

# Tunisia Systematic Country Diagnostic

Rebuilding trust and meeting aspirations  
for a more prosperous and inclusive Tunisia



**WORLD BANK GROUP**

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# Abbreviations and Acronyms

**Republic of Tunisia –  
Government Fiscal Year**  
January 1 – December 31

## Currency Equivalents

Exchange Rate Effective as of September 30, 2022

Currency Unit = Tunisian Dinar (TND)  
US\$1.00 = TND 3.33

<b>AMT</b>	Association of Tunisian Magistrates (Association des Magistrats Tunisiens)
<b>ATFD</b>	Tunisian Association of Democratic Women (Association Tunisienne des Femmes Démocrates)
<b>CCL</b>	Local Authority Code (Code des Collectivités Locales )
<b>CBN</b>	Cost of Basic Needs
<b>CPI</b>	Corruption Perceptions Index
<b>CSM</b>	Supreme Judicial Council (Conseil Supérieur de la Magistrature)
<b>CSO(s)</b>	Civil Society Organization(s)
<b>CPSD</b>	Country Private Sector Diagnostic
<b>DMSP</b>	Defense Meteorological Satellite Program
<b>EBCNV</b>	National Survey on the Budget, Consumption and the Standard of Living of Households (Enquête Nationale sur le Budget, la Consommation et le Niveau de vie des ménages)
<b>FLFP</b>	Female Labor Force Participation
<b>GDP</b>	Gross Domestic Product
<b>GIPs</b>	Interprofessional Groups (Groupements interprofessionnels)
<b>GNI</b>	Gross National Income
<b>HAICA</b>	High Authority for Audiovisual Communication (Haute Autorité Indépendante de la Communication Audiovisuelle)
<b>IFEDA</b>	Center for Information, Training, and Education of Associations (Centre d'Information de Formation d'Etudes et de Documentation sur les Associations)
<b>IFC</b>	International Finance Corporation



<b>ILO</b>	International Labor Organization
<b>IMF</b>	International Monetary Fund
<b>INS</b>	National Institute of Statistics (Institut National de la Statistique)
<b>INLUCC</b>	Authority for Good Governance and the Fight against Corruption (Instance Nationale de Lutte Contre la Corruption)
<b>ISIE</b>	Independent Higher Authority for Elections (Instance Supérieure Indépendante pour les Elections)
<b>ITCEQ</b>	Tunisian Institute of Competitiveness and Quantitative Studies (Institut Tunisien de la Compétitivité et des Etudes Quantitatives)
<b>LFS</b>	Labor Force Survey
<b>LTDH</b>	Tunisian League of Human Rights
<b>MENA</b>	Middle East & Africa
<b>NEET</b>	Not in Education, Employment, or Training
<b>NPL(s)</b>	Non-performing loans
<b>NTL</b>	Nighttime Lights
<b>PNAFN</b>	National Assistance Program for Families in Need (Programme National d'Aide aux Familles Nécessiteuses)
<b>SCD</b>	Systematic Country Diagnostic
<b>SMEs</b>	Small and Medium Enterprises
<b>SOE(s)</b>	State-owned Enterprises
<b>TFP</b>	Total Factor Productivity
<b>TVET</b>	Technical and Vocational Education Training
<b>UGOs</b>	Management Units by Objective
<b>UGTT</b>	Tunisian General Labor Union (Union Générale Tunisienne du Travail)
<b>VAW</b>	Violence Against Women
<b>VIIRS</b>	Visible Infrared Imaging Radiometer Suite
<b>WB</b>	World Bank
<b>WDI</b>	World Development Indicators
<b>WDR</b>	World Development Report
<b>WGI</b>	World Governance Indicators



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# Preface

## **This Systematic Country Diagnostic (SCD) comes at critical moment in Tunisia.**

Since the 2011 revolution and the promulgation of a new constitution in 2014, Tunisia has been navigating a difficult political transition. While there have been gains in poverty reduction, public trust in government has declined sharply, and the economy has stalled. The COVID-19 pandemic and more recently the effects of the war in Ukraine also exacerbated stresses on the economy, the public finances, and public trust in government. Partly as result of these trends, recent political events since July 25 2021 have marked a break with the 2014 constitutional model, and created great uncertainty regarding the future direction of Tunisia's transition. At the time of writing, it is still uncertain what form Tunisia's new political and constitutional model will take in coming years.

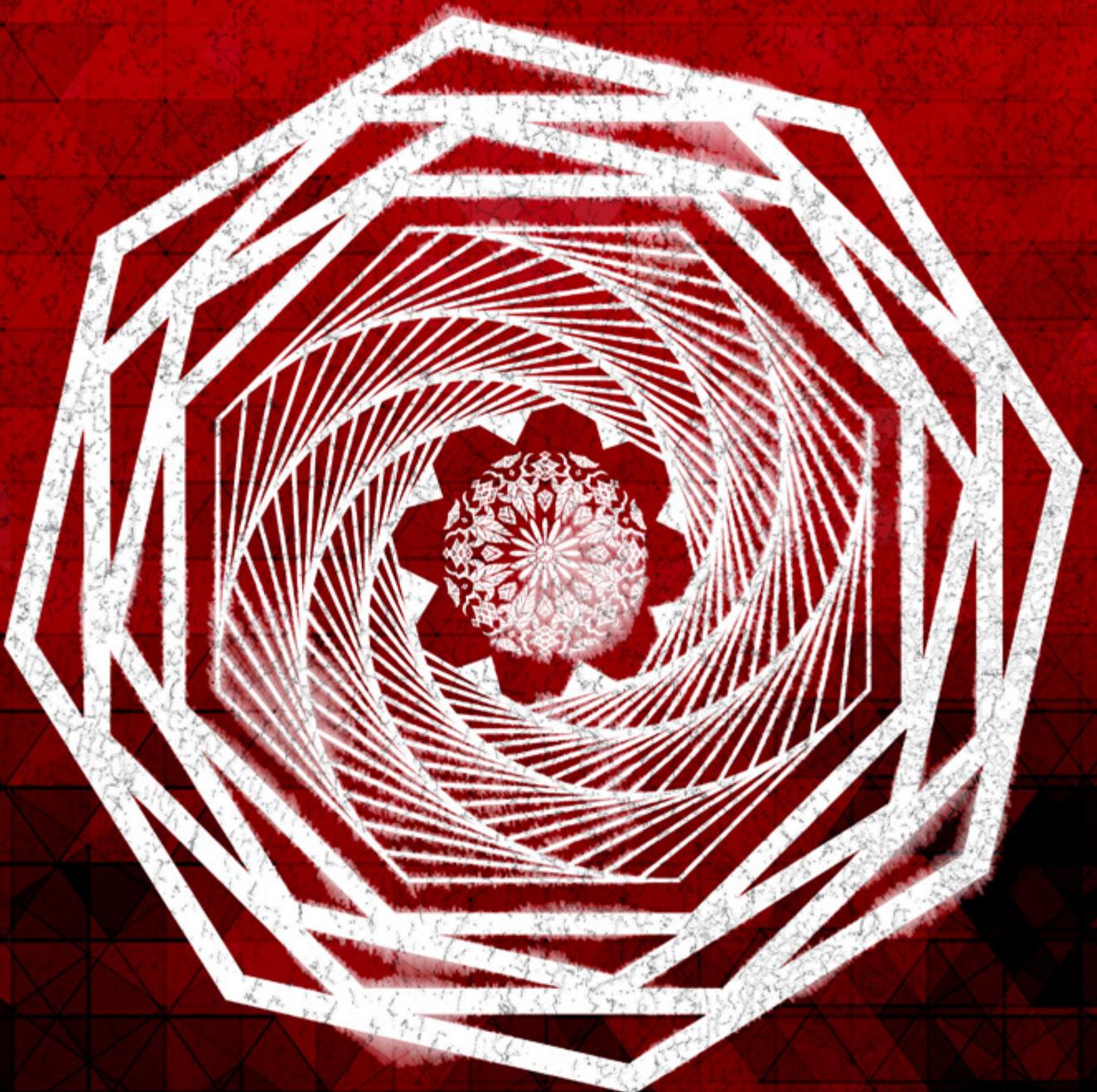
**The Tunisia SCD takes a ten-year view of trends in Tunisia since 2011, drawing comparisons with other comparable countries, and suggesting possible future pathways.** The World Bank Group undertakes SCDs as a diagnostic exercise to identify key challenges and opportunities to accelerate progress towards rebuilding trust and meeting citizen aspirations, and ultimately to contribute to the World Bank Group's twin goals of ending absolute poverty and boosting shared prosperity in a sustainable manner. This longer-term perspective means that the Tunisia SCD does not place a heavy emphasis on recent events, but rather seeks to situate them in the broader context of trends in equitable growth, poverty reduction, and state capability.

## **Current events and political developments do however link to a core theme of the Tunisia SCD, namely the fragile political settlement that has emerged since 2011.**

The SCD suggests that Tunisia's fragile political settlement since 2011 has both helped secure the transition and the 2014 constitution, but has also been too fragmented and exclusive to fulfil its promise or to take on the pervasive rent-seeking that impedes the economy from delivering jobs and growth. The SCD therefore takes recent political developments in the country into account, but it does not aim to offer specific suggestions for the country to address the current political uncertainties. Instead, the four forward looking pathways of this SCD adopt a wider lens, proposing measures for rebuilding trust and meeting citizens' aspirations as pathways to the twin goals of reducing extreme poverty and promoting shared prosperity.

**The Tunisia SCD is prepared by World Bank Group staff to identify key challenges and opportunities for Tunisia to accelerate progress rebuilding trust and meeting aspirations.** It is intended to become a reference point for consultations on priorities for World Bank Group country engagement. It is also intended as a contribution to the public debate about Tunisia's path forward. Feedback and engagement with the findings of this report are therefore welcomed by World Bank Group staff.

# Executive Summary





**Tunisia embarked on a deep social, political, and economic transition a decade ago, a journey often accompanied by periods of instability, uncertainty, and contestation.** The transition was born from a moment of hope and aspiration that spread beyond Tunisia's borders, calling for dignity and freedom through greater political participation, voice, opportunity and inclusion. The country made early gains in this journey, securing a democratic opening and greater voice and civic freedoms for the population - core demands of the revolution. Indeed, as Tunisia became a more open polity, citizens' ability to voice their demands and concerns increased significantly. Levels of citizen organization and mobilization grew and are high in comparison to peers, building on a historically active civil society, which has remained powerful since the revolution. Moreover, mass mobilization and the power of the street have served as a channel through which Tunisia's citizens hold the state accountable and make their interests known. This openness distinguishes Tunisia among its peers and offers the possibility of a peaceful renegotiation of the social contract and of the transition path.

**Yet over a decade after the revolution, Tunisia now stands at a critical juncture, and is in the process of changing the constitutional order established in 2014.** Tunisia's transition has been under severe and sustained pressure for a number of years, with stalling economic growth and job creation, unsustainable public finances, perceptions of widespread corruption, and deep public mistrust in the political elite. The COVID-19 crisis further exacerbated the economic, fiscal, and trust crises. Events came to a head in July 2021 with the President dismissing the Prime Minister, suspending parliament, and assuming wide ranging powers through a partial suspension of the constitution. Subsequent developments, including the replacement of the Supreme Judicial Council (CSM) with an interim body, and a constitutional referendum to be followed by parliamentary elections, underscore the fact that Tunisia is in the process of changing the constitutional order established in 2014. Citizen's initial optimism after the revolution has given way to frustration and mistrust, to the extent that surveys show large majority popular support for the President's actions since July 2021.

**The political settlement helped secure a democratic transition, but it has been too fragmented and unstable to fulfil the Revolution's political and socio-economic promises.** The broadening of the political settlement post-2011, and its consensus-based nature, have been critical to ensure a peaceful political transition, a major feat in the region. Yet, since then, political power has become increasingly fragmented and polarized, under a system that delivered eight governments in the ten years after the revolution. The number of political parties increased and forming a government has tended to rely on the formation of fragile coalitions. The number of political actors has also increased, including unions – in particular the Tunisian General Labor Union (UGTT), which has grown in influence since 2011 as the political landscape has fragmented – and other social partners, who have played influential roles since 2011. Tunisia therefore relies on consensus-based decision making, with veto players able to block developments contrary to their group or individual interests.



**Taken together, these features of the political settlement have yielded a deal-based system that has struggled to deliver on the promise of the revolution. It has hampered the development envisaged under the constitution, and undermined efforts to build a more capable and effective state.** This has created an implementation gap between high expectations and *de jure* formal institutional roles on one hand, and far more limited *de facto* progress in developing actual functions and capabilities on the other. Some institutions, such as the constitutional court, were never established, while others such as the anti-corruption agency the (INLUCC) and elections authority (ISIE) have been chronically under-resourced, understaffed, and politicized. More broadly, the high political turnover has undermined policy continuity within the public administration, especially for the sustained multi-year attention that reforming legacy legal and administrative structures requires, and fragmentation has undermined the authority needed to advance reforms that challenge powerful vested interests.

**The current political and constitutional change comes at a time of acute economic and debt challenges which call for urgent reforms.** The fragmentation and immobilism resulting from the political settlement has also stifled the implementation of decisive measures to reinvigorate the economy, create jobs, and set public finances on a more sustainable trajectory. Instead, government policy has tried to provide some relief to the people by focusing on expanding access to “insider” benefits such as low skilled public sector jobs and consumer subsidies. With the root problems of the Tunisian economy unaddressed, and few jobs created in the private sector, these policies have led to an unsustainable increase in public expenditure and increased inequalities. The Covid-19 crisis has aggravated the structural deficit, as government has sought to compensate citizens for forgone economic opportunities. Without an urgent package of economic reforms, Tunisia will find it challenging to finance its growing public debt in the near-term. Such reforms include measures to: (i) increase competition in all markets, (ii) reduce untargeted consumer subsidies; (iii) improve SOE performance; (iv) reorganize the public sector to improve services and reduce overall costs; and (v) make the tax system more equitable, efficient and sustainable.

**Further, the political settlement still excludes many regions and groups, many of whom are trapped in precarious living circumstances.** Multiple exclusionary practices benefitting economic “insiders” are facilitated by the continued existence of a legacy bureaucratic and legal regime for regulating the private sector. These include extensive in-built barriers to entry such as authorisations (*autorisations*), sectoral specifications (*cahiers de charges*), business licenses (*conditions d'exercice*), and self-regulation by sectoral institutions dominated by incumbent businesses such as interprofessional groups (*groupements interprofessionnels* or GIPs). As a result, economic contestability as measured by market competition in the Tunisian economy has further deteriorated since the revolution. Average market concentration across sectors has risen since 2011. This is consistent with the idea that competition in Tunisia seems to closely relate to the extraction of rents by connected firms. There is also a gender dimension to economic exclusion, with extensive barriers to female labor force participation.



**This mixture of immobilism, exclusion, and economic stagnation, has reduced trust in Tunisia's political institutions.** As the post-Revolution economic model has stalled and failed to deliver jobs and growth, trust in public institutions and political elites has collapsed since 2011. General measures of trust in government in Tunisia were measured at 15% in early 2021, compared to much higher levels in neighbouring Morocco (48%) and Algeria (26%).<sup>1</sup> Meanwhile Tunisians, far more than those surveyed in other Arab countries, cite economic grievances as the most important challenge facing their country today.<sup>2</sup> That sentiment has emerged despite the increased public spending through which successive governments have sought to compensate the vast sections of the population excluded by the exclusive sharing of economic rents. The Covid-19 pandemic exacerbated severe underlying economic problems, as well as making public mistrust of and dissatisfaction with both political elites and governing institutions more acute.

**Ultimately, these trends created the conditions for the presidential invocation of Article 80 on July 25th 2021.** They also help to explain why the invocation of Article 80 was greeted with overwhelming popular support. The same factors also mean that it is very unclear how the resultant simultaneous constitutional and economic crises Tunisia now faces might be resolved. On one hand, Tunisia is seeking to reconfigure its constitutional model, an exercise which must sustain and build on the democratic gains of the Revolution. On the other hand, it must also find a way of reinvigorating the economy that can deliver on citizens' economic aspirations without resorting to the costly expansion of "insider" access to public sector jobs, untargeted subsidies, and continued protection of incumbent firms. The latter challenge will ultimately mean taking on pervasive rent-seeking, protected by extensive barriers to entry, and pivoting towards a more inclusive economic model that allows new small and medium enterprises to flourish and create jobs and growth in the formal sector. Charting a course through Tunisia's ongoing democratic transition is therefore at the core of the development challenge today and requires shifting to a more inclusive political settlement, and developing and implementing a vision for reinvigorating the economy.

<sup>1</sup> Arab Barometer survey, March – April 2021.

<sup>2</sup> Arab Barometer (2021) "In surveys, Tunisians tell of continuous economic grievances." September 28, 2021.



## Taking Stock of the Past Decade

After the 2011 revolution the economy slow down relatively to the already low pre-revolution pace

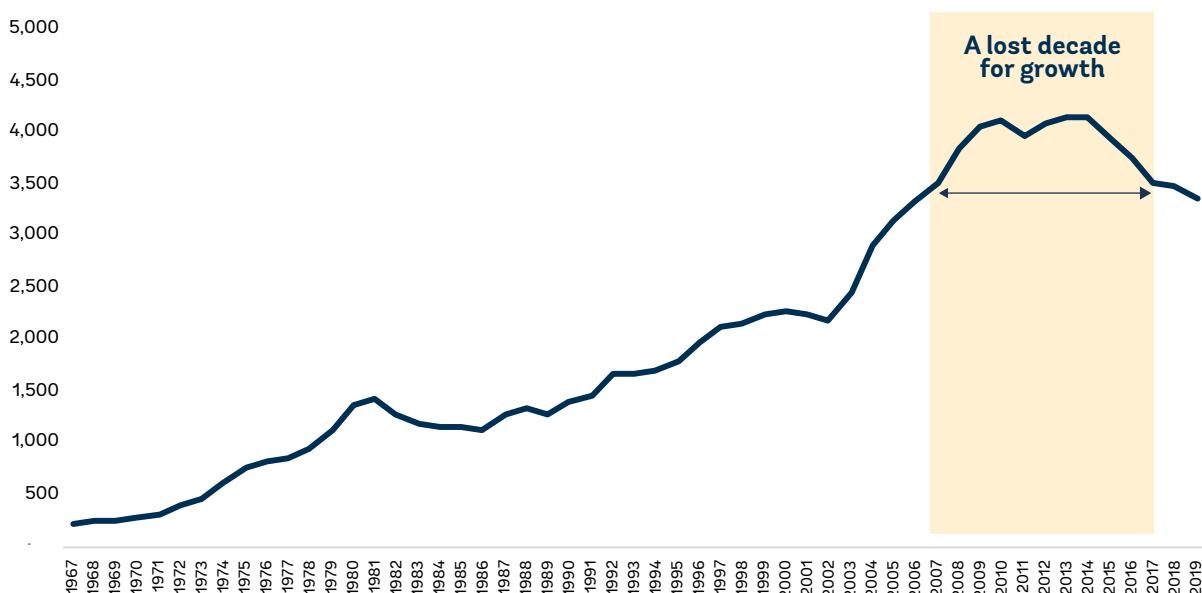
**Tunisia's economic performance decelerated over the past ten years, resulting in a lost decade for growth.** GDP growth declined to 1.7 percent on average between 2011 and 2018,<sup>3</sup> down from 3.5 percent between 2000 and 2011 as performance weakened across all sectors of the economy, with the exception of agriculture. Economic performance stagnated, due to a significant decline in productivity growth from the already low growth of the pre-revolution era.<sup>4</sup> Low investment, limited innovation, reduced trade orientation, and excessive regulation of economic activity were major contributing factors. In particular, private investment as a share of GDP dropped from an average 17.4 percent of GDP in 2000-2010 to 14.9 percent of GDP in 2011-2019. Moreover, the share of Tunisian firms introducing a new product or service halved from 28 percent in 2013 to 14 percent in 2019. Particularly affected were Tunisia's "old" industries (mainly food and textiles), while some "newer" industries experienced productivity growth.

**Figure 0.1:**

**A lost decade for growth**

GNI per capita by 2019 had declined to pre-2008 levels GNI per capita, Atlas method (current US\$)

Source: World Development Indicators (WDI)



3 Growth was even lower for the period between 2011 and 2020 given the impact of the Covid-19 pandemic.

4 World Bank (2014) highlights the limited structural change and the weak economic performance of Tunisia in the 2000-10 decade. The relatively limited economic growth of the period had been mainly driven by the expanding public sector in an economy saddled with severe distortions, which kept its performance below potential.



**Demographic pressures are also emerging as Tunisia enters the latter stages of its demographic dividend, labor force growth begins to slow and with low female labor force participation.** Indeed, the growth rate of the working-age population slowed from 1.6 percent between 2006 and 2010 to 1.1 percent between 2011 and 2016. At the same time, educational outcomes are starting to weaken. The human capital index, a measure of productivity of the next generation, declined slightly from 0.53 in 2010 to 0.52 by 2020. The decline was mainly due to weaker learning outcomes. Having been a regional leader in education in past decades with higher levels of access, literacy and female education than its peers, recent evidence of learning outcomes indicates a decline in the quality of education, which weakens the foundations for growth.

**With a weaker economy, Tunisia became even less capable than during the pre-revolution time of meeting citizens' aspirations for more and better jobs.** Job creation slowed as the economy failed to produce sufficient opportunities to cope with demographic pressures, specifically for university graduates and the prime working-age population. The structure of employment has not changed significantly over the last two decades, reflecting the slow structural transformation of the economy and a concentration of jobs in low-productivity sectors. Other key structural challenges continue to affect the Tunisian labor market as they did under the Ben Ali regime: 32 percent of youth remain inactive (not employed or in education) in 2019 and unemployment rates are persistently high, particularly among university graduates (27 percent), women (22.5 percent), and young (34.4 percent), with widespread regional disparities. Finally, job informality continues to be a key issue among Tunisian youth, affecting uneducated workers and low productivity sectors, which are the largest employers of the poor.

**In this low growth context, the pace of economic convergence between leading and lagging areas, which was robust between 2000 and 2010, slowed after 2011.** Notably, Tunisia's coastal economic strongholds are among the areas with the weakest growth outcomes over the past decade, reflecting declining productivity rates in "old" manufacturing industries and in tourism. In effect, weak growth is affecting not only lagging regions that have a fragile economic base, but Tunisia's wealthier regions and their middle class are also vulnerable to the weakened economic situation of the country. Unemployment rates also increased, particularly in the lagging regions, as job creation failed to keep up with population growth.



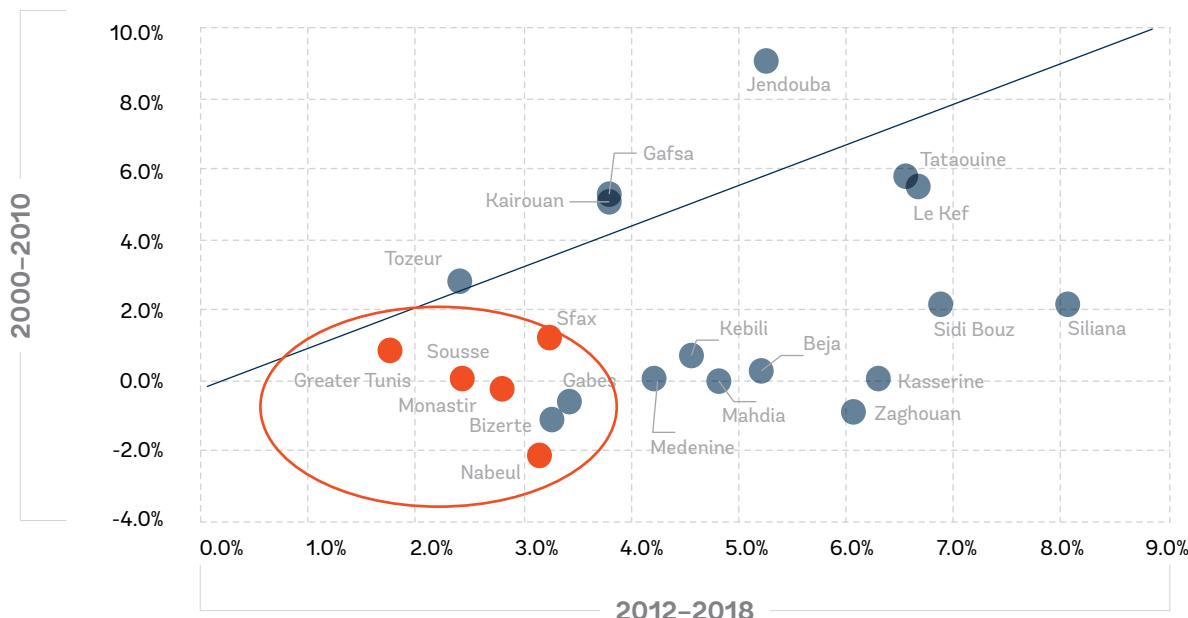
**Figure 0.2:**

**The majority of Tunisia's governorates have weaker growth outcomes post-2011**

GDP per capita growth at the governorate level (2000-2010 vs. 2012-2018)

Legend: ● indicates "coastal economic strongholds"

Source: World Bank staff estimates based on INS and DMSP/VIIRS nighttime light data



**The state increased significantly its social spending to fulfill the social contract in the absence of growth and job creation**

**With worsening growth and job outcomes, Tunisia has increasingly relied on the welfare state to meet citizens' aspirations for better livelihoods.**

This includes the package of key fiscal instruments to support the livelihoods and purchasing power of households, comprising subsidies, transfers to State Owned Enterprises (SOEs), social protection and public sector jobs.

**These measures have helped many poor and vulnerable households at a delicate time at the early stages of the transition.** For example the increase in public sector recruitment may have created employment opportunities for some low-income households. Specifically, the regularization of temporary workers in the agricultural sector, along with significant increases in their wages after 2011, may have supported poverty reduction. The public sector has also tended to be considered the employer of last (and at times first) resort when social and youth unemployment pressures increase, leaving Tunisia with one of the highest public sector wage bills globally, and a growing imbalance in the public pension system.



The civil service wage bill is estimated to have reached 17.6 percent of GDP in 2020.<sup>5</sup> Similarly, the significant scale-up of cash transfer programs for needy families helped support livelihoods. For instance, the National Assistance Program for Families in Need (PNAFN) was scaled-up over the past decade, with the number of beneficiary households increasing significantly from 132,000 to 234,000 in 2011-15 and an overall spending increase of around TND 115 million. Most of the areas that experienced the fastest growth rates in the number of beneficiaries are among the lagging regions as discussed below.

**However, this approach has not tackled the multiple barriers to the operation of markets and the deep distortions which have held back the country's prosperity and economic performance.**<sup>6</sup> As a result it did not accelerate job creation nor provide a broad sense of growing opportunities. Moreover, the potential for a policy mix that largely relies on fiscal transfers and social assistance to meet citizens' aspirations to succeed, while placing insufficient emphasis on jobs, is doubtful. Indeed, data shows that Tunisian citizens without jobs have higher levels of dissatisfaction than those in employment at any given level of income, especially for those in the middle of the income distribution.

### Social transfers allowed Tunisia to reduce poverty in spite of the poor economic performance after 2010

**Tunisia managed to significantly reduce poverty after the revolution, and particularly in 2010-2015, in spite of the deteriorating economic performance.** The national poverty rate fell to 15.2 percent in 2015 from 20.3 percent in 2010 and from 25.4 percent in 2000 —about 1.6 million individuals lifted out of poverty between 2000 and 2015 (Figure 1-panel a). The rapid poverty reduction during the 2010-2015 period, and in spite of low (annualized) per capita GDP growth of 0.8 percent and negative GNI per capita growth (as highlighted above).<sup>7</sup>

**The expansion of social transfers seems to be the key factor behind the poverty reduction after 2010, although a definite test of this hypothesis would require fuller access to household survey data.** Tunisia significantly expanded the cash transfer program PNAFN in both in terms of number of beneficiary households and of the amount of the transfer. The resulting spending increase by around TND 115 million would have been sufficient to explain the 5 percentage point poverty reduction in 2010-15. That is because as many of the poor were relatively close to the poverty line in 2010. The average expenditure level of a poor

5 IMF (2020) Article IV Consultation.

6 See World Bank (2014) and the forthcoming Tunisia Country Private Sector Diagnostic for detailed analyses of such barriers.

7 Annualized per capita GDP growth is estimated at 3.1 percent between 2000 and 2005 and at 3.5 percent between 2005 and 2010.

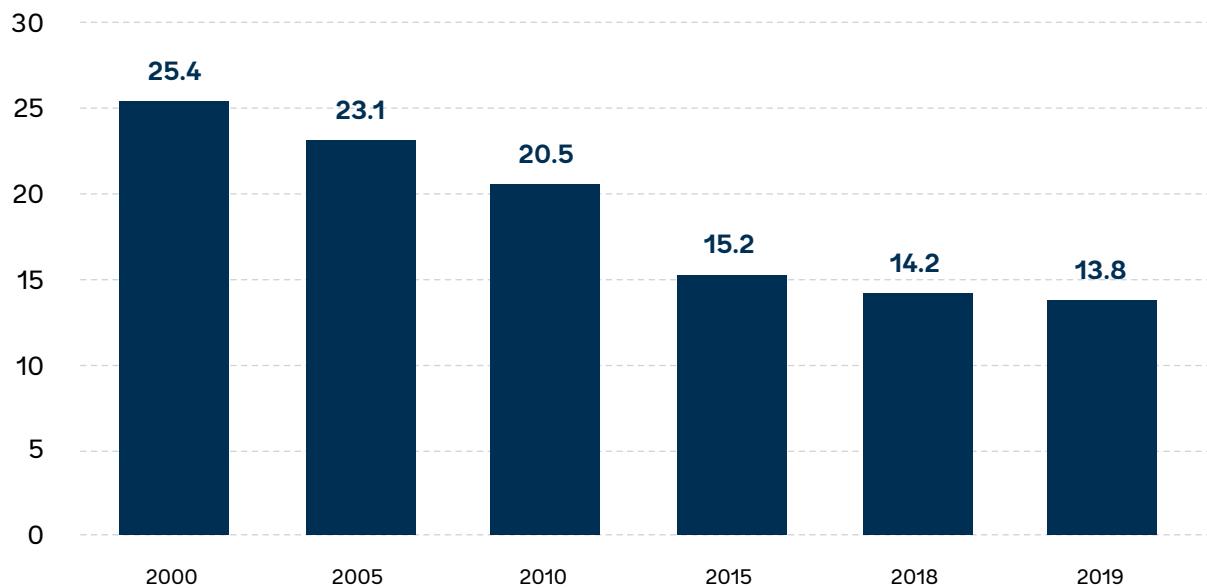


**Figure 0.3:**

**Poverty headcount rates using the upper poverty line, 2000-19**

Note: Although representative at national level, all the rounds of the EBCNV do not include income, but only household spending. Access to total consumption aggregates allowed us to compute poverty and inequality figures for all rounds. The panel survey collected in 2018 and 2019 on a subsample of households already surveyed in 2015 includes new income modules instead of consumption. Poverty and inequality for 2018 and 2019 have been recently imputed by the INS and the World Bank.

Source: Calculations based on the Enquête Nationale sur le Budget, la Consommation et le Niveau de Vie des Ménages (EBCNV), INS. Rounds 2000, 2005, 2010 and 2015; Panel 2018/2019

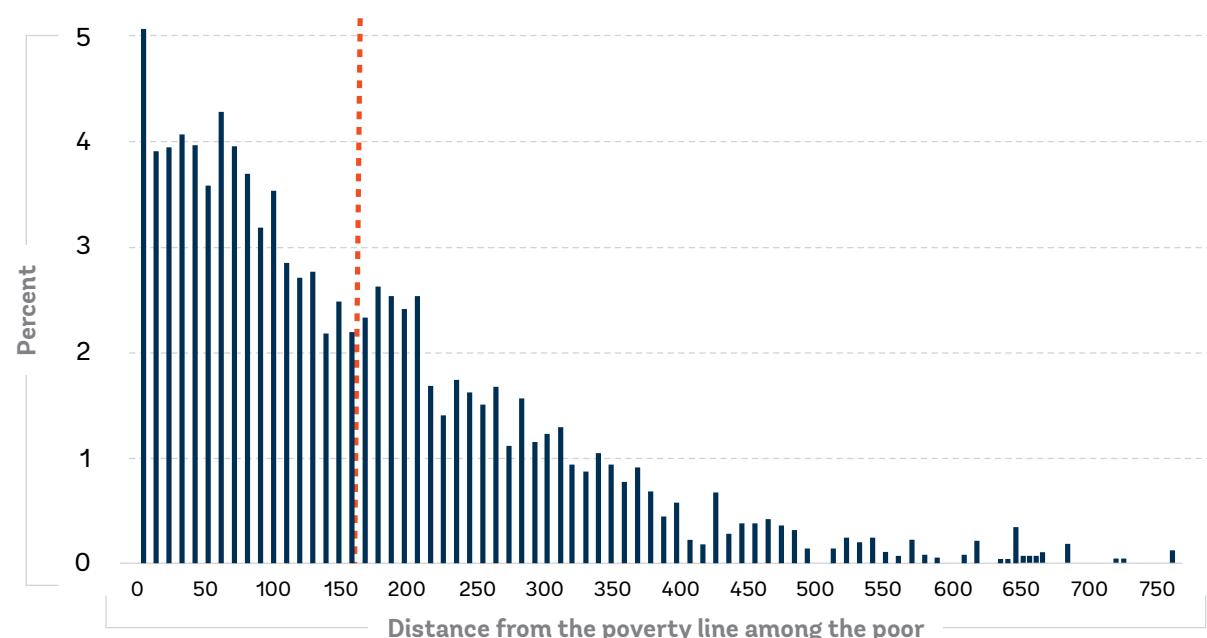


**Figure 0.4:**

**Distribution of the distance of household monthly expenditures from the poverty line among the poor, 2010**

Note: The vertical line indicates the average distance of household monthly expenditures from the poverty line among the poor

Source: Based on data from the EBCNV 2010, INS.





household at that time was at around 94 percent of the poverty line.<sup>8</sup> While the PNAFN seems the most plausible behind the post-revolution poverty reduction story, better access to household would be needed to perform a full analysis of the actual mechanisms.

**The Covid-19 crisis has clearly showed that Tunisia's policy of social spending without tackling the deep deficiencies of the economic environment is no longer affordable**

**The COVID-19 pandemic has exacerbated these vulnerabilities, clearly signaling that the policy mix of the past decade has run its course.** Not only have these policies failed to meet citizens' aspirations, but their cost has now burdened Tunisia with high debt. The pandemic led to an unprecedented 9.2 percent contraction in growth in 2020 and a steep path to recovery given the preexisting structural weaknesses of the economy. The pandemic is also having a lasting impact on the private sector and employment. By the end of the 2020, around a fifth of companies were either permanently or temporarily closed whilst two thirds risked permanent closure in the next 12 months. Unemployment, which was high at around 15 percent before the pandemic and worsened to 17.4 percent in 2020. COVID-19 also reversed the gains made in reducing poverty, inequality and gender-based gaps. Poverty is estimated to have increased from 14 percent of the population pre-Covid to 21 percent in 2020, with most of the impact being felt by the poorest households and many more now vulnerable to falling back into poverty. Inequality (measured using the Gini coefficient) is estimated to have also increased from 37 to 39.5.

**The pandemic also compounded the fragilities of Tunisia's public finances, saddling the country with an even higher debt burden.** In response to the pandemic, Tunisian authorities adopted a range of policy measures, responding to the needs of the health sector, providing financial assistance to vulnerable households, and supporting businesses through tax and credit measures. The costs of these measures, combined with lower tax receipts, raised financing needs and placed debt on a steeper upward trajectory. Public debt is estimated to have reached 85 percent of GDP by end 2021 and would likely exceed 100 percent of GDP if SOE debt is included. Sovereign credit rating downgrades followed, making public finances even more precarious and placing the credibility of the macroeconomic framework increasingly in question. These levels of debt, combined with weak growth performance, place Tunisia's finances on a fragile footing and limit the scope to continue past policies.

<sup>8</sup> A simulation exercise indicates that reducing poverty by 5 percentage points in 2010 would require only TND 36 million (in 2010 prices).



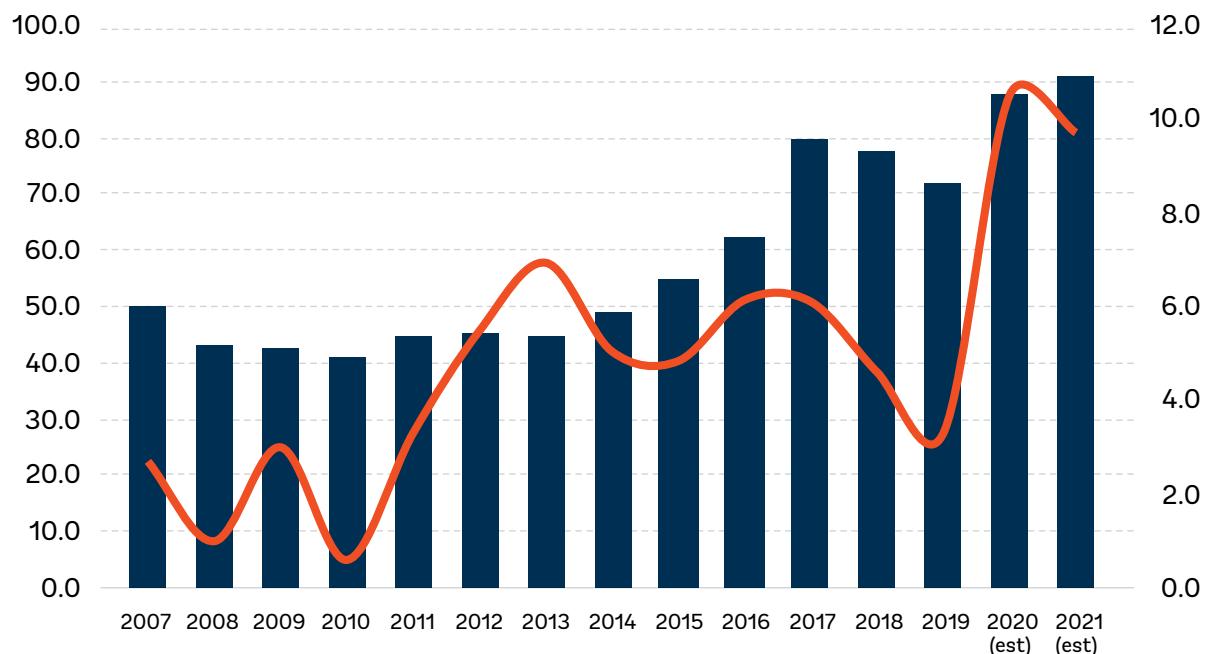
**Figure 0.5:**

**There are increasingly clear signs that the past policy mix has now run its course**

Public debt and the fiscal deficit are growing (% of GDP)

Legend: ■ Public debt (LHS) ■ Fiscal deficit (RHS)

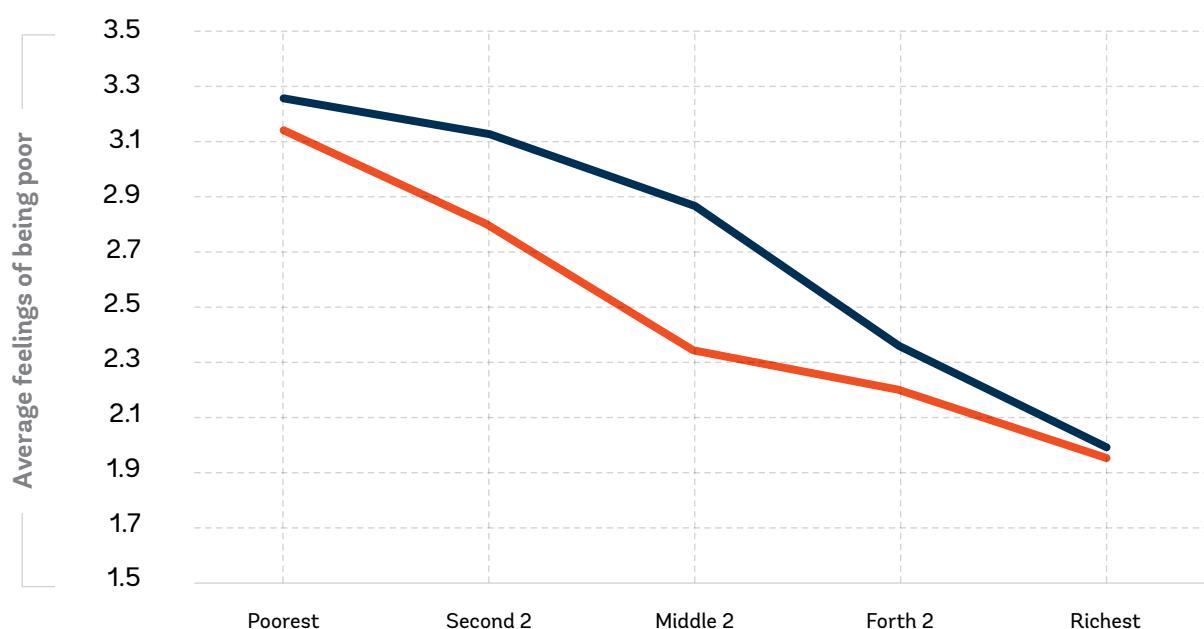
Source: Ministry of Economy, Finance and Investment, World Bank staff estimates.



Dissatisfaction is higher for the jobless for any given income level, especially the middle-class (% of GDP)

Legend: ■ Unemployed ■ Employed

Source: Gallup world poll





With low growth and job creation, vulnerability remains high and many remain at risk of falling into poverty.

**Tunisia's vulnerability trends have shown that social assistance and the welfare state have been insufficient for dealing with socioeconomic vulnerability in the absence of robust growth and job creation.** Around 24 percent of the population remain vulnerable to falling back into poverty. Vulnerability is even more pronounced in rural areas, where 42 percent of residents were vulnerable in 2019 (compared with 15 percent in urban areas). In fact, the share of rural residents that are vulnerable has barely declined between 2000 and 2019, suggesting the persistence of precarity in the livelihoods of underprivileged Tunisians despite the important gains in poverty reduction.

**Vulnerability is multidimensional and spans both economic and social dimensions.** Vulnerability stemming from the lack of access to economic opportunities has continued to prevent socioeconomic mobility, disproportionately affecting lagging regions, women, youth and ethnic minorities. For instance, school attendance and graduation rates are deeply impacted by regional disparities and the urban-rural divide and an unbalanced distribution in learning resources results in variations of learning outcomes that reduce opportunities for socioeconomic mobility for certain groups. Similarly, the relatively low levels of connectivity, both physical and digital, of interior regions reduces their market linkages to coastal economic hubs limiting their competitiveness and their pathways for inclusion.

**Figure 0.6:**

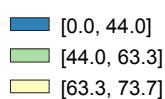
**Overlapping vulnerabilities persist and are spatially concentrated**

Multidimensional vulnerability index

Note: Vulnerability = Living standards + socioeconomic + access to services - economic activity - market accessibility

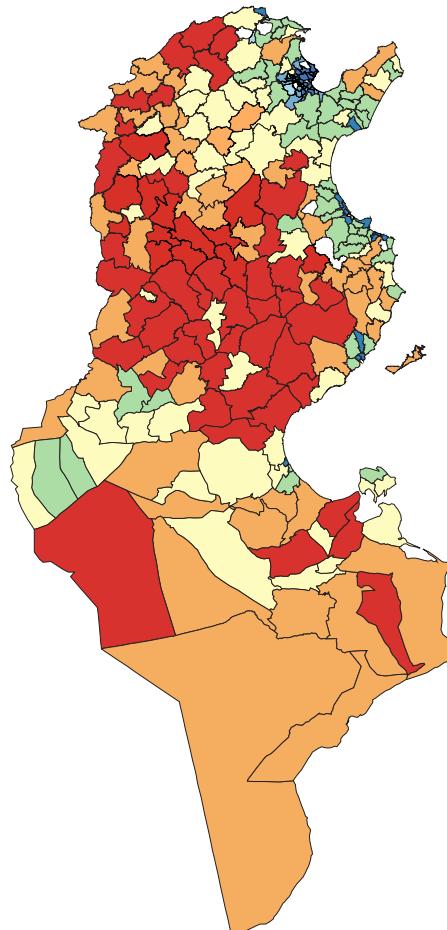
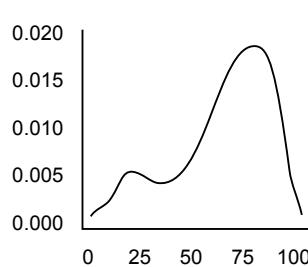
Source: World Bank staff estimates

### Vulnerability



40th more  
vulnerable

### Density





**Vulnerability also stems from persistent gaps in living standards. Regional location plays an important role in the quality of life and is the basis for significant disparities even when it comes to access to very basic services.**

For instance, rural households have some of the lowest levels of access to improved water and sanitation, piped gas, or access to the internet. Access to water, which is increasingly scarce and unequally distributed, is a growing source of tension.<sup>9</sup> Poor urban households are affected by the rise in informal housing. Moreover, the projected climate-change-related increase in heat waves, dust storms, coastal flooding, and extreme weather events in Tunisia are likely to have a significant impact on the population, with the urban poor particularly at risk.

**Despite reform efforts, there is an implementation gap whereby state capabilities remain inadequate to deal with the growing socioeconomic challenges.**

**The 2014 Constitutional reform offered the opportunity for an overhaul of the governance of public institutions in Tunisia, promising to introduce a greater degree of transparency and accountability.** Yet, there has been a major “implementation gap” in translating *de jure* constitutional and legal reforms into *de facto* more capable public institutions. Indeed on many measures state capability has stagnated or declined since 2011. Major public governance reforms (civil service, SOEs, decentralization, justice) are stalling and state capabilities remain inadequate to deal with the growing socioeconomic challenges. Since 2011, indicators of regulatory quality, including regulations that permit and promote competition and private sector development, have declined markedly; government effectiveness, reflected in the quality of civil service or public delivery, has stagnated; and the rule of law, despite an initial period of improvement, remains unstable, reflecting the slow and uneven implementation of institutional reforms aimed at building institutional counterpowers, reforming the judiciary, and strengthening regulatory authorities.

**The country’s rapidly growing civil service with limited performance orientation has contributed to weak progress in improving state capacity.**

The civil service wage bill more than doubled since 2011 and accounted for around 50 percent of public expenditures by 2020 as social pressures and demands for jobs caused public employment to serve as an “employer of last resort.” This rapid expansion may have been to the detriment of meritocratic recruitment, with obvious effects on the performance of civil servants. At an administrative level, the state continues to have many pockets of excellence at the individual and institutional level, but these are often hampered by factors that include unreformed legacy legal and administrative structures, intra-governmental coordination challenges, and widespread risk aversion.

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<sup>9</sup> See for example Nations Unies en Tunisie (2021) « Analyse des risques et défis liés aux changements climatiques en Tunisie : Conflits liés à la gestion de l'eau et de la terre. »



**Moreover SOEs, which play a significant role in the Tunisian economy and in delivering services to citizens, have experienced a considerable deterioration in capability.** SOEs have experienced a long period of declining financial and service-delivery performance, undermining the competitiveness of the country. These performance gaps can be traced back to challenges to SOE governance including with regard to transparency, internal governance, the strategic management of SOE portfolios (ownership functions, and monitoring of performance and compliance), and recruitment and retention of staff with the requisite skills.

**State capability at the local level is constrained by a legacy of centralized power and decision-making, which put the deepening of decentralization reforms and strengthening of local governance at risk.** The design and implementation of decentralization reforms inspired by the 2014 Revolution have, so far, been led in a technocratic and centralized manner, without the effective participation of local actors. There is a strong commitment to decentralization in the text of the 2014 constitution, which dedicated an entire chapter to local authorities (Chapter 7, articles 131 - 142). However, the constitution did not assign a clear mandate to local authorities or specify clear parameters for fiscal autonomy. Further, there has been an implementation gap between *de jure* and *de facto* decentralization. The law governing the entire decentralization process, the Code des Collectivités Locales (Local Authorities Code, Organic Law No. 48 of 2017), was only passed by parliament in April 2018, ten days ahead of the municipal elections. And local authorities' financial situation is relatively weak, with very limited revenues assigned to local level (property tax, undeveloped land tax, and industrial, commercial or professional property and hotel tax), around 2.4% of national tax revenue.

### Freedom of expression and new media have shone a light on corruption.

**Corruption, one of the main triggers of the Revolution, continues to undermine public trust in government and is perceived as having become more widespread.** A major step-change in corruption perceptions took place from 2009-2011, with an increase from 57 to 92 percent of the population agreeing that there is corruption in the government, with stabilization thereafter. This is consistent with a general trend in post-authoritarian countries that citizens expect political change to lead to a decline in corruption, yet also that greater openness and freedom of expression brings more news of corrupt practices to the public. A number of anti-corruption initiatives were taken in the aftermath of the Revolution, ranging from the establishment of an anti-corruption agency (*Instance nationale de lutte contre la corruption* or "INLUCC") to the adoption of legislation on illegal enrichment and asset declarations (2018). Yet, their impact has been limited, in part because of gaps and delays in implementation, under-budgeting, under-staffing, and the weak performance of the judiciary overall, which has undermined more effective sanctioning of corrupt public officials and businessmen by the courts.



**In practice, the perception that corruption has become more widespread since the Revolution is widely held among the general population and businesses.** Data from the World Bank Enterprise Survey shows that the share of firms identifying corruption as a major constraint has increased from 36 to 56 percent between 2013 and 2020, exceeding the MENA average (43 percent). This is compounded by an increase in the share of firms identifying the courts system as a major constraint (from 3.2 percent to 12.6 percent), which further undermines the rule of law. Corruption has also impacted elections: a widely publicized Court of Auditors (2020) report into the 2019 presidential and legislative elections highlighted multiple breaches of electoral law, including illegal financing. These weak institutional responses to cases of corruption and infringements of electoral law have in turn helped to undermine public trust in the integrity of government and elections.

