

# ERF Policy Brief

## Extending Social Protections to Tunisia's Informal Workers

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### About the authors

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### In a nutshell

- Despite Tunisia's advanced social protection system, a substantial portion of the workforce is excluded from coverage and left vulnerable, unable to claim their constitutional rights to health and social assistance.
- Over 40% of Tunisia's workforce is informal, and these informal workers experience significant differences in characteristics and situations, meaning that one-size-fits-all policies will fail in the face of a diverse informal workforce.
- Though the informal workforce is present all across Tunisia, higher rates are found particularly outside of Tunis, among lower wage workers, workers with lower levels of education, and those who occupy part-time, seasonal, and occasional jobs. Some sectors such as agriculture, fisheries and construction are more prone to informal employment.
- Efforts to extend social protections to informal workers should seek to eliminate gaps and barriers in the current system, including the linking of coverage to employment, the complexity of requirements necessary for coverage, and the precarity of informal workers employed at formal enterprises.

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## 1. Introduction

Eleven years ago, Tunisia's revolution brought about the promise of social solidarity and support for all citizens. In 2013, government, union, and employer representatives signed a social contract highlighting social protections as a key area of focus, which led to the inclusion of the rights to health and social assistance in Tunisia's 2014 constitution. With one of the most comprehensive social security and assistance systems in the Middle East and North Africa region, Tunisia has delivered on this promise to some of its citizens, yet a substantial portion of the workforce has been left behind in these efforts.

A 2020 state survey of employment found that more than 1.5 million Tunisian workers are employed in the informal economy. Of that total, roughly 680,000 are independent own-account workers and 810,000 are employees, sometimes of formal businesses. All of these workers - 42% of Tunisia's workforce - face significant difficulty, and often exclusion, accessing social security and medical insurance schemes that are not designed for them. There have been recent regulatory reform efforts to ease the formalization process for some of these workers, but even if these prove successful a critical mass of informal workers laboring in precarious situations will remain. A key reason for this is the heterogeneity of informality: one size of formalization solutions will never fit the entire informal sector, which is comprised of workers in myriad sectors and situations.

This policy brief provides an overview of the existing social protection schemes and programs in Tunisia and analyzes the main characteristics of Tunisia's informal workforce as well as challenges and opportunities for the extension of social protection to informal workers. Based on an analysis of the characteristics of informal workers and formal workers who successfully transitioned from informality (El Mekkaoui et al. 2022), we explore the options available to policymakers working in pursuit of extending social protections to the informal sector and creating a more inclusive economy for Tunisian workers.

## 2. Tunisia's social protection landscape

Tunisia has two distinct contributory social insurance funds, both administered by the Ministry of Social Affairs: the National Pension and Social Insurance funds (CNRPS) covering individuals in the public sector and the National Social Security Fund (CNSS) covering individuals in the private sector (Helmy et al 2022). Tunisia's National Health Insurance Fund (CNAM) was

created in 2004 and covers employees in the public and private sectors, their spouses, and dependents. Like the social insurance funds, CNAM is contributory and employees contribute different amounts based on their levels of income. CNAM allows covered individuals to choose between public and private healthcare, which comes with differing levels of costs.

Tunisia also provides a number of targeted, non-contributory social protection schemes. These include cash transfer programs such as the National Program of Aid to Needy Families (PNAFN), the School Allowance Program (PPAS) for children from low-income households, and recent COVID-19 cash assistance efforts. Additionally, Free and Reduced Medical Assistance (AMGI) programs are available at public hospitals for those in need, including all families receiving PNAFN assistance. The Tunisian government also provides in-kind assistance in the form of educational, food, and other goods and services, as well as energy and transportation subsidies for poor and low-income households.

Many challenges are present in Tunisia's current social protection system, both in terms of access and the efficacy of the systems themselves. In regards to the latter issue, many of the relevant funds including CNSS, CNRPS, and CNAM have experienced fund deficits which threaten the access and quality of assistance and coverage they can provide. Furthermore, Tunisia's healthcare sector has long struggled to provide adequate care, particularly to the country's interior regions. Additionally, in most cases Tunisia's social protection schemes do not provide unemployment insurance, leaving workers who lose their jobs without adequate support.

