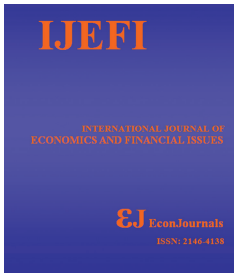

International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2017, 7(3), 180-185.

Political Connections and Debt Access: The Case of Tunisian Firms

Fayrouz Bencheikh[1]*, Neila Boulila Taktak[2]

[1]Higher Institute of Management, Tunisia, [2]Higher Institute of Management, Tunisia. *Email: bencheick_fayrouz@yahoo.fr

ABSTRACT

The purpose of this paper is to study the effect of political connections on debt access in the case of Tunisian firms before and after the 2011 uprising. The results show that the impact of political connections on debt access differs according to three criteria: Firstly, according to debt maturity, secondly according to the degree of political connections, and finally according to the sub-period studied.

Keywords: Debt Access, Political Connections, Tunisia
JEL Classifications: G30, G31

1. INTRODUCTION

Dependence on the government constitutes a common trait that distinguishes politically connected firms. This connection introduces protectionism and enhances rent extraction. Access to bank debt is an explicit manifestation of this. The advanced explanations depend on whether the study is looking at developed countries or emerging market countries. Faccio (2006) considered a sample of international firms. The results obtained show that politically connected firms have much more debt. The debt becomes larger when the connection is established by an owner and not by a manager. Direct intervention of the government in the economy is widespread in emerging market countries, as has been mentioned by La Porta et al. (2002), Dinç (2005) and Beck et al. (2006). In this context, Khawaja and Mian (2005) show that Pakistani firms that are politically connected more easily access debt. In addition, these firms have a greater risk of default. The authors also state that the main source of financing comes from public banks. In the case of Malaysian firms, Bliss and Gul (2012) found similar results. Similarly, Fraser et al. (2006) show that politically connected firms are significantly associated with higher leverage, and that this result becomes more important when firms are larger and more profitable. Also, Ebrahim et al. (2014) specify that Malaysian politically connected firms benefit from different forms of favoritism and that their debt is much larger.

Regarding developed countries, Agrawal and Knoeber (2001) have studied the case of the United States of America. The authors make the link between political connections and large firms. The results obtained show a relationship between political connections and government contracts, export-oriented production and lobbying activities. In the same context, Kang and Zhang (2012) specify that heavy regulations, in specific sectors, promote this kind of link. According to Houston et al. (2014), banks maintain a relationship with politically connected American firms because they are considered to be the most profitable and the best in regards to the management of default risk. They acquire these benefits thanks to continued support from the government. This approach is much more relevant in developed countries, where most of the banks are private and protected by a legal system that works properly and a free press that makes it difficult for the government to impose its will on banks.

Before the 2011 uprising, Tunisia was dominated by an authoritarian regime. This political environment encouraged the emergence of cronyism. Thus, several degrees of political connections have existed ranging from direct and strong to indirect and weak. Political connections were established by the family of the former regime, their affiliates, their friends and politicians. The first type of political connections consists of belonging to regulated sectors. Indeed, regulation constitutes a privilege restricted to the corporate elite. In this context, the code of investment and

economic initiative was revised by the government of the former president to protect the private interests of some actors at the expense of others (Rijkers et al., 2017). Second, strong political ties were established through the members of the family of the former president and its affiliates. Another favor which was granted to the relatives of the regime consists of the acquisition and the establishment of private banks despite the unfavorable opinion of the International Monetary Fund and the World Bank that denounced the overbanking of the country. These banks, dominated by politically connected people, became shareholders in several Tunisian firms. The latter received indirect and weak political support. In the Tunisian case, politically connected firms benefited from many privileges. Reports issued by the International Monetary Fund and the World Bank show that the main source of enrichment of the family of the former president and the close friends of the regime was the appropriation of loans granted by Tunisian banks.

