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Towards More Job-Rich Growth: The Case of Tunisia

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About the author

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In a nutshell

- Several internal and external shocks have worsened the socio-economic situation in Tunisia. Despite the slow recovery, one year after the COVID-19 pandemic, the Tunisian economy is still performing below its potential.
- The Tunisian labour market is characterized by a high unemployment rate for young people and women, low participation rate; discouragement of youth¹ and low-quality and informal jobs.
- Timely and adequate reforms are necessary to promote sustained economic growth and boosting better-quality job creation in Tunisia.
- The implementation of the proposed reforms requires social and political stability and a sustainable trust between the different stakeholders in society.

Latest Macroeconomic and Labour Market Developments in Tunisia

Since 2011, Tunisia has been exposed to several shocks, which aggravated the already difficult social and economic situation in the country. Successive terrorist attacks and the disruption of Tunisia's phosphate production have also slowed down the economic growth. The COVID-19 outbreak in March 2020, together with the implementation of a strict lockdown, resulted in a severe contraction of the real GDP, which fell dramatically in 2020. Although the Tunisian economy experienced some recovery in 2021 (ILO and ERF 2022), Tunisian economic growth was still below the average growth rate of middle-income economies in the same period. Moreover, climate change and the current Russo-Ukrainian War have had a negative impact on the agricultural sector and on Tunisia's grain supplies (Verner et al. 2018; Tarik 2022).

¹ These indicators and their technical measures are presented in detail in ILO and ERF (2021) and ILO and ERF (2022)

With regard to labour market indicators, the COVID-19 shock has only aggravated pre-existing challenges in Tunisia. Although the impact of the pandemic on participation was equally limited for both sexes, the unemployment rates remained alarming throughout 2021, especially among young Tunisians. These problems, coupled with discouraged groups, led to the underutilization of the labour force and therefore wasted human resources.

Tunisia's Economic Performance Indicators

Over the last two decades, the Gross domestic product (GDP) growth in Tunisia has fluctuated substantially. It was 1.7% in 2002 and peaked at 6.3% in 2007 before slowing down significantly in 2008 (4.5%) and 2009 (3.1%) as a result of the global financial crisis coupled with the mining basin uprising (Nasri et al, 2022).

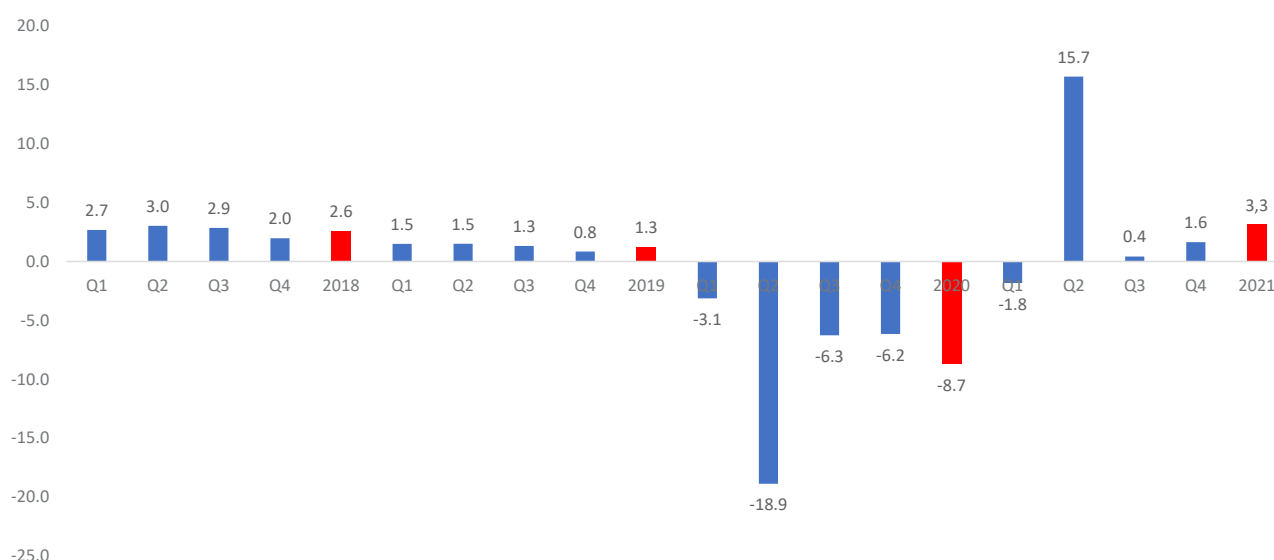
In addition, between 2011 and 2018, average annual growth did not exceed 1.7%. The COVID-19 pandemic has severely affected the economic growth in Tunisia, which was already growing at only 1.3% per annum in 2019 before turning into a severe recession of -8.7% in 2020. As shown in Figure 1, the Tunisian economy witnessed some recovery in 2021, achieving a positive

