



ClosingTheGap MENA

Country Report

TUNISIA

Entrepreneurial Ecosystem Assessment

Commissioned on behalf of :

Dutch Good Growth Fund (DGGF) / Investment funds for local Small and Medium Enterprises (SMEs)

June 2019

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The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a fund-of-funds » investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims at improving financing for the « missing middle » - i.e. entrepreneurs who have outgrown micro-finance but are not yet eligible to funding from conventional capital markets.

The Seed Capital and Business Development (SCBD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets – fostering industry wide knowledge exchange.

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Ministerie van Buitenlandse Zaken



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Acronymes

AfDB	Africa Development Bank
ANDE	Aspen Network of Development Entrepreneurs
APII	Agence de Promotion de l'Industrie et de l'Innovation
ATIC	Association Tunisienne des Investisseurs en Capital
BAD	Banque Africaine de Développement
BCT	Banque Centrale de Tunisie
BERD	Banque Européenne pour la Reconstruction et le Développement
BFPME	Banque de Financement des Petites et Moyennes Entreprises
BIAT	Banque Internationale Arabe de Tunisie
CAPR	Center for Applied Policy Research
CBA	Carthage Business Angels
CCF	Collaborative for Frontier Finance
CDC	Caisse des Dépôts et Consignation
CONNECT	Confédération des Entreprises Citoyennes de Tunisie
CRES	Centre de Recherche et d'Etudes Sociales
DGGF	Dutch Good Growth Fund
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FDI	Foreign Direct Investments
FMI	Fond Monétaire International
IDE	Investissements Directs Etrangers
IMF	International Monetary Fund
INS	Institut Nationale de Statistique (Tunisie)
ITCEQ	Institut Tunisien de la Compétitivité et des Études Quantitatives
MFFEPA	Ministère de la Femme, de la Famille, de l'Enfance et des Personnes Âgées
MMT	Money Market Rate
OCDE	Organisation de Coopération et de Développement Économique
OECD	Organisation for Economic Co-operation and Development
PPP	Partenariat Public-Privé
TAEF	Tunisian American Enterprise Fund
TMM	Taux du Marché Monétaire
TND	Dinar Tunisien
UGFS-NA	United Gulf Financial Services – North Africa
WB	World Bank

Summary

In the fragile situation that followed the 2011's revolution, Tunisia has been completing its political transition and it is currently addressing its economic evolution. Supporting entrepreneurship is a strategic matter. Youth and women employment remains an unresolved issue: although the situation in this respect is slowly being tackled, only 5% of the young people choose to start a business.

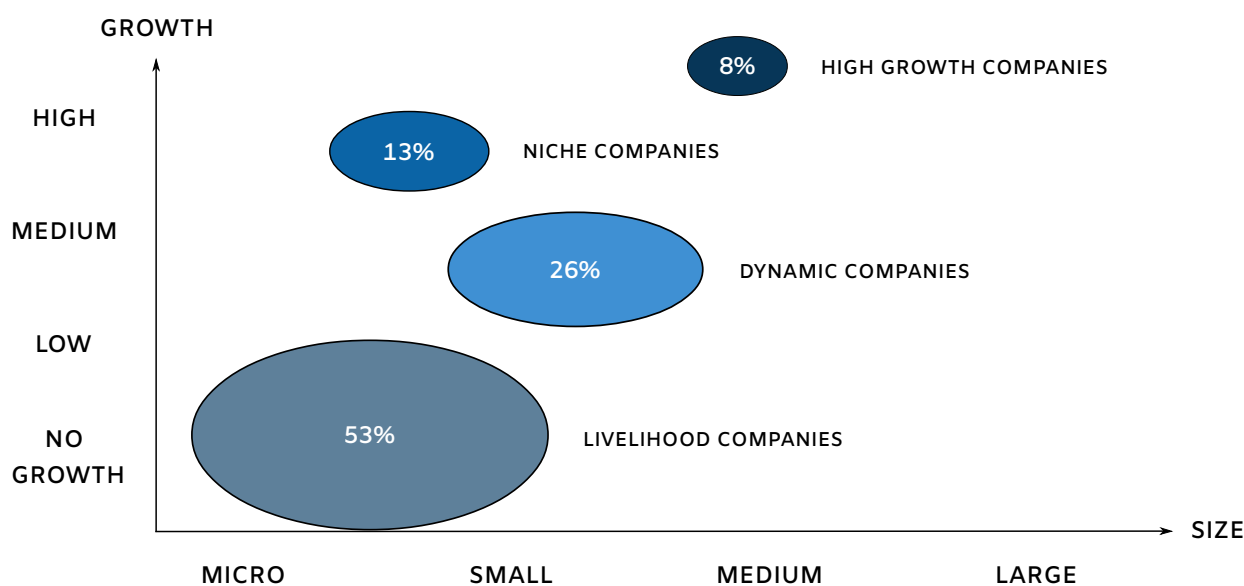
Enterprise creation is a major challenge and entrepreneurial support is buoyant. The on-going reorganization of some pre-revolutionary institutions and foundation of new players (e.g. the Bank of Regions or the Training and Support Centre to Decentralization) are but moves in this direction.

Several private bodies have taken an active role through technical and financial assistance, providing microfinance, seed funds, private equity, venture capital funds and so on, mainly targeting the outlying regions of the country.

A new regulatory framework has emerged, aiming at supporting innovative projects primarily. Indeed, the will to promote innovation was given concrete form in 2018 with the introduction of the Start-up Act, an unprecedented legal framework developed via a participatory approach by all stakeholders of the entrepreneurial ecosystem in Tunisia. The emergence of an up-and-coming generation of start-ups is the first outcome to be expected. Efforts to modernize the financial system continue: reforms are underway, aimed at improving governance, privatizing State-owned banks and diversifying the economy's sources of finance.

The segmentation of the SME sector developed upon APII data in 2018 shows that most firms come into existence and remain small. Very few of them experience growth and if any, it is a slow and moderate one. Most of them, however, do not grow at all.

Figure 1 - SMEs segmentation by size and growth rate – MIDAGroup development of 2018 INS and 2018 APII data.



The Tunisian entrepreneurial ecosystem benefits from governmental proactive policies, the private sector's institutions' vibrancy and international cooperation. Nevertheless, several failures persist because of the socio-economic transition situation.

Table 1: Tunisian entrepreneurial ecosystem – SWOT analysis

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> • The on-going revision of investment and job creation regulatory framework • Financial sector diversified and capable of supporting innovative investments • Well-trained human resources • Participation of women in economic life • Strong relations with EU markets 	<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> • Generalized difficulty in gaining access to credit/high rates • Large regional disparities • Restricted internal market and low degree of Maghreb market integration • Presence of a large informal sector • Public administration heavy and inefficient • Limited/poor quality of job offer
<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> • Inclusive financing solutions for SMEs • Expansion of youth and women's entrepreneurship support services across the country • Vocational training for innovation • Financial tools and support programs in partnerships with international cooperation actors 	<p><u>THREATS</u></p> <ul style="list-style-type: none"> • Risks of political and socio-economic instability • Overly focused support on start-ups and marginalization of manufacturing SMEs • Lack of coordination between public and private actors in the ecosystem • Brain-drain/best companies' migration

This survey has made it possible to come up with a set of targeted recommendations so as to help bring about an ecosystem that is better suited to the creation of different types of local employment and economic development –generating businesses.

1. Provide High-Growth Companies and Niche Companies with sources of funding and support tools customized for the post-incubation period.

- Make full and straight forward enforcement of the Start-up Act with the involvement of all ecosystem stakeholders, providing value-added support alongside an early-stage funding.
- Broaden funding opportunities for start-ups throughout the financing continuum period by setting up innovative instruments - particularly early-stage tools – to develop a compelling value chain of “financial products”, adapted to the different growth needs of local start-ups.

2. Develop a range of differentiated financing tools to cater for the needs of Dynamic Companies

- Identify medium and long-term instruments for funding the working capital of dynamic start-ups and growth companies.
- Develop innovative tools, combining a financing product with technical assistance to strengthen the dynamic companies' export capacity.
- Ease and modernize regulations to allow financial players to offer alternative products in addition to those already available, such as mezzanine that finance SME growth without changing the balance of capital interests.

- Finalize and implement the cross-cutting financial sector reform law to reduce current burdens and allow more direct access to finance.

3. Help strengthen Livelihood Companies, especially young and female entrepreneurs.

- Modulate a tailor-made financial product which includes terms and conditions customized to meet the needs of young and women entrepreneurs.
- Provide specific information and services to women entrepreneurs', according to their lifestyle and their own way of conducting business.

1. A step-by-step methodology

Figure 2 : ANDE Model

The Entrepreneurial Ecosystem Diagnostic Toolkit¹ developed by the Aspen Network of Development Entrepreneurs (ANDE) serves as the baseline methodology adopted for the analysis of the Tunisian ecosystem. ANDE methodology analyses the entrepreneurial context of a given country as a unique entity to understand its peculiar dynamics and its performances better. Ecosystem evaluation focuses on eight domains that determine dynamics and performances.



For each ANDE domain, specific research questions have been identified.

Table 2 : Specific research questions for each domain according to ANDE model

DOMAINS	QUESTIONS FOR RESEARCH
Policy	Are national policies and legislation supportive of entrepreneurship?
Markets	Does the market structure provide profitable business opportunities and maintain fair competition rules?
Infrastructure	Does the country have an infrastructural network adequate to local industrial and trade system?
Human Capital	Are qualified human resources available?
Culture	Is the local culture supportive of the development of entrepreneurship?
Innovation/R&D	Are mechanisms for encouraging innovation and protecting its results available and operational?
Support	Do entrepreneurs dispose of adequate support and assistance facilities?
Finance	Do entrepreneurs have access to financial instruments to establish and develop their businesses?

¹ Entrepreneurial Ecosystem Diagnostic Toolkit – Aspen Network of Development Entrepreneurs, 2013

The research process consists of five phases:

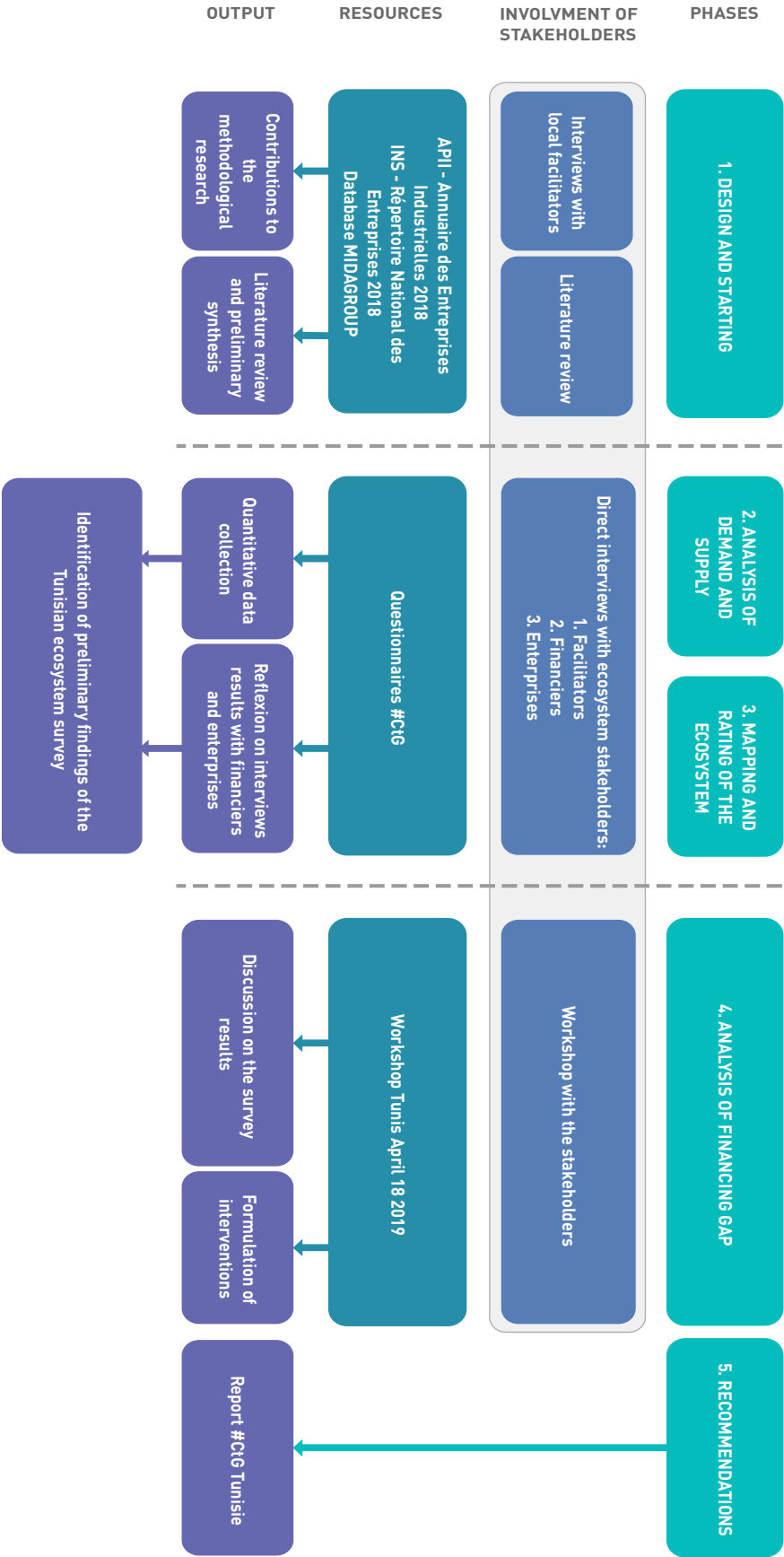


Figure 3 : Research methodology : steps, actors and products

2. A general overview of Tunisia

During the post-revolutionary period, Tunisia has been busy completing its political and economic transition process. The new Investment scheme implemented in 2017 enshrines the principle of freedom of investment, the simplification of administrative procedures and the reduction of the number of activities subjected to authorizations as well as the confirmation of a more supportive setting for foreign investment. Confirmation has also been made of Tunisia's economic openness, its rapprochement with the European markets and its objective for a better integration in the global economy.

All these measures come after a difficult period for the Tunisian economy; macroeconomic imbalances (worsening of current account and budgetary deficits, declining foreign currency reserves, devaluation of the dinar) are supplemented by weak growth, slower pace of investment, more depressed internal market and a less attractive business environment all of which resulting from the socio-economic tensions over the last few years.

The Tunisian Government has, therefore, been led to review its intervention approach. The determination to support innovation took concrete form with the enforcement of the Start-up Act (2018). This comes within the framework of a promising dynamic restructuring phase of the Tunisian entrepreneurial ecosystem. The private sector has intensified interventions through technical and financial assistance (microfinance, seed funds, private equity funds) and venture capital fund.

Efforts to modernize the financial system are on-going, taking into account the fragility of the Tunisian economy vis-à-vis the disruptions happening on the international scene. Tunisia has an active but relatively circumscribed financial system, playing a minor role in funding the economy. Several reforms are in progress, aiming at improving governance, the privatization of public banks and the diversification of the economy's funding sources.

This study was commissioned by the DGGF to understand the access to funding for the "missing middle" in Tunisia. The report considers the existing barriers to financing for local businesses and identifies solutions in the light of the exchanges of views with several actors of the Tunisian entrepreneurial ecosystem.

