

Chapter 2

Toward more inclusive growth: reducing inequalities through quality job creation

The average standard of living of the Tunisians has been steadily increasing for several decades, while poverty and inequality have been greatly reduced by the implementation of many social programs. Access to basic infrastructure such as drinking water or electricity has also been developed. However, the employment rate remains low, especially for women; about a third of young people are unemployed and informal work is widespread. There is an urgent need to promote training that meet the employers' needs and to encourage women employment. The reduction of social security contributions on salaried employment will allow the creation of quality jobs. The implementation of the financial inclusion strategy will facilitate access to finance. Regional disparities in terms of unemployment and standard of living between coastal and inland regions are important. A new regional development policy, emphasising the specific assets of each region around the development of urban centers, is needed. The 2014 Constitution, which provides for increased autonomy and power of local authorities, represents an opportunity to achieve this goal.

Introduction and main findings

Tunisians have seen a steady rise in their average standard of living for several decades now, together with a sharp decline in poverty. Since independence, Tunisia has developed the welfare state through a social policy that offers universal and free access to education and health, special services for needy families, and low prices for basic food products thanks to subsidies paid directly to producers or indirectly to consumers. Access to basic infrastructure such as drinking water or electricity has also progressed. The prices of basic public services are subsidised. With the adoption in 1956 of the Personal Status Code, Tunisia has recognised the principle of gender equality on the socioeconomic, cultural and political fronts.

Nevertheless, despite all these efforts and the level of growth seen in the 1990s and 2000s, the employment rate remains low, especially for women. Around a third of the youth population is unemployed, and workers – around 30% of whom work in the informal sector – face insecure working conditions. Achieving quality job creation and participation by a bigger majority of Tunisians in the workforce should be made priorities in order to provide the opportunity for the population as a whole to contribute to the development of the country and to improve their living conditions.

Rising living standards have not been enough to ensure fair and balanced development across regions or between men and women. Income inequality in Tunisia, as in OECD countries and emerging economies, derives in part from a dysfunctional labour market (Hoeller et al., 2012). A strong, growing economy will be necessary but not sufficient to create quality jobs. Consequently, the Tunisian authorities will have to implement a set of coherent socio-economic policies to address the labour market but also the quality of education, product market regulation, the business climate, and the tax system.

Job creation is particularly weak in certain regions. There are significant regional disparities in terms of unemployment and living standards between the coastal areas and the interior of the country (North-West, Centre and South-West). The coastal regions have slightly better access to public services such as health, education and drinking water. Moreover, the majority of industries and services are located in these regions, which are more urbanised and offer better conditions for private investment such as infrastructure and market proximity. Regional development policy needs to be rethought, drawing on the assets of each region in order to integrate them into the national value chain while ensuring effective co-ordination between the State and local governments. The 2014 Constitution, which provides for both increased autonomy and competences in regional government, and deep-seated change in the relationship between central and local government, represents an opportunity for Tunisia to meet this objective.

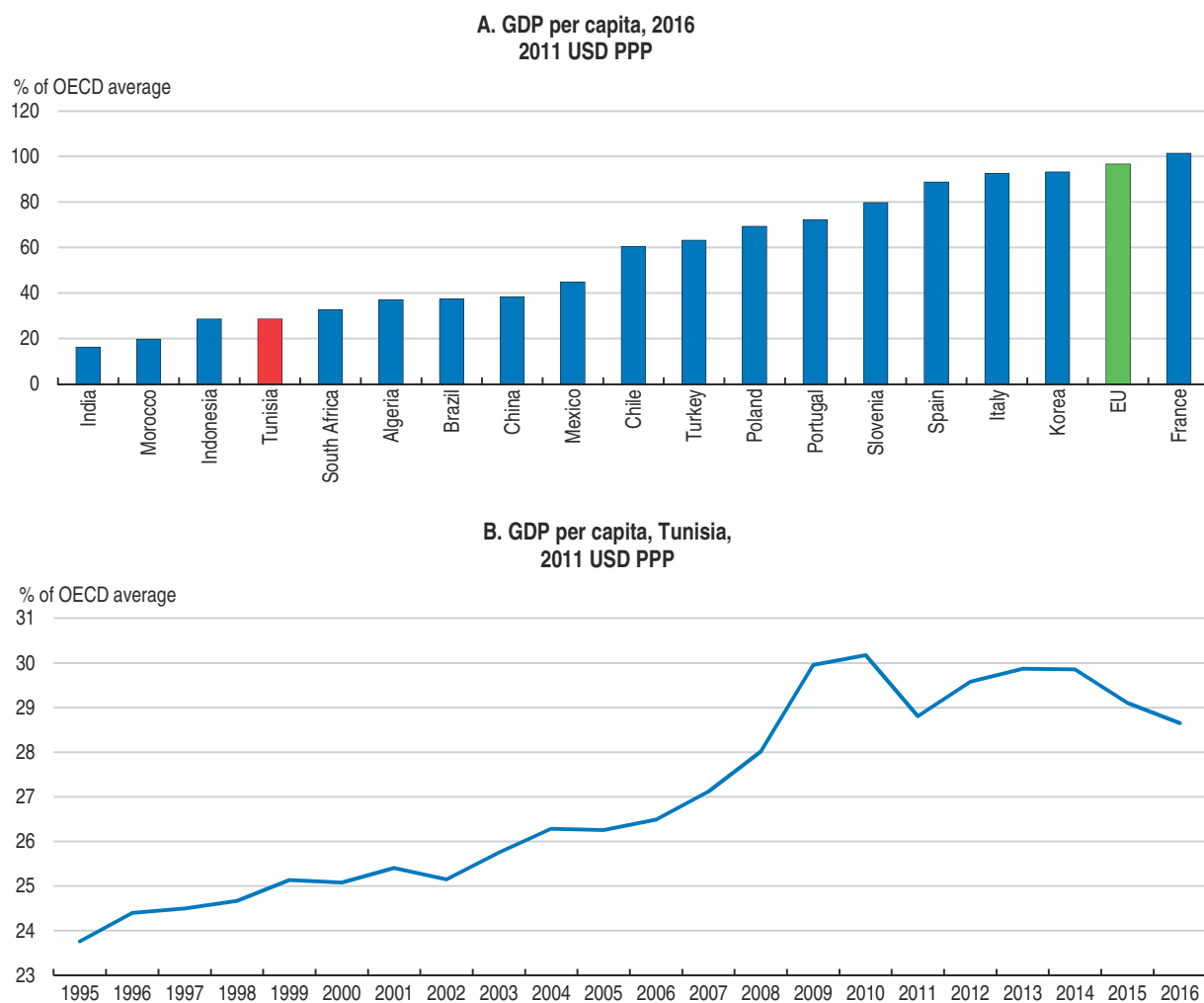
Promoting quality job creation

GDP per capita has risen while poverty has diminished


Tunisia has enjoyed sustained growth for several decades, and this has served to reduce poverty. GDP per capita rose from 24% of the OECD average in 1995 to 30% in 2015,

an improvement that is comparable to Morocco but much weaker than in Asian countries. The impact on living standards of the January 2011 revolution was such that Tunisia was unable to benefit from the slowdown in OECD countries due to the financial crisis and thereby accelerate its convergence. GDP per capita remains well below that of OECD countries and of many emerging countries (Figure 2.1). It should be noted that this gap can be explained by differences in productivity and in the employment rate. Tunisia's productivity level is relatively high in comparison to other emerging countries, but has fallen rapidly since 2011. On the other hand, the employment rate is much weaker than that of OECD countries and emerging economies.

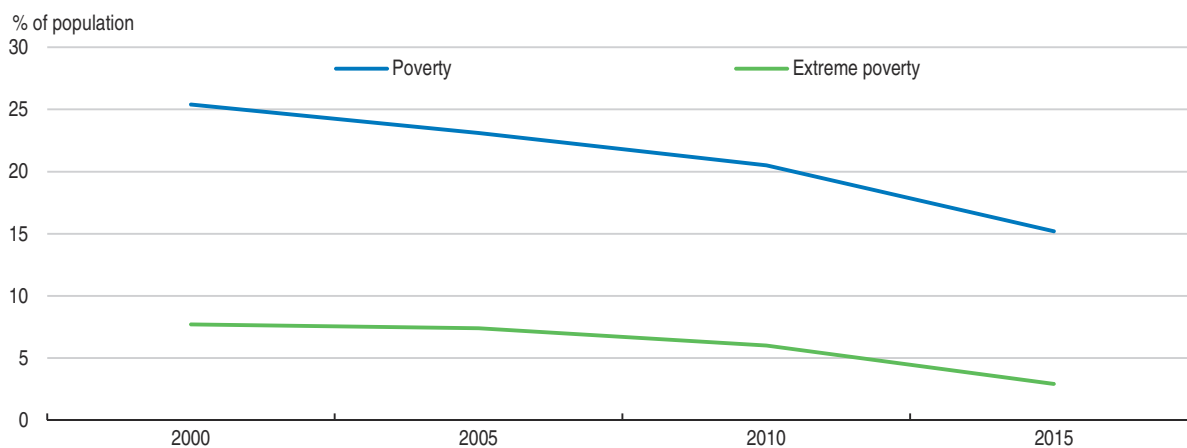
Figure 2.1. **GDP per capita has risen but still falls short of OECD countries**



Source: World Bank, World Development Indicators (WDI).


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The decline in the poverty rate (measured as the percentage of persons earning less than TND 1 706 or USD 712 a year, with the extreme poverty line set at TND 1 032 or USD 431 a year, a national poverty line based on calorie intake requirements) has been particularly significant, dropping in just 15 years from 25% of the total population in 2000 to 15% in 2015. The extreme poverty rate has followed the same trend (Figure 2.2). The fall has been

Figure 2.2. **The poverty rate has declined**

Note: The poverty rate is measured as the percentage of persons earning less than TND 1 706 or USD 712 a year in 2015, with the extreme poverty line set at TND 1 032 or USD 431 a year.

Source: INS.

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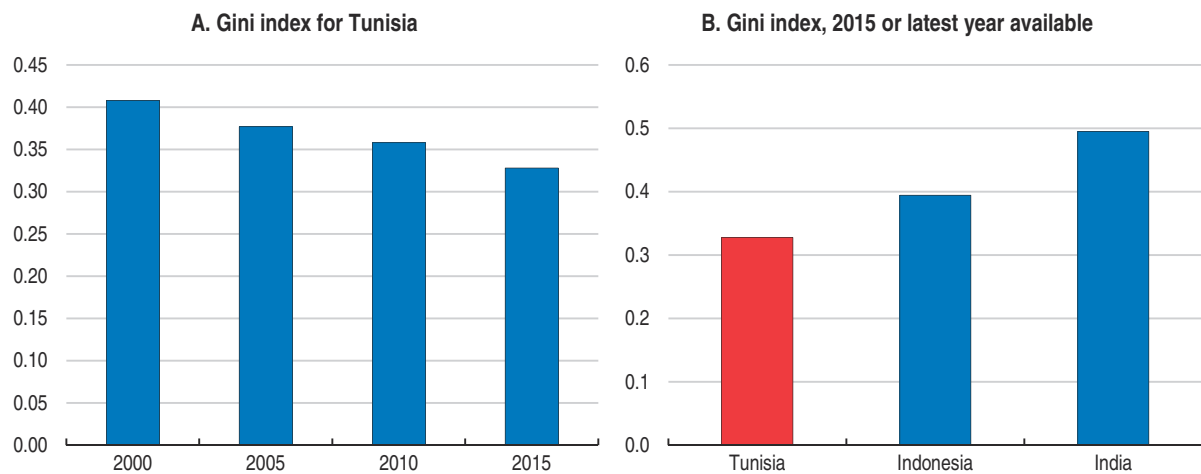
particularly impressive in comparison with countries in the MENA region. The ratio of individuals living on less than USD 5.50 a day fell by 28 percentage points in Tunisia between 1995 and 2010 compared to a 16.5 percentage point decline across the MENA region as a whole over the same period (WB, WDI database). Numerous social programmes implemented since the 1970s have helped to reduce poverty. Moreover, generous energy subsidies, efforts to develop rural infrastructure (roads, water and electricity access, irrigated perimeters etc.), steep increases in the minimum wage, investment in education and microcredit programmes have all been targeted at the poorest population. Thus, economic growth has benefited most Tunisian households, including the poorest ones, who have seen their consumption rise at a pace faster than that of the wealthier segments (World Bank, 2016), thereby reducing consumption inequality.

Income inequalities have diminished but still persist

Since independence in 1956, Tunisia has made the issue of inequality the centrepiece of its development model. Adoption of the Personal Status Code, the introduction of social protection mechanisms including the pension and health systems and direct support to low-income households, and the goal of education for all, and especially for women, are examples of this approach.


This avowed determination of the authorities, associated with strong growth until 2010, has indeed reduced inequalities (as measured by the Gini index based on consumption) (Figure 2.3). Yet this improvement at the national level is not so obvious at the regional level, where there are still glaring disparities of development and income between regions. In fact, although inequalities (calculated on the basis of household consumption) within regions have declined, inequalities between regions have been increasing, although to a lesser extent more recently (INS, 2012 and Amara and Jemmali, 2017). In addition, Tunisia faces disparities between men and women, and between young people and older persons (see below).

As the Gini Index is calculated on the basis of consumption and not income, it is impossible to determine the extent to which the tax and benefits system reduces income inequalities through redistribution. Nevertheless, in many emerging countries, for

Figure 2.3. **Living standard inequalities have diminished**

Note: The Gini index for Tunisia, India and Indonesia is calculated on a consumption basis.

Source: Ministry of Development, Investment and International Cooperation and OECD Database on income distribution.

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example Mexico and Turkey, taxes and benefits only play a minor part in the redistribution of income.

