ALTERNATIVE BUSINESS MODELS FOR START-UPS AND SMES IN TUNISIA WITH HIGH POTENTIAL TO CREATE JOBS FOR YOUTH AND WOMEN

Small and medium-sized enterprises (SMEs) play a vital role in local-level economic development. Access to finance is essential for SMEs to grow and innovate. In Tunisia, SMEs face a lack of support on financing. To address this issue, Oxfam in Tunisia works with the organization Impact Partner, which has supported a group of women pottery producers with technical and financial assistance. The programme has helped the artisans, who are from an under-privileged village, to increase their income.

The aim of this model of assistance is to empower youth to become entrepreneurs from an early age, reduce barriers for women and lessen inequalities. The technical support provided is geared towards training youth for jobs that are both in demand and sustainable. This case study examines the challenges and lessons learned, and looks ahead to how the model can be improved.

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Cover photo: Three potters at work. They are part of Sejnania, a group of women pottery producers in the village of Sejnane, Tunisia. Photo credit: Impact Partner.

SOCIO-ECONOMIC BACKGROUND

Tunisia ranks relatively well on indicators of absolute poverty, health, water and sanitation, and access to energy.¹ However, it is lagging behind in terms of education, employment skills and job opportunities, especially for youth and women, with deep inequalities in employment and development across different regions.²

More specifically, its problems include a high rate of school drop-outs: more than 140,000 students drop out of school each year, with 80,000 not completing their basic education.³ There is a mismatch between graduate skills and business needs and the demands of the labour market. In the ICT sector alone in 2017, 12,000 to 15,000 new graduates were looking for jobs, while there were 12,000 job vacancies.⁴

Unemployment rates are high, particularly among youth. Tunisia had a youth unemployment rate of 34.8% in 2019 (15–24 years old),⁵ compared with a national average of 15.5%,⁶ and the unemployment rate for graduates was 28.2%.⁷

The inequalities faced by youth, and by women, are amplified by regional disparities. There are higher rates of unemployment in the south and west of the country, with rates of over 20% in the South East, South West, North West and Centre West regions, compared with 11.4% in the North East and Centre East. Fewer than 20% of women in rural areas have a job, and fewer than 40% in urban areas.⁸ In addition to high unemployment rates and low wages, informal employment is prevalent across the country, with more than three million Tunisians of working age engaged in the unorganized or informal sector. Informality is becoming the new mainstream, especially in sectors such as agriculture, where it accounts for as much as 88% of all employment, and 95% for women.⁹

SMES ARE JOB CREATORS

Various studies from around the world have shown that small and medium-sized enterprises (SMEs) play a vital role in local-level economic development.¹⁰ They account for a significant share of gross domestic product (GDP) in all economies and are the main contributors to the creation of jobs and wealth, the generation of income and the alleviation of poverty. They are also central to efforts to achieve more inclusive growth and sustainable employment. Thus, it is crucial for local

economies to provide an enabling business environment for SMEs to grow and thrive.

The financing of SMEs is essential in order to support growth and innovation. In Tunisia, however, SMEs face a lack of financing and inadequate solutions to the challenges they face. This matters for the economy and wider society because micro and SMEs represent nearly 98% of total enterprises, according to the Confédération des Entreprises Citoyennes de Tunisie (CONECT). 87% employ one person, while only 0.11% of enterprises employ 200 people or more.¹¹

- Only 20% of Tunisian SMEs are satisfied with the way the financial sector responds to their needs, with long waits following requests for funding that can extend to over 18 months.¹²
- Some 40% of SMEs consider access to finance to be a major obstacle to the development of their business. Guarantee requirements and complex loan application procedures discourage many SMEs from seeking financing from banks.¹³
- Commercial banks do not finance working capital requirements. This is a key daily issue for SMEs, and one which forces them to miss out on new market opportunities in order to maintain their financial equilibrium.¹⁴
- Two-thirds (66%) of SMEs surveyed in 2017 said that financing conditions were becoming increasingly difficult and that this posed a serious challenge to the development of the Tunisian economy.¹⁵
- New businesses are not well supported in their very early start-up phase. This is a risky phase for any company, and no one is willing to take the risk, either entrepreneurs or supporting institutions. This is a barrier to increasing the number of projects in the pipeline. In Tunisia, international cooperation programmes supporting entrepreneurship rarely last for more than three years. This is not even enough time to ensure that start-ups can actually survive on their own.