Table 3: Tunisia basic data

Area	155.360 Km ²	
Population	11.551.448 (INS, July 2018)	
Main Cities	Tunis (Capital), Sfax, Sousse, Nabeul/Hammamet, Gabes, Monastir, Bizerte, Kairouan, Houmt Souk, Gafsa	
Official Languages	Arabic, French	
Currency	Tunisian Dinar – TND 1 TND = 0,33 USD ; 1 TND = 0,30 EUR (BCT May 2019)	
GNP pro capita	4 402 USD (2018)	
Doing Business Index	80/190 (2019)	
Global Competitiveness Index	87/140 (2019)	

3. A changing business ecosystem

3.1. An improving business environment

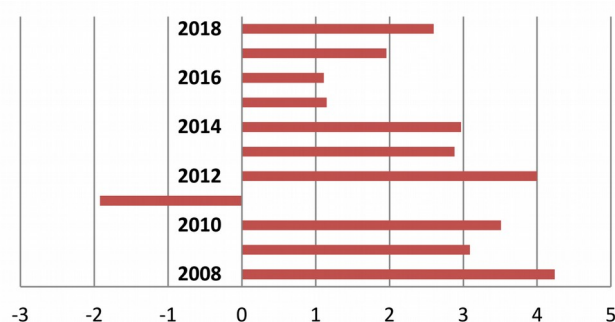
3.1.1. A recovering economy

The period following the 2011 Revolution marked a halt for the Tunisian economy, which has experienced a decline in investments and the deterioration of all its economic fundamentals. Since 2011 all the alternating Governments have tried to make arrangements meant to ensure political and economic growth² and to promote job creation, especially for young graduates and women - focusing on regional development and support to innovation.

As a matter of fact, as of 2011, Tunisia has shown:

- Low average growth (1.47% over the 2011-2016 period compared to 3.6% over the 2008-2010 period).

Figure 4 – Variation Rate (%) of GDP - Tunisia 2008-2018



- The depreciation of the Tunisian Dinar (TND) against the Euro, the latter going up from 1.9 TND/1 € (2010) to 3.13 TND/1 € (2018)³, and against the US Dollar, which went up from 1.43 TND/1 USD (2010) to 2.64 TND/1 USD (2018). This has led to a steady rise of inflation during the last three years.

Figure 5 - TND / USD and TND / EUR exchange rates 2008-2018

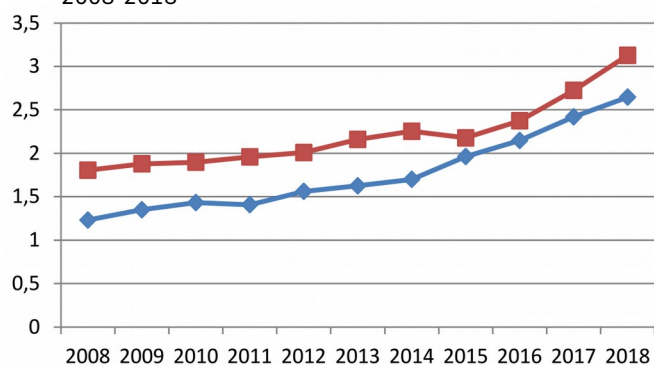
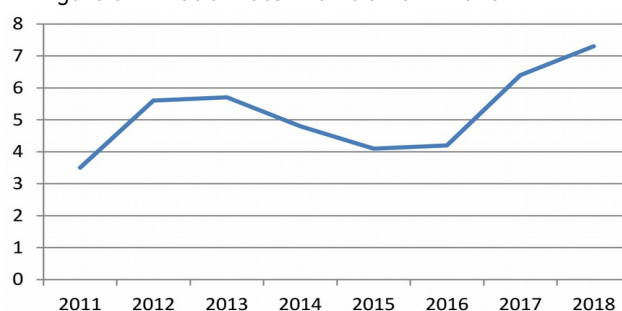


Figure 6 - Inflation rate - Tunisia 2011-2018

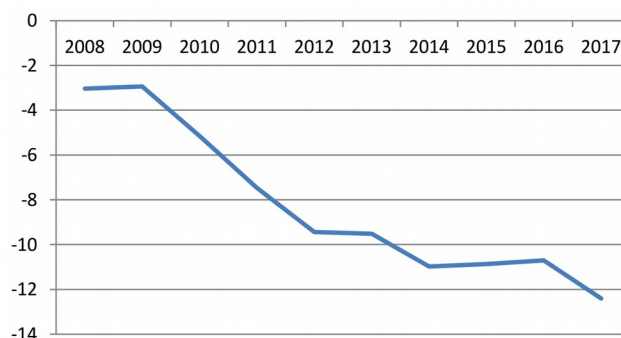


² 2012: implementation of a tax reform; January 2014: adoption of a new Constitution; 2017: New Investment Code.

³ BCT - https://www.bct.gov.tn/bct/siteprod/tableau_statistique_a.jsp?params=PL212010

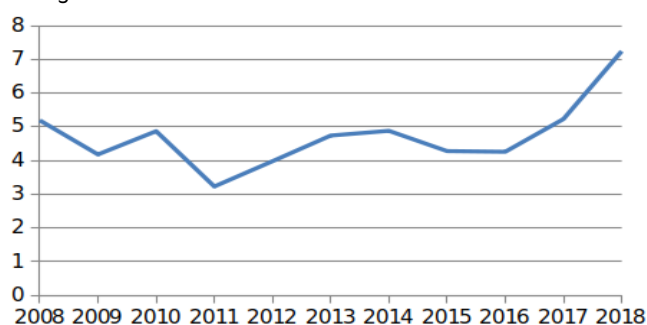
- The gradual deterioration of the trade balance: in 2018, imports increased (+20%) at a rate exceeding that of exports (+19,1%)⁴.

Figure 7 - Trade balance (% GDP) - Tunisia 2008-2018



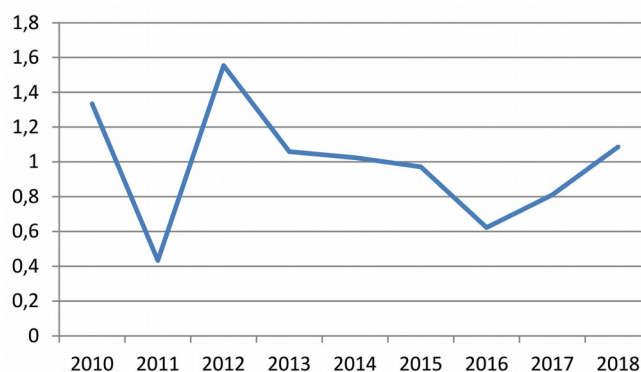
- The Central Bank of Tunisia (BCT) tightened its monetary policy by raising market interest rates, which almost doubled between 2012 and 2019 and virtually blocked SMEs' access to bank loans.

Figure 8 - Rate of MMR - Tunisia 2008-2018



- A significant decrease in investments from over 23% of GDP in 2011 to 18.7% in 2018⁵. Since 2011, instability, insecurity, and the economic climate have not encouraged national and international investors to get involved in the country. The fall of investment may also be explained by the poor performance of economic growth.

Figure 9 - FDI in Tunisia (Billions USD) 2010-2018



Some indicators show a recovery unfolding as of 2017: after two years of stagnation at 1%, the Tunisian economy grew by 1.9%. Forecasts for 2018 are even more positive (+ 2.6%) probably as a result of a good agricultural season, the resumption of phosphate exports and the revival of manufacturing activity and tourism.

The International Monetary Fund (IMF) estimates that in 2019 the growth rate should evolve to 2.9%, when it is expected that the country could bring structural reforms to a successful end. This can be achieved by improving the business climate (in progress) and updating the legal framework (Investment Law, Public-Private Partnerships Act), both of which reforms are in line with the 2016-2020 Strategic Development Plan⁶.

⁴ INS, January 2019

⁵ Central Bank of Tunisia, Annual Report 2018

⁶ IMF – Fourth review realized under the Extended Financing Facility Agreement and Request to Change of performance criteria - in: <https://www.slideshare.net/LEconomisteMaghrbin/rapport-du-fmi-sur-la-tunisie>, September 2018

As a result of these interventions, the IMF believes that Tunisia is capable of carrying out the essential structural reforms, notably concerning improving the business climate, and foresees improved economic prospects, at a rate of growth of up to 4.2% in 2023⁷.

The European Bank for Reconstruction and Development (EBRD) – which forecasts a growth of 2.7% in 2019 – attributes, for its part, the delay in the implementation of the structural reforms mainly to the political uncertainty related to the elections in the fall of 2019 to explain this slight increase in economic growth. However, the EBRD expects that, “once the elections are over, the full confidence of foreign investors in the dynamics of reforms in Tunisia will be restored, leading thereby to a significant improvement in both domestic and foreign investment and a higher growth at more than 4% in 2020”⁸.

3.1.2. A competitive country both regionally and internationally

With a population of about 11.5 million inhabitants, Tunisia is the least populated country in North Africa boasting the second-best GDP per capita (3,496.3 USD) after Algeria. It maintains privileged and stable relations with Europe, mainly France and Italy, while future trends suggest an increasing attention to be paid to the North African market (Libya and Algeria in the first place), to Sub-Saharan Africa countries and an increasing interest concerning Asia.

The present analysis of the regional economic context is based on comparing Tunisia to its neighbouring countries (Algeria, Morocco, and Egypt), not forgetting that the whole region, is undergoing a period of radical political and social changes.

According to the Global Competitiveness Index (GCI)⁹ which measures the performance of 140 countries and considers twelve main pillars¹⁰ and a hundred related sub-pillars¹¹, Tunisia is ranked 87th in the world, and compared to its neighbours, it comes behind Morocco (75th) but before Algeria (92nd) and Egypt (94th).

In terms of institutional environment, Tunisia enjoys strong and quite efficient institutional bodies whereas economic stability is still weak. Moreover, its level of infrastructure and ICT adoption is satisfactory, and the quality of its human capital is the best in the region.

The Tunisian domestic market is very small, given its population size and the low purchasing power recently affected by a significant depreciation of the dinar, and the consequent increase of the inflation rate.

The labour market, if considered in its regional context, is showing relatively good vitality, considering the integration of women into the employment dynamics.

As to the financial market, Tunisia is ahead of its neighbours for the number and variety of its stakeholders.

According to the GCI, Tunisia's innovation capacity is still limited, especially if compared to the performances of Egypt and in particular, Morocco.

⁷ IMF Country Report n° 18/218 Tunisia – July 2018

⁸ Final Declaration, EBRD Annual Meeting – Sarajevo, May 7-8 2019

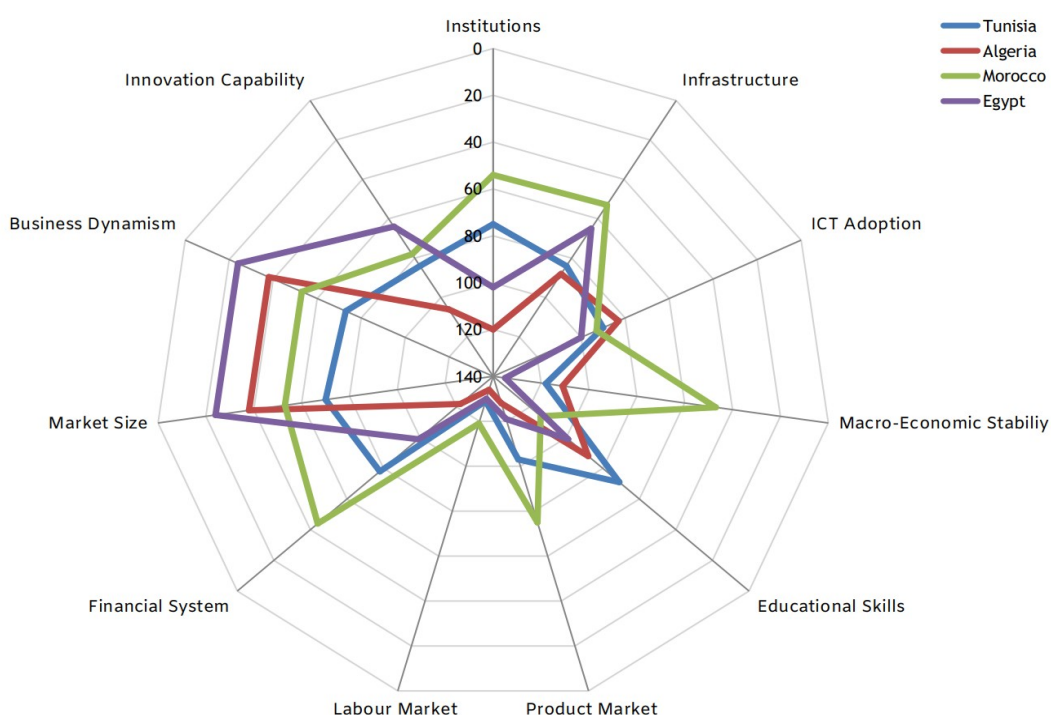
⁹ Global Competitiveness Index 4.0 2018 edition

¹⁰ **Pillar 1** Institutions, **Pillar 2** Infrastructure, **Pillar 3** NTIC Adoption, **Pillar 4** Macro-economic Stability, **Pillar 5** Health, **Pillar 6** Human Capital, **Pillar 7** Product Market, **Pillar 8** Labour Market, **Pillar 9** Financial System, **Pillar 10** Market Size, **Pillar 11** Business Dynamism, **Pillar 12** Innovation Capability

¹¹ <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy>

However, the Bloomberg Innovation Index 2019 ranks Tunisia 52nd in the world, and Africa's second most innovative country, behind South Africa¹². This score can be explained by the launching of the Start-up Act, which is expected to be a crucial lever for innovation in Tunisia.

Figure 10 - Position of North African Countries 2019 - MidaGroup data elaboration (source Global Competitiveness Index 4.0 2018)

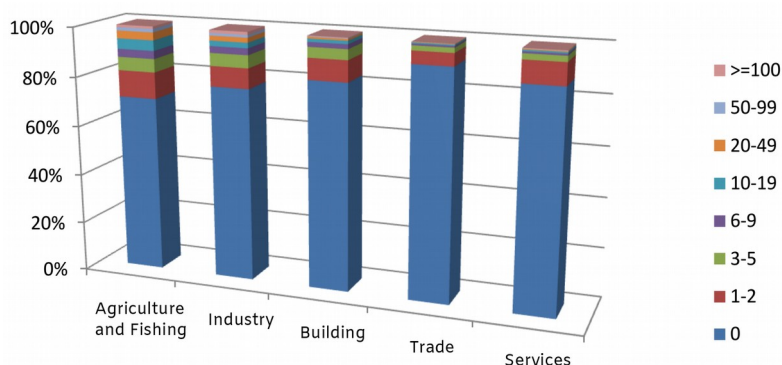


3.2. A fragmented private sector

The private sector in Tunisia is hugely fragmented. The National Institute of Statistics (INS, 2018) lists 771,032 active companies. Most of these are micro-enterprises, presenting an extensive presence of auto-employment business, or family-run small commerce /production units.

INS statistics show that businesses without employees account for 87.7% of all registered enterprises. The Agency for the Promotion of Industry and Innovation (APII), lists only 5,397 industrial companies that employ more than 10 employees and - out of a total of 3,001 registered service companies - more than two thirds (2,083) employ less than 10 people.

Figure 11 – Tunisian Enterprises broken down by sector and number of employees (source INS 2018)



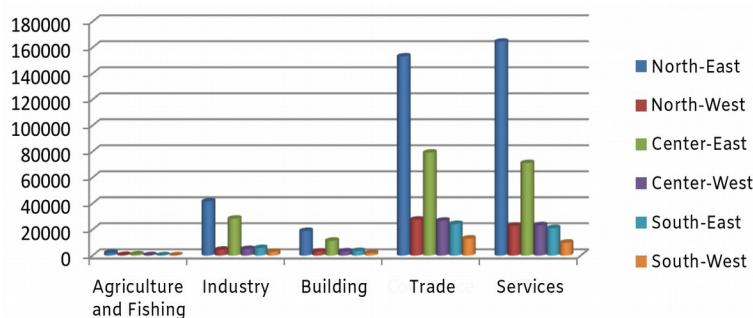
As a consequence, local businesses operate mainly in the trade and service sectors¹³.