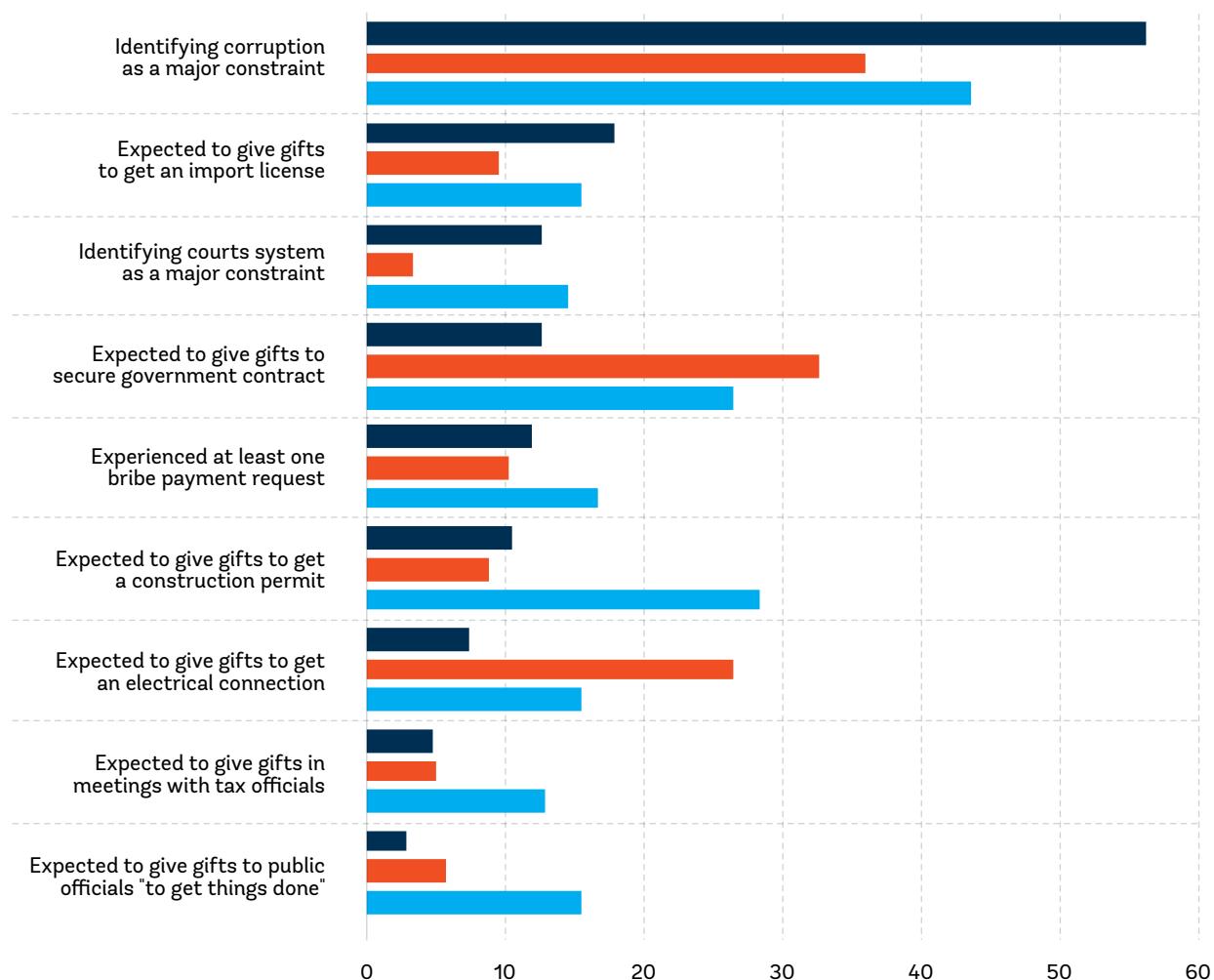
**Figure 0.7:**

**Corruption and the rule of law in the business sector (% of firms...)**

Multidimensional vulnerability index

Legend: ■ Tunisia (2020) ■ Tunisia (2013) ■ MENA (2020)

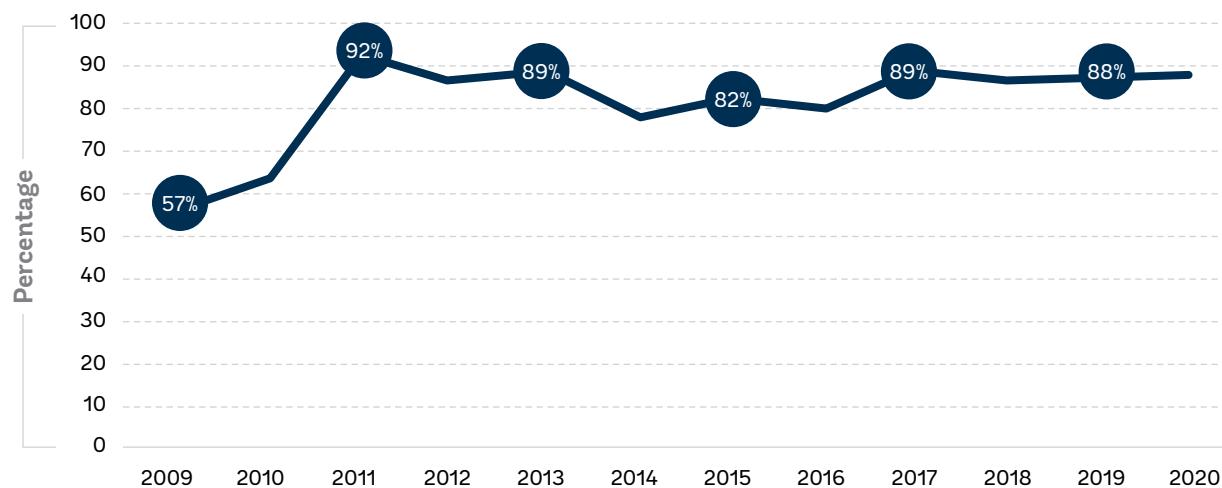
Source: World Bank Enterprise Survey



**Figure 0.8: Proportion who agree that there is corruption in the government**

Note: Higher score represents higher perceived corruption

Source: Gallup World Poll



Tunisia is considered highly vulnerable to climate change and can mitigate its impacts by investing in a low carbon transition.

**Climate change and natural resource overreach are also substantial risks for Tunisia's development aspirations.** Tunisia is considered highly vulnerable to climate change and is expected to experience adverse impacts from temperature increases (estimated from 1.9°C to 5.3°C by the 2080s), increased aridity, reduced rainfall, and rising sea levels.<sup>10</sup> Tunisia is already dealing with the severe impacts of climate change, such as the rising frequency of climate-induced disasters, increased number of ecological-migrants, degrading ecosystems, and pressures on agriculture. However, there is also an opportunity for a more environmentally friendly, sustainable and resilient future. To achieve this, government will need to invest in a low carbon transition, including creating green jobs, phasing out fossil fuel subsidies, investing in renewable energy, fostering green infrastructure, and taking greater account of climate risks in financial and policy decisions. A particularly promising set of low carbon investments concern renewable energy, including wind and solar power. the recent government approval of a package of 500 MW of photo-voltaic concessions in late 2021 a major step forward. Scaled-up investments in renewable energy are one way in which Tunisia can position itself for opportunities such as the European Green Deal, creating inward investment and job by helping Europe to meet its carbon emissions targets.

<sup>10</sup> World Bank. 2021. "Climate Risk Profile: Tunisia (2021)."



## A Transition at Risk

With mixed outcomes and limited progress in job creation, dissatisfaction grew and trust declined as a perceived sense of unmet expectations set in.

**There is a deep sense of public frustration at the limited progress made in expanding economic opportunities and lowering socioeconomic vulnerabilities.** Dissatisfaction is deepest among educated urban youth and is plainly apparent through the increasing levels of popular protest. The frequency of demonstrations intensified in recent years, especially in areas where vulnerabilities are high. Popular protests recur with regularity in three regions: the Greater Tunis area including Bizerte, the urban center of Sousse, and the center-west regions including the Gafsa region, showing a widespread pattern spanning both leading and lagging regions.

**This sense of dissatisfaction is closely linked to a deep decline in the levels of trust and underlying economic grievances.** The steepest declines observed were for trust in the political system, meaning citizens' trust in the national government and in electoral institutions. Trust matters and is critical for the success of Tunisia's transition. It breeds legitimacy and reinforces the ability of citizens to engage formally and positively with the State. Today, the low levels of trust can be viewed as a substantial source of risk to the transition, offering less stable foundations and pointing to the urgency of rebuilding confidence among citizens and leaders.

**Figure 0.9:**

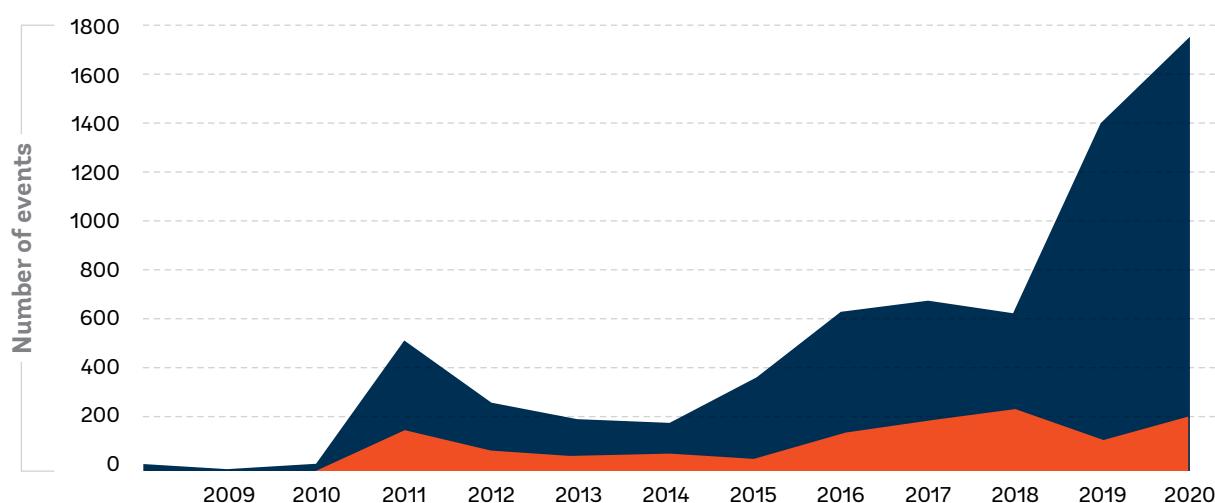
Protests (which are peaceful demonstrations) have been increasing in numbers in recent years

Number of protests and riots, 2009-2020

Note: Demonstrations were nearly non-existent before the 2011 Tunisian revolution.

Source: Gallup World Poll data

Event type: ■ Protests ■ Riots

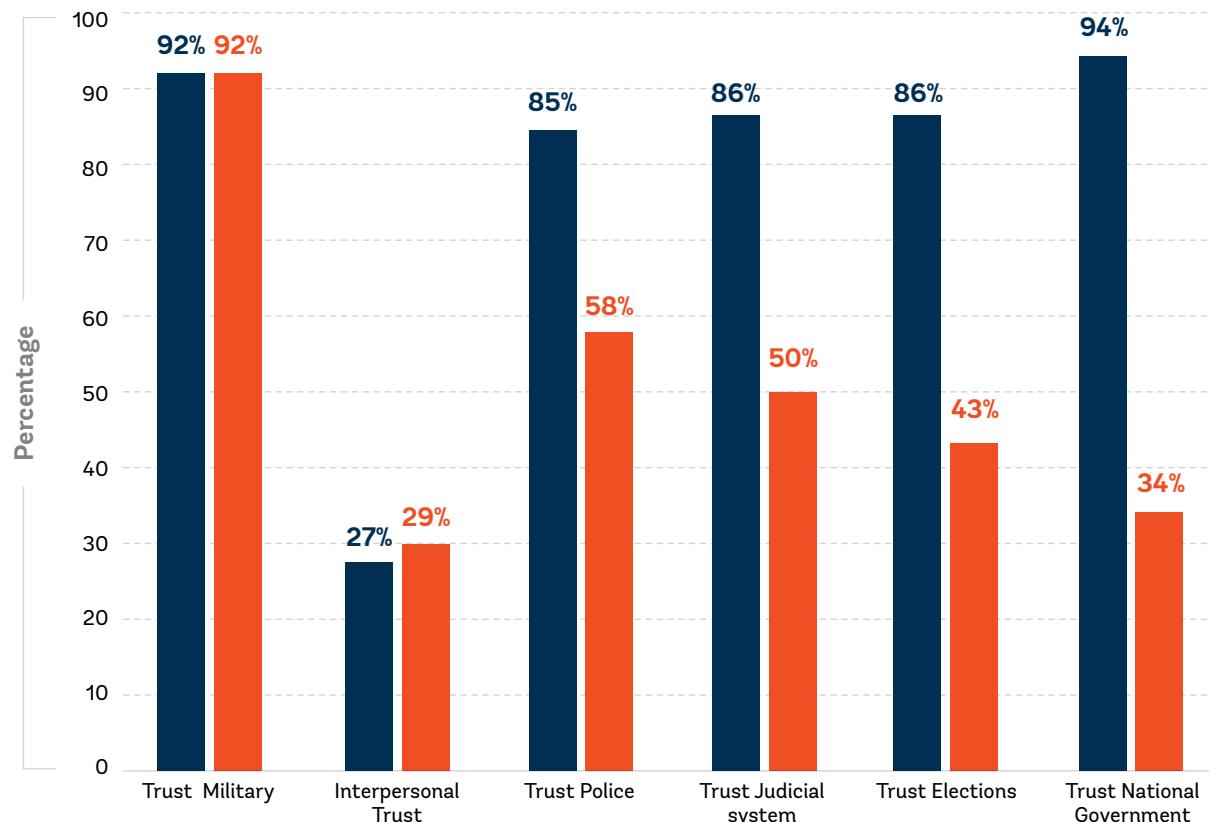


**Figure 0.10:****Levels of trust in government and elections have collapsed since the revolution**

Share of population, 2010 vs 2020

Legend: ■ 2010 ■ 2020

Source: Gallup World Poll data



## Rebuilding Trust and Meeting Aspirations

Setting the transition back on track is now more urgent than ever before if Tunisia is to preserve its fragile democratic gains and the aspirations of its people.

**The aspirations and optimism of Tunisians after the revolution quickly descended into dissatisfaction and mistrust thereafter.** These outcomes result, in large part, from the underlying political settlement, which has both helped secure the transition but has also been too fragmented and exclusive to fulfil its promise or to take on the pervasive rent-seeking that impedes the economy from delivering jobs and growth.

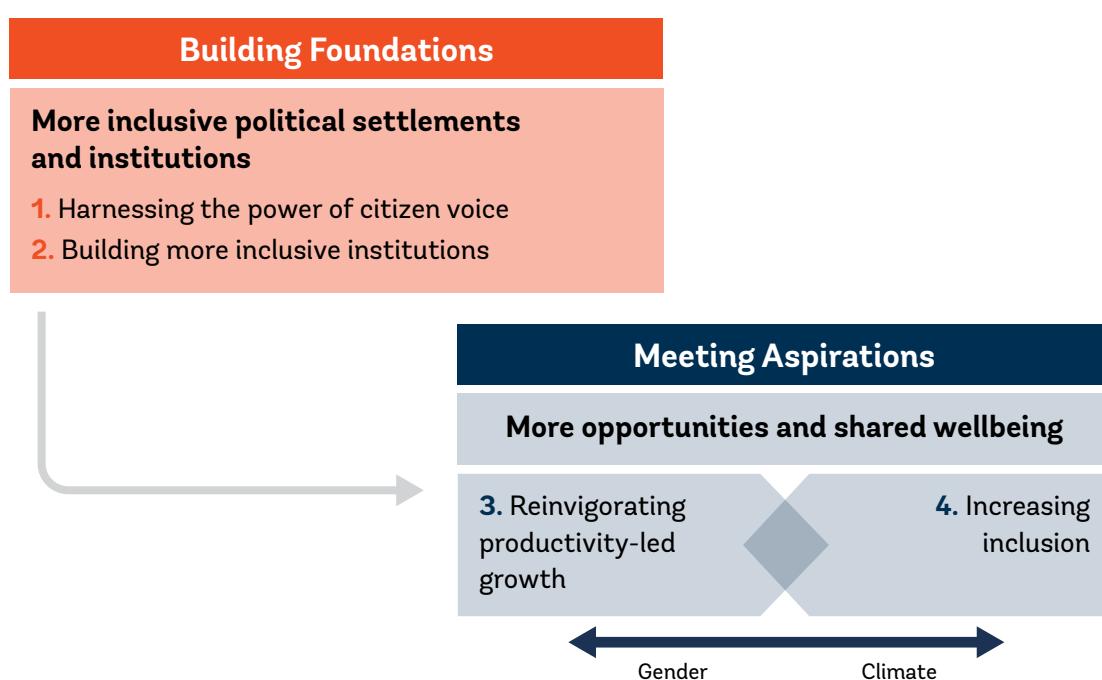


**The reinvigoration of Tunisia's economic model is now deeply urgent; it has become a source of risk to the democratic transition.** As development outcomes remain weak and the political transition continues, Tunisia is facing a twin constitutional and economic crisis—a crisis which in turn could threaten Tunisia's fragile democratic gains. Changing the dynamics to establish a more virtuous “win-win” cycle will, in the short-term, require a huge effort at consensus building around developing and implementing reforms, and efforts to deliver small tangible gains to help rebuild trust and establish momentum. But ultimately the time and space bought by such measures must be used to develop a vision for a reinvigoration of Tunisia's socio-economic development outcomes.

**This SCD identifies four pathways for building foundations and meeting citizens' aspirations in Tunisia.** Given the centrality of the political settlement and its implications for development outcomes, the first two pathways identified are foundational pathways that place their emphasis therein. The focus of these pathways is on harnessing the power of citizens' voice (pathway 1) and on building more inclusive institutions (pathway 2). They are presented as foundational pathways in that they could, over time, widen the space for Tunisia to pursue a wide agenda for meet citizens aspirations. Among this agenda, the SCD has prioritized two additional pathways that are central to meeting citizens' aspirations: moving the economy to productivity-led growth (pathway 3) and increasing inclusion (pathway 4).

**Figure 0.11:**

**The SCD's Pathways**





## Pathways to build the foundations for a positive scenario

This SCD posits that the potential routes for rebuilding trust and meeting aspirations lie through two main “foundational pathways”, namely harnessing the power of citizen voice and building more inclusive institutions. While Tunisia has realized gains in terms of openness and transparency since 2011, many aspects of the post-revolution political settlement continue to present challenges for Tunisia’s development, and addressing these underlying issues will take time.

1. The first foundational pathway builds on Tunisia’s high civic capacity by suggesting there are potential (further) gains to be made by **harnessing the power of citizen voice** through civic participation and transparency, as well as strengthened local governance. First, gains in access to information and transparency will need to be safeguarded and expanded through, for example, improvements in providing citizens with access to information about the quantity and quality of services delivered at the local level. Second, many extractive or dysfunctional practices are characterized by having costs that are borne widely by society, but their benefits are captured by relatively narrow and highly connected/mobilized groups. Publicizing the costs and distributional implications of sub-optimal “deals” could potentially help to harness the power of citizen voice. Third, ideas and vision matter, and while these may be highly contested in the short-term, it is still important to invest to lay the foundations for future crises or “critical junctures”. To this end, creating the institutional arrangements to support independent work on a medium- to long-term vision for socio-economic development, could help to lay the groundwork for future windows of opportunity.
2. The second foundational pathway consists in **building more inclusive institutions**, whereby transparent and impersonal rules – rather than clientelist and political connections or pacts - allow citizens’ equitable access to public services. To this end, building more citizen-centric state institutions will be important. This SCD highlights the extent to which vulnerable populations, especially in lagging and rural areas, are unable to systematically gain access to high-quality public services, and COVID-19 has only exacerbated this. Digitizing the economy, society, and the public administration can help address these challenges, although this cannot be understood to mean purely technological solutions: the underlying public governance institutions must change also to adopt a more citizen-centric orientation. This includes, among other interventions: (i) digitization of public services targeted at citizens (notably education, social protection, health, and agriculture); and (ii) reforms to support digitalization of Tunisia’s economy.



## Pathways to meet citizens' aspirations

### **The foundational pathways could provide the launch pad for a positive future scenario that opens the space for institution building and reform.**

It would lay the ground to pursue the two additional pathways that critical for meeting citizens' aspirations: moving the economy to productivity-led growth and increasing inclusion.

- 3.** The Tunisian economy's decline in **productivity and growth** signals a loss of economic potential caused by years of under-investment in productive capital and innovation, limited openness and competition in markets, and declining trade capabilities. The impact of these unfavorable conditions on the private sector has been severe, limiting the entry, growth, and survival of firms across most sectors. To reverse these outcomes and enhance productivity, Tunisia needs deep structural reforms that will remove deep and pervasive barriers to competition, modernize the financial sector, attract foreign direct investment and climate finance, and promote innovation. In addition, rebuilding Tunisia's trade capabilities through more modern and efficient trade services, as well as deeper trade and global value chain integration, would also be critical.
- 4.** Strengthening **inclusion** is equally crucial for the stability of Tunisia's transition. It requires more even access to economic opportunities and improved standards of living for citizens. This implies improving learning/skill outcomes, especially in rural and interior regions, to widen access to the benefits of future growth. Similarly, measures that support women's participation in the labor force can limit gender-based exclusion and bring additional contributions to productivity and growth. Lastly, addressing discrepancies in connectivity and service provision is also important for improving living standards, and can lead to better welfare outcomes, increased opportunities, and greater social cohesion.

**Table 0.1 (next page) summarizes the strategic priorities under these two pathways.** These have been filtered through three criteria: political space, technical/state capacity and potential impact. It indicates the complexity of the challenges facing Tunisia. All of the areas prioritized have a high potential impact on increasing opportunities and shared wellbeing but almost all of them face significant obstacles relating to political space or state capacity, underlining the need for a more favorable political settlement and more inclusive institutions to make progress.

**These challenges are steep but can be overcome by the persistence of its citizens and leaders, and their determination to realize the aspirations of their revolution.** Yet, the risk of a continuation of the *status quo* is tangible.

This scenario, in which the political settlement continues to be unstable, fragmented and exclusive, would offer continued immobilism and a failure to address the underlying economic and social challenges facing the country, setting Tunisia on a downward spiral and leaving it with a troubled transition.

**Table 0.1:****Aspirational pathways: political space, feasibility and impact filters.**

Source: World Bank staff

	<b>Political space</b>	<b>Feasibility</b>	<b>Impact</b>
<b>Strategic Priorities</b>	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/ reform complexity	Potential to increase opportunities and shared wellbeing
<b>Pathway: Reviving productivity-led growth</b>			
Raising SME investment and access to finance.	<b>High:</b> a shared vision for Tunisia's socio-economic transition will be necessary to launch a truly effective reform of the banking system and address regulatory gaps.(ii) increasing competition among banks is likely to encounter resistance.	<b>Moderate:</b> (i) addressing the gaps in the legal and regulatory framework can be a lengthy and complex process combining legal reforms and technical measures; (ii) some reform areas are technically complex making them difficult to internalize by legislators and the public.	<b>Very high:</b> bridging Tunisian SME's financing gap, estimated at \$6.87 billion (16 percent of GDP) could lead to important growth and job creation (especially in secondary cities with fewer low private sector investment).
Increasing firm innovation.	<b>Low:</b> while a shared vision for Tunisia's socio-economic transition would support a more coordinated national innovation agenda, innovation policies would benefit a wide cross section of firms, especially existing firms, thus could encounter less resistance.	<b>Low:</b> (i) articulating a national innovation agenda can be complex due to the number of fragmented initiatives but it remains a fairly consensual agenda that should not encounter resistance; (ii) a comparative advantage is beginning to emerge in sectors such as electronics, pharmaceuticals, and precision equipment suggesting latent capacity.	<b>High:</b> Priority for accelerating productivity and capitalizing on growth in emerging sectors.
Strengthening trade capabilities.	<b>High:</b> Possible resistance to change from key SOEs (and their unions) can impede the modernization of trade services). This requires a shift to a shared vision for strengthening trade capabilities, as well as transparency and anti-corruption reforms to push back on exclusive/ extractive interest and resistance to reforms.	<b>High:</b> (i) improving the transport and logistics ecosystem is costly; (ii) deepening trade integration and agreements is a procedurally and technically complex and lengthy process.	<b>High:</b> way for Tunisia to raise its export potential and the productivity and growth of non exporting firms by lowering the barriers to trade.

...table continues next page



	Political space	Feasibility	Impact
Strategic Priorities	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/ reform complexity	Potential to increase opportunities and shared wellbeing
<b>Increasing market contestability/ competition.</b>	<b>High :</b> possible resistance from players benefiting from limited competition and opaque administrative authorization regime is a significant factor. This requires a shift to a shared vision for opening markets and leveling the playing field, as well as transparency and anti-corruption reforms to push back on exclusive/ extractive interest and resistance to reforms.	<b>Moderate:</b> (i) some momentum exists (2015 competition law reform and 2018 regulatory reform) but much more needs to be done for effective implementation; (ii) the implementation of follow-on measures requires numerous regulatory reforms and this is impeded by frequent changes in leadership.	<b>Very high:</b> can boost investment, innovation, and productivity.
<b>Pivoting to private sector-led growth in lagging regions.</b>	<b>Moderate:</b> fairly wide consensus on the need to boost regional development and reduce disparities but implementation would benefit from opening participation in national dialogue to previously excluded local political actors and representative institutions.	<b>Moderate:</b> (i) consensus around the need for regional development; (ii) decentralization reforms have already been launched but more momentum and targeted investments to increase quality of and efficiency in the provision of services and leverage the absolute advantage of lagging areas are needed; (iii) fiscal space is limited to invest in more competitive regions/ secondary cities is limited.	<b>Very high:</b> secondary cities can become key regional development hubs in lagging regions thereby meeting citizens aspirations for better living conditions and economic opportunities.
<b>Sustainable public finances through growth friendly fiscal consolidation.</b>	<b>High:</b> reducing the public sector wage bill, lowering subsidy spending and widening the tax base will likely encounter resistance; however this could be partly mitigated by transitioning to a more targeted model of social assistance and improving revenue administration. A shared socioeconomic vision is needed to manage the trade-offs from fiscal consolidation.	<b>Low:</b> key reforms such as reducing the public sector wage bill, lowering subsidy spending and widening the tax base are broadly within the existing capacity of the authorities and can be supported by technical assistance from international development partners but SOE reforms can be more complex; (ii) given the centralized nature of the public finance system, coordination with subnational is not a challenge.	<b>Very high:</b> rebalancing public finances could free up resources for public investments to promote growth. Reviving productivity-led growth

...table continues next page



	Political space	Feasibility	Impact
Strategic Priorities	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/ reform complexity	Potential to increase opportunities and shared wellbeing
<b>Pathway: Increasing inclusion</b>			
<b>Increasing female labor force participation.</b>	<b>Moderate:</b> important progress in terms of women's education shows that basis for this reform already exists but implementation would benefit from opening participation in national dialogue to women's movements and representative institutions.	<b>Moderate:</b> (i) Tunisia has already reversed the education gender gap, with women now making up nearly two-thirds of university students; (ii) more effort is needed to tackle the adverse social norms and practices, ensure legal protection and reform discriminatory laws and regulations.	<b>High:</b> enhance productivity, inclusion, and also extend the demographic dividend.
<b>Learning and skills transformation in lagging regions.</b>	<b>Low:</b> implementation would benefit from opening participation in national dialogue to previously excluded local and youth groups, and representative institutions.	<b>High:</b> (i) need for a high level of central-local coordination to strengthen education outcomes; (ii) limited fiscal space to shift resources to lagging regions to retool schools and teachers; (iii) Important role of household socioeconomic status in learning outcomes means it is also important to improve livelihoods in those regions.	<b>Very high:</b> would reduce skills mismatch in lagging regions and promote growth and inclusion.
<b>Increasing access to and quality of service delivery</b>	<b>Low :</b> implementation would benefit from opening participation in national dialogue to previously excluded local and youth groups, and representative institutions.	<b>High:</b> (i) need for a high level of central-local coordination to strengthen service delivery outcomes; (ii) limited resources available (fiscal constraints); (iii) need to improve the performance of key SOEs for service delivery such as STEG and SONEDE; (iv) reforms are still required to fully operationalize the decentralized institutional framework.	<b>Very High:</b> key pathway to meet citizen aspirations for inclusion and better living conditions, as well as rebuild trust.

# Part One: Setting the Stage





## 1.1 Democracy, voice and the emerging political settlement

- 1. During most of the 1990s and 2000s, Tunisia was ranked as one of the best performing countries among its peers, but imbalances in the political and development models were a growing source of frustration.**

From 1981-2000, the economy grew by over 4 percent per annum, largely owing to an export-led development model. Human and social development indicators improved significantly from 1981-2010 (Table 1) and were above the average for similar countries. Tunisia continued to make progress between 2001- 2010, having reduced poverty from 25.4 percent in 2000 to 20.5 percent in 2010. However, many regions were left far behind: poverty reduction in the poorest regions, particularly the central west and north west, was significantly lower than the average. The benefits from the growth model were not evenly distributed, and many of the interventionist policies used to drive growth ended up resulting in inequities and the exclusion of those lacking significant political connections.<sup>11</sup> The costs of environmental degradation were also starting to become more evident.<sup>12</sup>

- 2. The 2011 revolution was an expression of aspirations for a more democratic political system and society, and a more transparent and inclusive economy.** Tunisia emerged from the Arab Spring as the only country in the region on a pathway to democratization. Tunisia made early gains in this lengthy process, securing greater voice and civic freedoms for the population and adopting a new political model, formalized in the 2014 constitution. As is typical of democratic transitions in many countries, citizen expectations were both very high and quite generalized, with expectations of improved living standards and resolution of historic injustice and inequalities.<sup>13</sup> Central to the aspirations expressed in the revolution were demands for greater political participation and freedom, justice, strengthening transparency, tackling corruption, improving economic opportunities, and reducing regional disparities. Moreover, the democratic transition upon which these hopes rest is not only critically important for Tunisia but is also crucial for the region, potentially demonstrating that democracy can deliver for citizens.

<sup>11</sup> World Bank (2014) The Unfinished Revolution: Bringing Opportunity, Good Jobs and Greater Wealth To All Tunisians, May 2014.

<sup>12</sup> The annual cost of environmental degradation of water, air, land, coastal zone and waste has been estimated at 2.1 percent of GDP in 2008, with agriculture as the most impacted sector, arising from salinity, water quality and water logging.

<sup>13</sup> Carothers, Thomas (2018) "Tunisia in Transition: A Comparative View", May 30, 2018, Carnegie Endowment for International Peace.



**3. Yet by 2021, Tunisia now stands at a critical juncture, and is in the process of changing the 2014 constitutional order, introducing measures that have enjoyed wide popular support.**

In July 2021 the President dismissed the Prime Minister, suspended parliament, and assumed wide ranging powers through a partial suspension of the constitution. Subsequent developments, including the replacement of the Supreme Judicial Council (CSM) with an interim body, and a planned constitutional referendum, underscore the fact that Tunisia is in the process of changing the 2014 constitutional framework (see Box 1 for more details). Citizen's initial optimism after the revolution has given way to frustration and mistrust, to the extent that surveys show large majority popular support for the President's actions since July 2021. How has this come to pass? A key explanatory factor is Tunisia's fragile post-2011 political settlement, which comprises the interests, networks, capacities and relative power of key political actors and social groups at the elite and societal level.

**Table 1:** Selected socio-economic development indicators

Note: Data for 2011-2019 or latest available.

Source: WB staff calculations using WDI

Lower Middle-Income countries	2.8	4.0	1.6	4.5	5.9	5.9	5.3
Upper Middle-Income countries	2.9	3.3	2.3	4.0	5.5	6.4	4.6
Middle East & North Africa (excluding high income)	4.2	2.8	2.0	5.0	4.2	4.6	2.5
<b>School enrollment, percent (net)</b>							
Primary	86		95		97		99
Tertiary	5		10		24		34
<b>Mortality, per 1000 live births</b>							
Infant	62		40		22		15
Under 5	85		51		26		17
Life expectancy	64		70		74		76
<b>Access to basic infrastructure, percent</b>							
Electricity					89		95
Water					50		86

**Box 1:****July 25th 2021 invocation of Article 80 of the Constitution**

**On July 25th 2021, the President of Tunisia invoked emergency powers under Article 80 of the Constitution, dismissed the Prime Minister, suspended the Parliament, removed the immunity from prosecution of Members of Parliament, and assumed the Presidency of the Public Prosecutor's Office.**

**The move followed extensive protests against the government and the parliament for the handling of the Covid-19 crisis and the economy.** A month later, on August 24, the President announced that, until further notice, the exceptional measures would be extended. This announcement was formalized through issuance of Presidential Decree 117 of 22 September 2021, which partially suspended the application of the 2014 Constitution by retaining only the provisions that do not contradict the Decree, and increases the powers of the President, including the issuance of legislative texts by decree. Further, the activities of parliament

and the parliamentary immunity of its MPs remain suspended indefinitely. The President subsequently named Najla Bouden Romdhane as Prime Minister on 29 September 2021, Tunisia's first female Prime Minister. This was followed on October 11 by the announcement of a new Cabinet.

**While political parties disputed the President's July announcement, polls taken soon afterwards have indicated that a large majority of citizens support the actions.** Subsequently, President Saeid announced on December 13 2021 a roadmap which included a referendum on a new draft constitution, and new parliamentary elections to be held on December 17 2022.

**Regarding the judiciary, the President announced the dissolution of the Supreme Judicial Council (CSM) on February 6 2021.** He also announced the dismissal of 57 judges on June 1 2022.

**4. A referendum on a draft constitution was held on Monday, July 25, 2022.**

According to results announced by ISIE, 94.6 percent of voters<sup>14</sup> (2.6 million) approved the new constitution, based on a turnout of 30.5 percent of eligible voters. This new constitution establishes a presidential system of government, the main provisions of which are summarized in Box 2.

<sup>14</sup> ISIE (2022) « Décision de l'Instance Supérieure Indépendante pour les élections n°2022-22 du 16 aout 2022 relative à la proclamation des résultats définitifs du référendum sur un projet d'une nouvelle Constitution de la République tunisienne le lundi 25 juillet 2022. »



**Box 2:**

**Key provisions of the new constitution of the Republic of Tunisia**

**The New Constitution establishes a presidential system of government.**

The President exercises the executive function with the assistance of the government, which is responsible to the President. The President appoints the Head of Government, as well as other cabinet members, and also makes appointments to senior civil and military posts, on the proposal of the Head of Government. The President can dismiss the government or any of its members and may invoke a state of emergency. The President can serve for two five-year terms, and there are no Articles allowing for the President's removal. Constitutional amendments can be made by referendum at the recommendation of the President, although changes to the number of presidential terms are prohibited.

**Parliament has two chambers: the Assembly of People's Representatives and the National Council of Regions and Districts, both based in Tunis.**

The deputies of the National Council of Regions and Districts are indirectly elected by the members of each Regional Council. The President has the power to dissolve parliament under certain circumstances. For parliament to compel the government to resign, two-thirds of lawmakers from both houses must back a no-confidence vote. If a second vote of no-confidence is passed

in the same parliamentary term, the President can either accept the government's resignation or dissolve parliament.

The President promulgates all laws and has the right to return bills to parliament for a second reading. Bills referred for a second reading must be passed by a majority of two-thirds in order to be passed into law. Draft legislation can either be proposed by the President or by parliament, but only the President can present treaties and finance bills for approval. Bills or amendments proposed by deputies are not admissible if they undermine government finances.

**Judges are appointed by presidential decree on the proposal of the Superior Council of the Judiciary and are prohibited from striking.**

The Constitutional Court is an independent judicial body made up of nine members who comprise the oldest presidents of the Court of Cassation (three members), the oldest presidents of the Administrative Court (three members) and the oldest members of the Court of Auditors. The organization and procedures of the Constitutional Court will be established by law.

**The constitution pledges to protect rights and freedoms including the right to form political parties and to protest.** Freedom of opinion and publication is guaranteed, as is freedom of belief.



Photo: Arne Hoel / World Bank

### 1.1.1 Early gains in voice and citizens' agency

Expanded space for citizens' voice and agency were early gains in the transition.

5. **Following the revolution, citizens' ability to voice their demands and concerns increased significantly.** Tunisia has become a more open polity. Figure 1 shows this in mapping levels of openness - understood as freedom of expression, freedom of the press, protections against human rights abuse and political violence - in Tunisia and its regional neighbors. The "openness" index shows that, in Tunisia, the receptiveness of governments to dissenting opinions and to an open dialogue with citizens is comparatively high. Figure 1 also shows, however, that dissent is high, as captured in the index on "alignment," which combines measures of civil disobedience such as demonstrations and protests, and support and trust of the government. While low levels of alignment are of concern, the relatively high levels of openness for Tunisia also highlight the possibility of a peaceful renegotiation of the social contract and of the political settlement through a societal dialogue and increased awareness of citizens' grievances.



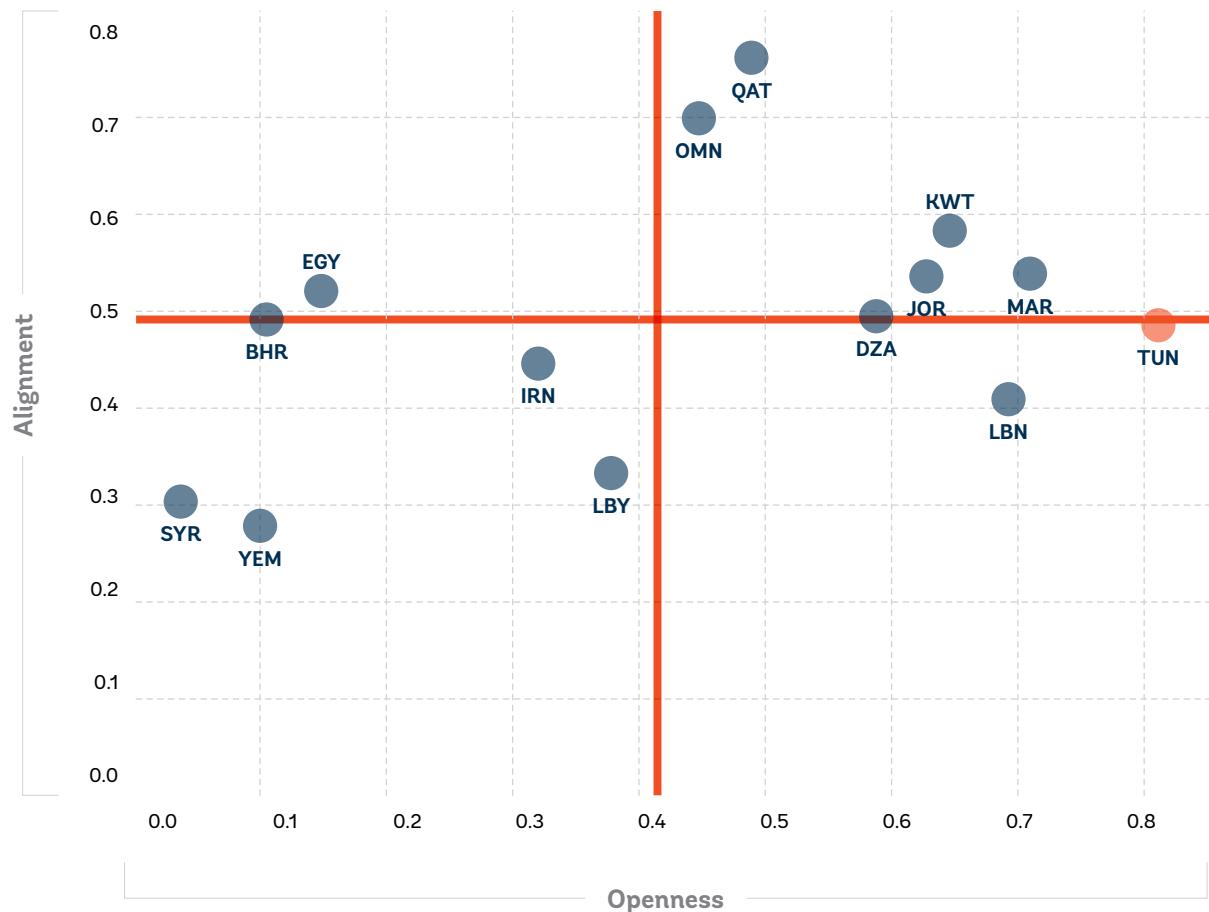
Photo: World Bank / Simone D. McCourtie

- 6. Levels of citizen organization and mobilization also increased, and are high in comparison to peers.** Figure 2 (page 009) indicates that Tunisia scores above all the other MENA countries included in the sample for civil capacity<sup>15</sup> and that its level of civil capacity is also high given the GDP per capita level (compared to the MENA samples). The component analysis shows that both citizen organization and mobilization largely picked up after the revolution, which could partly be explained by after the post-2011 institutional framework that permitted many civic engagement and mobilization activities to be done overtly. However, citizen cooperation has been going down suggesting an increase in fragmentation and fractionalization between citizens.

15 The indicator for civil capacity is composed of three sub-indicators for citizen mobilization (how informed and engaged politically they are), citizen organization (based on the quality of the civil society organization participation and its scope), and on citizen cooperation (the capacity for citizens of different background to unite and resolve the collective action problem).

**Figure 1:****Tunisia features a relatively open citizen-state dialogue**

Source: World Bank staff calculation using composite index developed in World Bank (2021) "Understanding Social Contracts in Sub-Saharan Africa", including variables from Varieties of Democracy (V-Dem), Afrobarometer, and other datasets.



- 7. One factor leading to the high civil capacity of citizens in Tunisia is its historically active civil society, which has remained powerful since the revolution.** The capacity of citizens to hold the state accountable and to influence the policies of the state is channeled through the citizen-state interface. This interface, which connects citizens with the state, can take the form of specific participative mechanisms such as elections, intermediaries and interest groups such as civil society organizations (CSOs), or of mass mobilization such as protest. Tunisia's electoral system is still recent, and the institution of the people's assembly is still finding its bearing. However, organized civil society has a long past in the country. While the notion of checks and balances was relatively absent in the Tunisia of Bourguiba and Ben Ali, with little room for independent institutions to contain the excesses of power, even at that time a few civil society organizations managed to occupy areas of relative freedom of action such as the Tunisian General Labor Union (UGTT), the Tunisian League of Human



**Figure 2:**

### Civil capacity increased after the revolution and remained high

Legend: ■ Other ■ Tunisia

Source: World Bank staff calculation using composite index developed in World Bank (2021) "Understanding Social Contracts in Sub-Saharan Africa", including variables from Varieties of Democracy (V-Dem), Afrobarometer, and other datasets.



Rights (LTDH), Association of Tunisian Magistrates (AMT), and the Tunisian Association of Democratic Women (ATFD). These organizations played an important catalytic role during the revolution. CSOs also played a central role in facilitating a peaceful early transition, such as through the National Dialogue Quartet, a group of four civil society organizations comprising UGTT, LTDH, the Tunisian Confederation of Industry, Trade and Handicrafts (UTICA) and the Tunisian Order of Lawyers (ONAT, *Ordre National des Avocats de Tunisie*) formed in 2013 following a political crisis that halted the constitutional process. Awarded the 2015 Nobel Peace Prize, the Quartet helped to mediate the effort to form a lasting constitutional settlement; its members, in particular UGTT and UTICA, remain very powerful ten years after the Revolution and retain a strong influence on political and policy decisions (see Box 3 for more detail on UGTT's role).

**Box 3:****The General Union of Tunisian Workers (UGTT)**

Source: Hertog (2020) and International Labour Organisation (2020)

**Of all social partners in the National Dialogue Quartet, the General Union of Tunisian Workers (“Union Générale Tunisienne du Travail” or UGTT) is the most politically powerful, having emerged as a critical political player after the fall of Ben Ali.** Founded in 1946, it is the dominant trade union in Tunisia protecting the “insider” status of Tunisian workers in formal employment. UGTT occupied a central place under both Bourguiba and Ben Ali as part of the neo-corporatist compromise. From 2010/11, it played a major role in the Revolution and subsequent democratization process. In present-day Tunisia, with its historic legitimacy and large membership – representing an estimated one million members – UGTT continues to be a particularly powerful player. The union invests much of its efforts into securing public sector wage bill increases – the bulk of increases in the civil service wage bill since 2011 have been due to salary increases – and fighting increases in the formal pensions age.

**UGTT’s relative stability compared to the high turnover in government (it has had**

**two General Secretaries since 2011, while there have been nine Prime Ministers in the same period) has strengthened its position.** However, it has also suffered from the fragmentation of the political settlement – albeit to a lesser extent than government – finding it increasingly difficult to channel the frustration of outsider groups (as reflected by the increase in *ad hoc* grassroots protests such as *El Kamour*), to remain the dominant trade union, and to manage internal tensions. These pressures help to explain the union’s hard bargaining in its negotiations with government on the public sector wage bill despite the risk of a fiscal crisis.

**At its recent 25th Congress in early 2022, Noureddine Taboubi – who has led the union since 2017 – was re-elected as General Secretary.** The UGTT’s powerful position could be critical in determining how Tunisia navigates this critical juncture, both for the ongoing constitutional reforms and the success of a package of emergency economic reforms, which will likely need to include some public sector wage restraint measures.

- 8. The emergence of new players could make Tunisia’s civil society more diverse and inclusive.** According to the Center for Information, Training and Education, of Associations (IFEDA), Tunisia had 21,878 associations in November 2018,<sup>16</sup> more than 20 percent of which were in the governorate of Tunis alone.<sup>17</sup> There is a general consensus that Tunisian civil society has

16 <http://www.ifeda.org.tn/stats/francais.pdf>. Consulted February 2019.

17 However, there are several sources which indicate that the number of truly active associations is in the order of 4000. According to IFEDA, in 2015 only 1/3 of associations had complied with the provisions of the Decree Law on Associations of September 24, 2011.



been more than a simple counterweight to power since 2011. It has established itself as a full-fledged actor in the political life of the country, endowed with a capacity for proposal, mediation, action, and citizen mobilization. This complex fabric of CSOs has functioned in many cases as a democratic and peaceful channel to convey citizen demands to the power in place. There are several positive trends for the sector such as the emergence of a patronal association, expanding circles of feminist activism and worker union pluralisms which could eventually open the field to a more inclusive dialogue, the growing interest in promoting a culture of transparency and accountability within society, the existence of independent media, and a growing active citizenship among young people and women.

#### **9. The free press is becoming an important check on political power**

**in Tunisia, albeit with some important caveats.** The system of oversight and control of the media which existed before the revolution disappeared in 2011. This resulted in an explosion of new private media outlets.

The broadcast sector—the most dynamic—currently contains 12 legal television channels (two public and ten private) and around thirty radio stations (seven public, 19 commercial, nine associative). Digital and online media is also rapidly growing and difficult to regulate due to its dissemination through social media. Two laws passed in 2011 provide the general framework for today's media, which largely aligns with international standards. They also led to the creation of an independent High Authority for Audiovisual Communication (HAICA) which regulates the audiovisual media. To do this, it has decision-making powers, in particular in the granting of licenses, the mandate to control the application of rules, and a right to review nominations in the media. During election campaigns, the HAICA is also responsible for ensuring compliance with legislative texts which set the rules for media coverage.<sup>18</sup> There has also been a proliferation of media outlets, and this has not always improved the quality of information, and indeed sometimes new media channels have been used to promote misinformation.

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<sup>18</sup> There is no equivalent for the written press which is therefore even less regulated, but some have suggested creating a press council to remedy this.



- 10. Moreover, mass mobilization and the power of the street have served as a channel through which Tunisia's citizens hold the state accountable and make their interests known.** Many social changes in the past have come from the power of the street. Before the revolution, despite the authoritarian regimes of Bourguiba and Ben Ali, there was a recurring occurrence of grassroots protest movements. Some of these protests seriously impacted the regime, such as the popular uprising leading to “Black Thursday” (January 26, 1978), the insurrection unleashed in the mining town of Gafsa (end of January 1980), the “bread riots” (January 1984) and the revolt of the “people of the mines” (January-June 2008). Just after the revolution there was a proliferation of social demands and demonstrations to defend the gains of the revolution. These protest movements, which have experienced a strong resurgence of growth in recent years, act as the “guardians” of the hopes of the 2011 revolution and work to change the relationship between the state-citizen and the ways in which power is exercised. Most social movements emerge spontaneously using social media, even if later they can be taken over by political groups. They generally focus on targeted and short-term issues, covering a wide variety of themes (related to social justice, gender equality, the fight against corruption, the equitable distribution of natural resources, environmental protection, tax policy government, and others). Finally, while popular protest ushered in the democratic transition, it is not necessarily a uniformly positive influence. The voice of the street can also block reforms, especially where beneficiary groups can mobilize while the costs of a particular status quo policy are spread more thinly and borne more quietly.
- 11. In addition, evidence points to a growing risk of social fragmentation and polarization.** Measures of citizen cooperation have been going down. This could suggest heightened social fragmentation and polarization between different social groups, along old and new fault lines, that limit the ability of citizens to unite to hold the state accountable. These fault lines, which are visible in civil society and society at large, are generational, geographic and ideological. They include for example the cleavage between “historic” CSOs (which resisted the authoritarian state-party) and the new civil society organizations, established by youth in the aftermath of 2011, or the polarization between secularists and Islamists. The risk of social polarization is mirrored, and possibly reinforced, by the increased risk of polarization in the press. While the multiplication of outlets and media companies is a positive signal of the vibrancy of the press in Tunisia, it also has the effect of exacerbating competition between them.



