Diagnostic Study of the Agri-Food Industries Sector in Tunisia (Executive Summary)

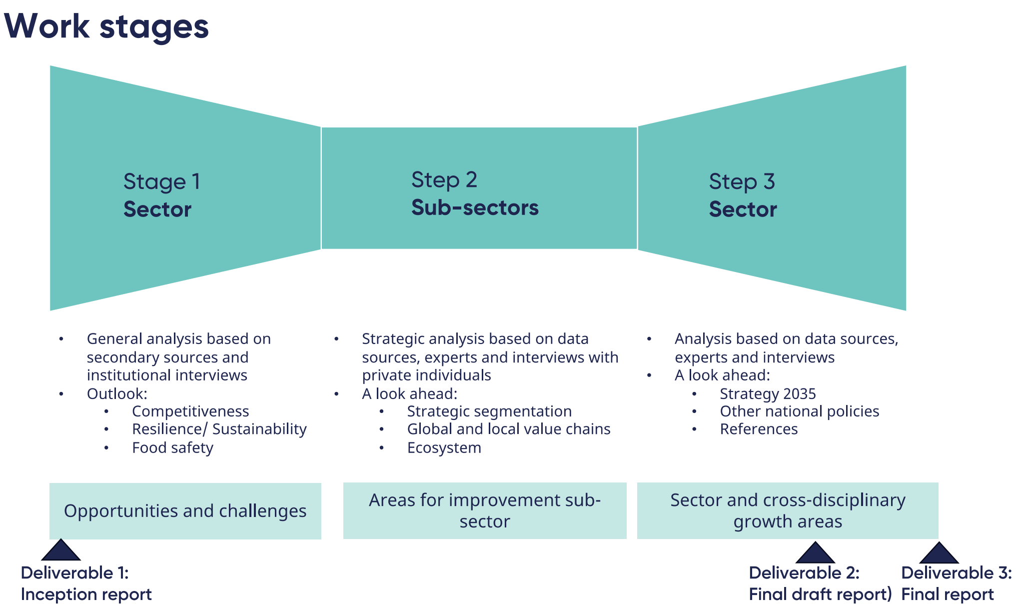
July 2024

Introduction

The objective of the diagnosis of the Agri-food Industries in Tunisia is to **support the Ministry of Industry, Mines and Energy in Tunisia in the strategic planning relating to the Agri-food Industries** in accordance with the orientations of the Strategic Study of Industry and Innovation to 2035.

The diagnosis was carried out during the first half of 2024 and validated by a steering committee on 6 September.

The work was carried out in three stages, summarised in the diagram below:



The **methodology** chosen for the diagnosis is that of **Professor Michael E. Porter on the strategy and competitive advantage of nations**, which provides a multidimensional and synthetic approach to the challenge of developing holistic recommendations for a sector as diverse as the agri-food sector.

In this sense, industry, and more specifically from the point of view of **companies**, is the **central focus** of the analysis, based on the principle that an area is only as competitive as its companies. The role of the institutional environment is in turn to facilitate this competitiveness, on the basis of knowledge and fluid dialogue with the sector, and to correct any market failures.

Three linked perspectives of crucial importance have been taken into account:

- **competitiveness,** as a central element in the development of businesses.
- **resilience and sustainability**, essential in the face of market demand and the challenges of climate change.
- **food security** as a challenge affecting the whole of humanity, with a particular impact on developing countries such as Tunisia.

The diagnosis obviously focused on the competitiveness of Tunisian industrial companies in the context of :

- **Their local environment**, considering other links in the value chain, in particular primary production and ancillary activities.
- **Their international environment**, in which they are immersed in both sourcing and exporting, by understanding developments, trends and the rules of the game in sub-sectors.

The diagnosis identified 3 major areas of opportunity, covering sub-sectors with development potential, and 11 priority recommendations aimed at these sub-sectors and across the board.

Three main sources were used to carry out the diagnosis:

- **Talks** in Tunisia with representatives of the institutions concerned, the profession, the private sector and programmes supporting the LPNs.
- Consultation of official **data sources** and other secondary sources in Tunisia and internationally, both for the sector and for the key dimensions of sustainability and food security.
- A team of **experts** combining local and international sector knowledge in comparable countries and knowledge of target markets.