¹² <http://www.bloomberg.com/news/articles/2019-01-22/germany-nearly-catches-korea-as-innovation-champ-u-s-rebounds>

¹³ According to the "National Register of Enterprises" we will consider "micro-enterprises" those employing less than 10 workers, "small enterprises" those employing between 10 and 50 workers, "medium-sized enterprises" those with 50 to 200 workers and finally "large enterprises" those with more than 200 workers.

Economic activities in Tunisia are concentrated around the most important coastal cities: the highest intensity is recorded around the Grand-Tunis / Nabeul axis (North-Eastern region) with 49.3% of the total followed by the Sfax region / Sahel (Central-West region) with 24.8%.

Figure 12 – Breakdown of Businesses per Activity and Location - 2017 (source INS 2018).



3.2.1. A prevalence of livelihood-sustaining businesses

The survey conducted in 2018 by the INS showed 704,241 micro-enterprises (91.34% of active companies), which do not exceed the turnover of one million TND per year – (about 340,000 €) - and which do not employ more than 6 employees.

The average turnover of this category is around 40,000 TND per year (about 12,200 €).

These companies employ a total of 718,250 people, with a robust male component (76.5%). Businesses employing 1 or 2 workers account for the majority (71.7%), while a minimum part (23.5%) works for more structured businesses, having an average number of 3 -5 employees.

The 64.1% of jobs are held by people who run their business as self-employed (37.7%), or in partnership (26.4%), while employees and apprentices represent respectively 27 % and 6% of the labour force. The rest of the workforce (7.4%) is non-salaried workers, usually members of the entrepreneur's family.

In this regard, services activities are the most numerous (43.9%), followed by (39.3%) commercial ones. These two sectors generate the majority of jobs (83.2%) and are followed by the industrial (12.2%) and finally by the building sectors (4.4%).

It should be noted that this category of enterprises includes, among others, those that are not economically active anymore, managed by people who are trying to take advantage of social security coverage.

3.2.2. Companies that continue to be small

According to the APII databases, registered SMEs provide jobs to 520,280 people out of a total of 653,100 of employees in the industrial sector¹⁴. The first two sectors contribute for about half of the total existing jobs: the textile-clothing sector (31.6%), together with electrical-electronics (18.4%) make up half the number of jobs. They are followed by agro-food (14.6%) chemistry (10.1%), and mechanical and metal industries (8.8%).

On the other hand, service companies provide a total of 76,688 employments: distributed among the sub-sectors of telecommunication services (20.5%), industry-related services (20%), thus providing most of the employment in this sector. Business services (15.7%) and computer services (13.9%) are following closely.

¹⁴ APII and INS, 1st quarter of 2019.

Tunisian SMEs tend to remain small: after 10 years of existence however, the probability of survival increases with their size: companies with less than 100 employees have a 67% of probability of survival, compared to 70% for those employing between 100 and 200 and 75% for those employing more than 200 people¹⁵. Businesses that are phased out before the age of 10 account for nearly 60% of total closures showing that, for most of the cases, the disappearance is not due to the "natural" decline phase of the company's life cycle, but rather to other internal and external difficulties. Concerning the main reasons behind their closure, there are, in the first place, the financial problems with lack of liquidity (81%) and indebtedness (72%). Market-related difficulties come in the second place, aggravated by formal and informal competition. *"The Tunisian economic environment is adversely influenced by the informal sector which is estimated to account for about 35.5% of GDP. It mainly consists of a mixture of underground economy phenomena and activities carried out by unregistered enterprises. The illegal economy (smuggling and parallel imports) would still weigh for 2 to 3% of GDP, which would represent 25 to 35% of the volume of domestic trade of Tunisia"*¹⁶. Finally, problems related to the external (non-market) environment come in the third place with the problems of political instability (negative visibility) and insecurity¹⁷.

3.3. The Tunisian "missing middle": consisting of small scale limited-growth companies

The segmentation model developed upon APII data (2018), confirms that the majority of Tunisian firms come into being and remain small. Very few of them experience growth and if any, it is a slow and moderate one. Most of them, however, do not grow at all. The characteristics of each enterprise-segment are detailed hereafter:

Table 4: Segmentation based on APII 2018's sample (constituted by: 5.397 Industrial and 3.001 services companies), and elaborated in accordance with the Dalberg / CFF methodology Collaborative for Frontier Finance "Segmenting Enterprises to Better Understand their Financial Needs", 2018.

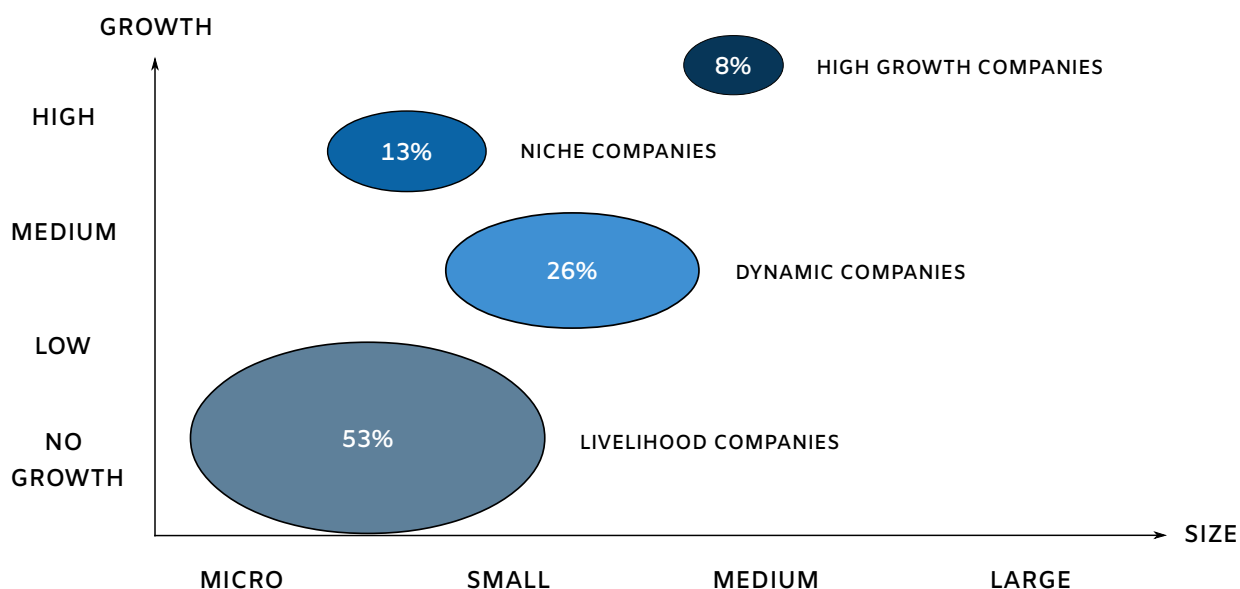
SMEs' CATEGORY	SIZE	Small (10/49)	Medium (50-199)	Large (200+)	Total
High-Growth Companies		4%	3%	1%	8%
Niche Companies		9%	3%	1%	13%
Dynamic Companies		16%	7%	3%	26%
Livelihood-Sustaining Companies		42%	9%	2%	53%
Total		5.925 (70,55%)	1.857 (22,10%)	616 (7,35%)	8.398 (100%)

¹⁵ APII – Les problématiques de création et de pérennisation des entreprises en Tunisie – June 2017.

¹⁶ Joussour, Le secteur informel en Tunisie – Tunis, 2016.

¹⁷ APII – Les problématiques de création et de pérennisation des entreprises en Tunisie – June 2017.

Figure 13: SMEs segmentation by size and growth rate - MIDAGroup elaboration of INS 2018 and APII 2018 data



LIVELIHOOD-SUSTAINING ENTERPRISES produce for the local market with a low annual output and a meagre average growth rate, which does not exceed 5% per year. They constitute the largest group in the Tunisian private sector (53%) and operate both in formal and informal sectors. Generally, they are small business units spread all over the country. They account for two-thirds of the services and traditional manufacturing firms (building materials, leather/footwear, food, and clothing). Their turnover suffers from unfair competition from the informal sector and low-cost products from Asian markets.

Many of these activities identified in this segment of businesses (e.g. crafts and services) are managed by women. In this segment, the role of women's entrepreneurship is quite essential, especially in urban areas. On the other hand, the presence of young male entrepreneurs in this group is remarkable too, largely in the maintenance or building companies, mainly in the internal regions of the country.

DYNAMIC ENTERPRISES generally operate in traditional moderate-growth sectors (between 5% and 10% annually) and those having a good potential for scaling up. In Tunisia, these are often export-oriented companies, mostly located in the Tunis region and owned by foreign operators or resulting from partnerships. More than innovation, they focus on existing products for well-known market segments. Typical Dynamic Companies are manufacturers (mechanical, electrical, textile) or engineering firms.

NICHE VENTURES in Tunisia are often small companies mostly belonging to the service sector, generally involved in the production and development of innovative products and services, in the environment, training, R&D, and culture. Their annual growth rate can vary between 10 and 20%.

Women and young entrepreneurs play an essential role in this segment, thanks to their professional skills and creativity which lead to start-ups occupying value-added market niches.

HIGH-GROWTH VENTURES are generally companies located in the greater Tunis area, having adopted business models that target high economic potential markets whose annual growth rate exceeds 20%: they are often, service companies such as ICT, telecommunications (including call centres) companies, but they can be active also in other sectors such as energy, logistics, manufacturing of common use electronic and mechanical products, innovative textiles.

A relevant number of start-ups belong to this segment of companies, with a growing presence of young people (men and women) who are investing in activities where the use of ICT is their preferential choice.

4. A changing entrepreneurial ecosystem

Because of the uncertain political and social situation prevailing in the aftermath of the revolution, the regulatory framework remains incomplete or fragmentary. In addition, there exists a large and well rooted informal sector. Finally, the difficulties to gain access to finance are considered to be one of the most significant weaknesses of the Tunisian business climate¹⁸.

Table 5 - Barriers to entrepreneurship perception in Tunisia - Midagroup elaboration (sources WB 2014- ITCEQ 2018)
- Ranking: **** major impact - * minor impact.

Business constraint/challenge	Rank
Political and social instability	****
Macroeconomic environment	***
Regulatory framework	***
Market Practices	***
Access to finance	***
Employment/Labour Market	**
Infrastructure	*

According to the MIQYES survey¹⁹, even though some problems are clearly perceived (lack and cost of financing, unfair competition from the informal sector), 40.9% of interviewed SMEs declared that, compared to the previous year (2015), their turnover has increased. Moreover 67.4% of executive managers were optimistic about the future development of their businesses.

4.1. A “pretty recent” entrepreneurial culture

The development of the entrepreneurial culture in Tunisia is a relatively new phenomenon. It gained momentum as the public authorities began to realize that graduates were finding it difficult to find a job and that young people and women unemployment was becoming tangible in the big cities, with significant repercussions on social peace and political stability.

¹⁸ WB (2014) and ITCEQ (2018).

¹⁹ MIQYES survey – HLB GSAudit and Advisory, One to One, CONECT – Santé de la PME en Tunisie – 2017 – Enquête sur 540 entreprises en toute la Tunisie.

ENTREPRENEURIAL CULTURE

Interviewed entrepreneurs within the framework of this survey identified some critical issues, such as:

- The Tunisian educational system does not give an adequate preparation to become an entrepreneur.
- Access tools, opportunities and supporting initiatives boosting entrepreneurship are not equally available across the country (much less in the interior regions than in the capital and coastal cities).
- Because of the number of initiatives creates confusion as to their specific objectives, and the means put at their disposal.
- Available means are often considered insufficient – especially financial support ones.

For their part, institutions supporting entrepreneurial culture identify lack of authentic attitude of young people towards entrepreneurship: many among them would prefer to work for the public office or big State companies or - if the opportunity arose - to settle and work abroad.

4.2. A largely untapped potential market

With its 11.5 million inhabitants, Tunisia has a relatively tiny market with a population disposing of relatively low purchasing power.

Its market dynamics are affected by rigid sets of rules. The widespread restrictions imposed on the number of companies authorized to operate on the internal market (the "on-shore sector"), together with many public monopolies and excessive regulatory constraints severely limit competition.

Very often, the cumbersome State regulations provide coverage to disguise illegal or fraudulent practices, which seriously impede the performance of the private sector and marginalize parties not maintaining close relations with politics or administration²⁰. Unfair competition, anti-competitive practices, and the parallel market are regarded as a major obstacle to investment. It would be a mistake to assume that, in Tunisia after the Revolution, patronage and corruption have disappeared - because most of the annuity and privilege-based system has not changed much.

THE PARALLEL MARKET AND THE INFORMAL SECTOR

The parallel market has a significant negative impact on the performance of domestic firms: the Tunisian Institute of Strategic Studies (ITES, 2019) conducted a survey showing that smuggling and parallel imports – mostly transiting the Libyan and Algerian borders, account for between 15% and 20% of the total flow of goods distributed through domestic trade, with an estimated total sales turnover of about 6.5 billion TND (almost 2 billion Euros). The goods most affected are tobacco, petroleum products, clothing and footwear, auto spare parts, household appliances, and electronic products.

The weight of the informal sector is therefore very high: at present more people work in the informal economy than before the revolution. Compared with 2015 when the informal sector counted around 1.1 million jobs, (about 32% of the active population), in 2010 this data raised up 28% with active population employed in the informal (among them 60% of men and 83% are women under 40).

²⁰ WB (2016), page 16.

Thanks to its geographical position, Tunisia can be a strategic platform for the vast Maghreb, African, and European markets. The internal market - although limited in size, is boosted on the one hand, by tourism - recovering now after the 2011-2015 recession - and on the other hand by the country's proximity to countries like Algeria and Libya, much in demand for consumer products.

Since the 1990s, the country has undergone important trade openness and a gradual removal of tariff and non-tariff barriers. Tunisia is a member of the World Trade Organization and of the Arab Maghreb Union (UMA), the potential market of which accounts for more than 90 million inhabitants. Moreover, it enjoys the status of a privileged partner of the EU. Finally, negotiations on the Deep and Comprehensive Free Trade Agreement (DGFTA) are on-going.

The current modest performance of the Tunisian economy is but a result of a period of internal political and social upheavals, exacerbated by an international economic crisis, and by new competitors that have weakened the country's capacity to produce and export goods.

In the coming years, the lifting of the export restrictions facing companies in the « on-shore» sector and the removal of barriers between off-shore and on-shore regimes will allow Tunisia to move up in the ratings of the international value chains, and to reap more benefits from it, especially in terms of technological progress, job and wealth creation²¹.

4.3. A young and educated population but undervalued on the labour market

The Tunisian population is composed of 51% of young people aged under 30²². For the 15-24 years group, the literacy rate is around 97%. The active population is made up of 4,126,100 individuals (71% male and 29% female). Among the 3,491,000 employed persons, 74% are men, and 26% are women. According to some estimates, the parallel economy in Tunisia would attract 41.5% of the active population, i.e. 1,453,620 people and is predominantly male (87.6%). The informal sector also employs most Tunisian men (53.7%) against 21.5% of Tunisian women. The level of education of the majority (about 55%) of people working in the informal sector did not go beyond that of primary school, compared to 25% employed in the formal sector.