Significantly, 40% of Tunisia's workforce is informal (INS, 2019 and El Mekkaoui et al. 2022), and because so many social protection schemes are tied to employment, the majority of these workers and their families are excluded from coverage. Some informal workers and their families do qualify for the non-contributory schemes targeted at poor and low-income Tunisians, but the remainder struggle to access social protection.

## 3. Tunisia's informal economy

The latest data on informal employment, collected in the fourth quarter of 2019 by the National Institute of Statistics, indicates that the number of employed people has reached 3,566,400, of whom 1,598,700 or 44.8% work informally. 81.2% of these informal workers



are male, with 49.5% of all employed males working informally, compared to 31.9% of all employed females. 50.7% of informal workers are employees, 42.5% are either independent entrepreneurs or employers, and the remaining 6% are unpaid family workers.

The agriculture and fisheries sectors occupy the first ranks in informal employment with more than 85% of the workers employed informally, followed by the construction and public works sector at 69.5% and the trade sector at 66.2%. In total, these three sectors comprise two thirds of Tunisia's informal workers.

Tunisian workers often find themselves in the informal sector due to a lack of opportunities and financing for enterprises available formally. Despite creating a substantial percentage of gross domestic product and employing a significant amount of the labor force, the informal sector is characterized by vulnerability to the cycle of poverty, low wages, and other risks such as the excessive exploitation of their efforts for long hours and/or in inappropriate working conditions that do not respect labor law and do not guarantee them essential rights, including by making them vulnerable to arbitrary dismissal at any time.

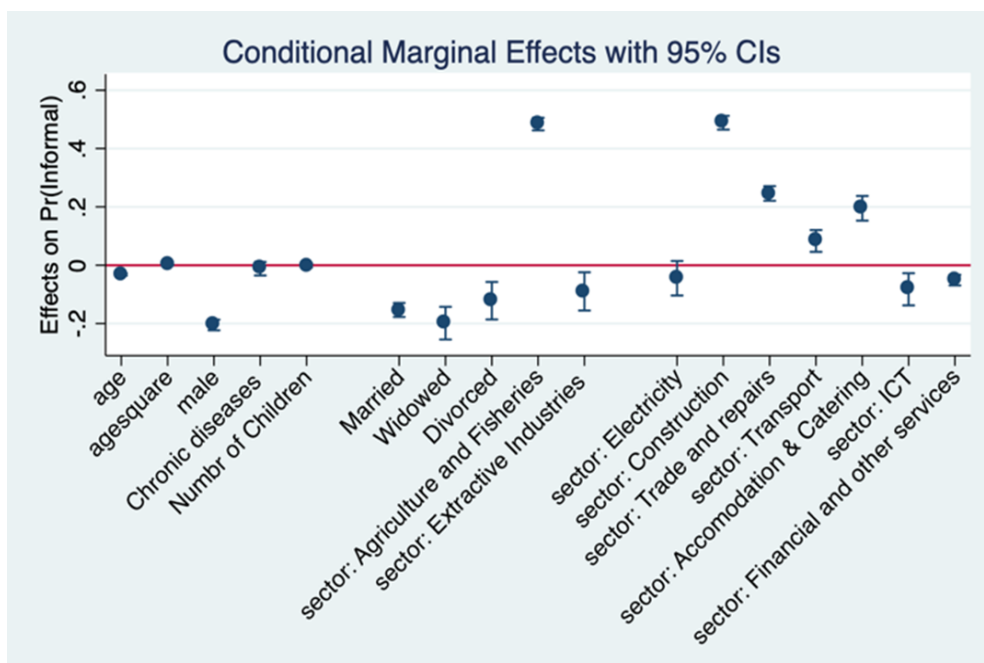
Tunisian informal workers, like informal workers around the world, were disproportionately impacted

by COVID-19. Unlike workers in the public and private sector, Tunisian informal workers found themselves at the margin of the negotiations and efforts to support workers in the context of the pandemic. They were the first category of workers to be affected by the general lockdown measures but lacked a unified voice to claim concrete assistance from the state. An analysis of female informal workers conducted in 2021 found that 84% of surveyed workers lost income and 71% fell into debt due to COVID-19. 47% of those surveyed were forced to work continuously throughout the pandemic despite the associated health risks, while 19% were forced to cease their activities and lose all income due to local lockdown measures. Additionally, these workers struggled to benefit from government relief. Instead of relying on government assistance, informal workers were far likelier to receive support from family members or local organizations and associations, though the majority ultimately received no assistance whatsoever (TILL, 2021).