Overview of the AFI sector in Tunisia

By way of summary, the following SWOT matrix presents the key points of the diagnosis of the AFI sector in Tunisia:

Forces	Weak
✓ **Second industrial sector** in terms of production and added value (3% of the VA of GDP) ✓ **Third industrial sector** in terms of employment and second industrial sector in terms of number of companies, mainly SMEs ✓ **A diversified sector** with 30 listed sub-sectors (activities of varying degrees of complexity) ✓ **A sector that is** still **investing** despite the difficulties, with growth of almost 13% between 2012 and 2023 ✓ **A sector that is exporting more and more**, thanks in particular to olive oil (52%), dates (11%) and fish products (9%) (Stat. Dec. 2023) ✓ Regulatory framework for **food safety** harmonised with the EU	✗ **Increase in production costs, profitability further impacted** in sub-sectors where selling prices are administered by the state ✗ **Timid development of** Industry 4.**0/digitalisation** in SMEs ✗ SMEs' **lack of commitment** to **sustainable development** objectives ✗ **Little data** on **the environmental impact of** the sector ✗ Most **exports concentrated** in a few markets and products ✗ **Texts implementing** the **Food Safety** Act not yet published
Opportunities	**Menaces**
✓ **Increased value of** food products on international markets (+60% for olive oil) ✓ **European market** (Southern Europe/partner) ✓ **Ethnic & Gourmet Market** ✓ **Growth in new markets** (e.g. USA, Asia) ✓ **Potential of the African market** thanks to growth in organised distribution for	✗ **Falling purchasing power** and a shrinking middle class on the domestic market ✗ **High wastage of** subsidised products ✗ **Unbalanced diet** with subsidies favouring calorie-dense foods that are not very nutritious

consumer goods, where Tunisia is already well positioned ✓ Post Covid **tourism growth** ✓ **Expansion of supermarkets and e-commerce** on the domestic market ✓ **Ecosystem** with a network of support structures for the sector (education, research & development, employer structures, etc.) ✓ Food **by-products**, a **potential source of innovation** ✓ **Solar energy**, an opportunity for industry	✗ **Unsustainable supply chains** with shortages of raw materials / Dependence on imports for basic materials / Vulnerability to fluctuations in world markets ✗ **Challenges linked to climate change** with an impact on the availability of MP for certain processing chains / Quality & Productivity / Governance also impacting the resilience of certain value chains ✗ **Related activities** that may hinder development, particularly for export (logistics & transport, MRO, packaging, etc.) ✗ **An information system** that does not meet the challenges of the sector (availability, reliability, interconnection between departments, updating, etc.)

Following this analysis, 3 main strategic opportunities for the development of the AFI sector were proposed; they are summarised in the following diagram:

The **first opportunity** brings together the country's **flagship products**, such as olive oil, which have demonstrated their export potential by meeting the needs of consumers worldwide. These are essentially sub-sectors in which it is possible to increase Tunisia's dominance in global value chains, by improving the value of the product, increasing its market presence and securing its supply, given the scarcity of these products. **Olive oil has been chosen as a representative sub-sector for the analysis of this opportunity.**

The **second opportunity** groups together the sectors intended for **mass consumption** by the Tunisian population and neighbouring countries, with two main characteristics: their importance in the **country's food security** and their **capacity for growth**, particularly in sub-

Saharan Africa. These subsectors supply both staple foods, based on volume and low margins, and more sophisticated foods with health, convenience or gourmet attributes. These are sub-sectors in which there are modern companies with well-known brands; however, these companies face major challenges in the presence of a saturated local market, weakened supply chains and under-exploited production capacity. The aim of this opportunity is to make a stable contribution to the country's food security and to strengthen its position on the FMCG export market, in particular by taking advantage of the growth of the African market. **The sub-sector chosen for analysis is that of cereal derivatives**, namely pasta and couscous, as well as biscuits and industrial pastries.

The **third opportunity** groups together **local products and gourmet products** - heritage products - which have the capacity to **differentiate themselves** on the local and international markets and to achieve high margins. Although smaller in size, this opportunity brings fundamental value to the Tunisian agri-food industry by positioning it in terms of quality. The main challenges in developing this opportunity lie in professionalising companies and positioning them in profitable markets. **The sub-sector chosen for analysis is vegetable semi-preserves and gourmet olive oil.**

The sub-sectors were chosen based on **criteria including the three perspectives** (competitiveness, resilience, sustainability and food safety) and were validated by the Directorate-General for the Food Industry.