The main objective of this paper is to examine the impact of political connections on debt access of Tunisian firms before and after the uprising. By performing this choice, we have investigated two facts that remain unexamined in earlier literature. First, we have highlighted the impact of two degrees of political connections on debt access. Second, we have studied the impact of the Tunisian uprising on the relationship between political connections and debt access.

The results show that being politically connected promotes debt access. However, the study of the maturity of the debt highlights the domination of short-term debt instead of long-term debt. In fact, politically connected firms prefer short-term financing. The reasons are the frequency of borrowing and the preservation of reduced costs. Long-term financing recurs cyclically and involves substantial costs. Furthermore, subsidies granted by the State play an important part in long-term financing strategies. In addition, we have shown that direct and strong political links are negatively related to debt, whereas indirect and weak political links are positively associated with debt. After the uprising, all political connection categories are more leveraged. The main reasons are: The economic recession, which has forced Tunisian firms to increase debt; and the confiscation of politically connected firms, which gave support to debt access.

The rest of the paper is organized as follows: Section 2 includes a review of the literature concerning the effect of being politically connected on debt access. Also, this section presents an overview of political connections in Tunisia, explaining the motivations that underpin the decision to study the context of Tunisia and its characteristics. Section 3 describes the sample and summary statistics. Section 4 is focused on methodology. Section 5 presents the results and discussion. Section 6 concludes.

2. LITERATURE REVIEW

Political connections take several forms. However, the common point remains rent-seeking incentives. Gomez and Jomo (1997) consider that political connections are closely linked to favoritism. As such, firms have access to privileges through three means. First, they cite firms where the head of the firm is a politically connected person. Second, they focus on firms controlled by a sovereign fund[1]. Third, they mention firms which have institutional investors that are sponsored by the state[2].

In the same order of ideas, Frye and Iwasaki (2011) propose three explanations of the relationship between the government, its affiliated directors and businesses. The first explanation supports the good governance of the state, which compels its directors to stop the diversion of public resources, which is mainly practiced in failing firms. The intervention of the State, therefore, has the improvement of the performance of the firm as its objective, as well as better prospects for the national economy. The second justifies the seeking of rent for access to different forms of favoritism, made possible thanks to the designation of a Director by the Government. The third supports the phenomenon of collusion with a social vocation, which translates to a mutual exchange of interest. This hypothesis is characteristic of the case of Russia (Frye and Iwasaki, 2011) and Hong Kong (Wong, 2010).

According to this perspective, Hasan et al. (2014) have split the interests arising from political connections into three categories. The first acts in accordance with the resource dependence theory of Pfeffer and Salancik (1978), according to which political connections give access to relatively important resources, such as bank loans or government contracts. In the same context, political connections provide support for taking advantage of regulation, especially in emerging market countries (Allen and Li 2011). In addition, they are a hedge against economic uncertainty (Li and Zhang 2007). In the second group, political connections are seen as a way to use the resources of the firm to win, or maintain, greater political support, especially in non-democratic regimes. They are usually used to establish links with large firms, which have strategic importance[3] (Boubakri et al. 2008 and Wu et al., 2012). The third group includes politically connected firms who consider the presence of a politician on their management committees to be an enrichment of their human capital, a resource not accessible to all firms, and, therefore, a means to improve their competitive position (Peng and Luo 2000, Li and Zhang 2007 and Li et al. 2008).

In general, the research hypothesis that focuses on rent remains dominant. For example, Faccio (2006), in an international context, and Fan et al. (2007), for the Chinese firms that have come to be partially privatized, support this hypothesis. On their part, Khawaja and Mian (2005) combine political connections and corruption. They explain that political connections are a pretext for these firms to find the means to extract rents in the form of loans granted by public banks. The means to acquire a rent are multiple. Among the origins of this rent is privileged access to bank debt. This view is summarized in the following hypothesis:

H_1: Political connections are positively and significantly associated with debt access.

1 The author cites the Khazamah Nasional Berhad (KNB) for Malaysia.
2 The Permodalam Nasional Berhad has been taken as an example in the case of Malaysia.
3 For example, firms which belong to the communication, transport, energy, or heavy industry sectors.