## 1.1.2 An unfavorable elite settlement

The elite settlement is increasingly perceived as a source of instability and ineffectiveness.

- 12. The elite settlement—the negotiated agreement between elite groups on the distribution of power and resources—has become broader and more inclusive since 2011: while this settlement is widely credited for some of the country's major advances since the Revolution, it has costs too.**

Access has become more open and competitive since 2011, and new elite segments (e.g., Islamists, new entrepreneurs) have secured access, thus creating incentives for cooperation among would-be competitors. The elite settlement has also proven to be eminently consensus-based. The nature of the elite pact has allowed the country to move forward major sensitive political reforms, including the 2014 Constitutional reform, and to guarantee peaceful transfer of power between governments—an impressive feat compared to other countries in the region.

- 13. Despite its successes, the elite settlement has been too fragile to deliver on the Revolution's promises.** The capacity of elite groups to come to agreement on power and resource distribution is hampered by internal polarization and fragmentation between different elite groups and the reliance on spoils and rent-sharing to ensure elite buy-in. The consensus-based nature of Tunisian politics tends to further ossify conflicts and policy deadlocks. The instability of the executive since the revolution has been both a symptom and a cause of Tunisia's governance challenges, making implementing and sustaining reforms very challenging. The paragraphs below explore these different issues in turn.

Exclusion, fragmentation and polarization play against reform adoption.

- 14. While the degree of inclusion of the elite settlement has increased since 2011, it remains exclusive of some critical regional and social segments of the country, including those from the south/interior and from the informal sector.** Regional cleavages and the economic and political dominance of coastal and urban elites are historically rooted. They endure in the current elite settlement, whereby power and resources are concentrated in the hands of an “established economic elite from the Sahel (the coastal region in the East) and large urban centers (...) protected and privileged by existing regulations,” and leaves little space for political and economic elites from lagging regions, who remain “confined to parallel trade... and aspire to create a place for themselves among the established elite, or even to replace it.” In that context, “the deep conflict between the established economic elite and an emerging class of entrepreneurs, which can be distinguished by the family and regional origins of their members, partly determines today’s



Photo: Arne Hoel / World Bank

*politics in Tunisia*".<sup>19</sup> Exclusion also plays out along social lines: for example, despite their pre-eminent and powerful roles, UTICA and UGTT only represent a small segment of Tunisia's economic elites and groups (essentially politically connected operators for the former, and civil servants and formal workers for the latter) and women are largely excluded from leadership positions in the labor movement. Arguably, these exclusion patterns—whether regional or social—help explain the country's skewed economic development, which disproportionately benefits certain geographic areas and social groups, and fuels resentment and instability in others.

**15. The elite settlement also remains deeply fragmented and polarized;<sup>20</sup> this threatens political stability, as evidenced by recent political developments, and considerably slows down, and even prevents, reform:<sup>21</sup>**

19 International Crisis Group. 2017. "La transition bloquée: corruption et régionalisme en Tunisie." Rapport Moyen-Orient et Afrique du Nord N°177, 10 mai 2017.

20 Tunisia is unique compared to other countries, in that its political scene is both polarized and fragmented. The combination of both is quite rare.

21 This is particularly true in the absence of "mediating" institutions such as the Supreme Court.



- » **High fragmentation:** The constitutional choice of a proportional electoral system and of a hybrid semi-presidential (or dual executive system) regime makes it difficult for any government to obtain substantial and stable majorities. Moreover, Tunisian political parties have tended to be fragile entities, composed and recomposed in an opportunistic manner, dependent on a charismatic figure, weakly anchored in society and with a floating electoral base. The funding of all political parties remains weakly regulated and opaque, and several parties have not published their accounts for years. A recent Court of Auditors (2020) report into campaign financing of the 2019 presidential and legislative elections highlighted multiple infringements of electoral law, including illegal financing, which were referred to the judiciary.<sup>22</sup> Similarly, many parliamentarians moved to other parties or movements in the Assembly. This created a disconnect between political parties and citizens, who see little difference in terms of vision and program between parties. The 2018 Afrobarometer finds that 81 percent of Tunisians do not feel close to any party while 79 percent would not vote or know who to vote for in future elections. It also results in a volatile assembly, which complicates and substantially lengthens the process of decision-making on legislative reforms. The resultant turnover in administrations in turn undermines any serious continuity in policy agendas, with Prime Ministers serving in office for an average of 431 days, and President's serving for an average of 800 days since the revolution (Figure 15).
- » **Strong polarization:**<sup>23</sup> In addition to being fragmented, the elite settlement is strongly polarized, particularly along identity lines (much like other social layers of Tunisian society). The opposition between secularists and Islamists is historically grounded and has been a dominant feature of Tunisian politics since the Revolution. It has arguably intensified in recent years, with the rise of populism on both sides of the political spectrum. This rise is both a cause and consequence of the travails of power sharing agreements: popular disappointment resulting from the inability of political elites to make policies and deliver results have fed the rise of populist movements, which in turn make it more difficult for “mainstream” elite parties to come to policy agreements, as they are pushed by their bases and by populist parties to adopt bolder postures and not negotiate (or risk losing legitimacy and power). The intensification of polarization has made elite agreements more difficult, and further diminishes the chances of a successful national dialogue.

22 Court of Auditors (2020) "General Report of the Court of Auditors, regarding the results of the monitoring of electoral campaign financing for the early presidential election and the legislative elections of 2019", October 2020.

23 For example, Brésillon and Meddeb (2020) "Reform from Crisis: How Tunisia can Use COVID-19 as an Opportunity" argue that "Tunisia's 2019 elections reflected what political scientist Sharan Grewal calls "a shifting political landscape with a fractured polity and plenty of new faces...one troubled by demagogic and polarization. The new Parliament at the Bardo Palace is deeply divided and lacks a clear foundation for a governing coalition."

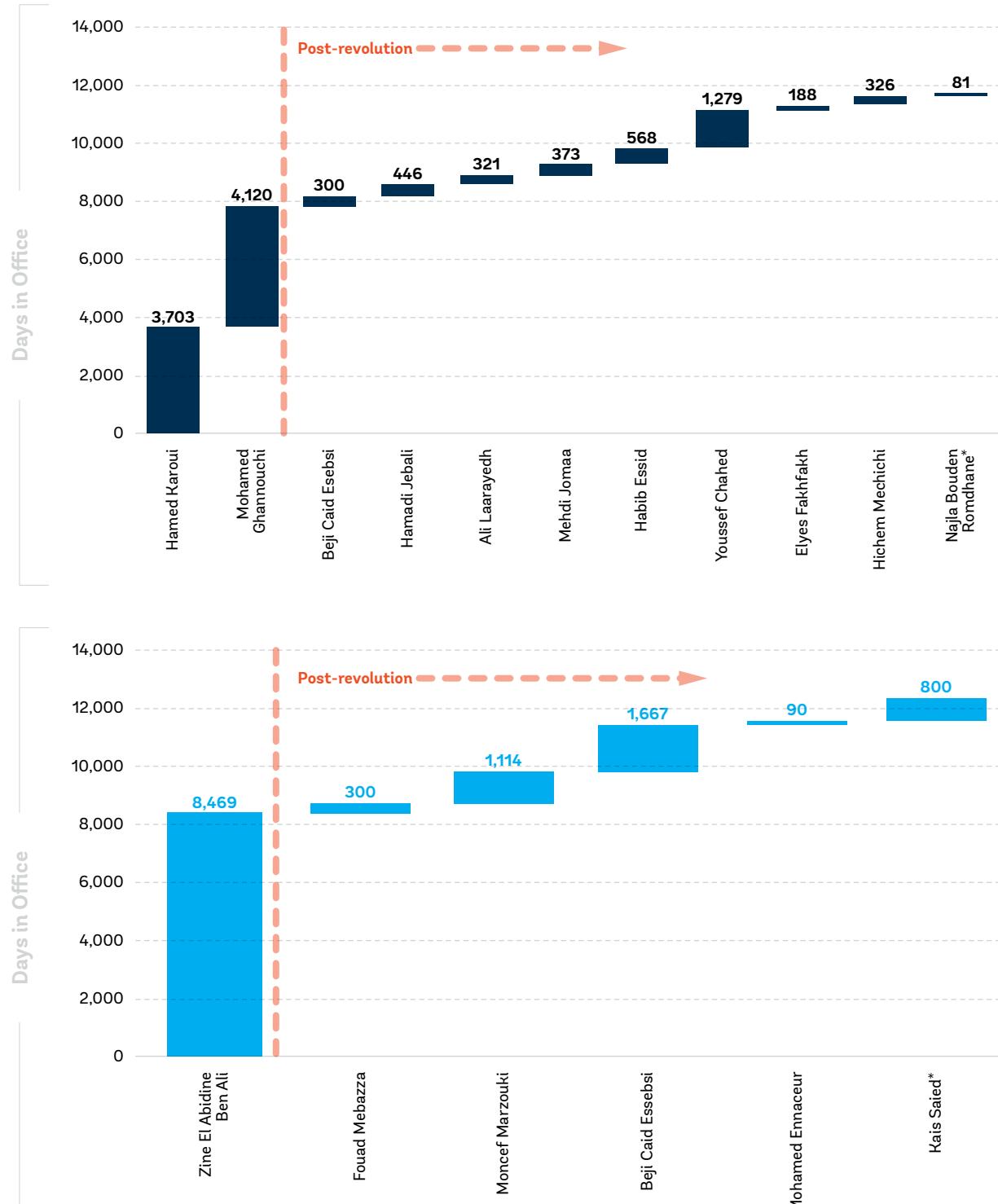
**Figure 3:****Instability – average tenures of Prime Ministers and Presidents since the revolution**

■ Top: Eight Prime Ministers have averaged 456 days in office since the revolution

■ Below: Five Presidents have averaged 738 days in office since the revolution

Note: \*Incumbent Prime Minister and President terms are ongoing, this data measured up to 31 December 2021.

Source: Authors' calculations.





**16. The revised constitutional model in Tunisia has struggled to deliver since its introduction in 2014.** The 2014 Constitution set in place a power-sharing arrangement aimed at “reassuring all key social and identity groups that rivals would not be able to trample their interests”<sup>24</sup>, notably through the combination of a proportional electoral system and of a hybrid semi-presidential (or dual executive system) regime. This constitutional design played an essential role in ensuring the buy-in of various elite segments, including from the old guard, in the initial stages of the transition. Yet, it has shown its limits, as evidenced by the fragmentation and polarization of the elite settlement, and the resulting policy status quo and political tensions. A number of constitutionally mandated institutions also struggled to either be established at all, or to become effective. The Constitutional Court was a body mandated by the constitution but was never established in practice because parliament had not appointed its share of judges to the Court’s bench.<sup>25</sup> Other institutions were established but struggled to fully perform their functional mandates. for example the Authority for Good Governance and the Fight against Corruption (INLUCC) has been under-resourced and understaffed to deal with the thousands of cases before it<sup>26</sup> and the judiciary has failed to prosecute those cases that it has successfully processed.<sup>27</sup> Both the Independent High Authority for Elections (ISIE) and the Independent High Authority of Audiovisual Communication (HAICA) suffered from similar implementation gap challenges. Ultimately these implementation challenges undermined the public legitimacy of both the institutions themselves and the political elites, and contributed to the widespread public support for the President’s invocation of Article 80 of the constitution in July 2021 (see Box 1).

**Spoils and rent-sharing are an important dimension of the elite settlement and hinder the adoption of reforms conducive to inclusive development.**

**17. Under the Ben Ali regime, rent-seeking took root in close circles of power: powerful economic lobbies and businessmen exploited their close connections to the autocratic centers of power and decision-making to extract privileges and rents.**<sup>28</sup> A political economy-based 2014

24 Brumberg, D. and Ben Salem, M. 2020. *Tunisia's Endless Transition*. Journal of Democracy, Volume 31, Number 2, April 2020, pp. 110-124

25 The Constitution required parliament to complete their four judicial appointments by 2015. However to date, only one judge has won the necessary two-thirds majority of votes in parliament. This in turn has prevented the designation of the other eight judges, four each by the President and by the High Judicial Council.

26 Bertelsmann Stiftung. 2018. BTI 2018. Tunisia Country Report.

27 Stroetges, F. 2018. In the Triple Threat to Tunisia's Democracy, Corruption is King.

28 Dejemeppe, M. et V. Bodart. 2011. *Rente, corruption et violence : l'émergence d'un ordre nouveau dans les pays arabes ?* IRES, Regards économiques. Novembre 2011, Numéro 92, p. 3.



World Bank study entitled “*The Unfinished Revolution*” took a deep dive into the system of crony capitalism, its forms, preferred rent-collecting mechanisms, and the costs in terms of economic performance and inequality of opportunity.<sup>29</sup> It highlighted, for example, the opportunities for rent extraction created by heavily regulated market access, in which cronies receive privileged access to certain lucrative activities, to the exclusion of those who did not benefit from connections to politicians or the administration. It also provided evidence that regulations themselves were “*in fact being adjusted in response to personal interests and corruption.*” The study concluded that such a system is characterized by costly and internal electoral struggles, corruption, and difficulties for the state in implementing public policies that benefit the greatest number without widening its budget deficit.

- 18. Since the 2011 revolution, there has been a shift in Tunisia from authoritarian clientelism to competitive clientelism (among different elite groups).** In certain aspects, patterns of capture and rent-seeking have proven resilient. Many members of the politically-connected economic elite, including from the *grands groupes* and the leaders of the historic business associations, have managed to secure their interests and positions. The mechanisms for rents remain largely unchanged, ranging from privileged access to selected activities to the use of regulatory barriers to discourage competition and exclude new entrants, including, but not limited to, extensive in-built barriers to entry such as authorizations (*autorisations*), sectoral specification (*cahiers de charges*), and licensing and self-regulation by market incumbents. A major difference post-revolution, however, is that patronage is now exercised within a formally democratic framework that allows for more competition and wider distribution of privileges and rents. It is no longer reserved solely to economic elites connected to an authoritarian power that is highly concentrated and extremely personalized but shared between a larger coalition of political and economic elites<sup>30</sup>. This more open and competitive system is, in turn, more costly to maintain—it has been a driver of the fiscal expansion since the Revolution. It also means that implementing reforms that challenge elite actors is—in the absence of a strong center—ineliminately difficult and often results in mobilization of resistance to change.
- 19. While rent-sharing helps sustain the stability of the elite settlement, it also has deleterious effects on reforms and the economic distribution.** One important correlate is the concentration of market power and the lack of economic contestability. Today, investment and export levels are

29 Groupe de la Banque mondiale. La Révolution Inachevée : Créer des opportunités, des emplois de qualité et de la richesse pour tous les Tunisiens. Banque mondiale, pp. 116-138.

30 While under the Ben Ali era, economic elites tended to be kept out of politics, the democratic transition has opened space for more direct involvement in politics, including through the participation of businessmen in partisan politics or their financing of political parties and candidates.



significantly lower than before the revolution, while unemployment remains high at 15 percent (see WBG 2020. Tunisia Economic Update October 2020). The underperformance of the Tunisian economy is linked to limited contestability, high market concentration and the lack of a level playing field between private and state-owned firms. For example, Rijkers et al. (2015) mention two clauses of the old investment code that (i) requires investors obtain permission from the government to set up a business and (ii) restricts foreign direct investment (FDI). These types of clauses have traditionally restricted entry into the domestic market, thereby protecting established companies from competition. Some specific sectors are also subject to state intervention that goes beyond authorizations, for example, the dairy sector. But beyond this observation, key national markets are often controlled by a limited number of politically influential groups. Rent-seeking behavior also goes hand-in-hand with low incentives and commitment to equitable public redistribution,<sup>31</sup> including skewed public investments (e.g., rising social expenditures benefiting insiders such as civil servants, instead of reducing regional inequality).<sup>32</sup>

**The consensual nature of the elite settlement has helped safeguard the country's stability but prevents reform and change.**

- 20. Until recently, a key characteristic of Tunisia's elite settlement, which sets it aside from other countries in the region, has been its consensual nature.** From 2014 to July 2021, an informal rule has regulated the mode of governance—the policy by consensus between the two main parties of the governing coalition. For example, in 2016 the Pact of Carthage opened the door to the constitution of a government of national unity. The Pact was an “extra-parliamentary” governance mechanism based on a political consensus to get the country out of the political crisis, boost economic and social reforms, and preserve the chances of successful democratic transition.
- 21. The pact and consensus-based Tunisian transition has safeguarded political stability and prevented political violence but has increasingly become a source of fragility and immobilism.**<sup>33</sup> This is due to the intrinsic limitations of (i) elite pact-based transitions and (ii) ‘consensus politics.’ First, it is noteworthy that elite pacts are often seen as a good thing in the early stages of a democratic transition, but that the very concessions required for such pact-making during transition times (including, for example, informal rules and a certain autonomy of elites from grassroots organizations and

31 See WDR 2017

32 Arab Reform Initiative. 2019. Fixing Tunisia's Economy Before It's Too Late.

33 Grewal, S. et S. Hamidi. 2018. Tunisia just lost its anchor of stability. That's a good thing. Blog of 15 October 2018. Brookings Institution.



militants) can prevent further political reform and democratic consolidation.<sup>34</sup> Put differently, elite pacts are often useful tools to manage conflicts in transition times, but not to rule. This seems to hold in the Tunisian context. The elite pact-based transition resulted in a “ceasefire” rather than a full-fledged “settlement,” whereby elites agreed to disagree, and postponed conflicts, including postponing critical conversations on security and identity (secular vs Islamist) issues. Second, several characteristics of ‘consensus politics’ can counteract its positive effects. An obvious one is the difficulty to reach agreements in systems of governance by consensus rather than majority. This difficulty is heightened by the conjunction of consensus and rent-sharing: coming to consensual agreements on contentious policies where rents are involved is predictably difficult, and explains in large part the country’s immobilism, particularly on economic reforms. When consensus-based agreements are reached, they are often so watered-down that they lack any substantive reform impact. In addition, governance by informal rules and through extra-parliamentary channels hampers reform and policymaking by fostering decision-making behind closed doors, and thereby increasing the opacity of policy processes, and reducing the space for open, pluralist, and adversarial debate within the Assembly of the Representatives of the People.<sup>35</sup>

- 22. This transition pattern harms both reform-making and inclusive development.** First, in a context of elite fragmentation and rent-seeking, consensus-based governance has translated into immobilism and policy deadlocks, especially where a particular veto player may lose out from a proposed public policy reform (e.g., opening markets to greater internal and external competition). Second, opacity and elite capture of public resources go hand-in-hand with low incentives to invest in public goods, in particular for geographic and social groups that are not represented by the elite groups that dominate the existing settlement (e.g., health or education services in lagging regions). Third, elites’ privileged access to business opportunities (e.g., public contracts, land, subsidies, tax breaks, etc.) reinforces their dominant capital and market position, to the detriment of non-politically connected actors (e.g. small and medium enterprises (SMEs), new entrepreneurs from interior regions, etc.) and harms the inclusiveness of growth.

34 See for example Frances Hagopian on Brazil.

35 As argued by ICG (2017), « la recherche permanente de consensus, notamment au sein de l’Assemblée des représentants du peuple (ARP), multiplie les négociations discrètes. (...) Cette quête continue de compromis déplace les « canaux de discussion politiques vers l’informel » (personnalités influentes de partis, leurs familles et leurs proches, ressortissants de la même région, camarades de promotion, milieux d’affaires, etc.), et rend la vie politique moins intelligible ».



**Box 4:**

**Challenges to a new National Dialogue for a revised economic model**

**In 2016 the “Pact of Carthage” opened the door to the constitution of a government of national unity.** The Pact was an “extra-parliamentary” governance mechanism based on a political consensus to get the country out of the prevailing political crisis, and preserve the chances of successful democratic transition. It revolved primarily around political issues, including the constitution, and resulted in a “ceasefire”, whereby elites agreed to disagree, and postponed other conflicts. It left issues such as a revised social contract, and the

underlying economic model unaddressed, thereby maintaining the unsustainable status quo on both issues. Further change to the elite settlement has been elusive since 2014. Discussions over a “Carthage II” pact broke down in summer 2018, and despite several initiatives further discussions have been partial and inconclusive. Moreover, despite the broader scope of the elite settlement since the Revolution, youth, social action platforms in marginalized regions, and alternative employer associations and unions have not been included in such pacts.

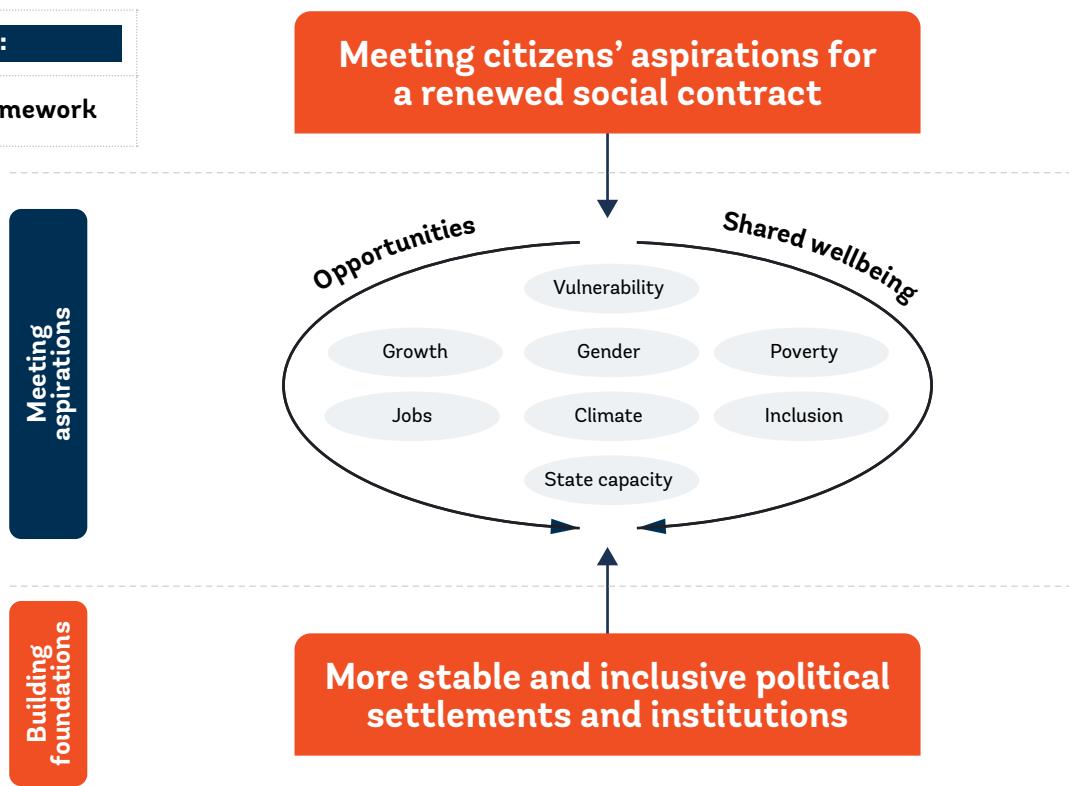
- 23. Recent political developments since July 25th 2021 could alter the elite settlement and constitute a marked change in the country’s governance (see Box 1).** These developments, notably the proposed moves to revise the constitution, and the parliament’s failure to nominate judges to the Constitutional Court, mean that Tunisia’s model of governance seems set to change course permanently in the coming months and years. Given the widespread popular distrust of the political elite, deep fragmentation among political parties, and a looming economic crisis, it is unclear what direction Tunisia’s model of governance will take.

## 1.2 Framework

- 24. The SCD is structured around a framework that places meeting citizens’ aspirations as the route for putting the country’s economic and social transition back on track, and a more stable and inclusive political settlement as the foundational pre-requisite.** The aspirations are presented through two broad channels that encompass opportunities and shared wellbeing. More specifically: the aspirations set out in the framework reflect citizens’ demand for more (and higher quality) jobs and better economic opportunities; and (iii) less poverty and more inclusion. Critically, the framework places a more stable and inclusive political settlement as the foundation for Tunisia’s path towards meeting expectations (Figure 4).
- 25. The World Bank Group’s twin goals are intertwined with the objective of meeting citizens’ aspirations.** The twin goals, ending extreme poverty and boosting shared prosperity, are core to meeting the aspirations of Tunisians. Increasing opportunities and inclusion, and sustaining these outcomes through a conducive political setting, are essential for reducing poverty and sharing the gains from growth broadly across society.



Figure 4:  
SCD Framework



**26. The following sections of the SCD are divided into three main parts.**

Part two of the SCD is largely backward looking and takes stock of the progress made/ emerging challenges in meeting citizens' aspirations for more opportunities and shared wellbeing. It discusses poverty and inequality, growth and job creation, vulnerability and exclusion, as well as the impact of COVID-19. Section three looks to today in paying attention to heightened state of dissatisfaction and mistrust amongst citizens currently, and the risks this poses to Tunisia's transition. The fourth and final section of the SCD looks to tomorrow. It proposes a set of priority pathways to address Tunisia's challenges in meeting citizens' aspirations. Building foundations for future progress through more stable and inclusive political settlement and institutions is at the core.

**27. The SCD is complemented by the International Finance Corporation's (IFC) forthcoming country private sector diagnostic (CPSD) for Tunisia.**

This diagnostic, which has been prepared in parallel with the SCD, assesses opportunities and constraints to private sector led growth. It combines both economy-wide and sector-specific analysis of constraints to identify solutions to key development challenges facing the private sector. It also provides granular recommendations for addressing economy-wide challenges as well as sector-specific constraints to private sector development.

# Part Two: Taking Stock of the Past Decade





## 2.1 Poverty and inequality

Tunisia made important gains in reducing poverty and inequality over the past decade.

### 28. Tunisia managed to significantly reduce poverty over the past decade.

The national poverty rate<sup>36</sup> fell from 20.5 percent to 13.8 percent between 2010 and 2019. Extreme poverty also declined considerably from 6 percent to 1.7 percent during this period (Figure 5). The decline in poverty was not uniform across this period. Poverty fell faster in the immediate post-revolution period, dropping from 20.5 to 15.2 percent between 2010 and 2015. And although poverty continued to decline subsequently, this occurred at a slower pace between 2015 and 2019.

**Figure 5:**

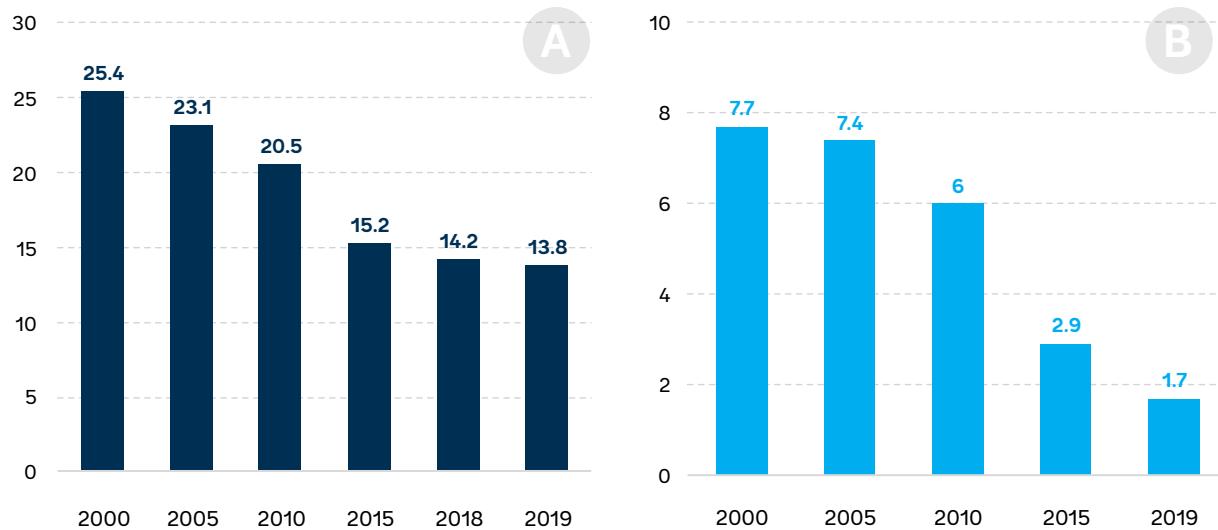
**Poverty rates using the upper and extreme poverty line**

- A: Poverty rates using the upper poverty line between 2000-2019
- B: Poverty rates using extreme poverty line between 2000-2019

Note: Although representative at national level, all the rounds of the EBCNV do not include income, but only household spending. Access to total consumption aggregates allowed us to compute poverty and inequality figures for all rounds.

The panel survey collected in 2018 and 2019 on a subsample of households already surveyed in 2015 includes new income modules instead of consumption. Poverty and inequality for 2018 and 2019 have been recently imputed by the INS and the World Bank

Source: Calculations based on the Enquête Nationale sur le Budget, la Consommation et le Niveau de Vie des Ménages (EBCNV), INS. Rounds 2000, 2005, 2010 and 2015; Panel 2018/2019.



36 The extreme and upper official poverty lines are estimated by INS using the cost of basic needs (CBN) approach. Using this methodology, the poverty line is set at 683 TND per year in 2000, 897 TND per year in 2005, 1206 TND per year in 2010, and 1706 TND per year in 2015. Note that the official extreme poverty lines stood at 418 TND per year in 2000, 546 TND per year in 2005, 733 TND per year in 2010, and 1032 TND per year in 2015. The official poverty lines are defined for large cities, other urban areas, and rural areas separately. The lines are lower for rural areas, as expected.



**29. The significant decline in poverty between 2010 and 2015 was driven by a drop in rural poverty.** Considerable gains were made in lowering rural poverty between 2010 and 2015. Yet, poverty remains concentrated in rural areas. About 23 percent of those living in rural areas in 2019 were poor, compared to only 9 percent of urban residents. In addition, extreme poverty remains mostly a rural phenomenon, with an estimated 4.1 percent of the rural population living below the poverty line in 2015, compared to 0.6 percent in urban areas (Figure 6). Rural poverty declined faster than urban poverty in all regions between 2010 and 2015, as shown by the growth rates in average consumption by regions (Figure 7). The biggest gains in rural consumption are observed in Grand Tunis, followed by the north-east and south-west regions.

**Figure 6:**

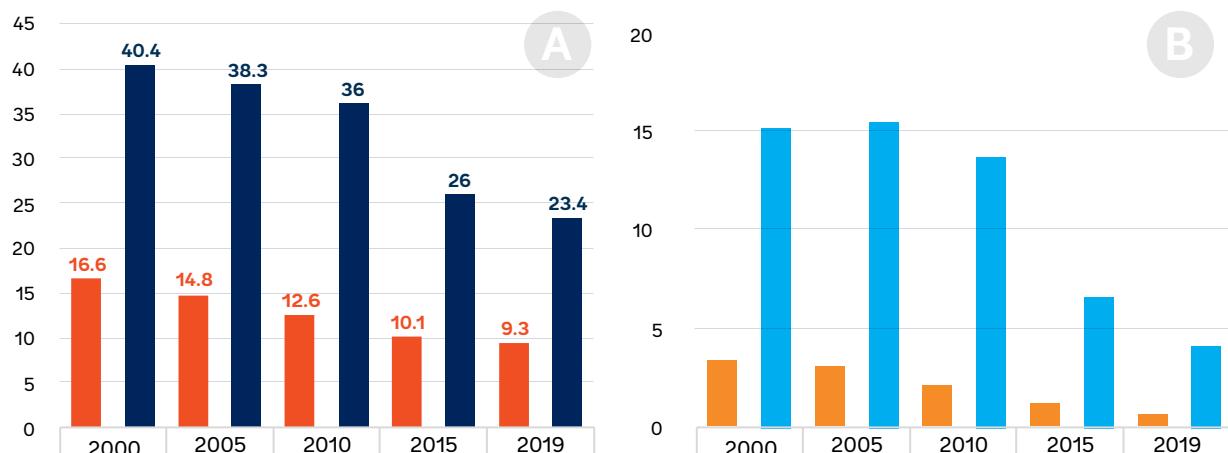
### Poverty rates using the upper and extreme poverty line, Urban/Rural

A: Poverty rates using the upper poverty line, Urban/Rural, between 2000-2019

B: Poverty rates using extreme poverty line, Urban/Rural between 2000-2019

Legend A: ■ Rural ■ Urban | Legend B: ■ Rural ■ Urban

Source: Calculations using EBCNV 2000, EBCNV 2005, EBCNV 2010, EBCNV 2015, EBCNV 2019

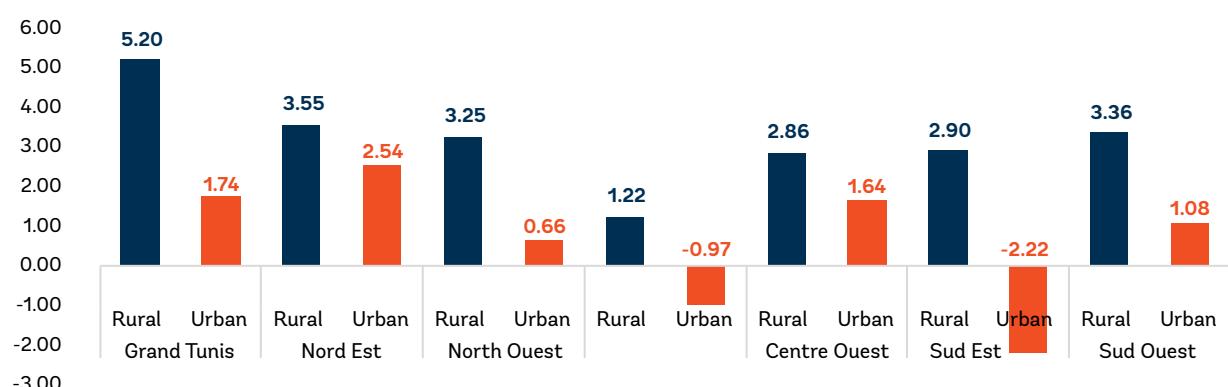


**Figure 7:**

### Average consumption growth, 2010-2015, by location and region

Legend: ■ Rural ■ Urban

Source: Calculations using EBCNV 2000, EBCNV 2005, EBCNV 2010, EBCNV 2015, EBCNV 2019





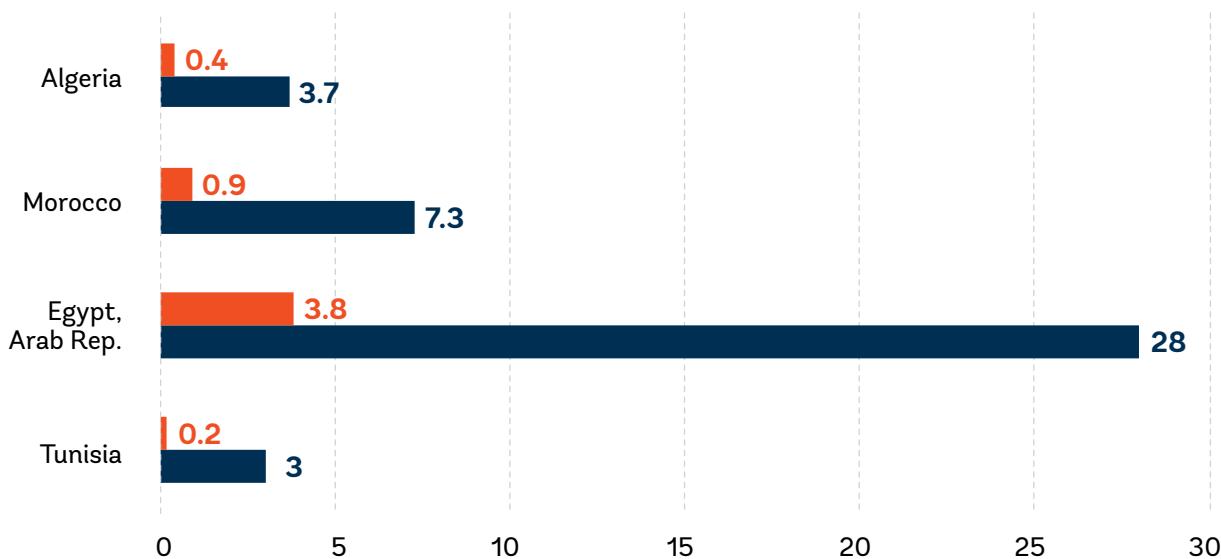
- 30. Tunisia has one of the lowest rates of poverty when compared to other countries in the MENA region.** According to the latest World Bank estimates, only 3 percent of the population lives on less than \$3.20 a day at 2011 international prices. This is lower than other countries such as Egypt where the latest data suggest that about 28 percent of the people live below \$3.20 a day, and Morocco and Algeria where the figure stands at 7.3 and 3.7 percent, respectively (Figure 8).

**Figure 8:****Comparison of poverty headcount ratio at \$1.90 and \$3.20 a day (2011 PPP) (% of population), by country**

Note: Data reported for latest years available for countries. Poverty headcount ratio at \$1.90 a day is the percentage of the population living on less than \$1.90 a day at 2011 international prices. As a result of revisions in PPP exchange rates, poverty rates for individual countries cannot be compared with poverty rates reported in earlier editions.

Legend: ■ Poverty headcount ratio at \$3.20 a day (2011 PPP) (% of population)  
■ Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population),

Source: World Development Indicators



- 31. The expansion of social transfers seems the key factor behind the poverty reduction after 2010 in spite of reduced economic performance, but a definite test of this hypothesis would require fuller access to household survey data.** Tunisia introduced a cash transfer program known as *Programme National d'Aide aux Familles Nécessiteuses (PNAFN)* in 1986. After the revolution the number of beneficiary households increased significantly (from 132,000 to 234,000 in 2011-15) and so did the amount of the transfer (from TND 56.7 to TND 150 in 2010-15 (nominal terms) (CRES, ADB, ADF 2017). The resulting spending increase by around TND 115 million would have been sufficient to explain the 5 percentage point poverty



reduction in 2010-15. That is because many of the poor were relatively close to the poverty line in 2010, with the average expenditures level of a poor household at around 94 percent of the poverty line (Figure 10).<sup>37</sup> As a result reducing poverty by 5 percentage points in 2010 would require about TND 36 million (in 2010 prices).<sup>38</sup> While the PNAFN seems the most plausible behind the post-revolution poverty reduction story, better access to household survey data would be needed to perform a full analysis of the actual mechanisms.

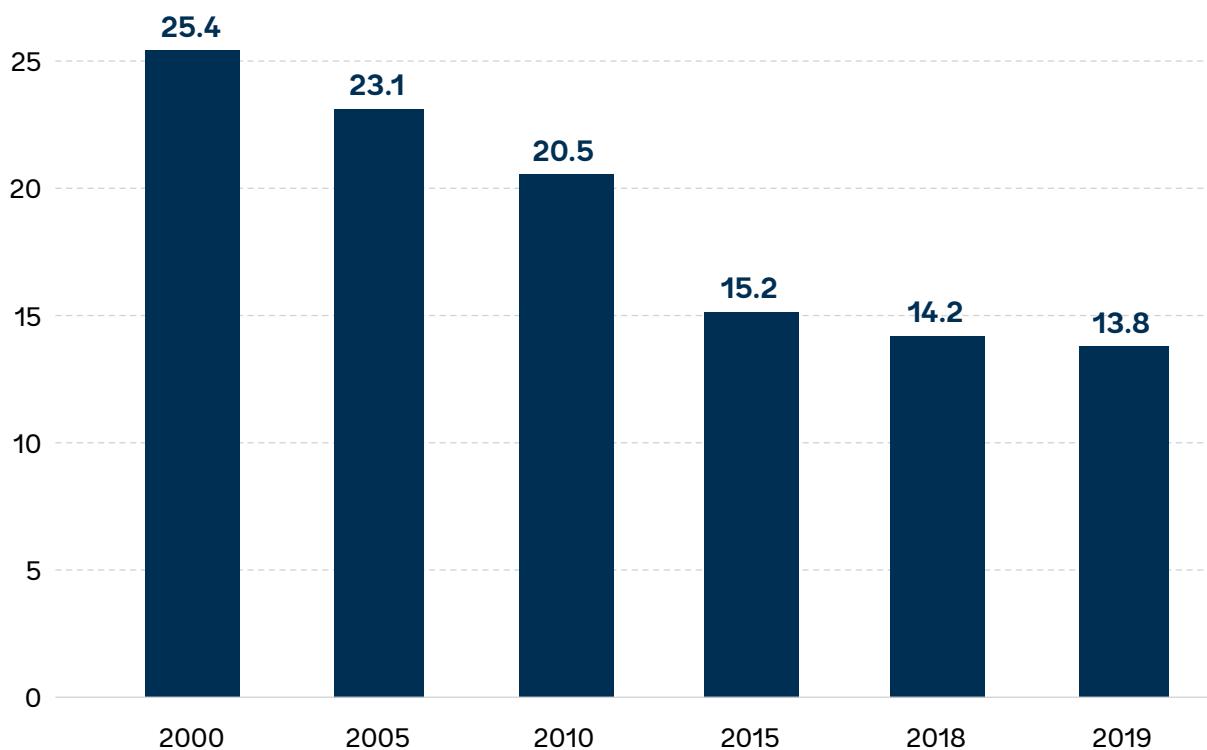
**Figure 9:**

### Poverty headcount rates using the upper poverty line, 2000-19

Note: Although representative at national level, all the rounds of the EBCNV do not include income, but only household spending. Access to total consumption aggregates allowed us to compute poverty and inequality figures for all rounds. The panel survey collected in 2018 and 2019 on a subsample of households already surveyed in 2015 includes new income modules instead of consumption. Poverty and inequality for 2018 and 2019 have been recently imputed by the INS and the World Bank.

Source: Calculations based on the *Enquête Nationale sur le Budget, la Consommation et le Niveau de Vie des Ménages* (EBCNV), INS. Rounds 2000, 2005, 2010 and 2015; Panel 2018/2019.

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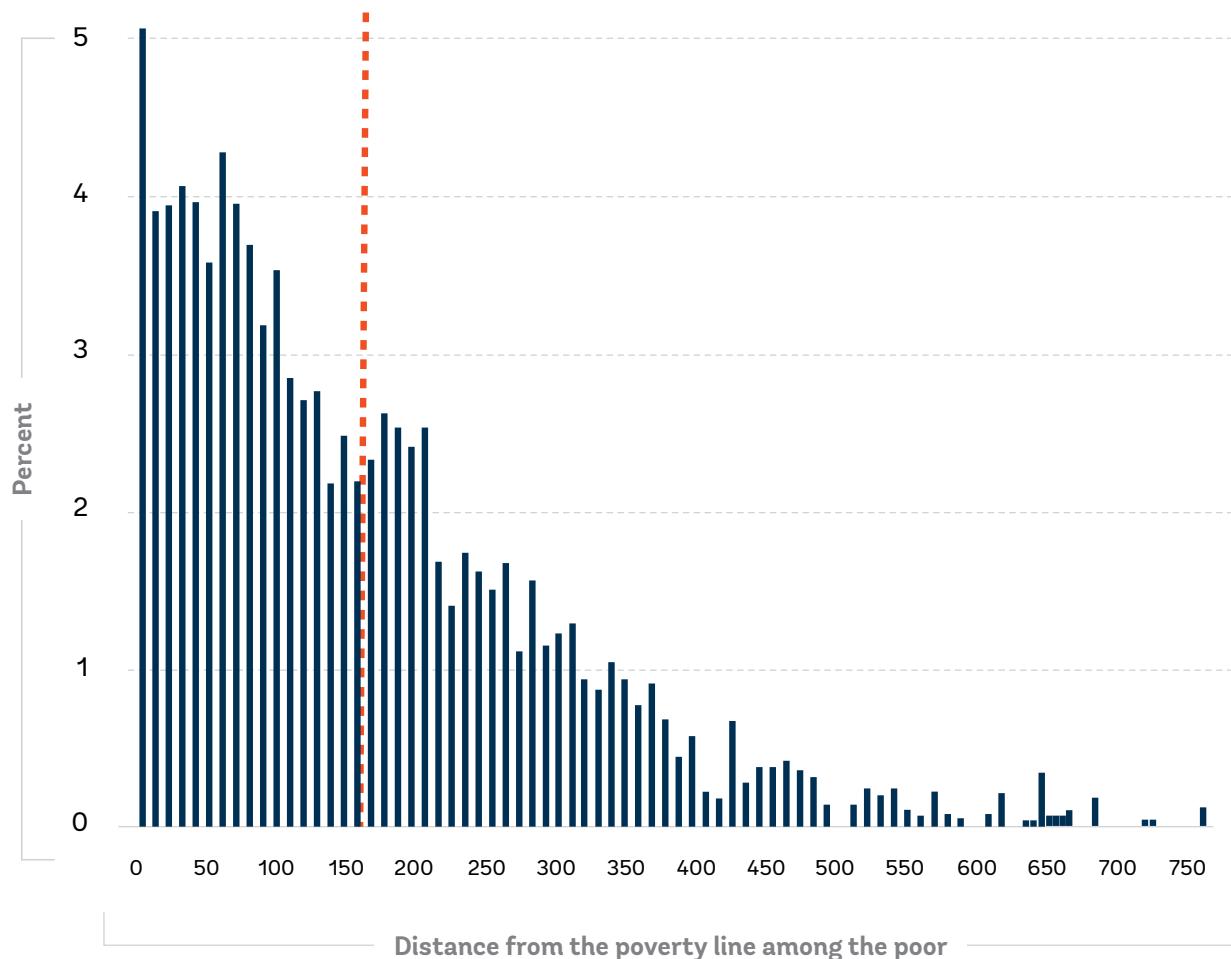
<sup>37</sup> Values in the graph are at the household level and not expressed in per capita terms to facilitate the comparison with the amount of the cash transfer.

<sup>38</sup> The simulation assumes perfect targeting of a cash transfer and is calculated using the average 2010 poverty line and the poverty gap estimated in 2010. The number of poor in 2010 is estimated at about 2,18 million, so a reduction of 5ppt would require about 530,000 individuals to be lifted out of poverty. A similar exercise can be conducted by using the 2015 poverty line and household expenditures as of 2010 adjusted for price changes between 2010 and 2015. Such simulation indicates a total estimated cost of about TDN 65 million to lift 530,000 individuals out of poverty.

**Figure 10:****Distribution of the distance of household monthly expenditures from the poverty line among the poor, 2010**

Note: The vertical line indicates the average distance of household monthly expenditures from the poverty line among the poor

Source: Based on data from the EBCNV 2010, INS.



Inequality also declined in both urban and rural areas.

**32. Relative inequality also declined as consumption grew faster amongst the poor.**

Consumption growth between 2000 and 2019 has largely been pro-poor. Consumption grew at a faster rate for poorer households than for the rich (Figure 11), helping narrow the gap between the rich and poor.

Inequality, as measured by the Gini Index, fell from 0.4 in 2000 to 0.328 in 2015, and further to 0.331 in 2019 (Figure 11a).<sup>39</sup> The gap between the Gini

<sup>39</sup> In other words, randomly considering two Tunisians in 2000, the average relative gap between their consumption levels would have represented 80 percent of average consumption; this same gap would have dropped to about 74 percent in 2015.



coefficients of urban and rural areas declined between 2015 and 2019, bringing their inequality rates to comparable levels (Figure 11b). Yet, even though inequality declined, convergence in standard of living relative to the “Grand Tunis” region (the richest region) was limited. The level of consumption in the poorest region of the country—the center-west—was 46 percent of that of Greater Tunis in 2015, compared with 49 percent in 2000.