We will briefly present the **highlights of the analysis of each sub-sector** chosen as representative. You will find the elements of the strategy in the main body of the document and a description of the sub-sectors at local level in the appendix.

Analysis of representative sub-sectors

Opportunity 1: Consumer Olive Oil

Type of products: we refer here to olive oil intended for mass consumption. Including bulk or bottled olive oil (distributor's brand) produced by Tunisian companies on behalf of third parties, generally in Spain or Italy, according to specifications indicated by the customer; and oil produced by the Tunisian company with specifications and its own brand visible to the end user.

The following chart summarises the development opportunities and main strategies by product type.

Opportunity 1: Consumer Olive Oil

Tunisia has the capacity to increase its dominance in the global olive oil value chain thanks to its positioning and trends.

- ✓ Good positioning as a producer and institutional wealth
- ✗ But limited added value, no dominance and excessive market concentration and dependence on own production

No own brand

(Bulk and packaged for third parties)

Becoming a stronger partner: broadening the scope of downstream and upstream operations with greater added value

(Sales offices, warehousing, bottling, internationalisation of production)

Own brand

Establishing a brand in an emerging consumer country: where the cost of setting up shop and cultural affinities can lead to greater profitability.

Increasing added value: placing greater emphasis on scarcity by enhancing the value of products for the consumer (organic, varieties, tastes)

Consolidation in core markets: strengthening position through acquisition of international operations

Opportunity: Tunisia, thanks to the competitiveness of its companies and its institutional wealth, is in a position to achieve **greater dominance** in the chain (which should translate into a higher margin). This **implies a qualitative leap in value chain activities.**

The time is right, because demand is outstripping supply, a situation that seems to be structural due to climate change. Tunisia can take advantage of this thanks to its resilience and leadership in organic production. This advantage does not always translate into higher margins; moreover, strong dependence on a few markets persists, and local production is not immune to the risk of climate change.

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Strategies to be developed and Recommendations:

Becoming a more solid partner: with third parties, we can become even more essential thanks to a diversified supply capacity, not just in Tunisia, and thanks to greater proximity to the market and knowledge of the end consumer.

- Maximising the exportability of local agricultural and processing production in terms of both volume and quality.
- Internationalisation of operations: following the example of the partnership between Tunisian and Spanish companies, Tunisia can duplicate this example with third countries, by contributing its technical, commercial and/or institutional know-how.

Establishing a brand in an emerging consumer country: The own brand is particularly developed by a Tunisian company that is a leader in the most important markets (e.g. Europe) but also in those with strong competition. Other emerging markets should be exploited, especially in Asia, the Middle East and the East where there are growing markets and where brands are not yet recognised by consumers who are prepared to pay more for the product.

- Diversify marketing efforts towards countries with growing demand: to do this, we need to work in an orchestrated way as a country, by organising tastings, working with chefs, doing our own promotion in the channel, on social media, and so on. As part of this diversification, it makes sense to go hand in hand with gourmet oil to offer an image of the country.

- Developing market intelligence (consumer, regulation, channels)

Incrementing added value: We need to continue to focus on value-added products such as organic products or specific varieties.