3. DATA

3.1. Construction of the Sample

The data have been extracted from the sites of the Tunis Stock Exchange and the Financial Market Council. These two sources made it possible to constitute a sample of 40 listed firms. Among the selected firms, we first considered firms belonging to regulated sectors. In this context, Rijkers et al. (2017) show that regulated sectors in Tunisia were dominated by a corporate elite. Therefore, the code of investment and economic initiative has undergone several changes to protect the private interests of politically connected people. This type of political connections concerns the family of the former regime, their affiliates, their friends and politicians and constitutes the general case. Next, we identified firms which belonged to the family of the former president and its affiliates. The list of these politically connected people was published by the Swiss Federal Council. In this case, political links are established by the holding of a majority of the share capital or the membership of the board of directors. This type of firm represents direct and strong political links. Then, we identified the financial institutions owned or managed by politically connected people. Thus, we considered firms with politically connected institutional participation in ownership. This type of firm represents indirect and weak political links.

3.2. Variable Definitions

The capital structure is measured by the total debt ratio (TD), the long-term debt ratio (LTD) and the short-term debt ratio (STD). The measures employed take into consideration debt maturity (Frank and Goyal 2009; Rajan and Zingales 1995; Titman and Wessels 1988). This dimension is important in a bank-oriented economy where debt is hardly accessible. In this case, banks prefer to provide short-term debt to help firms access the financing they need. Long-term debt creates higher costs for the firm and exposes creditors to more risk.

The independent variables include variables for political connections and firm characteristics. Political connections are represented by three measures, which are Regulated PC, Strong PC and InstitutionalPC. Regulated PC is a dummy variable which takes the value 1 if the firm belongs to a sector regulated by the State and 0 otherwise. Strong PC is a dummy variable which takes the value 1 if the firm belongs to the family of the former president and its affiliates and 0 otherwise. InstitutionalPC is a dummy variable which takes the value 1 if the firm is connected through an institutional investor and 0 otherwise.

Firm characteristics include: Collateral, growth opportunities, size, and profitability. Collateral (Collateral) is measured by the ratio of fixed assets divided by total assets (Rajan and Zingales 1995; Titman and Wessels 1988). Size (Size) is measured by the natural logarithm of the total assets (Titman and Wessels 1988; Rajan and Zingales 1995). Profitability (Profitability) is measured by the result before interest and tax on the total assets as in the case of Booth et al. (2001) and Huang and Song (2006). Growth opportunities (Growth Opportunity) are measured by the natural logarithm of the relative growth rate of the total assets (Frank and Goyal 2009; Kremp and Stoss 2001; Titman and Wessels 1988). Volatility (Volatility) is measured by the standard deviation of return on assets as has been suggested by Booth et al. (2001).

3.3. Summary Statistics and Univariate Analysis

The descriptive statistics (Table 1) show that 80% of the firms in the sample are politically connected. This proportion is relatively important. For example, Houston et al. (2014) studied a sample including 43% of American politically connected firms. However, the dominance of these firms seems logical. In effect, the sample is composed of listed firms. This characteristic constitutes in itself a sort of favor. The Tunisian firms have difficulty accessing the financial market. The latter is restricted to firms that are more lucrative and operating in strategic sectors. This is the profile of most of the politically connected firms. The sample of politically connected firms includes 24% of firms belonging to the family of the former president and its affiliates and 23% of firms with politically connected institutional participation in ownership.

The descriptive statistics concerning firm characteristics are in their majority significant (Table 2). These show that the politically connected firms have more growth opportunities, are larger, and more profitable. Houston et al. (2014) and Faccio (2006) found similar results.