**Figure 11:**

### Growth incidence curves

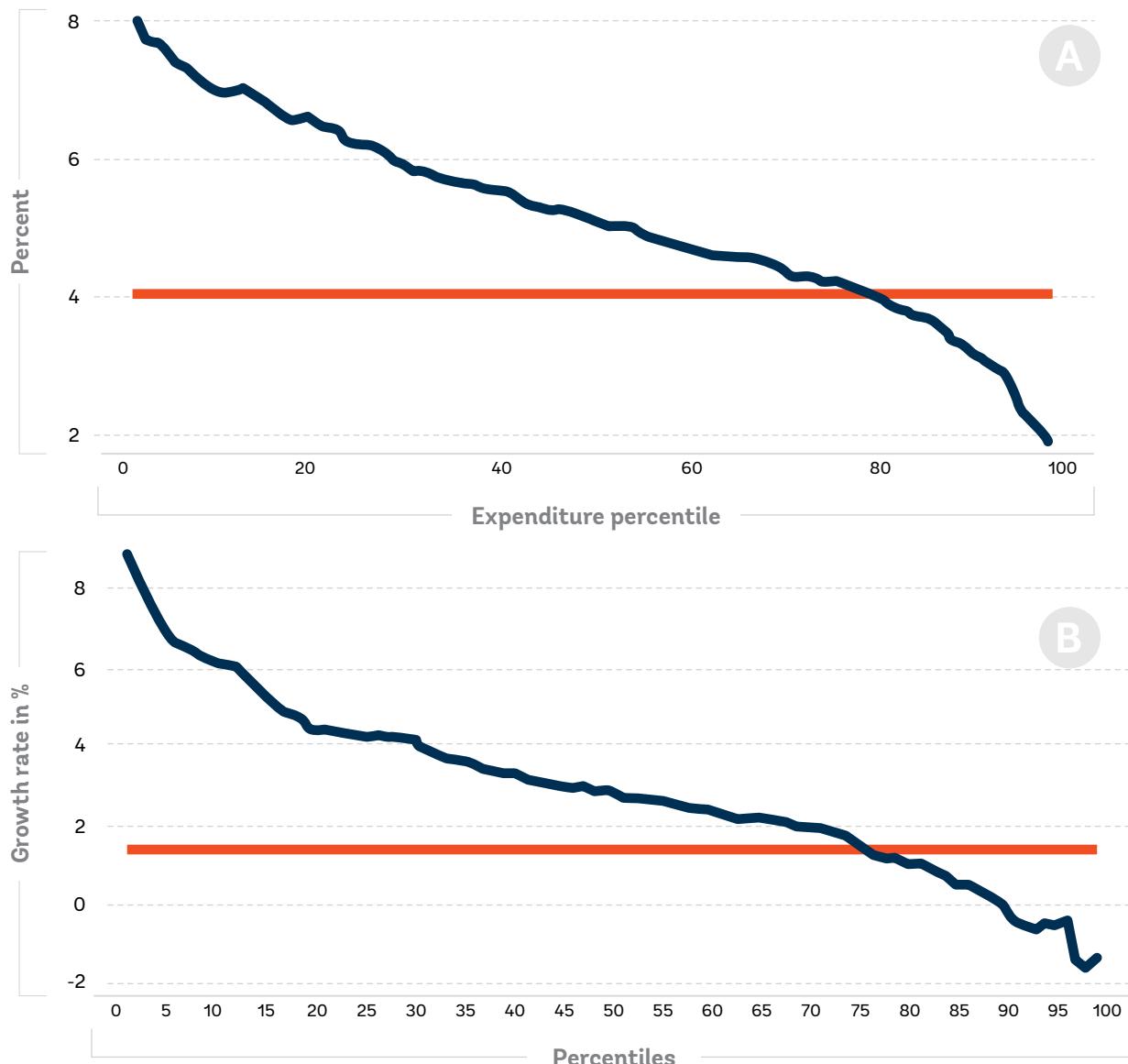
A: Growth Incidence Curve 2000-2019

B: Growth Incidence Curve 2010-2015

Legend A: ■ Annualized expenditure growth rate ■ Growth rate in mean expenditure

Legend B: ■ Annual growth rate ■ Growth in mean

Source: Calculations using EBCNV 2000, EBCNV 2005, EBCNV 2010, EBCNV 2015, EBCNV 2019



**Figure 12: Trends in inequality, by year and location**

A: Gini and Theil Index, between 2000-2019

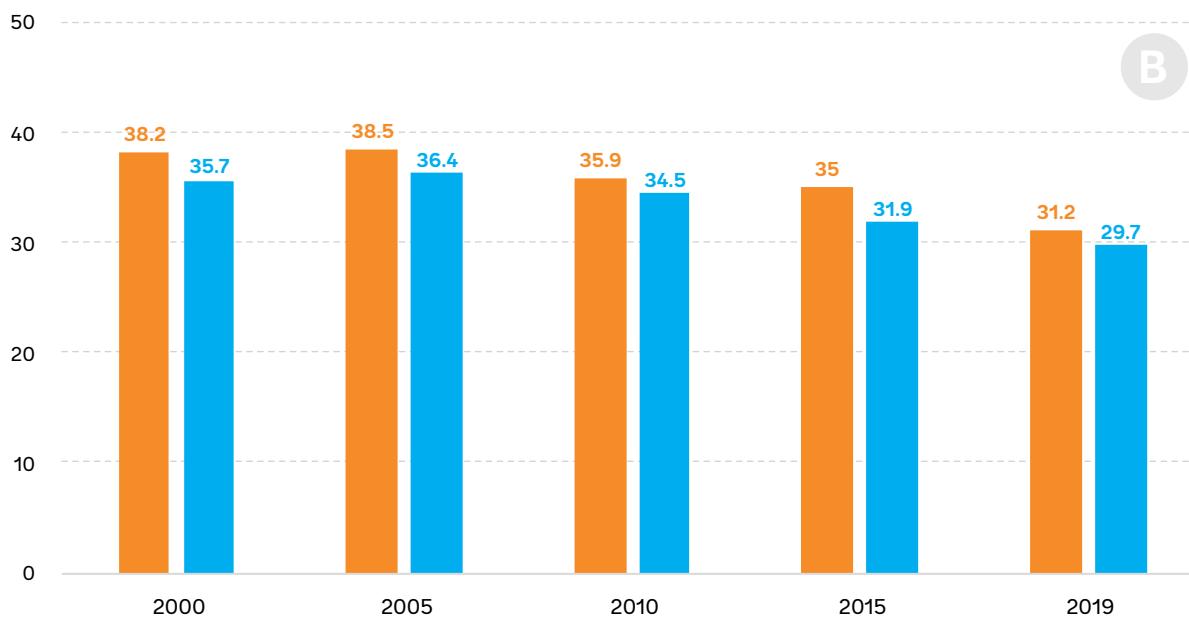
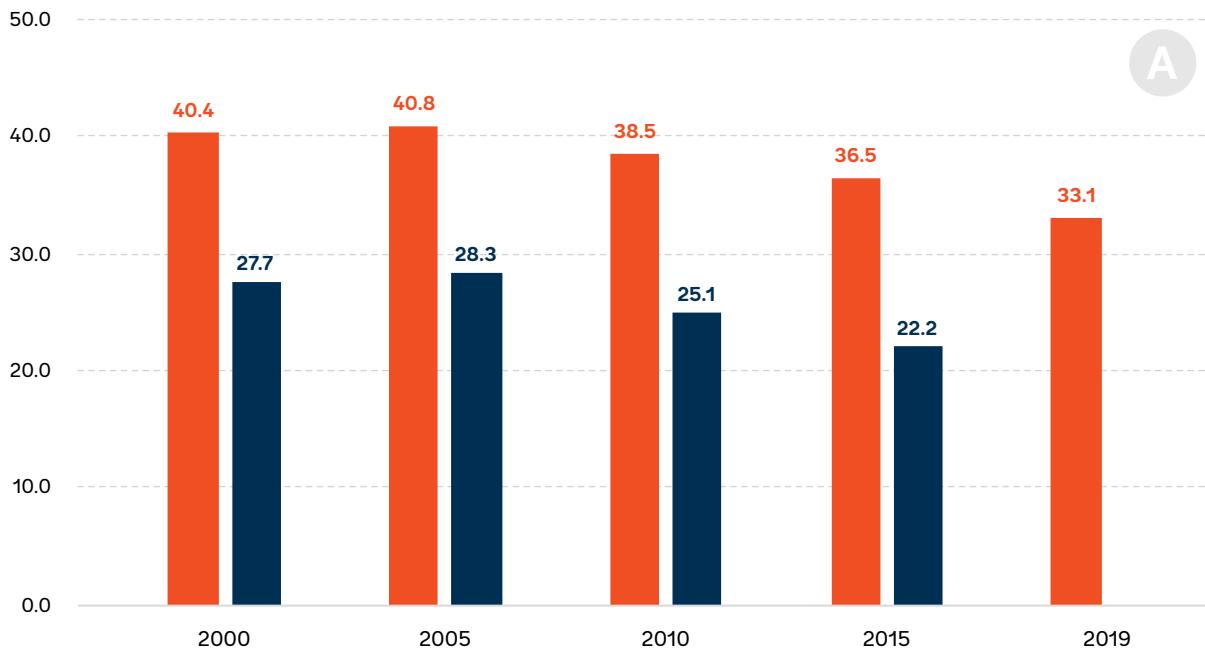
B: Gini, by Rural/Urban, 2000-2019

Note: Theil Index for 2019 has not been calculated

Legend A: ■ Gini ■ Theil GE (0)

Legend B: ■ Rural ■ Urban

Source: Calculations using EBCNV 2000, EBCNV 2005, EBCNV 2010, EBCNV 2015



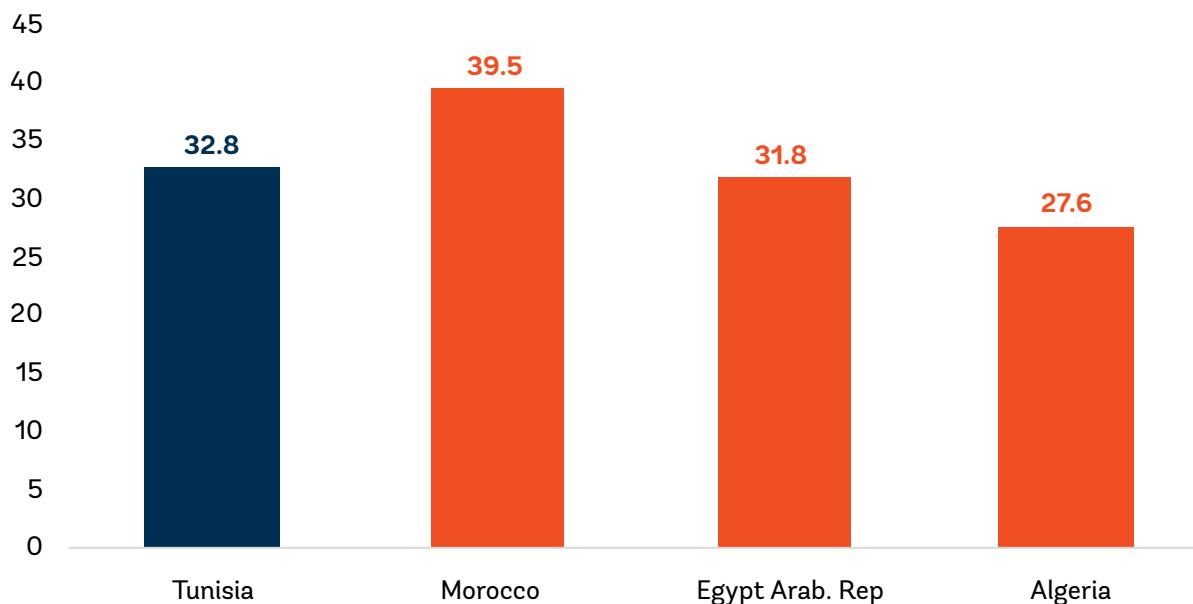


- 33. Inequality, measured by Gini, in Tunisia is comparable to other countries in the region.** Tunisia's Gini index is lower than other countries such as Morocco where latest data estimates the index to be as high as 39.5 in 2013, but higher than other countries such as Egypt and Algeria (Figure 13).

**Figure 13:** Comparison of Gini index, by country

Source: World Development Indicators

Note: Data reported for latest years available for countries: Tunisia (Year 2015), Morocco (Year 2013), Egypt (Year 2017), and Algeria (2011). Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.



Poverty profiles have not changed between 2000-2019 and remain concentrated in certain groups.

- 34. The profile of the poor in Tunisia has not changed significantly between 2000 and 2019.** In pre-revolution Tunisia, poverty status was positively correlated with factors such as household size, location, age, and level of educational attainment of the household head. In addition, workers living in poor households were often employed in low-quality jobs and in low-productivity sectors (Tunisia Systematic Country Diagnostic, 2015). These profiles have remained unchanged in the post-revolution period. Households with higher poverty incidence rates continue to be typically headed by younger men without education, who live in rural areas, and seeking work or working in agriculture or the construction sector. The poor are also likely to be concentrated in larger families (see Annex A for the profile for 2019).



- 35. In both 2015 and 2019, poverty is concentrated among households with heads having no educational degree.** Households headed by individuals with no education constitute nearly 22 percent of the population, and their relative contribution to the overall poor population is nearly 35 percent in 2015. In 2019, the trends are similar as households with higher incidence rates of structural or chronic poverty are uneducated.
- 36. Poverty status is strongly conditioned by the sector of employment of the household head for 2015 and 2019.** Tunisians face a significantly higher risk of poverty if the head of the household works in the agricultural or construction sectors, both of which are known for jobs with low levels of productivity and low wages. On average, in the delegations with the highest levels of socioeconomic vulnerabilities, around 32 percent of the people are dedicated to agricultural activities, while in the less vulnerable areas, agricultural employment represented only 1.6 percent in 2015.

## 2.2 Growth and job creation

But gains in poverty reduction did not come from higher growth and sustained job creation.

### 2.2.1 Growth performance.

- 37. Growth, over the 2010s has been weak and structural change limited.** GDP growth declined to 1.7 percent on average between 2011 and 2018,<sup>40</sup> down from 3.5 percent between 2000 and 2011 as performance weakened across all sectors of the economy, with the exception of agriculture (Figure 26). Structural transformation has also been limited. The structure of value-added has remained relatively constant over the past two decades with limited transition to higher value-added sectors, similar to other countries in the region but different from other middle-income countries.<sup>41</sup> The services sector grew from 60 to 65 percent of GDP, driven by the increase in public sector services while non-manufacturing industries declined mainly due to a declining mining sector (Figure 27).

40 Growth was even lower for the period between 2011 and 2020 given the impact of the Covid-19 pandemic.

41 Morocco Jobs Diagnostic, 2020.

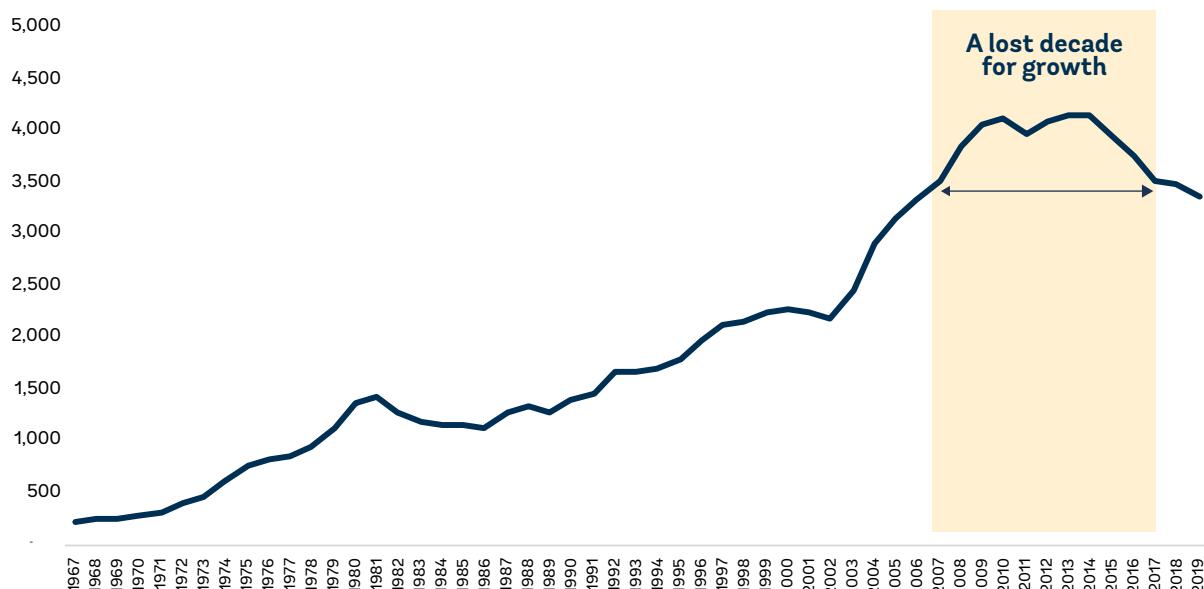


**Figure 14:**

### A lost decade for growth

GNI per capita by 2019 had declined to pre-2008 levels GNI per capita, Atlas method (current US\$)

Source: WDI



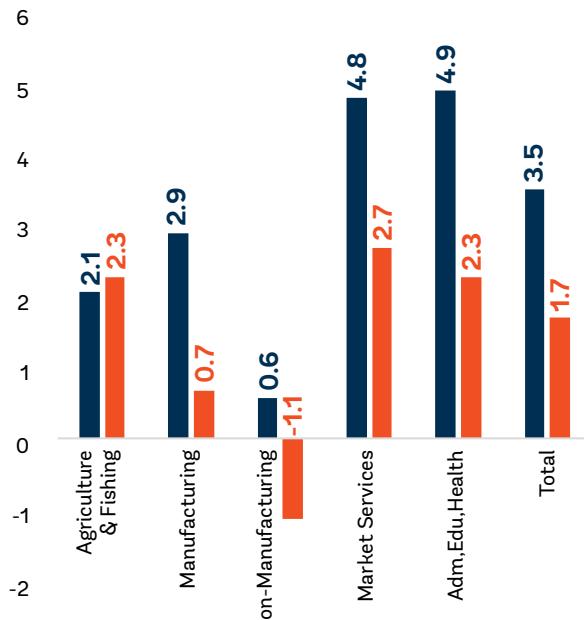
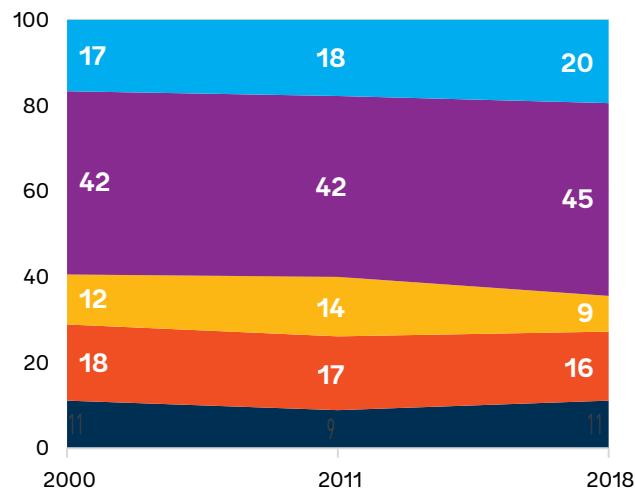
Tunisia's growth performance deteriorated markedly over the past decade as productivity growth declined.

#### 38. A productivity problem has been at the core of low growth.

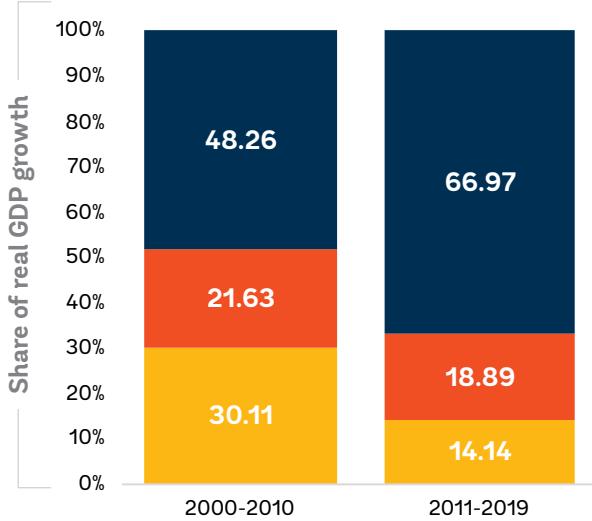
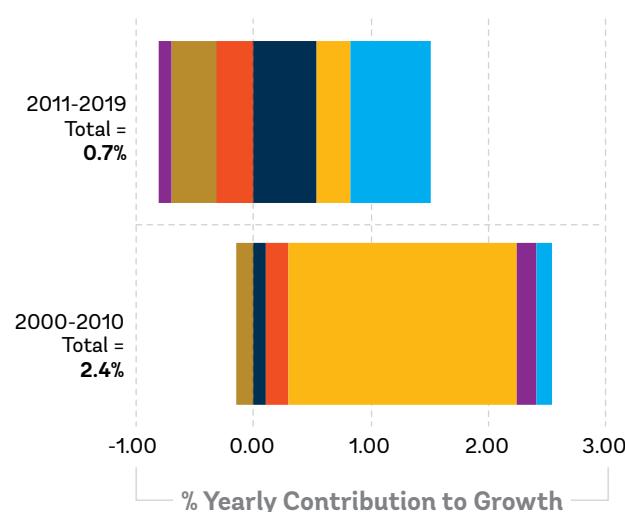
The contribution of total factor productivity (TFP) to growth declined over the past decade, indicating decreasing efficiency of the economy (Figure 17). Similarly, labor productivity declined heavily, particularly within sectors, with the decline being highest in the services and industrial sectors. The agriculture sector diverged from the rest, having experienced an increase in its levels of labor productivity as the motor for its growth performance. The contribution of structural change to productivity also remained limited as between sector gains (the gains from the movement of labor from less productive sectors to more productive) ones were negligible on average (Figure 18).

**Figure 15:****Real GDP growth by sector (2010 prices)**

Legend: ■ 2000-2011 ■ 2011-2018

**Figure 16:****GDP shares by sector**Legend: ■ Agriculture & Fishing ■ Manufacturing  
■ Non-manufacturing ■ Services  
■ Admin, Health & Education**Figure 17:****Decomposition of growth in per capita value-added**

Legend: ■ Capital Stock ■ Labour ■ Total Factor Productivity

**Figure 18:****Contributions to labor productivity growth\***Legend: ■ Within, Agriculture ■ Within, Industry  
■ Within, Services ■ Inter-sectoral, Industry  
■ Inter-sectoral, Services

Note: \*“Within” sector contributions to productivity growth arise from increased output per worker, overtime, within the sector. “Inter-sectoral” contributions to productivity growth arise from the movement of labor between sectors, from less productive to more productive activities.

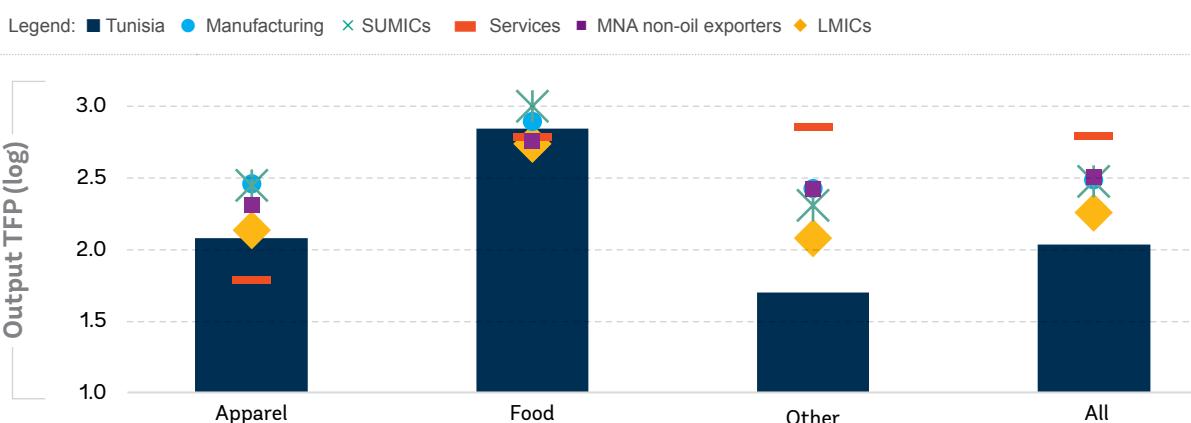
Source: WDI.



**39. Productivity trends followed diverging paths for Tunisia's "old" and "new" manufacturing industries.** Productivity levels tended to be higher for firms in the long-established food processing and apparel manufacturing sectors: the "old" industries. These firms are almost as productive as their peers in comparator countries; however, their TFP growth contracted by 12 percent in the food processing industry and collapsed 47 percent in the apparel manufacturing industry between 2013 and 2019 (Figure 19 and Figure 20). The remaining industries, which include the "new" industries that became established at a later stage of Tunisia's development, such as the electro-mechanical sector, followed a different trend. Although their average TFP level is about two-thirds that of lower middle-income countries, their TFP growth increased by 22 percent on average.

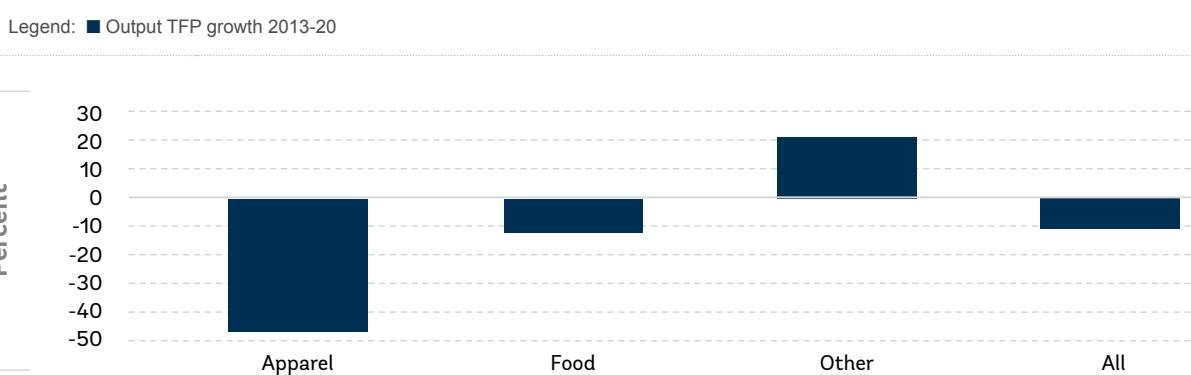
**Figure 19:**

**TFP level in Tunisia & Comparators**



**Figure 20:**

**TFP level in Tunisia & Comparators**



Note: These figures are based on the World Bank Enterprise Survey (ES), which provides two firm-level measures of total factor TFP: output and value-added revenue TFP measures. The value-added TFP measure is obtained by subtracting the value of intermediate inputs (materials, electricity, etc.) from the output before computing TFP (Cusolito and Maloney 2018; Cusolito et al. 2018). Both output and value-added revenue TFP estimates are constructed from survey data on more than 164,000 firms in 127 countries, including 87,000 firms in the manufacturing sector. This analysis focuses on output TFP in manufacturing firms in Tunisia. There were two ES waves in 2013 and 2019 in Tunisia; the sample includes 320 firm-level TFP observations. Nearly two-thirds (66 percent) of the surveyed firms were in apparel (37 percent) and food processing (29 percent) industries. Firm-level TFP is computed using a Cobb-Douglas production function, assuming elasticities of output with respect to inputs are the same across countries in a given income group. Unweighted regional averages are computed. Sample for Tunisia includes 320 firms surveyed during two waves of enterprise surveys; 235 firms surveyed in 2013 and 85 firms surveyed in 2020.

Source: World Bank Enterprise Surveys, World Bank



**Low levels of investment have been a major obstacle to productivity growth.**

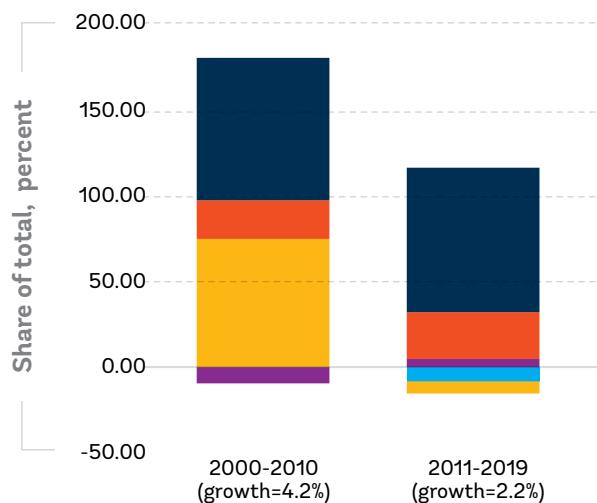
- 40. A steady decline in investment over the past decade reduced the potential for productivity growth, tilting the country towards a consumption-based economy.** The significant levels of political uncertainty, the slow progress in implementing structural reforms over the past decade and the deteriorating security conditions inside and outside the country created a less than attractive context for investment. Private investment as a share of GDP fell from an average 17.4 percent of GDP in 2000-2010 to 14.9 percent of GDP in 2011-2019. Similarly, at the firm level, the percentage of businesses investing in fixed assets fell from 44 in 2013 to 30 percent in 2019, with declines across all sectors. As a result, GDP growth has increasingly been driven by consumption (Figure 32). This is consistent with the rising role of recurrent public expenditures in the economy documented below, including public wages and transfers.
- 41. The decline in investment, especially in innovation and in the capacity of the workforce, was most pronounced for small and medium enterprises (SMEs).** The share of Tunisian firms introducing a new product or service halved from 28 percent in 2013 to 14 percent in 2019. The share of firms that introduced a new process innovation has declined even more sharply from 35 percent in 2013 down to a little over 4 percent of firms while investment in research and development more than halved from 18 to 6.7 percent. Similarly, whereas 29 percent of firms were offering formal training to workers in 2013, by 2019, this share had dropped to 19 percent, bringing Tunisia well below the average for lower middle-income countries (32.5 percent) on this indicator. Large firms were an exception to these trends, having maintained higher rates of investment than SMEs (Figure 22).
- 42. The “old” industries in the textiles and food sectors also had particularly low levels of investment and innovation, counteracting gains in other sectors and pulling the economy’s average level of productivity growth downwards.** Figure 21 and Figure 23 show a broadly positive correlation between investment and innovation on one hand, and productivity growth on the other, with firms in the apparel and food sectors falling behind on both fronts while those in other newer industries perform better. Indeed, emerging pockets of innovation since the early 1990s in industries with a medium level of technological intensity such as mechanical, electrical, and pharmaceutical production, among others, have increased the share of more sophisticated products in the export basket (Ghali and Nabli, 2020). Underlying this are industries that have tended towards experimentation and product diversification, both in terms of products and destination markets. This suggests that innovation and product diversification are occurring in some important sectors which contribute to an increase in Tunisia’s economic complexity ranking from 78 in 1998 to 64 in 2018. At the other end of the spectrum sectors with lower levels of technological intensity are increasingly less competitive.



**Figure 21:**

### GDP shares by sector

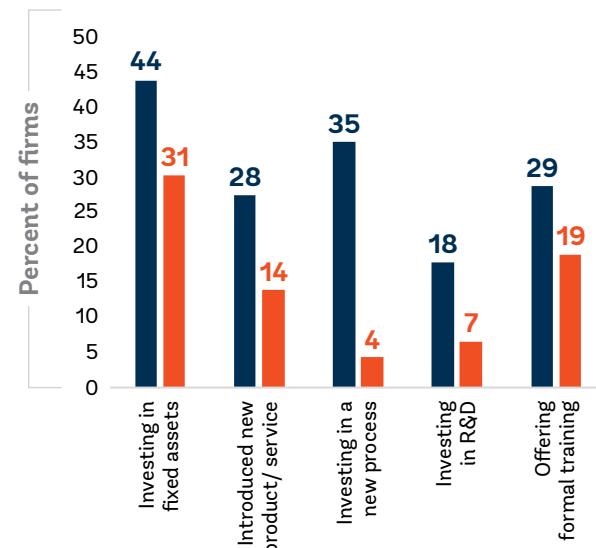
Legend: ■ Households/NPIS Hs consumption  
■ Government consumption ■ Investment  
■ Net export ■ Statistical discrepancy



**Figure 22:**

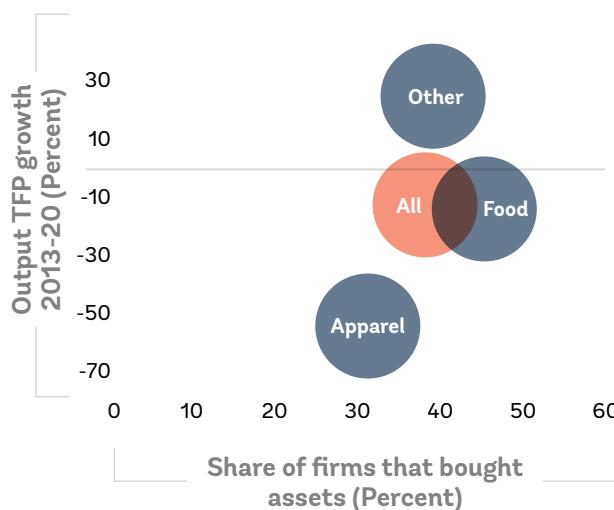
### Tunisian firms are investing and innovating less than before

Legend: ■ Tunisia 2013 ■ Tunisia 2019



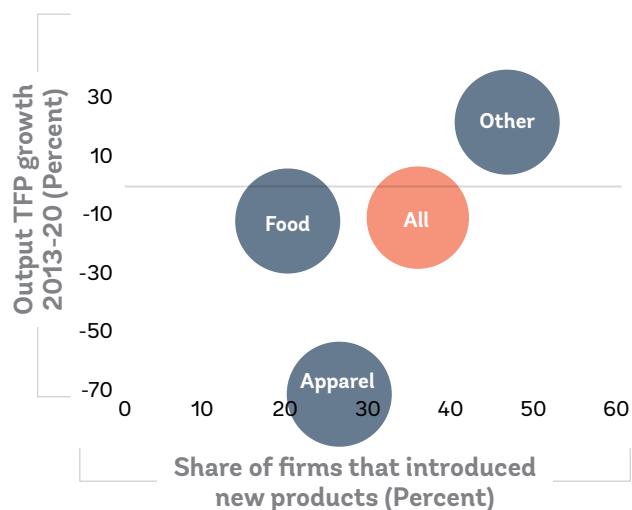
**Figure 23:**

### TFP growth and asset purchases



**Figure 24:**

### TFP growth and new products



Source: World Bank Enterprise Surveys, World Bank.



## Declining export orientation and stalled firm growth are also hindering productivity gains.

- 43. Export orientation, which was at the core of Tunisia's development model, has been declining since the revolution shifting the economy towards consumption driven growth.** Being small, the Tunisian economy has traditionally been export oriented. The main drivers have been low tech intensity industries, including textiles, tourism, and mining, which have developed through industrial policies in past decades. However this model appears to have run its course. Textiles has been losing ground to global competitors as the levels of investment and productivity of Tunisian firms declined. The tourism industry also faltered as it struggled to recover from the impact of security incidents on tourist arrivals. Similarly, the mining industry's output shrank as Tunisia's petroleum supplies dwindled and frequent labor disputes impacted production. As a result, the share of exporting firms<sup>42</sup> decreased from 38 percent in 2013 to 32 percent in 2019, particularly in the food manufacturing sector (Figure 25).<sup>43</sup> And trade's net contribution to growth dipped from 49 percent in the 1991-2010 period to -7.1 percent in 2011-19.
- 44. Small businesses, which dominate the formal firm landscape, contribute to the trend of weak job creation in Tunisia.** In 2019, nearly 97 percent of firms in Tunisia were self-employed and micro (1-5 employees), 0.7 percent were firms with 20 to 99 employees, and only 0.2 percent of firms operate with more than 100 employees (Figure 26). However, employment is disproportionately concentrated in medium and large firms, which account for nearly 55 percent of total employment in 2019. This structure has not changed over the last two decades, and in comparison, to international standards, the presence of medium-sized companies remains very low in Tunisia. Moreover, since 2011, the rate of firm creation slowed as the stock of medium and large firms, particularly in the trading offshore sector, stagnated.<sup>44</sup> Firm creation now relies more heavily on micro enterprises, which contributes to the economy's low capacity to create employment. Previous analyses, notably the Development Policy Review (2014), show that small businesses are the weakest contributors to job creation, especially as they grow in age.

42 Percent of firms exporting directly or indirectly at least 10 percent of sales.

43 The same trend is observed for the proportion of total sales that are exported directly, which also fell slightly from 16.3 percent in 2013 to 15.8 percent in 2019.

44 Reperatoire Nationale de Entreprises, 2020.

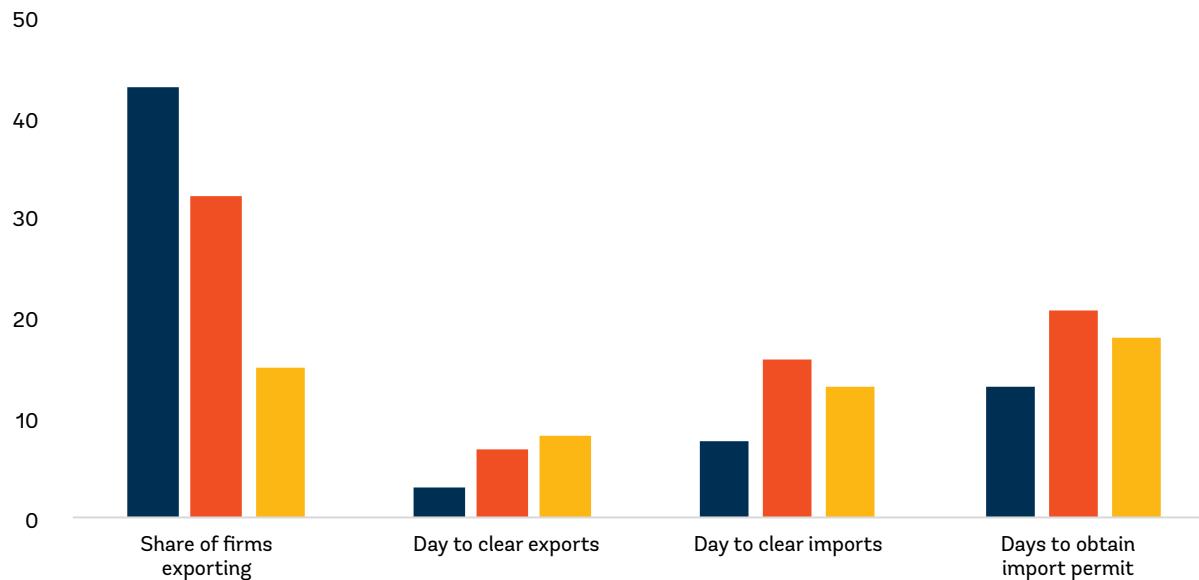


**Figure 25:**

The context for exporting firms has deteriorated.

Legend: ■ Tunisia 2013 ■ Tunisia 2019 ■ LMIC

Source: World Bank 2013 and 2019 Enterprise Surveys.

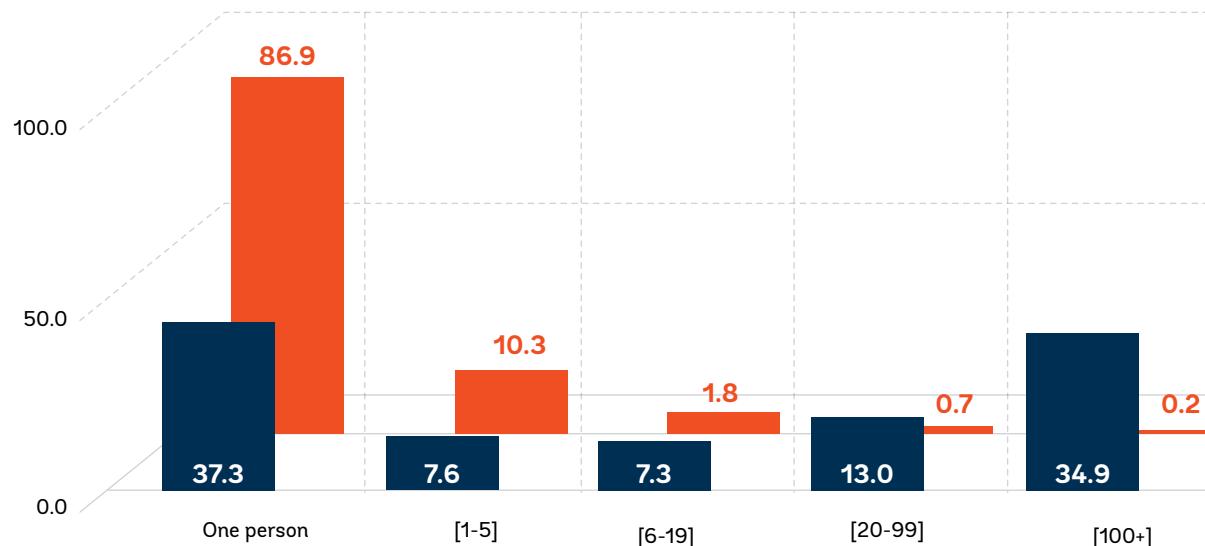


**Figure 26:**

Firm size and employment distribution (%)

Legend: ■ % of employment ■ % of firms

Source: INS





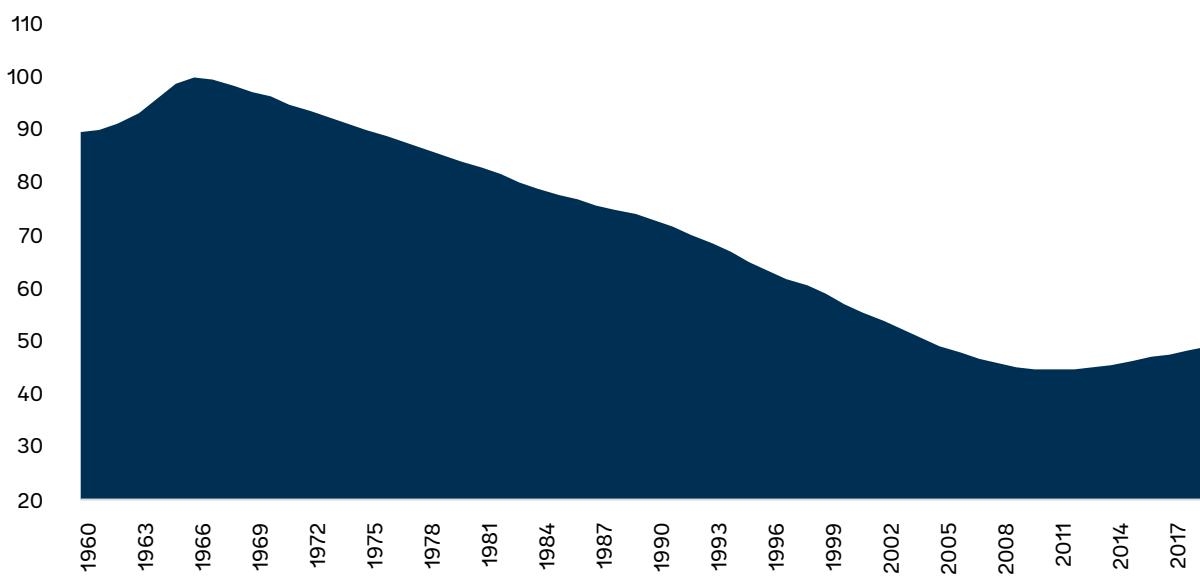
Demographics and educational outcomes are also contributing to lower growth.

**45. Today, Tunisia is less prepared to take advantage of its demographic dividend.** Tunisia's population pyramid is starting to age as the share of the population aged 65 and above increases while growth of the working-age population begins to slow, raising the dependency ratio<sup>45</sup> within households (Figure 27). Indeed, the growth rate of the working-age population slowed from 1.6 percent between 2006 and 2010 to 1.1 percent between 2011 and 2016. This places Tunisia in the latter stages of its demographic dividend. The impact of these demographic developments is affecting growth through a lower contribution of labor to output (Figure 17).

**46. At the same time, educational outcomes are starting to weaken.** The human capital index (HCI), a measure of productivity of the next generation, declined slightly from 0.53 in 2010 to 0.52 by 2020. The decline was mainly due to weaker learning outcomes. Having been a regional leader in education in past decades with higher levels of access, literacy and female education than its peers, recent evidence of learning outcomes indicates a decline in the quality of education (Figure 26), which weakens the foundations for growth. Taken together, the evolution of the demographic profile, weaker learning outcomes, and declining productivity growth indicate that Tunisia today is less prepared to take advantage of its demographic dividend.

**Figure 27:** The dependency ratio

Source: INS



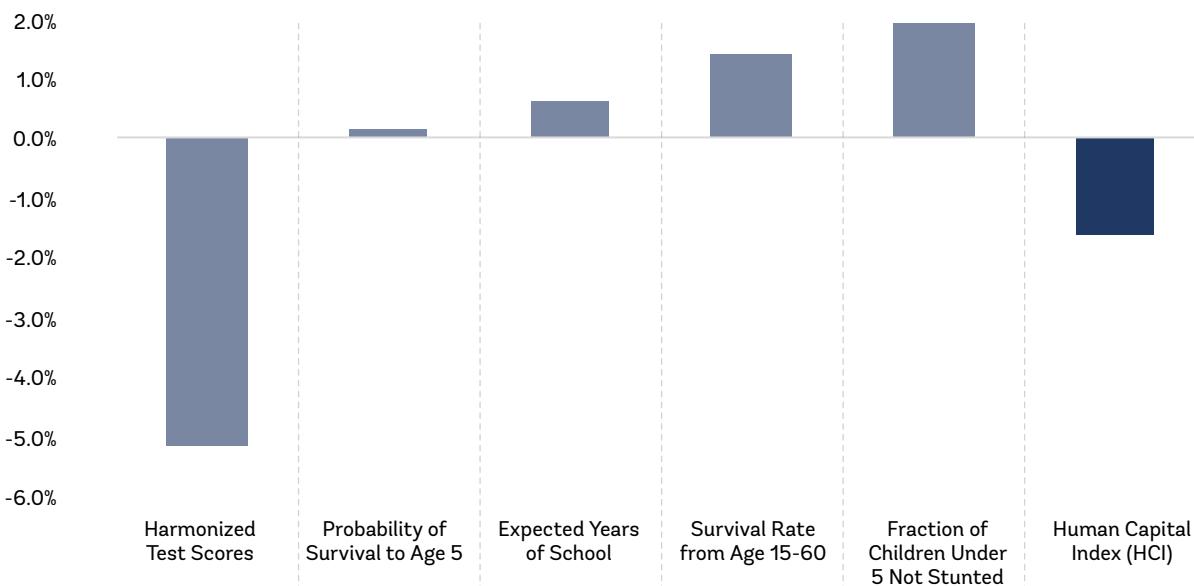
<sup>45</sup> Age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64.



**Figure 28:**

### Evolution of the human capital index – 2010 and 2020

Source: World Bank 2013 and 2019 Enterprise Surveys.



**Box 5:**

### Education in Tunisia – Challenges for building human capital

**Tunisia made gains in increasing access to education, but learning poverty remains a major challenge.** Gains include achieving universal enrollment (net enrollment rate in primary education for children 6 to 11 years of age was 99.2% in 2017/18<sup>46</sup>) and nearing this target at the secondary level (85%<sup>47</sup>). The ability to read and understand a simple text are fundamental skills that a child needs to build his or her learning capabilities. Yet, in many countries students enrolled in school for at least six years are unable to read and understand simple texts and are thus “learning poor.”<sup>48</sup> In Tunisia, learning poverty among the student population of 10-year-

olds stood at 65 percent in 2019, two percentage points below the average for the Middle East and North Africa region and 10.2 percentage points below the average for lower middle-income countries. Moreover, the average Tunisian student who completes 12 years of education is likely to have gained only about 9 years’ worth of learning (HCP 2018). As in other MENA countries, boys begin to fall behind starting in late primary school: Tunisian boys have higher rates of learning poverty, higher rates of dropout, lower scores on reading proficiency, and lower learning-adjusted years of schooling than girls (EduAnalytics 2019). ►

46 [www.education.gov.tn/article\\_education/statistiques/stat2017\\_2018/education\\_ar.pdf](http://www.education.gov.tn/article_education/statistiques/stat2017_2018/education_ar.pdf)

47 Tunisia Multiple Indicator Cluster Survey- 2018 (<https://mics.unicef.org/surveys>)

48 Source: Tunisia Learning Poverty Brief – 2019 – EduAnalytics. <https://pubdocs.worldbank.org/en/258981571223501659/MNA-MNC01-TUN-LPBRIEF.pdf>

**Box 5: continued...****Education in Tunisia – Challenges for building human capital**

**Similarly, while Tunisia has accomplished a marked and rapid expansion in access to higher education, including for women, much remains to be done to increase the quality of learning.** There has been considerable progress in increasing access to higher education, including for women, who accounted for 66.5 percent of university graduates in 2015, although this could reflect, in part, the absence of employment opportunities for young women (Education PER).<sup>49</sup> However, the success rate of undergraduates in first-year exams is only around 53 percent (2018), indicating unpreparedness of secondary education graduates for higher education and creating inefficiencies and costs, as students are forced to repeat the year. And although the share of undergraduate students repeating one or several academic years dropped slightly in recent years (from 31 percent in 2012 to 27 percent in 2016), it remains high.

According to UNICEF's Multiple Indicator Cluster Survey (MICS) of 2018, 72 percent of students between the ages of 7 and 14 are unable to meet the minimum curriculum requirements for mathematics; 33 percent are unable to meet similar requirements for reading. This puts a significant proportion of the student population at higher risk of dropping out.

**Low quality of learning is holding Tunisia back from building sufficient human capital and preparing its graduates for tomorrow's labor market.** In general, unemployment of higher education graduates is high, at 30 percent and even

higher for female graduates at 41 percent, compared with 18 percent for males,<sup>50</sup> and likely to be much higher for recent graduates. A large share of the unemployed, has a tertiary education diploma/degree. Although there are several structural labor market demand side issues affecting higher education graduates more than other education levels, the low employability also is due to several labor market supply side factors, notably: (i) enrolment of large share of students in humanities/social sciences (about 55 percent) and other disciplines not in line with employer needs (and not in Science, Technology, Engineering and Mathematics (STEM) fields); and (ii) inadequate technical quality of workers, but also inadequate cross-training and soft skills (e.g., close to 30 percent of employers indicated low quality of workers' skills as major constraint).<sup>51</sup> A similar paradigm is found among graduates of technical and vocational education and training (TVET): the overall unemployment rate for TVET graduates is 29.7 percent, including 45.5 percent for women and 21.7 percent for men (World Bank 2020).

**Looking ahead, the challenge is to address the stresses on quality and effectiveness of Tunisia's education system.** This includes strengthening foundational learning outcomes from the early years onward and pivoting the higher education system to one that is more efficient and better attuned to future-oriented labor market demand.

49 Source: Ministry of Higher Education and Scientific Research – Statistical Yearbook 2015 -2016 du Bureau des Etudes, de la Planification et de la Programmation.

50 INS, October 2020 (Q3).

51 In addition to quality and employability, further challenges include (i) insufficient university autonomy, incentives for performance and, capacity for quality assurance (especially of more recently established "young" universities in disadvantaged regions; (ii) equity issues; and (iii) few university-private sector partnerships for joint program development and applied research in line with industry needs.