GDP growth rate of 3.3% in 2021 thanks to a considerable growth of 15.7% in Q2 2021, which is the highest rate since 2018. However, the Tunisian economic growth in 2021 was still below the middle-income economies' average growth rate.

Simultaneously, the Tunisian economy recorded its lowest savings and investment rates (4% and 13% respectively) in 2020, following the COVID-19 shock (ILO/ERF, 2022). In fact, government spending priorities had to adjust to take into account the health and economic impacts of the pandemic by increasing current spending on social transfers at the expense of capital spending. In addition, the Central Bank of Tunisia (BCT) reduced its policy interest rate in March and October 2020 by a cumulative 125 basis points. This, in turn, caused savings and investment rates to decline in 2020 by 57% and 27% respectively, compared to 2019.

In addition, some sectors have suffered the most during the pandemic, such as hospitality, transport and construction sectors which experienced a negative growth of 38.5%, 28.5% and 13.8%, respectively between 2019 and 2020. At the contrary, the majority of sectors experienced positive growth in 2021, in particular the non-manufacturing industry, which grew by 34.6% year-on-year between 2021 and 2020.

Figure 1: Real Quarterly Annual GDP Growth Rate (percentage), 2018-2021



Source: ILO and ERF (2022)

The agricultural sector was the only sector to register a negative growth in 2021 (- 4.6%) due to unfavorable weather conditions, explained by problems related to climate change. In this respect, it is worth noting that Tunisia's sensitivity to variability and climate change is strongly linked to its dependence on the agricultural sector. However, this sector is highly exposed to climate risks: rising temperatures and varying levels of precipitation, associated with more extreme events, such as floods and droughts. Moreover, the sector agricultural uses approximately 80% of the country's water supply, which is especially problematic as Tunisia has scarce water resources, well below the average water availability of other countries in the region of the Middle East and North Africa (Verner et al.2018). On the one hand, it is therefore clear that these climatic risks threaten agriculture, the availability of water resources and, consequently, the agri-food system of the country (Verner et al. 2018). On the other hand, the current Russian-Ukrainian war has negative consequences on the grain supplies² and on the price of oil, which has led to an acceleration of inflation in Tunisia.

Unemployment, Discouragement of Youth and Low-Quality and Informal Jobs

As for labour market developments in Tunisia, one of the most striking indicators is the high unemployment rate (El-Kogali & Krafft, 2020; Kabbani, 2019; Verick, 2018; ILO 2021). The unemployment rate increased sharply in 2011, reaching 18.6% for the first time – due to declining economic activity. After 2011, the unemployment rate returned to historical levels before the Tunisian uprising, but did not drop significantly (ILO and ERF 2021). The pandemic has significantly increased overall unemployment, which rose by almost 20% and remained higher to pre-pandemic levels. In 2021, the youth unemployment rate remained stubbornly high at above 40% (Figure 2). The young women's unemployment was affected more strongly than that of young men following COVID-19 but was

decreased close to pre-pandemic levels afterwards. The high youth unemployment rate is believed to reflect the difficult transition from school to work, and inefficient labour market intermediation mechanisms (ILO and ERF, 2021). These problems, coupled with low participation in the labour market and discouraged groups, leads to underutilization of the workforce and therefore a waste of human resources (Marouani, Krafft and Assaad 2022; Assaad, Ghazouani, and Krafft 2018; Assaad and Krafft 2016).

In Tunisia, the highest rate of discouragement is displayed among the youngest men aged 15–24, especially those with secondary education. Whereas among women, the less educated are the most discouraged.

In addition, the industrial structure of the Tunisian economy based on small and medium enterprises (SMEs) cannot absorb university graduates. One in three employed university graduates is in the informal private sector and this rate has increased steadily in recent years (ILO, 2021).