4. METHODOLOGY

As a baseline, multiple linear regression models were used to analyze the influence of political connections on debt access. Models are estimated by generalized least squares to raise the matter of error autocorrelation and heteroscedasticity. The standard errors are clustered at the firm and years levels. The estimation model was the following:

$$Y_{it}=\beta_0+\beta_1 Connected_{it}+\beta_2 FixedAssets_{it}+\beta_3 Growth_{it}+\beta_4 Size_{it}+\beta_5 Profitability_{it}+\beta_6 Volatility+\delta t+u_i+\varepsilon_{it} \quad (1)$$

Where, Y_{it} refers to the ratio of total debt (Tdebt), the ratio of long-term (LTdebt), and the ratio of short-term debt (STDebt) respectively. Connected refers to the measures of political

Table 1: Summary statistics

Variables	Mean±SD	Min	Max
TDebt	0.2124377±0.2105211	0	0.9275584
LTDebt	0.0944015±0.1209351	0	0.7382988
STDebt	0.1322603±0.1503289	0	0.752256
RegulatedPC	0.804878±0.3972647	0	1
StrongPC	0.2439024±0.4304858	0	1
InstitutionalPC	0.233920±0.4304858	0	1
FixedAssets	0.3103658±0.2023153	0	0.8337759
Growth	−1.039985±0.5016325	−2.213198	0.1170775
Size	4.481609±0.5707986	3.176342	5.806388
Profitability	0.044761±0.1083637	−0.6325849	0.3397812
Volatility	1.649±0.376	0	7.818

TDebt: Total debt/total assets, LTDebt: Long term debt/total assets, STDebt: Short term debt-to-total assets, RegulatedPC is a dummy variable that equal 1 if the firm belongs to a regulated sector and zero otherwise, StrongPC is a dummy variable that equal 1 if the firm is owned by the family of the former president and its affiliates and zero otherwise, InstitutionalPC is a dummy variable that equal 1 if one of the owners is an institutional investor and zero otherwise, Growth: Log ((total $assets_t$-total $assets_{t-1}$)/total $assets_t$), Size: Log (total assets), Profitability: Earnings before interest and taxes/total assets, Volatility: Return on $assets_{it}$/σreturn on $assets_t$, SD: Standard deviation

Table 2: Comparison between unconnected and connected firms

Variables	Unconnected firms	Connected firms	Mean difference	
	A	B	(A-B)	t-value
TDebt	0.110	0.235	−0.125	−3.299***
LTDebt	0.075	0.098	−0.023	−1.050
STDebt	0.072	0.145	−0.073	−2.699***
FixedAssets	0.364	0.297	0.067	1.876**
Land	0.031	0.039	−0.008	−0.640
Bulding	0.115	0.104	0.011	0.484
Mach & equipment	0.122	0.087	0.034	1.704**
Growth	−1.220	−1.001	−0.219	−2.043**
Size	3.981	4.605	−0.623	−6.778***
Profitability	0.041	0.045	−0.043	−0.227
Volatility	2.000	1.010	0.992	1.245

***.**: The coefficients are respectively significant at an error threshold of 1%, 5%. TDebt: Total debt/total assets, LTDebt: Long term debt/total assets, STDebt: Short term debt-to-total assets, RegulatedPC is a dummy variable that equal 1 if the firm belongs to a regulated sector and zero otherwise, StrongPC is a dummy variable that equal 1 if the firm is owned by the family of the former president and its affiliates and zero otherwise, InstitutionalPC is a dummy variable that equal 1 if one of the owners is an institutional investor and zero otherwise, Growth: Log ((total assets$_t$-total assets$_{t-1}$)/total assets$_t$), Size: Log (total assets), Profitability: Earnings before interest and taxes/total assets, Volatility: Return on assets$_{it}$/σreturn on assets$_t$

connections which are RegulatedPC, StrongPC and InstitutionalPC. FixedAssets is the ratio of fixed assets to total assets. Growth is the natural logarithm of the relative assets variation. Size is the natural logarithm of the total assets. Profitability is the ratio of earnings before interest and tax to total assets. Volatility is the standard deviation of return on assets. δ_t is the time fixed effect. u_i is the individual fixed effect. ε_{it} is an error term.

