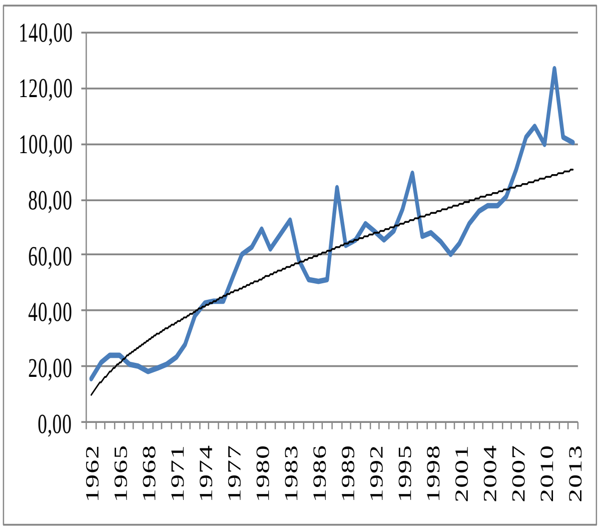
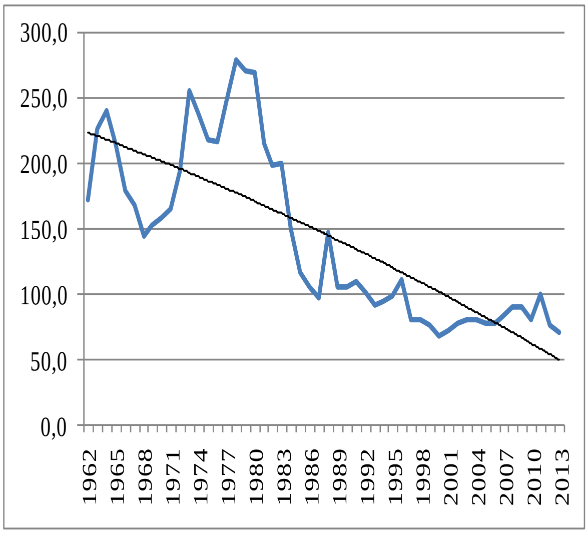


Fig. 4: Overnight receipts (TD and constant prices, 2005)



Source: ONTT (2014); INS (2010); BCT (2010; 2014a); IMF (1975, 2014), our calculation

Therefore, it seems relevant to re-visit tourism receipts by introducing an analysis in terms of constant Dinar and to discuss the effects of a strategy of depreciation of the exchange rate. In this connection, we first correct the overnight receipts in Dinar with an exchange rate index, in order to obtain a series in constant Dinar (Figure 3). In the second place, we deflate this series with the GDP deflator to obtain a new series both in constant Dinar and constant prices, which take into account the variations of exchange as well as that of inflation (Figure 4).

Fig. 5: Occupancy rates (%)

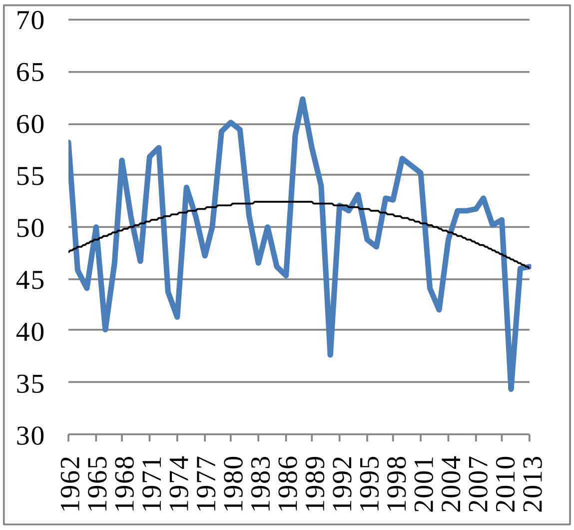
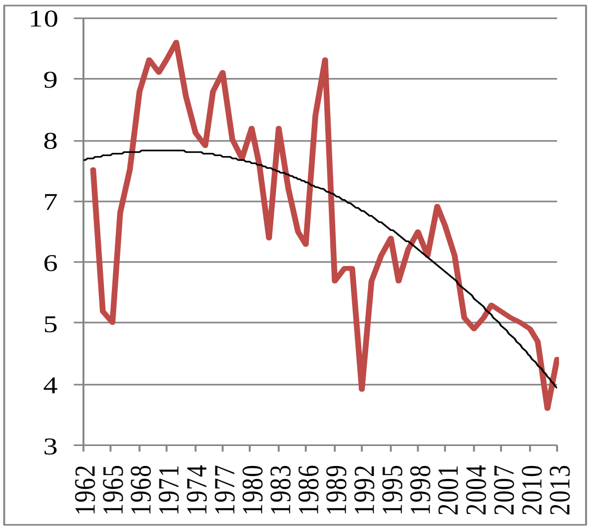


Fig. 6: Average duration of stay(days)



Source: ONTT (2014), our calculation

Tunisian tourism appears to be "flourishing" because overnight receipts are accounted for in Dinar and at current prices, notwithstanding variations in exchange and because the Dinar experienced a very large depreciation as compared to the Euro. Actually, the turning point in the trend of overnight receipts was reached during the 1970s in terms of constant Dinar, the overnight receipts stagnated above TD 40 and never exceeded TD 50; in real terms, receipts decrease from almost TD 100 to TD 30 nowadays. These outcomes suggest that the price-elasticity of tourism is weak because the price is already low; the depreciation of the exchange rate does not drive any increase in receipts through a triggering of volume-effect. In this respect, tourism does not support the Marshall-Lerner-Robinson condition, according to which absolute value of price elasticity of demand for exports and imports is greater than one.