CHALLENGES FACING TUNISIAN ENTREPRENEURS, AND THEIR NEEDS

Oxfam in Tunisia is working with Impact Partner, a member of the Yunus Social Business Network, which supports SMEs with financing and technical assistance. Impact Partner conducted a 'customer discovery' exercise to better understand the situation facing Tunisian entrepreneurs. This consisted of a series of wide-ranging interviews with over 50 entrepreneurs, asking about the financial and non-financial challenges they faced, and their needs. This exercise found that the main **financial challenges** facing entrepreneurs included a perceived lack of financing solutions, frustrations with traditional financing solutions, loan conditions that were perceived to be rigid and crippling for businesses, and a need for quick and transparent financing that is not being met. **Non-financial**

challenges included a lack of entrepreneurial skills, difficulties in building strong teams (human resources), weak connections with markets and difficulties in obtaining hands-on, post-investment support.

STRATEGY FOR SME SUPPORT AND JOB CREATION

These findings underline the fact that it is crucial to provide financing mechanisms that are **competitive**, **quick** and **adapted** to entrepreneurs' needs. Such mechanisms should target **employment**, **employability** and the **knowledge economy**. Impact Partner identified a number of business models with high potential for job creation, along with knowledge economy models that have the potential to improve the employability of new recruits, drawing on its experiences of working with businesses in the past.

Jobs-oriented business models	Knowledge economy business models
<p>Businesses with high potential for job creation or income generation for independent workers, micro-entrepreneurs, micro-franchisers (i.e. micro-entrepreneurs who acquire a franchise from a business) and shared economy partners (service providers to businesses in the shared economy sector). These actors are essential in the business value chain (e.g. in production, services, outsourcing of activities). They can be:</p> <ul style="list-style-type: none"> • providers of products or services to a business (e.g. Sejanania, El Melika); • employees, consultants or partners working with the company (e.g. SmartWash, Camp Mars); or • entrepreneurs or freelancers benefiting from the services of the business (e.g. CoArt, ArtHub). 	<ul style="list-style-type: none"> • Businesses providing training for employability and job placement, to reduce the mismatch between graduate skills and business needs/demands of the labour market. Customers are job seekers. The service involves trainings (in soft and hard skills) with high potential for job placement (e.g. WeCode Land, SAS). • Businesses in the knowledge economy sector, providing training to improve education from a young age. Customers are youth benefiting from training programmes to improve their knowledge (e.g. NextGen, Scienzia).

In order to assist these businesses, Impact Partner, with support from Oxfam, provides **technical support** under five main pillars:

- accelerator programme (trainings on the Business Model Canvas,¹⁶ value proposition design, product/market fit, prototyping);
- individualized coaching and mentoring (e.g. strategy);
- fundraising;
- networking and access to the business community; and
- support on accessing markets.

Example

Sejnania is a group of women pottery producers based in Sejnán, an under-privileged village in the north of Tunisia. Their pottery is very well known and popular, but the potters are still living in precarious conditions. They were selling their products very cheaply and did not have the sales skills to scale up their markets. Impact Partner supported the creation of a GIE (groupement d'intérêt économique, or economic interest group) to help them access markets. It also supported a collaboration with a contemporary designer who worked with the potters for six months, helping them to create contemporary pottery products that they were able to sell for 10 times more than before.

Impact Partner also provides **financial support**, with financing mechanisms that are competitive, quick and adapted to entrepreneurs' needs. These include:

- interest-free loans for prototyping and testing for early-stage SMEs and start-ups in the prototyping phase;
- grants for early-stage SMEs and start-ups with the potential to create jobs (grants are used for marketing campaigns to help boost sales); and
- equity or quasi-equity investment for more mature SMEs and start-ups to help them scale up their businesses.