Then, through a natural experiment approach, we examined the impact of political connections on debt access before and after the uprising. We applied difference-in-difference models to distinguish between the two periods. The period of interest starts from the year 2011. The model was the following:

$$Y_{it}=\beta_0+\beta_1 Connected_{it}+\beta_2 Connected_{it}*uprising+\beta_3 FixedAssets_{it}+\beta_4 Growth_{it}+\beta_5 Size_{it}+\beta_6 Profitability_{it}+\beta_7 Volatility+\delta t+u_i+\varepsilon_{it} \quad (2)$$

Where, Y_{it} refers to the ratio of total debt (Tdebt), the ratio of long-term (LTdebt), and the ratio of short-term debt (STDebt) respectively. Connected refers to the measures of political connections which are RegulatedPC, StrongPC and InstitutionalPC. Uprising is a dummy variable that equal 1 during and after the 2011 uprising. FixedAssets is the ratio of fixed assets to total assets. Growth is the natural logarithm of the relative assets variation. Size is the natural logarithm of the total assets. Profitability is the ratio of earnings before interest and tax to total assets. Volatility is the standard deviation of return on assets. δ_t is the time fixed effect. u_i is the individual fixed effect. ε_{it} is an error term.

5. RESULTS AND DISCUSSION

5.1. Political Connections and Debt Access

The results obtained in Table 3 show that there is a positive and significant relationship between being politically connected and total debt. Faccio (2006), Khawaja and Mian (2005), and Ebrahim et al. (2014) found similar results. By contrast, the study of the maturity of debt shows that there is a difference between long-term and short-term debt. Politically connected firms do not like long-term debt and instead resort to short-term debt. Such a dichotomy seems logical. Short-term debt is frequently renewed with relatively lower costs. This situation promotes rent extraction by the persons involved. However, long-term debt generates higher costs and generates an increased risk of default for the firm. Furthermore, politically connected firms are more likely to use state subsidies to provide long-term financing.

5.2. The Effect of Two Different Degrees of Political Connections

The first degree focuses on direct and strong political links. This kind of link was established by the members of the family of the former president and its affiliates. The impact of this group of people on debt access is negative and statistically significant. This result does not match with the general financing behaviour of politically connected firms. However, Rijkers et al. (2017), in a study done on the Tunisian business environment, confirm that firms belonging to the former regime's clan were very lucrative and had operated under a monopoly. Also, it is possible to confirm that the rent seeking incentives were realized through benefits generated from lucrative activities.

The second degree concerns indirect and weak political links. In this case, we have taken into consideration the links established by the ownership held by politically connected institutional investors. The impact of firms benefiting from indirect or weak links is positive and statistically significant. The result shows that firms take advantage of political connections to increase their leverage, which is consistent with the earlier literature (Faccio 2006; 2010).

5.3. The Effect of the Political Uprising

Table 4 compares the effect of political connections before and after the uprising. Firms with weak political ties were much more heavily leveraged before and after the revolution. Firms with strong political ties have lost much of their political power after the uprising. These firms were less leveraged before the uprising and became more leveraged after that event. The economic recession that has occurred since 2011 explains in part the use of debt financing. Another explanation lies in the fact that most of the politically connected firms were confiscated by the State which gave support to debt access.

6. CONCLUSION

This article examined the effect of political connections on debt access. The results show that politically connected firms more easily access short-term debt. This choice is in agreement with the rent extraction hypothesis. Indeed, short-term debt generates less cost and is renewable without requiring long-term repayment strategies. Politically connected Tunisian firms are more reluctant to take on long-term debt. These firms, benefiting from heavy regulations that favor them, draw on state subsidies for their long-term financing.