Another characteristic of demand confirms the structural weakness of Tunisian tourism: occupancy rate is low, average duration of stay is short, and the trend of both indicators is worrisome. The occupancy rate sticks to 50% on average, undergoing a slow regression for more than two decades, which worsens these last years, catching up the 1960s rates that were beneath 50% (Figure 5). The average duration of stay declines steadily from nine days in 1970 down to five days on average since 2002 (Figure 6). Low performance does not reflect the seasonality of demand that also affects other competing countries. Average occupancy rates and duration of stay vary dramatically across the 11,666 areas.

The competitiveness index, which is based on the price of hotels and purchasing power parity, ranked Tunisia among the most competitive destinations, ahead of Turkey, Egypt, Jordan and Morocco (WTTC, 2010). This high ranking can blur the poor performance of mass tourism in Tunisia as regards occupancy rate. Competing destinations such as Egypt or Turkey recorded a 75% occupancy rate (OMT, 2009).

Tunisia, whose big resorts resemble their Mediterranean counterparts (Morocco, Turkey, Spain), provides a standardized full package product addressing the demand drained by four European tour operators (among 40) that control 80% of the Tunisian market. The fragmentation of travel accommodation – 402 travel agencies and 962 outlets with few coalitions and cooperatives - weakens the bargaining power of hotels and has negative impact upon profitability (Gunfadurdoss et al, 2012). Proliferation of low-cost stays and the change in behaviour of current tourists can consolidate this trend. This implies that the maximum tourist potential is reached and the market faces excess capacity. Hence, it seems irrelevant to stick to the cut-price selling policy, which has been followed so far.

2.2. The contribution of tourism to exports, value added and employment

Worldwide tourism ensures one third of services exports. In the Mediterranean countries, the share of tourism in the current balance is higher than that of the most emergent countries; the net tourism receipts (credit minus flow) represent an increasing share of the region's GDP: 1% in 1980 and 4% in 2000, whereas textile accounts only for 2% of GDP. The contribution of Tunisian tourism to the national economy, which is in tune with these characteristics, encompasses two quite distinct phases (Figure 7).

The first phase occurs with the expansion of the industry and building up of the national economic fabric; it extends over the 1960s until the late 1980s. Tourism receipts are booming and represent on trend 30% of goods and services exports in the end of this phase, whereas the cover of imports by tourism receipts follows the same track with 20%. During the second phase, spanning over the two last decades, the share of tourism in exports shrinks as well as the cover of imports and are currently under 10%. The share of tourism receipts in GDP increases further on during the 1980s, stagnates by nearly 8% during the 1990s and is decreasing since then: the trend of value added over the twenty past years has dropped from 5.1% of GDP in 1989 to 2.5% in 2010, especially since 2005 (Figure 8). A striking observation is that decline in the contribution of tourism occurred in the very period during which investment rocketed.

Fig. 7: Receipts (%: GDP, exports, imports)

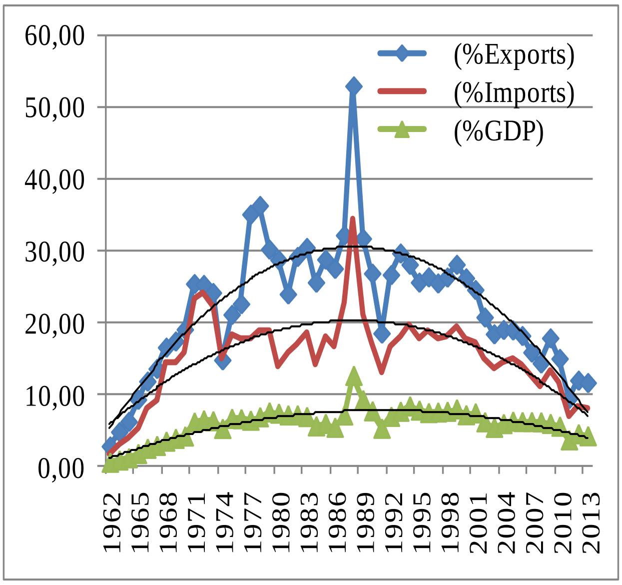
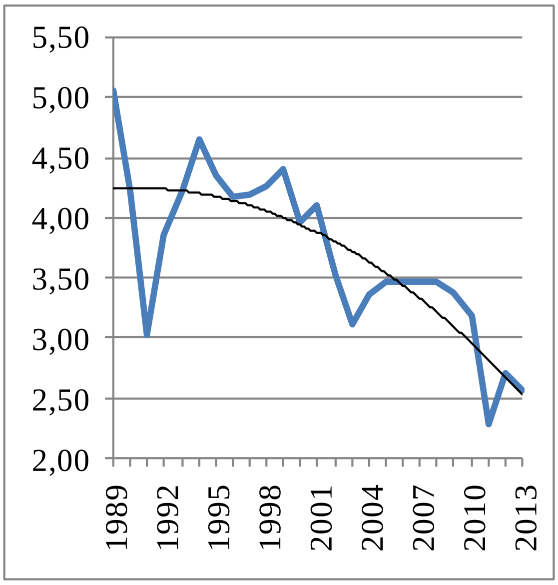