Labour demand and supply, skills and job quality

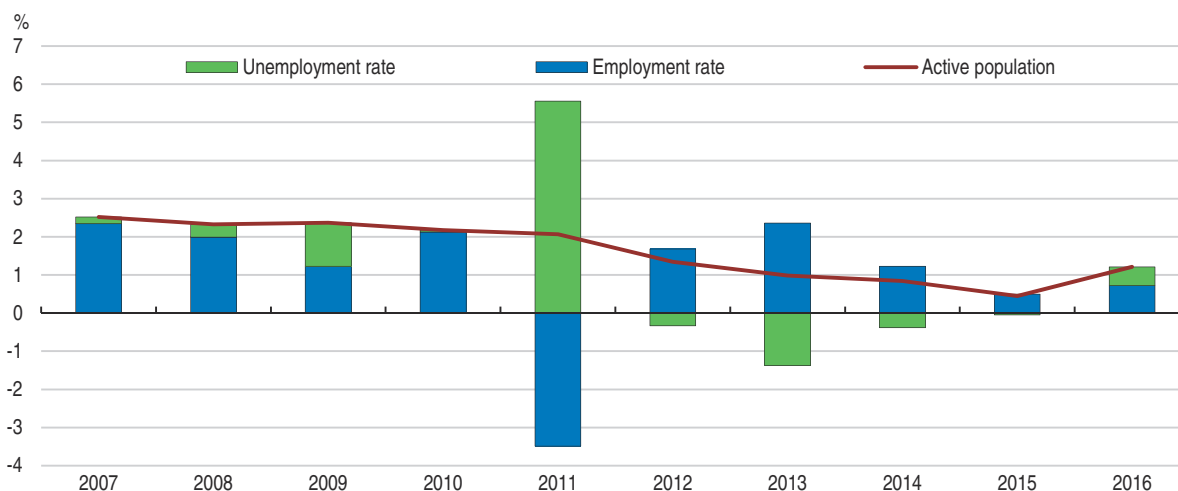
The employment rate (defined as the number of people in employment divided by the working-age population of 15 to 64 year-olds) is low, especially for women, while the unemployment rate is high: around one third of the young population is looking for a job. This section analyses trends and characteristics of the labour market and proposes solutions for making that market more dynamic and inclusive. Given the extent of the informal sector, employment quality is also a major problem in Tunisia.

Employment has risen but the labour market faces many challenges

The active population (defined as the employed plus the unemployed) has grown over the last decade, although the pace has slowed since 2011 (Figure 2.4). Public sector recruitment helped employment to recover after 2011, but the increase in the active population. The upturn observed in 2016 was largely due to an increase in employment as well as, to a large extent, an increase in the number of unemployed. For a decade now, employment has risen on average in all sectors of the economy except for agriculture (Figure 2.5). Nevertheless, on average, annually, the increase in total employment was fairly modest between 2006 and 2016, when it was around 1.2%, well below the growth of the active population, which explains the persistently high unemployment of the last decades. Job creation has been much more robust in the offshore sector, testifying to the greater dynamism of that sector (see Chapter 1). According to the National Business Registry, formal paid employment in the offshore sector represented around 30% of total formal paid employment, and had risen annually by 3% per year between 2006 and 2015, whereas employment in the onshore sector increased by only 1.1% per year.

The total employment rate (formal and informal) (defined as the employed population divided by the population of working age) of persons aged 15 to 64 years is well below that of OECD countries and of many emerging countries. In 2016, it amounted to around 45% in

Figure 2.4. Contribution of employment and unemployment to growth of the active population



Source: INS.


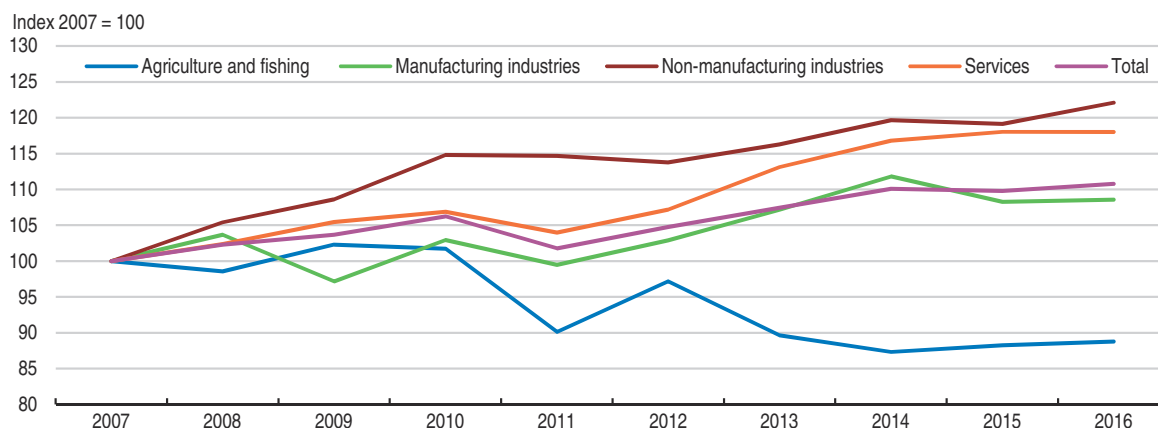

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Figure 2.5. Breakdown of the active employed population by sector of activity

Employment by sector, 2007=100



Source: INS.

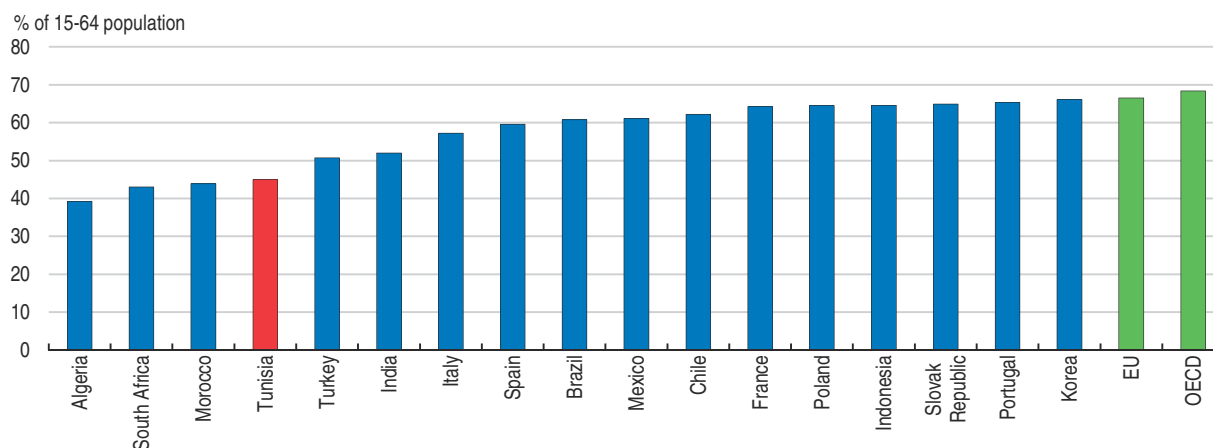
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Tunisia, compared to almost 70% in OECD countries on average (Figure 2.6). This is particularly true for the female employment rate which, at around 23%, is weak, compared to an average of just over 60% on average in OECD countries. The majority of jobs created are moreover of poor quality in terms of qualifications and income. Informal employment is widespread, fixed term contracts are frequent, and working conditions are very often insecure. The situation for young people, especially young graduates, is of particular concern.

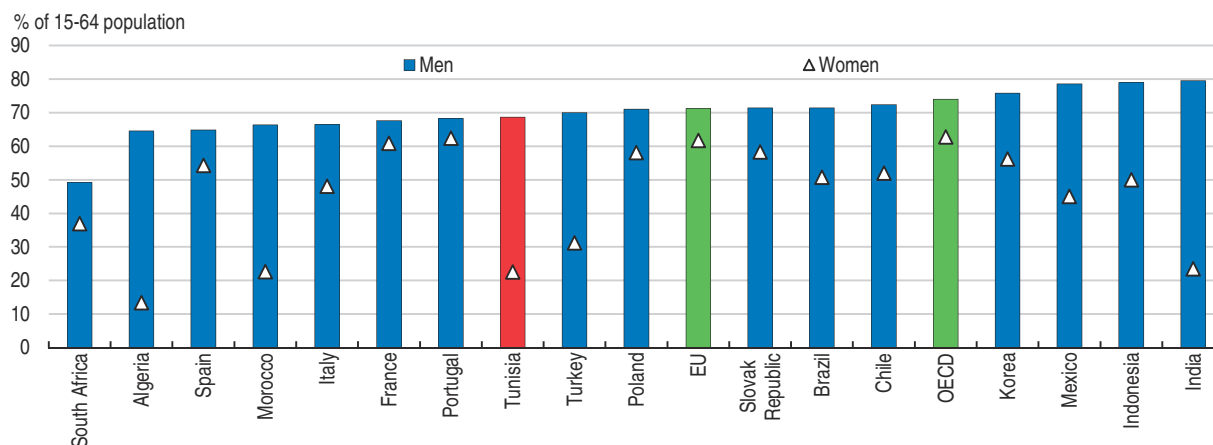
Aware of the problem, the authorities have since 2011 launched a series of active employment support programmes for youth, such as the “Amal” programme in 2011, or the more recent “Forsati” and “Dignité”. In addition, a programme for “jobs of public utility” was initiated in 2011 in nearly all regions of the country. The effectiveness of these programmes is hard to judge in the absence of any systematic evaluation of their implementation. In

Figure 2.6. **The employment rate is low, especially for women**

A. Ratio of employment to population 15-64, 2016 or latest year available



B. Ratio of employment to population 15-64, 2016 or latest year available



Source: INS; and ILOSTAT.

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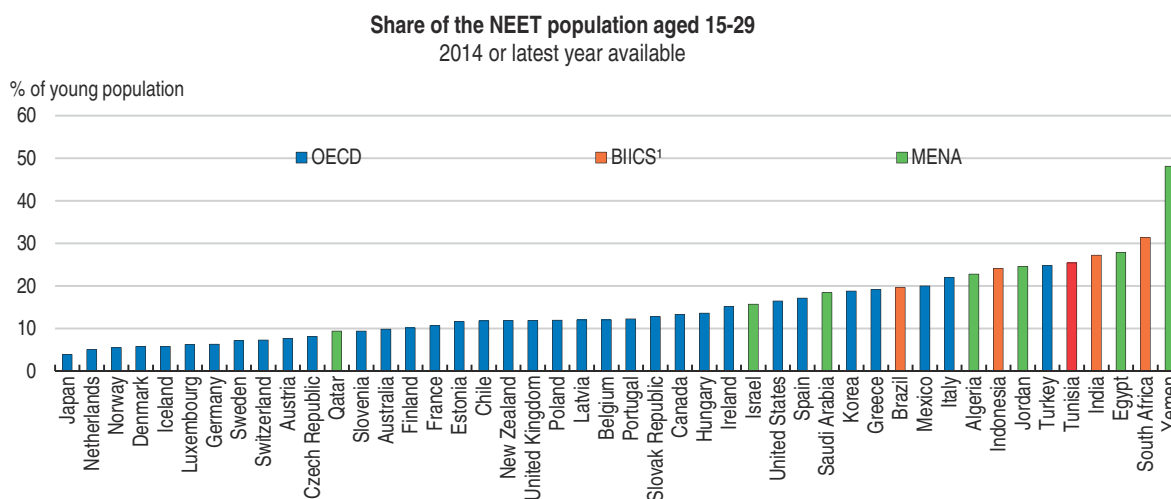
August 2017, the government launched a new national employment strategy to address the problem of unemployment and informal employment. It is supposed to be implemented within a year at most. This strategy seeks to reduce disparities between regions and between social categories and to exploit existing employment opportunities by capitalising on Tunisia's natural wealth and its human resources. The main component of this strategy is to encourage local entrepreneurship, especially among young people, who will receive technical and financial support for carrying out small scale projects. It is too soon to assess this initiative, but the priority that the authorities are giving to employment through this strategy represents an encouraging sign. The Employment Minister's announcement at the end of 2017 that a certain number of active employment support programmes were to be discontinued indicates the need to carry out systematic assessments before and during the deployment of this kind of programme, which has turned out in other countries to be very costly and rather ineffective.

One of the goals of the strategy is to strengthen the social and solidarity economy, which is a concept that refers to "enterprises and organizations, in particular cooperatives, mutual

benefit societies, associations, foundations and social enterprises, which specifically produce goods, services and knowledge while pursuing economic and social aims and fostering solidarity” (UNDP, 2017). To date, this sector only represents 0.6% of employment and 1% of GDP in Tunisia. The purpose of the sector is to create added value and employment (1.5% of the active population in 2020) while ensuring social cohesion and solidarity. To this end, it requires an institutional framework and a legal framework to promote and protect it, including the set-up of sources of adequate financing, and an information system to monitor and assess it.

The unemployment rate is high, especially among young graduates. The unemployment rate is high, especially among youth, and remains one of the major problems in Tunisia. In 2016, the unemployment rate stood at 15.6% of the active population, while the average in the OECD zone was only 6.3%, rising to 11.1% in the MENA countries (World Bank WDI database). Some groups are particularly affected, notably women, youth and persons living in the interior (see below). At around 35%, the unemployment rate among youth (ages 15 to 24 years) is higher than in most OECD countries and emerging economies. As well, the number of young people who are neither in education or employment is high (Figure 2.7). It is striking to note that the unemployment rate among higher-education graduates exceeds that of persons who have only primary or secondary schooling. The unemployment rate for the former group was 30.5% in 2016: 40.4% for women and 19.4% for men (see Figure 2.8). This high unemployment rate for graduates reflects the mismatch between the supply of an increasingly qualified workforce and the demand for unskilled labour (World Bank, 2014), testifying both to the economy’s inability to create enough jobs, and to the slow progress made by the structural transformation of the Tunisian economy, insofar as most economic activity is still limited to activities with low added value, which have less need for skilled labour.

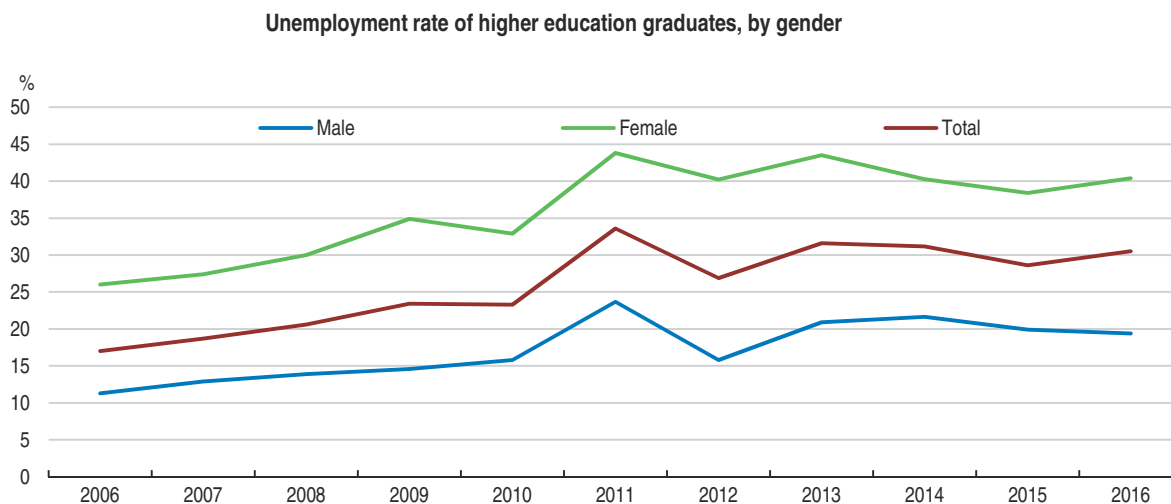
Figure 2.7. **A large portion of the youth population aged 15 to 29 is neither in employment or education**




1. Data represent simple averages for the following countries: Brazil, India, Indonesia, China and South Africa.

Source: World Bank, World Development Indicators (WDI).