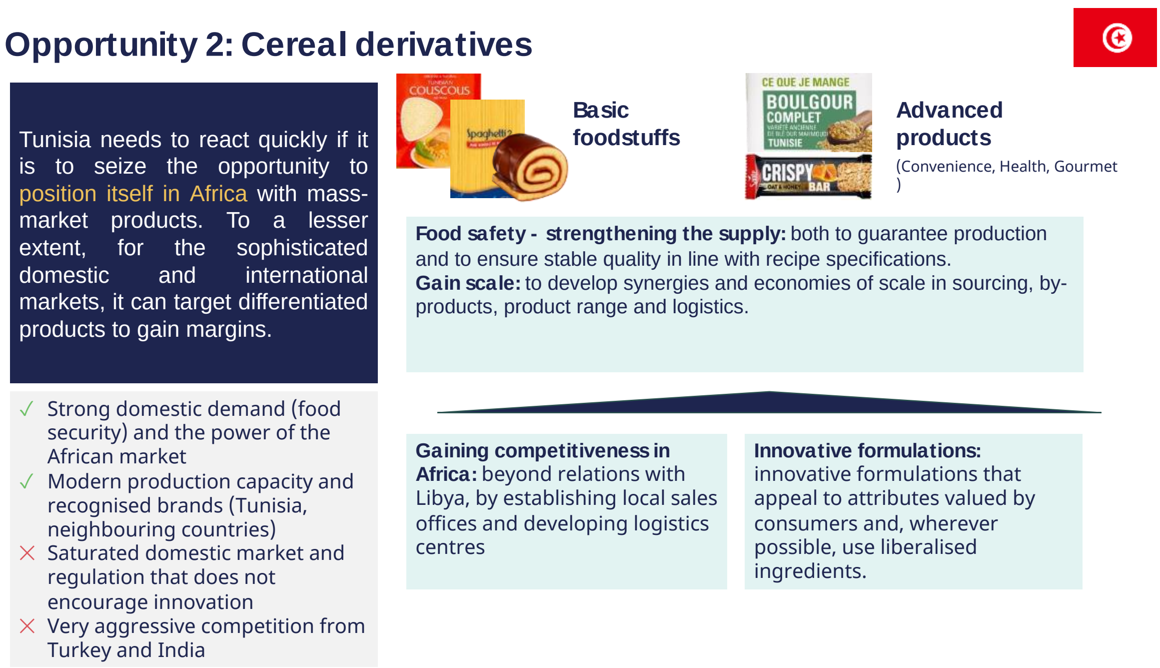
- Enhancing the value of the product through a combination of quality and promotional mechanisms to position it internationally. It is necessary to work with distribution in the main markets so that consumers can recognise the value of organic farming or the variety. Otherwise, the effort made to add value will not be compensated.

Consolidation in core markets: strengthening position through acquisition of international operations and gaining scale through greater consolidation of businesses.

- Support for the internationalisation of operations in other producer countries and on major markets
- Strengthen commercial diplomacy to make it easier for businesses to set up here and to create better conditions for setting up and exporting.

Opportunity 2: Cereal derivatives

Type of products: the analysis focuses on pasta and couscous, and biscuits and industrial pastries and their supply chain, in particular flour mills. A distinction was made between staple foods, which are key to food safety, and more processed products with attributes linked to health, convenience or gourmet .



Opportunity: domestic demand, which is the largest market for this sub-sector, is saturated; with successful companies and well-established brands, their capacity for growth is therefore limited. There is also a niche market for less basic products, but this is limited by market regulation. This limitation is less acute in the pastry and biscuit sector, where new companies have focused on quality or innovative products. Finally, growth can be external, especially in Africa, but it is increasingly complex due to pressure from the Turks and Indians.

Strategies and recommendations :

Food security - boosting supplies: to ensure food security on the local market and to be able to offer products of consistent quality, it is essential to improve supplies in general, and cereals in particular.

Morocco has been taken as an example of how to improve supply (details are given in the appendix), bearing in mind that the recommendations are in line with the suggestions made by companies in the sub-sector:

- Liberalising cereal purchases so that companies can make their own purchases and decide on origins and qualities, without the State losing control of stocks
- Protect and support national durum wheat production (seeds, irrigation, etc.). It would be desirable to cooperate internationally in this area - as Morocco is doing with Canada.

Gaining scale: it is also necessary to create synergies to tackle foreign markets and optimise economies of scale, given the low margins in this sub-sector:

- Supporting the consolidation and cooperation of businesses, not only through national and international financial mechanisms, but also by promoting cooperation and synergies between businesses within their representative organisations.

Gaining a competitive edge in sub-Saharan Africa: by establishing a coordinated presence in a number of clusters:

- Business expansion plan in Africa as part of a public-private agreement: it is important to prioritise distribution hubs and work together (public-private) and with other consumer sectors
- Working specifically on logistics: ensuring depots, production operations and reducing transport costs
- Commercial diplomacy to ensure the establishment of companies, the repatriation of profits and the resolution of other obstacles that companies may face.

Innovative formulations: Finally, we need to produce innovative formulations based on consumer preferences on the local and international markets (gourmet).