Fig. 8: Value added of tourism (% GDP)



Source: BCT (2010); IMF (1975; 2006b); INS (2010); ONTT (2014), our calculation

Tourism also generates the construction of public infrastructures, and induces a demand for a broad range of goods and services with regard to other industries, which create jobs.

Direct employment (full time equivalent) in the tourism industry alone amounted to 3,500 in 1965 up to its highest level (96,858 jobs) in 2011, a rather modest and steady 3% share in total employment (ANETI, 2010).

Box: Employment and informal employment

The Statistics Office (INS) did not carry out an annual employment survey before 1999 and data are lacking. Informal employment should also be accounted for: In 1997, its share in overall employment amounted to more than one third (37.8%) or almost half (48.7%) non-agricultural employment (ILO, 2002). Applying such a share (i.e. between one third and half of overall employment), we estimate that tourism alone occupies 4% or 5% of overall employment, both informal and direct.

However, the employment multiplier in the tourism industry is supposedly high, at least in developed countries (Stynes, 1997), where induced employment is assumed to be three times higher than direct employment. The addition of direct employment (96,858) and induced employment (290,574) amounts to 387,432 jobs, approximately 12% of overall workforce in Tunisia (ANETI, 2010). According to WTTC (2010), tourism and transportation generated 287,900 direct jobs (9%) or 516,600 direct and indirect jobs (16.2%) in 2009, albeit the employment multiplier is less than two in Tunisia. Tourism is definitely a labour intensive industry, although it cannot absorb the persistent 15% unemployment rate, that is especially high for young university graduates.

According the distribution of jobs by industry over the period 2007-2012 (ONEQ, 2013), more than 40% of job offers come from textiles, leather and footwear the manufacturing industry. Other industries are steadily declining, especially tourism (minus 6.6 points).

The weekly duration of work is long (48 hours in 1997) and minimum monthly wages for employees stand among the weakest earnings within the services industry: TD 242.5 for a chambermaid, TD 267.6 for a receptionist, a cook or a waiter (ILO, 2007), whereas over three out of four jobs are non-skilled (INS, 2006). In May 2014, the monthly minimum wage for 48 hours has increased from TD 272.480 in July 2010 up to TD 319.904.

Table 3: Employment, factor income, wage differentials in the Tunisian tourism industry (1994)

	Unskilled	Skilled	High skilled	Capital (K)	Total
Employment (1,000)	32,059	27,174	2,166		61,399
%	(52.2%)	(44,2%)	(3.5%)		(100%)
Factor Revenue/ Value Added (VA)	9.5%	11.6%	1.7%	77.2%	100%
Wages*	41.6%	50.8%	7.4%		100%
Wages/employment ratio	0.797	1.15	4.35		
Wage differential	1	1.44	5.45		

*Labour factor revenue = (VA-Capital) Source: Marouani (2000), our calculation.

Employment is segmented according to skills (Table 3) and the share of high skilled jobs is one of the weakest among the services industry. According to the assumption that is selected (sticky *vs*. flexible wages), the adjustment of economic fluctuations affects either non-skilled and skilled employment, the former being most widespread, or the thin albeit more expensive category of high skilled employment (Marouani, 2000). Whatever the assumption selected, the wage bill is the main adjustment variable enabling to cut costs; it is estimated as 36.6% of the operating costs of a hotel (Sammari and Madani, 2007), half of which (16%) corresponding to a variable cost (Ayoub-Jedidi and Gits, 2004).

According to the employment survey upon hotels (ONEQ, 2008), 64% of the hotels have less than 100 employees, 21% from 100 to 200 and 15% over 200. According to the definition of Small and Medium size Enterprises in Tunisia (threshold is below 100 employees), almost two thirds of the hotels are SMEs.

Hotels absorb 41% of employment for the four stars and 28% for the three stars category. The regional distribution of jobs follows that of tourism zones: 60% for the Southeast, Sousse and Nabeul and 10% in the regions of Bizerte, Tabarka, Tozeur and Mahdia. Permanent employment occupies 39% of the workforce, while fixed-term contracts account for 51% of

jobs (ONEQ, 2008). Permanent employment declines with the upscale of hotel ranking: its share amounts to 70% for the 1 star and 39% for the 5 stars category.
Table 4 provides key indicators regarding investment, employment and labour productivity. The number of direct employment compared to the capacity of accommodation remains constant between 1965 and 2013: i.e. a ratio of 25 employments for 10 beds; this monotonous function is hardly surprising, since tourism belongs to the services industry within which labour productivity is almost stagnant. The number of direct employment compared to the number of hotels rises from 41 to 113 during this period, which illustrates a trend of concentration in accommodation resulting from the construction of big resorts. The average capacity of accommodation (number of beds per hotel) doubles from 1965 to 1975, it stagnates until 1990 and rises again by more than 20% until 2013.