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Figure 2.8. **The unemployment rate among higher education graduates is higher for women**

Source: INS.

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Microbusinesses and self-employment play a big role in job creation, but just 2% of young people aged between 18 and 24 were involved in setting up a company in 2012 (Belkacem and Mansouri, 2013). Compared to their peers in OECD countries, young Tunisians are less likely to state that they have access to training and financing. Even though Tunisia has a relatively well developed system for supporting business creation, providing information, training, financing and monitoring services during the first two years of activity, efficiency gains remain possible. Furthermore, there is a need for better medium- and long-term assistance to entrepreneurs, especially women, who face many obstacles when setting up a business (OECD, 2015ac).

Public-sector recruitment policy also seems to have worsened the problem of unemployment among graduates. That policy gives priority to hiring the unemployed, and in particular the long-term unemployed. This represented a clear incentive to register with the employment agency and to wait for a job in the public sector, one that would offer the worker a higher salary, job security, and better social benefits (OECD, 2015b). Overemployment and the size of the public sector payroll (over 14% of GDP in 2016) now show that this policy has reached its limit. Jobs must now be created in the private sector, and future public policies should therefore focus on promoting entrepreneurship among young people and improving the business climate in order to galvanise private investment.

Unemployment among young people in general, and among young graduates in particular, reflects a combination of several factors. Modest economic performances in terms of growth and of structural transformation toward higher value-added activities, attributable to a business climate that does little to promote private investment and entrepreneurship, have failed to stimulate private investment and impeded job creation. Labour market institutions are ineffective in providing information on needed skills and qualifications, in ensuring co-ordination among training institutions and employers in order to match labour supply and demand, and in providing advice, coaching and support for young people to improve their employability and facilitate their placement. Labour legislation is relatively rigid and costly for businesses, especially when it comes to dismissals, including layoff for economic reasons. In accordance with the main lines of the Social Contract signed between

the government and business and labour representatives in January 2013, a reform is to be introduced for the purpose of balancing worker protection against the viability of the economic enterprise, within the framework of the National Council for Social Dialogue, established in July 2017. A consultation process will be launched in 2018 for the creation of a tripartite fund to cover the loss of employment for workers made redundant for economic reasons.

Youth unemployment is also a result of shortcomings in the education system: the poor quality of instruction at all levels, including vocational training; a very elitist-oriented postgraduate system that select the best candidates and leaves the majority of young graduates to pursue studies in fields that offer scant employment opportunities (law, literature, history, management, economics etc.); the lack of attractive, high-quality technical education that will train technicians, who are in great demand on the labour market, instead of turning out university graduates in branches with limited vocational prospects; and the absence of a postgraduate skills upgrading system that would allow young unemployed graduates to retrain in skills and/or fields sought by the labour market; and poor guidance outside school for young people attending youth centres (OECD 2017a, OECD 2017b).

It is a paradox of the Tunisian labour market that, despite the scope of unemployment, many job openings go unfilled. A recent survey places such vacant jobs at slightly over 145 000 (IACE, 2016a). These positions are to be found most frequently in the processing industries, maintenance and commerce. This study shows that the skills of Tunisian workers are not fully adapted to the needs of businesses in many regions.

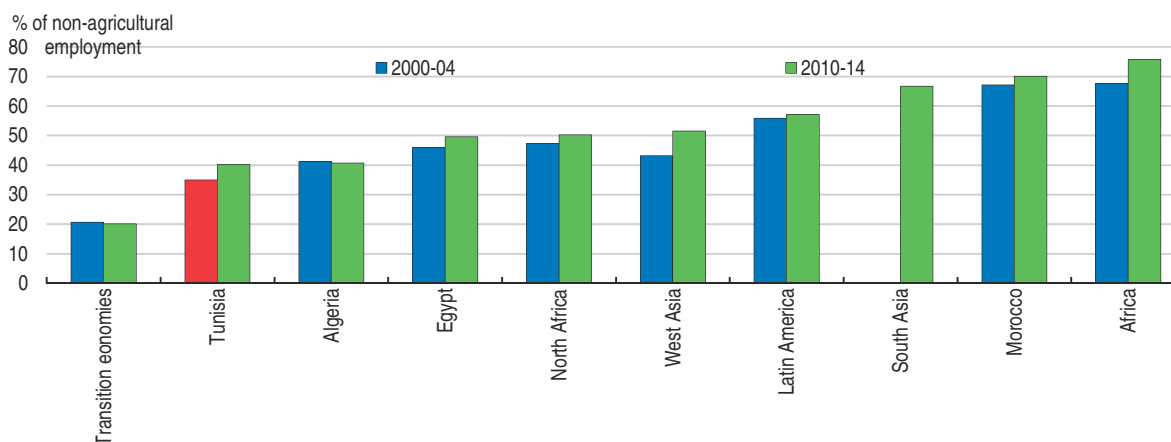
In order to create jobs for young graduates, the government undertook a series of programmes between 2006 and 2015. Just over 820 000 contracts were signed under this programme, but only 484 000 were pursued to completion, for a dropout rate of 41% (ITCEQ, 2017). Moreover, many of these contracts do not result in definitive employment when government support comes to an end, as the quality of candidates' skills does not always meet employers' expectations. An initial evaluation of these programmes in November 2017 resulted in five of them being discontinued. The government has undertaken to continue its evaluation of these programmes in order to keep only the most relevant ones.

In March 2017, the "Dignity Contract" (*Contrat de dignité*) was launched for university graduates who have spent more than two years looking for their first job. The government covers employers' social security contributions and two-thirds of wage costs (wage of 600 dinars or around USD 250). This measure is intended to create 25 000 jobs in 2017, and the same number in 2018. Each *gouvernorat* (district government) is allocated 1 042 positions. As the majority of the population and businesses is concentrated in the coastal regions, the 1 042 positions allocated to these regions could prove inadequate, while in the Centre regions, businesses could have difficulty in coming up with so many positions, given their number and their size. This new programme will have to be monitored and assessed in order to maximise its impact on youth employment. Over the medium term, it could be useful to take a portion of the resources dedicated to these programmes and devote them to training to bring candidates skills into line with employer demands. Over the longer term, Tunisia will have to overhaul its education and vocational training system completely (see below).

Informal employment is widespread and many workers are on fixed term contracts. Informal employment is widespread and, depending on source and definition, could represent between 30% and 65% of total employment (World Bank, 2014; CRES, 2016; and


Joussour, 2016). Although this rate is lower than the average for Latin American or Asian countries, it is nevertheless higher than in OECD countries or countries in transition (Figure 2.9). Informal employment is defined here as persons working in small or micro-enterprises or those who do not contribute to social security. The illegal economy – smuggling, essentially – is not included: it is largely a result of distortions caused by price controls, which apply to approximately one price in three. A high rate of informality tends to generate inequalities, as persons working in this sector often receive lower wages (Dickens and Lang, 1985; Bargain and Kwenda, 2010; Daza and Gamboa, 2013) – they are not subject to the minimum wage, and they have less bargaining power because they are not covered by collective agreements – and in addition they face insecure working conditions and have little or no access to the financial system. The informal sector, moreover, generally consists of activities which typically have low added value and labour productivity and which contribute very little to the competitiveness of national economies and public finances, as they remain marginal to national and international value chains.

Figure 2.9. Informal employment is widespread
Employment in the informal economy as a proportion of non-agricultural employment



Note: The transition economies are Eastern Europe, Russia and Central Asia.

Source: Centre de Recherches et d'Études Sociales and African Development Bank (2016), "Protection sociale et économie Informelle en Tunisie – Défis de la transition vers l'économie formelle".

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The informal economy affects women in particular, as well as unskilled workers and young people. It is estimated that, in Tunisia, 50% of young people hold informal jobs (OECD, 2015b). Lacking appropriate skills and adequate information, few workers make the move from the informal to the formal sector. For example, in a given year in Tunisia only 11% of salaried workers in the informal sector and 8% of the self-employed will migrate to the formal sector (Angel-Urdinola et al., 2015).

In the formal sector as well, there are many Tunisians working under precarious conditions as most workers are hired on fixed term contracts (FTC), given the rigidity of regulations on restrictions on terminating open-ended or permanent contracts. Under the Labour Code, an FTC is not supposed to last for more than four years, and should then be transformed into a permanent contract. Given the complexity and the cost of dismissal procedures, employers often prefer not to convert their workers to permanent employees at the end of this term, but rather to let them go and hire new ones (Angel-Urdinola et al., 2015).

While this system allows employers to adapt more swiftly to fluctuations in labour market, it is a source of insecurity for workers, who often earn lower wages, receive smaller pay increases, and must work under more difficult conditions (OECD, 2015c; Hijzen and Menyhert, 2016). Moreover, workers on fixed term contracts are not entitled to the benefits associated with redundancy for economic and technical reasons unemployment insurance or layoff allowances if their contract is terminated early. Young workers, in particular, find themselves locked into precarious jobs, diminishing their career prospects and devaluing their skills, with severe consequences both for the quality of employment and for productivity. It is estimated that 50% of young people working in the formal sector have a temporary contract, compared to an average of slightly over one-third in OECD countries (OECD, 2015b).

Implementing a set of coherent policies to stimulate employment

Increasing women's participation in the labour market. Although Tunisia is a leader among the countries of the MENA region when it comes to gender equality, the authorities face a number of challenges. Since 1956, Tunisia's Personal Status Code has enshrined the principle of women's rights and of equality between men and women on the socioeconomic, cultural and political fronts. Since that time, successive reforms have reinforced the rights and status of women, and supplementary mechanisms and measures have been adopted to give them effect. In August 2017, the President of the Republic opened debate on a proposal to introduce gender equality with respect to inheritance. Currently, women inherit only half of what men inherit. It is important to act fast to remove differences in the legal treatment of men and women.

These policies have certainly borne fruit. For example, the proportion of female parliamentarians is close to the average for OECD countries. It may be noted that women represented more than 40% of public sector employees in 2010, and held 45% of management positions in the public service, a situation comparable to the best-ranking OECD countries on this score. Moreover, the proportion of women holding managerial positions in the public and private sectors is higher than in MENA countries (14.8%), even if it is lower than in the majority of OECD countries (OECD, 2017c). Nevertheless, some important disparities in the labour market remain between men and women. The employment rate for women is one of the highest in the MENA region. Yet while the employment rate for men is slightly below the average for OECD countries (68% versus 74% in 2016 for persons between the ages of 15 and 64 years), the rate for women is much lower (23% versus 63%).

Women's education level has been rising sharply for several decades. For example, while the enrolment rate (persons enrolled at all levels as a percentage of the total population) for men rose from 51% to 61% between 1975 and 2016, that for women jumped from 32% to 71% (Daghari, 2017). Nevertheless, although the enrolment rate for women at all levels is today 10 points higher than that for men, the unemployment rate for women exceeds that for men (22% versus 12% in 2015), even if the gap between the two sexes is on the decline. Overall, women hold less-skilled jobs than men with the same level of education (Stampini and Verdier-Chouchane, 2011). This gap between male and female employment is the result of the inability of the economy to create enough jobs, the confinement of a large proportion of girls to educational pathways that are not prized by the labour market or that lead to public sector jobs at a time when the public sector is almost saturated, socio-cultural resistance, especially in the private sector, and in the provinces, women's relatively low mobility. Female entrepreneurs face many obstacles in Tunisia, the most significant being: i) cultural barriers

to starting a business; ii) a lack of collateral for bank loans, since women own little property in their own right; iii) the general scarcity of women in the working population and in executive posts (OECD, 2017c5c). The introduction of a policy for the promotion of female employment should be a priority for the authorities in order to offset the continuing decline in the active population in the medium and long term caused by plunging fertility rates.

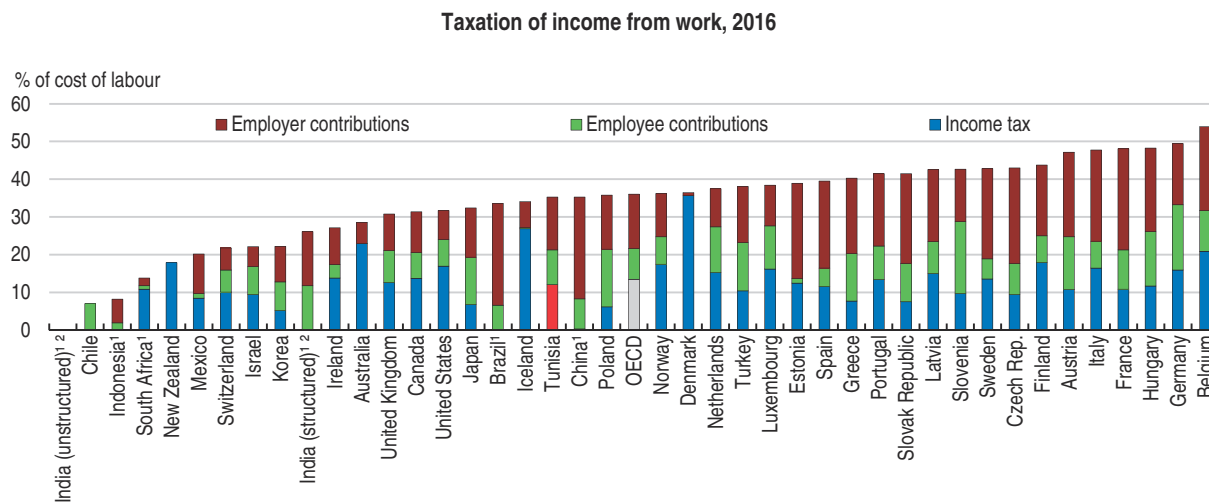
In OECD countries, policies designed to reduce gender inequalities on the labour market consist mainly of publicising the laws against discrimination, promoting wage transparency, and enforcing equal-pay laws more effectively. It is also possible to introduce temporary quotas to ensure a female presence on company boards of directors and in management positions, but a thorough analysis of the economic impact of such regulation would have to be carried out in advance (OECD, 2012). Moreover, to facilitate the balancing of family and working life, firms are encouraged to offer their employees a degree of flexibility as to the place of work and working time slots, and to allow working from home.