#### 4. Characteristics of informality & formalization

To analyze the characteristics of informal workers in Tunisia, and to explore the formalization process, we conducted a statistical and econometric analysis (El Mekkaoui et al. 2022) utilizing the 2015 Household

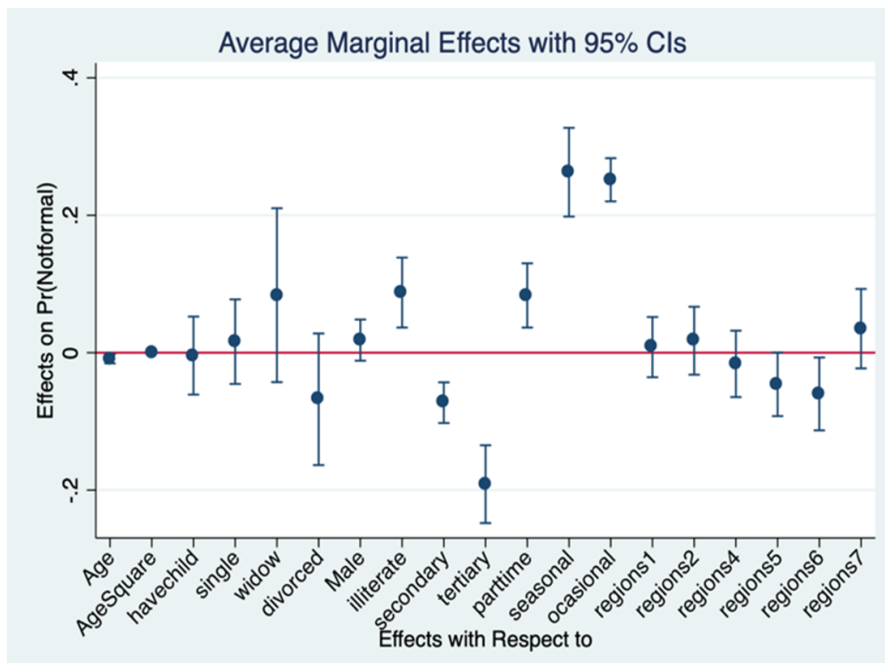
*Figure 1. Marginal effects of the econometric analysis on the determinants of informality for workers not affiliated to a social security scheme*



Note: The displayed marginal effects correspond with the probability of not being affiliated to a social security scheme.



*Figure 2. Marginal effects of the econometric analysis on the determinants of transition to formality for workers not formally declared by their employer.*



*Note: The displayed marginal effects correspond with the probability of not transitioning to the formal sector.*

Budget, Consumption and Living Standards Survey and the INS Survey of Population and Employment for the second trimester of 2019 on the factors affecting informality and the transition to formality. The latter survey, conducted by the National Institute of Statistics, contained a significantly expanded set of questions about informality and the formalization process than had previously been included.

An analysis of the survey data found that the main factors affecting informality are type of work, educational attainment, region, and workplace. These factors were found to affect both women and men in a similar fashion. Marriage was a significant characteristic for men, with married men being 20% less likely than single men to work informally, whereas there was no significant difference in informal status between married and single women. Region also plays an important role in determining informality, with workers in regions outside of Tunis being associated with higher rates of informality than those in the nation's capital region.

On the subject of the formalization process, our analysis found that for those who have worked informally, characteristics such as increased age, living in urban areas, and increased educational attainment are associated with a higher likelihood of transitioning to formality. Conversely, temporary and seasonal workers, as well as individuals who are illiterate, are less likely to occupy a formal job.

### *5. Considerations & strategies for the extension of social protection*

Extending a social insurance system to informal workers is a major challenge in terms of regulations, financing, registration of participants, incentives to contribute, and not increasing labor market distortions. However, solutions do exist. Social pensions or non-contributory health insurance have been found to be effective mechanisms to reach out to workers who are outside the mandatory contributory systems. Countries such as Ghana, Rwanda, Thailand have introduced universal coverage and non-contributory social insurance programs to expand coverage to the uncovered population. Voluntary insurance schemes have also been developed in many countries for informal workers and in partnership with the informal sector, as in the case of Philippines.