Table 4: Structural evolution of key indicators

	1965	1975	1985	1995	2005	2010	2013	2013 /1965
Investment (million TD)	11,039	8,300	98,992	449,100	246,219	376,443	299,542	27
Number of hotels	85,00	273,00	420,00	612,00	816,00	856,00	847,00	10
Bed capacity	8,726	62,397	93,275	161,496	229,837	241,528	240,249	28
Direct employment	3,490	24,959	37,309	64,598	91,935	96,858	96100	28
Bed/employment (average)	2,5	2,5	2,5	2,5	2,5	2,5	2,5	1
Bed/hotel (average)	103	229	222	264	282	282	284	3

Source: ONTT (2014), our calculation.

The four and five stars hotels have more than doubled their market share, both in terms of bed capacity and overnight stays from 1990 to 2005. This upper end category currently concentrates more than half of that share, although it experienced a decline over 2009-2011 due to the crisis and the so-called “Arab Spring” in 2011 (Table 5). Ongoing restructuration of the tourism industry is favourable to this category.

Table 5: Market share of 4* and 5* hotels (%)

	1990	2000	2005	2007	2010	2011	2012	2013
Bed capacity	20.97	41.00	50.41	52.16	49,5	49,6	48,5	50,15
Overnight stays	23.75	45.86	56.19	60.40	57,8	61,64	59,9	62,95

Source: ONTT (2014), our calculations

The industry has a strong capital intensive ratio (see Table 3),which is on rise since the 1990s according to the trend of investment-employment ratio (Figure 9). From an average TD 8,000 per employment during the 1960s and the 1970s, the ratio doubles in 1985 and it is multiplied by five in 1995 (TD 41,000), reaching TD 82,804 in 2013. Cumulative investment tripled from 1990 (TD 1,093 million) to 1997 (TD 3,415 million), and more than doubled for the remaining period until 2013 (TD 7,157million). These huge amounts involved the creation of 30,168 direct jobs from 1990 to 1999 and 17,219 direct jobs from 2000 (78,981) to 2013 (96,100). As for the period 1990-2013, the cost of a direct employment rises from TD 80,000 for 1990-99 up to TD 208,000 for 2000-13, against an average TD 24,400 from 1965 to 1990.

2.3. Decreasing returns on investment, path dependency and rhetorics

Fig. 9:Investment/employment ratio and Receipt/employment ratio (1990 = 100)

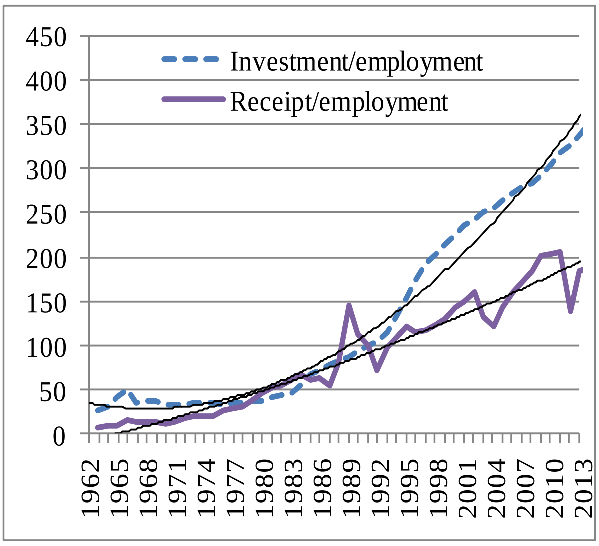
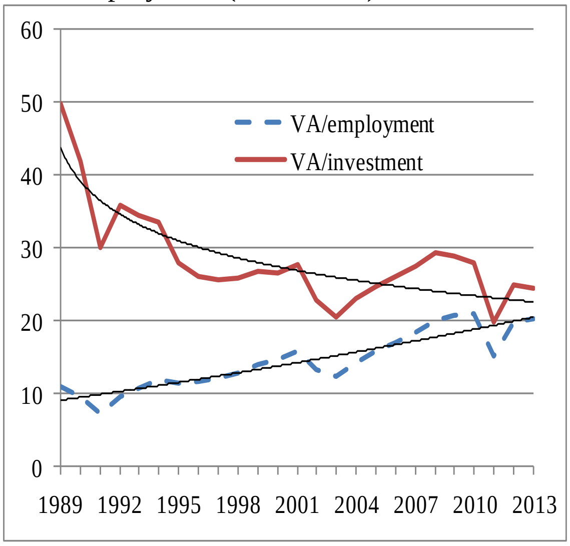


Fig. 10: VA/investment (%) and VA/employment (million TD)