The unemployment rate currently stands at around 15.5%, with significant disparities in female employment and extensive regional inequalities²³. The unemployment rate is particularly high and still on the rise among women and in rural inland areas (18% male graduates and 38.7% female graduates according to statistics for the second quarter of 2018)²⁴. While the national unemployment rate of women is about 22%, in some governorates (Gabes, Kasserine, Jendouba, Kébili, Gafsa, and Tataouine), it exceeds 35%²⁵. Youth unemployment is the greatest challenge. Although the youth's general education level is acceptable, their skills do not much match and meet the needs of the labour market.

²¹ OECD: Insertion de la Tunisie dans les chaînes de la valeur mondiale et le rôle des entreprises offshore - Document n° 1478.

²² Le Courrier de l'Industrie n° 131/Mai 2016 Écosystème de l'Entrepreneuriat en Tunisie.

²³ INS 2018.

²⁴ INS - <http://www.ins.nat.tn/fr/themes/emploi>

²⁵ INS - <http://www.ins.nat.tn/fr/themes/emploi>

Therefore, a large part of this population is currently excluded from the economic process: unemployment mainly affects young graduates, while non-graduates are affected by underemployment and often have to accept informal low-paid activities²⁶.

Only about 5% of companies have been created and/or run by young entrepreneurs. These companies tend to remain small-sized, with a high incidence of self-employment and micro-enterprise initiatives. Generally, These are low value-added projects, very often recurrent or are in tough competition with one another, without attempting any integration perspective and therefore are unable to move up "the value chain" or get together into productive and complementary "clusters". This situation dramatically affects their feasibility as evidenced by the mortality rate for new enterprises: after 3 years of business activity amounting to roughly three-quarters of the total number of established companies.

WOMEN AND ENTREPRENEURSHIP

The number of female entrepreneurs in Tunisia is well under the real potential. According to the statistics published by BFPME for 2015, the number of approved projects shows a large gap between women and men. The analysis of all projects approved by the BFPME shows that only 17% are projects initiated by women. The same is true for the size of funding: the average cost of a project approved for a female entrepreneur is estimated at 568,000 TND, while the average amount of an approved project whose beneficiary is a man is around 800,000 TND. If we consider the subsidies approved by the BFPME during the period 2005-2015, we will see that the loans granted to male entrepreneurs are more than double compared to those granted to women. During 2011 this negative gap reached its peak: with the financing approval granted to 200 projects run by men and only 37 led by women.

As a result, most of the businesses launched or run by women are micro-enterprises or self-employment initiatives, which operate mainly in traditional sectors (trade, small jobs) and which quite often end up operating in the informal sector. This subordinated situation of women's entrepreneurship in Tunisia is the persisting result of socio-cultural barriers, often hindering women from flourishing outside the family circle freely and preventing them until now from being entitled to family inheritance in the same way as their male counterparts.

Accordingly, the simplified equation « young entrepreneurs = start-ups » is questionable in a country where around 5% of companies only are created and run by young entrepreneurs and where the economy rests on family entrepreneurship.

Companies operate in a closed context, and under the intense strain of the informal economy. In this context, the most important keys to success seem to be being a member of an "entrepreneurial family" and/or having the possibility to benefit from high-level educational training.

In this framework, many financial tools, programs, and projects (also funded through international cooperation), are available to support the development of entrepreneurship among young people and women, that is in addition to the provision of training and technical assistance²⁷.

²⁶ Unemployment rate in 2018: 15.5% (12.5% men and 22.8% women), including 269,000 unoccupied graduates.

²⁷ Ministère de la Femme, de la Famille, de l'Enfance et des Personnes Âgées – Cartographie des Programmes et des Projets intégrant le genre en Tunisie – Tunis 2018.

Generally, these programs are meant to shape an "entrepreneurial profile," equipped with the personal and technical skills required by the project²⁸. Some of these programs pay attention to women's access to employment, through fixing minimum quotas or specific budget lines dedicated to the training/professional insertion of women.

4.4. A proactive policy albeit with mixed results

The State's intervention aimed at promoting and supporting entrepreneurship is reflected in the numerous revisions and adjustments of the legal framework to the socio-economic changes that occurred. The results, however, did not live up to the means resorted to, because of institutional inefficiencies, policy implementation and shortages in the distribution of allocated resources.

Law 2016/71 (30 September 2016) repealed the former Investment Incentives Code of 1994. This new regulation framework aims at providing greater openness by keeping a small number of activities prohibited or subject to authorization. Other novelties concern the simplification of procedures and the protection of investments.

The New Investment Law also provides for the modernization of the institutional system. For this purpose, the Higher Investment Council and the Tunisian Investment Authority have been set up. They are to take care of investment projects that exceed 15 million TND, approximately (5 million €). Besides, the Tunisian Investment Fund is created with the mission to disburse investment premiums and to subscribe in mutual funds and development capital funds, through the creation of seed funds, regional, and priority sectors funds.

The Tunisian business tax system is subjected to on-going review, with a tendency to make offshore and on-shore fiscal regimes gradually more similar. According to the 2019 Finance Act, the corporate tax rate now stands at 25% compared to rate of 10% formerly. This rate can be further adapted according to the company's activities: a new rate of 13.5% is to be applied for the firms operating in the manufacturing and the information technology sectors.

In 2015 a law on public-private partnerships was promulgated. Given the ensuing mixed results, this text was revised in 2019 to remove several obstacles barring the intervention of private partners, which hitherto have discouraged investors from entering the PPP.

The law for the promotion of start-up companies (the Start-up Act), adopted in April 2018, is likely to enable the new promoters to partially solve their financing needs mainly through the creation in 2019 of a "fund of funds" with an amount of 500 million TND (approximately 150 million €).

²⁸ Courrier de l'Industrie N° 131-132 May 2016: Ecosystème de l'Entrepreneuriat en Tunisie.

START-UP ACT

The Start-up Act is a legal framework, designed in 2018 to make the launching and development of Tunisian start-ups easier.

This legal framework integrates 20 measures organized around a Label of Merit. Tunisian companies satisfying the « label criteria » (Age, Size, Independence, Innovation, and Scalability) are eligible to it, and Label awarding gives entitlement to a series of advantages and structured incentives to 3 key investment categories: entrepreneurs, investors, and existing Start-ups.

The label is awarded by a "labelling Committee," which is based at the Ministry of Communication Technologies and Digital Economy and which is in charge of evaluating periodically the applications that are submitted via the electronic portal of start-ups. The label process takes 4 weeks, starting from the opening of the session for the submission of applications (via the electronic portal of start-ups), to their examination and announcement of the results.

This legal framework is innovative and meets quite well the support needs voiced out by the Tunisian entrepreneurial ecosystem actors. At present (May 2019), a few months after its launch, 55 start-ups have obtained the label.

Observers, while positively valuing this initiative, warn of the risks that creating a "caste" of privileged companies taking support and advantage of these extraordinary measures and facilities which are not readily accessible to all could have a distorting effect on market dynamics, let alone of possible allegations of patronage and favouritism.

www.startupact.tn

https://www.mtcen.gov.tn/fileadmin/StartupAct/Startup_Act_-_procedures_conditions_obtention_du_label.pdf

4.5. An Infrastructure network to be enhanced

Costs related to logistics (transport, handling, and storage of goods) represent 20% of GDP. Companies suffer from a lack of maintenance and efficiency in the management of infrastructure and related services.

Over the last few years, the situation has deteriorated as a result of either decreasing investment resources allocated to new projects or because of lack of maintenance of already existing infrastructure (road system, ports, electricity networks, water, and sanitation). What is more, the lack of efficiency in management and related services has also resulted in a significant deterioration of the overall infrastructure system.

In recent years the road network has deteriorated rapidly, particularly in the internal areas. At the regional level, this aspect seems to have constituted another subsequent element of regional discrimination and disparity, with the southern and western areas systematically lagging behind in this respect compared to the capital and coastal cities.

Electricity network presents some weaknesses too: despite good coverage of the national territory, the time required to obtain a new connection is lengthy, the costs of electricity remain quite high and there are frequent electrical power failures²⁹.

As to the telecommunications sector: over 90% of broadband Internet subscribers are currently using wireless networks (or mobile networks such as M2M, 3G/4G, Smartphone) instead of fixed networks (in compared to only 51% of users in 2012).

²⁹ ITCEQ Report: Climat des affaires et compétitivité des entreprises : Résultat de l'Enquête 2016, page 32.

The continuous decline in ICT equipment imports relative to GDP, as well as the dropping percentage of investment in the telecommunication sector³⁰ cause delays which might prove difficult to catch up with in a highly competitive and rapidly developing global environment.

Concerning the other infrastructures (ports, airports, water purification) the situation still stands at acceptable levels, even though Tunisia has lost important positions compared to previous years' rankings³¹.

To compensate for this deterioration, the National Development Plan for the period 2016-2020 foresees the implementation of essential infrastructure projects. In particular: the creation of a deep-water port, as well as the expansion of the motorway network, the extension of the railway lines system, the enlargement of regional roads system as well as the improvement of power generation and water desalination stations. The expected objective is to overcome the current circumscription of interior regions and improve market access for companies located in the South, and Centre-West zones by encouraging the road and rail freight transport.

4.6. A capacity for innovation to be improved

Although the innovation support system is well developed and structured, several remarks can be made about its effectiveness regarding the implementation of the political strategies and the lack of cooperation between the public and private sectors.

The Bloomberg Innovation Index which appraises 200 countries by analysing dozens of criteria and by using seven indicators (including research and development expenditures, manufacturing capabilities and the concentration of high-tech public companies), ranks Tunisia in the 52nd place in 2019, nine places less than the previous year. Despite this negative performance, due to essentially to a loss of performance in the criterion of "productivity" and in that of "the intensity of the R&D sector", Tunisia is the second most innovative country in the African continent, behind South Africa³².

Tunisia has adopted a National Innovation System (NIS), supporting innovation and research structures and programs³³, as well as several actions enhancing tangible and intangible investments and the improvement of organizational, technological, and marketing skills³⁴. In addition to these, we can find three categories of innovation financial support instruments broken down as follows: research funds, incentives for the creation of innovative companies³⁵, and other instruments promoting cooperation between companies and research centers.

Financial instruments encouraging several innovation support programs generally have similar mandates and operational modes. This working pattern often generates confusion and underutilization. The perception of these funds, particularly the SICAR products, does not seem to live up to beneficiaries' expectations, who consider their credit terms very close to those required by banks.

³⁰ ITCEQ Report: Positionnement compétitif de l'Economie Tunisienne - May 2017, page 7.

³¹ World Bank Logistic performance Index 2016.

³² www.bloomberg.com/news/articles/2019-01-22/germany-nearly-catches-korea-as-innovation-champ-u-s-rebounds

³³ The structures supervised by the National System of Innovation are: The Agency for the Promotion of Industry and Innovation (APII), hosting the Innovation Center for Technological Development, whose main mission is to support companies in their innovation and performance improvement by providing counselling and services; the National Agency for the Promotion of Scientific Research (ANPR), reporting to the Ministry of Higher Education and Scientific Research, assists public structures to promote the outcomes of their research work; the National Institute for Standardization and Industrial Property (INNORPI), in charge of actions related to standardization, quality of products and services and protection of industrial property. The system is supplemented by 9 Technology parks and 8 Sectorial Technical Centers.

³⁴ The upgrading program for the modernization of Tunisian SMEs, the (PCAM) Program supporting Enterprises' competitiveness and markets access, the PASRI, Projet d'Appui au Système de Recherche et de l'Innovation (supporting research and innovation).

³⁵ This is the case of FOPRODI which grants 50% of the cost of hardware investments (R&D equipment, IT equipment, CAD stations, CAD, CAMP, CMMS...) for up to 100,000 TND, while for intangible investment, it grants -50% of the costs (technical assistance, quality system and accreditation, patents and trademark fees, studies, method / process office, recruitment of 2 quality and process executives, IT applications, financial expertise) with no budget limits.

The system suffers from several weaknesses, notably from the lack of coordination between Institutions and other stakeholders during the research and innovation strategies' elaboration. It would seem appropriate to:

- encourage the improvement of the regulatory framework of the R&D system;
- evaluate the programs implemented under innovation supporting strategies;
- create specific support mechanisms for the different phases in the life-cycle of the innovation product;
- revise the role of technological hubs;
- activate collaboration between the public sector and private companies for the creation of "centres of excellence", "centres of competence" and "development centres";
- facilitate the integration of foreign enterprises and Tunisian SMEs with a view to helping them scale up the value chain through the transfer of knowledge, know-how, and technology³⁶.

4.7. A buoyant environment in support of entrepreneurship

Support to entrepreneurship involves the presence of pre-revolution institutions and actors that, after a period of crisis, are reorganizing themselves. Other newcomers are currently being instituted, among which the Bank of Regions or the Centre for Training and Support to Decentralization. Finally, a series of actors - especially private ones – are playing an active role in trying to fill the enormous gap in the post-revolution era, mainly in the peripheral regions of the country.

A one-time census of all active stakeholders, their programs, and projects is almost impossible to carry out due to their rapid evolution and rapidly changing situations. A quite reliable assessment would include about 60 support structures, 85 capital investors, 46 programs, and about 50 co-working spaces³⁷. They are scattered throughout the national territory, with a concentration in Greater Tunis area and in the central-eastern coastal regions.

4.7.1. A rich but inefficient public system

Numerous are the State actors assigned the mission of assisting new promoters. Besides a system of specialized agencies, the network is also composed of a series of Technical Centres, Business Incubators, Technology parks, and other stakeholders³⁸, among which there are chambers of commerce, employers' organizations and sectorial federations³⁹. Many among these actors have peripheral network established all over the national territory or in specific geographical regions, with the decentralized offices trying to provide the same variety and quality-level of services offered by the headquarters. Despite their wide representativeness, many of these organizations may be criticized for their redundant organizational hierarchies and cumbersome bureaucracy, thus, often being unable to efficiently and promptly respond to the needs expressed by their business environment.

³⁶ ITCEQ 2017 : Positionnement compétitif de l'économie tunisienne.

³⁷ www.eot.tn

³⁸ The APII with the National Network of Business Incubators and Business Centers (www.tunisieindustrie.nat.tn) for the industrial sector; the Foreign Investment Promotion Agency FIPA for internationalization (www.investintunisia.tn), The Agricultural Investment Promotion Agency APIA (www.apia.com.tn) for the agricultural sector; The Tunisian Export Center CEPEX (www.cepex.nat.tn) supporting international commercial activities. The 3 Regional Development Offices (www.odno.nat.tn and www.odco.nat.tn and www.ods.nat.tn); The National Agency for Employment and Independent Work ANETI (www.emploi.nat.tn), The Technical Centres (www.cetiba.tn, www.cetime.ind.tn, www.cettex.com.tn, www.ctmccv.ind.tn, www.ctaa.com.tn, www.ctc.ind.tn, www.packtec.tn, www.cnccleather.nat.tn); the Technoparks (www.mfcpole.com.tn, www.polegabes.com.tn, www.biotechpole.rnu.tn, www.pole-competitivite-bizerte.com.tn, www.elgazalacom.nat.tn, www.technopole-sousse.rntn.tn, www.sfax-icttechnopark.tn, www.polegafsa.com.tn)

³⁹ UTICA (www.utica.org.tn) and its sectorial federations; UTAP (www.utap.tn)

4.7.2. A new positive dynamic, although on a « reduced scale»

After the Revolution, several initiatives were initiated by civil society⁴⁰ or backed by international cooperation⁴¹ to promote investment and employment, targeting mainly disadvantaged areas and more vulnerable populations. Despite good intentions and some significant results, the peripheral ecosystem in Tunisia has not really evolved, and in the more remote areas of the country, viable initiatives are still rare.