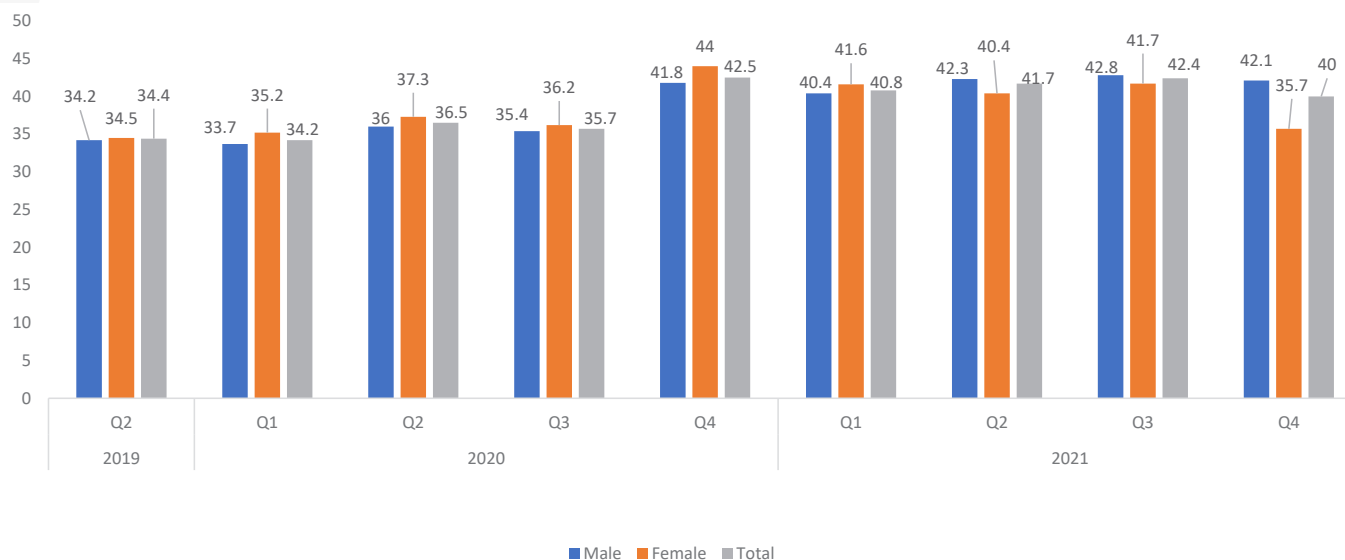
Despite Tunisia has managed to preserve the level of formal employment, reflecting a willingness to an openness to social dialogue, coupled with a strong trade union impetus, to promote decent work, several forms of decent work deficits remain present in the Tunisian economy. The quality of jobs created in the agriculture and construction sectors remains low, as evidenced by the fairly high rate of informality, vulnerability and poverty in these sectors (ILO and ERF, 2021; Nasri and Belhadj 2022).

In this regard, the highest poverty rates among workers are recorded in agriculture (22%) and construction (21%), two sectors known for their low productivity, and low wages (ILO and ERF, 2021).

Furthermore, the precariousness of employment is strongly present in agriculture and construction sectors, where the precariousness rate is 58 and 75%, respectively. In addition, rural women farmers are more likely to experience precarious employment conditions than men and less likely to be entitled to social protection benefit in comparison to those in

² Tunisia depends on the Russian and Ukrainian markets for 80% of its grain imports, and 60% of its wheat supply (the latter coming primarily from Ukraine).

Figure 2: Youth Unemployment Rate: 15-24 Years



Source: ILO and ERF (2022)

standard forms of employment. Also, the persistence of gender pay gaps penalizes women's capacity to contribute to the social security system, leading to lower benefit levels for work of equal value (Nasri et al., 2022).

Building Economic Resilience: Reform Options and Pathways

Achieving strong economic and labor market performance in an era of recurrent regional and global shocks requires timely and adequate reforms. Efforts should be directed towards the implementation of the ILO decent work country program in Tunisia, signed by the ILO, the Tunisian government and the social partners.

This program aims at attaining global, sustainable and inclusive economic growth cross-regions, and highlights the importance of creating jobs, promoting decent work and achieving universal social protection to comprehensive reforms. It also promotes a new model of industrial relations based on solid social dialogue with a view to strengthening social cohesion and consensus among the ILO tripartite constituents through the implementation of a new social contract which is based on a human-centered approach.