**Key sectors of the Tunisian economy – agriculture, fisheries and tourism - are increasingly impacted by climate change, thereby threatening potential for future growth.**

- 47. Due to a combination of political, geographic, and social factors, Tunisia is considered to be one of the countries most exposed to climate change in the Mediterranean.** Tunisia's vulnerability to climate variability and disaster impacts is tied to several factors, including the economy's high dependence on climate-sensitive agriculture and the concentration of population and economic activity (tourism and industry) along flood and sea level rise prone coastal zones. The main risks which it is likely to confront are temperature increases, reduced precipitation, rising sea levels and escalating extreme weather phenomena (floods and droughts). Key economic risks include susceptibility to global energy prices, water scarcity and agriculture loss, coastal infrastructure and tourism losses and migration.
- 48. Tunisian agriculture, a crucial sector due to its significant contribution to the country's food security and economy, is likely to be greatly impacted by increasing water scarcity and sea level rise.** The agriculture and agri-food sector accounts for approximately 14 percent of GDP (2020). Impacts on food production and food security are linked to projected water supply constraints as well as temperature rise, which are expected to threaten the yields of irrigated and rainfed crops by the end of the century and further threaten economic viability and sustainability of the agricultural sector. The area of non-irrigated orchards could be reduced by about 800,000 ha, nearly 50 percent of the current production area, especially in the central and the southern areas of the country. The olive sector is the primary agricultural activity for more than 60 percent of Tunisian farmers and is expected to be threatened by changing growing conditions. Areas of irrigated cereals are expected to decrease by 20 percent in the 2020s, affecting mainly the central and southern regions of Tunisia. Rainfed cereal crops could decrease by nearly 30 percent by the 2030s. Tunisia is also expected to experience loss through the submersion of approximately 16,000 ha of agricultural land in low-lying coastal areas and approximately 700,000 ha of built-up areas. Salinization is expected to impact up to 50 percent of resources available in coastal aquifers, with the potential to indirectly jeopardize the sustainability of 38,000 ha of irrigable land by the 2050s (10 percent of currently irrigated land).



- 49. The fragmentation of farms in Tunisia is also a threat to agricultural productivity.** Farm fragmentation is linked to various causes, including the division of land holdings and property to relatives via inheritance, which has exacerbated the issue due to demographic pressures. According to survey results carried out by the Ministry of Agriculture, Water Resources and Fisheries on farm structures, the number of farms increased from 326,000 in 1962 to 471,000 in 1995 to 516,000 in 2005. Consequently, between 1961 and 2005, the average size of farms decreased from 16 to 10.2 hectares and the percentage of farms of less than 5 hectares rose from 41 to 54 percent. The absence of legislation to preserve the land capital of production units and avoid fragmentation (apart from land reform through land consolidation) is one of the factors restricting the development of agricultural holdings. Additionally, as Tunisia seeks to privatize collective land holdings, upon which many farms are also found, it faces the challenge of unresolved bundles of rights associated with collective land that are not addressed as part of privatization. Consequently, the lack of clarity on rights to access land can inadvertently leave farmers landless.
- 50. Tourism, an important sector for the coastal economy, is under threat from pollution, sea level rise, and coastal erosion, and urgently requires a sustainability focus.** A large part of tourist activity takes place in the coastal areas, which hosts 90 percent of the country's hotel capacity (around 200,000 beds). Tourism is important for other sectors and has a multiplier effect for the entire national economy. However, sea level rise, coastal erosion, marine plastics, degradation of marine flora and habitat, and marine pollution increasingly threaten tourism. The tourism industry is expected to see a decline in activity due to retreating beaches, with losses estimated at US\$2 billion, approximately 0.5 percent of annual GDP. Losses are expected to occur primarily in the tourism sector (55 percent) and agriculture sector (45 percent), with the further loss of an estimated 36,000 jobs in the tourism and agriculture sectors. Sustainably managing the coastal and marine areas such that they maintain their productivity not only in terms of generating resources such as fish for food security, algae, and seaweed to maintain aquatic ecosystems, but also such that the coasts maintain their allure for tourism, is crucial. Nature-based investments such as artificial reefs or seagrass farms that create habitat for fish, but also protection from coastal flooding, wind fences that create artificial dunes and native grass restoration that protect these dunes and therefore the coast are not only a boon for the productivity of the dependent sectors, but also offer ample short-term employment opportunities.



Moreover, with persistent political uncertainty, the post revolution period offered a fragile setting for growth.

- 51. An environment of political uncertainty provided a fragile setting for investment and growth.** As described previously in section one, the past decade has been characterized by a high level of political uncertainty and frequent changes of government as the country navigated its post-revolution transition. Tunisia has had eight governments since the revolution, with an average term of around 1.3 years per prime minister (see Figure 3). These circumstances contributed to reduced investor confidence and a lack of continuity for implementing much-needed structural reforms over a medium- to long-term horizon.
- 52. Moreover, the lack of a shared vision of how to transform the economy into one that can meet the aspirations of the revolution led to a stop-start pace in addressing its shortcomings.** Tunisia emerged from the Arab spring as the only Arab state with renewed democratic institutions. A remarkable (and well-documented) process of national dialogue and consensus building brought the stakeholders of Tunisia's democratic transition together around a set of institutions and the path to the current systems of political governance. The national dialogue did not, however, bring the stakeholders together around the future vision for the economy and the trade-offs required to attain it, placing this core component of the transition on hold. This left most of the pre-existing shortcomings of the Tunisian economy in place. Structural reforms followed a stop-start pace in absence of political stability and consensus on the way forward for the economy. While a number of important economic reforms advanced over the past decade, major impediments to growth have not been addressed. Primary among them are measures to address the structural weaknesses of the financial sector, open markets to competition, deepen trade integration, and improve trade services and investment conditions.

## 2.2.2 Job creation and labor market

With lower growth, the context for job creation also deteriorated.

- 53. The rate of job creation slowed down over the past decade.** Over the last two decades the economy continued to generate jobs, but at a much slower pace after 2011. For the period between 2011 and 2018, the annual rate of job creation grew by 1.2 percent compared with 1.7 percent for the period 2000-2011. The decline is explained by the poor performance of the market services sector, manufacturing industries, and agriculture, whose employment growth rate is negative. In addition, worker conflicts in the south of the country paralyzed non-manufacturing industries—the production of phosphate, energy, and related activities. Had it not been for the increase in public employment, the overall employment growth would have declined

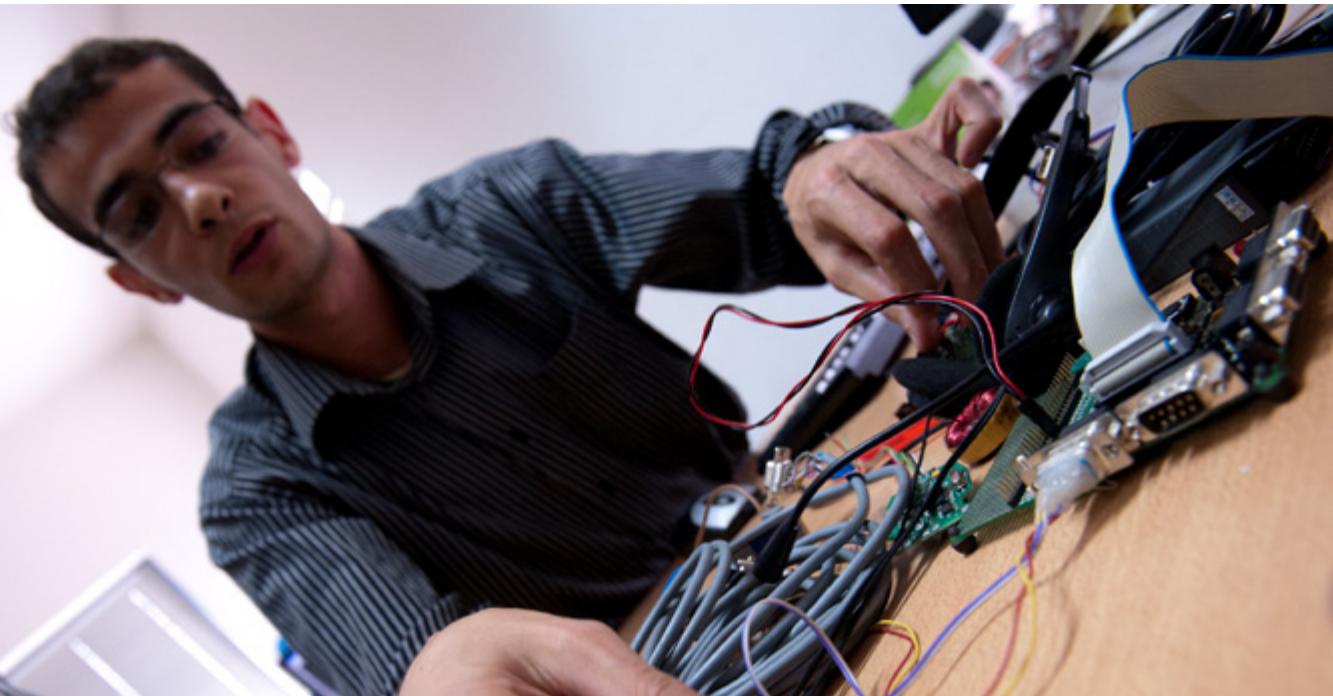


Photo: Arne Hoel / World Bank

more in the post-2010 period. In terms of growth in value-added, like the economy as a whole, all sectors have experienced a deceleration of their activities except agriculture.

**54. Even though the employment-growth elasticity for the whole economy increased, this was driven by labor intensity in the underperforming manufacturing sector and was not sufficient to boost job creation.**

Employment elasticity for the economy as a whole improved from 0.5 over the 2000-2011 period to 0.72 between 2011 and 2018. Although overall elasticity appears to be in the range generally observed in developing countries, sectoral elasticity varies considerably from -.1 for agriculture to 1.68 in manufacturing. In particular, employment-growth elasticities increased significantly in the manufacturing sector but with mechanical and electrical sub-sectors, which are low productive, indicating heavy reliance on labor intensive technologies in an economy characterized by underinvestment, and thus contributing to the observed decrease in industrial productivity growth.

**55. This slower pace of job creation failed to keep pace with the employment needs of the population, particularly university graduates and the prime working-age population.**

Employment growth has not kept pace with demographic pressures, for university graduates, and prime working-age population. As the rate of job creation declined, the economy was not able to absorb the additional supply of labor in the market. As seen in Figure 29, annual growth of employment is lower than the rate at which the labor force is growing for secondary and university education graduates in Tunisia.

The same holds true for prime working-age population between 25 and 34. Clearly, this reflects an employment deficit, particularly among higher education graduates and the age group between 25 and 34 years.

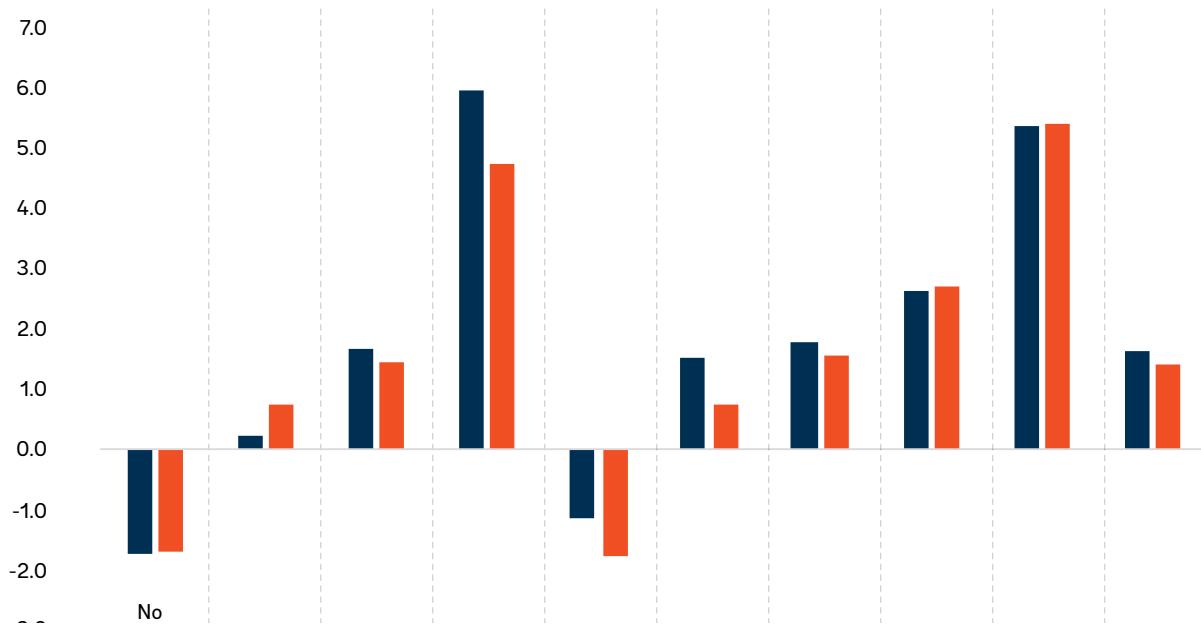


**Figure 29:**

**Annualized growth rate of employment 2005-2019, by age and education**

Legend: ■ Labor Force ■ Employment

Source: INS

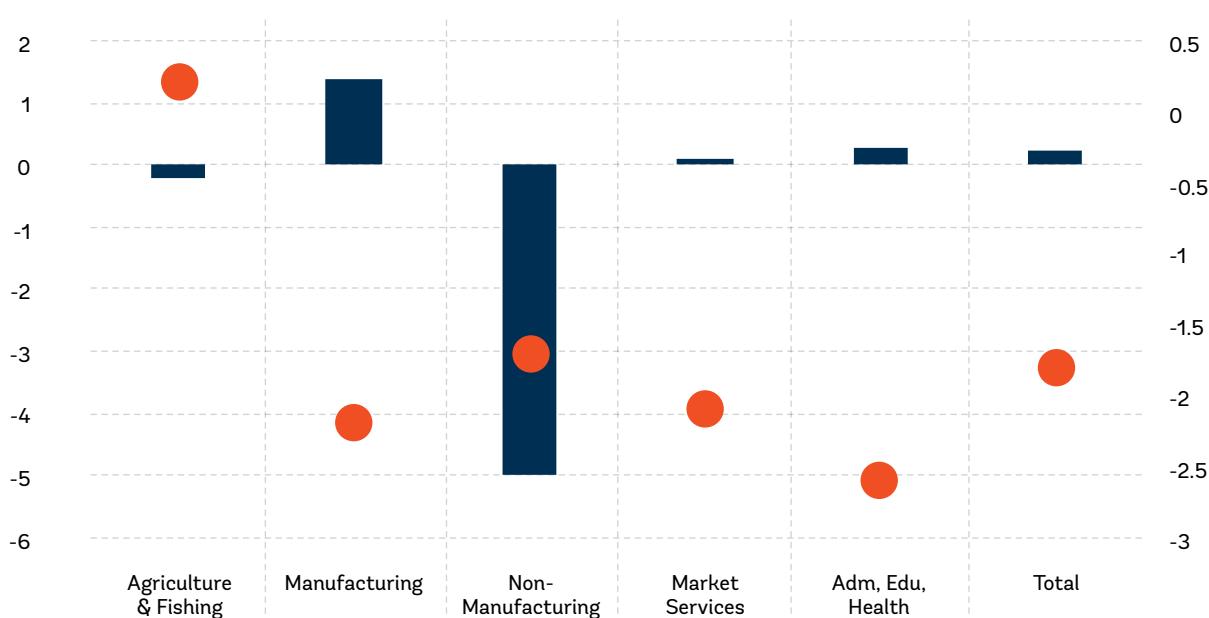


**Figure 30:**

**Employment elasticity and growth**

Legend: ■ Growth-Job Elasticity (LHS) ■ GDP Growth (RHS)

Source: World Bank staff calculation based on Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ) data.



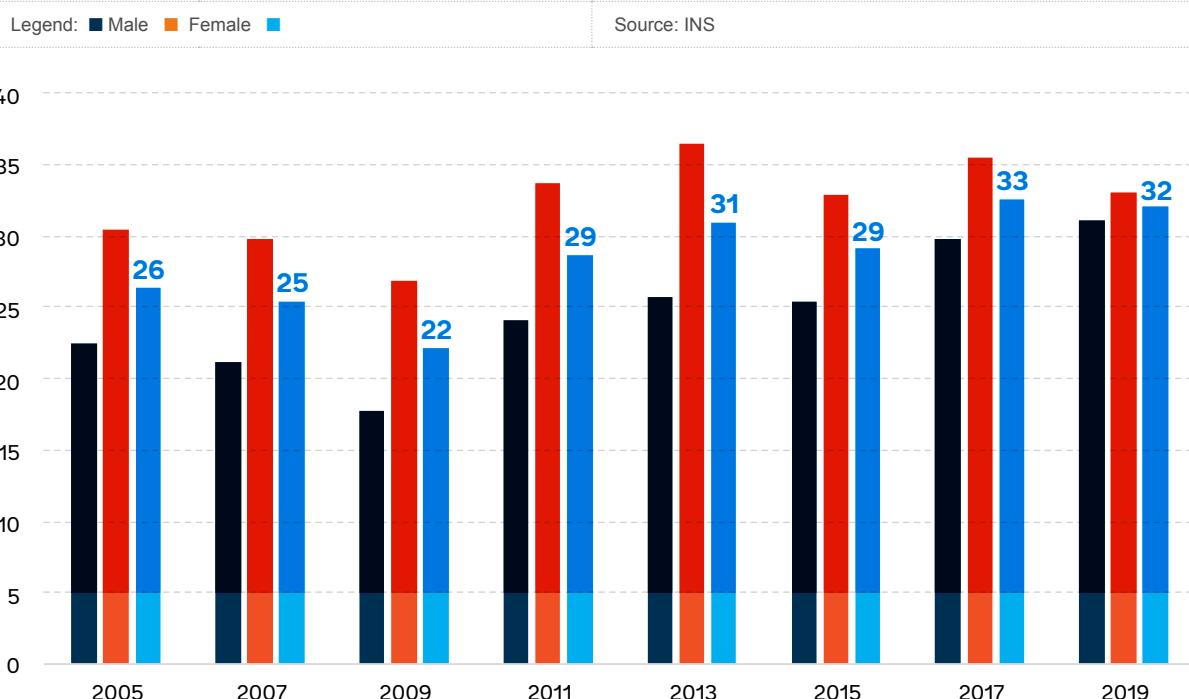


In this context of insufficient and uneven job creation, four key challenges continue to confront labor markets in Tunisia.

- i. High inactivity among the working-age population, especially affecting women and youth
56. **The working-age population (15-64 years) is estimated to be at 7.9 million in Tunisia in 2019.** Among the eight million Tunisians aged between 15 and 64, 9 percent are in schools and universities, 8 percent are unemployed, 30 percent are in formal jobs, and 13 percent are in the informal sector, with the remaining share being for inactive citizens.
57. **Forty percent of the working-age population remain inactive and are more likely to be women.** In 2019, 23 percent of the inactive population consists of female workers located in urban areas with no educational certificate, and 19 percent consists of female workers with no educational certificate located in rural areas. Surprisingly, almost a quarter of the inactive population is likely to be females located in urban areas with an educational certificate. Thirteen percent of the inactive population are likely to be men located in urban areas with an educational certificate.
58. **High proportion of the younger population are in the NEET category.** While the NEET share was decreasing between 2005 and 2007, there was an increase in the NEET share post-revolution—from 22 percent of young people in the NEET category to 32 percent in 2019 (Figure 31). This high proportion is increasing over time for both men and women.

**Figure 31:**

Youth not in employment, education or training, 2005-2019





## ii. Low and stagnant female labor force participation

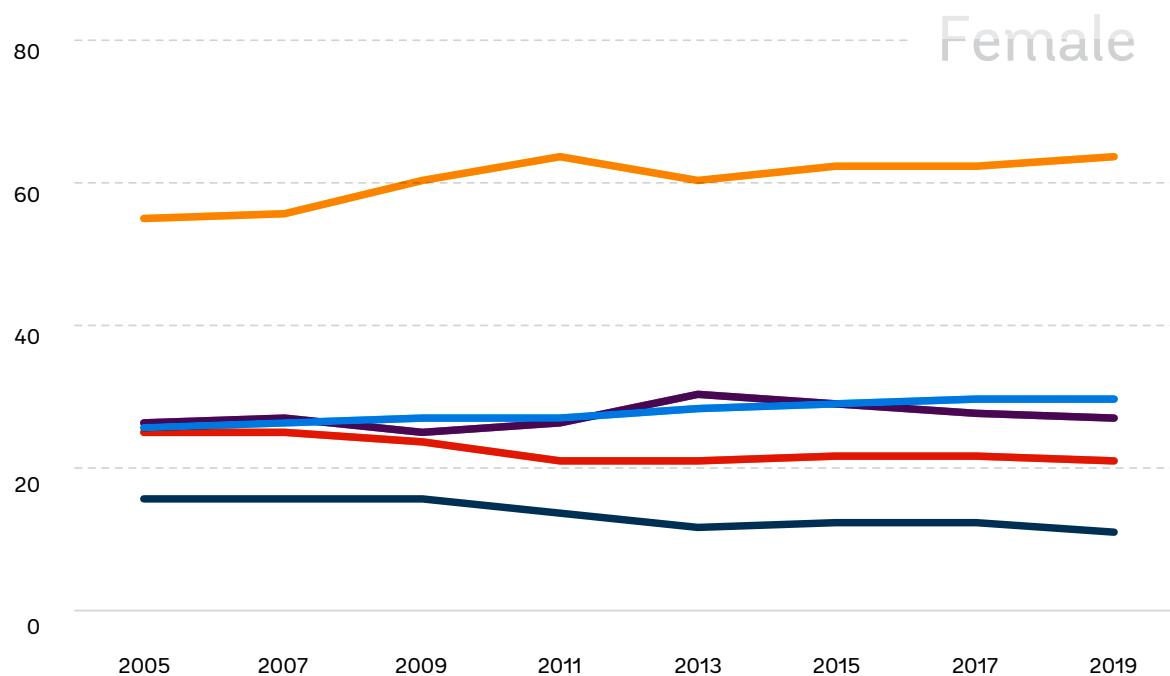
- 59. The rate of women's participation in labor force is low, and even more modest in the interior regions of the country.** In 2019, female labor force participation stood at 29 percent in Tunisia, one of the lowest in the world but comparable to other countries in the MENA region. This rate of participation varies considerably across regions within Tunisia. In 2019, women in the center-west region participate only 18.5 percent in the market against 36.6 percent in the region of Grand Tunis. In the south and north-west, female labor force participation rates do not exceed an average of 22 percent.
- 60. Women with secondary education or less, and aged 35 and above tend to participate less in the labor market.** As shown in Figure 32, the participation rate of women with a university level is 64 percent, compared to 21 percent for those with a primary level or 27 percent for those with a secondary level in 2019. The participation rate of women declines sharply after the age of 35, typically after they are married and have a child. Possibly, the social norms that continue to place the burden of domestic work on women negatively influence their participation in the labor market. In addition, the burden of domestic work increases women's reservation wage and thus reduces their chances of taking advantage of economic opportunities.

**Figure 32:**

**Female labor force participation rate by education and gender**

Legend: ■ No Certificate ■ Primary ■ Secondary ■ University ■ Total

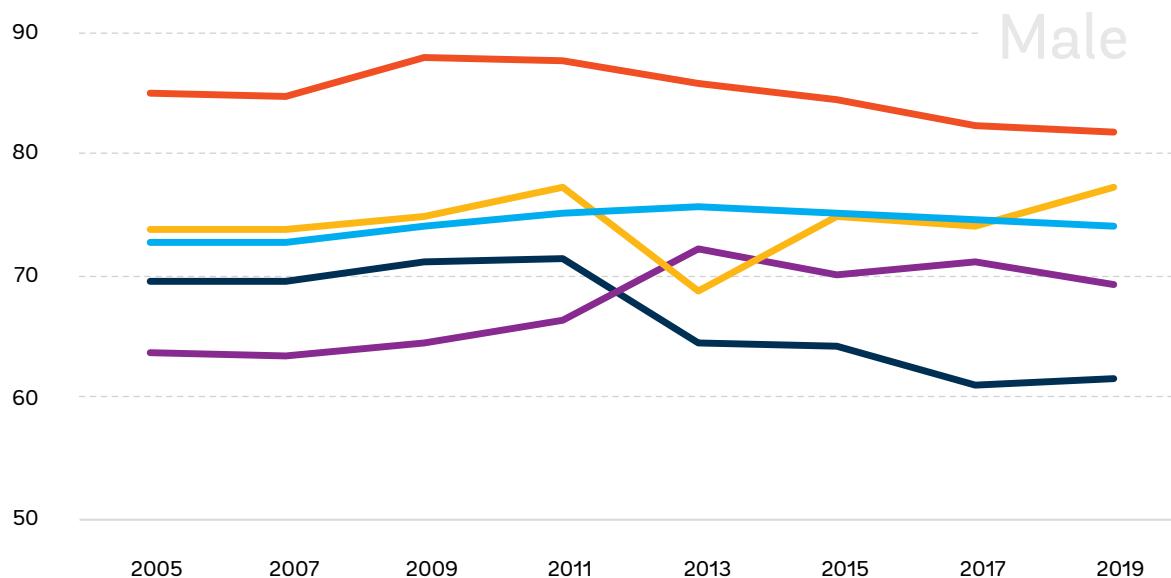
Source: INS



**Figure 33:****Male labor force participation rate by education and gender**

Legend: Male (dark blue), Female (orange), Total (light blue)

Source: INS



iii. Unemployment rates have remained persistently high – particularly among the educated and young people.

**61. Tunisia suffers from persistently high rates of unemployment, particularly among the educated.** The unemployment rate has remained fairly high in recent years and has maintained a consistent trend of between 13 and 15 percent, which are predominantly in rural areas. Unemployment, which peaked at 18.8 percent in 2011 after the revolution, has fallen to 15.5 percent as of 2019, however, there has been substantial deterioration of unemployment rate for university graduates. Unemployment rates for university graduates sharply increased from 14.1 percent in 2005 to 27 percent in 2019, far above the national unemployment rate in 2019 (Figure 34).

**62. Unemployment also affects women and young people.** At the national level, unemployment rates for males stood at 12.6 percent for males, and 22.5 percent for females in 2019 – the rate for women being way above the national unemployment rate. A more concerning trend, however, is the rise in unemployment rate for women between 2006 and 2019 – from 15.4 percent in 2006 to 22.4 percent in 2019 (Figure 35). In addition, the unemployment rate for young females (34.5 percent) and young males (34.2 percent) under the age of 25 were considerably higher than the national rates for each group in



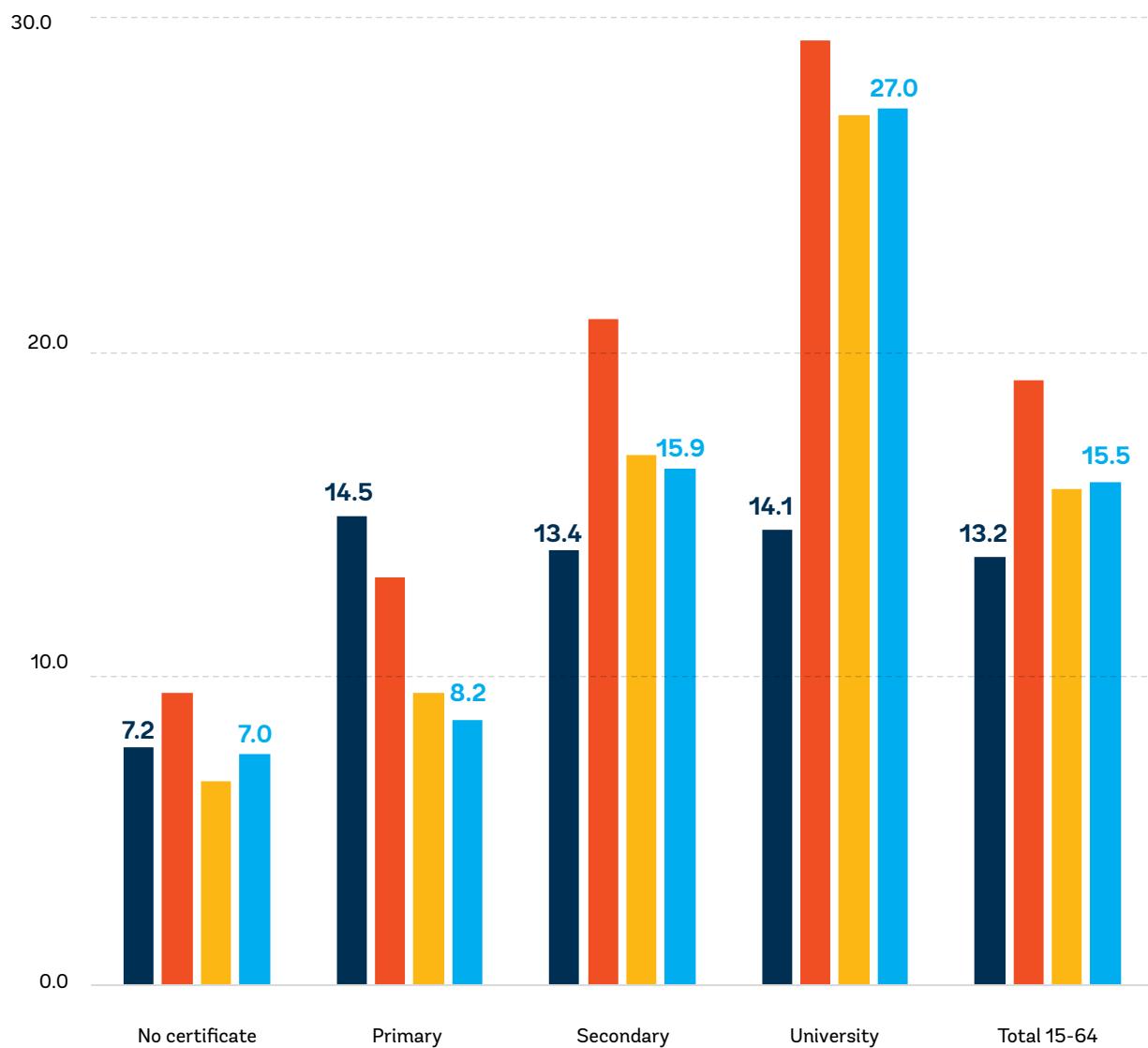
2019. Another interesting pattern is a drop in unemployment rates sharply from the age of 35 onwards, from an average of more than 20 percent to 5 percent (Figure 36.).<sup>52</sup>

**Figure 34:**

**Unemployment rate, by educational status**

Legend: ■ 2005 ■ 2011 ■ 2015 ■ 2019

Source: World Bank staff calculation based on Labor Force Survey (LFS) data

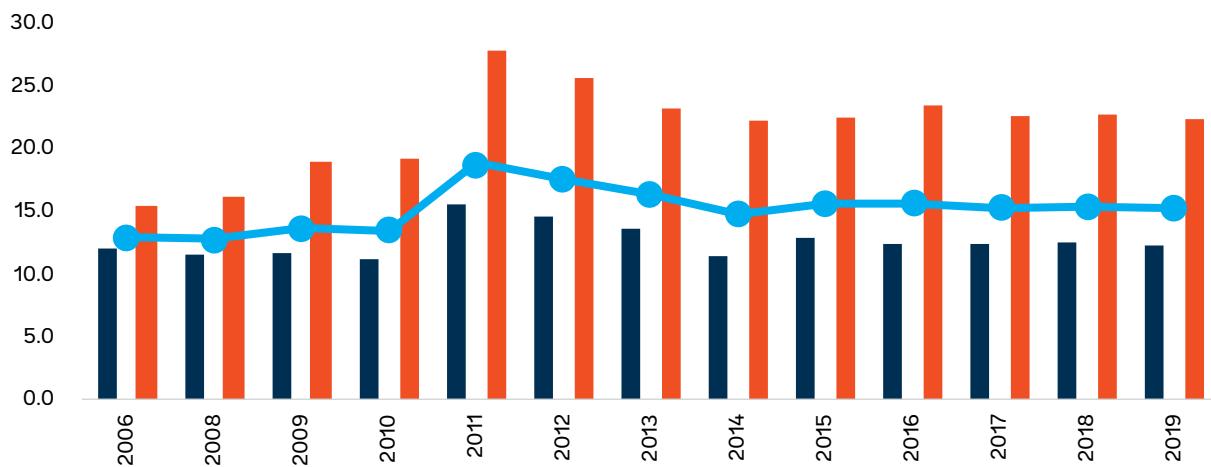


<sup>52</sup> This drop in unemployment could conceal forms of underemployment among young people who accept jobs from a certain age, regardless of their quality. For example, El Lahga et al (2016) discuss the problem of youth insertion and inequitable access to employment opportunities. In particular, they report that 83 percent of youth "say knowing people in high positions is critical to getting a job. In other words, using informal networks is a culturally acceptable practice."

**Figure 35:** Unemployment rates, by gender

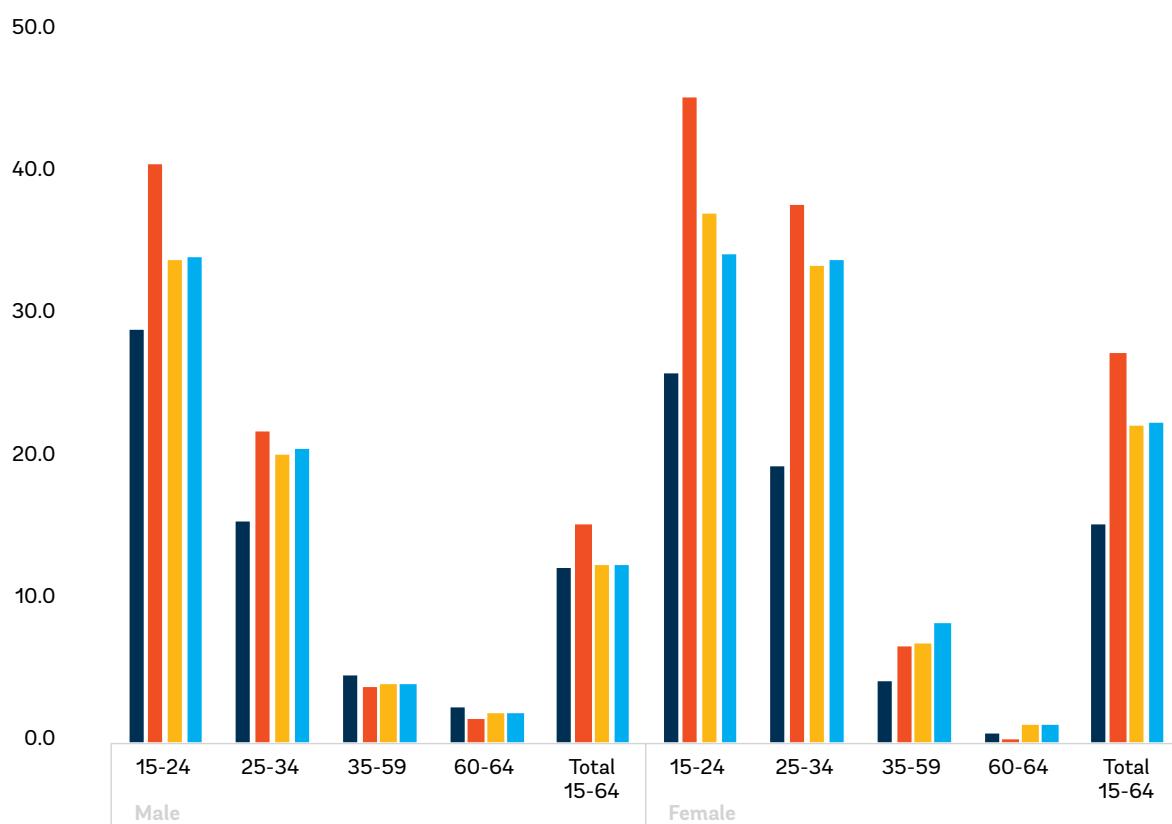
Legend: Male (dark blue), Female (orange), Total (light blue)

Source: World Bank staff calculations based on LFS, 2009-2019

**Figure 36:** Unemployment rates, by age group

Legend: 2005 (dark blue), 2011 (orange), 2015 (yellow), 2019 (light blue)

Source: World Bank staff calculations based on LFS, 2009-2019





#### iv. Informality remains widespread.

**63. Informality continues to be a key issue in Tunisia.** At the national level, the share of formal jobs is estimated to be 69 percent in Tunisia in 2019, only 6 percentage points higher than the share in 2013. This share, in particular, is much lower for Tunisian youth. In 2019, only 42 percent of jobs are formal in nature for the age group between 15 and 24, only increasing by 9 percentage points between 2013 and 2019 as shown in Figure 37a. Clearly, this indicates the dominance of temporary and seasonal contracts and day-labor arrangements in labor market opportunities for younger Tunisians.

**64. Informality affects uneducated workers and low productive sectors.**

The share of workers with access to social security coverage tends to be lower for sectors that employ the working poor such as agriculture (42 percent) and construction (38 percent) vis-à-vis other sectors where the share of formal jobs are at least more than 50 percent in 2019 (Figure 37b). These sectors are also more vulnerable to impacts of climate change, with heat impacts expected to reduce productivity and health of workers in outside environments lacking access to air conditioning, as well as agricultural losses and water scarcity. As observed in the figure, the share of formality has not substantially changed overtime between 2013 and 2019. Not surprisingly, those less educated or skilled tend to have lower access to social security coverage in contrast to those with at least secondary level education Figure 37c).

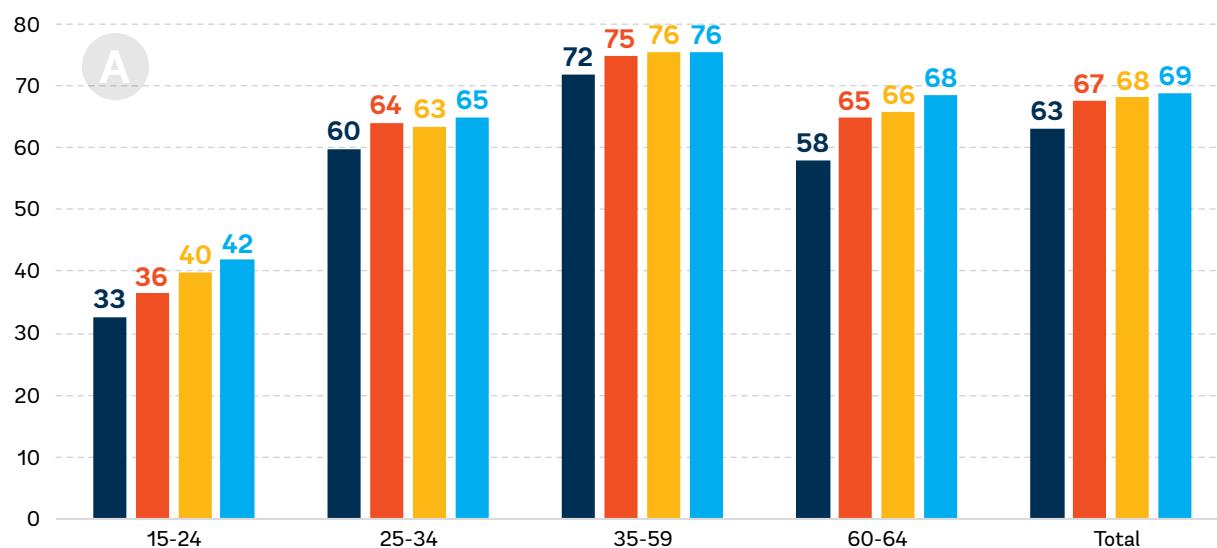
**Figure 37:**

#### Share of formal jobs (with social security coverage)

A: Share of formal jobs, by age

Legend A: ■ 2013 ■ 2015 ■ 2017 ■ 2019

Source: Author's calculations based on LFS (2013-2019)



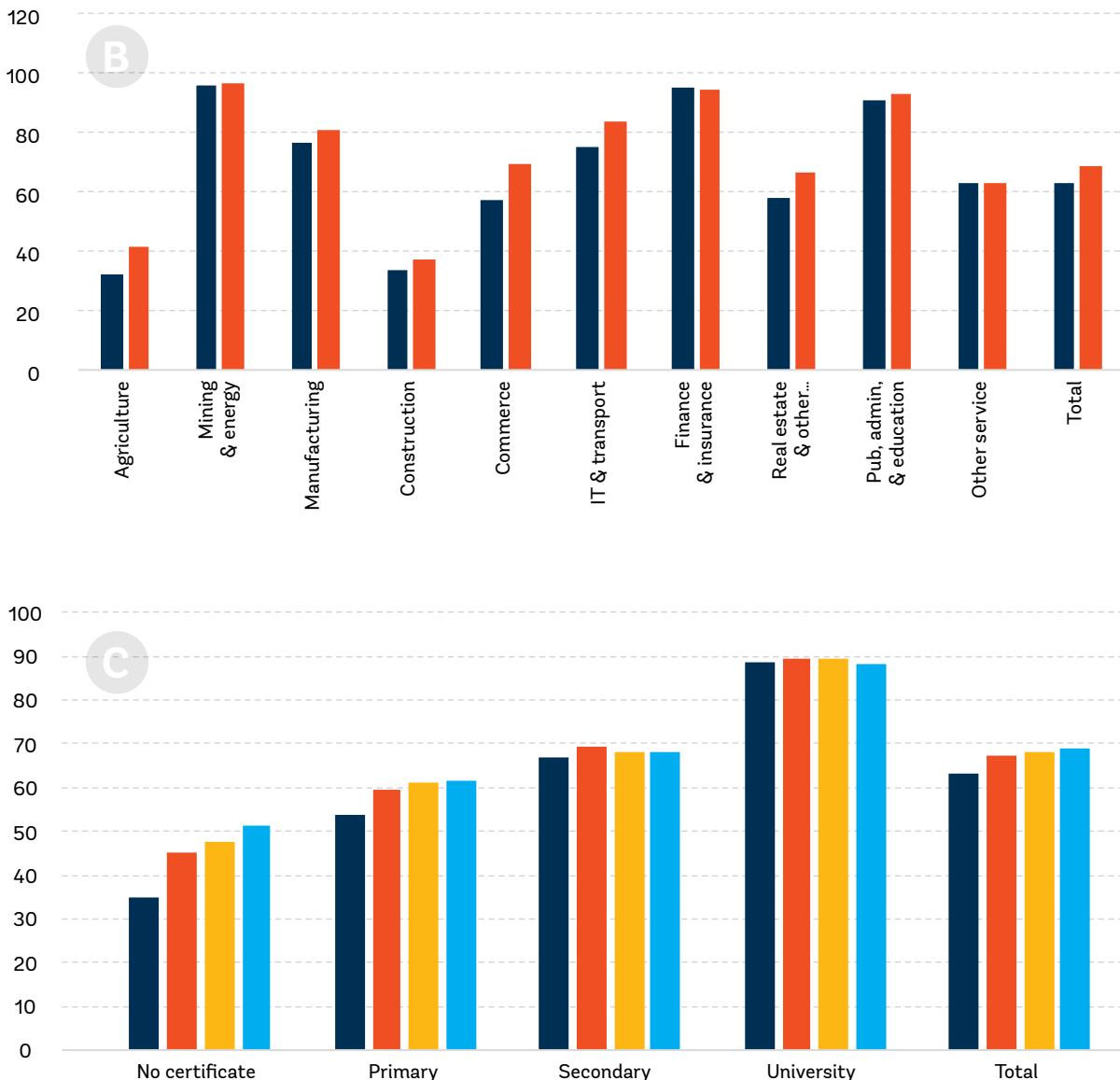
**Figure 37: (continued)****Share of formal jobs (with social security coverage)****B:** Share of formal jobs: by sector

Legend B: ■ 2013 ■ 2019

**C:** Share of formal jobs, by education

Legend C: ■ 2013 ■ 2015 ■ 2017 ■ 2019

Source: World Bank staff calculations based on LFS (2013-2019).





## 2.2.3 Growth and jobs in lagging regions

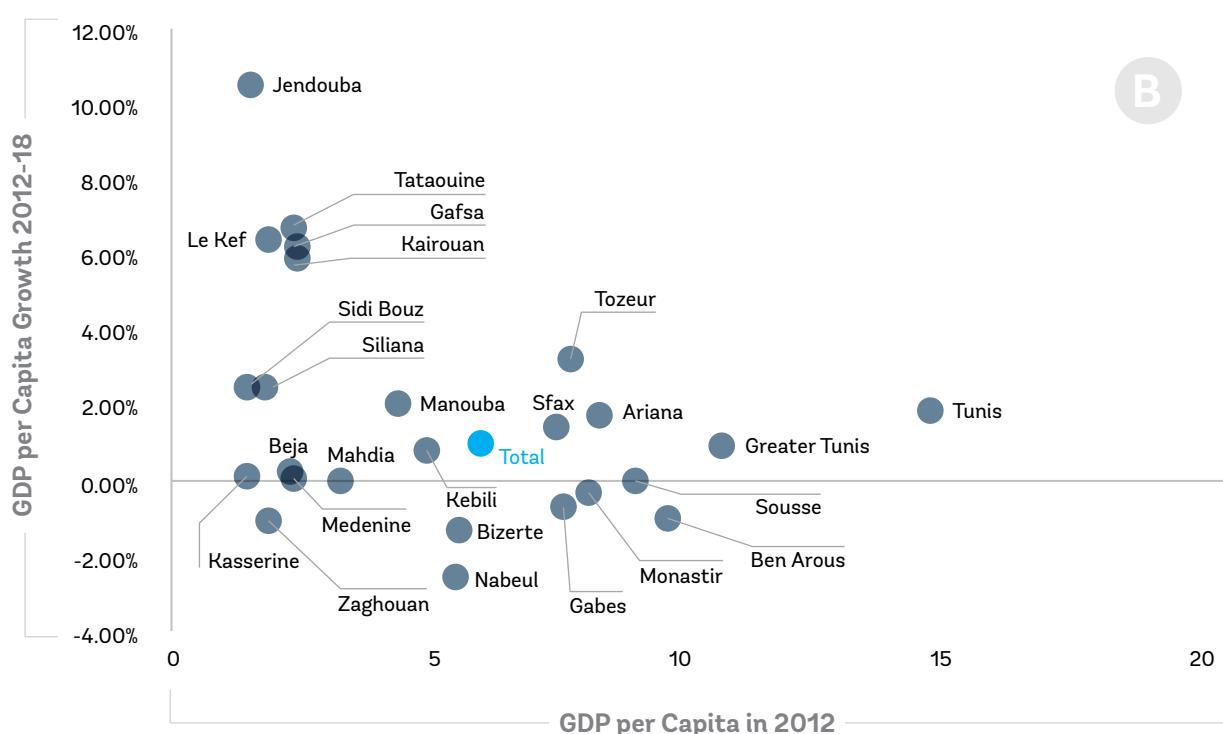
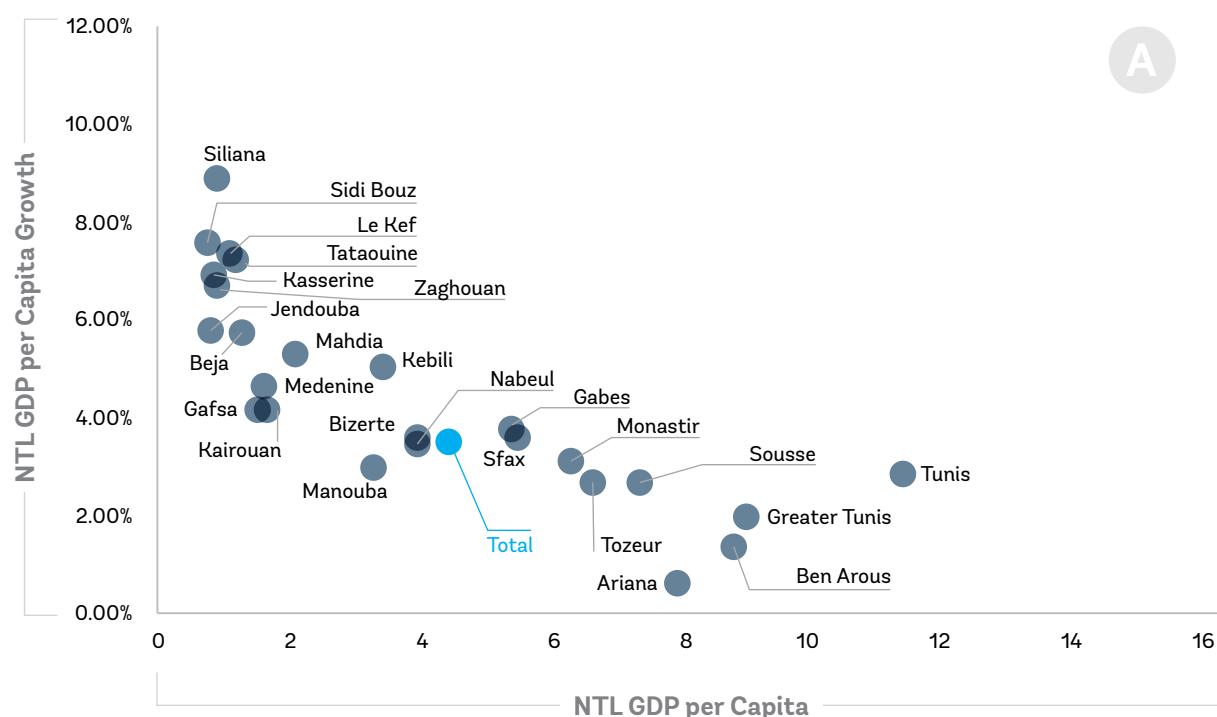
As economic performance waned, growth convergence between leading and lagging areas slowed.