The BIAT Group (Arab International Bank of Tunisia) is among the most active private players in the Tunisian ecosystem. Through its banking network, participation in investment funds, management of an incubator-accelerator, and its Foundation, it offers a 360° support. Through its national and international network, it has been able to provide various programs and initiatives (mainly to the benefit of young people and students), and to support the entrepreneurial culture (with focus on less developed regions). The BIAT group has launched the “Entrepreneurs of Tunisia platform”⁴², offering a general and regularly updated overview of active stakeholders, available devices and legislation tools related to the entrepreneurial Tunisian ecosystem.

4.7.3. A diversified assistance to enterprises...

An important feature of the Tunisian ecosystem is that very often, the different players involved in business support can provide at the same time a wide variety of services ranging from consulting to financing, from participation to capital to marketing support and networking activities. As a result, it is sometimes very difficult to position an actor in a unique category (financial and/or technical assistance). Moreover, several private operators have a high level of integration and collaboration, and very often, the various stakeholders engage in a steady collaboration or establish temporary partnerships for the duration of joint projects.

Incubators and accelerators⁴³ have introduced more modern venture approaches in Tunisia, and until the launch of the Start-up Act, they represented the only one opportunity catering for the support and development of innovative companies.

Each structure offers its specific services, according to its vocation and its shareholders' mission: customized assistance, support for the business plan, legal advice, fundraising patronage. Some incubators also offer a working space, while others give help in carrying out market research or in obtaining patenting or certifications.

Accelerators offer more specific programs, with generally shorter business-reinforcement periods. Their mission is to support already operational start-ups, which, at the end of the program, should be able to fundraise.

⁴⁰ Whose surfacing was possible following Law 2011-88 of 24 September 2011 about NGOs.

⁴¹ Mainly through the participation to the capital of Anonymous Companies following the revision of the law in 2011.

⁴² <https://www.eot.tn>

⁴³ FLAT6Labs (www.flat6labstunis.com) LABESS (www.labess.tn) SMART216 (www.smart216.com) B@Labs (www.biatlabs.com), Start'Act (www.startact.tn) le15 (<http://www.le15.org>), Wikistartup (<http://wikistartup.tn>), and more recently Université Centrale : <https://www.universitecentrale.net/fr/106/pour-la-premiere-fois-un-incubateur-repondant-aux-normes-internationales>

Table 6 - Overview of the main programs in Tunisia supporting incubation and acceleration

Program	Category	Place	Target	Administrator	Year	Cohorts/Calls
Flat6Labs/Le15 www.flat6labs.com	Accelerator - Seed Fund	Tunis	Tech	Fond Anava, Meninx Holding, BIAT, TAEF	2016	From 6 to 8 each cohort (2 per year)
LAB'ESS www.labess.tn	Social entrepreneurship+ supporting funds	Tunis	Social Entrepreneurship	Développement Sans Frontières, association du GROUPE SOS	2013	20 each cohort (1 per year)
WIKI START-UP https://wikistartup.tn	Incubator	Tunis	Innovation	UGFS-NA, Carthage Business Angels	2010	3 programs, from the idea till acceleration/ speed-up/growing
START'ACT https://startact.tn	Incubator (before Accelerator)	Tunis	Innovation	Carthage Business Angels, Agence Française de Développement, CDC, UGFS	2019	6 (2 cohorts per year)
B@LABS www.biatlabs.com	Supporting Programme	Tunis	Tech	Private company supported by BIAT group	2017	6 each cohort (4 months hosting + 12 months tuition after launching)
IMPACT PARTNER www.impactpartner.com	Association (acceleration and financing)	Tunis	Social Entrepreneurship	Yunus Social Business	2013	Admitted after project submission + ask for a donation
RESEAU ENTREPRENDRE www.reseau-entreprendre.org/tunisie	Association (financing and accompanying)	Tunis and 7 regional offices	Any kind of company supporting job creation	Réseau Entreprendre	2010	No cohort/call via project selection (till 3 years term)
SOUK AT-TANMIA www.soukattanmia.org	Supporting Programme (financing and accompanying)	Tunis	Entrepreneurship + Regional Development	African Development Bank + Other players	2012	Competition once a year selecting 100 projects by giving them donations
INTILAQ www.intilaq.tn	Accelerator (Seed Funds + accompanying)	El-Ghazala Ariana	ICT	Qatar Friendship Fund, Ooridoo, Microsoft	2014	Project selection+ once a year a fast track to select 6 projects at seed stage
COLLECTIVE LAB	Incubator – co-working space	Tunis	Innovation	Université Centrale	2019	12 start-up hosted during first 6 months
RED START TUNISIA	Accelerator	Tunis	PME	Red Start France, Bridging Angels	2019	In progress

For their part, Tunisian private financial stakeholders are increasingly inclined to offer a "complete services toolkit" integrating the whole investment cycle. The new approach is to achieve a series of interrelated activities finalized to get firstly in touch with potential promoters (higher education students, professionals...). Subsequently, the stakeholder/s can offer further technical and financial assistance, finalized to achieve the prototype and the labelling. They can also finance consulting related activities (including legal, accounting, customs ones...) up to the incorporation of the company. They can finally intervene to finance the investment and provide coaching for marketing. This approach is used, on the one hand, to select the best projects and the most promising entrepreneurs to provide them with a better chance for success, and on the other hand, to protect the sponsoring institution(s) while securing more significant chances of getting return on the investment.

These activities can be carried out on "solo" for those stakeholders who have adequate financial and human resources or in partnership with other complementary players.

4.7.4. ... But whose sustainability and scale are limited

Interviewed about the business environment in Tunisia, entrepreneurship support actors, think that on the whole, it is dynamic and quite favourable from a legislative point of view.

Nevertheless, most of them have denounced as a significant problem (external to their organization) the scarcity of financial resources associated with the high financial market-related costs.

Another problem raised is the lack of (internal) technical skills enabling the supporting actor to understand and adequately assess the nature and the technicality of presented projects so as to avoid out-dated and recurrent initiatives.

Similarly, there is a lack of information exchange among support actors, leading thus to the real risk of supporting vulnerable projects, similar to those which have failed or did not find a niche on the market.

In the absence of effective guarantees, one of the challenges for most of the interviewed organizations is to decide how to allocate the limited resources at their disposal to those promoters who best present human and technical capacities, likely to ensure the sustainability of the project as well as acceptable recovery deadlines.

4.8. A diversified but still limited private sector financing system

In the light of the size of the country and the number of its inhabitants, it can be contended that the Tunisian financial system is relatively well developed.

Starting from 1958, the Central Bank of Tunisia has been in charge of managing the country's monetary policy, of supervising the functioning of payment systems, of monitoring the financial institutions and of ensuring the soundness of the system.

Almost all types of financial tools and solutions exist on the Tunisian market. These include banks, seed and spin-off funds, investors in venture capital, investors in development capital or in transmission capital.

4.8.1. The banking system: main moneylender for local ventures

Banks are the leading player in the private sector financing. They offer a variety of services and are directly involved in investment funds or in co-participation with other financial players⁴⁴.

⁴⁴ Participation to OPCVM: Organization of Collective Investment in transferable securities.

Table 7 – General overview about Financial landscape in Tunisia

Financing Source	Examples	Products	Amounts	Charges/ Fees/ Costs	Targeted sub-segments
Family and Friends		Informal debt	According to family's resources 1000 – 10,000 TND and more	Low or non-existent	Start-up, SMEs, liberal business
Private Micro-Finance institutions	Advans, Enda Tamweel, Taysir Microfinance, Zitouna Tamkeen, Microcred Tunisie	Micro-enterprise loans, solidarity groups financing.	1,000-20,000 TND (the loan can reach 40,000 DT if granted to a group)	According to loan's duration from 25% up to 28%	Micro and Small commercial and productive (agriculture, food, handcraft) enterprises, often informal
Commercial Banks	BIAT, BH, BNA, Sicar Bancaires	Capital, working capital, Asset Financing, Short- and Medium-Term Credits	Variable from 100,000 TND up to 1 million TND and more	Generally aligned to market rates + 3% + fees	Mainly medium and big enterprises
Specialized Banks	BFPME, BTS, Islamic Banks...	Participation in the Capital, Equity financing and working capital	Very variable depending on the size of the project and the mission of the bank	Generally aligned to market rates	According to bank's mission
Investment Funds- Venture Capital	Afric Invest, Alternative Capital Partners, Capital African Bank, SICAR	Participation in Equity & Participation in Capital	1 million TND 10 million TND on average	From 1 million up to 10 million of TND Participation into the capital (about 12%-15%)	Recently-created companies with growth potential, start-ups, companies to rehabilitate
State Funds / Treasury Special Funds	Caisse Dépôts et Consignations FONDS TUNISIEN D'INVESTISSEMENT FOPRODI, PNRI, Mise à Niveau, PIRD, PDE, FOPRODEX	Participation in equity, investment financing, R & D financing, export financing	Very variable depending on the size of the project and Fund mission	Generally aligned to market rates	SMEs and big Touristic companies
Leasing & Factoring	Tunisie Leasing, Tunisie Leasing and Factoring	Financing and leasing of means of transport and production	150,000 - 180,000 TND on average	13% about	Farmers, SMEs, Professionals, Merchants
Financial Instruments granted by International Cooperation Agencies	BAD, TAEF Swiss cooperation, EBRD	Financial support actions, realized via local financial institutions	Variable depending on the size of the project but generally 20,000 and 1.5 million TND	Variable	SMEs presenting characteristics (size, owner, localization) required by the programs

According to the WB Doing Business Index, Tunisia is ranked only 9th out of 190 economies for the pillar "Credit access". Indeed, access to finance is thus one of the main obstacles identified by Tunisian companies⁴⁵, in particular for medium-sized companies (between 20 and 100 employees).

The overall banking system is poorly capitalized (total assets are about 115% of GDP)⁴⁶, and includes 23 resident and 7 non-resident banks. Among the resident banks, the most powerful ones are three large State-owned banks (STB, BNA, and BH, covering 37% of the sector assets), three large private national banks (with 28% of the capital)⁴⁷ and six private banks with foreign capital (28% of the resources). There are currently 1430 bank branches in the country, i.e. a branch for each 7,700 people. The Tunisian banking system also includes three private Islamic banks⁴⁸. Finally, it is completed by two scope banks, both of which with a majority of public capital: the Tunisian Solidarity Bank, whose mission is to finance micro-projects, as well as the Small and Medium Enterprise Finance Bank, which will shortly be transformed into the "Bank of Regions"⁴⁹.

The credit capacity of the Tunisian economy remains weak, especially compared to the banks of neighbouring economies such as in Morocco. Despite the existence of various financial tools and institutions in theory well positioned to stimulate the private sector, private investment in Tunisia does not evolve adequately, and many SMEs cannot rise up to more structured productive and commercial models.

MICROCREDIT IN TUNISIA

The official start of microcredit in Tunisia dates back to 1997, when the Tunisian Solidarity Bank (BTS) was established to finance micro-enterprises (mainly for graduates and qualified young people), contributing funding for up to 90% of the total investment. In 1999 the permission to operate in microcredit activities was also granted to associations subject to a strict framework and rigorous financing conditions aimed at supporting economic and social integration and funding the acquisition of small equipment or by financing the working capital, all of which for up to 5,000 TND per credit at an interest rate of 5%, and a maximum three –year repayment period. In 2011, new rules allowed limited companies to grant microcredit. While for the associations, the credit limit remains the same (5,000 TND), it is fixed at 20,000 TND for limited companies. Following the new law, the applied rate of interest became variable. And is henceforth calculated according to the granted amount, the duration of the loan, and bearing the applicable fees and expenses related to the financed activity (e.g. the cost of human resources and management, training, and operating costs ...).

In 2018, the maximum amount of funding for limited companies amounted to 40,000 TND and up to 10,000 TND for associations.

⁴⁵ OCDE Working Paper n°1477 "Relancer l'investissement en Tunisie", page 32.

⁴⁶ WB Investment Climate assessment... Tunisia, February 2014, page 71.

⁴⁷ WB Investment Climate assessment... Tunisia, February 2014, page 71

⁴⁸ Zitouna, El Wifak, El Baraka.

⁴⁹ Financial Law 2019 - Art 24 with a capital of 400 million TND.

The Tunisian financial system presents (especially in the agricultural and tourism sector), traditionally high levels of unpaid loans⁵⁰ which, in association with the socio-political uncertainty, the elevated bank exposure, and the devaluation of the dinar, contribute to produce a negative impact on investments.

Moreover, the Tunisian financial system continues to be affected by several malfunctions: inefficient bankruptcy management, lack of competition among banks, uniformity in financial products offer, and excessive demand for real guarantees.

The recent implementation of the “credit register” finally allows information sharing and permits a preliminary evaluation before the actual granting of the credit⁵¹.

On the other hand, the limits imposed by the Central Bank of Tunisia on the interest rates hamper risk modulation: the difficulty to adjust the rates according to the duration of the borrowings encourages the banks to privilege the short-term loans, not well tailored for private investment needs.

For all these reasons, many Tunisian credit institutions are reducing their lending business by demanding a high level of coverage through collateral (mainly mortgage loans) guarantees. In this context, in recent years, most bank loans have been granted to the construction sector offering real estate guarantees and to the governmental institutions, offering State guarantee⁵².

The offer of Leasing and factoring is rather limited, with a restricted number of actors that have, so far, played a marginal role in financing private sector.

WOMEN AND CREDIT

Tunisian women run between 18 to 23% of existing ventures, and their financing needs would amount to about 1.6 billion TND.

Only 28% of women own a bank account, compared to 46% of men (the average for Tunisia being 37%). Only 5% of women borrowed money to start, manage or develop a business (against 11% of men), and only 14% of women have deposited money within the financial system (against 23% of men).

Because of the lack of real guarantees (in Tunisia, only 12% of houses and 14% of land belong to women), access to bank credit is much more difficult for women than for men. As a result, women are the largest number of beneficiaries of microcredit institutions.

An International Finance Corporation (IFC) study shows that women represent a very promising segment for the banking sector, and their real potential remains under-utilized. Compared to their male counterparts, Tunisian women have a better (mainly micro-credit) reimbursement loan rate, are on average younger and enjoy better educational level.

There are several State and non-State programs supporting women's entrepreneurship, but these generally, finance only poorly-capitalized micro-activities (e.g. the Raïda project).

⁵⁰ According to Moody's (Rapport sur le système bancaire en Tunisie, 2018) “NPLs will account for about 15% of loans in 2018, compared to 15.6% at the end of 2016”.

⁵¹ OCDE/European Union/ETF: Moyen Orient Méditerranée et Afrique du Nord 2018, page 182.

⁵² OCDE Working Paper n° 1477” Relancer l'investissement En Tunisie”, page 7.

4.8.2. A State financial support system for SMEs

The public authorities have made available several financial tools to support private investment in Tunisia⁵³. Despite their inevitable dysfunctions, these devices played a significant role in promoting entrepreneurship, acting side by side, and sometimes in complementarity with other existing financial tools, especially during the pre-revolutionary period.

The FOPRODI (Industrial Promotion and Decentralization Fund) founded back in 1974, operates to reinforce the promoters' own equity by providing financial endowments and long-term credits at favourable reimbursement rates. The FOPRODI reform (January 1999), replaced the repayable endowment of the State, by arranging for the SICARs systems to be directly involved in financing the venture capital. At the same time, while raising the top limit of the investments from 1 to 3 million TND (about € 900,000). Moreover, Article 17 of the new Investment Law (2017), provides for the creation of the « Tunisian Investment Fund » according to a « shared risk » formula. This Fund is to manage the financial resources allocated by Tunisian Public authorities for the implementation of its policies and its strategies in terms of investment promotion.

This law, by introducing significant changes in the governance of the financial management system of the investment projects, has considerably limited the incentives which used to be granted by FOPRODI.

So far, the TIF has not yet started its activities, and as a result, there is a substantial reduction in projects financed by FOPRODI (from 455 projects funded in 2010 down to about 100 projects in 2018).