One of our main findings in analyzing informal employment in Tunisia was that workers who are illiterate and workers employed in occasional, seasonal, and part-time work are among the most likely to remain informal. Based on this finding, developing universal coverage or specific schemes for this category of workers could be an important step towards expanding social protection coverage without fully overhauling Tunisia's present social protection systems.

Another key strategy to expanding social protection coverage is reducing the cost of, and barriers to, transitioning to the formal economy. Individuals in



Tunisia's informal sector tend to experience low wages, lower rates of education, and other characteristics which can make the already complex process of formalization all the more difficult. For instance, because social protection schemes are tied to employment, access for many informal workers, and particularly independent workers (auto-entrepreneurs) requires having a fiscal license (patente). For many sectors, such as waste picking, construction, and services, obtaining this license is difficult, and requires providing materials such as an office rental contract, even though many of these workers have no need – or funds – to rent an office. Similarly, professional qualifications and other documentation not essential to the work may still be required to obtain the license.

Even for those who are able to obtain the license, the contribution schedule remains a significant barrier. Many informal workers do not earn regular wages, and are therefore disincentivized to sign up for a scheme that requires a quarterly contribution. With unstable or limited income, many informal workers struggle to pay this social contribution payment and are wary of the penalties that accompany late payment. Furthermore, informal workers complain that the payment of taxes for social protections are not tied to their revenues.

## 6. Conclusion and policy implications

Based on our findings and analysis, Tunisia has the opportunity to leverage existing regulations and introduce new policy strategies to increase social protection coverage among informal workers. Policy considerations along these lines may include the following:

- Legislation can provide a new fiscal and social regime that fits the needs of the majority of sectors that attract informal entrepreneurs. The payment of the contribution under such schemes can be tied to a worker's income and the registration and maintenance of the schemes can be conducted through a streamlined process that reduces the complex barriers that currently exist. For such legislation that is already in place, including Tunisia's 2020 Auto-Entrepreneur Law, additional resources can be utilized to promote education and awareness about this new scheme to increase its use.
- New technologies can offer opportunities to extend social protection coverage to those excluded, to reduce management and administration costs, and to facilitate access to benefits and services through better identification of beneficiaries. Many countries have put in place a digital identification policy. Such policies allow targeting both formal and informal workers. In addition to facilitating service delivery, digital identification systems have reduced leakage in the delivery of social protection programs and duplicate applications, as well as corruption (World Bank, 2017).
- Taking action to dissociate access to social insurance programs from employment contracts would similarly reduce major barriers to coverage. By allowing access to social protections for all workers regardless of their employment status or sector of activity, Tunisia could eliminate serious gaps in the available social protection schema, including the lack of options available for occasional and seasonal workers. In evaluating these and other solutions, policymakers should consider the volatility of many informal workers' incomes to ensure that strict contribution schedules and harsh penalties for late payments do not disincentivize participation. For these reasons, extension of coverage through a non-contributory approach with transfers targeting the most vulnerable populations should also be considered.
- Special consideration must also be given to informal workers who are employees of formal businesses. Action should be taken to strengthen the control of the relevant social protection schemes to ensure that workers are being provided the coverage to which they are entitled. Furthermore, in exploring new, non-contributory, and universal schemes, policymakers should consider the risk of employers altering current practices to push employees to these new schemes instead of contributing to the current system.
- In considering these and other options to extend social protections to informal workers in Tunisia, it is essential to elevate the many voices who have been key to these efforts in recent years. While governments and employers are generally most associated with the provision of social protections, other actors have been essential to these efforts in Tunisia. Institutions such as unions, cooperatives, and other civil society organizations have played a central role in providing and advocating for social protections. Due to the diversity of Tunisia's informal economy, these institutions should be key players in efforts to design new policies and programs to extend social protections. Furthermore, informal workers themselves must have a voice in this process, and efforts to involve informal worker advocates, associations, and unions are therefore essential to the successful extension of social protections in Tunisia.



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