Similarly, this study distinguishes between two degrees of political connections: The direct and strong connections and indirect and

Table 3: Effect of political connections on debt access

Variables	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	TDebt	LTDebt	STDebt	TDebt	LTDebt	STDebt	TDebt	LTDebt	STDebt
RegulatedPC	0.0944*	−0.0448*	0.121***						
	(0.0543)	(0.0276)	(0.0410)						
StrongPC				−0.0647	0.0215	−0.0834***			
				(0.0403)	(0.0205)	(0.0304)			
InstitutionalPC							0.0989***	0.0116	0.0852***
							(0.0353)	(0.0183)	(0.0269)
Firm characteristics									
Growth	0.0710**	0.0521***	0.0255	0.0630**	0.0546***	0.0152	0.0619**	0.0506***	0.0179
	(0.0307)	(0.0156)	(0.0232)	(0.0312)	(0.0159)	(0.0236)	(0.0304)	(0.0158)	(0.0232)
Size	0.0704**	0.0550***	0.0189	0.0873***	0.0471***	0.0406*	0.0778***	0.0465***	0.0319
	(0.0293)	(0.0149)	(0.0221)	(0.0279)	(0.0143)	(0.0211)	(0.0276)	(0.0144)	(0.0211)
Profitability	−1.003***	−0.622***	−0.270*	−1.118***	−0.568***	−0.418***	−1.061***	−0.565***	−0.366**
	(0.213)	(0.108)	(0.161)	(0.204)	(0.104)	(0.154)	(0.201)	(0.105)	(0.154)
Volatility	0.00279	0.00158	0.00142	0.00283	0.00154	0.00147	0.00260	0.00144	0.00134
	(0.00281)	(0.00143)	(0.00212)	(0.00281)	(0.00143)	(0.00213)	(0.00277)	(0.00144)	(0.00211)
Constant	−9.236	−4.132	−7.606	−0.0465	−7.869	4.195	1.019	−5.770	3.241
	(21.59)	(10.97)	(16.28)	(21.62)	(11.02)	(16.34)	(21.16)	(11.01)	(16.14)
Observations	322	322	322	322	322	322	322	322	322
Firm and year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

***.**.*: The coefficients are respectively significant at an error threshold of 1%, 5% and 10%. TDebt: Total debt/total assets, LTDebt: Long term debt/total assets, STDebt: Short term debt-to-total assets, regulated PC is a dummy variable that equal 1 if the firm belongs to a regulated sector and zero otherwise, StrongPC is a dummy variable that equal 1 if the firm is owned by the family of the former president and its affiliates and zero otherwise, InstitutionalPC is a dummy variable that equal 1 if one of the owners is an institutional investor and zero otherwise, Growth: Log (total $assets_t$-total $assets_{t-1}$)/total $assets_t$). Size: Log (total assets), Profitability: Earnings before interest and taxes/total assets, Volatility: Return on $assets_{it}/\sigma$ return on $assets_t$

Table 4: The effect of the uprising on political connections and debt access

Variables	(1)	(2)	(3)	(7)	(8)	(9)	(10)	(11)	(12)
	TDebt	LTDebt	STDebt	TDebt	LTDebt	STDebt	TDebt	LTDebt	STDebt
Political connections Before the uprising									
RegulatedPC	0.141**	−0.0223	0.150***						
	(0.0666)	(0.0338)	(0.0504)						
StrongPC				−0.0960**	−0.00171	−0.0877**			
				(0.0472)	(0.0238)	(0.0360)			
InstitutionalPC							0.0996**	0.0215	0.0798**
							(0.0461)	(0.0239)	(0.0352)
After the uprising									
RegulatedPC	0.211**	0.0161	0.198***						
	(0.0842)	(0.0428)	(0.0637)						
StrongPC				0.0607	0.102**	−0.0227			
				(0.0801)	(0.0404)	(0.0610)			
InstitutionalPC							0.171**	0.0503	0.135***
							(0.0684)	(0.0355)	(0.0523)
Firm characteristics									
Growth	0.0744**	0.0537***	0.0276	0.0623**	0.0542***	0.0149	0.0616**	0.0511***	0.0173
	(0.0306)	(0.0155)	(0.0231)	(0.0308)	(0.0156)	(0.0235)	(0.0303)	(0.0157)	(0.0232)
Size	0.0709**	0.0551***	0.0192	0.0824***	0.0436***	0.0393*	0.0774***	0.0460***	0.0318
	(0.0290)	(0.0147)	(0.0219)	(0.0278)	(0.0140)	(0.0212)	(0.0275)	(0.0142)	(0.0210)
Profitability	−1.039***	−0.640***	−0.293*	−1.119***	−0.569***	−0.418***	−1.062***	−0.565***	−0.366**
	(0.213)	(0.108)	(0.161)	(0.201)	(0.102)	(0.154)	(0.200)	(0.104)	(0.153)
Volatility	0.00306	0.00173	0.00161	0.00282	0.00150	0.00160	0.00287	0.00157	0.00153
	(0.00278)	(0.00141)	(0.00210)	(0.00279)	(0.00141)	(0.00213)	(0.00276)	(0.00143)	(0.00211)
Constant	42.05	23.54	27.17	47.38	20.61	34.80	48.11	22.91	33.49
	(42.45)	(21.56)	(32.10)	(42.38)	(21.41)	(32.29)	(41.98)	(21.76)	(32.08)
Observations	322	322	322	322	322	322	322	322	322
Firm and year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