In order to achieve these ambitious goals, the following actions should be considered:

- The restoration of trust by harnessing the power of citizen voices, in particular through civic participation, transparency and the strengthening of local governance. It is also important to set up more inclusive institutions, governed by standards of transparency and impartiality and capable of offering citizens equitable access to public services (World Bank, 2022).
- The governance of public institutions must also change and adopt a citizen-centred orientation. The interventions must focus, among other things, on: (i) the digitization of public services intended for citizens (in particular education, social protection, health and agriculture) and (ii) the reforms necessary for the digitization of the economy. Restoring trust based on citizens' expectations can create favorable conditions to move the economy towards sustained productivity-led economic growth and create more and better jobs in Tunisia.
- Boosting Sustained Productivity-led Growth by increasing both domestic and foreign investment. This goal can be achieved by:
 - Reviewing the legal framework governing competition to remove obstacles to business

growth and access to economic opportunities (barriers to entry and access to finance, especially to the SMEs and to unemployed graduates in order to create their own businesses).

- Improving the business climate³ is necessary as well allowing for FDI inflows, which does not only positively affect economic growth in the host country but can also improve employment creation through spillover effects on productivity and working conditions in domestically-owned firms (ILO, 2012).⁴
- Create an economic environment conducive to invention and innovation at the business level by formulating a national agenda encouraging entrepreneurs to invest more in technology and to invent new combinations of factors of production. Tunisia does not lack skills but rather incentive regulatory frameworks.
- There is an urgent need to modernize the financial sector and mobilize climate finance to invest in a low carbon transition, including the creation of green jobs, the phasing out of fossil fuel subsidies and investment in renewable energy. There is also a need to strengthen the country's trade capacity, including by introducing modern trade services and deepening trade integration along the global value chain.

At the same time, more in-depth reflection is needed to identify a solid industrial development strategy that will create decent jobs. Indeed, it would be appropriate to evaluate the strategy pursued for the development of SMEs which are clearly struggling to develop and create enough quality jobs.

³The business climate is the economic and professional environment surrounding a group of business enterprises. This includes the government and political attitude toward such businesses and their financial stability. <https://www.upcounsel.com/business-climate-definition#>

⁴When individuals are employed by foreign and multinational companies, their human capital can be further enhanced through on-the-job training and learning. These foreign companies can also have a positive influence on the improvement of human capital in the other companies with which they establish links, including their suppliers. Multinational enterprises are the main source of research and development (R-D) activities in the developed world, and their level of technology is generally higher than that of developing countries, so that they are able to generate very significant technological spinoffs.

While there isn't a one-size-fits-all policy solution for the Tunisian labour market, promoting the private sector and allowing it to take the lead would fix to a large extent some of the above-mentioned distortions. In this view, it is essential to upgrade the capacities of the private sector to provide higher productivity jobs that fit the aspirations of educated youth.

Such objective can be achieved through:

- The institutionalization of social dialogue between the Tunisian government, social partners and civil society based on the Tripartite Consultation (International Labor Standards) Convention (No. 144). Social dialogue supports economic growth through a human-centered approach that is sustainable and promotes the decent work agenda. Experience shows that the contribution of the social partners is essential in the development and implementation of macroeconomic policies in Tunisia.
- The introduction of a more competitive wage-setting and contracting regulations for private sector within 2013 Social Contract framework and in line with international labour Standards related to wage conventions (ILO 2019).
- The reduction of the cost of the formal economy to disincentivize the informal economy and facilitate the transition of workers and economic units from the informal to the formal economy, as mentioned by the Recommendation, 2015 (No. 204). This could be achieved by removing administrative obstacles to contributions by easing administrative processes as well as adjusting contribution rates and benefits (ILO, 2017). This would encourage firms to join the formal sector and subsequently increase the demand for skilled educated workers and increase the labour force participation, especially among women who would benefit from better jobs in terms of type of contract, social security, working conditions, etc. (Boughzala, 2019).
- The promotion of the ratification, implementation and monitoring of the Social Security (Minimum Standards) Convention, 1952 (No. 102), e.g. through initiating ratification campaigns as well as the application of the Social Protection Floors Recommendation, 2012 (No. 202).
- Facilitating access to financing for young people to support business creation, especially in

marginalized areas as well as the implementation of large public investments that would stimulate private investment and create jobs. Social economy and solidarity are also ways to reduce unemployment in Tunisia.

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