The supply of female labour could also be stimulated by policies targeted at early childhood. In Tunisia, as in many emerging and OECD countries, responsibility for household tasks and the care of children and the elderly falls for the most part upon women. A more equitable sharing of household tasks would improve the work-family balance for women, and for men as well (OECD, 2012a). Due to lack of resources, the number of public day care centres has declined greatly since the 1980s, although some have been rehabilitated since 2015 leaving the field to unlicensed private facilities or kindergartens. Since 2015, a number of these private facilities have been closed, and the public structures have been rehabilitated. Nevertheless, staff are poorly trained and have weak skills. There is a need to train a greater number of persons devoted to early childhood and to institute regular controls over reception facilities and services. The government is currently working to improve the nationwide provision of nursery schools and is hoping to increase coverage to 53% in 2020 from 35% in 2015, which could help to boost female employment to the target of 35% in 2020 compared to 28% in 2015.

Childcare costs, which are especially high in Tunisia, should be set at levels that make it profitable for women to pursue full-time work. Affordable access to early childhood facilities would increase labour market participation by parents (Bauernschuster and Schlotter, 2015 and Thévenon, 2015). Policies geared to early childhood are also important for the well-being of children themselves, in terms of cognitive development and scholastic outcomes, socialisation, health and income, as investments at this stage translate into lifelong benefits (OECD, 2011; OECD, 2012ba). It is essential that this work is continued to ensure that the poorest households can access quality childcare at an affordable cost.

Several programmes and initiatives have been launched with the goal of driving women's social, economic and political empowerment, with a special focus on women in rural areas. Most involve encouraging women into work and to set up their own businesses, attracting more women to public office and political careers, reducing drop-out rates among girls in rural areas and fighting violence against women.

High taxes on labour keep a great many Tunisians in the informal sector. An important determinant of informal work in Tunisia is the high level of the tax wedge, i.e. the burden represented by social security contributions (both by employers and employees) and income tax. A heavy tax burden limits hiring incentives for employers and, for workers, reduces incentives to enter the formal labour market (Figure 2.10).

Figure 2.10. **Social contributions are a burden on formal employment**

1. Data refer to 2010 for Brazil, China, India and South Africa, and to 2009 for Indonesia.

2. The non-organised sector in India corresponds to companies with fewer than 20 employees. Companies with more than 20 employees have to comply with the law on pension funds for employees and other provisions, and to this end pay social security contributions.

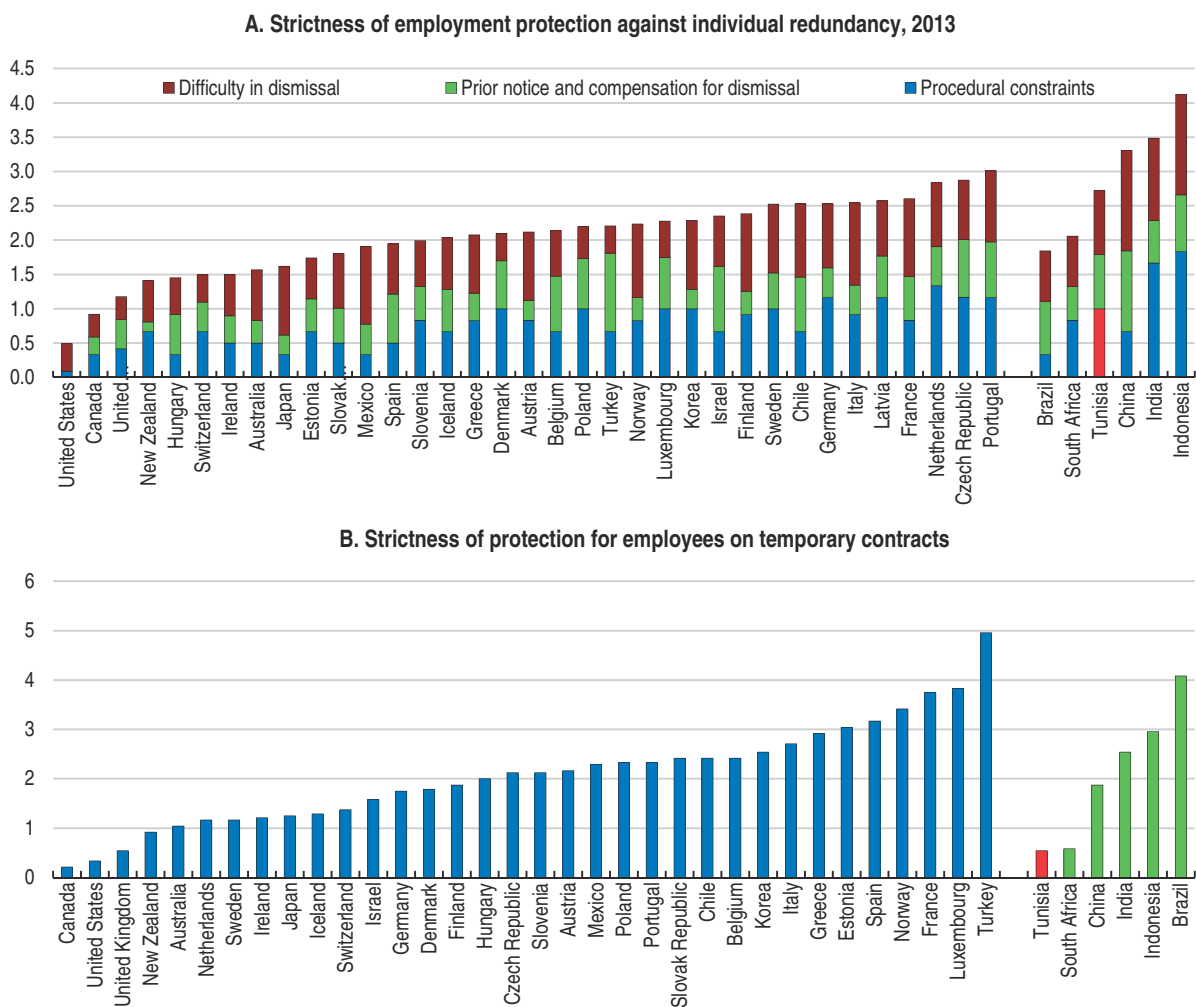
Source: OECD revenue statistics; and Tunisian Ministry of Finance.

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International experience suggests that cutting taxes on labour can help to create jobs in the formal sector. For example, in 2012 Colombia introduced a tax reform that eliminated or reduced certain wage-based contributions, reduced others, and it translated led into an increase in formal employment. The increase in employer and employee contributions to social security funds included in the 2018 finance law risks burdening formal employment. It would be better if certain social provisions, such as the vocational training grant or some family allowances, were to be financed from general tax revenues in order to lighten the cost of labour and thereby encourage formal employment.

Legislation on employment protection, collective bargaining and wages. Some labour market regulations and practices that also hold back the creation of stable jobs in the formal sector seem currently more difficult to reform without sparking protests that could block the reform process. While the regulations governing dismissal for the holders of permanent contracts are stricter than in many emerging and partner countries, persons under temporary contracts have little protection (Figure 2.11). This creates a dual labour market with, on one hand, groups that are protected and, on the other hand, groups that are marginalised or excluded, with scant possibilities for workers to move from one group to the other.

Wage negotiations are based on a tripartite system, comprising the State, the UGTT (the national labour union) and the UTICA (the Tunisian Union of Industry, Commerce and Crafts, the country's principal employers' association). Negotiations are conducted by branch of industry, and give rise to collective agreements in the majority of sectors in the formal economy (OECD, 2015b). Application of these agreements to non-unionised workers is automatic once the agreement is approved by the government. Since 2011, following an accord between the UGTT and the UTICA, national collective agreements have been focused solely on wages and salaries. Although the Tunisian labour code provides for collective agreements at the company level, these in fact play only a minor role (Ennaceur, 2000;

Figure 2.11. **Employment protection legislation is strict for people on open-ended contracts**

Note: OECD indicators on employment protection are synthetic indicators of the strictness of regulations on dismissals and the use of temporary contracts. For each year, the indicators relate to regulations in force as of 1 January.

Source: OECD Employment Protection Database, 2013 version.

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Kriaa, 2012), mainly because pay and working conditions agreed in this context cannot be less favourable than those stipulated in the sector-wide collective agreements (it is prohibited to establish opposite provisions). Companies rarely take part directly in collective bargaining, therefore, and must resign themselves to applying the wages and working conditions agreed at the sector level. Some have proposed greater decentralisation in the wage bargaining process, giving priority to company-specific agreements over sector-wide agreements (Kriaa, 2012).

Since the end of the 1980s, several reforms have encouraged the decentralisation of collective bargaining in several OECD countries, meaning that more room has been given to bargaining at the level of the company, establishment and workplace. At present, collective bargaining takes place mainly at the level of the company in two-thirds of OECD Member and accession countries (OECD, 2017db). That said, there are substantial differences between countries in terms of the possibility for the agreements negotiated at the level of the company to change the conditions of employment established in agreements negotiated at a

higher level. While complete centralisation may guarantee a high level of coverage and inclusion, it does not provide much flexibility and may compromise the viability of struggling businesses. At the other end of the spectrum, total decentralisation may provide considerable flexibility to employers and unions at the level of the company, but results in low coverage and even differential treatment, and so is clearly limited in terms of inclusion and social fairness. Co-ordination between sector-level and company-level bargaining, the content of sector-level agreements, and the use of extensions and exemption clauses (general and temporary), are some of the key tools on which to focus in order to ensure a proper balance between flexibility and inclusion (OECD, 2017db).

Moreover, the bargaining process in Tunisia is lengthy and many employers complain that these centralised bargaining sessions impose on them wage increases that sometimes exceed their financial capacity, especially in periods of economic downturn. This could encourage them to mechanise or automate their production processes in order to reduce their reliance on labour. Wages increases are linked to inflation and purchasing power, not productivity. Employers would like to see a clearer link between wage increases and productivity. It should be noted that since 2010 real wages have outstripped productivity growth, especially in government, the hydrocarbons sector, construction and productive services (Ben Chaâben, 2017). There is, therefore, a plan to implement a strategy which proposes to improve purchasing power and increase productivity, by defining criteria that would tie salary increases to productivity improvements.

The level of wage and salary increases in the public sector has generated disruptions on the labour market. In fact, the gap between the pay and advantages offered in the public sector and those in the private sector leads to higher minimum pay demands and a plethora of candidates for positions in the public sector. It is becoming more difficult, then, to hire persons in the private sector at the going wage (OECD, 2015b). Tunisia needs to review its incomes policy to avoid distortions between the public and private sectors, to eliminate current biases in favour of employment in the public sector, which is already overstaffed, to encourage job creation and to boost productivity through more direct linkages between wage increases, productivity, and company size.

In comparison to OECD countries, the minimum wage does not seem particularly high in Tunisia, in relation to the average wage. Moreover, Tunisia has introduced a minimum wage for youth under the age of 18, equivalent to 85% of the minimum wage for adults. Introduction of a lower minimum wage for young people is a practice that is fairly widespread in OECD countries. Around half of those countries have a reduced minimum wage for youth that represents, on average, 72% of the minimum wage for adults. This reflects the difference in productivity vis-à-vis more experienced workers. These trimmed minimum wages seek to offset the negative impact that a minimum wage can have on youth employment. Tunisia could consider extending this reduced minimum wage to young people up to the age of 20 or 22, and cutting it slightly to encourage the employment of young people, who are the most severely impacted by unemployment and marginalisation.

Active labour market policies. Active labour market policies (ALMP) have not managed to place many workers, even in those sectors that have created jobs (World Bank, 2015a). On average between 2013 and 2015, Tunisia spent 0.8% of its GDP on ALMP and the public employment service, an amount slightly higher than the OECD average of 0.5%. These labour market policies are often ill-conceived, and few prior studies are performed to examine their pertinence and the modalities for implementing them. Moreover, few

programmes are targeted at the unskilled. The unemployed First-time jobseekers benefit only from low social coverage (medical care for a limited time only), and this worsens inequalities even further. From 2018, the unemployed will enjoy free healthcare in public health establishments. Existing ALMPs should be subject to in-depth assessments to analyse the quality of their design and implementation, as well as their effectiveness in achieving the objectives selected in terms of the number and quality of jobs. Non-performing programmes should be discontinued and only replaced by those that are better designed and learn the lessons of earlier programmes. Some of the resources allotted to ALMPs would be better spent on high-quality training programmes targeted at the specialisations and qualifications employers are looking for. A report on the evaluation of ALMPs is currently being finalised as part of the preparatory work for the national employment strategy in collaboration with the ILO.

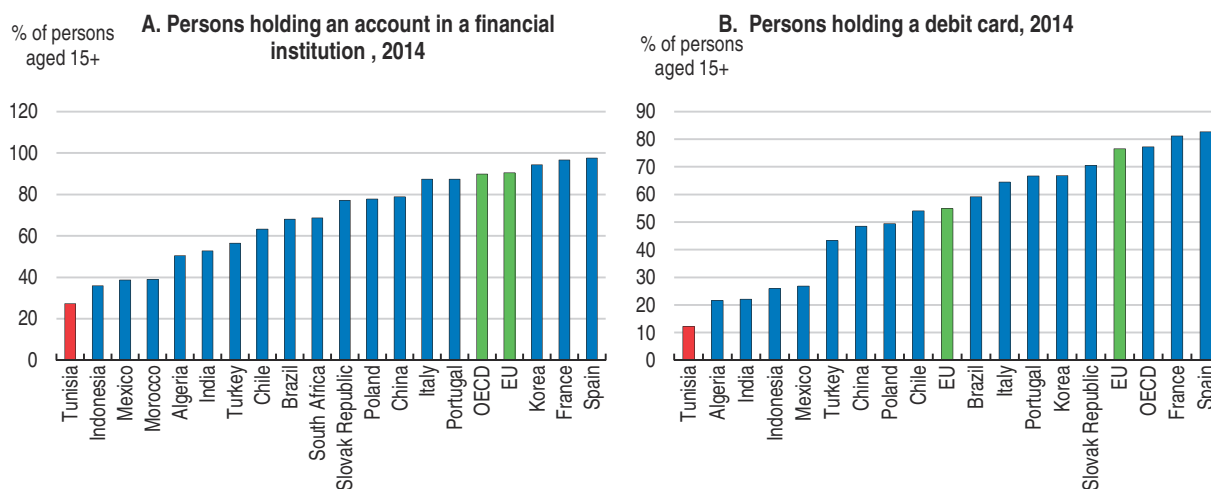
Simplifying the business climate. As in most countries of the MENA region, business dynamics (entry and exit) have remained weak in Tunisia, suggesting that there has been little reallocation of resources (Rijkers et al., 2014, Shiffbauer et al., 2015). There are several reasons behind the low rate of business creation, and hence of job creation, and the failure of business to flourish. Although Tunisia ranks ahead of many emerging countries regarding its business climate, several dimensions could be improved (World Bank, 2017). In particular, financing problems and red tape are often cited as the major constraints on the business environment (World Economic Forum and World Bank, *Doing Business*). Preliminary work at the OECD on product markets shows that barriers to entrepreneurship are high in Tunisia, particularly with respect to the permits and licenses needed to create a business (see Chapter 1).