***.**.*: The coefficients are respectively significant at an error threshold of 1%, 5% and 10%. TDebt: Total debt/total assets, LTDebt: Long term debt/total assets, STDebt: Short term debt-to-total assets, PC is a dummy variable that equal 1 if the firm is politically connected and zero otherwise. RegulatedPC is a dummy variable that equal 1 if the firm belongs to a regulated sector and zero otherwise. StrongPC is a dummy variable that equal 1 if the firm is owned by the family of the former president and its affiliates and zero otherwise. InstitutionalPC is a dummy variable that equal 1 if one of the owners is an institutional investor and zero otherwise. Growth: Log ((total $assets_t$-total $assets_{t-1}$)/total $assets_t$). Size: Log (total assets). Profitability: Earnings before interest and taxes/total assets. Volatility : Return on $assets_{it}/\sigma$ return on $assets_t$

weak connections. We have shown that firms in the first category are less leveraged while on the other hand firms in the second category are more leveraged. The explanations depend on the rent seeking incentive. In the first case, firms take rent from their lucrative business. In the other case, firms access debt to maximize rent-seeking opportunities.

Also, we have highlighted the effect of the 2011 uprising on the relationship between political connections and indebtedness. Results show that politically connected firms are more leveraged. The first reason lies in the economic recession which has forced Tunisian firms to incur more debt. In addition, the majority of these companies have been confiscated by the State which allows them access to this advantage.

This work has some limitations. The most important one lies in the absence of information concerning politically connected Tunisian firms that are not listed and that have been confiscated after the uprising. The only information available on these firms has been published by the World Bank (2014), which has been able to analyze 220 firms, to highlight their performance.

After the 2011 uprising, several political parties have shared power, which has given rise to a new class of politically connected people that can hold positions in Tunisian firms. The effect of this new type of political connections might yield different results from those obtained in this study.

REFERENCES

Agrawal, A., Knoeber, C. (2001), Do some outside directors play a political role? Journal of Law and Economics, 44(1), 179-198.

Allen, L., Li, G. (2011), Clawbacks and cronyism: Evidence from china. Financial Management, 40(3), 733-759.

Beck, T., Demirguç-Kunt, A., Levine, R. (2006), Bank supervision and corruption in lending. Journal of Monetary Economics, 53, 31-63.

Bliss, M.A., Gul, F.A. (2012), Political connected and cost of debt: Some Malaysian evidence. Journal of Banking and Finance, 36, 1520-1527.

Booth, L., Airasian, V., Demirguç-Kunt, A., Maksimovik, V. (2001), Capital structure in developing countries. Journal of Finance, 56, 87-130.

Boubakri, N., Guedhami, O., Michra, D. (2008), Political connections and the cost of equity capital. Journal of Corporate Finance, 18, 541-559.

Dinç, S.I. (2005), Politicians and banks: Political influence on government-owned banks in emerging countries. Journal of Financial Economics, 77, 53-79.