- 65. Tunisia's regional socio-economic disparities make it important to understand growth trends from a spatial perspective.** Figure 49 and Figure 50 show Tunisia's spatial growth patterns before and after the revolution using estimates of GDP at the subnational level, estimated using Nighttime Lights (NTL) as a suitable proxy for economic activity (see Annex B for additional detail).
- 66. The rate of growth convergence between leading and lagging areas, which was robust between 2000 and 2010, slowed after 2011.** Figure 38 presents convergence trends for the pre and post revolutions periods, comparing 2000-2010 with 2011-2018. For each period, comparing average GDP per capita growth rates with GDP per capita at the start of the period indicates if there are signs of catch up (or convergence) between leading and lagging areas. Trends show robust convergence between 2000 and 2010 as lagging areas (those with lower levels of output) grew at a much faster rate than leading areas. The results indicate that average annual per capita growth rates in areas such as Sidi Bouzid, Siliana, Le Kef, Kasserine, Tatouine and Jendouba were in the range of 6-8 percent over this period. After 2011, as economic growth slowed, regional convergence continued but at a slower pace. Moreover, whereas all areas registered positive per capita growth rates between 2000 and 2010, Jendouba, Gafsa, Kairouan and Tozeur experienced growth decelerations in the post-revolution period.
- 67. Notably, Tunisia's coastal economic strongholds are among the areas with the weakest growth outcomes over the past decade, reflecting declining productivity rates in the “old” manufacturing industries and in tourism.** Lower growth was pronounced in areas such as Sousse, Sfax and Nabeul, which have traditionally been industrial strongholds (Figure 39). Weaker outcomes for some of the key industries of these areas, including textiles and tourism, have contributed to these outcomes. These trends suggest that not only are economic vulnerabilities present in lagging inland areas, they are also increasingly evident in coastal zones that are experiencing stagnated or declining levels of growth and are facing elevated climate change vulnerability. In effect, weak growth is affecting not only lagging regions that have a fragile economic base, but Tunisia's wealthier regions and their middle class are also touched by the weakened economic situation of the country.

**Figure 38:****Growth convergence at the governorate level (GDP per Capita vs. GDP per Capita Growth)**

A: 2000-2010 B: 2012-2018

Source: World Bank staff estimates based on INS and DMSP/VIIIRS nighttime light data.



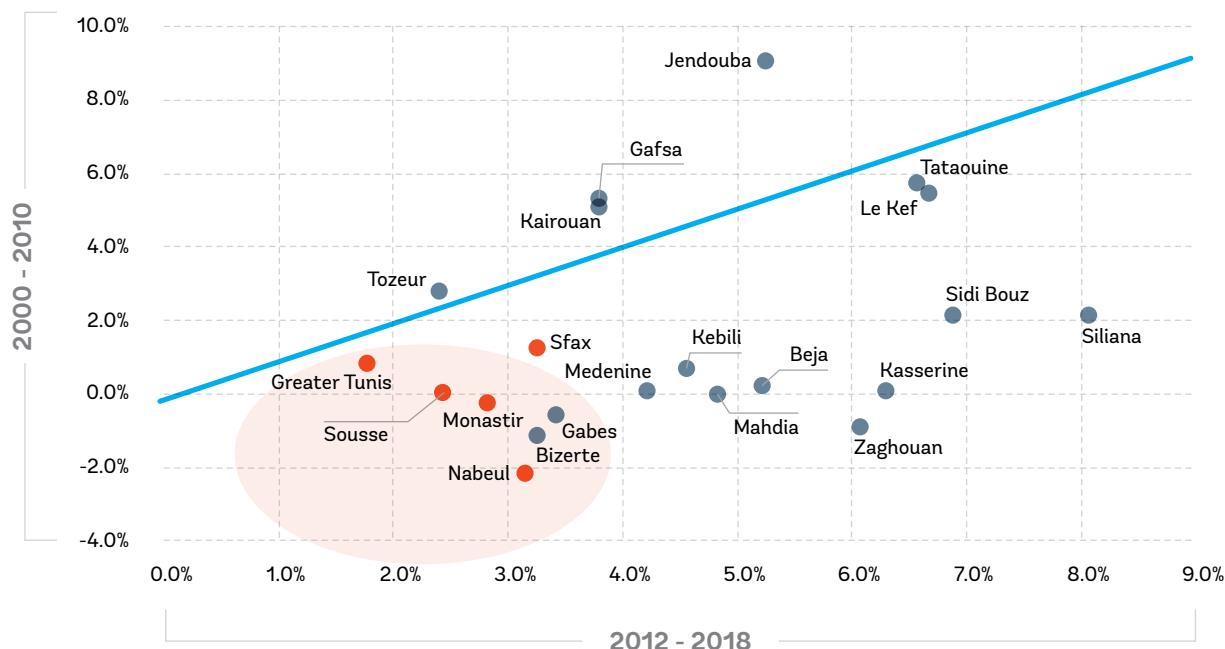


**Figure 39:**

### GDP per capita growth at the governorate level (2000-2010 vs. 2012-2018)

Legend: ■ orange dots indicate “coastal economic strongholds”

Source: World Bank staff estimates based on INS and DMSP/VIIIRS nighttime light data.



Unemployment increased in lagging regions as growth therein had a limited impact on job creation.

**68. Unemployment rates increased in Tunisia’s lagging regions as job creation failed to keep up with population growth.** From a regional perspective, job creation was highest in the Grand Tunis area while the poorest regions, namely the north and center-west, experienced the lowest rates of job creation (Figure 51). Unemployment rates continued to be high in these areas, especially in the north-west, center-west, south-west, and south-east, with almost a quarter of the labor force unemployed (Figure 52). Regional disparities in youth employment have also intensified since the 2011 revolution. Youth unemployment is concentrated geographically in the north-west (at 30 percent) and the interior south of the country (at 36 percent in south-west and 28 percent in the south-east).

**69. In contrast, unemployment declined slightly in the north-east coastal areas, where job creation rates were more robust.** These labor market outcomes are one of the main motivations for internal migration from the interior regions to the coastal regions where there is a concentration of economic activities. the National Institute of Statistics (INS) statistics, the main motivation for internal migration is the search for work for 60 percent of the

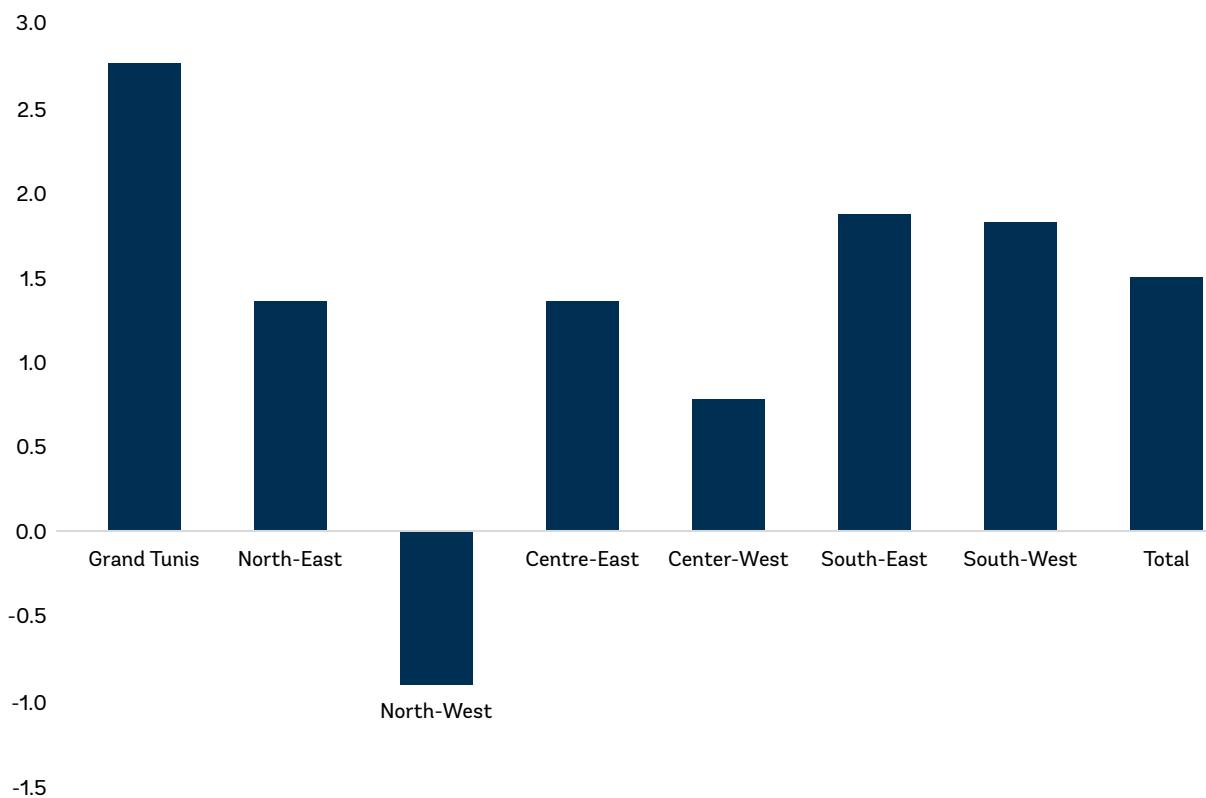


migrant population, followed by studying (20 percent), and marriage (10 percent). Migration increases the pressure on the labor market in coastal regions, particularly in urban areas.

**70. Although lagging regions experienced higher growth rates than their wealthier counterparts (from a lower base), higher growth has not resulted in faster job creation.** Figure 42 shows an almost inverse relationship between the regional rate of GDP growth and the employment growth elasticity, with the largest gaps being registered in the most lagging regions. In other words, higher growth was not associated with a robust rate of job creation in the poorest regions of the country. An important reason behind this trend is the role played by fiscal policy after 2011, which tended to be progressive and supportive of consumption in lagging regions, but that did not sufficiently strengthen pathways for private sector-led growth. In contrast, leading regions such as the more industrialized North-East rely in part on the “old” industries that seem to be shifting to more labor intensive methods of production while investment in capital accumulation, innovation and productivity growth decline.

**Figure 40:** Annualized growth rate of employment 2011-2019, by region

Source: World Bank staff calculation, based on ITCEQ data.



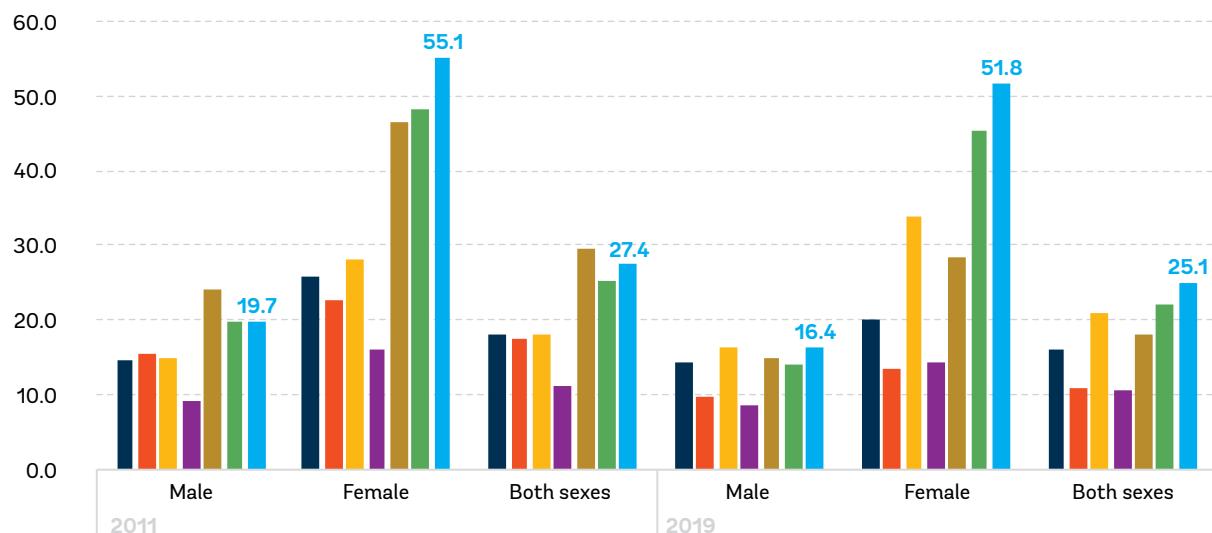


**Figure 41:**

### Unemployment rate by region

Legend: ■ Grand Tunis ■ North East ■ North West ■ Centre East ■ Centre West ■ South East ■ South West

Source: World Bank staff calculations based on LFS, 2009-2019

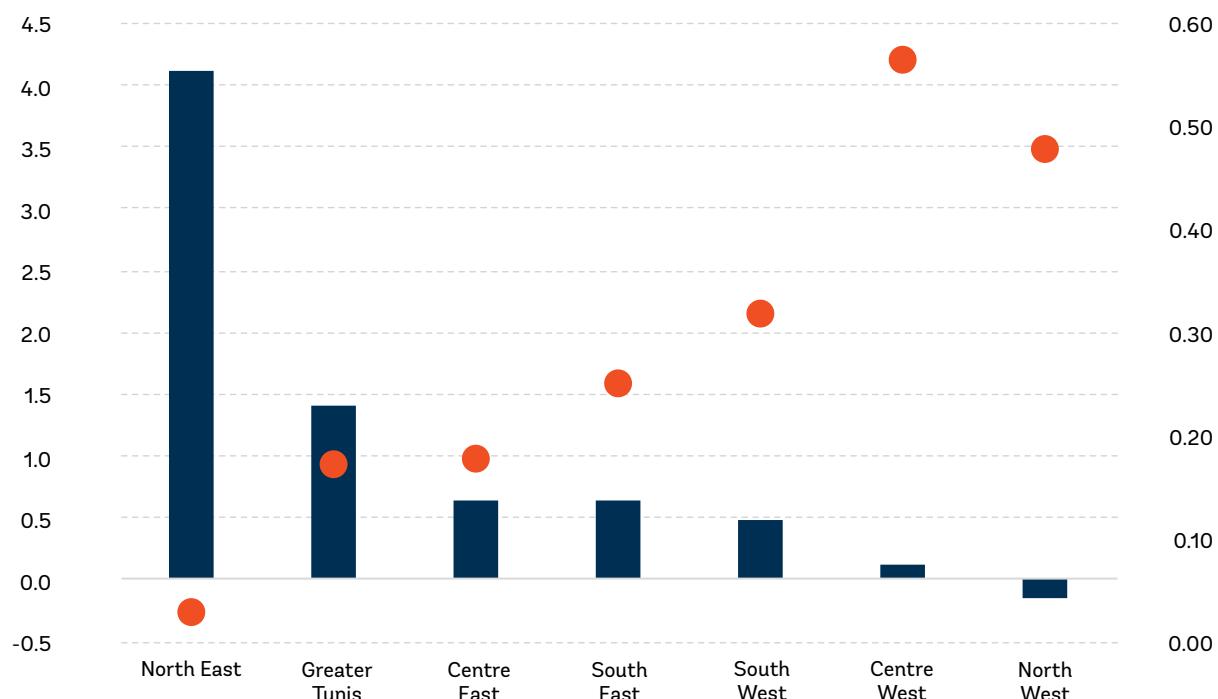


**Figure 42:**

### Employment-growth elasticities by region

Legend: ■ Employment-Growth Elasticity ■ GDP Growth

Source: World Bank staff calculations based on LFS, 2009-2019





## 2.2.4 Macro-fiscal policy

With worsening growth and job outcomes, Tunisia drifted to an unsustainable expansionary fiscal policy stance to prop-up the economy.

**71. As the economic setting stalled, Tunisia's policy mix relied increasingly on public spending to finance the welfare state.**

Successive Tunisian governments have increased spending on consumer subsidies, transfers to SOEs, public wage bill and social transfers to support the livelihoods and purchasing power of households. These policies have compensated the failure of the economy to generate enough jobs and incomes and to deliver goods and services at competitive prices. The public sector for instance has been considered de facto the employer of last resort when social and youth unemployment pressures increase. This has left Tunisia with one of the highest public sector wage bills globally, and a growing imbalance in the public pension system.

**72. This socially oriented fiscal spending has been associated with increased welfare particularly among underprivileged groups and regions.** A full assessment of the causes underlying consumption growth and poverty reduction – particularly in 2010-15 - would shed light on the drivers of poverty reduction over the past decade. But a number of policy instruments designed to provide safety nets are likely to have been important contributors. Subsidies for food, energy and transport have been relied on as a core part of the social contract over the years to protect the purchasing power of households in need, at times exceeding five percent of GDP. Similarly, the decline in poverty over the past decade could be linked to the significant scale-up of cash transfer programs for needy families. Most of the areas that experienced the fastest growth rates in the number of social transfer beneficiaries, through the PNAFN, are among the lagging regions (Figure 43). Although these measures may have supported consumption and continued (albeit weaker) growth convergence, they were not a source of job creation, as indicated previously in Figure 42, which shows low employment-growth elasticities for the lagging regions, despite their higher rates of growth.

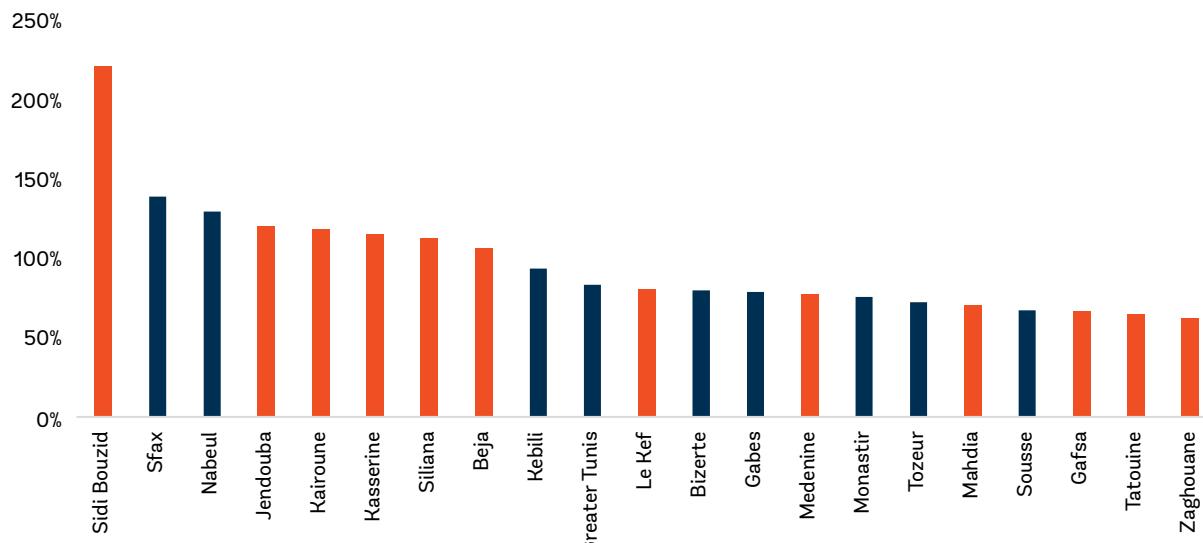


**Figure 43:**

**Increase in population covered by the PNAFN social transfer program  
2010-2020 (%)**

Legend: ■ indicates lagging regions in GDP per capita terms

Source: Ministry of Social Affairs

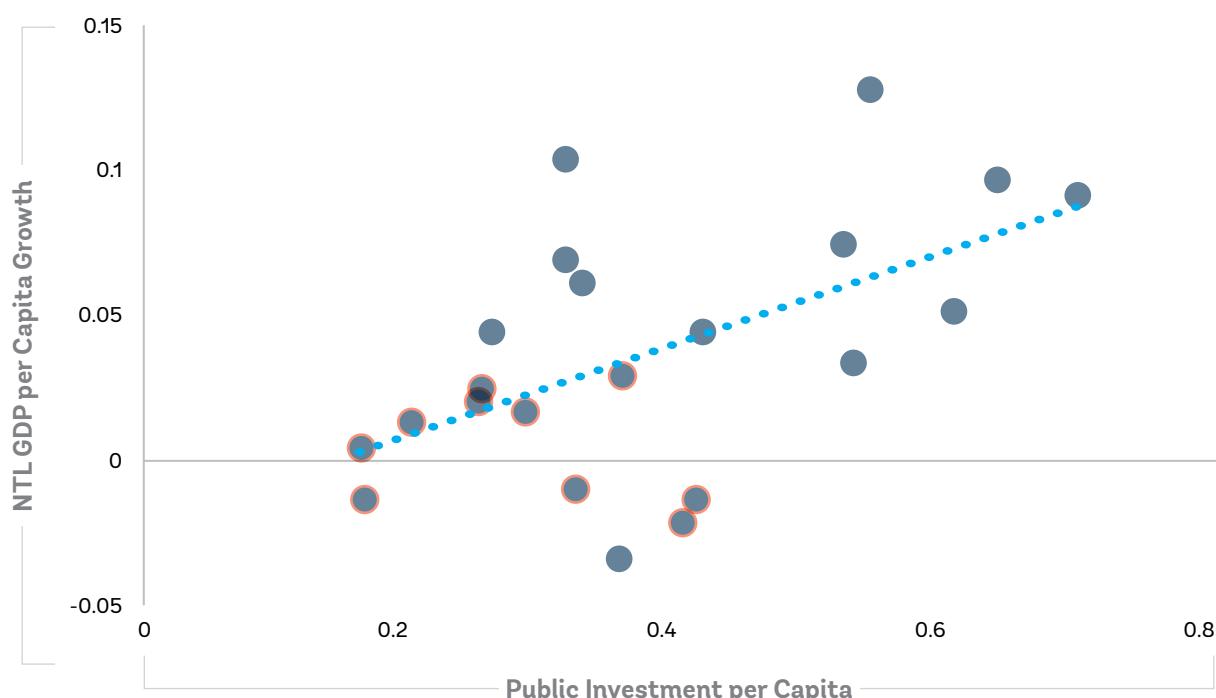


**Figure 44:**

**Public investment and growth**

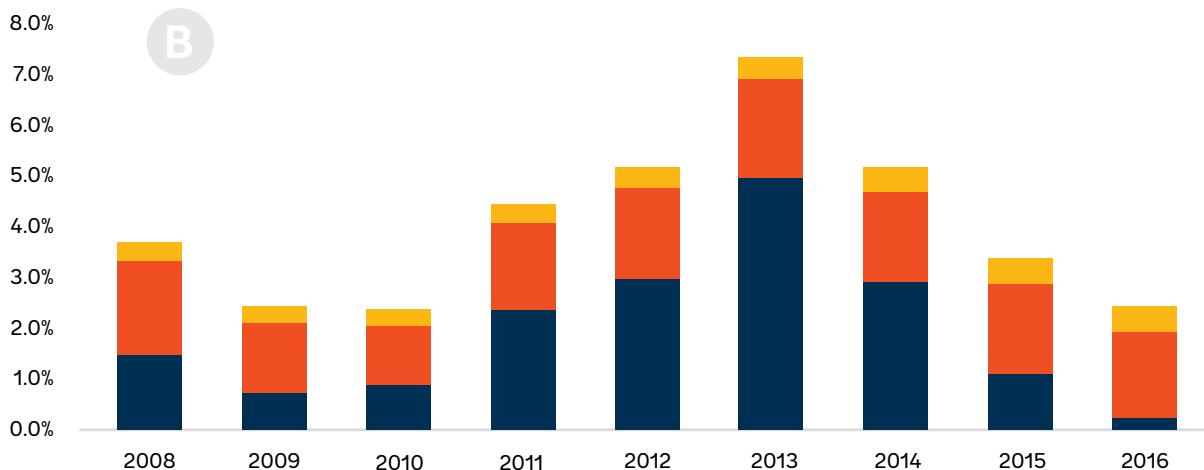
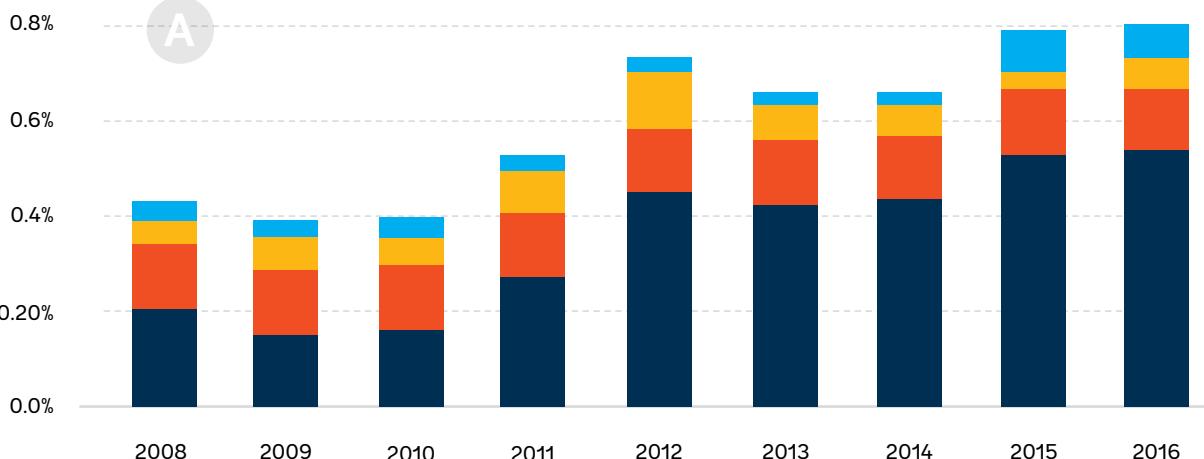
Public Investment (TND million per capita) vs. GDP per Capita Growth (%)

Source: World Bank Staff estimates.



**Figure 45:****Spending and the welfare state****A: Trends in social protection spending (% of GDP)**Legend A: ■ PNAFM ■ AMG  
■ SI Contributions ■ Other**B: Trends in subsidy spending (% of GDP)**Legend B: ■ Energy ■ Food  
■ Transport**C: Trends in wage bill spending (% of GDP)**

Source: Tunisia Public Expenditure Review – World Bank (2020) based on Ministry of Economy, Finance and Investment, World Bank staff estimates.





**73. Tunisia's public spending has increased significantly as a result.**

Public spending grew rapidly, increasing from 28 to 37 percent of GDP between 2010 and 2020, mainly driven by ballooning current expenditure.

This expansion followed the above described fiscal policy of successive governments, complemented by a loose monetary policy stance.

These policies aimed to respond to the population's aspirations for improved standards of living in the absence of sufficient growth of the economy, which remained saddled by multiple restrictions as described below.

**74. Public spending has also become less conducive to growth with a shrinking share of capital expenditure.**

As the fiscal deficit rose and fiscal space became increasingly squeezed, capital expenditure became the de-facto fiscal adjustment factor, dropping from 6.5 percent of GDP on average in the 2000's to around 5 percent by 2019.<sup>53</sup> The decrease in public investment along with sectoral shift away from infrastructure investment has contributed to the perceived deterioration of infrastructure quality. The index of the overall quality of infrastructure in the Global Competitiveness Report declined from 5.5 (out of 7) in 2010 to 3.7 in 2017. Quality of infrastructure in Tunisia which was ranked in the top three among its comparator countries in 2010 has considerably deteriorated and now ranks just before last among its comparators.

**75. The cost of these policies has now burdened Tunisia with high debt, which poses a further drag on growth.**

Public debt stock increased from 41 percent of GDP in 2010 to 85 percent expected in 2021, bringing Tunisia's debt burden to elevated levels. As a result, debt service obligations increased from 1.8 to 3.4 percent of GDP over this period, cutting into fiscal space. Tunisia's public sector entities also accumulated significant volumes of debt, estimated at around 35 percent of GDP at end 2019 for the major SOEs and funds. These levels of debt, combined with a weak growth performance, place Tunisia's finances on a fragile footing and damage its future prospects for growth. The rising debt and the lack of reforms have curtailed Tunisia's access to international capital markets. Consequently the government and the SOEs have increasingly resorted to domestic banks to finance their rising debt.<sup>54</sup> This is likely to crowd out credit to the private sector. Credit to the private sector has grown by 6% in 2020-21 (by end of August) while that to the state has grown by 41% over the same period.

<sup>53</sup> Infrastructure investment declined as a share of public investment, as did investment in education (from 10.5 percent of capital expenditures on average in 2008-10 to 8.6 percent in 2011-2015); industry (from 11.7 percent to 7.2 percent), and to a lesser extent agriculture (from 14.7 percent to 14.3 percent).

<sup>54</sup> Banks' exposure to sovereign debt, which had remained relatively low, increased in 2020 to an estimated 12.2 percent of GDP (IMF- Tunisia—IMF Staff Report for the 2021 Article IV Consultation). Bank credit to SOEs (at times with government guarantees) has recently grown to 9 percent of total bank loans, resulting in higher concentration of exposures and increased sovereign-bank linkages.

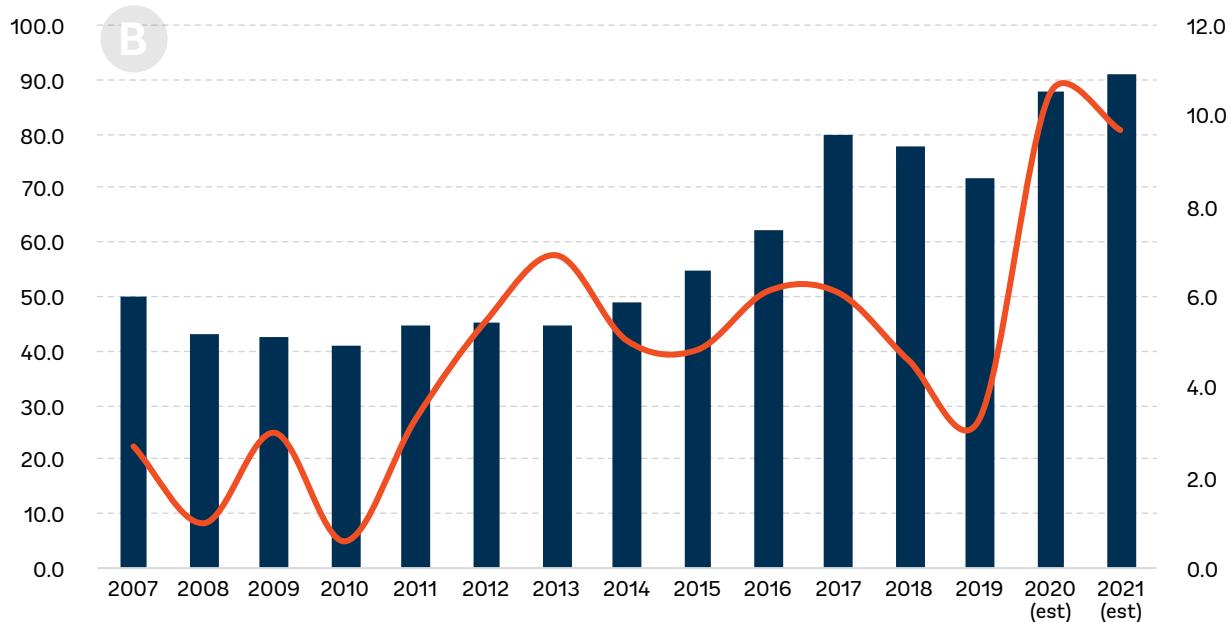
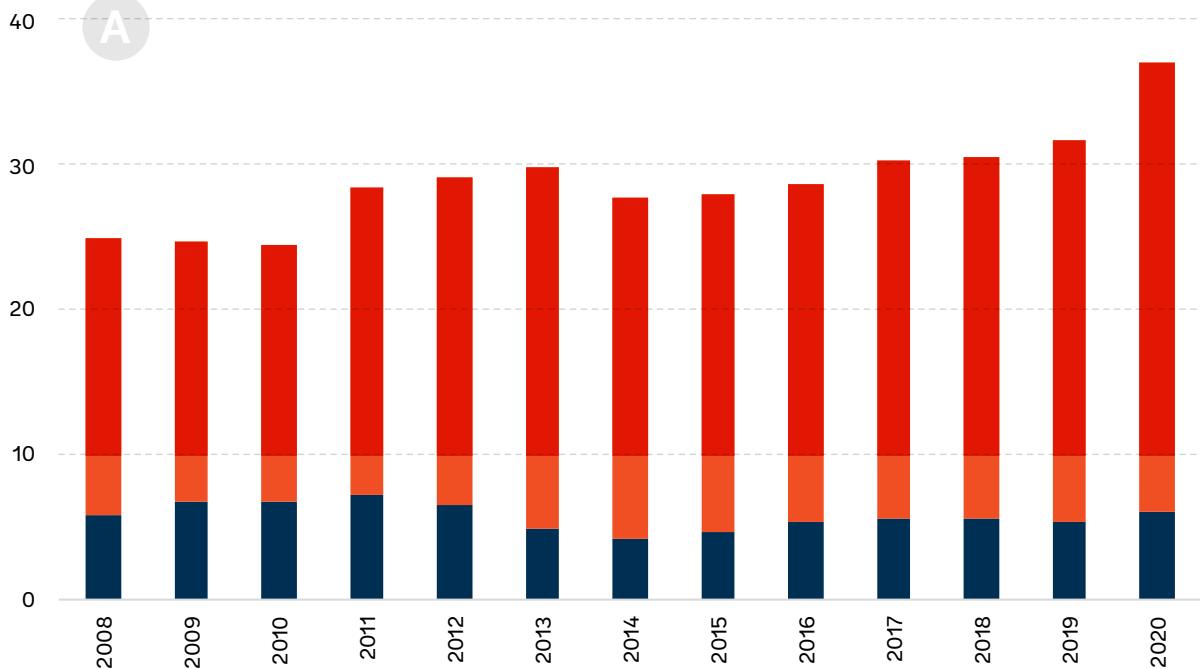
**Figure 46:****Current and capital spending, and Public debt and the fiscal deficit (% of GDP)****A: Current and capital spending shares (% of GDP)**

Legend A: ■ Capital ■ Current

**B: Public debt and the fiscal deficit (% of GDP)**

Legend B: ■ Public debt (LHS) ■ Fiscal deficit (RHS)

Source: Ministry of Economy, Finance and Investment, World Bank staff estimates.





## 2.3 Vulnerability and exclusion

With low growth and job creation, vulnerability continues to be high and many remain at risk of falling into poverty.

**76. While Tunisia made significant gains in poverty reduction, a considerable share of the population remains vulnerable to falling back into poverty.**

To examine the level and trend of vulnerability in Tunisia between 2000 and 2019—using the methodology defined in Atamanov and Lopez-Acevedo (2018)—consumption thresholds are defined to estimate the share of the population that is (i) poor, (ii) not poor but vulnerable to poverty, (ii) transitioned to a more secure status, or (iv) moved up into the middle class.<sup>55</sup>

Although 1.8 percent of the population was considered poor in 2019, 24 percent remain vulnerable to falling back into poverty (Figure 47a).

Vulnerability is even more pronounced in rural areas, where 42 percent of residents were vulnerable in 2019 (compared with 15 percent in urban areas). In fact, the share of rural residents that are vulnerable has barely declined between 2000 and 2019 (Figure 47b), suggesting the persistence of precarity in the livelihoods of underprivileged Tunisians despite the important gains in poverty reduction.

Spatial disparities persist and convergence across regions remains weak.

**77. Significant geographical disparity in welfare can be observed across Tunisia's regions (Table 2).**

The Grand Tunis region, which has historically had the lowest levels of poverty, made the most rapid gains in poverty reduction since 2000. As previously shown, Grand Tunis experienced the fastest rate of rural consumption growth between 2010 and 2015, along with the second fastest rate of urban consumption growth. In contrast, the north- and central-west regions of the country, historically among the poorest, had the slowest pace of poverty reduction and continue to have the highest poverty rates. For example, the poverty rate in the central-west region is twice the national rate and is six times higher than the rate observed in Grand Tunis. Overall, although all regions made progress in terms of poverty reduction, their relative positions have remained mostly unchanged.

<sup>55</sup> Using the methodology in Atamanov and Lopez-Acevedo (2018), the population with consumption per capita below US\$3.40 2011 PPP per day per capita is defined as poor. The population with consumption per capita between US\$3.40-US\$7.70 2011 PPP per day can be defined as vulnerable. The population with consumption per capita between US\$7.70-US\$15.80 2011 PPP per day can be defined as secure. The population with consumption above US\$15.80 2011 PPP per day is classified as belonging to the middle class. Using this methodology, the poverty and vulnerability lines in 2015 defined below are 2.7 TND per day and 6.1 TND per day, respectively, which translates into 986 TND per year and 2,227 TND per year. Note that the official extreme and upper poverty lines stood at 1,035 TND per year and 1,706 TND per year in 2015 respectively.



Figure 47:

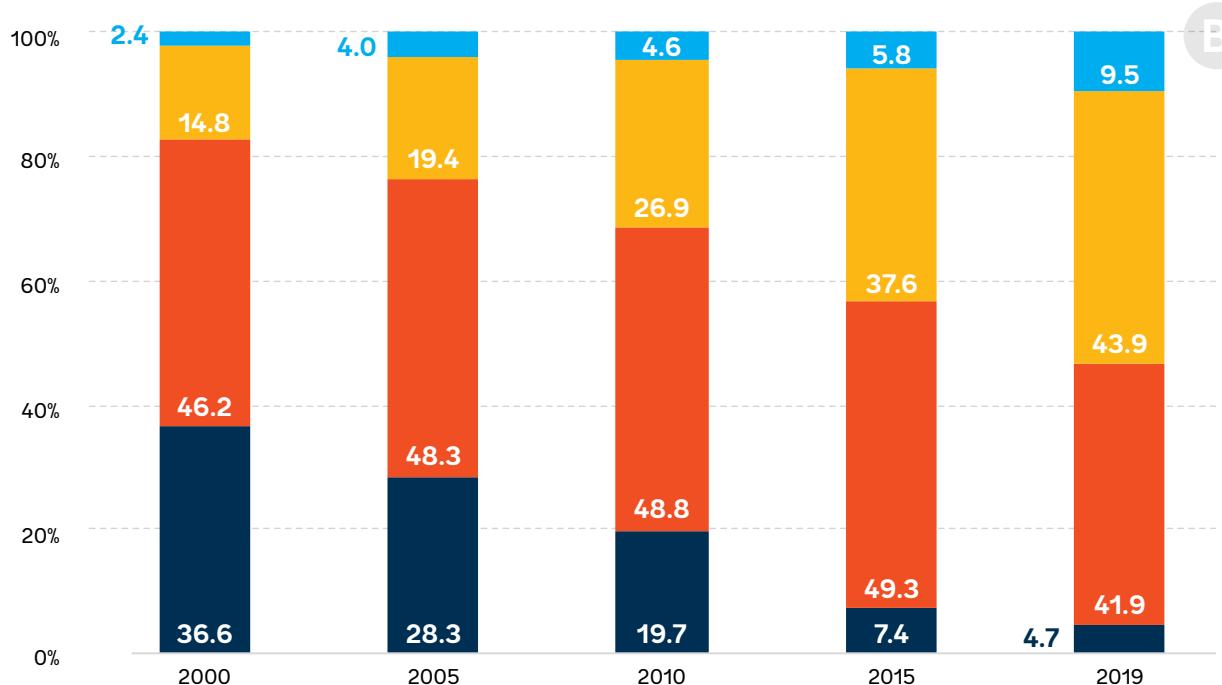
## Overview of vulnerability in Tunisia

A: Population shares, by groups, 2000-2019

B: Rural population shares, by groups, 2000-2019

Legend A + B: ■ Poor ■ Vulnerable ■ Secure ■ Middle Class

Source: Atamanov and Lopez-Acevedo (2018).



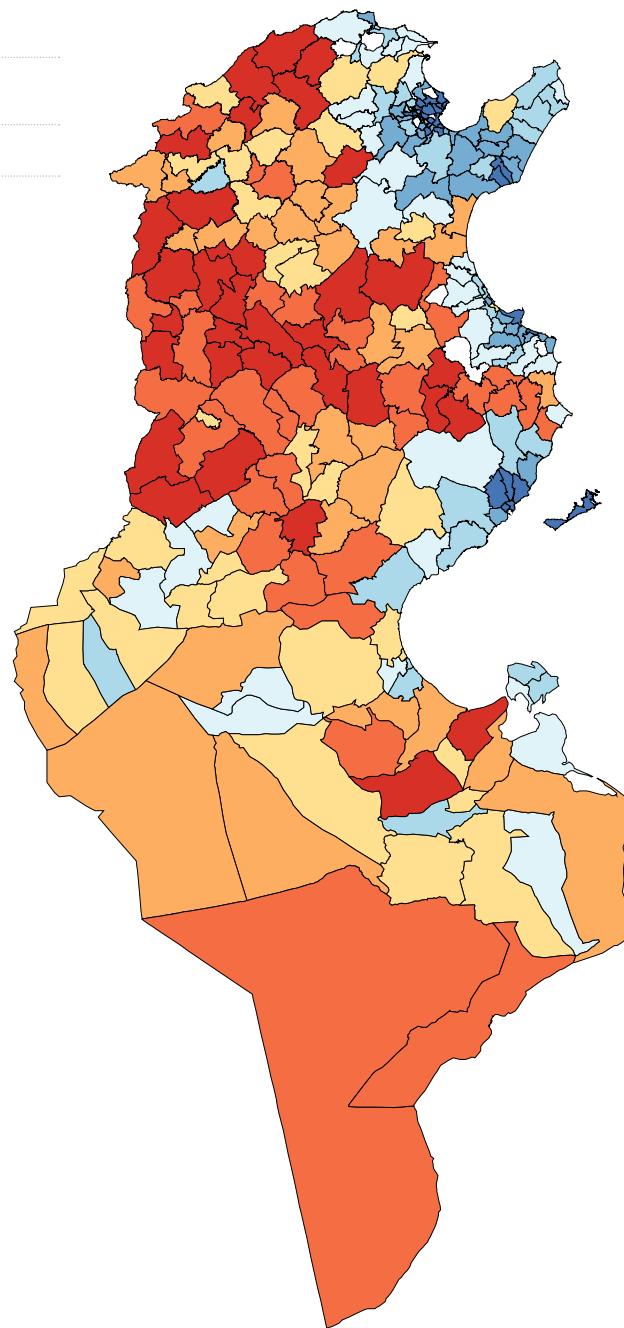


**78. There is also presence of several pockets of poverty even within the prosperous areas.** Tunisia's disaggregated poverty map shows some heterogeneity with regions (Figure 48). For example, despite having an overall lower rates of poverty, the north- and center-east regions still contain some pockets of poverty in certain rural areas, especially in the governorate of Bizerte in delegations such as Sedjbane (39.9 percent), followed by Djoumine (36.6 percent), and Ghezala (34 percent).

**Table 2: Poverty trends by region (2000-2019)**

Source: Imputed values using EBCNV 2015 and household data collected by INS in 2019.

	Poverty Headcount Rate					Relative change in %	Annualized change over 2000/19, %
	2000	2005	2010	2015	2019*		
	(1)	(2)	(3)	(4)	(5)		
Grand Tunis	13.7	12.3	11.1	5.3	5.0	-61	-5.4
Nord Est	23.9	21.8	15.2	11.6	12.6	-51	-3.4
Nord Ouest	32.9	29.6	36.2	28.4	22.0	-14	-2.1
Centre Est	14.3	12.5	11.6	11.5	9.6	-20	-2.1
Centre Ouest	44.1	49.7	42.3	30.8	36.9	-30	-0.9
Sud Est	32.9	24.5	20.7	18.6	21.3	-43	-2.3
Sud Ouest	38.3	32.3	25.9	17.6	17.1	-54	-4.3
<b>Total</b>	<b>25.4</b>	<b>23.1</b>	<b>20.5</b>	<b>15.2</b>	<b>13.8</b>	<b>-40</b>	<b>-3.3</b>

**Figure 48:** Poverty map, 2015Source: INS<sup>56</sup>

- 79.** So, despite progress over the past decade in reducing poverty and inequality, progress in terms of inclusion for the most vulnerable regions and groups is a persistent challenge. Significant disparities, the result of fewer economic opportunities and lower living standards, have limited progress in terms of inclusion, and are expected to be amplified by climate change. These disparities in Tunisia persist at different scales (especially in rural and inland areas and secondary cities), concentrate in the same groups of population (especially people of color, women and youth), and are multidimensional (e.g., education, health, and economic opportunities).

56 <http://ins.tn/en/publication/tunisia-poverty-map-septembre-2020>



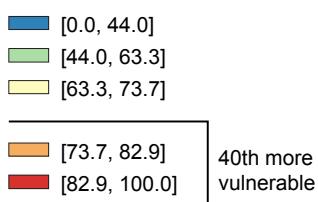
**80. Inclusion and vulnerability challenges span both economic and social dimensions.** Economic dimension refers to limited access to opportunities to improve livelihoods through the accumulation of skills, assets, employment opportunities, and access to markets. Social dimension refers to being distanced from access to services and amenities determining one's basic conditions and quality of life (Brookings 2019). The multidimensional vulnerability index, developed by the World Bank, captures these inclusion challenges well (Figure 60). Also see Box 6 for a description of the index). It shows that the highest vulnerabilities are concentrated in the center of the country, which makes it difficult for these governorates to catch up with the leading coastal regions. In addition, by having lower access to different services and opportunities, people living in these governorates are denied upward mobility, thereby creating a vicious cycle of further exclusion. Consequently, this creates further dissatisfaction, leading to internal migration and social unrest.

**Figure 49:**

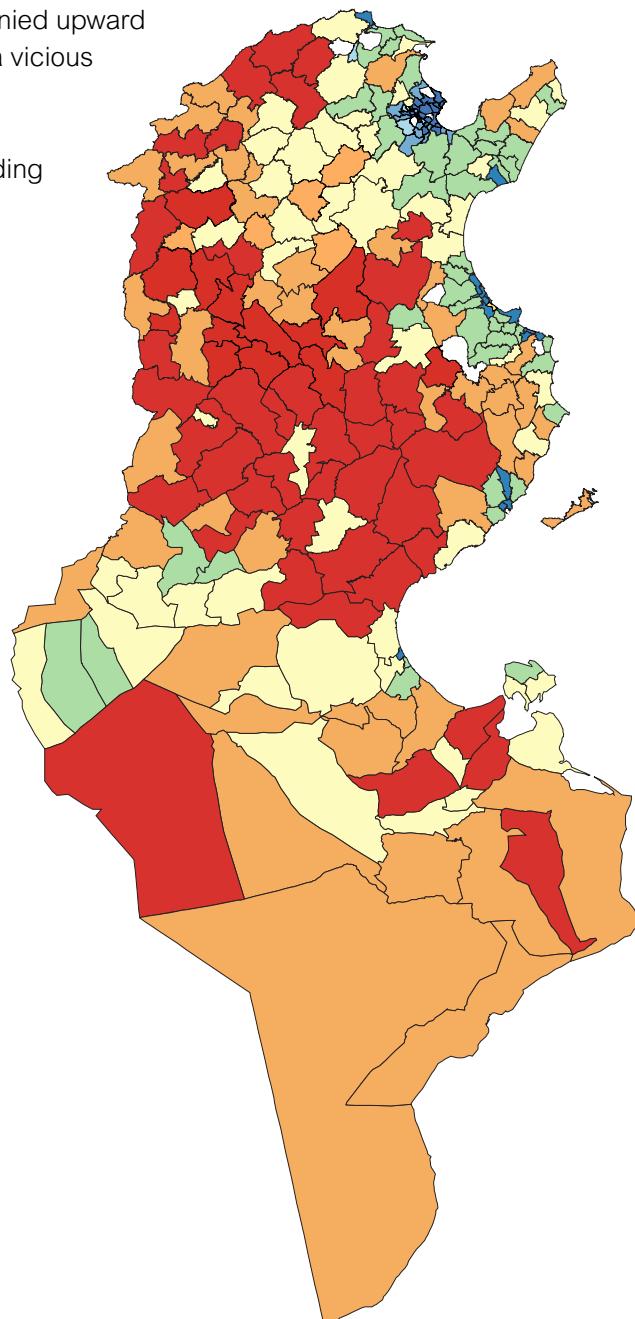
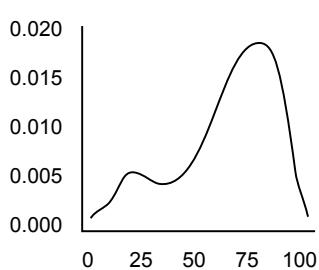
### Multidimensional vulnerability index

Note: Vul = Living Standards + Socioeconomic + Access to services - Economic Activity - Market Accessibility

#### Vulnerability



#### Density



**Box 6:****The multi-dimensional vulnerability index**

Note: a The index is composed by the aggregation of five dimensions. Each of the dimensions is constructed using different indicators, listed in the Dimensions and variables of the Multidimensional Vulnerability Index. Once all the dimensions are aggregated the index is normalized to fit on a range between 0, less vulnerable to 100, which represent the most vulnerable areas. The three dimensions that capture vulnerability were constructed using information from the most recent country census from 2014. On the other side, Economic Activity and Market access dimension use data coming from spatial global layers, on population, road connectivity, built-up areas, and economic information from the National Business Directory.

**Following the World Bank's (2013b) approach to vulnerability to natural disasters, we analyze the capacity of individuals, households, communities, areas, and the country as a whole to absorb, adapt and transform in the face of shocks.** For the purpose of this chapter, the vulnerability of an area is characterized by looking at five different dimensions that can facilitate or impede the ability of an area—and its residents—to respond to and recover from an external shock, be it a health threat, an economic crisis, or a natural event.

Three of them capture distinct types of vulnerabilities: 1) socioeconomic, 2) living standards and 3) access to services. These are positively related to vulnerability, as a higher value on these dimensions would translate into higher vulnerability. Moreover, the other two dimensions, Economic Activity and Market Accessibility are incorporated with a negative sign to the computation, as they account for the ability of the area to overcome shocks. The five dimensions considered include five sets of indicators.<sup>a</sup>

### 2.3.1 Access to economic opportunities

Disparities related to educational outcomes contribute to social immobility for parts of the population.