- Collaborative research: for example, replacing cereals with pulses
- Market intelligence (consumer, regulation, channels)

Opportunity 3: Vegetable semi-preserves and gourmet olive oil

Type of products: the diagnosis of the sub-sector representative of this opportunity focused on vegetable semi-preserves such as harissa, dried tomatoes, artichokes, table olives and gourmet oil. It takes into account both local products intended for the national market and gastronomic products intended for the international market.

Opportunity 3: Gourmet/ Terroir (Preserved vegetables & Gourmet Oil)

Position a number of differentiated products on the domestic and foreign markets to **act as a showcase and improve the perception of the quality** of Tunisian products.

Diversify into unsaturated markets with growing demand and cultural affinity, where recognition is easier and margins higher.

Efforts on distribution channels: facilitating cooperation between production and distribution through local channels close to the consumer to educate them and give them a complete experience.

- ✓ High-growth segment
- ✓ Short value chain with low barriers to entry and better margins for the producer
- ✓ Local/regional competition, low impact of substitute products
- ✓ Negotiating power fairly evenly distributed across the VCT

Professionalisation: strengthening the skills of existing companies and creating new ones capable of competing professionally on the national and international markets.

Emphasis on quality and heritage: improving the design and quality of products by adapting them to consumer needs, without losing their origin. Products must comply with strict health and safety standards, and quality must be promoted.

Opportunity: position a number of differentiated products on the domestic and foreign markets (niche markets) to act as a kind of label to improve the perception of the quality of Tunisian products. Bear in mind that a local product can also be positioned as a gourmet product.

This is a growth sector driven by responsible consumption. Barriers to entry to the value chains that manufacture these products are low, with bargaining power fairly balanced between the players, resulting in better margins for producers. Competition is essentially local/regional and substitution prices have little influence on the high prices of these products.

Local analysis of the sub-sector has shown that there is little value added to the products, particularly for export, with a significant presence of small-scale and/or informal players in the value chains. This has a negative impact on the resilience of these chains, which are also characterised by weak links between farmers and manufacturers.

Strategies and recommendations:

Diversify into unsaturated markets with growing demand and cultural affinity, where recognition is easier and margins higher.

- Monitoring and prioritising target markets: market research/action plan
- Coordinated promotion and international reputation: through chefs, tastings, influencers, support for international competitions, etc.

Efforts on local distribution channels: facilitating cooperation between production and distribution in Tunisia through local channels close to the consumer to educate them and give them a complete experience.

- Increase product knowledge in Tunisia: chefs, opinion leaders, tastings to train consumers, restaurants and distributors.
- Strengthen customer experience capabilities: storytelling, packaging and labelling, social media, etc. to deliver a distinctive customer experience.

Professionalisation: strengthening the skills of existing companies and creating new ones capable of competing professionally on the national and international markets

- Promote business associations: bring gourmet/terroir businesses together in a cluster or association to facilitate dialogue / Synergy between products, with collaborative export strategies.
- Developing marketing skills: information and packaging, customer experience and storytelling, digitisation of businesses, setting up direct sales channels, etc.
- Gourmet entrepreneurship programme: supporting emerging and innovative initiatives

Focus on quality and heritage: improve the design and quality of products by adapting them to consumer needs, without losing their origin. Products must comply with strict health and safety standards, and quality must be promoted.

- Ensuring quality: health and specific quality / Labelling / Strengthening links with primary production

Summary of specific recommendations

The following graph provides a schematic summary of the priority recommendations by opportunity and sub-sector, as well as the other sub-sectors for which these recommendations are relevant.

Opportunity 1	Opportunity 2	Opportunity 3
Increased dominance of flagship products	Consumer leadership in Africa	Professionalisation of gourmet/terroir companies
360 diversification into the Asian market	Supplying quality cereals	360 diversification into the Asian market
Featured Products	**Consumer goods**	**Terroir & Gourmet**
• Consumer olive oil • Dates • Seafood products	• Cereal derivatives • Fats • Tinned fruit and vegetables • Milk and milk derivatives • Meat	• Vegetable semi-preserves • Gourmet olive oil • Cereal derivatives • Dates and derivatives

Cross-cutting recommendations

To support these sectoral opportunities, there are a number of cross-cutting initiatives to be developed, which are summarised in the following graph and explained in abbreviated form below.