The authorities are planning to establish a statute for entrepreneurs and to simplify the creation of start-ups. To this end, a platform with a one-stop window has been created. For the time being this platform handles only the creation of a business, and does not provide the authorisation to exercise it. Simplifying the procedures for creating a business, and introducing permanent, high-quality technical assistance for project initiators (market studies, business plan preparation, assistance in mobilising financing, commercial support, access to public procurement, etc.), would do much to encourage entrepreneurship and to enhance the probability of success for start-ups, thereby contributing to the creation of wealth and jobs.

A strategy for financial inclusion is needed. Universal access to efficient financing services can stimulate growth and employment and help to reduce inequalities. According to the World Bank, the offer of inclusive financial services in Tunisia is fragmented, incomplete and inaccessible (World Bank, 2015ba). Only 27% of Tunisians have an account in a financial institution (22% in rural areas) and fewer than 7% have a credit card, a rate that is low in comparison with emerging countries and OECD members (Figure 2.12). Overall, it is estimated that 64% of individuals in Tunisia are excluded or poorly served by the formal financial sector, meaning that the financial inclusion rate is only 36% (World Bank and CAWTAR, 2015).

Many businesses identify access to credit as one of the major obstacles to their development (World Bank, *Enterprises Survey*). In its *Ease of Doing Business* report, the World Bank ranks Tunisia near the average of MENA countries, but far behind OECD countries, in terms of access to credit. For businesses, access to financing allows them to sustain investment, production and hence employment (World Bank, 2015ba). Between

Figure 2.12. **Financial inclusion is still weak**



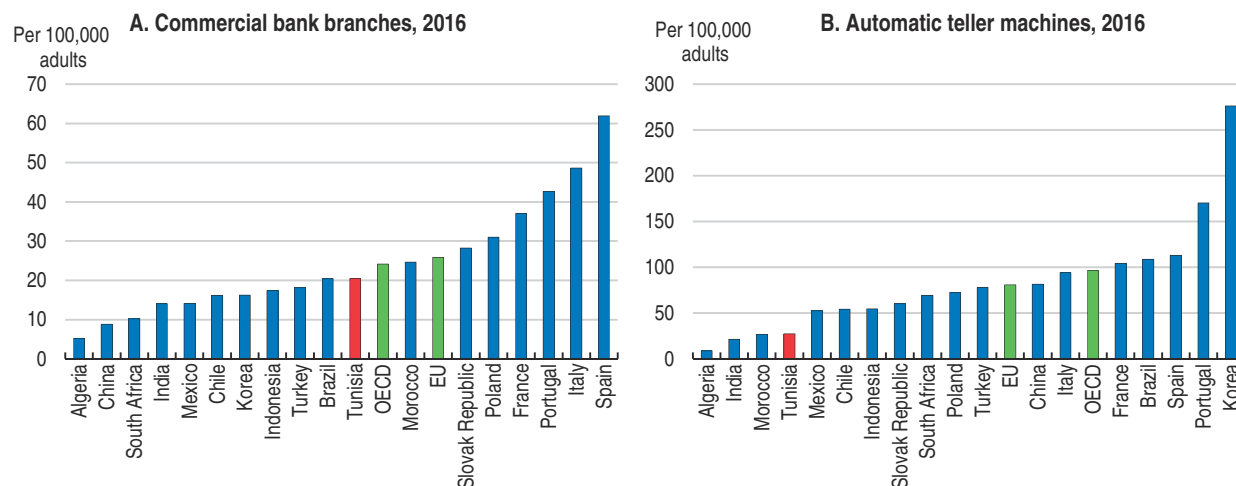
Source: World Bank, Global Financial Inclusion database.

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245 000 and 425 000 formal micro and small businesses are estimated to be in need of financial services in Tunisia (World Bank, 2015ba).

Financial services are at a rudimentary stage of development (Figure 2.13) and they are concentrated geographically in the coastal areas, although the presence of the post office across the country allows rural people and those in isolated areas to have some access to basic financial services. The post office plays an important role in fostering financial inclusion, but it does not yet offer micro-savings or readily usable means of payment. Moreover, with a quarter of its agencies not yet connected to the central server, with relatively restrictive opening hours for its agencies, and with minimum deposit requirements, the post office is probably not in a position to respond fully to the needs of businesses (World Bank, 2015b). The services offered by the banks are not suited to micro and small enterprises or to low-income people, as the fees for keeping an account and the

Figure 2.13. **Banking services could be further developed**



Source: World Bank, World Development Indicators (WDI).

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collateral demanded for loans are high. Individuals who have no access to formal financing must turn to informal sources that are often risky and costly.

One important way of removing obstacles to demand for financial services would be to develop financial education (Atkinson and Messy, 2013). Financial knowledge can be improved through awareness campaigns or individual or collective training sessions (Deb and Kubzansky, 2012).

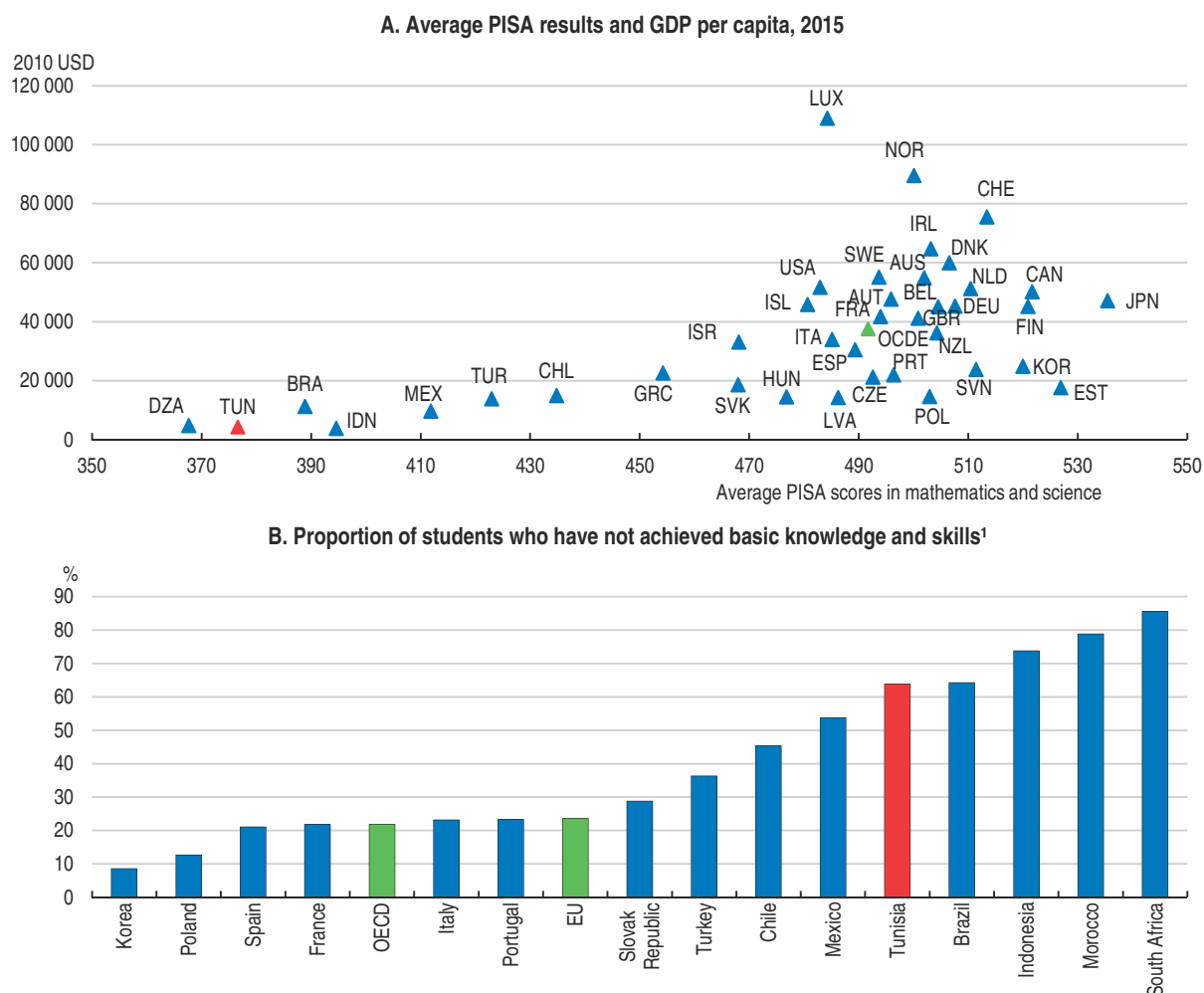
The authorities have launched a strategy for financial inclusion to be implemented over the period from 2018 to 2022, which that aims, among other things, at to developing digital finance, micro-insurance, the social and solidarity economy and financial education. In 2011, a new law regulated the activity of micro-finance institutions, and allowed a new legal form to be introduced for microfinance institutions in addition to the creation of a new regulatory watchdog for the sector. The range of financial services available remains limited, however, and neither microsavings nor microinsurance are on offer. In 2016, the Observatory of Financial Inclusion was set up within the Central Bank, with the chief aim of evaluating and tracking the development of access to financial services. Many emerging countries have implemented measures to enhance financial inclusion, and Tunisia could benefit from their example: Brazil, Colombia and India, for instance, have promoted financial inclusion by opening bank accounts for all, and paying social benefits into those accounts.

A survey of financial inclusion was launched in late 2017 and was designed to determine the level of financial inclusion on the basis of indicators. The exercise will be repeated in the future by the Observatory of Financial Inclusion in collaboration with the INS. The bill concerning the promotion of start-ups was approved by the Council of Ministers at the end of 2017. It provides for the simplification of administrative procedures, facilitates access to financing, encourages entrepreneurship and creates the right conditions for start-ups to enter the global market.


Promoting the quality of education to improve workers' employability. Human capital development is the very basis of inclusive growth. In Tunisia, policies implemented over many years have resulted in nearly universal enrolment for boys and girls, and improved performances at the different levels of education, including higher education. Compulsory and free schooling between 6 and 16 years has led to nearly universal enrolment (Daghari, 2017): 100% for primary school, and 81.3% for secondary. The number of students pursuing higher education has tripled over the last 20 years (World Bank, World Development Indicators database). The number of graduates from higher education doubled over the same period.

There seems to be a problem with the quality of education and the fact that the skills acquired are not geared to the needs of the labour market. The OECD PISA tests for Tunisia show little or no improvement since 2006 in the performance of students in mathematics, sciences and reading comprehension: indeed, that performance ranks near the bottom of the countries covered by the survey, and does not correspond to Tunisia's level of development (Figure 2.14.A). Moreover, a very high proportion of persons have not achieved the basic education level (in reading and writing) (Figure 2.14.B). Beyond the fact that it can improve personal well-being, investment in quality education is essential for growth and hence for job creation.

The quality of education depends on the quality of teacher training, programme relevance, pedagogical methods and evaluation, and the associated infrastructure. Public

Figure 2.14. **The level of education level is still fairly weak**

1. Proportion of students achieving less than 420 points in mathematics and science in international tests. PISA participants: based on PISA 2012 microdata; TIMSS participants (non-PISA): based on microdata of eighth-grade, TIMSS 2011, transferred to PISA scale. Source: OECD, PISA database; World Bank, World Development Indicators (WDI); OECD (2015), *Universal Basic Skills: What Countries Stand to Gain*, OECD Publishing.

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spending on education is relatively high, representing 6.3% of GDP (World Bank, World Development Indicator database), and is above the average for the MENA region (4.5%) as well as for OECD countries (5.3%). Support for teachers, in terms of modernising teaching methods, programmes or curricula, and the methods used for evaluating the performance of students and teachers alike, have been identified by the Tunisian authorities as the weak points of the country's education system. Teachers need continuous training to adapt their teaching methods and update their curricula. They also need support in order to modernise student assessment methods and to identify those at risk of dropping out as quickly as possible so that they can receive adequate help. To this end, the school must have sufficient autonomy and appropriate resources such as evaluation tools, teaching materials and support staff, so that it can make the changes needed by pupils and provide the necessary improvements for high-quality learning.

Experience in many OECD countries has shown that initial training together with knowledge and methodological refresher courses for teachers throughout their professional career are essential for maintaining a sound level of quality in the education system. It is essential, then, to implement programmes and adapt them steadily to the needs of the national economy in order to prepare students to respond more effectively to the needs of employers, whose requirements are rapidly evolving apace with technological progress and swiftly changing market demands. For this reason, improving the quality of education, especially in the scientific area (in 2015, 30% of the unemployed who had a higher diploma had a Masters in exact science), has become an important factor for international will increase the country's competitiveness and provide a source of economic and social growth for countries. By way of illustration, the OECD has estimated that if all Tunisian students could achieve the basic knowledge level, GDP would rise by 0.9 percentage points a year over the long term (OECD, 2015d).

Various studies have shown that employers have difficulty in finding qualified the right workers for their needs (e.g. World Bank Enterprises Survey, 2013 and IACE, 2016). The dearth of unskilled or semiskilled workers is especially severe. The fact that many graduates of higher education cannot find a job is also indicative of this misalignment. The rates of underemployment and mismatch (defined as persons holding a job that does not correspond to their skills) among university graduates is as high as 30% for technicians and 36% for persons with a humanities degree. Moreover, the most popular fields of training do not convey the skills demanded by the labour market, such as those of machinery operators, artisans, accountants and sales personnel (Angel-Urdinola et al., 2015). The Tunisian authorities should encourage businesses, vocational training centres and universities to collaborate more actively to ensure that students receive the training needed for the labour market.