Among other public financial tools, the « Caisse de Depots et Consignations» (CDC), participates substantially in "Institutional mutual funds," in "Government guaranteed investments" and "Treasury bills". Concerning the development of entrepreneurship, the CDC contributes to the financing of investment funds and to the implementation of incubation and support programs (Technology parks, regional SICARs) mainly in favour of innovative SMEs, or by financing important strategic projects, also under the PPP. The CDC created in 2013, with the support of private financial actors, the branch "CDC Gestion" which deals mainly with SMEs, by financing risky mutual funds, investment in equity and / or quasi-equity presenting an interesting development potential, or dealing with regional, social, and environmental topics.

The BFPME (Banque de Financement de la Petite et Moyenne Entreprise) is the bank, created in 2005 by the Tunisian authorities to finance the SME system in participation with other public enterprises⁵⁴. Its mission is to assist SMEs by co-financing their creation or extension, without requiring extra real guarantees in addition to those provided by the project itself and by relying on the Tunisian Guarantee Company (SOTUGAR) and other guarantee funds. BFPME's activities resulted in the approval of around 1,600 projects, but nearly 40% of the funded ones (since its creation until October 2018) have failed and the bank has enormous difficulties in recovering the credits granted (150 million TND of outstanding receivables). As described in Article 27 of the 2019 Finance Act, the new strategic orientations should lead to the imminent creation of the Bank of Regions. This new institution – should be the result of a merger by acquisition between BFPME and SOTUGAR activities and will have a 400 million TND capital. In addition, it will grant funding streams to those commercial banks having obtained the agreement of the Bank of Regions and called upon to play the role of intermediary actors in terms of granting credit to new promoters.

⁵³ See Annex N°2.

⁵⁴ Société Tunisienne de Garantie (SOTUGAR), Tunisie Telecom, Groupe Chimique Tunisien, Office de l'Aviation Civile et des Aéroports et Office du Commerce de Tunisie.

4.8.3. Venture capital: a not yet fully exploited potential

Despite the great evolution potential shown by venture capital in Tunisia, various factors hinder the overall attractiveness of the sector's development: many venture capital management companies remain cautious as to production fabric both poorly capitalized and operating on a significantly narrow internal market.

However, there is a particular interest in innovative technology sectors, information and communication services, and products, the agriculture sector, and the agro-food industries. Finally, it should be noted that there has lately been a move closer to manufacturing industries as well as a modest reopening towards the tourism sector.

Interviewed companies consider venture capital as an opportunity to take, even though an apprehension exists as to the release of funds procedures.

In current practice, few SICARs are available to finance projects requiring less than 300,000 TND (approximately 90,000 €). This means that a large part of promoters, carriers of small projects mainly centred on intangible investments, will be left behind and will not receive adequate financial support.

Moreover, given that several venture capital operators in Tunisia emanate directly from the banking system, entrepreneurs are very often confronted with the terms and procedures for granting funds that are similar to those applied by the banking system, including therein taking into consideration the real guarantees provided by the promoters.

The limited knowledge of venture capital on the part of the projects owners determines the difficulties faced in understanding and accepting the risks associated with the use of these financial tools.

The existence of conflicts of interest, potential misuse, and privileged networks, whether real or perceived, contributes to a lack of trust in the risk capital instrument and - consequently - to its underutilization.

As a result of the regulation framework about open-ended collective investment scheme (SICAFs), Venture Capital and Private Equity have been operating in Tunisia since 1988. In 1995 Tunisia introduced for the first time SICAR companies (Société d'Investissement Capital à Risque) to take part in the consolidation of own equities for the enterprises launched by new entrepreneurs or those companies established in regional development areas or presenting a technological or innovative content.

About 150 investment companies have, so far, been operational in the country. In this somewhat sluggish regional context, the use of risk capital tools appears to be weak: in 2018, Tunisia ranked 67th, behind Morocco (64th)⁵⁵.

In the current economic situation, Tunisian SICARs do not accept to take too many risks. In addition, a great number of the Tunisian SICARs, being bank subsidiaries, are inclined to apply the same methods as their parent companies while at the same time requiring of their customers real guarantees, and this despite the promulgation, since January 2009, of a law prohibiting them from requiring out-of-project real guarantees or setting fees for their participation in the project capital.

Notwithstanding the incentives⁵⁶ instituting for some years some fiscal and financial advantages for the benefit of venture capital, as well as some additional arrangements broadening the scope of SICAR⁵⁷, companies' mission, Tunisian venture capital still suffers from some structural deficiencies, the most important of which is an inappropriate legal framework with a mix of financial instruments that need to be diversified.

⁵⁵ The Venture Capital & Private Equity : Country Attractiveness Index 2018 IESE University School University of Navarra.

⁵⁶ Law established on 30 October 1995.

⁵⁷ Finance Law 2009, allowing the co-financing of agricultural investment and the acquisition of firms in difficulty.

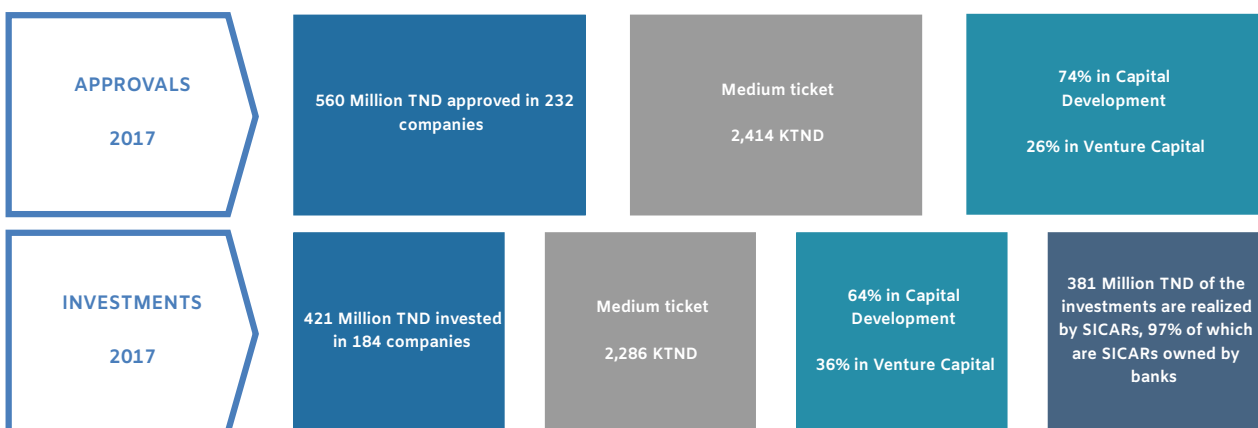
Despite the presence of a few dynamic players such as TAEF, Alternative Capital Partners, Afric-Invest, and UGFS - venture capital interventions are on the whole still too limited in terms of the number of available funds. Among the interviewed funds, and over approximately a 10-year period of activity for each, UGFS has been the most active (70 funded projects) followed by Afric-Invest (50 projects) and then by Alternative Capital Partners (25) and by TAEF (almost 20 projects).

TAEF (Tunisian-American Enterprise Fund) is limited company created just after the Revolution by USAID with an initial allocation of USD 100 Million. It is supposed to operate in Tunisia until 2027 for the benefit of all segments of the SME. Since 2013, TAEF has financed around 20 SMEs and has collaborated with microcredit institutions (Taysir CFE), accelerators (Flat6Labs) and established valuable relationships with universities (University of Carthage). Its approach is to select for each investment the appropriate financing tool, which can combine technical assistance with debt and capital.

The latest statistics published by the ATIC – (Tunisian Association of Capital Investors), grouping 42 active members between SICAR and management companies of the Risk Mutual Funds, show that for the period 2014-2017 approved funding amounts rose from 210 to 560 million TND (from 64 to 170 million €), and gave financial support to 1067 companies.

In terms of investments, during the period 2014-2018, the companies that benefited are 682 for a total invested amount of 1,178 million TND (about 357 million €). Private equity performed well in 2017 (with 232 approved transactions compared to 220 in 2016), for a total amount of approximately 560 million TND (170 million €), compared to 336 million TND (102 million €) in 2016. Investments realized during 2017, amounted to 421 million TND (approximately 127.5 million €), an increase of 29% (compared to 2016), with average ticket of 2.3 million TND (0.7 million € - 2.37 million TND for venture capital and 2.24 million TND for development capital). These resources financed 184 companies, with the creation of around 6,500 jobs; 64% of these investments were in development capital and 36% in venture capital⁵⁸.

Figure 14: Statistics about Capital Investors' activity (Members of ATIC) – 2017



⁵⁸ According to 2017 and 2018 statistics of Capital Investor - ATIC members– Tunis 2018.

5. Financing the “missing Middle”: a multiple-facets challenge

Tunisia has a real and growing need for business financing. However, the financial system is not yet ready and needs reorganization⁵⁹, through some additional measures to be implemented by both institutional and financial actors to better meet the requirements of private companies.

To meet such needs, an important reform of the Capital Investment Code is in progress. It should be able either to reduce existing rigidities inherent in the Tunisian financial system, nor be able to fill the gaps still present in the Tunisian financial framework and lift the few ambiguities of its provisions currently in force⁶⁰.

Table 8 –The financial needs of Tunisian enterprises

Subsector	Main characteristics	Financing problems	Financing Needs
LIVELIHOOD-SUSTAINING ENTERPRISES 1-10 employees 0-5% annual growth 5,000-100,000 TND turnover	Mainly Informal business Repetitive activities, essentially in traditional sectors (crafts, small livestock farming, agriculture, small business, or minute trade). The promoter plays more than one task. Activities that must allow a rapid repayment capacity. Absence of a middle and long-term strategy Promoters without secondary education	Access to family loans, often limited. Access to reduced credits (microcredit association BTS or NGO) loans through personal or collective guarantees, and at high rates. Originating and evolving in a fragile socio-economic context and generally oriented to small local market with limited purchasing power. Lack of real guarantees (mainly women). Activities subjected to high risks (market practices, controls...)	Short-term financing at cheaper rates Medium-term loans for the few activities trying to enter in a longer and higher value-added production cycle.
DYNAMIC ENTERPRISES 10-50 Employees 5-10% annual growth 300,000 < TND turnover	Traditional activities with high growth potential (catering, manufacturing industries) or dealing within innovative sectors. Sometimes originating in the informal sector some among them can develop into the formal ones. Businessman/woman often with an university education.	In case of informal activity, difficulty to get bank credits (recourse to family friends). Availability of financing tools for the growth phase, but difficulties to finance the working capital. Very competitive market nationally and internationally competitors.	Finance rapidly the working capital needs. Middle and long-term financing used to modernize production and finance long-term investments. Lower interest rates.

⁵⁹ OCDE Working Paper n° 1477 Relancer l'investissement en Tunisie, page 32.

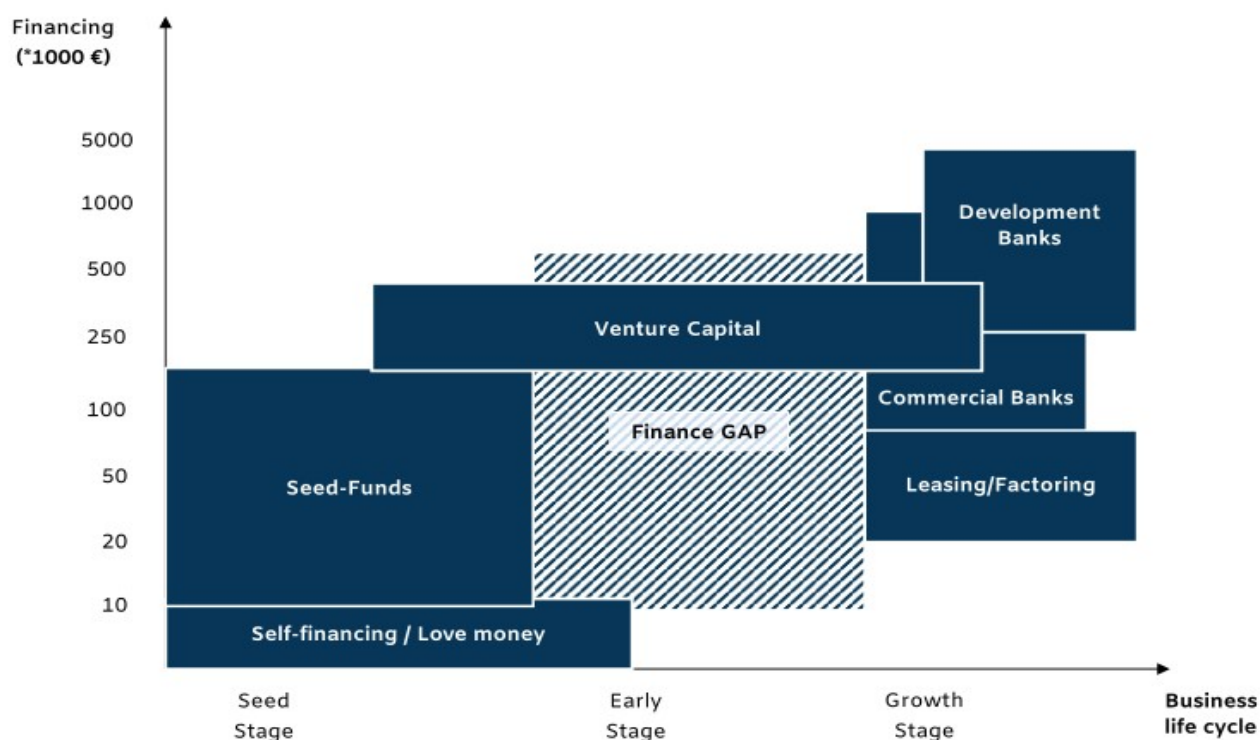
⁶⁰ Revue Le Manager – Tunis n°252 Mai 2019, Page 56-57.

Subsector	Main characteristics	Financing problems	Financing Needs
<p><u>NICHE VENTURES</u></p> <p>30> employees</p> <p>10-20% annual growth</p> <p>300,000 >TND turnover</p>	<p>Projects presenting a high added value (R&D, engineering, education.) and generally innovative.</p> <p>Relevant presence of young promoters and women with secondary or university education.</p> <p>Activities targeting mainly foreign markets.</p> <p>Activities evolving in a very competitive and rapidly changing economic context.</p>	<p>Availability of funds / supporting instruments for the initial phase.</p> <p>Difficulty to find funds for the seed phase and to finance the growth.</p>	<p>Difficulty to gain access to bank financing without real guarantees.</p> <p>Participation in company's capital by Investment Funds is not always viewed positively by owners.</p> <p>Small number of investment Funds.</p> <p>Deficiency in "business angels" support.</p>
<p><u>HIGH GROWTH VENTURES</u></p> <p>50> employees</p> <p>20%> annual growth</p> <p>500,000 > TND turnover</p>	<p>Projects presenting a high added value (NTIC, R &D, Services...) and innovative.</p> <p>Relevant presence of young promoters and women with a university education.</p> <p>Activities targeting mainly foreign markets.</p> <p>Activities demanding continuous technological updates.</p>	<p>Availability of funds and support instruments for the initial phase.</p> <p>Difficulty to find funds for the seed phase and to finance the growth.</p> <p>Constant need in R&D to maintain acquired markets.</p>	<p>Difficulty to access bank financing without real guarantees.</p> <p>Participation in company's capital by Investment Funds is not always viewed positively by owners.</p> <p>Small number of investment Funds.</p> <p>Deficiency in "business angels" support.</p>

The interviews conducted with the segmentation's four categories of companies made it possible to identify the specific financial needs of each category. For each category, it was possible to delineate distinctive financial gaps, differing according to each one's growth potential and life cycle.