Opportunity 1	Opportunity 2	Opportunity 3	Food safety
Increased dominance of flagship products	Consumer leadership in Africa	Professionalisation of gourmet/terroir companies	Innovation for food security
360 diversification into the Asian market	Supplying quality cereals	360 diversification into the Asian market	
Intelligent integration with the agricultural sector			
Strengthening and attracting key suppliers			
Developing skills for future competitiveness			
Support for digitisation and sustainable development			

Intelligent integration with the agricultural sector

The aim is **to build better collaborative bridges between primary production and processing**, thereby strengthening the value chain approach **and governance,** with a positive impact on sustainability and greater resilience for all stakeholders.

- Strengthen the role of inter-professional structures and promote their creation where appropriate.
- Strengthen the financial resources of the sectors by supporting initiatives equivalent to the fund for the promotion of packaged oil.
- Supporting SMEs to provide support for farmers
- Supporting research/innovation programmes (quality and productivity)
- Supporting farmer extension programmes involving industrial players (public/private partnership)
- More support for producer associations
- Strengthen collaboration between ministries (integrated policies through an inter-ministerial coordinating body)

Strengthening and attracting key suppliers

Complete the sector's value chain with ancillary industries and quality service providers in areas that require proximity, such as: maintenance, repairs and spare parts; innovative packaging; professionals in product development, design, digital marketing, etc.

- Industry consultation on the needs of the ancillary industry
- Specific MRO improvement programme :
    - Training manufacturers to adopt Industry 4.0.
    - Strengthening the capacity of ancillary businesses by digitising sales, purchasing and inventories.
    - Professionalisation of mechanical and electronic technicians.
    - Alliances with foreign suppliers for parts availability and express transport service agreements
    - Alliances for remote assistance to local repair companies or end-user industries using augmented reality or other methods.

Developing Skills for Future Competitiveness

The agri-food sector is increasingly a knowledge-based sector and, with the proposed improvements, it is clear that new technical and management skills need to be incorporated into the country. The aim is to identify, through a forward-looking and participatory exercise, the key skills for the development of the AFI sector in Tunisia and to draw up a plan for their acquisition.

Some examples of skills to be developed:

- Recovering by-products and the circular economy
- Management and financing of international operations
- Product development and launch (technical and management)
- Marketing and international sales
- Food safety (see below)

To this end, it is proposed that :

- A study: a participatory study of the skills needed to meet the expected changes (for example, the ILO has a methodology).
- The development of a plan: holistic - formal training at various levels, but also through continuing education, experimentation and transfer and collaboration with specialist engineering and consultancy firms-.
- Implementation: working with various training and technology transfer institutions to develop curricula and programmes that meet these needs.

Support for digitisation and sustainable development (businesses)

On the one hand, the aim is to support Tunisian companies in the agri-food industry with awareness-raising programmes, advice and incentives for the digital transition and sustainability.

This has already begun, for example, for players in the olive oil and date value chains, thanks to the GIZ CQE programme. We must **continue to support other priority sub-sectors**, such as the water-intensive canned/semi-canned sector and the cereals and derivatives sector, where the energy transition is important for reducing costs. To achieve this, it is proposed to:

- Definition of needs by sub-sector: each sub-sector will have different needs and priorities
- Putting in place incentive mechanisms: support for measures involving investment/assessment and improvement of existing support/financing mechanisms
- Dissemination plan: disseminate best practice and existing support to businesses.
- Offer advice: from existing technology centres
- Where a collective platform is justified, encourage its development in collaboration with the public and private sectors, for example a traceability system for certain categories of products, particularly those intended for export to advanced countries.

Support for digitisation and sustainable development (institutions)

We also need to equip the sector as a whole and the institutional environment with evidence-based planning and decision-making tools that take account of the aspects of this diagnosis - competitiveness, resilience, sustainability and food security. More specifically, :

- Interconnected information systems: bringing together all the relevant information for a sector in one place
- Planning systems: primary production (e.g. area planted, number of plants, productivity, expected harvests) and secondary production (production, processing capacity, use, etc.).
- Geolocalised information systems: information on land, water and climate for long-term forecasting of priority areas by crop, for example.