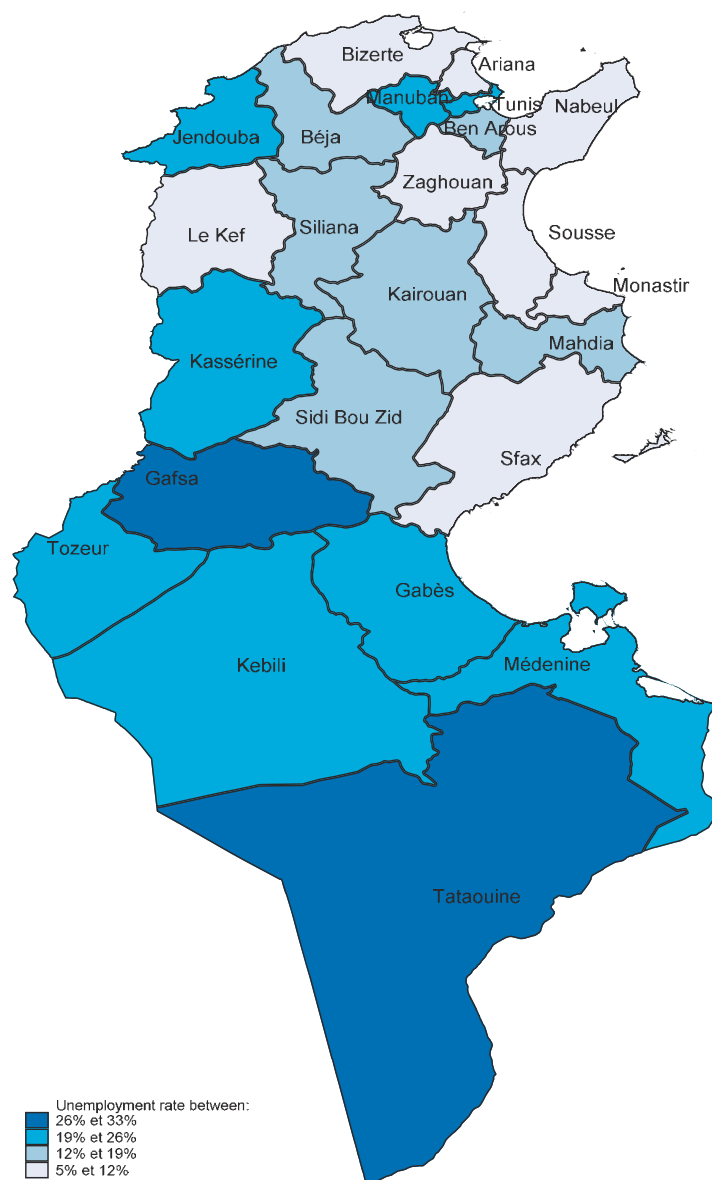
Vocational training can equip many young people with the skills needed to join the labour market and pursue a successful career (OECD, 2010a). The Tunisian authorities are planning a reform of vocational education and training (VET), which currently presents several gaps. The training opportunities provided depend essentially on system capacities, and do not reflect the needs of the economy. Moreover, students reveal a lack of interest in vocational training, reflecting the low esteem in which technical schools are held and the shortage of quality options in the second cycle of secondary school. Students enrolled in VET are often there against their choice, and may well come from disadvantaged families, thus perpetuating marginalisation on the labour market, and inequalities. The planned reform would improve the quality and the governance of the system while boosting its capacity to accept students. The possibility of shifting between general education and the vocational streams needs to be enhanced. Moreover, the quality of these programmes seems relatively weak. Co-ordination among the ministries in charge of VET must be strengthened (OECD, 2015b).

The Tunisian authorities have initiated a series of reforms as part of a strategic plan for education 2016-20. The intent is to improve the quality of the system by providing better training to teachers and upgrading programmes and infrastructure. In 2015, the government launched the "Strategic plan to reform higher education and scientific research, 2015-2025." Its aims are to improve the quality of university education and the employability of graduates, to promote research and innovation, to foster good governance of the system and optimise resource management, to revise the universities map to achieve a better regional balance, and to encourage teacher training (Republic of Tunisia, 2015).


Toward a new regional development policy

Living standards in all Tunisian regions have improved. The poverty rate has declined and access to basic infrastructure and public services has improved greatly over the last 20 years. Nevertheless, the choice of an economic development model based on manufactured exports and continued reliance on centralised decision-making, along with the lack of fast connections between the inland regions and coastal areas, has tended to concentrate activities in the coastal areas, leaving the inland regions behind. This concentration has led to low levels of private investment in the interior regions, with little development of productive activities or job creation, and to consequently large disparities in the unemployment rate across regions (Figure 2.15).

Figure 2.15. **The unemployment rate differs greatly between regions**



Source: INS.

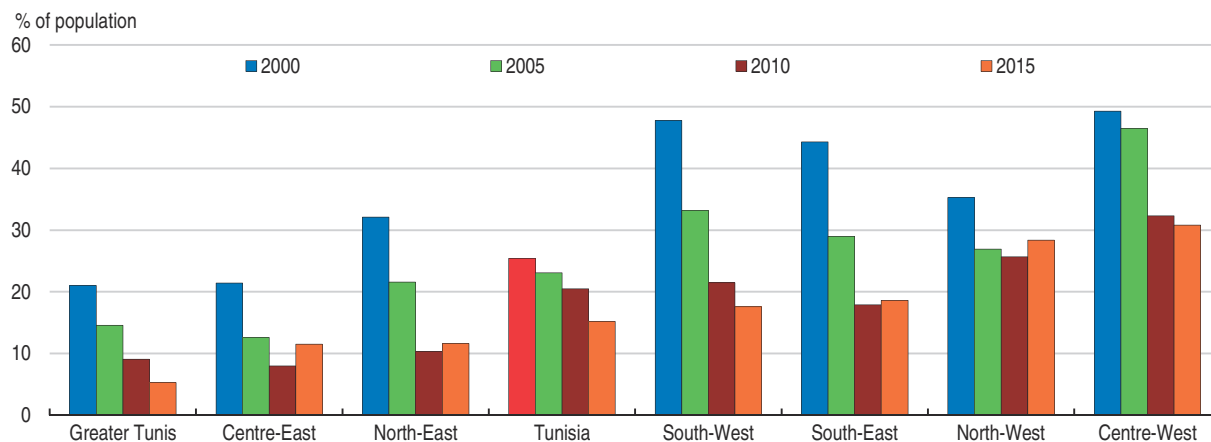
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Living standards have improved across all regions


The priority given to raising living standards in Tunisia since independence has resulted in a significant drop in the poverty rate across all regions. Yet disparities persist between regions, and the poverty rate remains high in some of them (Figure 2.16). According to the INS, while Greater Tunis had a poverty rate of 5.3% in 2015, the Centre-West and the North-West recorded rates of 31% and 28% respectively.

Figure 2.16. **The poverty rate has dropped in all regions**

Poverty rate by district in 2000, 2005, 2010 and 2015



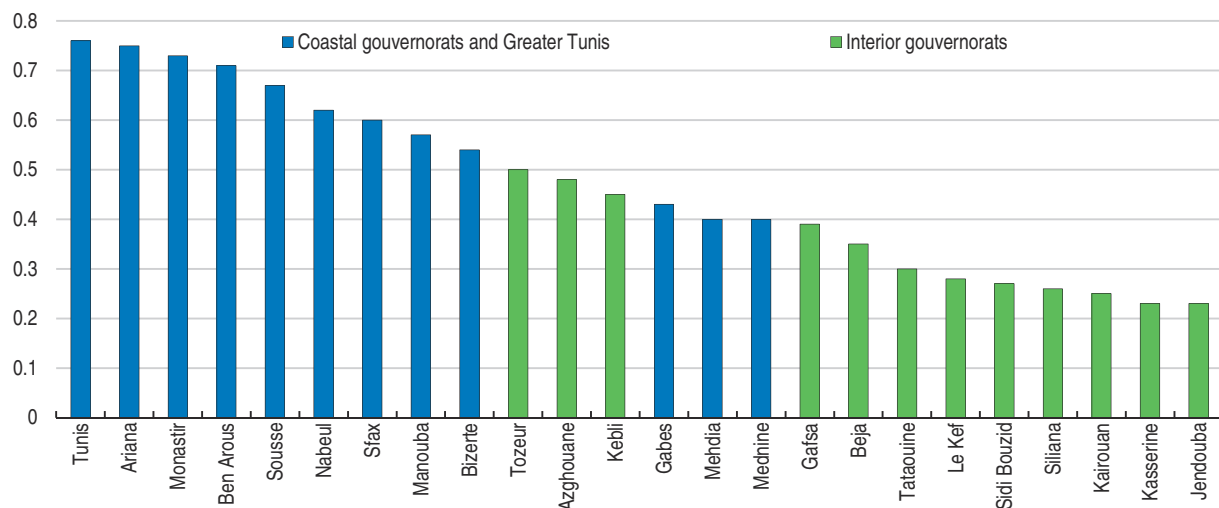
Source: Tunisian Institute of Competitiveness and Quantitative Studies, 2017, "Inclusion sociale en Tunisie : Les enjeux de l'emploi, de l'éducation et de la répartition des revenus".

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The Ministry of Development, Investment and International Cooperation has produced an index of regional development on the basis of four components: living conditions, social and geographic indicators, human capital, and labour market indicators. These indicators reveal clearly the disparity among regions, with Tunis and the coastal regions boasting living standards substantially higher than the other regions (Figure 2.17).


As well, access to infrastructure has improved greatly. The rate of household connections to the drinking water network in the Centre-West region, which is one of the poorest, rose from 38% in 1994 to 65% in 2014. Progress has also been made in access to health services. Thus, basic public health centres have been installed throughout the territory, but they are under-used, particularly in the interior regions, given the lack of hospital staff and the shortage of equipment. The interior regions also lack medical specialists, who for the most part are concentrated in Tunis and a few coastal cities.

Regional statistics are fairly scarce in Tunisia. It is therefore difficult to assess and evaluate in detail regional performances in comparison with other countries of the zone or of the OECD. The introduction of financing for the regions, as part of the decentralisation plan, should be based on regional indicators such as GDP. The Tunisian government is urged to encourage the INS to identify economic and social information at the regional level, and to collect and publish it systematically so as to permit the economic analysis needed for the design and implementation of truly effective regional policies. The OECD is working with the INS on this project.

Figure 2.17. **The regional development index reveals disparities between *gouvernorats***

Note: The regional development index is a synthetic indicator based on four components: living conditions, social and geographic indicators, human capital, and labour market indicators.

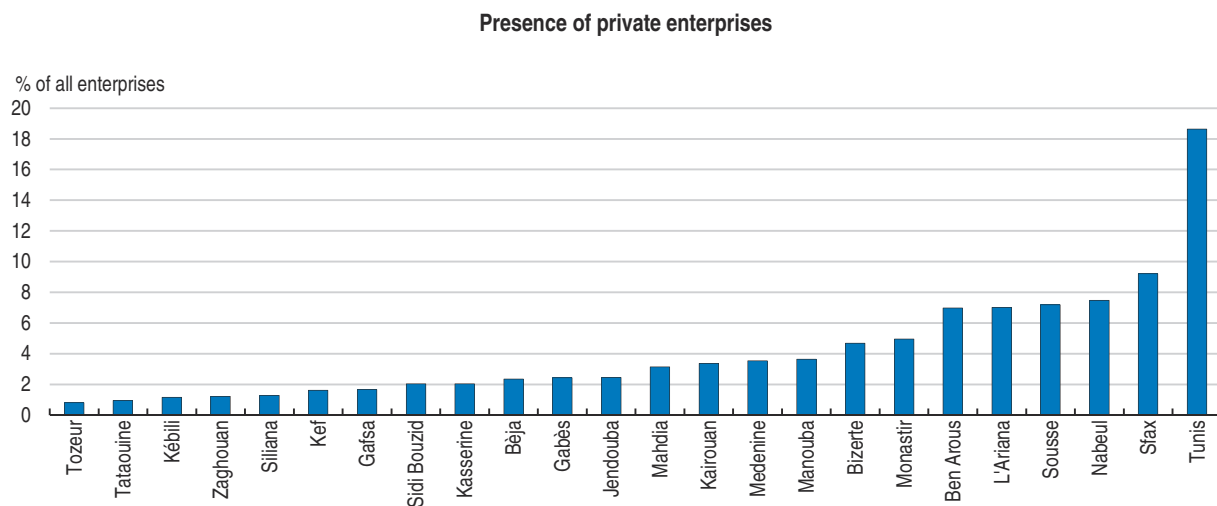
Source: Ministry of Development, Investment and International Cooperation.

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Productive economic activity is concentrated in the coastal regions

Since independence, Tunisia has given priority to the development of thriving cities, commercial openness, and industrial competitiveness. This policy was intended to meet the needs for public services and jobs generated by rapid growth in the major cities. As a result, Tunis and the central and northeast coastal regions occupy a dominant position (Ministry of Regional Development, 2011). Despite the importance of public investment and strong incentives to private investment in the interior regions, this export-based development model has created a “two speed” economy where the offshore sector, located primarily in the coastal regions, has developed rapidly while the onshore sector struggles to grow and create jobs. Moreover, the onshore sector has proven unable to profit from the opportunities and positive fallout that the offshore sector could offer (see Chapter 1). Consequently, inhabitants of interior regions remote from the ports have been obliged either to move to the coastal cities, where there are more remunerative employment opportunities, or to devote themselves to low-productivity and poorly-paid rural activities (Ministry of Regional Development, 2011).

Public investment per capita between 1990 and 2005 was higher in the interior than in the coastal regions. On the other hand, and despite the incentives targeted at the interior regions, private investment has, for the most part, benefited the coastal regions and has led to a concentration of businesses there. Thus, nearly 56% of the population and 92% of all industrial firms are concentrated within an hour’s drive of the country’s three largest cities: Tunis, Sfax and Sousse. Nearly 20% of all private firms are located in Tunis, and 50% of firms are located in only five districts or *gouvernorats* (Figure 2.18). Moreover, the private firms located in the coastal regions are generally of larger size, allowing them to be more productive and therefore to accord higher pay to their employees, and to make more frequent investments. The majority of new enterprises have been created in the North-East and Centre-West.

