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Injection of capital – Tunisia

A fund for small, innovative businesses

Tunisia's economy was in a bad way for a long time but is now gradually starting to recover. Economic growth recently managed to escape its low level and forecasts show that it should continue to rise. The strength of this trend depends heavily on the further development of the country's small and medium enterprises. In view of their status as the backbone of the Tunisian economy, helping SMEs to “unleash” their potential is a hugely important task. KfW is contributing to this by investing in TunInvest Croissance (TIC), a fund designed to provide capital to precisely this sector of the economy.

Context

Tunisia is just one of the many countries in the Middle East and North Africa that is affected by the problem of loans and other financial services being exceptionally difficult to access for small and medium enterprises (SMEs). This issue reduces the Tunisian economy's performance capacity and growth because SMEs form the backbone of the economy. They make up 97 % of all business in the country and employ around 85 % of the working population.

In addition to poor access to loans, the market for equity capital also remains weak, and SMEs are unlikely to receive support here anyway. Instead, existing banks and funds prefer to avoid the risk and invest in large companies who can offer more collateral and promise higher returns. The result: capital in the form of short-term loans is normally funnelled into (larger) companies that tend to lack innovation, have very little to offer technology-wise, and require very little expertise. This state of affairs generates very little stimulus for the

economy. And the fact that most jobs in Tunisia come from the agriculture, retail or tourism sectors does nothing to change this practice. The high rate of unemployment among academics (over 30 %) will not fall over the long-term if the situation remains as it is. However, both factors would play an important role in stabilising the economy and, with it, the country as a whole.

Project approach

To counteract these shortcomings, KfW has invested EUR 2.5 million in the TunInvest Croissance (TIC) fund. TIC provides SMEs with equity so that they can cover their capital needs over the long term and also expand their business activity. TIC also invests in start-ups, but to a lesser extent. The uncovered demand for equity

Project name	SME investment fund TunInvest Croissance
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Country/Region	Tunisia
Lead executing agency	Fonds Commun de Placement à Risque TunInvest Croissance





Academics find it particularly tough to find suitable jobs. Here: Tunisian students hard at work. Source: KfW photo archive, photographer: photothek.net

capital in Tunisia is estimated to be EUR 100 million per year. TIC is aiming to reverse this trend. “Croissance” is the French word for growth and in this case, the fund really lives up to its name: TIC provides venture capital to SMEs because their growth can generate more jobs and higher income. Furthermore, SMEs in Tunisia are generally seen as a market with a great deal of development potential and as stimulating forces for the economy.

However, the fund not only provides capital; it also guides businesses through their development and supports their managers. For example, if a business analysis revealed that an SME was in need of marketing expertise, TIC could put it in touch with relevant experts. SMEs therefore don't just benefit from injections of capital; they also enjoy access to the fund managers' professional knowledge.

The fund is based in Tunis and is managed by the experienced fund managers TunInvest Gestion Financière, the initiators behind TIC. It belongs to AfricInvest, a professional and strongly growing fund management association. The fund volume is currently close to EUR 26 million. The planned term runs until 2025, during which time it will promote up to 15 companies. Since the fund was set up in 2013, it has invested in 10 businesses, contributing an average of EUR 700,000 to each. Other businesses have already been selected or are on the waiting list.

Impact

The businesses receiving support from TIC have all discovered a gap in the market and are developing well. One enterprise receiving assistance from TIC is a private engineering school, which was set up by Tunisian businesses in the hope of combating the huge shortage of experts. The courses on offer are geared towards practical use and aim to meet current market demand. Another business specialises in components for the transport and distribution of natural gas. TIC also supports a business that produces timber buildings, which are used as outhouses or extensions for Tunisian hotels and restaurants, for example. A kitchen manufacturer, radio station, IT company, micro-finance institution and a couple of other businesses are also on the list of TIC investments.



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