Innovation for food safety

Food safety is a complex issue that goes beyond the scope of this diagnosis, which is based mainly on the industrial aspect. It has been dealt with from different angles in the opportunities and has been specifically addressed in the chapter on the cereal derivatives sub-sector.

In any case, food safety can also be an opportunity for innovation and the creation of new businesses. There are many examples around the world which, depending on the objectives of the diet and food in Tunisia, can be taken as a reference and adapted to the country through a programme of support for innovation. Be it ingredient substitution, livestock feed, circular economy, etc. To achieve this:

- Prioritise products: key products that can be improved, respectful of the Tunisian diet and nutritionally adequate.
- International cooperation: competitive and proven international experience
- Innovation: tests as part of public-private partnerships to adapt these methods to the local area and assess their scalability and economic viability.
- Implementing new methods: encourage (by funding, adapting legislation, etc.) practices that prove feasible.

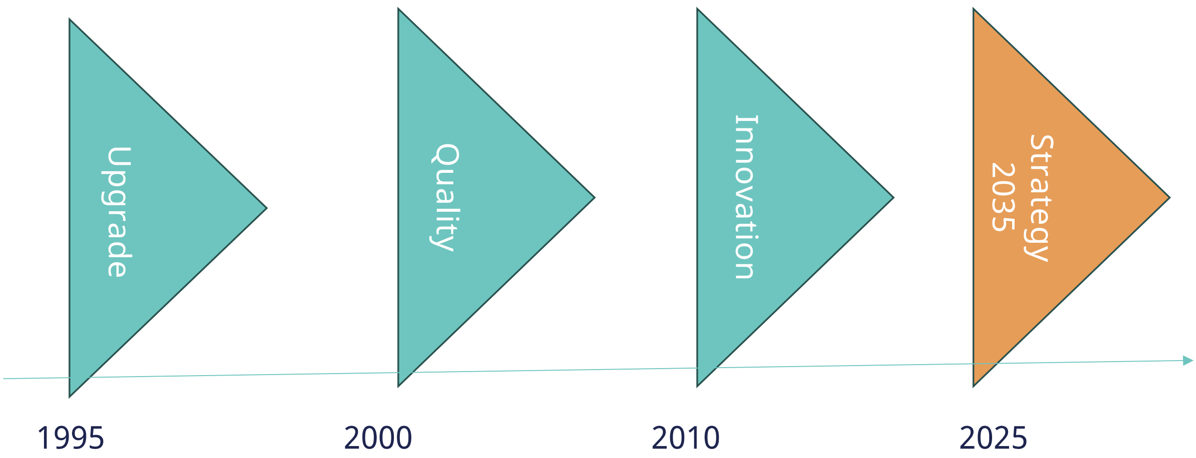
All the proposed recommendations are aligned with the main thrusts of the 2035 strategy in order to facilitate coherent strategic planning.

Conclusion

Tunisia has a structured and diversified business fabric, with a culture of entrepreneurship, adaptability and improvement that makes it has proved its resilience in the past, despite the recent crises linked to the climate and disruptions to the value chain.

The institutional support network for the agri-food industry, comprising technical centres, industrial parks, teaching and research facilities, etc., is an important asset in the ecosystem in which SMEs operate.

The AFI sector therefore has the capacity to seize the opportunities that present themselves, despite all the challenges it faces. This is the **start of a new cycle of transformation** in which, as in the past, the public and private sectors need to work together in an orchestrated fashion.



Since 1995, the sector has gone through several transformation cycles that have enabled it to modernise its production facilities, open up to international markets, ensure quality and begin to integrate innovation into its corporate culture. The cycles continue, and it is now imperative to integrate a new cycle in tune with the 2035 strategy and with three key words:

- Enhance the **value of** products by focusing more on the market
- INCREASE **INTERNATIONALISATION**, with greater openness to both imports and exports
- **CO-OPERATE** with the prerequisite of trust between players (Private/Private, Public/Public, Private/Public)

A number of priority and achievable strategic objectives and recommendations have been proposed and should :

- Be transferred to more detailed strategic planning
- Be carried out with Tunisian funding and expertise, but also in cooperation with the sector, other countries and international bodies
- Serve as a starting point and fuel the dialogue between the public and private sectors to keep it constantly up to date.