Figure 2.18. **Private enterprises are concentrated in a few regions**

Source: INS.

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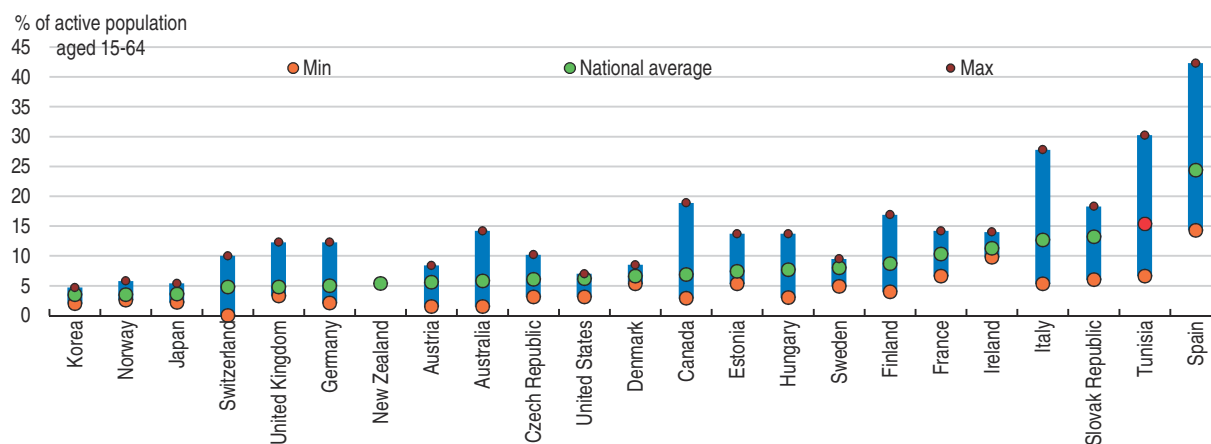
Economic activity in the interior regions is less diversified than in the coastal areas, making the former more vulnerable to shocks and more volatile in their output (AfDB, 2014; OECD, 2015c, 2015a). The interior regions generally depend on a narrow range of traditional basic products, and they are little integrated into global value chains. It should be noted that the diversification of the industrial structure in the *gouvernorats* along the coast has in fact been relatively stable for some 15 years (AfDB, 2014).

Unemployment rates vary widely

This concentration of activities in Tunis and the coastal regions naturally leads to divergent unemployment rates across regions. While unemployment in 2016 affected less than 10% of the population aged 15 to 64 years in Monastir and Sfax, it exceeded 25% in Gafsa and Tataouine. More alarmingly, unemployment has been rising more sharply in regions where it was already high. This discrepancy is among the most severe in OECD countries (Figure 2.19).


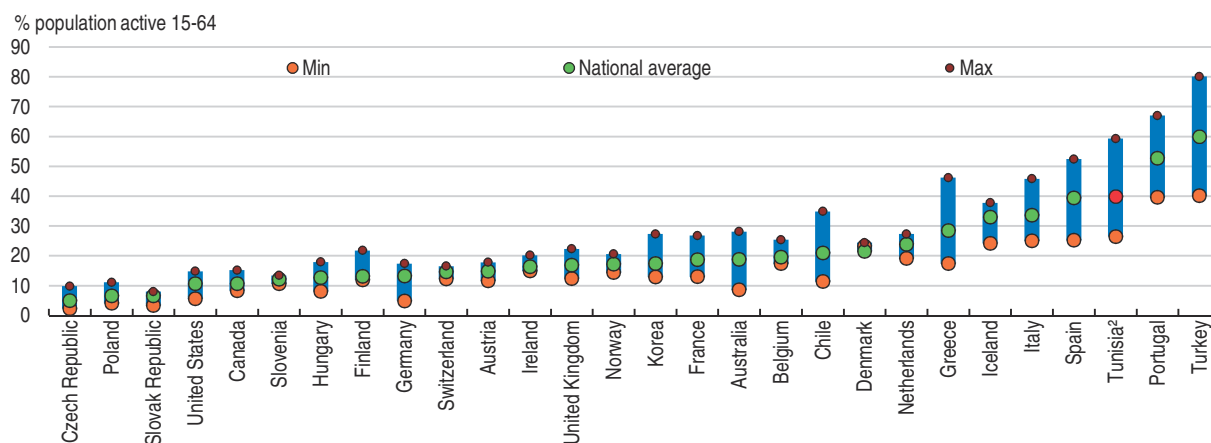
Disparities in terms of unemployment resulting from the concentration of economic activity are exacerbated by disparities in education, which are more significant than in the majority of OECD countries (Figure 2.20). Despite efforts to ensure universal access to education, illiteracy (which still affected 18% of the population in 2014) stood at 12% in the communes, and 32% outside the communes, essentially in rural areas. School enrolment rates also vary from one region to the next. Thus, 14 regions have net enrolment rates for children ages 6-11 years that are below the national average (98%). The enrolment rate for 12 to 18 year-olds, which was 79% nationally in 2012-13, was only 70% in the central regions such as Kairouan and Kasserine (Dhaoui, 2017, 2015). The level of human capital is known to be an important determinant of regional economic growth (OECD, 2012b, 2012c). It is more precisely the level of education of unskilled individuals that is important, as they are less mobile. The existence of a large proportion of unskilled workers can have a major impact on growth.

Although enrolment rates have risen throughout Tunisia, access to education is not the same everywhere. The lack of connectivity (physical or technological) in rural areas is a constraint on the expansion of education. In 2013, Internet access varied from more than

Figure 2.19. **Differences in unemployment rates are significant**Unemployment rate¹, 2016 or latest year available


1. TL3 regions for OECD countries, and governorates for Tunisia.

Source: OECD Regional Database; and INS.

StatLink  <http://dx.doi.org/10.1787/888933694080>Figure 2.20. **The education level differs more widely than in OECD countries**Active population with basic or no education¹1. TL2 regions for OECD countries, and *gouvernorats* for Tunisia.

2. For Tunisia, the data refer to the active population aged 15 and over.

Source: OECD Regions Database; and INS.

StatLink  <http://dx.doi.org/10.1787/888933694099>

75% of schools in Tozeur, Tunis and Monastir enjoyed access to the Internet, while coverage was to less than just 10% in Sidi Bouzid, Kasserine and Kairouan (Dhaoui, 2015). Access to safe drinking water is still inadequate for schools in the interior: in 2015-16, while the majority of coastal regions were covered to the extent of more than 95%, Sidi Bouzid and Kasserine had coverage of less than 40%. Moreover, students in the interior must walk greater distances to school, as many schools cannot be reached by road (ITCEQ and ILO, 2017). The quality of education is often lower in isolated regions. The difference between the *baccalaureat* success rates in the interior and those in coastal regions can be attributed to the socio-economic differences between these regions, as well as to the quality of the teaching.

The Ministry of Education has since 2000 established priority education zones, to which the government allocates additional personnel and material resources so that these regions can catch up with the rest in terms of education. It is particularly important that regional policies should target zones (regional and local) where the quality of education is still below that of other regions. Specific remedial programmes should be prepared and implemented in these zones.

A new regional development policy is needed

In the past, regional development policies in OECD countries relied essentially on sector-specific subsidies and on financial aid to disadvantaged regions. These policies had the effect of making these regions economically dependent on more dynamic regions, and did very little to expand their capacity. At the present time, OECD countries are adopting multi-sector policies that capitalise on the specific assets of each region, while ensuring co-ordination, both vertical (among the different levels of government) and horizontal (across different policies and different sectors) (OECD, 2012b2012c). The intent is to make use of regions' underutilised potential in order to improve their competitiveness. Thus, the regions must identify the sectors that will give them entry into global value chains and attract foreign direct investment.

The main factors for growth at the regional level are human capital, the availability and quality of infrastructure and the effects of urbanisation which encourage innovation and increase productivity. To take greater advantage of these factors, their complementarity must be taken into account in an integrated approach in which they can be mutually reinforcing (OECD, 2012b2012c). Regional development also depends on the business climate at the local level, and on the quality of local governance. It is important to ensure efficient co-ordination among the different levels of government, so that policy decisions will be coherent and their effects will not cancel each other out. Horizontal cooperation is also needed between adjacent regions, so as to avoid the waste of resources and promote economies of scale.

Since 2011, the government has put regional development back in the spotlight. has become a priority for the Tunisian authorities. This priority is a feature of the 2016-2020 development plan, and it is part of the six broad thrusts of the Carthage Pact. The 2014 Constitution includes the principle of equality of living standards between the regions, and stresses the importance of equitable regional development, social justice, and sustainable development. It notes that positive discrimination on behalf of regions in the interior can be applied to achieve these objectives. This strategy is based on five pillars (Box 2.1). The new Constitution also provides for a reorganisation of local government, with the creation of the district. The new administrative and financial set-up of these entities is among the subjects defined by the law on local authorities, which is still being discussed by the Assembly of the Representatives of the People.

The new investment code, which came into effect in April 2017, makes specific provisions for promoting investment in the regions of the centre and south of the country. Thus, there are plans to offer an investment premium ranging from 15% to 30%, with a ceiling of 3 million dinars, for the priority zones for regional development (*zones d'encouragement au développement régional*), the list of which is set by decree in the sectors of industry, crafts and certain services (Republic of Tunisia, 2017). It is also planned to allow a 100% deduction from the tax base for 5 or 10 years, and to have the State cover the employer contribution for 5 or 10 years. It will be important to monitor and evaluate the impact of

Box 2.1. A regional strategy based on positive discrimination

To achieve the objective of reduce inequality among between regions, as stipulated in the 2014 Constitution, the authorities plan to implement a strategy based on positive discrimination. That strategy relies on five pillars:

- Tax and financial incentives targeting market failures and facilitating vertical integration of economic activities, as well as equality of opportunities in the areas of procurement, education services, health, recreation and culture.
- Development programmes that modernise infrastructure so as to support a better quality of life and connectivity, as well as making economic activities attractive.
- More autonomous local governance that brings decision makers closer to the people by decentralising responsibility and decision-making and enshrining the principles of transparency, monitoring and evaluation, accountability, and the participatory approach.
- Solidarity within and across regions, by strengthening the cooperative sector and institutional cooperation, and adopting objective and transparent criteria for budgetary transfers.
- Strengthening international cooperation and facilitating the economic integration of the border regions with neighbouring countries, by improving living conditions and public services, promoting joint projects, and reinforcing infrastructure.
- Ensure that all regions have access to Internet.
- Update and simplify the financing system for regional development.
- Promote regional development and increase attractiveness.
- Raise living conditions at local and regional level.
- Step up decentralisation and set up a base for local and regional governance.

Source: ITCEQ and ILO (2017). Tunisian government's five-year plan.

these measures in order to eliminate those that do not work and improve those that seem to be having a concrete impact on investment and on development in the target regions.

As well, the 2015 law on public-private partnerships (PPP), with its application decrees of 2016, includes regional development as an essential objective. That law gives local governments the power to enter directly into PPPs as a means of boosting the local economy and developing social infrastructure projects.

The government plans to implement a national strategy for regional development based on supporting lines of activity rather than sectors, which is the current practice through the installation of development agencies in all the *gouvernorats*. Within the framework of the new Law on investment, the Tunisian investment body would be present in the 24 *gouvernorats*, thereby replacing the existing structures (such as the API, etc.). This strategy based on the development of value chains is a step in the right direction but, in order to be genuinely efficient, will need to be backed up by several measures.

One potential regional development strategy, based on other successful experiments, might see the authorities promoting the development of two or three regional centres or "poles" in the country's interior. They would draw support from two or three urban centres (existing cities to develop), in order to harness the economies of agglomeration that only cities of a certain size can generate, because of the size of their market and their ability to attract productive investment. The ripple effects of these poles would allow them to serve

as engines for development in their respective regions, by creating trading markets and economic integration both at regional and national level.

There currently exist three regional development offices, which each manage four *gouvernorats*, and one commission, which is in charge of the other *gouvernorats*, including Tunis. All *gouvernorats* also have a regional development directorate. Rationalising and modernising the institutions responsible for A regional development, agency by recruiting staffed by highly skilled officers and enjoying financial and decision-making autonomy could be created for would pave the way for the deployment of this strategy. The staff would consist of local recruits with knowledge of their region, supported by central government officials who could contribute any additional skills needed as the local staff learnt through hands-on experience. These independent institutions It would be fully dedicated to planning and managing development projects in response to the region's needs and economic potential, identifying private investment opportunities and searching for potential developers and entrepreneurs, establishing a suitable climate for private investment (lifting regulatory and administrative barriers) and helping the region's investors and young entrepreneurs to set up their projects quickly. The strategy would have to be assessed and adjusted on a continuous basis according to the results obtained and the actual conditions in the field. The upgrading of infrastructure and public services in the regions of the interior, and a rapid improvement in their physical and digital connectivity would reduce inequalities and boost living standards, while making those regions more attractive and better integrated into national and international markets.

The urbanisation process can strengthen productivity and people's well-being

Economic development has always been accompanied by a process of urbanisation. Its success relies on suitable policies in terms of transport, housing and land use planning. Successful urbanisation also requires good governance at the level of the metropolitan area, and it must support partnerships among the communes or municipalities.

Urbanisation is a source of economic growth, because cities are on the whole more productive and innovative than rural areas (OECD, 2015b, 2015e). People who move to the cities generally enjoy higher incomes and better public services. In most OECD countries, labour productivity and wages rise with the size of the cities, even when certain characteristics of workers such as level of education are taken into account. Metropolitan areas can reap economic advantages, deriving from the concentration of enterprises and workers in the same place. This allows enterprises to benefit from technological advances, better opportunities for sharing intermediate inputs, access to a large pool of workers with multiple skills, and access to a major market that allows them to exploit economies of scale (OECD, 2014). A city's performance can also have positive fallout for its surrounding region, within an estimated radius of an hour by road (OECD, 2015e, b).

For Tunisia, it will be important to support the development of two or three urban hubs (in the North-West, the Centre and the South-West) that can serve as engines of development for the regions in which they are located, by generating economies of agglomeration. Infrastructure for these hubs will have to be developed in order to connect them to the various markets, and it should be given priority in public investment plans financed by the State. Improving public services (education, health etc.) and institutions would make the hubs more attractive and allow them to draw in qualified personnel. According to a business survey by IACE, 50% of districts do not have a sufficiently high level of infrastructure and quality of life to attract investors (IACE, 2016b).