Source: BCT (2010); IMF (1975; 2006); INS (2010); ONTT (2014), our calculation

Figures 9 and 10 show that fundamentals of the Tunisian tourism industry have been poorly performing for a long time. Hence, one has to address the structural causes of such bad outcomes rather than calling upon arguments as for economic shocks and advocating remedies in terms of promotion, diversification and communication (Mollet et Neffati, 2004; Chaponnière et Lautier, 2005). Admittedly, there is a requirement to improve the quality of supply, to diversify and enrich the tourism product; this implies the modernization of the hotel park of which one third should be renovated (Ayoub-Jedidi and Gits, 2004) and the promotion of more integrated tourism inducing higher spending from the visitors. However, the average overnight receipt, in real terms, is currently three times below what it used to be in the 1970s and this seems to be a major consequence of the economic dependence of ingoing areas upon outgoing areas. Given an average 50% occupancy rate, most hotels face harsh competition and prefer to sell off their price rather than to lose customers; thus, they cut costs in order to ensure low tariffs imposed by tour operators; it results in a disappointing service and dissatisfied customers who scarcely come back, which eventually sustains a vicious circle.

Other tracks suggest promoting inland tourism and diversifying the top-range category. Tunisian supply is based essentially on a balneal products with low value added and bottom-range services that trigger little economic effects. The small size of the country and population (10 million inhabitants) concentrating on the coast areas, limits dramatically inland tourism, which cannot weigh on the overall trend of foreign demand from seven million tourists and almost 35.5 million overnight stays in 2010. Inland tourism and the top-range category are thus rather a lure that will not solve the overcapacity problem. The choice of concentration occurred already in the 1980s; it resulted in investing in more luxurious and thus more expensive resorts in order to attract higher spending customers (Table 5).

The accommodation capacity doubled from 6.1% in 1990 to 13.2% in 2013 as for the share of 5 stars hotels (ONTT, 2014); however, the average operating capacity ratio is below 80% since the late 2000 (Table 6).

Table 6: Overall bed capacity

	2005	2007	2008	2009	2010	2013
(a) Available bed capacity	229,837	235,727	238,549	239,890	241,528	240,249
(b) Operating accommodation	193,208	197,831	197,780	189,009	192,048	178,016
Operating ratio (b)/(a)	0.85	0.84	0.83	0.79	0.79	0,74

Source: ONTT (2014), our calculation

Despite the sharp decline in the performance indicators occurring at the latest during the 1985-1995 decade, investment experienced a dramatic jump in from 1992 to 1996 and still remains at high level after a mild slowdown (Figures 11 and 12). Balneal tourism is still regarded as an industry with a promising future and therefore a strategic option that must be supported.

Fig. 11:Cumulative Investment (million TD)

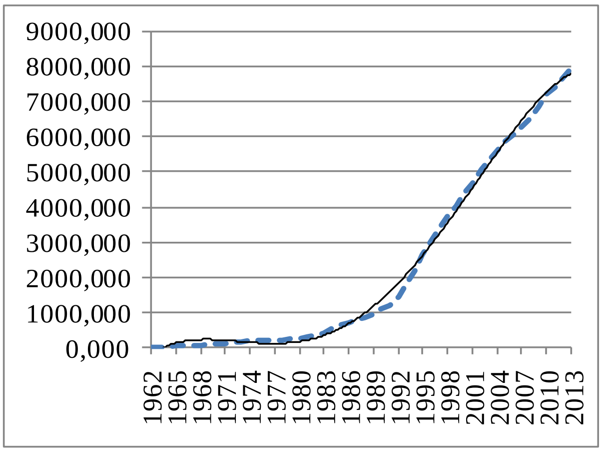
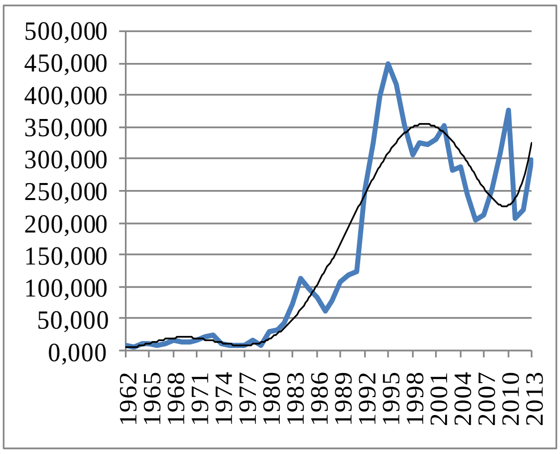


Fig. 12: Investment flows (million TD)



Source: ONTT (2014), our calculation

One has to wonder about the profitability of tourism investment and the issue of resource allocation must be addressed with respect to the achievements of infrastructure, including improved lands at low prices reserved for construction, subsidies provided in the form of tax favours and massive bank credits granted at a privileged rate. The tourism investment policy seems to follow the inertia principle, rather than an entrepreneurial drive for profit, whereas the State has engaged for two decades a liberalization policy based on the promotion of the market and upgrading of hotel companies.

3. LAX FINANCING AND TAX INCENTIVES

The net profitability of tourism investment depends on its funding conditions. Given the modesty of both the capital stocks and foreign participation, financing is based on an easy and inexpensive access to bank credit, which is not refunded in one case out of four. In addition to lax financing, a whole set of tax and regulations incentives reinforced the opportunist behaviour of contractors.