5.1 “High-growth ventures” and “Niche ventures”: few financial tools for the “scaling-up”

Figure 15 - High-growth companies finance gap



Concerning financing difficulties: the two categories of "High-growth Ventures" and "Niche Ventures" have a similar situation:

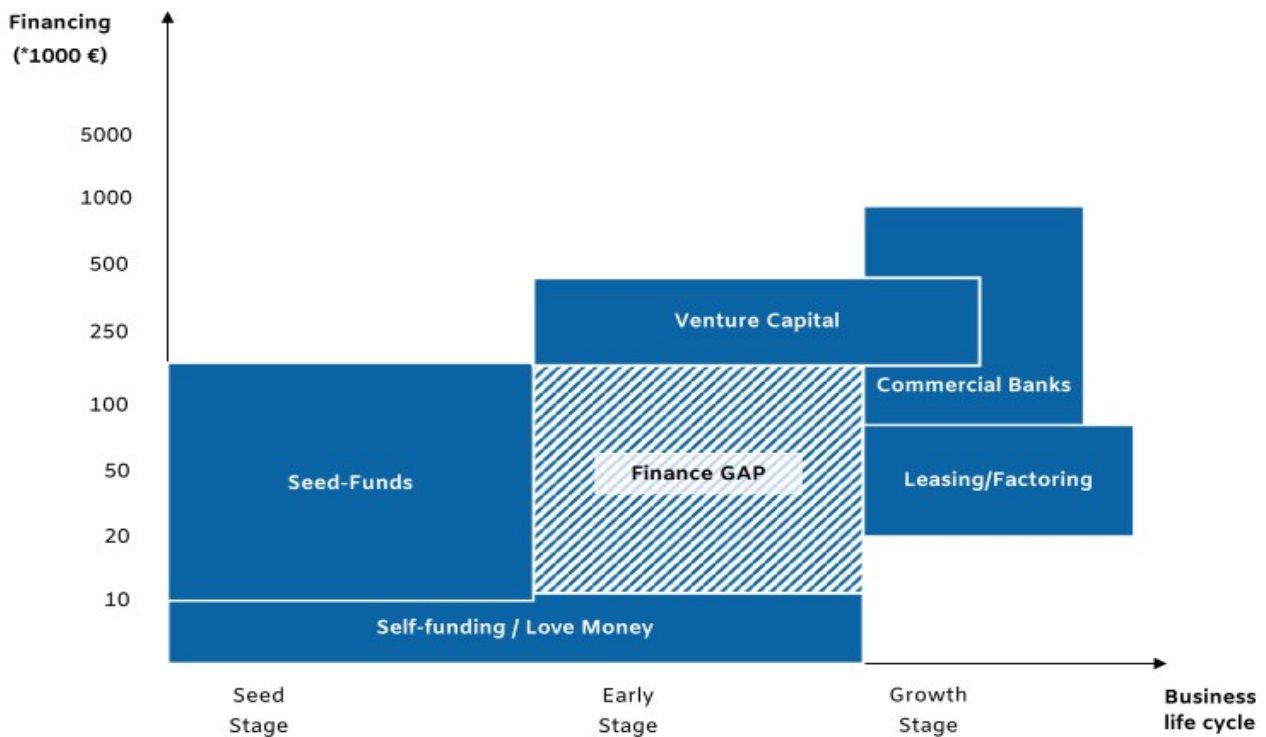
- Thanks to the presence – even though still insufficient - of venture capital funds managed by investment funds and/or incubators⁶¹, these categories of ventures can benefit during the “pre-seed” phase of some financial support. These instruments are available to start-ups, via support programs (legal and tax assistance, technical support, physical hosting, incubation, acceleration).
- In terms of funding requirements, the transition phase between seed and growth is the most critical one. Despite the existence of several venture capital instruments, there is a persisting problem of access to finance (because of tickets that do not always correspond to company’s stage development or its financial requirements) and a conflictual attitude on the part of entrepreneurs. The operational modalities of these funds (in particular SICARs), make them appear more like a banking exposure than financial support. SICARs and Risk Mutual Funds are generally risk-averse and channel most funding to « late-stage » start-ups or to already established SMEs. For their part, banks choose to allow funds in the presence of real guarantees or fixed assets/immobilization - in the case of start-ups – both types of guarantees are almost impossible to provide. As a result, interviewed companies deplore the lack of financing for those growing businesses, whose financial needs range from 100,000 to 500,000 TND. In addition, the recourse to private investors is considered a risk, because their participation in the capital is perceived as a loss of control.

⁶¹ For example Capital' Act: a seed fund launched by UGFS NA and Carthage Business Angels, in support of the Start' Act program implemented by Wiki Start-up; MAXULA Seed Fund: created in 2018 by Maxula Gestion and the Arab Tunisian Bank (ATB); The Flat6Labs assistance and acceleration program... - For an exhaustive list of financing instruments dedicated to Tunisian start-ups see: Mondher Khanfir (under the direction), Financing guide for the innovative start-up, Carthage Business Angel - Tunis, 2014.

Nevertheless - in this case - it has been observed that those who accept partners prefer foreign investors because of a better attitude, a minor risk aversion, and because they can bring better international market opportunities.

- Once the company has consolidated its position, funding problems are reduced, and funding opportunities increase.

Figure 16 – Niche companies finance gap



NEW FINANCING OPPORTUNITIES FOR INNOVATIVE COMPANIES

In June 2019, the World Bank approved the US\$ 75 million [“Innovative Start-up and SME Support Project”](#), designed to support the governmental “Start-up program”. Its aim is to catalyse the growth of digital and innovative start-ups and SMEs in Tunisia, while stimulating the economic and employment prospects for Tunisian youth.

The project will finance equity or quasi-equity investments, assets in innovative start-ups and SMEs, it will also support concept development. In addition, it will improve investment receptivity and new technologies adoption. It will also support entrepreneurial ecosystem players (incubators and accelerators in particular) to enhance and extend the scope of their programs, including mainly start-ups and SMEs, women-run activities, or those companies located in disadvantaged regions (Press release, WB, June 14, 2019).

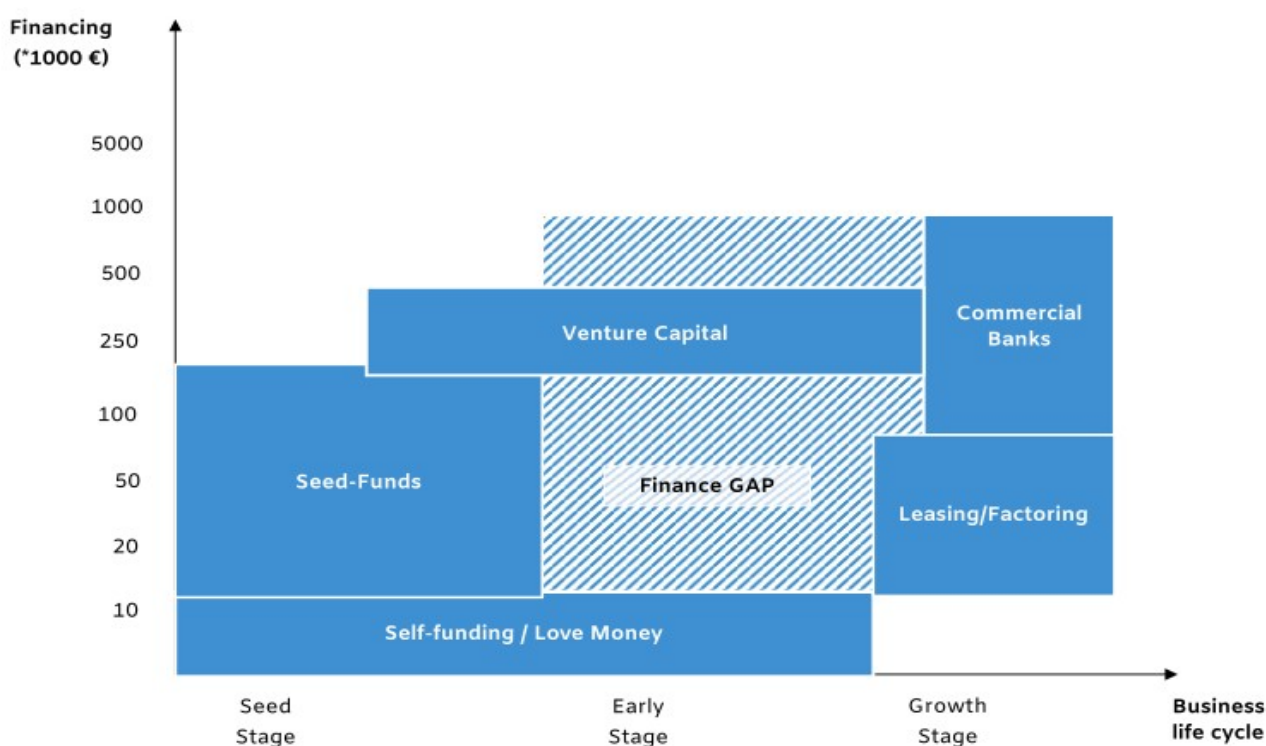
5.2. Dynamic companies: « working capital » highly in demand

The financing requirements of "Dynamic Companies" are more prominent during the growth and expansion phases, as long as they operate in moderate-growth scalable traditional (manufacturing) sectors.

With the only exception of off-shore companies which for different reasons have a particular credit situation (ex. non-residents ownership unable to provide real guarantees) and which are obliged to work with self-financing, a significant financing gap still persists for resident companies.

These specific kinds of ventures are very demanding for « working capital » to finance the production activity. In particular, and mainly during this post-revolution phase, several companies are looking for funds (on average, between 100,000 and 300,000 €) to reactivate their production, which has declined after the social tensions and political instability. Several Tunisian companies, presenting moderate growth and scale potential, mainly in the textile/clothing industry, after Revolution, have shown decreased production standards, loss of foreign market share, as well as the cessation of a large number of them.

Figure 17 – Dynamic companies finance gap



5.3. Livelihood-sustaining Enterprises: the fewer guarantees, the less funding

"Livelihood-sustaining Enterprises", operating in a commercial landscape with the difficulties mentioned above (unfair competition from the informal sector and low-cost products from Asia), are facing severe financing problems.

For the companies belonging to this segment (characterized mainly by micro and very small enterprises), resorting to self-financing and/or to family financing sources is the first inescapable option to take. The result is an activity presenting both reduced social capital and limited physical assets, and for this, unable to support its medium and long-term development⁶².

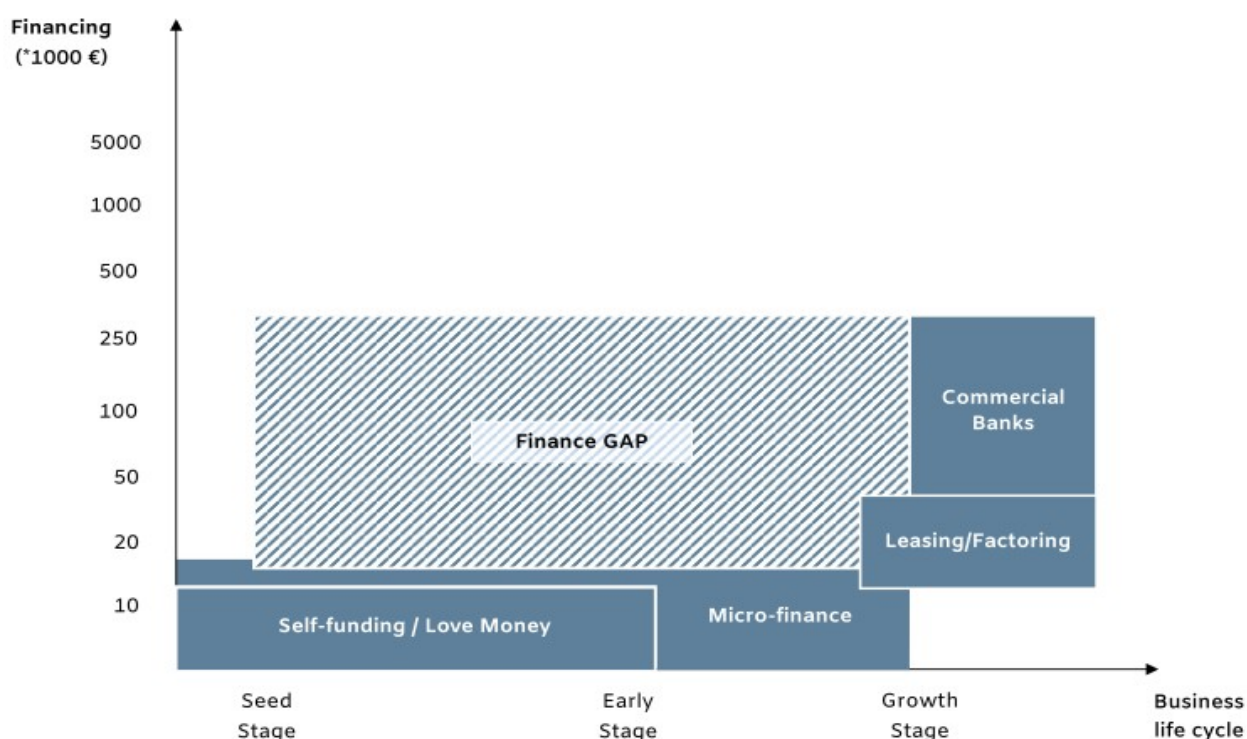
According to a study published at the end of 2018⁶³ on financial inclusion, 55% of micro-enterprises are clients of formal financial institutions. Among them, during 2017, 33% obtained a formal credit, and most of them (31%) did not have to provide any collateral for formal credit. Lastly, 46% resorted to informal credit.

The presence of microfinance institutions⁶⁴ concretely contributes to the development of this segment of enterprises.

Currently, the maximum amount that a microcredit institution is allowed to grant is 40,000 TND (about 12,300 €).

For this business segment, the financing gap exists throughout its life-cycle: its capitalization level and its administrative and financial structure would not allow the company to have access to any funds other than microcredit ones. To remedy to this situation, some international donors made some funds available to some Tunisian commercial banks which were asked to take part in the financial inclusion programs⁶⁵. The effects of these interventions on the targeted beneficiaries remain to be seen.

Figure 18 – Livelihood-sustaining companies finance gap



⁶² OCDE Working Paper n° 1477 Relancer l'investissement en Tunisie, page 32.

⁶³ Altai Consulting – Etude sur l'Inclusion Financière en Tunisie – Tunis 2018, for micro-enterprises, the sample of 1,502 firms was arbitrarily selected among those entering the formal sector.

⁶⁴ Taysir Microfinance, Centre Financier aux Entrepreneurs, Enda Tamweel, ZitounaTamkeen, Microcred Tunisie, Advans Tunisie, El-Amel de micro finance.

⁶⁵ For example, a Fund of 50 million Euros granted by EBRD to Banque de Tunisie in 2017 to support micro enterprises and SMEs.

6. Closing the Gap within the “Missing Middle” context

6.1. A dynamic ecosystem in an evolving social and economic context

Table 9: Tunisian entrepreneurial ecosystem – SWOT analysis

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> • The on-going revision of investment and job creation regulatory framework • Financial sector diversified and capable of supporting innovative investments • Well-trained human resources • Participation of women in economic life • Strong relations with EU markets 	<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> • Generalized difficulty in gaining access to credit/high rates • Large regional disparities • Restricted internal market and low degree of Maghreb market integration • Presence of a large informal sector • Public administration heavy and inefficient • Limited/poor quality of job offer
<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> • Inclusive financing solutions for SMEs • Expansion of youth and women's entrepreneurship support services across the country • Vocational training for innovation • Financial tools and support programs in partnerships with international cooperation actors 	<p><u>THREATS</u></p> <ul style="list-style-type: none"> • Risks of political and socio-economic instability • Overly focused support on start-ups and marginalization of manufacturing SMEs • Lack of coordination between public and private actors in the ecosystem • Brain-drain/best companies' migration

6.2. Recommendations

This study could identify a series of targeted recommendations likely to lead on to the creation of an ecosystem in Tunisia that would be more favourable to the growth of assorted types of local job and economic development generating businesses.