**81. School attendance and graduation rates are deeply impacted by regional disparities and the urban-rural divide.** While primary education attendance and graduation rates are high throughout the country, they vary greatly depending on a household's wealth and location for secondary education. Indeed, the global rate of attendance for secondary school is 59 percent in Tunisia, but it is higher in urban (67 percent) than rural areas (44 percent) and for children from the richest households (85 percent) than for those from the poorest households (37 percent). In addition, secondary school attendance is significantly higher in the Tunis district (74.8 percent) than in the center-west (45.1) and center-east (51 percent). In general, the center-west region has the lowest attendance and graduation rates for every level of education, except for primary school where the north-east's attendance rate is slightly lower.<sup>57</sup>

<sup>57</sup> Tunisia Multiple Indicator Cluster Survey- 2018 (<https://mics.unicef.org/surveys>)



**82. The unequal distribution in learning resources across the country results in variations of learning outcomes, thereby reducing opportunities for socioeconomic mobility.**

Tunisia's average scores in science, mathematics, and reading have all decreased from 2012 to 2015, according to the Program for International Student Assessment.<sup>58</sup> In all subjects, these scores vary significantly by region, with in eastern regions scoring higher than western regions, and urban areas scoring higher than rural ones (World Bank 2020). In addition, the highest repetition rates for primary and secondary school are observed in the governorates of Kebili, Tataouine, Mahdia, Kairouan, Kasserine, Sidi Bouzid, and Gabes, while the governorates of Tunis, Sfax, and Ariana have the lowest repetition rates. This can in part be linked to the assignment policy whereby the youngest teachers (and less experienced) are sent to the interior regions. There is also a strong correlation between: (i) the urbanization level of delegations and the teachers' seniority and (ii) repetition rates and the teachers' seniority. Similarly, data shows a high dropout rate in predominantly rural governorates such as Tataouine, Kasserine, Gabes, Mahdia, Jendouba, Siliana, and Sidi Bouzid while the lowest dropout rates are found in predominantly urban governorates, such as Tunis, Ariana, Ben Arous, and Sousse (World Bank 2020). While higher education attainment increases one's resilience to shocks, it does not necessarily increase one's chance of finding a job, as evidenced by the high number of unemployed university graduates. This demonstrates the need to improve the quality and effectiveness of Tunisia's education system but also to address skills mismatch. This could be done by developing technical and vocational education and training (TVET), especially in the governorates of the south, the center, and the north-west, where there fewer TVET institutions (World Bank 2020).

**Similarly, limited connectivity to markets and digital services constrain access to economic opportunities.**

**83. Interior regions experience lower levels of connectivity in a broader context of decreasing quality of infrastructure.**

The relative quality of Tunisia's infrastructure has deteriorated significantly over the last 10 years.<sup>59</sup> According to the World Economic Forum rankings, Tunisia was ranked 33 in the world in 2008 but by 2017 had dropped to 82. The ranking declined markedly for ports and airports, and to a lesser extent, for electricity supply and railways. (World Bank 2018). The western half of the country reports a lower concentration of roads and connectivity to coastal urban hubs.

58 World Bank. 2020. Tunisia Public Expenditure Review : A New Pact for the Transition Modernizing the State for Better and Fairer Public Spending

59 World Bank. 2018. Tunisia Infrastructure Diagnostic.



Unsurprisingly, access to marketplaces follows a similar geographic pattern to road density, with a higher concentration in the more developed northeastern regions, and much less accessibility in the southern half (Figure 50).

**84. Lower levels of connectivity of interior regions reduces their market linkages to coastal economic hubs and can limit their competitiveness.**

Access to large markets through better connectivity has been found to be crucial for poverty alleviation and regional development, particularly in rural areas.<sup>60</sup> In Tunisia, around 92 percent of all industrial companies are concentrated within one hour's drive from the three largest cities of the country: Tunis, Sfax, and Sousse. The western half of the country reports a lower concentration of roads and connectivity to these coastal urban hubs. Unsurprisingly, access to marketplaces follows a similar geographic pattern to road density, with a higher concentration in the more developed northeastern regions, and much less accessibility in the southern half (Figure 50).

**85. In addition, despite efforts to develop digital infrastructure over the past decade, Tunisia's positioning remains weak in terms of citizen inclusion.**

Access to telecommunication sharply increased in the last fifteen years (with almost universal mobile network access: 95 percent in rural areas against 98 percent in urban areas). Access to internet, however, is quite low and differs across regions and areas: most households in rural areas do not have internet, specifically in the center-west (3 percent) and north-west of the country (6 percent) as shown in Figure 51. Tunisia ranked 91<sup>st</sup> on the 2020 global Networked Readiness Index (behind Egypt in 84<sup>th</sup> place, but ahead of Morocco in 93<sup>rd</sup> place). Only 1.8 percent of households have access to very high-speed internet, 51 percent of households have a connection to the internet, and 3.4 percent of households typically pay a bill using the internet in a year.<sup>61</sup>

<sup>60</sup> For instance, in rural settings increases in road density or road improvement are associated with helping to reduce poverty by lowering transport costs, increasing agricultural production, and a rise output prices, due to technology and knowledge exchange (Khandker, Bakht, and Koolwal 2009; Berg, Blankespoor, and Selod 2018).

<sup>61</sup> World Bank (2020) "Diagnostic de L'Économie numérique de la Tunisie (DECA)," January 2020.



**Figure 50:** Road density, market access (indicators), and economic activity dimension.

Source: World Bank's calculations using Open Street Maps and 2014 Census data

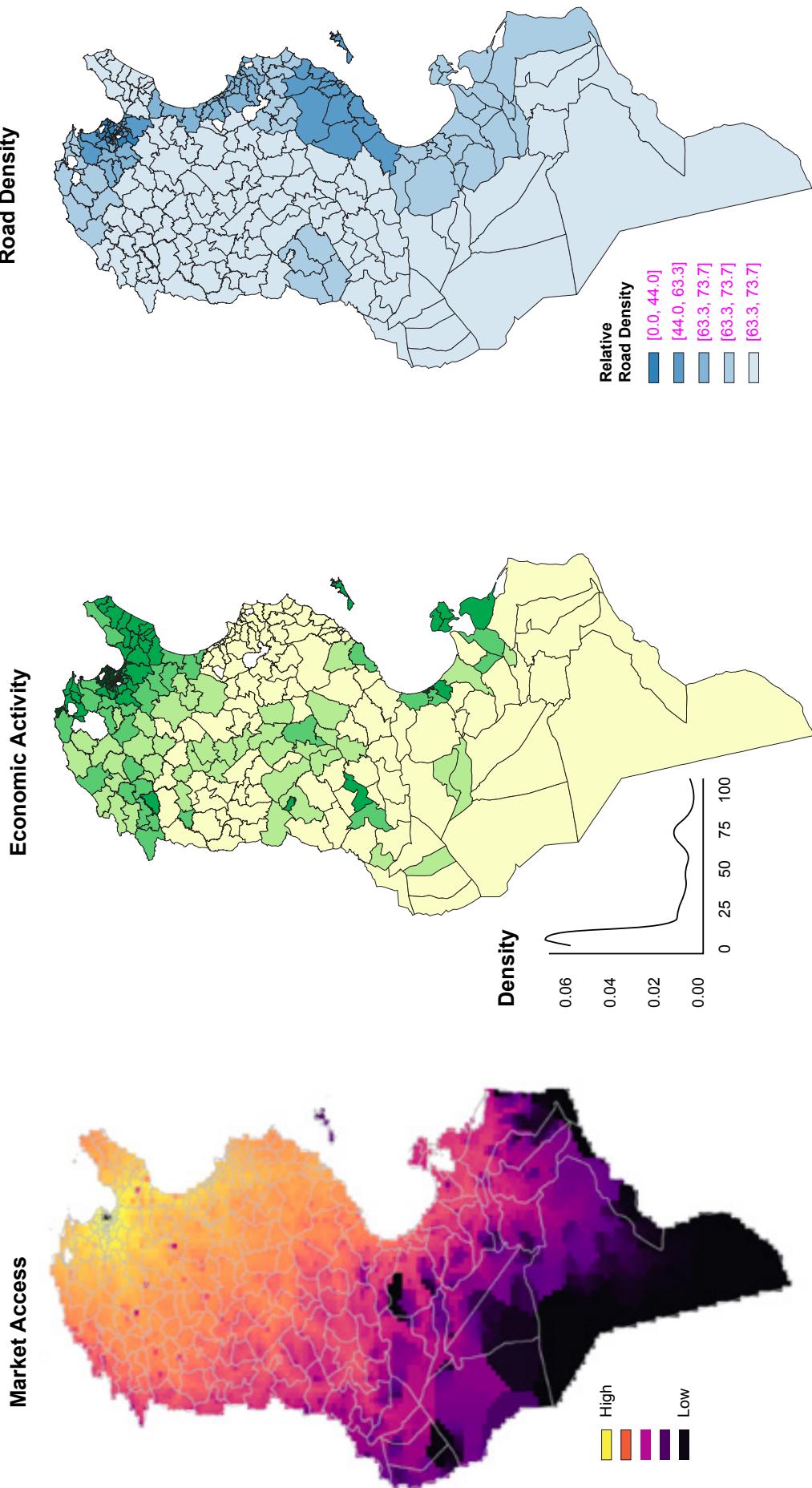
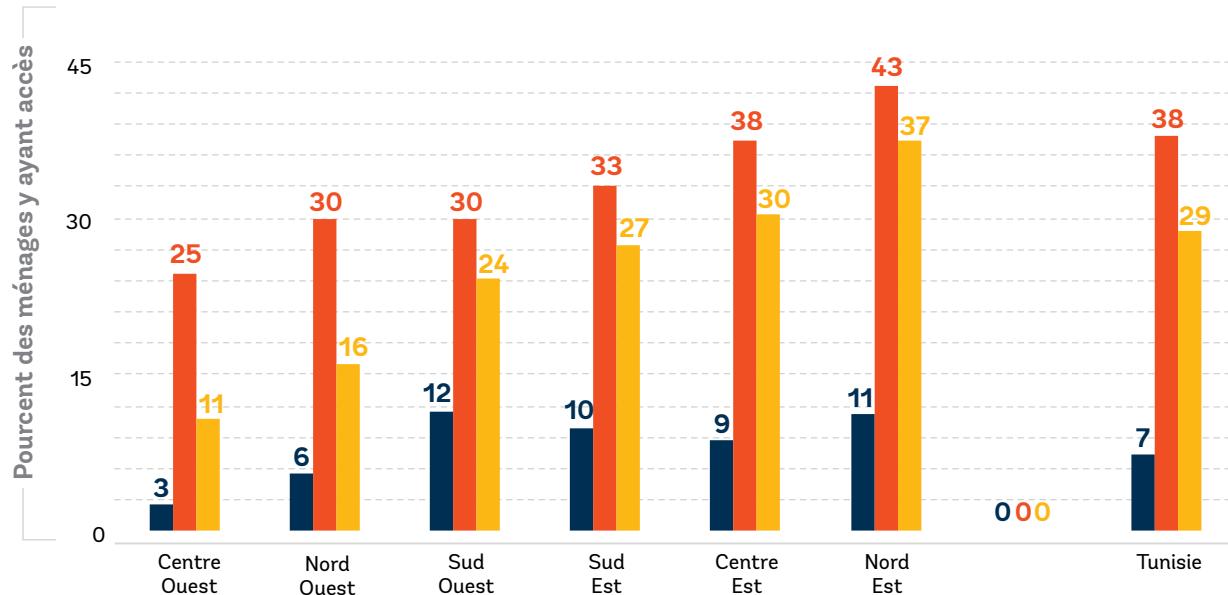




Figure 51:

## Dwellings connected to internet

Source: World Bank, merged background, 2018.



Disparities that limit access to economic opportunities are more acutely felt by women, youth and ethnic minorities.

**86. Gender-based exclusion impacts access economic opportunities and education.** Young women's wages are one quarter lower than their male counterparts, and on average, women have salaries that are 30 percent lower than men.<sup>62</sup> And when employment is rare, women tend to be more affected than their male counterparts.

**87. Gender exclusion<sup>63</sup> is higher in the South of the country, and some delegations extending in the West border, thereby overlapping with vulnerable hotspots identified by the multi-vulnerability index.**

Delegations near urban areas in the governorates of Tunis, Monastir, Sousse, Ariana, and Ben Arous, have the lowest level of gender exclusion, highlighting the difference between coastal and interior areas of Tunisia, while rural young women from the interior regions show higher levels of gender exclusion. Only 8.3 percent of rural young women from the South and 15.4 per cent from the interior regions work (World Bank 2014b). The gender exclusion indicator is exceptionally high in the Tataouine governorate, in which six out of its seven

<sup>62</sup> Finally, when looking at executive positions, only 10 per cent of CEOs are women (Krichen 2019) and only 2.9 per cent of firms' capital are held predominantly by women (Business news 2020).

<sup>63</sup> Following similar steps as for the multidimensional vulnerability index, a gender exclusion index was constructed to measure gender inequalities, considering the following variables: female unemployment rate, proportion of females out of the active economic population, and the percentage of females without tertiary education.



delegations are in the 20 top percent of the exclusion distribution.<sup>64</sup> In addition, while gender exclusion has decreased in many areas between 2004 and 2014, in several delegations identified as particularly vulnerable, gender exclusion has actually increased over that time (Figure 52). For example, the delegation of Faouar in the Western governorate of Kebili and of Sammar in the Southern governorate of Tataouine have seen a considerable increase (between 5-19 percent) of gender exclusion between 2004 and 2014. v

**Figure 52:**

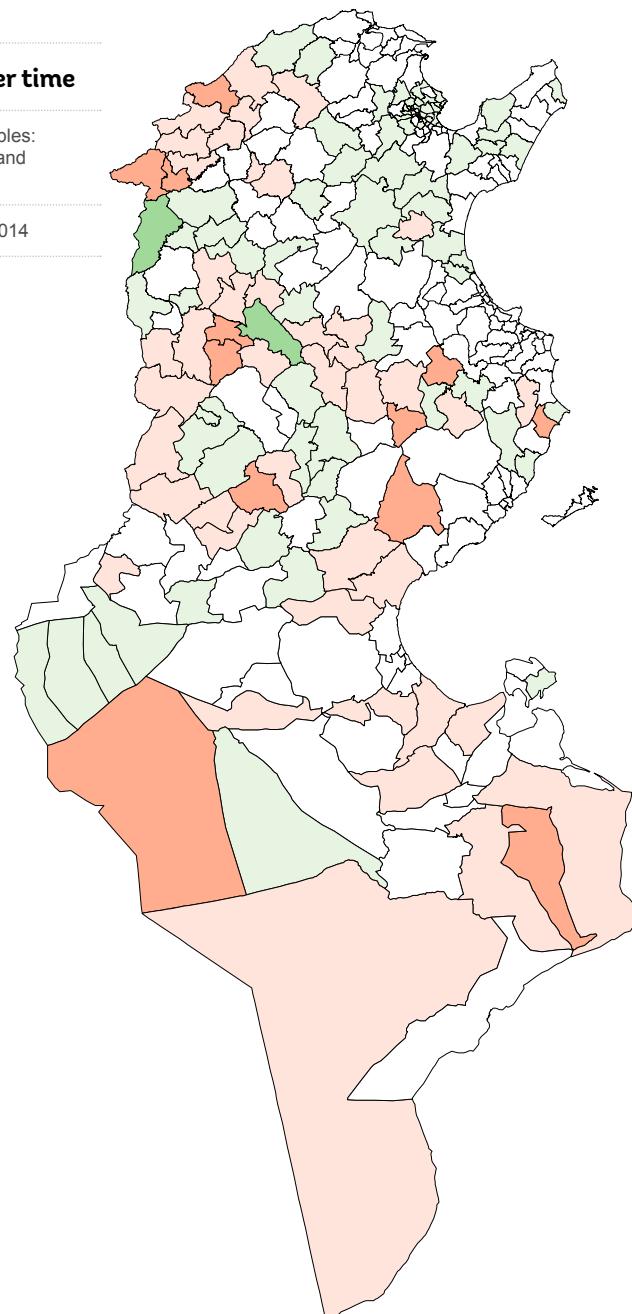
### Gender exclusion map over time

Note: Gender exclusion takes the mean of the following variables:  
Female Unemployment rate (%), Female out of the EAP (%) and  
Female without tertiary education (%)

Source: Tunisia Population and Housing Census, 2004 and 2014

#### Gender Exclusion change 2004 - 2014

- Considerable decrease (10-16%)
- Decrease (>10-3%)
- No change (<3%)
- Slight increase (>5%)
- Considerable increase (5-19%)
- NA



64 For instance, in the delegation of Samar (Tataouine governorate), 88 percent of women do not participate in the labor market, and 93 percent do not have higher education.

**88. The youth have also struggled to advance their economic inclusion.**

Over the last decade, almost 50 percent (128) of all 264 delegations had an increase in youth unemployment higher than 10 percentage points, with Tataouine and Gafsa's delegations in the South and Jendouba in the Northwest facing the highest levels. Notably, all the districts in the Tataouine governorate have a youth unemployment increase of about 20 to 50 percentage points during this period. It is interesting that youth unemployment is not necessarily higher in more rural areas. Youth in the most rural delegations (less than 10 percent of urban population) and in the most urban areas (more than 90 percent of urban population) are the ones with the lowest unemployment rates, at 32 and 34 percent, respectively. For rural youth in slightly more urbanized areas (about 35 percent of urban population), the unemployment level is the highest at 41 percent. Higher unemployment rates, coupled with the feeling that governments failed to address their main concerns (employment, dignity, and social justice) after the revolution resulted in a disinterest in politics among youth (Mansouri 2020). Instead, they resort to informal political participation such as political protests to express socio-political grievances (Brookings 2019).

**89. Lastly, people of color often face discrimination and face barriers to**

**socioeconomic mobility.** While there is very little systematic information on racism and discrimination, recent survey data reveals that racism is commonplace, and that black Tunisians are socio-economically worse-off than other Tunisians (Afrobarometer 2018).<sup>65</sup> This survey data suggest that black Tunisians are about 10 percentage points more likely than other Tunisians to live in rural areas and are 15 percentage points less likely to own a radio, car, or computer. In terms of education, they are about 10 percent less likely to have completed primary school. In terms of access to jobs, black citizens are twice as likely to be unemployed (Afrobarometer 2018). In addition, black Tunisians are often the targets of verbal abuse<sup>66</sup> and even physical attacks due to their skin color.<sup>67</sup> Furthermore, very few black Tunisians are represented in the country's politics and media, with only one black Member of Parliament in 2018 (Al Jazeera 2018). Institutional racism towards sub-Saharan African students was even reported, such as delays in obtaining visas and difficulties in accessing healthcare (Al Jazeera 2018). The situation does not seem to be improving; the share of population that reported that racist behavior was somewhat frequent in their neighborhood jumped from 22 percent in 2013 to 51.6 percent in 2019, and the share of

<sup>65</sup> Tunisia does not collect data on the size or socio-economic status of ethnic minority populations in official data or census. A nationally representative survey conducted in April-May 2018, by Afrobarometer recorded for the first time respondents' race, classifying 92 of 1199 respondents (about 8 percent) as black.

<sup>66</sup> Racist words such as "kahlouch", which translates into "slave-servant" appear to be still widely used to identify a black person in Tunisia. Racial discrimination: Translating Tunisia legislation to community practice – Middle East Monitor

<sup>67</sup> Tunisia 'needs a cultural revolution' to combat racism | Human Rights News | Al Jazeera Racial discrimination: Translating Tunisia legislation to community practice – Middle East Monitor



population that reported being treated unequally went from 86.5 percent in 2016 to 91.8 percent in 2019 (World Bank 2021). These results are consistent with high levels of distrust in fellow citizens (between 8 to 15 percent depending on data sources) and of low tolerance to minority groups according to sexual orientation, gender identity, race, and religion (between 15 to 60 percent depending on data source) (World Bank 2021).

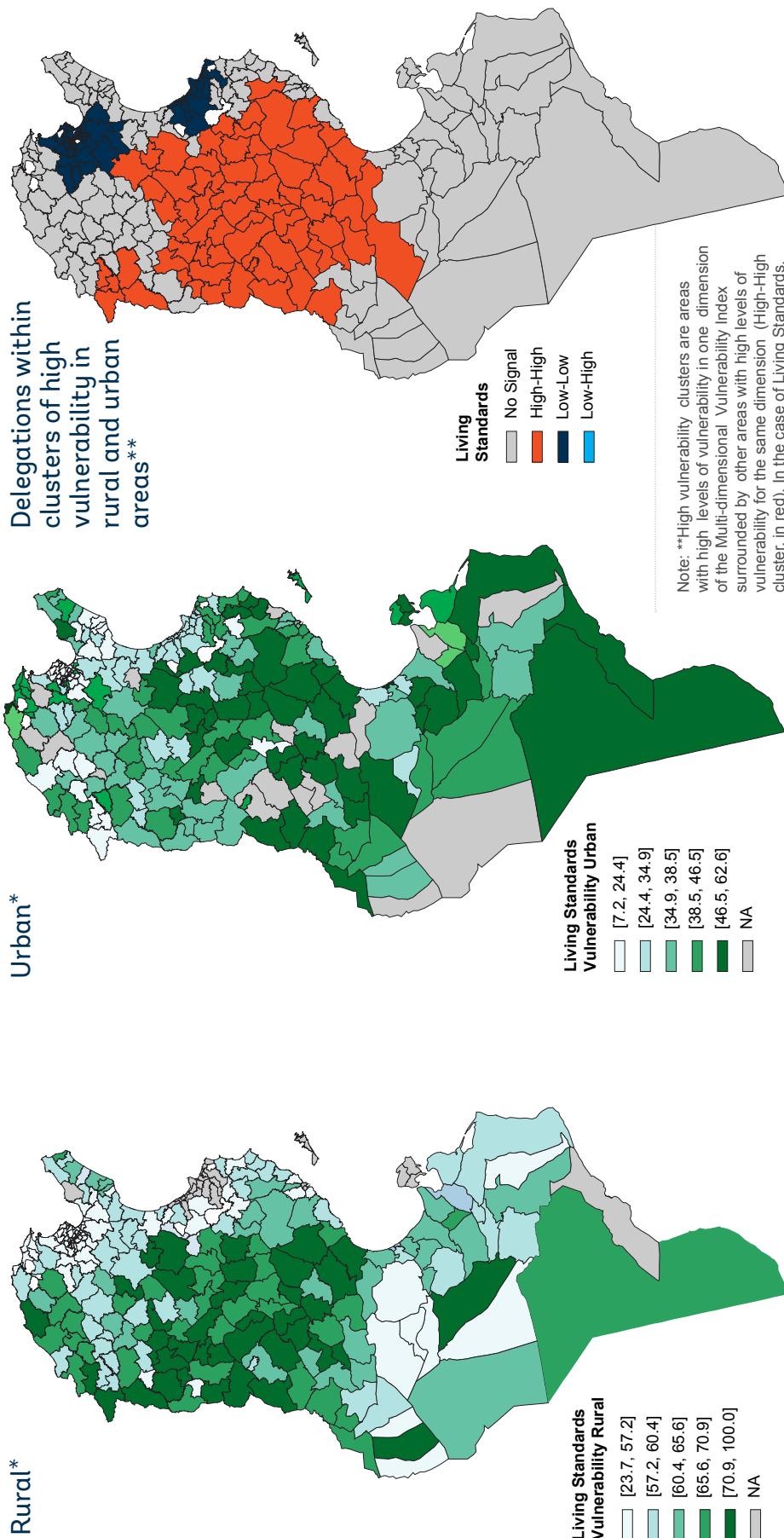
### 2.3.2 Access to better living standards

- 90. Regional location plays an important role in the level of living standards.** Access to improved water and sanitation, electricity, gas, or internet connection can help increase resilience of households to external shocks like droughts, diseases or access to jobs (WHO 2020). On average, households have low levels of gas and public sanitation connections, and poor internet access, with 85 percent of the dwellings not connected to the natural gas network, 50 percent not connected to the public sanitation system, and around 66 percent of the households not having internet access. Rural households have some of the lowest levels of connectivity to these services. Similarly, dwellings in Kairouan and Sidi Bouzid, extending to some delegations of Sfax (Figure 53, delegations in red) experience heightened disparities in this regard.
- 91. In addition, the rise in informal housing since the 1980s—and even more so since the Revolution—has highly impacted the poorest urban residents.** This increase results from a social housing offer targeting middle-income rather than poor urban households, restricted access to mortgage, and land management and fiscal policies that encouraged land speculation and the eviction of the urban poor from the legal housing market (Zaki 2018; MEHAT 2015). Although this rise in informal housing affects all cities in Tunisia, big cities tend to be the most afflicted by this phenomenon. Informal housing is problematic as these houses are underequipped, locking vulnerable households into lower standards of living. Informal housing is also synonymous with urban sprawl (and deconstruction), which often occurs on public or agricultural lands. Furthermore, it is detrimental to local finances as it does not allow municipalities to raise as much revenue as they otherwise could. Finally, informal housing is not environmentally sustainable. To tackle this issue, the State provided all delegations with funds to improve housing in informal neighborhoods and increase their connectivity to public services, which allowed them to contain the rise in slums (Zaki 2018). But this policy contributed to the scattering of funds, instead of directing them towards the most vulnerable neighborhoods, and additional tools are needed to meet the high demand for affordable housing.



**Figure 53:** Delegations in Kairouan and Sidi Bouzid suffer of poor levels of living standards in rural and urban households.

Source: Author's calculations using data from Tunisia Population and Housing Census, 2014



Note: \*\*High vulnerability clusters are areas with high levels of vulnerability in one dimension of the Multi-dimensional Vulnerability Index surrounded by other areas with high levels of vulnerability for the same dimension (High-High cluster, in red). In the case of living Standards, these clusters are in the central area of the country, including delegations in the governorates of Kasserine, Kairouan, and Sidi Bouzid. Deep blue, on the other hand represents districts within clusters of low vulnerability.

Note: \*Higher values represent more deficiencies in living standards. Living standards dimension includes the percentage of dwellings without connection to: gas network, sanitation system, electricity network, drinking water, and internet. Each variable is given equal weight within the dimension.



- 92. Urban/rural gaps in access to basic services are also deep, and the lowest levels are observed in rural areas in the center-west of the country.** Delegations around the main cities in the coast,<sup>68</sup> report considerably higher levels of access to basic services than the rest of the country. Kairouan, Kasserine, Sidi Bouzid, and Beja are the governorates with the highest numbers of delegations with low access to services. In terms of distance, health facilities are the least accessible to households, followed by recreational and educational institutions. The average distance to a hospital is 333km for secondary cities in the interior regions such as Gafsa, Kasserine, or Kebili, compared to averages of 33km for some cities along the coast such as Tunis, Sousse, or Ariana (FES 2018). Specialized health services are also extremely limited outside of Tunisia's few big cities. Coastal regions display the highest densities, with Tunis counting 85 specialists per 100.000 inhabitants against less than 10 for Tataouine (FES 2018).
- 93. While Tunisia compares favorably in terms of health outcomes with countries at a similar income level, regional gaps in access and quality limit the capability of the health system.** Tunisia's under-five and maternal mortality rates are lower than the MENA average, and its health financing landscape is similar to comparable countries. However, the health system suffers from regional disparities, weak supply chains, and fragmented information systems, as well as challenges in equity and quality of care. Only 20 percent of health centers provide daily care (8 hours) six days a week, of which more than 60 percent are in the coastal governorates. Human resources are inequitably distributed between regions as well since most specialists are concentrated in Tunis, Sfax and Sousse, the three main cities where more than 24 percent of the population resides. A cross-cutting challenge is quality of care, the extent of which is difficult to quantify in the absence of comprehensive and rigorous surveys but is apparent given the shortages in key resources for service delivery. For instance, drug stockouts have persisted in Tunisia since 2017, with a third of medicines stocked out in 2018 in the public sector due to financing bottlenecks at the *Pharmacie Centrale de Tunisie*.
- 94. Access to water, which is increasingly scarce and unequally distributed, is a growing source of tension.** Tunisia is a water-scarce country and substantial imbalances exist in water resource distribution between the better endowed north and the semi-arid south with regards to water balance, storage, and water distribution. The country's groundwater resources are already overexploited. While the country has made significant progress regarding its water supply, sanitation, and water-related health services, significant imbalances and lack of access still remain high. Inequalities persist with regard to service availability, water quality and access,

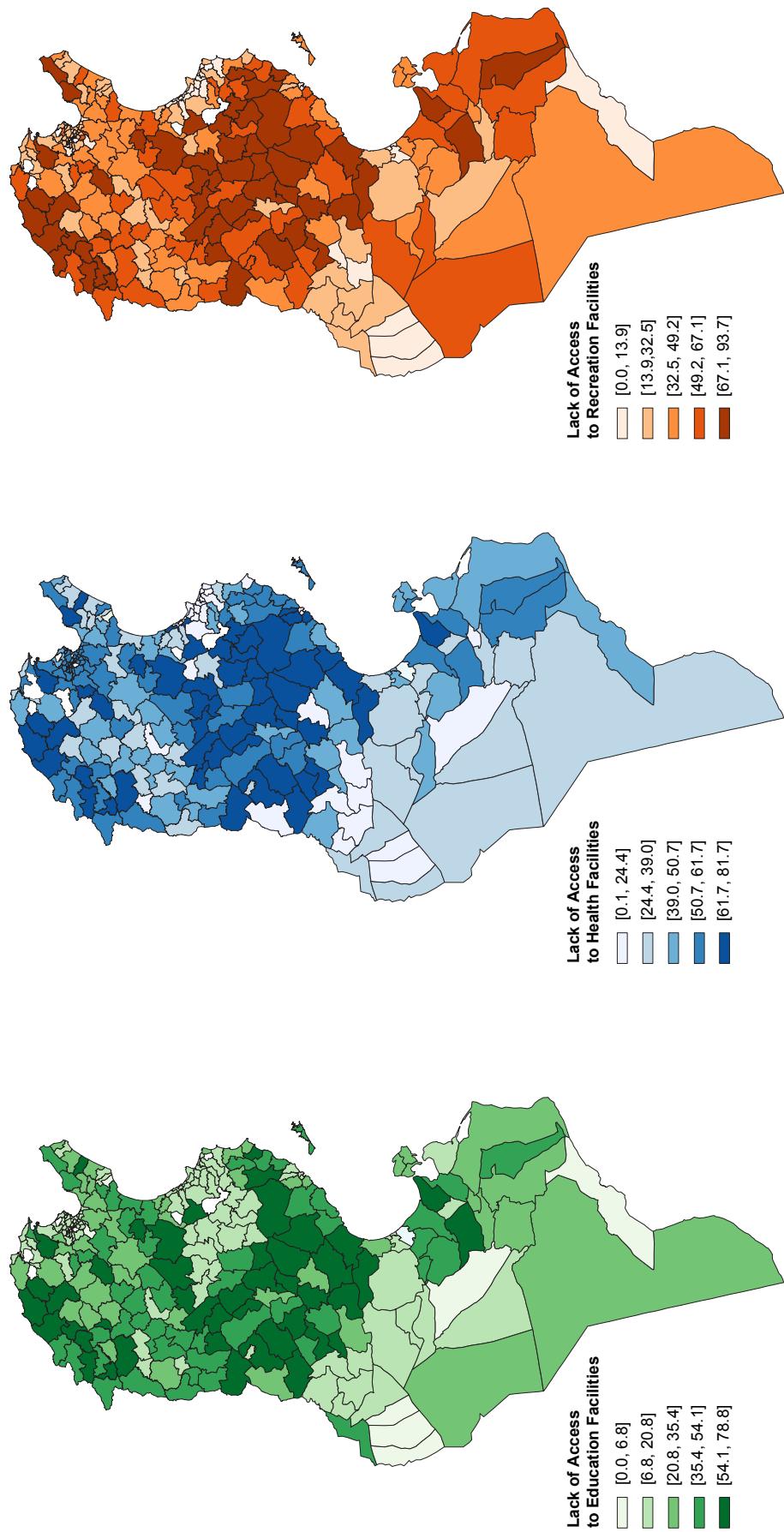
68 Such as most delegations in the governorates of Tunis, Ariana and Sousse, as well as some delegations of Monastir and Nabeul.



**Figure 54:** Governorates in the Center-West and in Beja have the highest numbers of delegations with low access to health, education, and recreation facilities.

Note: Higher values represent larger number of dwellings with facilities more than 2km away. Health facilities include hospital and dispensaries. Education facilities include kindergarten, primary schools, high schools, and colleges. Recreation centers include sport and youth centers. Each variable is given equal weight within each sub-dimension.

Source: World Bank staff calculations using data from Tunisia Population and Housing Census, 2014





particularly across different geographies and between urban and rural populations. Already occurring water use conflicts are intensifying in Tunisia, especially during drought periods. Rural areas that rely on springs for drinking water will be the most affected, given that these springs will dry up. Women are likely to be even more vulnerable, because they often are responsible for water supply and hygiene in the household. Climate change-related water supply will heighten inequality in poorer rural regions, as these regions tend to be the most exposed to climate change impacts.

**95. The projected climate-change-related increase in heat waves, dust storms, coastal flooding, and extreme weather events in Tunisia are likely to have a significant impact on the health of the population, with the urban poor particularly at risk.** Given the projection of higher temperatures, a resurgence of vector borne diseases such as malaria, leishmaniasis, dengue, and West Nile fever are expected. Changes in rainfall patterns as well as temperatures may change the geographical distribution of insect vectors of these diseases, such as mosquitoes or sandflies.<sup>69</sup> The rise in temperature is likely to exacerbate respiratory diseases, and water-borne diseases may spread due to degradation of the quality of water resources. The current deterioration of water quality and related health risks are caused by a lack of water sterilization. Access to drinking water, sanitation and hygiene may become more difficult, resulting in new breakouts of pathogenic microorganisms and potential bacteriological contamination. Vector borne diseases and water contamination are expected to affect rural areas in particular, mainly in the center and north-west part of Tunisia, where access to drinking water and sanitation is already limited.<sup>70</sup>

**96. Persistent regional disparities in service delivery and development are in part due to the slow implementation of decentralization reforms.**

Addressing regional disparities, especially in the interior of the country, was one of the key aspirations of the 2011 Revolution. As part of the Technical Assistance for the Development of Disadvantaged Regions in Tunisia (2017-2018), the Tunisia Ministry of Development, Investment and International Cooperation<sup>71</sup> identified institutional centralization as one of the main causes of regional disparities. While important progress was made on the decentralization agenda with the 2014 Constitution, the 2018 Local Government's Code (*Code des collectivités locales* or "CCL") and the first municipal elections, this decentralized framework has yet to be fully operationalized. First, capacity building is necessary at the local level as many Tunisian municipalities still face significant difficulties in delivering infrastructure and services. Second, application decrees of the CCL, as well

<sup>69</sup> Republic of Tunisia (2016). Nationally Determined Contribution. <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Tunisia%20First/INDC-Tunisia-English%20Version.pdf>

<sup>70</sup> WHO (2015). Climate and Health County Profile – Tunisia. <https://apps.who.int/iris/bitstream/handle/10665/246121/WHO-FWC-PHE-EPE-15.46-eng.pdf?sequence=1>

<sup>71</sup> In collaboration with the World Bank.



as the Orientation Law on Decentralization (which should be based on the results of a national consultation postponed due to the health crisis) are needed to clarify the transfer of competencies and resources as well coordination processes between local governments and the State. Finally, while the Constitution provides for the establishment of regional councils elected by direct universal suffrage, the vision and the modalities for the operationalization of these councils remain to be specified.

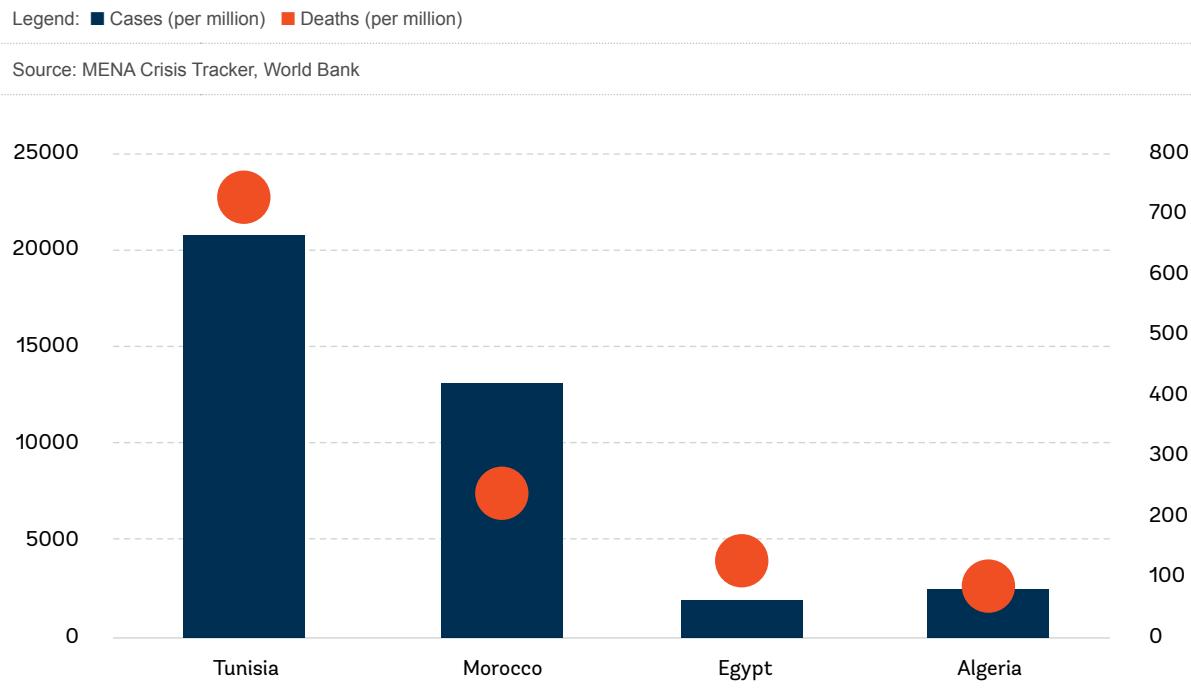
## 2.4 The impact of COVID-19

The pandemic further weakened outcomes.

**97. The COVID-19 pandemic has had a heavy toll on Tunisia.** The initial containment measures imposed at the start of the pandemic temporarily helped control the spread of the virus and reduce pressure on hospital and medical staff. A moderate set of containment measures were subsequently maintained but a second and third wave of cases materialized, highlighting the difficulty of managing the pandemic in a fragile socioeconomic context (Figure 55 and Figure 56). Since the beginning of the crisis there have been 345,474 confirmed cases of COVID-19 with 12,654 deaths, reported to the WHO, making Tunisia one of the worst affected countries in the region in relation to the size of its population.<sup>72</sup>

Figure 55:

Covid-19 new cases and deaths



72 As at June 2, 2021.

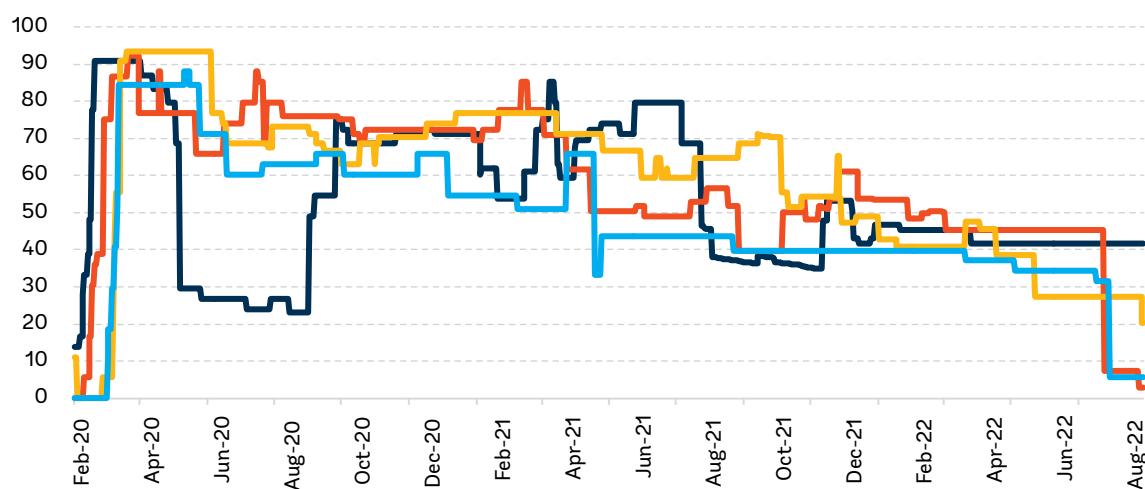


**Figure 56:**

### Covid-19 Policy Stringency Index

Legend: ■ Tunisia ■ Algeria ■ Morocco ■ Egypt

Source: Johns Hopkins Coronavirus Resource Center



The pandemic had significant impact on the growth and employment, particularly in coastal areas.

**98. The pandemic led to a deep contraction of the economy.** During 2020, the Tunisian economy saw an 8.8 percent contraction for the year (Figure 57). The majority of the decline was registered during the second quarter (-21 percent y-o-y) when a national lockdown took strong hold over the economy. Declines in tourism and transport services contributed heavily to the downturn. Manufacturing, a mainstay of the Tunisian economy, was also deeply impacted as European demand stalled. The outlook points to a gradual recovery, spanning three or even four years before Tunisia could return to pre-pandemic output levels, followed by subdued growth if pre-existing structural weaknesses are left unaddressed.

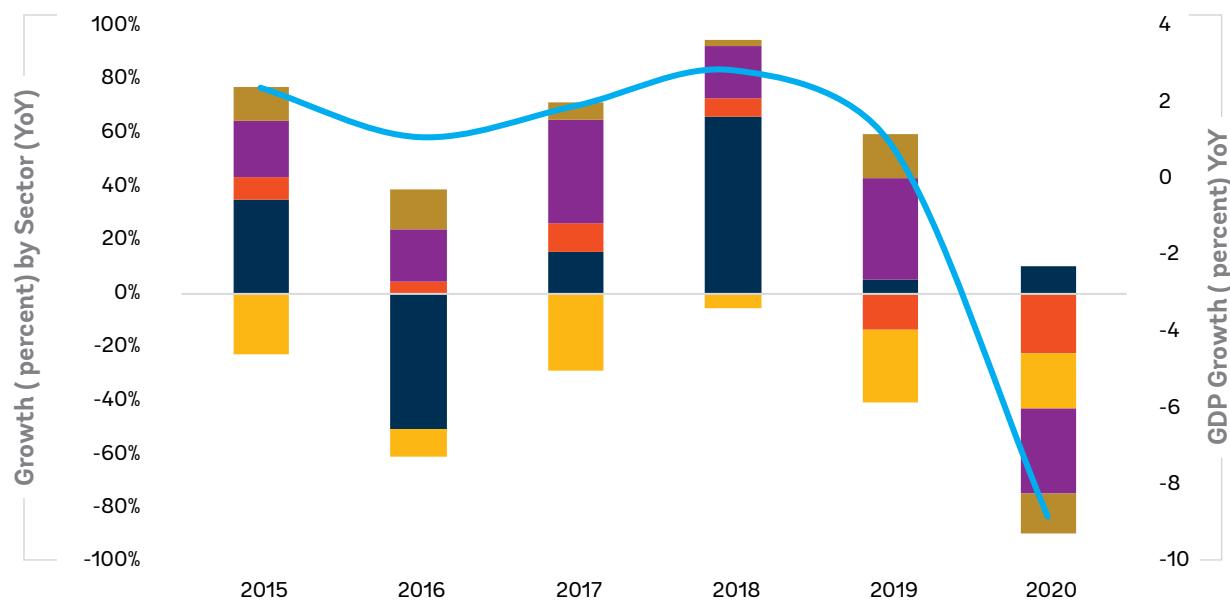
**99. COVID-19's impact on growth was sharpest in coastal areas.** Using satellite data on night-time lights (NTLs) as a proxy for economic activity reveals the spatial distribution of the contraction in growth (see annex B). Coastal governates emit the most NTLs, due to the large trade and services sectors, while less industrialized inland and southern governates are less bright. During 2020, the brightest coastal cities exhibited the sharpest declines. The largest NTL contractions (year-on-year) were concentrated in Tunis (-10.7 percent), Ariana (-8.4 percent), Monastir (-8 percent), Sousse (-7.2 percent), Ben Arous (-6.5 percent), Nabeul (-4.6 percent).<sup>73</sup>

73 Other declines were registered in Mandouba (-4.0 percent), Bizerte (-3.7 percent), Medenine (-2.6 percent), Mahdia (-2.5 percent), Gabes (-2.3 percent), and Sfax (-1.1 percent).

**Figure 57:****Real GDP Growth Across Time**

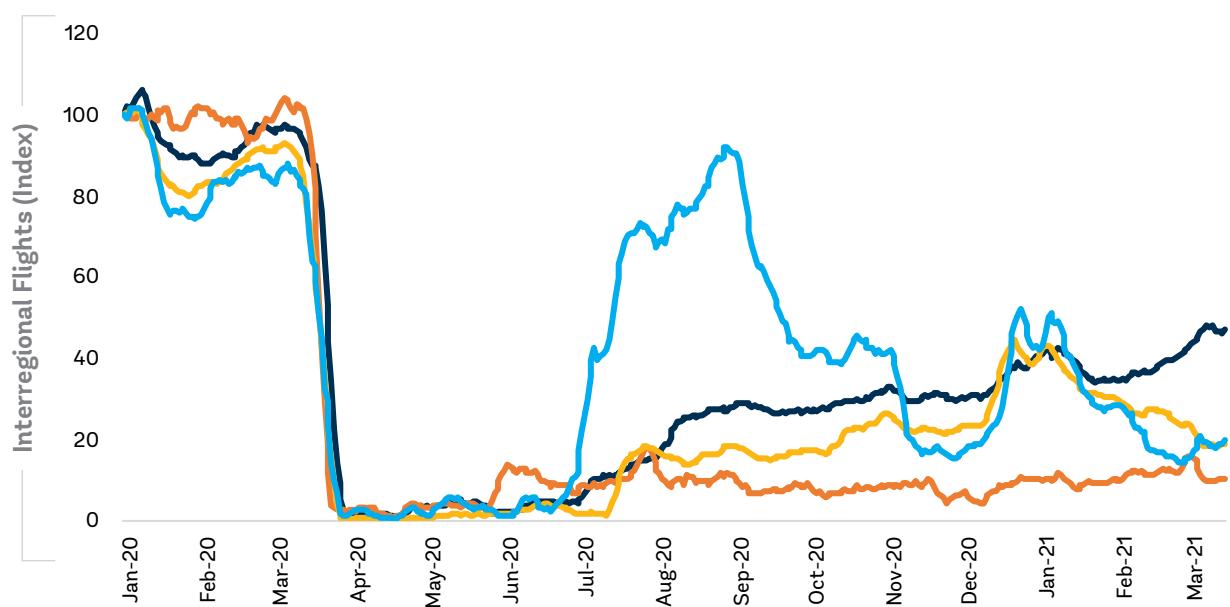
Legend: ■ Agriculture ■ Manufacturing industries ■ Non-manufacturing industries ■ Tradable Services  
■ Non-Tradeable services ■ GDP growth

Source: National Institute of Statistics (INS)

**Figure 58:****Total Weekly Inter-Regional Flights**

Legend: ■ Egypt ■ Algeria ■ Morocco ■ Tunis

Source: World Bank, MENA Economic update, April 2021





**100. The pandemic is also having a lasting impact on the private sector and employment.** Business pulse surveys<sup>74</sup> of 2,500 private firms in November-December 2020 indicated the extent of the shock experienced by the private sector. By the end of the 2020, a total of 21.6 percent of companies were either permanently or temporarily closed. Around 65 percent of firms risk permanent closure in the next 12 months, and only 30 percent were confident they would survive until next year. Over 80 percent of businesses saw a drop in demand and as a result fired employees (26 percent) or cut wages (15.7 percent). Unemployment was high at (approx. 15 percent) even before the pandemic and worsened to 17.4 percent in 2020. This resulted in a 78,000 increase in number of unemployed persons during the fourth quarter, and 133,000 over the full year. This increase in unemployed contributed to the wave of protests erupting around the country throughout the pandemic. For self-employed workers, labor incomes declined considerably, mainly due to lack of customers.<sup>75</sup>

**101. Given the pre-existing macro-financial vulnerabilities, COVID-19 has increased downside risks to the banking sector.** Tunisia entered the COVID-19 from a position of significant and protracted macroeconomic weakness<sup>76</sup>, coupled with financial sector vulnerabilities characterized by low liquidity, a high volume of non-performing loans (NPLs) and relatively limited capital buffers. The repayment moratoria extended to all corporate loans until September 2021, may have mitigated the impacts of the pandemic on banks' balance sheets. However, a deterioration of asset quality once moratoria expire could exacerbate some risk factors in the banking system, given the existing high stock of NPLs and banks' substantial exposure to credit risk to affected sectors such as tourism and to real estate and SOEs.<sup>77</sup> The banks' exposure to the government, through securities and direct lending has also recently increased.<sup>78</sup> Given the current negative outlook on Tunisia's sovereign rating, credit fundamentals of the banking sector can further deteriorate and with significant consequences on the real economy.

74 World Bank/ INS Business Pulse Surveys for Tunisia.

75 Alfani et al., 2021.

76 Tunisia presents one of the highest macro-financial risks in the MENA region (World Bank's Macro-financial review Spring 2021) while the macro-financial setting is one determinant of the shape and intensity of the crisis.