3.1.A slightly contestable tourist market with a reduced foreign participation

Tourism is a slightly contestable market: foreign participation in the financing of investment amounts to 10.3% during the period 2000-09 and less than 9% for the four last decades. This participation is linked to the limited share of capital stocks in the total cost of a project, which amounts to 49% on average between 1970 and 2009, but increases in the 1990s and reaches 57.6% over the period 2000-09. Projects with foreign participation amount to 28% on average over the four last decades (Table 7).

This weak rate of participation in capital stocks suggests two observations. In the first place, the code governing investment in the industry caused the recourse to a foreign partnership, which is used as guarantee to the Tunisian investor. Thus, it enables to finance a project at low cost through the credit channel, with reduced capital stocks that represent approximately half of the cost over the 2000-2009 period. With a share of 58% of own capital stocks, the foreign investor really brings only 35%; thanks to investments that come from Asian and MENA countries (Singapour and Libya) and carry almost 100% of cost projects. The survey of projects including foreign participation, particularly French and Spanish, shows that these European investors can carry less than 10% in the cost of project and capital stocks. In the second place, the incentives granted to tourism may allow for the multiplication of foreign partners; it does not however modify the structure of financing. Both the weak foreign participation and small share of capital stocks in the cost of a project led to polarize the financing of tourism on bank credit that can set over 70% in financing of total investment (Table 7). Hence, banks support an industry with poor yield that proved a major threat to the overall financial system.

Table7:Total foreign participation (million TD)

Years	**1970-1979**	**1980-1989**	**1990-99**	**2000-2009**
Investment (I)	149,096	730,898	3,072,761	2,803,967
Projects with foreign (PF)	41,230	264,291	613,522	822,614
Capital stocks (CS)	20,350	105,425	308,042	473,933
Including Foreign	13,610	61,695	213,678	288,976
PF (%I)	27.65	36.16	19.97	29.34
CS (%PF)	49.35	39.88	50.20	57.61
Foreign (% of CS)	66.87	58.52	69.36	35.31
Foreign (% of I)	9.13	8.44	6.95	10.31
Projects (number)	6	23	31	30

Source: ONTT(Direction of investments), our calculation.

3.2.Bank financing of tourism: easy access to capital and moral hazard

In the absence of access to narrow and shallow money markets, bank financing is the major recourse for the hotel companies, most of which (i.e. two out of three) are SMEs family businesses that have modest own capital stocks. The banking industry provides over 90% of total credit to the economy since the mid-1990s and is highly concentrated: the three major banks (STB, BNA and BIAT, among which first two are public) fuel 48% of total credit in 1991 as well as in 2001 (Jouini, 2003) and still 46.5% in 2007 (IMF, 2010). The top four banks provide on average 50% of loans to the economy as much as deposits collection and assets holding since 2010, whereas eight banks provide 80% on average (BCT, 2014b). Banks prove insecure with respect to shocks and the provisioning of Non-Performing Loans (NPLs) remains weak: it improved from 48.8% up to 58.3% between 2001 and 2009 (IMF, 2010), but fell back to 45.9% in 2012. In addition, loans are guaranteed by real estate whose market is far from liquid, because of slow liquidation procedures. The agency relationship between banks and borrowers is stamped by a strong asymmetry of information. Moral hazard is pervasive given the loopholes in prudential legislation (absence of audit and weak provisioning), accessibility to capital, and low costs of loans: the interest rate drops from 11% on average during the period 1987-1993 below 6% since 2002.

The large share of NPLs is a recurring burden for the banks' assets: NPLs experienced a peak in 1993 (34% of liabilities and 23.9% of GDP); they rise above 24% of overall credit in 2003 and drop to 13.2% in 2009 (IMF, 2006a, 2014). Hardship related to the international financial crisis and national economic conditions since 2011 push up the share of NPLs above 15% in

2013; adding assigned receivables makes it 20%. Additional risks come up from the services industry (64.2%), especially from tourism (53%).

Until 2005, investment in tourism is first funded by development banks, then by most of the banks after development banks transformed into universal banks in 2004. Despite an improvement since 2005, NPLs remain a plague (IMF, 2014) and tourism is the most risky industry (Trabelsi and Ries, 2006). It accounts for 24.3% of NPLs and has the most important share in total loans (52.7%) (BCT, 2014b). During the 2000, tourism contributes on average to 3.5% of GDP, but absorbs on average 17% of total credit until 2007; the average ratio falls to 10% since 2011, whereas tourism contribution to GDP is down to 2.5%.

3.3.Fiscal incentives and regulations favouring tourism investment

Legal framework and the tax system constitute the other pillar supporting tourism investment whose current regulation depends on the Incentives Code of Investment (1993). Investment is generally carried out on the presentation to the qualified organisation (ONTT with regard to tourism) and the examination of the financing scheme comprising a minimum of own capital stocks. The Code is followed by blooming regulations (100 since 1995), in particular in 1999 and 2001, and by the interplay of multiple actors. As a counterpart of granting tax rebates and social advantages, piling-up regulations result in overlapping procedures which generate costs.

