

#ClosingTheGap Tunisia

Stakeholders from the Tunisian entrepreneurial ecosystem gather to identify possible solutions to foster the growth of local enterprises.

On 18 April 2019, hosted by the Dutch Good Growth Fund (DGGF) in cooperation with the Embassy of the Netherlands in Tunisia, over 30 local stakeholders gathered to exchange perspectives on the Tunisian entrepreneurial ecosystem.

Financiers, incubators and accelerators, entrepreneurship support initiatives and entrepreneurs participated in the workshop which was part of the #ClosingTheGap Tunisia study.



Figure 1: Tunisian entrepreneurial ecosystem stakeholders gathered

DGGF 'Investment fund local SMEs' is an initiative of the Dutch Ministry of Foreign Affairs which seeks to improve the access of underserved small and medium-size enterprises' (SMEs) to the financial backing they need to grow. SMEs or the so-called "missing middle" are enterprises who have outgrown micro-finance but do not yet have access to regular financial services. The "fund of funds" may invest in funds and financial institutions which in turn finance local

businesses in 70 countries, including Tunisia. DGGF's #ClosingTheGap series was designed to improve understanding of key challenges faced by the "missing middle" by researching local entrepreneurs' characteristics and needs, testing assumptions related to the current financial service offering and sharing insights as to their impact on the conduciveness of the overall ecosystem.

The #ClosingTheGap Tunisia study reveals that the Tunisian missing middle is made of:

- many livelihood-sustaining enterprises, small manufacturing and services businesses targeting the local market with a low annual turnover and facing high competition;
- a significant number of dynamic enterprises, operating from the main cities in traditional manufacturing sectors, with moderate growth but potential to scale up through exports;
- some niche ventures, small innovative businesses often led by female and young entrepreneurs;
- a few high-growth ventures delivering services targeting high volume consumer markets (notably in IT, energy, logistics, electronics and mechanics and textiles, etc).

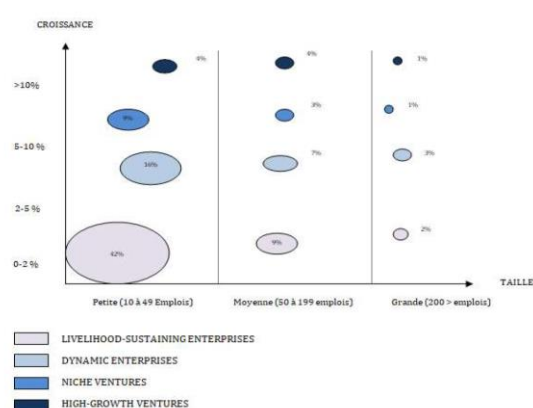


Figure 2: Tunisian missing middle landscape¹

¹ Applies the segmentation framework developed by the Collaborative for Frontier Finance: <https://english.dggf.nl/who-can-apply/publications/publications/2018/10/30/the-missing-middles-cff-full-report>

Although the ecosystem is starting to change slowly, the culture of entrepreneurship is still nascent in Tunisia. Entrepreneurial failure is high, which might explain why only 5% of the young population chooses to launch their enterprise. Existing local businesses are constrained by the small local market (which provides a good test market but not more) and the difficulty to recruit resources with the required skills and experience in, for instance, marketing, business development, human resources etc.

The financial services market in Tunis provides some debt and equity financing. However, the regulatory framework limits the use of the available funds (e.g. an external investment may enable the business to make physical investments but not to finance working capital), resulting in workable deal structuring but not necessarily providing the local business with the finance required. The following initiatives are proposed to address these challenges:

- Moderate to high-growth businesses would benefit highly from a different investment product combining debt and equity with value-adding technical assistance to enhance their capacity to export and reach international markets.
- The ecosystem around the niche and high-growth ventures is developing in the dynamic of the Start Up Act. However, the provision of adding value support alongside follow-on early-stage finance remains scarce.
- Supporting the emergence and scale-up of youth and women-focused service offerings would benefit these groups of local entrepreneurs.

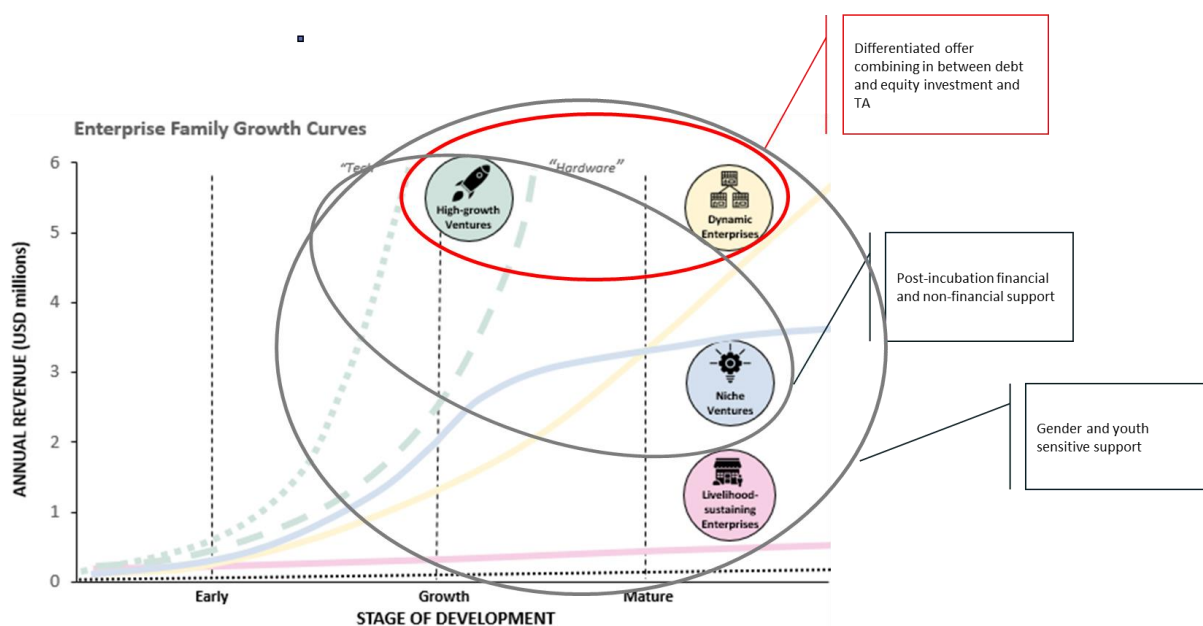


Figure 3: Identified strategies to closing the missing middle gap in Tunisia²

These proposed recommendations will be refined and elaborated on in the final report of #ClosingTheGap Tunisia which is expected to be finalised by the summer of 2019 and made available to the public on [DGGF's website](#).

² Idem