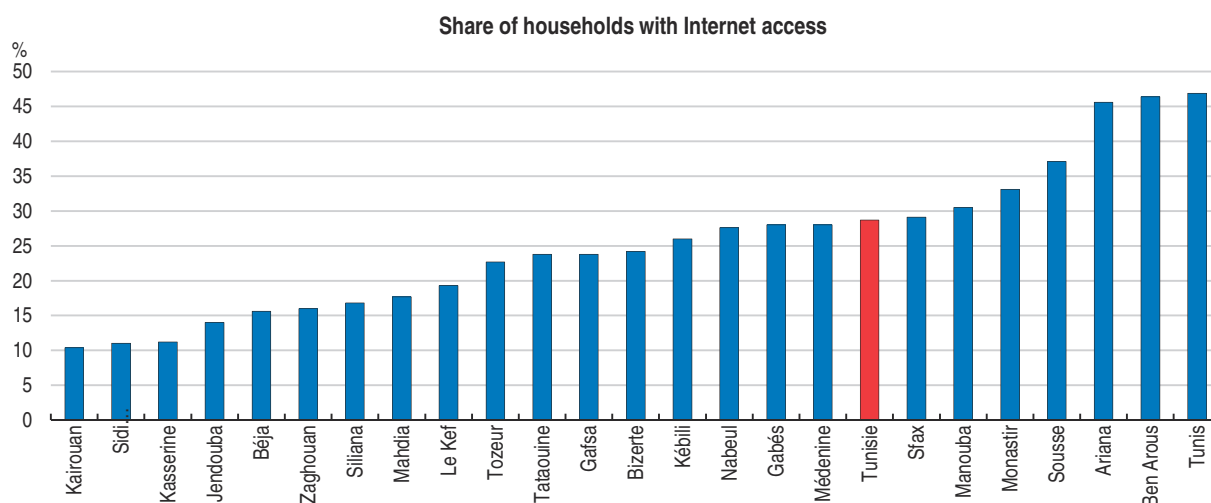
Enhancing the connectivity of isolated regions

It is important to develop the connectivity of remote regions to allow them to expand their markets and to enable workers to move from declining regions to more dynamic ones. The National Development Plan 2016-2020 includes a fairly sizable public investment plan that would strengthen connections between the regions by developing a hybrid network. The quality of road infrastructure varies greatly across regions: the road networks in the regions of the South and Centre-West are obsolete and poorly maintained. Although the development of road infrastructure is not in itself sufficient to promote growth in isolated regions, efficient infrastructure is an important asset for businesses. The development of better highway links and secondary roads can play an important role in regional development policy. The development of roads in isolated regions makes them more accessible by reducing transport times and costs. Businesses can in this way achieve productivity gains and improve their production and distribution. Lastly, isolated populations will have better access to jobs and to public services (OECD, 2002). Building road networks is therefore essential to improving mobility for workers.


Mobility can also be reinforced by a suitable housing policy aimed, for example, at promoting the rental market or lowering the transaction costs for a property. While around 60% of households in Tunis are homeowners, this figure is nearly 80% in the communes of the Gafsa district, and 75% in Kasserine. This tends to show that the rental sector is less developed in these two cities than it is in Tunis.

Improving workers' technological (Internet) connectivity with employment zones is also important for purposes of training and dissemination. For example, the number of households with Internet access varies greatly from one region to the next. Although the rate is more than 45% in Tunis, Ben Arous and Ariana, it is only 10% in Kairouan, Sidi Bouzid and Kasserine (Figure 2.21). The introduction of high-speed broadband throughout the national territory is essential for regional development.

Figure 2.21. **Internet access varies across regions**



Source: INS.

StatLink  <http://dx.doi.org/10.1787/888933694118>

Decentralisation to promote regional development

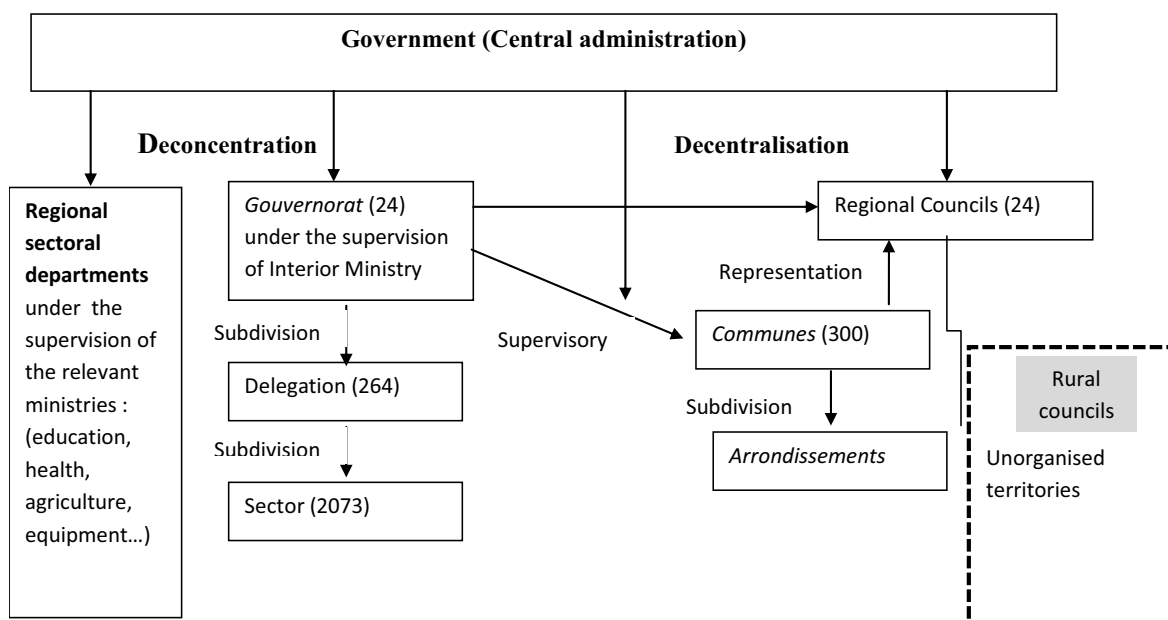
As part of their regional development strategy, the authorities plan a greater devolution of responsibilities to elected governments at the regional and local (commune) levels. At the present time, the responsibilities of the regions and the communes are very limited. The regional council is notably responsible for preparing and implementing the regional development plan to be integrated into the national plan for economic and social development, and for preparing land-use plans outside of the remit of the communes and the review of the *gouvernorat*'s urban master plan. The municipal council is responsible in particular for the communal budget and establishes, subject to the commune's resources and the means at its disposal, the community equipment programme. The draft law on decentralisation provides for three levels of local government in addition to central government: the commune, or municipality, of which there are currently 350 across the entire territory; the region, of which there are 24; and the district, which encompasses a certain number of regions. The number of districts has yet to be determined. The decentralisation process, consisting of the devolution of responsibilities and transfer of resources, is expected to be gradual in order to allow the decentralised local authorities to acquire the requisite management skills for their new responsibilities (Figure 2.22).

Local budgets represent only 3.6% of the national government budget, compared to 10% in Morocco and 20% in Turkey (World Bank, 2015bc). Local taxation (levied at the level of the municipality) includes, notably, the tax on buildings and on undeveloped land, the tax on industrial, commercial and professional establishments, the hotel tax, the tax on entertainment and the licence fees for licensed premises. The communal authorities face financial difficulties as municipal staffing rise along with the associated payroll (which doubled between 2011 and 2015). At least 70 to 90% of the municipal budget goes to wages, and accordingly transfers from the central government are now being used to cover the communes' operating expenses, instead of financing their investments, as in the past. Moreover, the financing of local governments has suffered from a significant drop in the recovery rate of local taxes, as well as poor governance of local affairs, and a lack of control over expenditure quality.

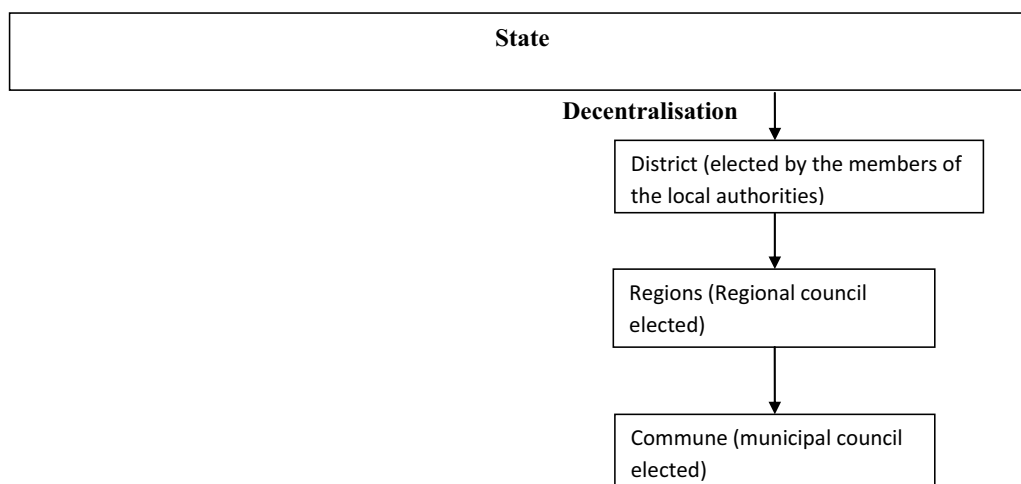
In OECD countries, local governments have two sources of revenue: the taxes they collect, and the transfers they receive from the central government aiming at financial equalisation. As a general rule, revenues should, to the extent possible, cover the expenses of local entities. The generated revenues enhance the commune's autonomy in determining the levels of municipal public services, the responsibility of the local authorities vis-à-vis their citizens, the mobilisation of resources, and the sustainability of expenditures (OECD/KIPF, 2016). It is not an easy matter to select the taxes that should fall to the regions. The voluminous literature on the subject suggests that local governments should levy taxes for which there is a clear link between what households and businesses pay and the public services they receive (Oates and Schwab, 1988). Thus, taxes levied at the regional level should be non-mobile, non-redistributive and non-cyclical (to prevent local governments from pursuing pro-cyclical budgetary policies). Experience in OECD countries suggests that, with a mix of property taxes, a portion of personal income taxes and in some cases consumption taxes, a revenue-neutral increase in the share of local taxes could go hand in hand with a more efficient overall tax system and a reduction in intergovernmental grants (OECD/KIPF, 2016). This would require a transparent local tax administration, which is not always the case in emerging countries.

Figure 2.22. Territorial organisation

A. Current organisation



B. Draft law on local authorities



Note: Deconcentration is defined as the transfer of some administrative powers from the central authority at the local level to a State official. Decentralisation is defined as the delegation of some administrative powers from the central authority at the local level to officials elected by citizens.

Source: Authors and Turki and Verdeil, 2013.

Decentralisation generally makes for a better fit between the supply of public goods and services and the preferences of citizens. But all regions should be able to benefit from this devolution: this is particularly true of the poorest regions, which could see their competitiveness suffer due to differing institutional capacities (financial capacity and

competence of the local government) and differing economic characteristics (productivity, infrastructure etc.) (Rodriguez-Posé and Gill, 2004). A study of OECD countries confirms that devolving taxes and revenues tends, under certain conditions, to reduce regional disparities. This reduction derives from the regions' responsibility for collecting taxes, and hence their capacity to undertake expenditures that will best meet the needs of their citizens (Bartolini et al., 2016).

The Tunisian authorities are aware of the risks associated with decentralisation, such as the short-term impact on public finances, the lack of human and technical capacity at the local level, and the risk of increased bribery at local level, which has been observed in several countries which recently increased decentralisation. On one side, decentralisation can reduce the scope of corruption, as local authorities are held accountable to their citizens, but on the other hand the opportunities may be greater and the obstacles fewer, given for example weaker governments or closer contacts between the authorities and the business world at the local level (OECD, 2016). Because of this, it makes sense to reduce the risk to the integrity of local officials by improving the financial and administrative checks on local authorities provided for under the new law, by clearly determining their form and scope, identifying the person responsible for supervisory control, and setting out the consequences of administrative and jurisdictional control measures (OECD, 2017c, 2017e).

The decentralisation project is still in its initial stages and is expected to take 20 to 30 years to implement. The new decentralisation policy will have to be implemented gradually, by giving the regions and the communes a degree of autonomy and clear and complementary prerogatives (without overlap) and adequate financial and human resources. This would allow the regional and local authorities to pursue economic and social development in their territory, to improve people's living conditions, and to create economic opportunities for all.

Box 2.2. **Summary of recommendations to foster job creation and regional development**

Main recommendations

- Ensure that systems for education, learning and training respond to the requirements of businesses.
- Diversify the funding sources for social security.
- Encourage the recruitment of women through campaigns to raise awareness of the repercussions of educational choices on opportunities in terms of employment, entrepreneurship, career development and salaries.
- Speed up the implementation of the financial inclusion strategy.
- Modernise regional structures and institutions to take better advantage of investment opportunities and help investors in the regions.

Recommendations for promoting employment and reducing labour market inequalities

- Give more weight to wage negotiations at the enterprise level, so that firms can respond more flexibly to economic trends.
- Ensure that wages and salaries rise with productivity.
- Improve the business climate and simplify regulatory and administrative procedures in order to favour enterprise creation and employment.
- Facilitate families' access to lower-cost childcare services by boosting the supply of public daycare centres.

Box 2.2. Summary of recommendations to foster job creation and regional development (cont.)

- Institute initial training and refresher training for teachers throughout their career and promote the modernisation and adaptation of curricula and teaching methods.
- Strengthen the arrangements for involving employers and establish a balance between students' preferences and employers' needs in order to improve the match between employer business demands and training.

Recommendations for promoting financial inclusion

- Improve access to financing for small and medium-sized enterprises.
- Reinforce the capacities of the post office agencies in the regions.

Recommendations for promoting regional development

- Consider a new approach to the development of regions in the interior based on the harnessing of economies of agglomeration in major cities. Develop two or three urban centres from existing towns.
- Roll out a regional programme for upgrading economic and social infrastructure and improving digital connectivity in the regions of the interior in order to connect them directly to national and international markets and enhance their attractiveness.
- Continue to give priority to isolated regions by ensuring that they have adequate resources and qualified staff for providing a quality education.
- Pursue construction of the secondary roads network in order to enhance worker mobility.
- Modernise the governance of the regions and local authorities. Give the regions the autonomy and resources they need to determine their own development strategies.
- Develop and operate economic and social information systems in order to base economic policy decisions on credible information.

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