Provide High-growth Companies and Niche Companies with specific financial and supporting tools adapted to the post-incubation period.

- Give full and clear enforcement to the Start-up Act with the involvement of all ecosystem stakeholders, providing value-added support in parallel with the early-stage funding.
- Broaden financing opportunities for start-ups throughout the financing continuum period by setting up new innovative financing means, particularly early-stage tools, to develop a real value chain of “financial products” which would be adapted to different growth needs of local start-ups.

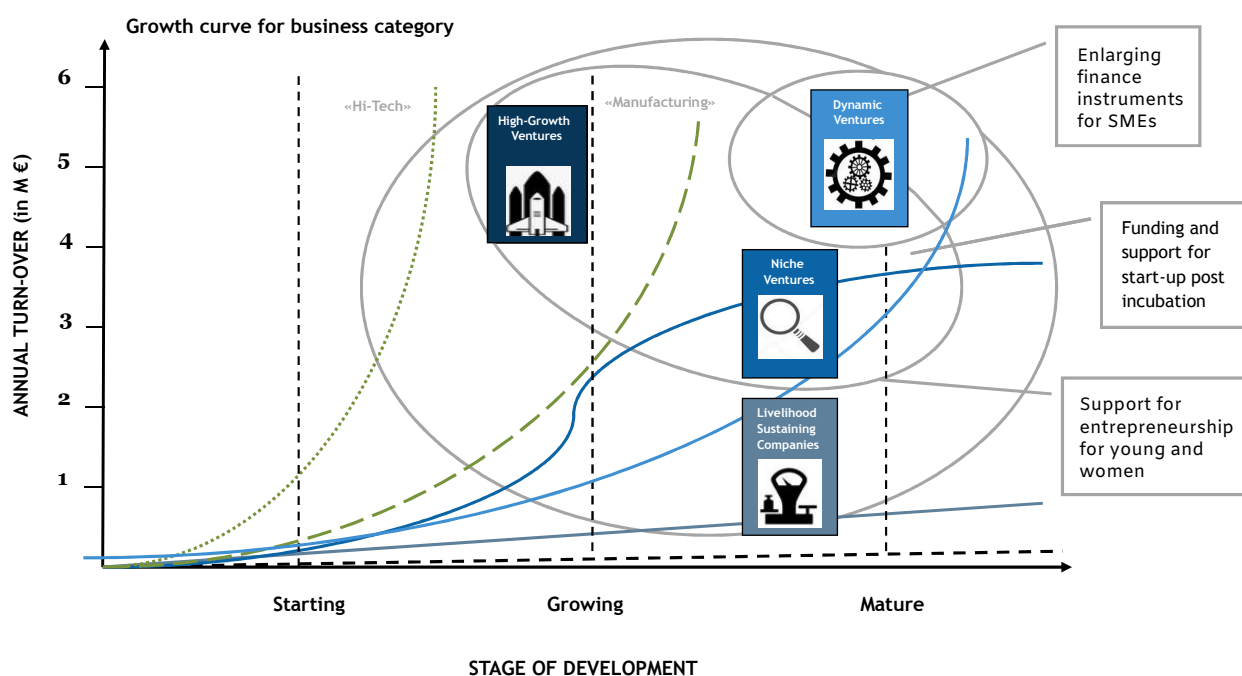
Step up the offer of articulated financing tools, better adapted to the specific needs of dynamic companies

- Develop medium and long-term financing tools to finance the working capital of dynamic start-ups and growth companies.
- Support the development of a different offer, combining a financing product and technical assistance and strengthening the capacity of these companies to export.
- Soften and modernize regulation to allow financial players to offer alternative products in addition to those already available, such as mezzanine financing products that finance SME growth without changing the balance of capital interests.
- Finalize and ensure complete enforcement of the cross-cutting financial sector reform law to alleviate current burdens and permit a more direct access to finance.

Promote the strengthening of Livelihood Enterprises, especially young and female promoters

- Modulate a specific financial offer, including terms and conditions adapted to the different characteristics and needs of these two categories of entrepreneurs.
- Adapt information, services, and interaction to women entrepreneurs' lifestyle and to their specific way of conducting business.

Figure 19: Identified strategies to fill the “missing middle”



Annex 1 : List of Institutions/Enterprises interviewed

Table 10 - List of Institutions/Enterprises interviewed

INSTITUTION/ENTREPRISE	NAME/SURNAME	FUNCTION
ENDA TAMWEEL	Habib CHABAANE	Responsable des Finances
ADVANS TUNISIE	Mohamed Ameur TOUJANI	Directeur Administratif et Financier
TUNISIE LEASING AND FACTORING	Mondher ZID	Directeur Administratif et Financier
TUNISIE LEASING AND FACTORING	Mounir KLIBI	Directeur Général Adjoint Pole Leasing
TUNISIE LEASING AND FACTORING	Saloua ARAB	Directeur Général Adjoint Pole Factoring
UNIFACTOR	Fethi BELLALI	Directeur Risques & Finances
UNIFACTOR	Imeddine CHERIF	Directeur Général
CAPITAL AFRICAN BANK	Habib KARAOULI	Chairman & CEO
CAPITAL AFRICAN BANK	Thameur CHAGOUR	Director
BFPME	Hamdi KSIAA	Directeur de l'Assistance et Développement
BFPME	Zouhair TOUJANI	Directeur Régional Ariana
EBRD	Khalil DINGUIZLI	Principal Banker
EBRD	Hassen MESSEDI	Associate Banker SME Finance and Development
IFC	Mouna HAMDEN LAJNEF	Spécialiste sénior Secteur privé
TAEF	Lilia BEN YAHIA	Dir Communication et PR
UGFS - CARTHAGE BUSINESS ANGELS	Mohammad Salah FRAD	General Manager
CDC GESTION	Amel JEBARI EL-MEDINI	Directrice Générale
CDC	Boutheina BEN YAGHLANE	Directrice Générale
CDC	Mohamed BEN NEJI	Directeur Central Partenariats et Communication
CDC	Slim CHAKROUN	Chargé de projets
SAGES CAPITAL	Sadok BEJJA	Directeur Général
SAGES CAPITAL	Youssef KEFI	Directeur Général Adjoint
ALTERNATIVE CAPITAL PARTNERS	Selma BELLAGHA	Executive Partner
ALTERNATIVE CAPITAL PARTNERS	Taha LOUED	Executive Partner
ALTERNATIVE CAPITAL PARTNERS	Katia MEHANNECHE	Consultante
ALTERNATIVE CAPITAL PARTNERS	Mohamed TRABELSI	Chargé d'Investissement
AFRIC INVEST	Amina BEN ABDELKARIM	Senior Manager
AFRIC INVEST	Ann WYMAN	Senior Manager
RESEAU ENTREPRENDRE	Chiraz ARFAOUI	Directrice Pays
INTILAQ	Bassem BOUGUERRA	CEO
INTILAQ	Seif BOUKADIDA	Chief Operating Officer
UMNAGRI	Rym FERCHICHI	Secrétaire Générale
FLAT6LABS & LE 15	Yehia HOURY	Managing Director

INSTITUTION/ENTERPRISE	NAME/SURNAME	FUNCTION
BI@LABS	Mahdi FATHALLAH	Manager
UTICA – CNFCE	Leila BELKHIRIA JABEUR	Présidente
UNFT	Nejia BEN HILAL	Présidente
APII	Wajdi NEFFATI	Directeur Coopération
APII	Rachid SGHAIER	Directeur Central
APIA	Abdelmoumen TOUKABRI	Directeur Coopération Internationale
APIA	Hanen ABIDI BEN AYED	Sous Directeur Amélioration de la qualité
UNIVERSITE' CENTRALE DE TUNIS	Houbeb AJMI	Directrice Générale
UNIVERSITE' CENTRALE DE TUNIS	Kais MABROUK	Directeur Coopération Internationale
UNIDO	Riadh BOUZAOUACHE	Chief Technical Advisor - Projet Mashrou3i
SDC - Coopération Suisse	Anis KHELIFI	Chargé de programme
FTTH - Féd. Tun. Du Textile Habillement	Néjib KARAFI	Directeur Général
THE NEXT WOMEN TUNISIE	Carolin BRUMMELHUIS	Directrice
AKAM -Verrerie de Carthage	Khaled AZAIEZ	Directeur Général
DABCHY	Amani MANSOURI	Directrice Générale
SEABEL	Rym Ben Fadhel BELAJOUZA	Directrice Générale
BEY FRITES	Wassim TURKI	Gérant
LA SARTORIA	Zaied MABROUK	Gérant
MAISON DES SENTEURS	Rym FAKHFAKH OUENNICHE	Gérante
MARION CONFECTIONS	Wided BELGACEM	Gérante
SOTUNEC ++	Emna BEN ALI	Gérante
HAWCAR	Khadija JALLOULI	Gérante
THE LIMS	Saoussen MAHFOUDH	Gérante
VYND	Adam CHEBBI	Gerant
PTIT CHEF/TAW TAW	Aziz BEN CHEDLY	Gerant
MOOME	Ahmed ACHBALLAH	Gerant
ZAYTA COSMETICS	Olfa Cherif	Gérante

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Annex 3 : Enterprises' segmentation

Six criteria have been adopted to set up a segmentation of the companies to interview: i. Activity Sector, ii. Size – based on the employees' number, iii. Shareholding and juridical structure, iv. Market orientation, v. Capital intensity and vi. Geographical location.

Table 11 - Structure of the survey sample (20 companies - MIDAGroup development of 2018 INS and 2018 APII data).

ACTIVITY SECTOR	Number	Percentage
Agro-industry	3	15%
Building materials/Wood/Chemicals/Plastics	3	15%
Mechanics/Metals, Electrics/Electronics	3	15%
Textile, Garments, Leather and Shoes	4	20%
Services	4	20%
ICT	3	15%
COMPANY SIZE	Number	Percentage
Small (from 10 to 19 employees)	14	70%
Medium (from 20 to 99 employees)	4	20%
Large (more than 100 employees)	2	10%
SHAREHOLDING	Number	Percentage
Foreigner/Joint-venture	10	50%
National	10	50%
JURIDICAL STRUCTURE	Number	Percentage
SA – Société Anonyme (Public Limited Company)	5	25%
SARL – Société à Responsabilité Limitée (Limited Liability Company)	15	75%
GENDER OF OWNER/MANAGER	Number	Percentage
Female	6	30%
Male	14	70%
MARKET ORIENTATION	Number	Percentage
Local Market	10	50%
100% Export/Off-shore	10	50%
CAPITAL INTENSITY	Nombre	Percentage
High	3	15%
Medium	7	35%
Low	10	50%
GEOGRAPHICAL LOCATION	Number	Percentage
Northern Tunisia (Tunis, Ariana, Ben Arous, Manouba, Bizerte, Nabeul, Zaghouan, Jendouba, Béja, Le Kef)	10	50%
Central Tunisia (Sousse, Monastir, Mahdia, Kairouan, Siliana, Kasserine, Sidi Bouzid)	5	25%
Southern Tunisia (Sfax, Gabès, Médenine, Tataouine, Kébili, Tozeur, Gafsa)	5	25%

Annex 4 - The workshop – Tunis, 18 April 2019

Table 12 - List of the participants in the workshop

INSTITUTION/ENTREPRISE	NAME/SURNAME	FUNCTION
ENDA TAMWEEL	Habib CHABAANE	Responsable des Finances
ADVANS TUNISIE	Mohamed Ameur TOUJANI	Directeur Administratif et Financier
ADVANS TUNISIE	Brieuc CARDON	Directeur Général
UNIFACTOR	Imedidine CHERIF	Directeur Général
CAPITAL AFRICAN BANK	Achraf AISSA	Analyste
CAPITAL AFRICAN BANK	Thameur CHAGOUR	Director
BFPME	Hamdi KSIAA	Directeur de l'Assistance et Développement
BFPME	Zouhair TOUJANI	Directeur Régional Ariana
CDC GESTION	Mohamed ABDNNADHER	Directeur d'Investissement
CDC	Slim CHAKROUN	Chargé de projets
ALTERNATIVE CAPITAL PARTNERS	Selma BELLAGHA	Executive Partner
ALTERNATIVE CAPITAL PARTNERS	Taha LOUED	Executive Partner
ALTERNATIVE CAPITAL PARTNERS	Katia MEHANNECHE	Consultante
ALTERNATIVE CAPITAL PARTNERS	Mohamed TRABELSI	Chargé d'Investissement
AFRIC INVEST	Amina BEN ABDELKARIM	Senior Manager
RESEAU ENTREPRENDRE	Chiraz ARFAOUI	Directrice Pays
FLAT6LABS & LE 15	Yehia HOURY	Managing Director
BI@LABS	Mahdi FATHALLAH	Manager
APII	Wajdi NEFFATI	Directeur Coopération
APIA	Abdelmoumen TOUKABRI	Directeur Coopération Internationale
APIA	Hanen ABIDI BEN AYED	Sous Directeur Amélioration de la qualité
APIA	Yassine REGUAI	Sous Directeur
SDC - Coopération Suisse	Anis KHELIFI	Chargé de programme
THE NEXT WOMEN TUNISIE	Carolin BRUMMELHUIS	Directrice
AKAM -Verrerie de Carthage	Khaled AZAIEZ	Directeur Général
THE LIMS	Saoussen MAHFOUDH	Gérante
TRIPLE JUMP	Julia KHO	Knowledge Manager
AMBASSADE DES PAYS BAS A TUNIS	Adel OUNI	Attaché Commercial (Deputy)
MIDAGROUP	Maira FIORINI	Gérante
MIDAGROUP	Antonino TRIMARCHI	Gérant
H-CORP	Akram HADDAD	Directeur Général
ICCREA BANK	Roberto D'ASCIA	Gérant
VYND	Adam CHEBBI	Gérant
MOOME	Ahmed ACHBALLAH	Gérant

The groups and the topics discussed during the workshop by the 3 working groups:

Working Group 1: SUPPORT FUND to SMEs

- Are there financial instruments to address SMEs needs for working capital?
- Are they sufficient, available, economically viable and effective?
- Which are the characteristics and proposed granting terms that a new “ideal product” should have to finance working capital for SMEs? Would it be appropriate to talk about technical support in supporting funds? Is the current financial solution palette sufficient?
- Are there any good practices developed by any among Tunisian ecosystem players that could inspire the managers of this “ideal fund” ?

Working Group 2: FINANCING AND POST-INCUBATION SUPPORT FOR START UPS

- Are there any financing instruments addressing the growth needs of start-ups?
- In your opinion will the Start-up Act have the expected impact? Are its provisions sufficient to guarantee the sustainability of a dynamic and successful start-up network?
- Could it be useful to consider a financial and complementary instrument in addition to the "Start-up Act" supporting the development of the start-up system in Tunisia? What could be its mission, and what would its funding conditions be? Who could manage it?

Working Group 3: SUPPORTING THE ENTREPRENEURSHIP OF YOUNG PEOPLE AND WOMEN

- Are the existing support mechanisms to sustain youth entrepreneurship effective? Do these two targets of entrepreneurs (young people and women) have easy access to incubation / acceleration and financing to start their businesses?
- How could further support be provided to youth entrepreneurship (graduates and non-graduates) outside major cities?
- Which specific strategy can be developed to give sustainability and quality to women's entrepreneurship?
- Which could be some innovative instruments to support entrepreneurship of these two categories of entrepreneurs?