Selection criteria

- Social impact: three jobs created, or 30 people trained per €3,000 invested. 50% of the people they support must be women and 66% must be youth.
- Profitability: return on investment (ROI) of at least 15%.

Engagement with other stakeholders

Stakeholders and partners are engaged at different levels.

1. **On the governance side:** Strategic committees composed of representatives from donors and from the start-up ecosystem are engaged to ensure that the organization has good governance and takes the necessary decisions to ensure impact and sustainability.
2. **On the technical support side:**
 - **Sourcing phase:** Partnerships with the entrepreneurial ecosystem, including incubators, accelerators, seed funds, universities, mentoring programmes and professional associations. Through these partnerships, Impact Partner has made contact with hundreds of entrepreneurs who could potentially benefit from its programmes.
 - **Call for application phase:** Calls for applications from those wanting to benefit from Impact Partner's programmes are launched every three months. The calls include media and social media campaigns, and the networks of sourcing partners are engaged to encourage entrepreneurs they work with to apply.

- **Selection phase:** Panels selecting programme participants include partners and stakeholders in the organization. Some members of the panel will also become mentors to entrepreneurs.
 - **Acceleration:** Professional experts are engaged in training and coaching sessions.
3. **On the funding side:** Partnerships are formed with donors and investors willing to take risks alongside Impact Partner. Donors support Impact Partner's operational expenses and contribute to the Testing Fund and Donations Fund, which it has set up to provide grants to early-stage businesses. Impact investors contribute to the Impact Partner investment fund, which finances businesses in the form of equity or quasi-equity.
4. **In the post-investment phase:** Stakeholders are engaged as mentors to entrepreneurs.

IMPACT PARTNER'S ACHIEVEMENTS IN 2019

- Accelerator programmes providing training and coaching were attended by 70 entrepreneurs.
- Three financing mechanisms were developed: grants, interest-free loans and an investment fund.
- 41 businesses benefited from the three financing mechanisms. 12 were financed through the Impact Partner investment fund, and 25% were women-led.
- 323 jobs were created. 213 were created for youth, and among these 71 went to young women.

CHALLENGES AND LESSONS LEARNED

Entrepreneurial culture

It remains a challenge to foster inspiring entrepreneurs with high potential. In order to tackle this, there is a need to act upstream, i.e. empower youth from an early age to embark on an entrepreneurial journey. It is not always easy for families to support young entrepreneurs to take risks. Access to finance is also difficult, as many banks are risk-averse.

Barriers for women

There is a need to better understand the impediments women face to becoming entrepreneurs. An analysis of social norms should be a central part of the programme model in order to strengthen efforts to bring more women onboard.

Reducing inequalities

The broader ecosystem of entrepreneurship needs to be viewed through the lens of reducing inequalities. Specifically, what kind of access to basic services do workers and entrepreneurs have in their localities? What access are they missing?

Jobs of tomorrow

Universities are not well equipped to train youth for the jobs of the future. According to the World Bank's recent study on the changing nature of work, the majority of youth going to school today will work in jobs that do not yet exist.¹⁷ We need to provide the right skills to prepare young people for the jobs of tomorrow.

Job sustainability

How can we be certain that the jobs we are creating are sustainable? That they are decent jobs? Quality jobs? That they will have an impact? That they will change people's lives? That they will reduce poverty? We do not know any of this for certain. But what we do know is that we need to be able to measure precisely the impact of our programmes. We need to know whether they are empowering women and young people.

For this reason, and in order to help reduce the problem of 'impact washing' (where companies claim to be making impact investments, but without any clear evidence of social or environmental benefit), as well as to better organize the impact investment and social entrepreneurship sector, Impact Partner has proposed a new methodology to measure, pilot and certify impact, the Impact Management System (IMS – for more information, see imsystem.co). The short-term objectives are to encourage organizations implementing this methodology to measure their impact and to encourage agencies to become certification entities for the IMS.

Ideas for improving the model

One way to improve the model would be to engage further with the private sector, with private sector actors becoming funders, partners, business angels, mentors and, most importantly, business partners with SMEs and start-ups. Business relationships can be established at different stages of the value chain.

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