Ebrahim, M.S., Girma, S., Shah, M.E., Williams, J. (2014), Dynamic capital structure and political patronage: The case of Malaysia. International Review of Financial Analysis, 31, 117-128.

Faccio, M. (2006), Politically connected firm. American Economic Review, 96, 69-86.

Faccio, M. (2010), Difference between politically connected and non-connected firms: A cross country analysis. Financial Management, 39, 5-27.

Fan, J.P.H., Wong, T.J., Zhang, T. (2007), Politically connected CEOs, corporate governance, and post-IPO performance of China's newly partially privatized firms. Journal of Financial Economics, 84, 330-357.

Frank, M., Goyal, V. (2009), Capital structure decisions: Which factors are reliably important? Financial Management, 38, 1-37.

Fraser, D., Zhang, H., Derashid, C. (2006), Capital structure and political patronage: The case of Malaysia. Journal of Banking and Finance, 30, 1291-1308.

Frye, T.M., Iwasaki, I. (2011), Ownership, voting, and job creation in Russia. European Journal of Political Economy, 27(4), 642-658.

Gomez, E.T., Jomo, K.S. (1997), Malaysia's political economy: Patronage and profits. The Journal of Asian Studies, 58(2), 571-573.

Hasan, I., Jackowicz, K., Kowalewski, L. (2014), Politically Connected Firm in Poland and Their Access to Bank Financing. Working Paper.

Houston, J.F., Jiang, L., Lin, C., May, Y. (2014), Political connections and the cost of bank loans. Journal of Accounting Research, 52, 193-243.

Huang, G., Song, F. (2006), The determinants of capital structure: Evidence from China. China Economic Review, 17(1), 14-36.

Kang, J.K., Zhang, L. (2012), From Backroom to Boardroom: Role of Government Directors in U.S. Public Firms and Their Impact on Performance. DOI: 10.2139/ssrn.2115367.

Khawaja, A.I., Mian, A. (2005), Do lender favor politically connected firm? Rent-seeking in an emerging financial market. Quarterly Journal of Economics, 120, 371-411.

Kremp, E., Stross, E. (2001), L'endettement des entreprises industrielles françaises et al.lemandes: Des évolutions distinctes malgré des déterminants proches. Economie et statistique, 341(1), 153-171.

La Porta, R., Lopez de Silanes, F., Shleifer, A. (2002), Investor protection and corporate valuation. Journal of Finance, 57(3), 1147-1170.

Li, H., Meng, L., Wang, Q., Zou, L.A. (2008), Political connections, financing and firm performance: Evidence from Chinese private firms. Journal of Development Economics, 87, 283-299.

Li, H., Zhang, Y. (2007), The role of managers' political networking and functional experience in new venture performance: Evidence from China's transition economy. Strategic Management Journal, 28(8), 791-804.

Peng, M.W., Luo, Y. (2000), Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. Academy of Management Journal, 43(3), 486-501.

Pfeffer, J., Salancik, G.R. (1978), The External Control of Organizations: A Resource Dependence Perspective. New York: Harper and Row.

Rajan, R.G., Zingales, L. (1995), What do we know about capital structure? Some evidence from international data. Journal of Finance, 50, 1421-1460.

Rijkers, B., Freund, C., Nucifora, A. (2017), All in the family: State capture in Tunisia. Journal of Development Economics, 124, 41-59.

Titman, S., Wessels, R. (1988), The determinants of capital structure choice. Journal of Finance, 43, 1-19.

Wong, S.H.W. (2010), Political connections and firm performance: The case of Hong Kong. Journal of East Asian Studies, 10, 275-313.

Wu, W., Wu, C., Rui, O.M. (2012), Ownership and the value of political connections: Evidence from China. European Financial Management, 18, 695-729.

World Bank Group. (2014), The Unfinished Revolution: Bringing Opportunity, Good Jobs and Greater Wealth to All Tunisians. Washington, DC: Development Policy Review.