The survey of Djankov *et al*. (2002) is devoted to regulation to entry. It records the procedures related to legal requirements (inscriptions, verifications and notifications, necessary permits and licenses for a company to be legally in operation, the official cost of meeting these requirements, and the minimum time it takes to meet them if the government does not delay the process. It does not measure corruption and bureaucratic delays that further raise the cost of entry. The sample (85 countries) includes Tunisia among six MENA countries and concerns non-exporting start-up firms from 5 to 50 employees during their first year of operation.
Tunisia is below average according to every criterion and ranks first among the sample. There is a correlation between the level of income of the MENA sample and start-up business conditions: the average time spent is higher for low and middle-income countries (such as Egypt and Morocco) than for upper middle income countries (such as Lebanon), and for high income non OECD countries (such as Israel). The World Bank indicators, whereby the shortest time may not have been taken into account, shows that time and the necessary procedures to start a business have dramatically diminished in the mid-2000, which also reduces the costs (Table 8).

Table 8: Procedures and costs for starting a business

Country	Procedures (number)	Time spent (days)	Cost/ current GDP *per capita*	Procedures (number)	Time spent (days)	Cost/ current GDP *per capita*	Procedures (number)	Time spent (days)
	1998-2002		(1999)	2003-2007		(2006)	2008-2012	
Tunisia	10	11	(17.2%)	10	11	(9.3%)	10	11
Morocco	6	12	(21.2%)	6	12	(12.7%)	6	12

Source: Our selection from Djankov *et al.*(2002); World Bank Indicators data base

The impact of a reduction in costs is dual: on the one hand, it facilitates the start-up of a business, as well as for lax financing, but on the other hand, it can induce an opportunist rent seeking behaviour on behalf of the companies. Rent seeking is a wasteful drawback that impedes an efficient investment policy, insofar as it supports the entry and/or preservation on the market of non-sustainable companies (Mbaku and Kimenyi, 2003).

4. RENT-SEEKING, CRONYNS AND LOBBYING

According to Schumpeter and public choice theory, revenue as a non-trade advantage or rent seeking is distinct from the "normal" revenue or extra profit resulting from a competing advantage (profit seeking). The search for non-trade revenue combines both the effect on companies and the causes relating to the interplay of special interest groups and the authorities, aiming at the maintenance or the maximization of monopolistic advantages (Mbaku and Kimenyi, 2003). Rent-seeking is related to the quality of economic and political governance. It is characterized by State capture in Tunisia and cronyism, as well as lobbying from private firms.

4.1.Institutional governance

Batra *et al*. (2002) use the standard core enterprise survey (WBES 1998-2000) to evaluate business conditions in a large, cross-regional set of 81countries. At least 100 firms were surveyed in each country. It assesses the state of enabling the conditions for private enterprise growth, focusing on local economic policy, governance regulatory, infrastructure and financial barriers, and services to businesses. The regional breakdown of firms by size and industry for the MENA sub sample, including Tunisia, is not representative. WBES provides a clear connection between taxation, financing and corruption on the one hand, and growth and investment on the other. Conversely, it highlights the costs to economies where the State is captured by vested interests.
According to Transparency International, Tunisia's Corruption Perception Index (CPI) regarding public sector remains fairly stable but below average since the surge of 'Arab Spring': it scores 41 as of 2012 as well as 2013 and 40 in 2013, upon a 0-100 scale ranging from 'most corrupt' to 'very clean'. Tunisia ranks among the less corrupted intermediate income countries of the MENA region; however, the number of sources is the weakest, whereas confidence interval is wide. Such a subjective index is too narrow to capture the full picture of governance and there is no clear-cut relationship between GNI *per capita* and CPI.

Kaufmann *et al*. (2010) gathered a large set of sources from experts and surveys in order to build six institutional governance indicators, including the inputs -"voice and accountability" (VA) and "political stability" (PS)-, the process - "government effectiveness" (GE) and "regulatory quality" (RQ) and the output- "rule of law" (RL) and "control of corruption" (CC). Estimates, compiled from 1996 to 2009 represent a complete series with an increasing number of observations and a decreasing standard error. When we compute a non-weighted governance index of these World Bank indicators the trend is declining for Tunisia from 2000 onto 2010.

The institutional strength is the ability of States to tame political unrest and ensure continuity beyond changes in regime. Both indicators designed by *Freedom House* (2015) and the *Mo Ibrahim Foundation* (2014) agree on the positive signal to foreign investors from countries where institutions are strong and abide by the rule of law. In this connection, Tunisia was defective but has lately improved its score.

4.2.State capture, political influence and lobbying

Legal corruption is a real issue regarding top bureaucracy and political elites. It encapsulates State capture and political influence (Kaufmann and Vicente, 2005). The ruling elite is connected to the private sector through the allocation of specific legislation or procurement contracts (including loans), and the rewarding counterpart is campaign funding or allegiance. Moreover, State capture induces cronyism, as highlighted by the appropriation of real estate and acquisition of formerly State-owned companies, as well as chairing banks (STB) and companies operating in the tourism industry: Karthago used to own 3,000 beds, airways, travel agency among other diversified activities) (Sadiki, 2002 ; ONTT, 2005 ; Rijkers et al, 2014).

Most hotel companies are family businesses, often run by the owners themselves or through a management company that is part of the group, which is also an owner-operator model, and to a lesser extent through an external management contract. The four major groups own 15% of the overall bed capacity that is possessed by less than 200 owners (Gunfadurdoss et al, 2012)

Major actors of tourism, some powerful lobbies, are 4 and 5 stars hotel chains belonging to Tunisian owners, some of which being associated to foreign partners to whom they entrust management (Table 9). The *El Mouradi* chain holds 7% of accommodation capacity, which is marketed in partnership with the Spanish *Sol Melia* group; it made up with the privatization of hotels owned by the public company SHTT, which was closed in 1992. The Tunisian-Koweitian consortium *Abou Nawas* holds 5% of hotel capacity. The Libyan *Dar Jerba* group accounts for approximately 3.3% of the hotel capacity and operates within the lower 3 stars category.

Table 9: Major hotel chains

Hotel chain (group)	**Number of hotels**	**Capacity (beds)**		**Category*(%)***			**Zones**
		Total	**Average**	**5 stars**	**4 stars**	**3 stars**	
El Mouradi (M'hiri)	16	13,607	850	*34.9*	*50.0*	*15.1*	11
Abou Nawas (CTKD)	10	4,479	896	*24.9*	*44.0*	*19.1*	7
Karthago	4	3,008	752	*40.6*	*49.4*	-	4
Dar Jerba	5	2,960	592	-	*19.9*	*68.6*	1

Source: Sammari and Madani (2007), ONTT (2005), our calculation

In 2007, foreign management of Tunisian tourism (Table 10) focuses on the upper tier (4 and 5 stars hotels) representing 11.8% of the accommodation capacity (23,131 beds). These companies managed 15.3% of hotel capacity in 2004. In 2001, Spanish *Iberostar*, French *Accor* (and Club Med) as well as American *Sheraton* managed one third of overall hotel capacity (126 hotels and 68,000 beds) owned by Tunisian groups *Adel Boussarssa*r, *Mohamed Driss* and *Loukil* (Ayoub and Jedidi-Gits, 2004; ONTT, 2005).Updated figures are quite similar (Gunfadurdoss et al, 2012).

Table 10: Main foreign hotel management companies

Foreign hotel management companies	***Number of hotels***	***Bed capacity***			***Category (%)***		**Zones**
		Total	***Average***	***5 stars***	***4 stars***	***3 stars***	
Iberostar (Spain)	11	7,944	722	24.0	42.0	34.0	6
Accor (France)	10	5,457	546	41.3	46.5	12.2	8
Vincci (Spain)	8	5,064	723	73.5	26.5	-	6
Riu (Spain - TUI)	7	3,885	752	25.0	75.0	-	4
Sol Melia (Spain)	3	781	255	-	100.0	-	3
Total	39	23,131	593				

Source: Sammari et Madani (2007), ONTT(2005), our calculation.

Since the 1990s, the market concentrates within the hands of a new generation of contractors who do not operate as profit-seeking Schumpeterian innovators but rather as rent-seeking protected owners. These groups, first recipients of the strategy of growing supply by means of collusion or constraint (in association with their foreign partners), impose on the political power this ongoing strategy, whose interest on the microeconomic level does not necessarily converge with the macroeconomic issues of the country.

CONCLUSION AND DISCUSSION

Our long period study emphasizes the structural difficulties faced by Tunisian tourism dating back over two decades ago. The authorities kept on encouraging investment in tourism until 2011, although this strategy had already reached its limits with regard to decreasing returns. According to a time-series econometric study (available upon request), we document that neither demand nor profit determines investment in the tourism industry. We argue that path dependency and inertia due to the focus upon the employment issue and preventing social unrest has driven tourism supply towards a dead end. In a context of harsh competition, upscale concentration has taken place but quality enhancement needs upgrading (Hammoudi, 2008) and overcapacities remain.

As regards recommendations, it is the mission of the State to establish a "tourist climate", wherein which all public goods and services ensure the inflow and stay of tourists in the best conditions of trust, acceptance and security. This requires a major break with the permissive investment policy favouring crony capitalism and cocooning investors that damage the balance sheets of banks and disadvantage other industries.

The Investment Code governing the industry needs thorough revision in order to drastically reduce incentives and empower stakeholders. The State should transform from a cash-cow provider into a "strategist oriented State", alongside with restructuring the fragmented administration of the industry that is facing high costs in terms of organisation , collection and exploitation of information and lacks responsiveness.

The development of a tourism real estate market should be encouraged in order to enhance the financial recovery in the industry. The mission of the the Tourism Estate Agency, within which the State is involved, should facilitate the exchange of property in the industry, possibly as a buy and sell agency. Hence, our future research avenues are the following. In the first place, we address the real estate market issue. In so far investment is not cost-effective and foreign participation has stepped back, it is worthwhile investigating what happens to real estate (the collateral) when borrowers do not pay back? Second, we address the undeclared renting issue. The renting of private owners for the accommodation of many tourists from neighboring countries brings in revenue, but it is a shortfall for both hotels (tourism receipts) and the State (taxes); it may also drive price inflation as regards rent and consumer goods.

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