77 S&P (May 2021) estimates that the ratio of NPL will reach about 19% in the next 12-24 months, with the cost of risk increasing to 2.0% over the same period. It also anticipates banks' risk-adjusted capital ratios will decline below 3% and regulatory capital ratios to approach the minimum requirements.

78 According to S&P (May 2021), credit to the government increased by 45 percent in 2020 (compared to 16 percent in 2019). Exposure increased across the board, but stocks may be concentrated in a number of banks with state participation. Banks' exposure to the sovereign reached 83.5% of their equity on Nov. 30, 2020.



**COVID-19 also reversed the gains made in reducing poverty, inequality and gender-based gaps.**

- 102. The severity of the pandemic means that past gains in poverty reduction will be lost as the share of the population vulnerable to falling into poverty increases.** Specifically, poverty is estimated to increase from 14 percent of the population pre-Covid to 21 percent in 2020, with most of the impact being felt by the poorest households, which are concentrated in Tunisia's Center West and South East regions.<sup>79</sup> Inequality (measured using the Gini coefficient) is estimated to have also increased from 37 to 39.5. Additionally, more people are expected to become vulnerable to falling into poverty. As for the most vulnerable individuals, they are likely to be women, living in large households, without access to health care and employed without contracts.
- 103. Moreover, the COVID-19 crisis has exacerbated existing gender inequalities, further hampering the prospects for inclusive growth.** Indicators of both women's economic opportunity and of their voice and agency, two central components of gender equality, have fallen since the onset of the pandemic. For instance, violence against women (VAW) was already alarmingly high in Tunisia, with 47.6 percent of women in 2018 reporting having suffered at least one form of violence. But VAW has seen a surge, as data from gender-based violence hotlines (UN Women) and surveys show: 36.6 percent of women report that VAW has increased in their communities since the pandemic began (RIWI Survey). At the same time, women's recourse to protection against violence and access to justice have been curtailed by government's mitigation measures, including suspending court proceedings except in cases of emergency, halting non-emergency healthcare activities, restricting movement, and requiring social distancing (UN Women). As a result, women face greater difficulties in accessing protection and healthcare services.
- 104. In the economic sphere, existing inequalities have similarly worsened as a result of the pandemic, including in unpaid work, employment, and digital and financial inclusion.** Tunisian women already reported spending significantly more time per day than men on household chores and child and elder care before COVID: according to OECD data, the female-to-male ratio of unpaid care and domestic work was seven to one in 2019 (OECD). This time-use disparity was increased by the pandemic, even though more men than women reported spending less time on paid work (RIWI Survey). In addition, gaps in digital and financial inclusion leave women vulnerable to the increasing digitization of education and employment, as well as employment shocks. Tunisian women are less than half as likely as men to borrow from a bank (Findex), and according to the International Telecommunication Union, the internet penetration rates for MENA women stands at 44.4 percent, compared to 58.5 percent for men (ITU). Unless these gaps are addressed, Tunisia's recovery from COVID-19 could perpetuate or even worsen existing gender gaps.

79 Kokas et al; 2020.



**Box 7:**

**The impact of COVID-19 on education, behavior, and mental health**

Source: Telephone household survey to study and monitor the impact of COVID-19 on the daily lives of Tunisians (*Enquête téléphonique auprès des ménages pour étudier et suivre l'impact du COVID-19 sur le quotidien des Tunisiens*), INS and World Bank.

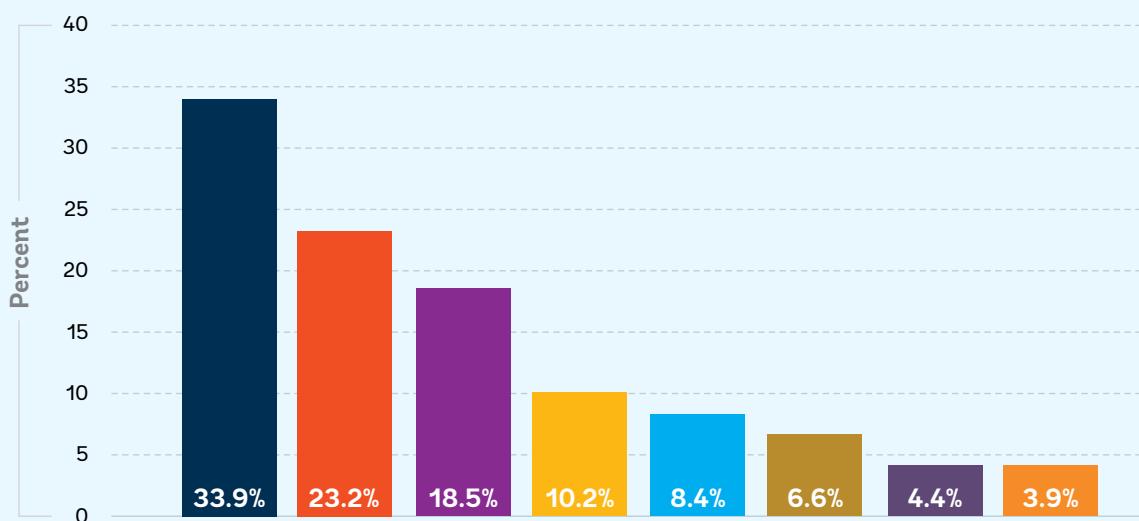
**The COVID-19 pandemic and associated containment measures have led to a deterioration of the education sector in Tunisia.** Although Tunisia is one of the MENA countries that invests the most in education with the latter representing more than a fifth of the State budget, the quality of education has declined significantly over time. From 1990 to 2010, Tunisia has seen significant improvement in both enrollment as well as completion of tertiary education. However, as per the 2007 International Mathematics and Science Studies (TIMSS) assessment, 80% of the eighth-grade students in Tunisia had “low” and “below low” results for mathematics. Even according to 2009 Program for International Student Assessment (PISA) results, 15-year-old students performed poorly in science and mathematics.

**During the last two school years, Tunisia has suspended face-to-face learning in all educational institutions for several months due to COVID.** According to a series of telephone interviews conducted by the *Institut National de la Statistique* and the World Bank, during and after the confinement between March and November 2020, nearly 61% of household heads reported that their children had not taken part in any educational activity during the week leading up to the survey. As shown in table X, the main reasons reported were i) no remote learning possibilities had been offered (34%), ii) a lack of interest in educational matters within the family (23%), iii) a lack of communication with teachers (19%) and a shortage of materials at home (10%).

**Figure 59:**

**Reason for not participating in learning activities**

Legend: ■ No distance learning available ■ No Interest ■ Lack of communication with your children's teachers  
 ■ No equipment for distance learning (e.g., computer, smartphone) ■ No help from parent or adult ■ Others  
 ■ Lack or poor quality of internet connection or insufficient speed ■ Parents don't have time to get involved with their children





## Box 7: continued...

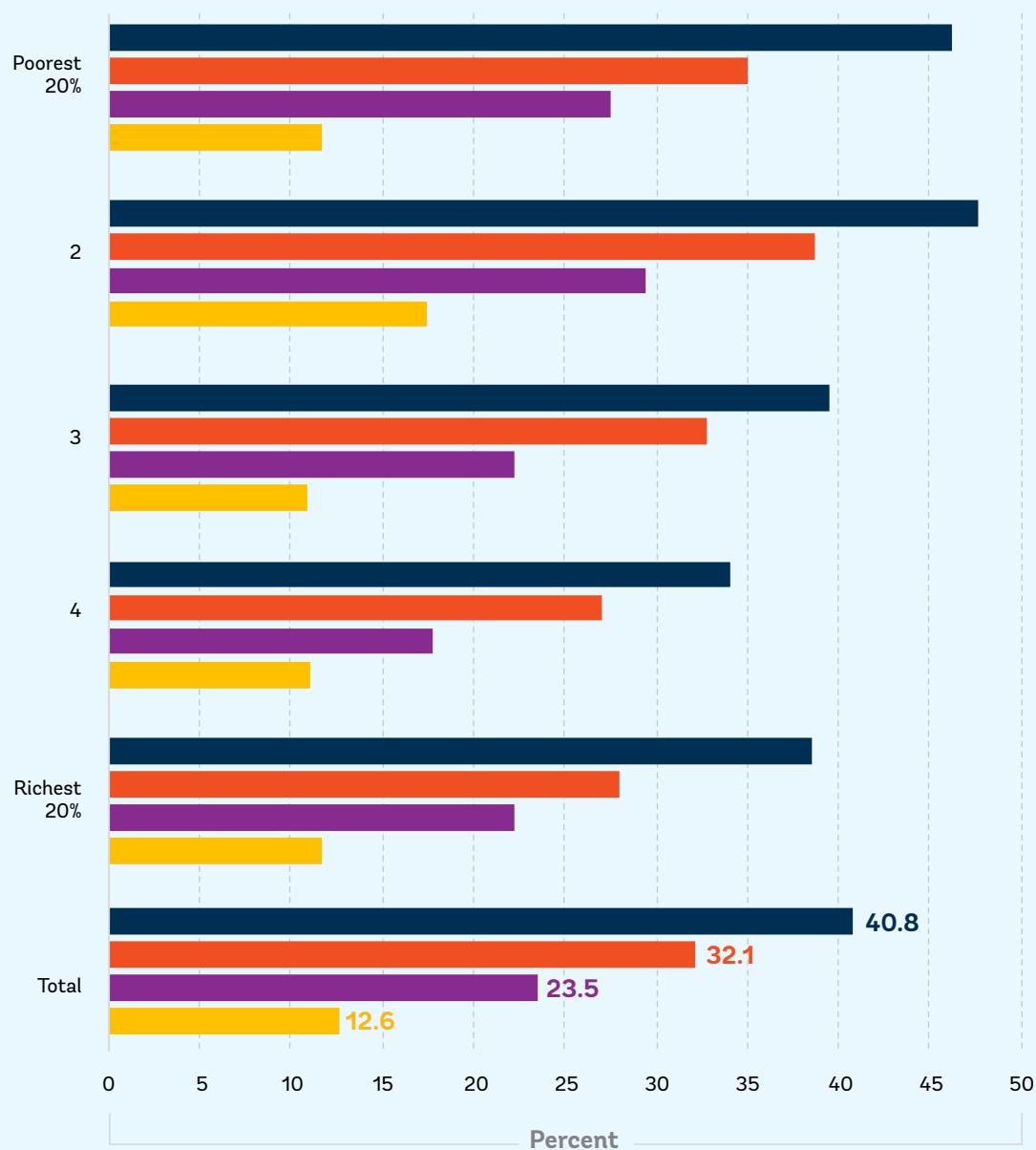
## The multi-dimensional vulnerability index

**The phone interviews also offer information about the impact of confinement on mental health.** In particular, 40.8% respondents said they have suffered from more insomnia than usual, 32.1% declared to be sadder due to the

confinement, 23.5% had problems of lack of concentration, while for 12.6% of respondents the confinement led to an increase of domestic violence. The impact of confinement resulted to be harsher on poor and vulnerable households (see Figure Y).

**Figure 60: Health impact of confinement (total and per consumption quintile)**

Legend: ■ Insomnie ■ Tristesse ■ Manque de concentration ■ Violence domestique





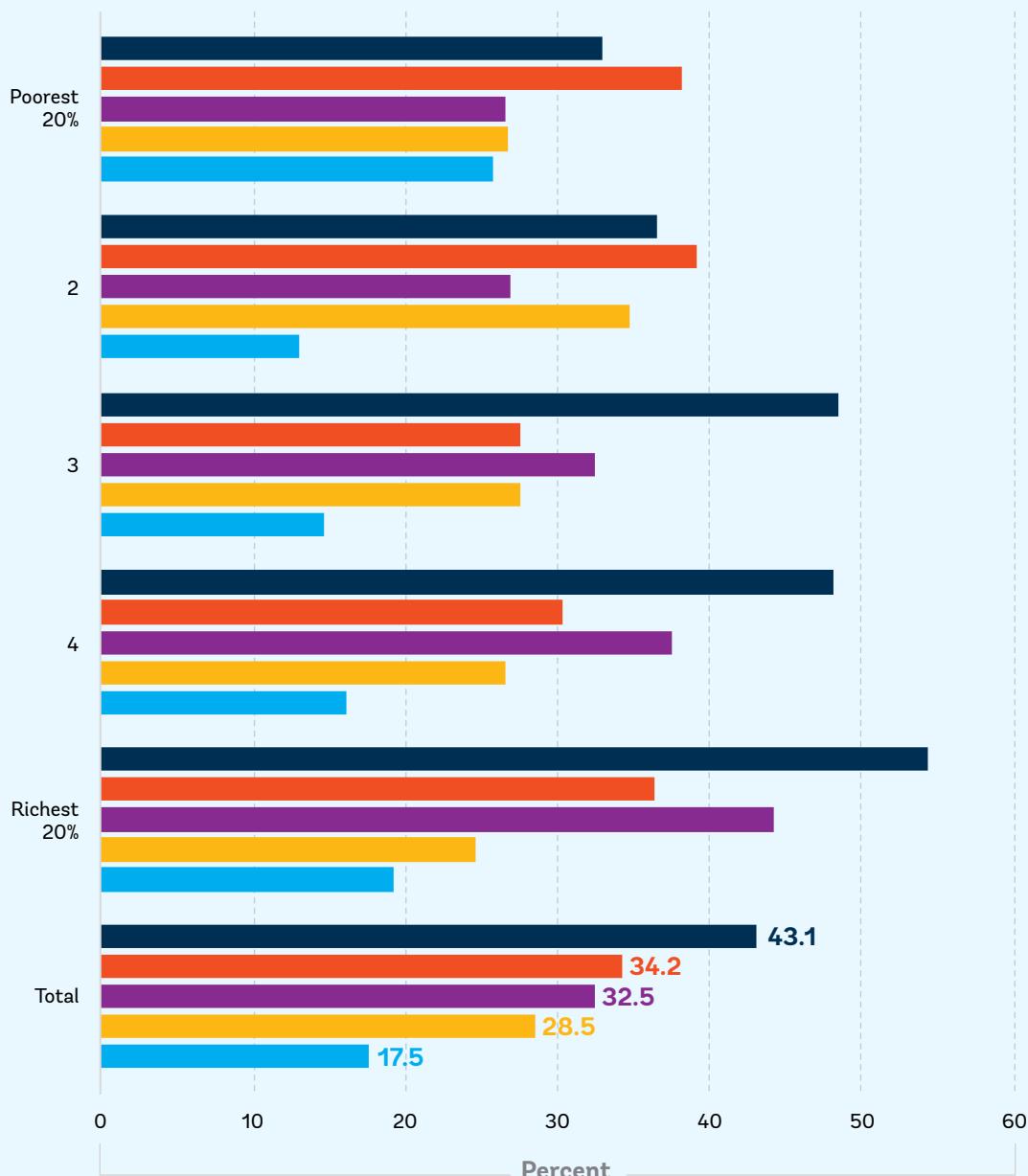
**On average 43.1% of households reported that confinement had an impact on their children's behavior in terms of more insomnia than usual (34.2%), more violence (32.5%), more lack of concentration (28.5%), more sadness (17.5%).**

The richest 20% mainly observed a higher than usual change in behavior and violence while the poorest 20% observed a higher impact on insomnia and then a higher change in behavior of children (see Figure 72).

**Figure 61:**

**Health impact of confinement on children (total and per consumption quintile)**

Legend: ■ Changement de comportement ■ Insomnie ■ Violence ■ Manque de concentration ■ Tristesse





The pandemic deepened Tunisia's fiscal turmoil, precipitating the demise of a policy-mix that relied on the social assistance: a renewed focus on private sector jobs is urgent.

**105. The pandemic compounded the fragilities of Tunisia's public finances, saddling the country with an even higher debt burden.** In response to the crisis caused by the pandemic, the Got adopted a range of policy measures, responding to the needs of the health sector, providing financial assistance to vulnerable households, and supporting businesses through tax and credit measures. The cost of these measures, combined with lower tax receipts, raised financing needs and placed debt on an upward trajectory. The fiscal deficit swelled to 9.5 and 7.5 percent of GDP in 2020 and 2021, respectively.<sup>80</sup> With this, public debt is expected to reach 85 percent of GDP by end 2021 and would likely exceed 100 percent of GDP if SOE debt is included. Sovereign credit rating downgrades followed, making access to external market financing more difficult and placing the credibility of the macroeconomic framework increasingly in question.

**106. This marked deterioration in public finances, along with the loss of jobs, have exposed the unsustainability of the post-revolution fiscal policy mix.** The crisis highlighted the fragility of Tunisia's post revolution policies and the need for new tools to ensure stability moving forward. It exposed Tunisia's limited political, economic and social resilience, but also the incapacity of current tools to address deepening vulnerabilities and dissatisfaction. Safety net programs and the over-sized public sector employment only partially mitigated the effects of the pandemic in terms of loss of livelihood, decrease in living standards, wages and opportunities on the poorest and more vulnerable. The deterioration of Tunisia's fiscal situation makes the continuation of these programs difficult and highlights the need to foster growth, job creation through the private sector, and inclusion through new and more sustainable pathways.

<sup>80</sup> 2021 figures are based on WB estimates.



## 2.5 State capability

### State capability to meet the current challenges is constrained.

Trends in state performance since 2011 suggest limited progress in strengthening state capability to deal with the growing socioeconomic challenges.

**107. Tunisia made substantial progress on the adoption of constitutional and legal provisions for better democratic governance since 2011.**

The 2014 Constitutional reform set the stage for an overhaul of the governance of public institutions in Tunisia. It introduced a greater degree of transparency and accountability in the workings of the Tunisian state, including through the design of checks and balances between the executive, legislative and judiciary branches, the establishment of independent regulatory bodies, and the promotion of decentralized forms of governance. Constitutional reform has been underpinned by a number of subsequent legislative advances, including the passing of the 2016 Organic Law on Access to Information, the 2017 Organic Law on Municipal and Regional Elections, and the 2018 “Code des collectivités locales,” and the ratification of the New Organic Budget Law (2019).

**108. However, an “implementation gap” has emerged between the adoption and implementation of institutional reforms.** This gap is between high expectations and de jure formal institutional roles on one hand, and far more limited de facto progress in developing actual functions and capabilities on the other. Many of the institutional and legal reforms passed since 2011 are in their infancy or have yet to be fully established or implemented. In many cases, changes in the legal form of the state have been accompanied by the development of the actual functions envisaged. This has been the case both at the level of newly created constitutional and statutory bodies, as well as in the wider post-revolution trends in state capability.

**109. A number of important constitutional bodies were either never established, or have been chronically under-resourced, understaffed, and politicized.** The Constitutional Court - the linchpin of the Tunisian democratic system - has not yet been established, in part due to political disagreements and interference. Major public governance reforms (decentralization, justice, public administration) are stalling, as discussed in more detail below, due to a mix of technical challenges, political opposition, and bureaucratic resistance. The constitutionally-mandated establishment of independent regulatory agencies, whose members are appointed by the Assembly, such as the anti-corruption agency (*Instance Nationale de Lutte Contre la Corruption - INLUCC*) and the independent body for elections (*Instance Supérieure Indépendante pour les Elections – ISIE*) has also shown to be a complex,



protracted and highly politicized process. These agencies encountered various challenges in the first years of their existence, including political contestation, which resulted in delays in their establishment, disagreements in the Assembly over key appointments (for example the president of the ISIE), as well as insufficient budgets or autonomy. These issues have meant that these bodies have struggled to perform their constitutional roles, which in turn has contributed to the decline in public trust in government.

**110. Other crucial statutory bodies have not been granted the legal or financial autonomy required to effectively perform their functions.**

For example, as the Tunisia Country Private Sector Diagnostic (CPSD) clearly sets out (IFC & World Bank, 2022), while the role of the Competition Council has been strengthened in recent years, it still does not have full powers and institutional independence to enforce the 2015 Competition Law. The law fragments responsibility for antitrust enforcement and grants the Council limited independence. Several major competition enforcement tasks continue to fall within the remit of the Ministry of Trade, and the Council relies on the Ministry for staff and budgetary resources. The Ministry also retains authority to make decisions in merger cases and in granting exemptions from the Competition Law (in addition to those exemptions already included in the law). In practice, the Council has only relatively rarely identified breaches of competition law and imposes weak fines being applied in those cases.<sup>81</sup> As a result, its actions have so far not resulted in significant sanctions.

**111. More generally, post-revolution trends in state capability present a mixed picture since 2011, with limited gains and some declines in state capability (Figure 62).**

This is consistent with experiences from other democratic transitions globally, where establishing a more open political setting and freedom of expression often happens quickly, but whereby building state capability is a much slower, decades-long undertaking, even among the very best performers. According to the World Governance Indicators (WGI), regulatory quality, which reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote competition and private sector development, has declined markedly, consistent with the hypothesis that the centralized authorization regime gave way to competitive clientelism. Government effectiveness, which reflects perceptions of the quality of public services, the quality and independence of the civil service, and the quality of policy formulation and commitment to implementation, had declined significantly in the years before the Revolution and has subsequently stagnated. Lastly, rule of law, which measures perceptions of the quality of contract enforcement, property rights, the police, and the courts, and the likelihood of crime,

<sup>81</sup> Legal breaches were identified in 3 out of 27 cases in 2017 (11%) and 4 out of 28 cases in 2018 (15%) and, in terms of fines, between 1991 and 2017, the Council imposed fines totaling only around 35 million dinars (13 million US\$).

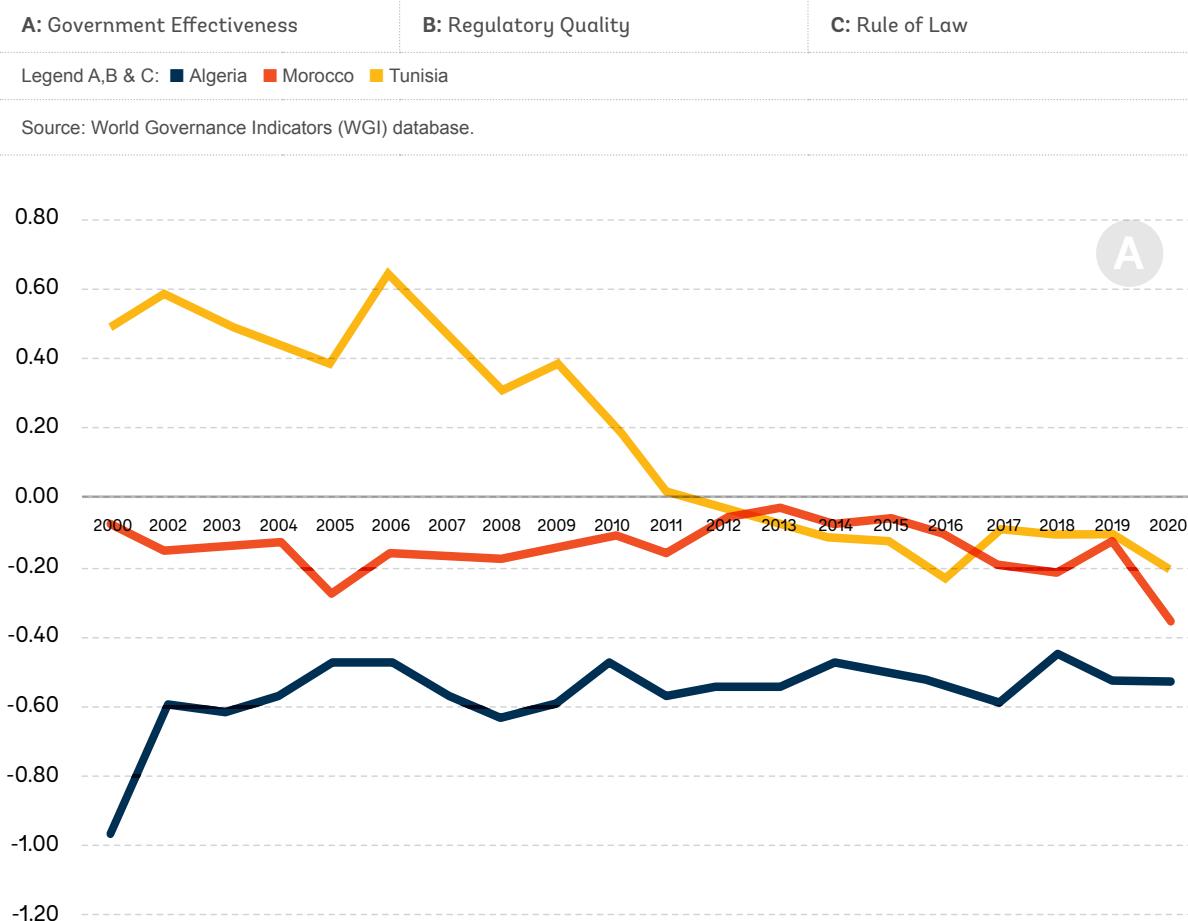


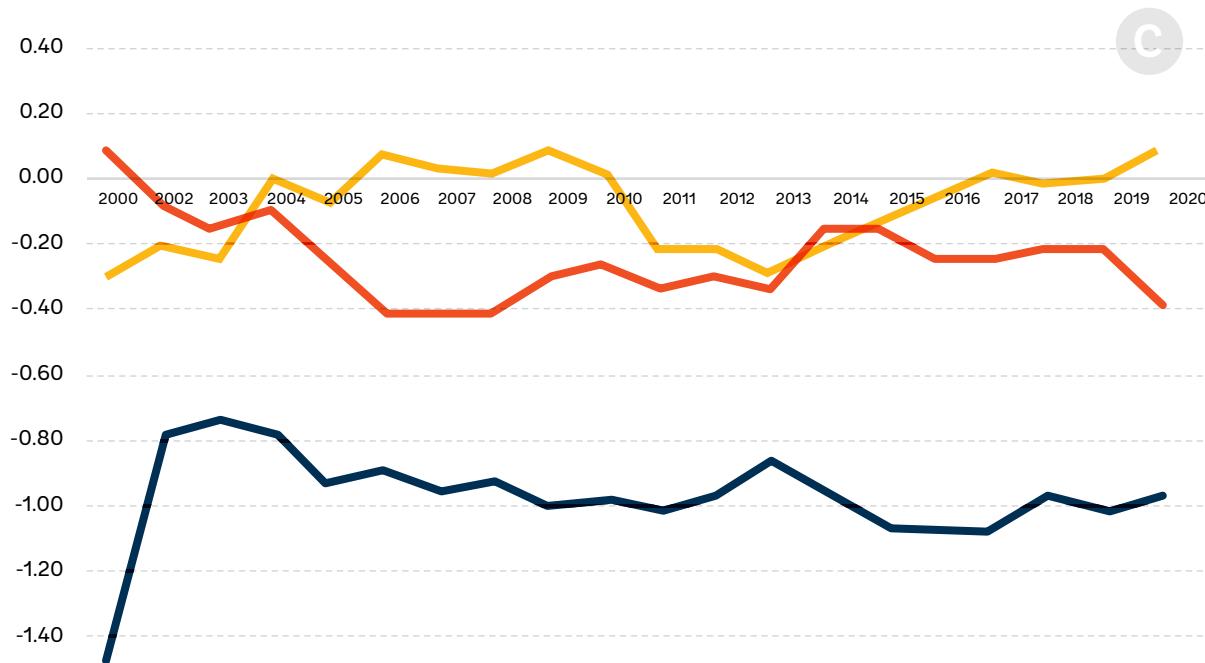
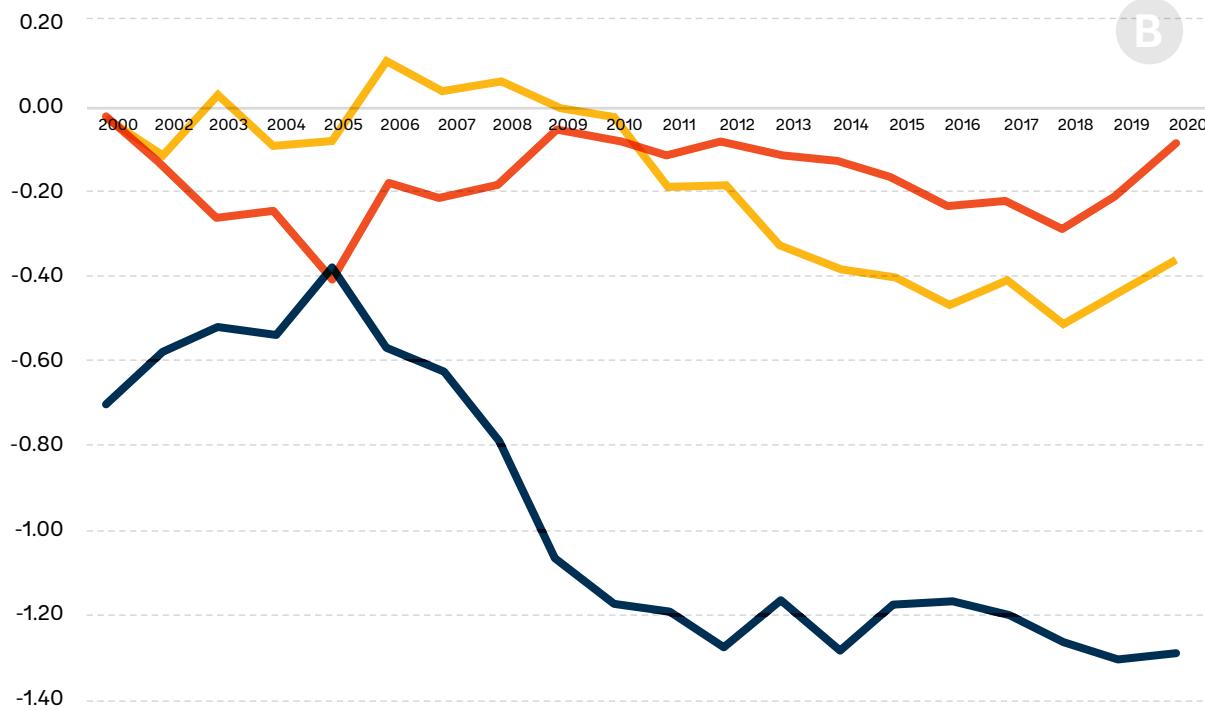
improved gradually after 2011 due to the end of discretionary authoritarian rule, the adoption of the new constitutional order, and greater judicial integrity and independence.

**112. Progress on the rule of law has also been mixed, reflecting the slow and uneven implementation of the 2014 constitutional reforms to the judiciary.** Reforms aimed at building institutional counterpowers (such as the Constitutional Court), reforming the judiciary, and strengthening regulatory authorities (such as the Competition Council). Overall, the judicial system of Tunisia is struggling with all three dimensions of service delivery: efficiency, quality, and accessibility. Pre-existing challenges have since been exacerbated through the impact of COVID-19. Both the ordinary and administrative court systems have large backlogs with long times to resolution of cases, but only the ordinary courts publish sufficient data to quantify this. More fundamentally, the newly created judicial institutions and structures have struggled to establish themselves as independent, impartial and effective. The overall health of the justice system remains critical. Many announced reforms have not materialized, and trust in judicial institutions has fallen (World Bank, 2021a).

**Figure 62:**

**World Governance Indicators present a mixed picture since 2011, with a decline in regulatory quality the most striking development**





**113. A rapidly growing civil service with limited performance orientation has also contributed to weak progress in improving state capability.** The civil service wage bill more than doubled since 2011 and accounted for around 50 percent of public expenditures by 2020 as social pressures and demands for



jobs caused public employment to serve as an employer of last resort.<sup>82</sup> This rapid expansion may have been to the detriment of meritocratic recruitment, with obvious effects on the performance of civil servants. This resonates with the findings of a 2014 World Bank study on performance management in the Tunisian public sector, which showed that “Tunisia’s legal framework for performance management is, in theory, well-designed for recruiting qualified public employees and promoting the most high-performing ones. However, in practice, the link between an employee’s performance and her evaluation, compensation and promotion is weak. This is particularly true during the post-Revolution period, in which a number of ad-hoc arrangements multiplied divergences between the legal basis for performance management and its application... These ad-hoc changes allowed the State to act as employer of last resort, significantly increasing direct (non-competitive) recruitment and regularizing temporary staff.”<sup>83</sup> The legal, regulatory and overall incentive framework for the recruitment and management of civil servants is therefore in need of comprehensive reforms if Tunisia is to realize substantive improvements in state capability.

- 114. Moreover SOEs, which play a significant role in the Tunisian economy and in delivering services to citizens, have experienced a considerable deterioration in capability.** SOEs have experienced a long period of declining financial and service-delivery performance, undermining the competitiveness of the country.<sup>84</sup> A major source of fiscal risk is the contingent liabilities of SOEs as many of the largest Tunisian SOEs are loss-making, as illustrated by the case of the electricity and gas company STEG (Box 8). According to a report annexed to the 2020 Budget Law, the total losses of a sample of 34 SOEs (accounting for 88 percent of SOE revenues and 75 percent of employment) reached TND 3.5 billion in 2018 (3.3 percent of GDP). SOE governance is characterized by: centralized, top-down decision-making and management processes; the inadequacy and opacity of systems of controls and audit; and the opacity of resource management practices. The rules governing public administration of SOEs are antiquated: the key legislative document for the governance of SOEs (*loi 89.9*) was adopted in 1989 and contains few provisions on governance.<sup>85</sup>

82 See for example IMF. 2021. Staff Report for The 2021 Article IV Consultation, Annex III. Trends in Civil Service Wage Bill.

83 Anne Brockmeyer, Maha Khatrouch and Gael Raballand. 2017. Public sector size and performance management: A case study of post-revolution Tunisia.

84 SOEs in Tunisia operate in 13 different sectors, the largest being transportation, industry, energy, financial services, and non-financial services. Of the 101 SOEs (financial and non-financial, and parastatals), the largest number are found in transportation (23), industry (17), financial services (11), and infrastructure (10). SOEs accounted for close to 10 percent of GDP, 15.7 percent of fixed capital at the national level, 4 percent of total employment (2014).

85 As highlighted in World Bank (2019) Tunisia Infrastructure Diagnostic, the law is silent on: the definition of an SOE; the objectives or rationale for state ownership; the government’s expectations of SOEs; the framework for public sector obligations and market discipline more broadly; the process for nominating and appointing SOE boards and management; relations between the owner/shareholder, the board, and the management; and performance monitoring. See also République Tunisienne. Présidence du Gouvernement (2018) Livre Blanc: Rapport de synthèse sur la réforme des entreprises publiques en Tunisie.



The government priorities are to strengthen the governance of SOEs in order to improve transparency, strengthen their internal governance (including competitive nomination and professionalization of their Board members) and the strategic management of SOE portfolios (ownership functions, and monitoring of performance and compliance).

**Box 8:****STEG: financial difficulties and prospects for modernization**

**The Société Tunisienne pour l'Électricité et le Gaz (STEG) is the national utility with a monopoly on the distribution of electricity and natural gas.** It enjoys a dominant position by law throughout the value chains of these two products. Since 2011, its commercial and financial performance has deteriorated significantly. It faces large unpaid bills predominantly from the public sector, as well as significant theft of electricity. While STEG relied historically on government subsidies to cover the gap between the cost of service (including rising investments), in recent years those subsidies have been insufficient to fully cover the gap. In addition the transfers from the Government

have become more uncertain given the increasing challenges of the government in covering its financing gap. As a result, STEG is facing severe financial difficulties in paying both its lenders and suppliers on time. Going forward, STEG will need a comprehensive financial restructuring and modernization plan, including debt rescheduling, better governance and government supervision, improved commercial performance, tariff adjustments and better IT systems. This is crucial as STEG provides essential energy products to the economy and further deterioration of its financial situation would have a negative impact on the reliability and quality of supply of electricity and gas.

- 115. Decentralization is a critical reform area constrained by a legacy of centralized power and decision-making.** In the post-independence Tunisian State, regions were largely considered passive recipients of public policies and programs, designed and implemented in top-down fashion.<sup>86</sup> This approach neglected regional specificities and contributed to enlarging regional disparities. In practice, local authorities had few competencies, low autonomy, and limited financial resources. It is noteworthy that this system was not unique to the public administration, it was also duplicated by social partners (UTICA and UGTT), whose regional bureaus were mere relays of the center, with little autonomy. The design and implementation of decentralization reforms inspired by the 2014 Revolution have been distorted by this institutional legacy. So far, the reform has been led in a technocratic and centralized manner, without the effective participation of

<sup>86</sup> As put by Amor Belhedi, « la centralisation excessive et la construction nationale dans un espace plutôt tribal fragmenté ont conduit à la dé-régionalisation. La centralité de l'État, la négation de la région, la détribalisation donnant lieu à un système pyramidal où tout est lié à Tunis, centre du pouvoir avec un dé-ancrage territorial régional. Le système politique a nié totalement la région, il a tout fait pour la gommer ». Belhedi, Amor. *Disparités spatiales et développement régional en Tunisie*. Publication présentée à la conférence sous le même thème. Décembre 2017



local actors. The local governance objectives of the constitutional reform were ambiguous, and the constitution failed to assign a clear mandate to local authorities or to specify clear parameters for fiscal autonomy. Combined with the resistance to decentralization from central authorities, this ambiguity puts the deepening of decentralization reforms and strengthening of local governance at risk.

**116. The stability inherent in the public administration also has a positive side: it can provide continuity across rapid changes of government.**

While the literature on reform challenges tends to emphasize either the “what” of specific technical reforms and also resistance related to political economy issues, there are also major challenges arising from high political turnover, the high costs of intra-governmental policy coordination, widespread risk aversion of civil servants, and the sheer bureaucratic and procedural complexity of changing anything. While Presidents, Prime Ministers and Ministers have rotated frequently post-Revolution, there has been much more stability and continuity among senior civil servants, notably Directors General and Directors. Despite the many challenges set out above, the public sector contains many pockets of excellence at the individual and institutional level. Without experienced civil servants with deep familiarity with the legal and procedural framework it would be impossible to get anything done especially given the huge complexity of that framework, including *inter alia* for HR, public finance management, project management, and procurement. The challenge is how to reform the underlying incentive framework to empower and retain the most capable officials, and recruit and promote new talent.

**Freedom of expression and new media have shone a light on corruption.**

**117. While corruption was one of the main triggers of the Revolution and is at the core of political debates in Tunisia, progress in the fight against corruption remains uneven and difficult to assess.** A number of anti-corruption initiatives were taken in the aftermath of the Revolution, ranging from the establishment of an anti-corruption agency (INLUCC) to the “war on corruption” under the Chahed government, which led to the arrest of large businessmen connected to Ben Ali. The legislative framework for fighting corruption has also improved with the adoption of legislations on illegal enrichment and assets declarations (2018), whistleblower protection (2017) and access to information (2016). Yet, the impact of these legislative, institutional and policy changes have been limited, in part because of gaps and delays in implementation<sup>87</sup> and the weak performance of the judiciary

<sup>87</sup> In the case of the INLUCC, this can be partly traced back to lack of political support and insufficient human and financial resources.



overall, which has undermined more effective sanctioning of corrupt public officials and businessmen by the courts.<sup>88</sup> This limited impact is illustrated by the mixed evidence on corruption trends in the past decade<sup>89</sup>. While Transparency International's Corruption Perceptions Index (CPI) reflects perceived corruption among experts remaining relatively stable throughout 2009 – 2020 (Figure 65), other survey data point to an increase in corruption perceptions among the general population and businesses.

**118. The perception that corruption is rampant and that it constitutes a major constraint to the country's development is widespread among the general population.** It is a general trend in post-authoritarian countries that citizens expect political change to lead to a decline in corruption, yet also that greater openness brings more news of corrupt practices to the public. The Gallup World Poll suggests a major step-change in corruption perceptions took place from 2009-2011, with an increase from 57 to 92 percent of the population agreeing that there is corruption in the government, with stabilization thereafter. Recent surveys have also suggested that citizens think corruption is a very important priority for Tunisia's development. As illustrated in Figure 63, "reducing corruption" was cited as the most important answer when asked "What do you think is the best way to increase jobs in Tunisia?" and corruption was also identified as the fourth most important problem facing the country today overall (after COVID-19, unemployment, and the cost of living).

<sup>88</sup> See World Bank. Tunisia Justice Assessment. 2020.

<sup>89</sup> This is also partly due to the fact that corruption comprises many dimensions—including grand versus petty corruption, public versus private, and in Tunisia, pre- and post-revolutionary issues—and is very difficult to measure, with quantitative indicators dominated by perceptions-based approaches.



**Figure 63:**

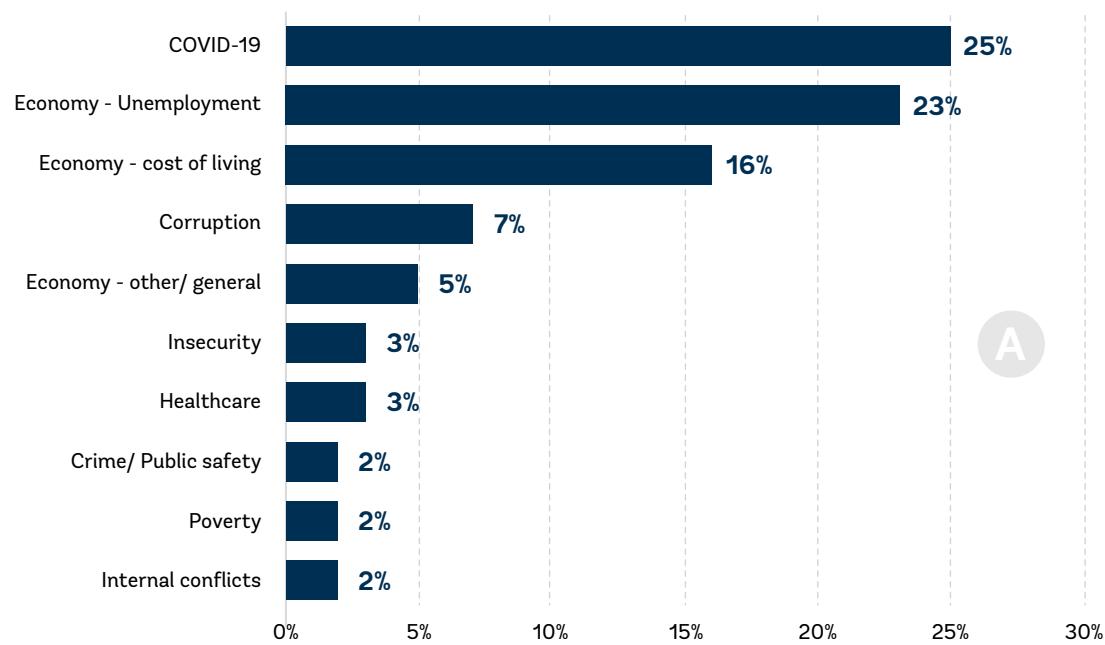
**Corruption was recently cited as the most important issue for the creation of jobs and the fourth most important issue facing the country today**

A: What is the most important problem facing our country today? (spontaneous response)

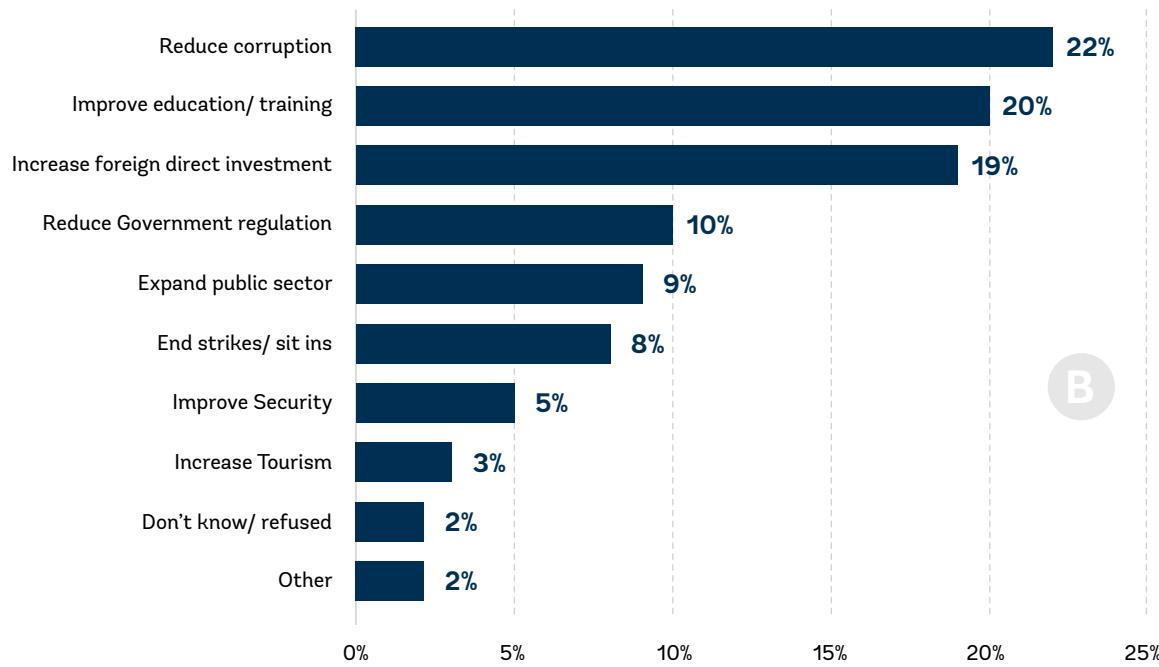
B: What do you think is the best way to increase jobs in Tunisia?

Note: Survey conducted in September – October 2020.

Source: Center for Insights in Survey Research (2020) Public Opinion Survey: Residents of Tunisia, International Republican Institute.



A



B

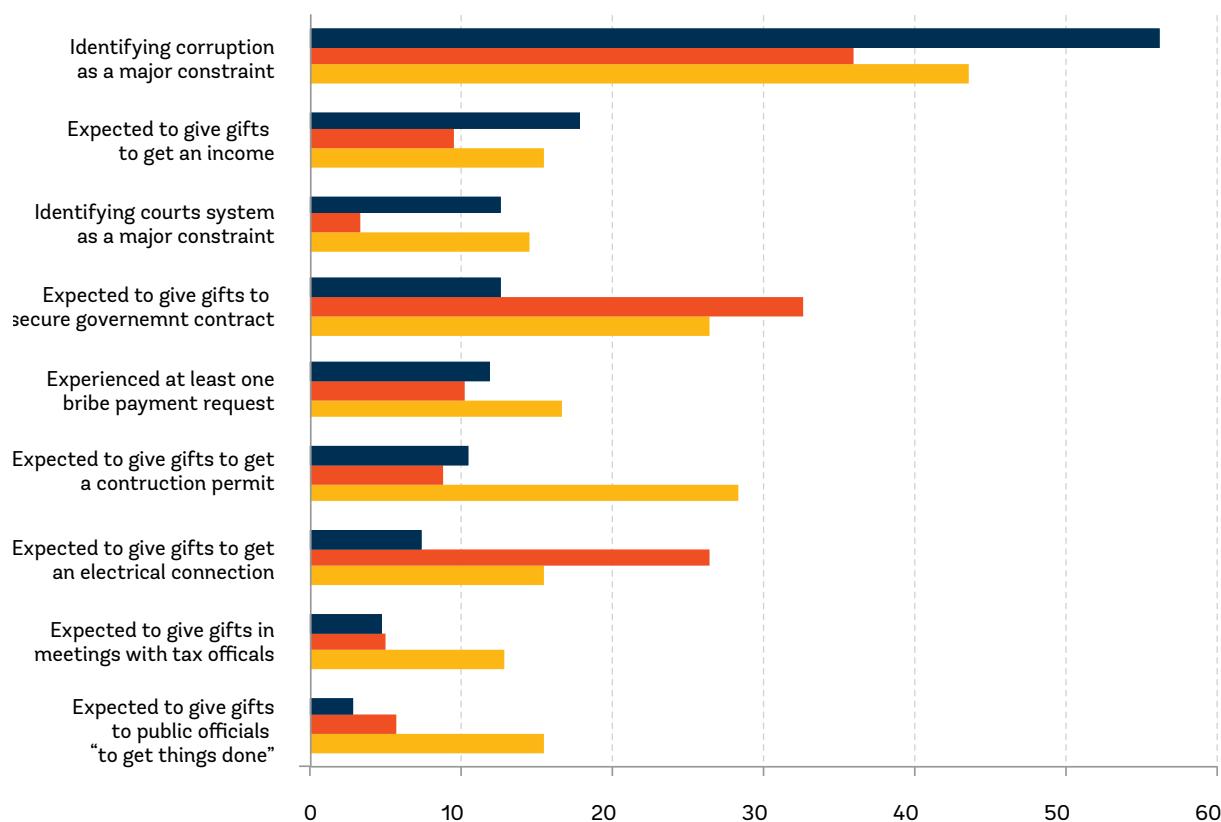
**119. Corruption and weak rule of law are also major constraints for businesses.**

Data from the World Bank Enterprise Survey shows that the share of firms identifying corruption as a major constraint has increased from 36 to 56 percent between 2013 and 2020, exceeding the MENA average (43 percent).<sup>90</sup> This is compounded by an increase in the share of firms identifying the courts system as a major constraint (from 3.2 percent to 12.6 percent), which further undermines the rule of law. In addition, the percentage of firms reporting that they experienced at least one bribe payment request has slightly increased (from 10.3 to 11.9 percent between 2013 and 2020). Evidence also indicates, however, variations in the incidence of corrupt practices across public administrations: while the percentage of firms reporting that gifts are expected to get an import license or a construction permit increased between 2013 and 2020, the percentage of firms reporting that gifts are expected to secure government contracts or get an electrical connection has decreased.

**Figure 64:****Corruption and the rule of law in the business sector (% of firms)**

Legend: ■ Tunisia 2020 ■ Tunisia 2013 ■ MENA 2020

Source: World Bank Enterprise Surveys.





### Figure 65: Public Perceptions of Corruption

**A:** Proportion who agree that there is corruption in the government

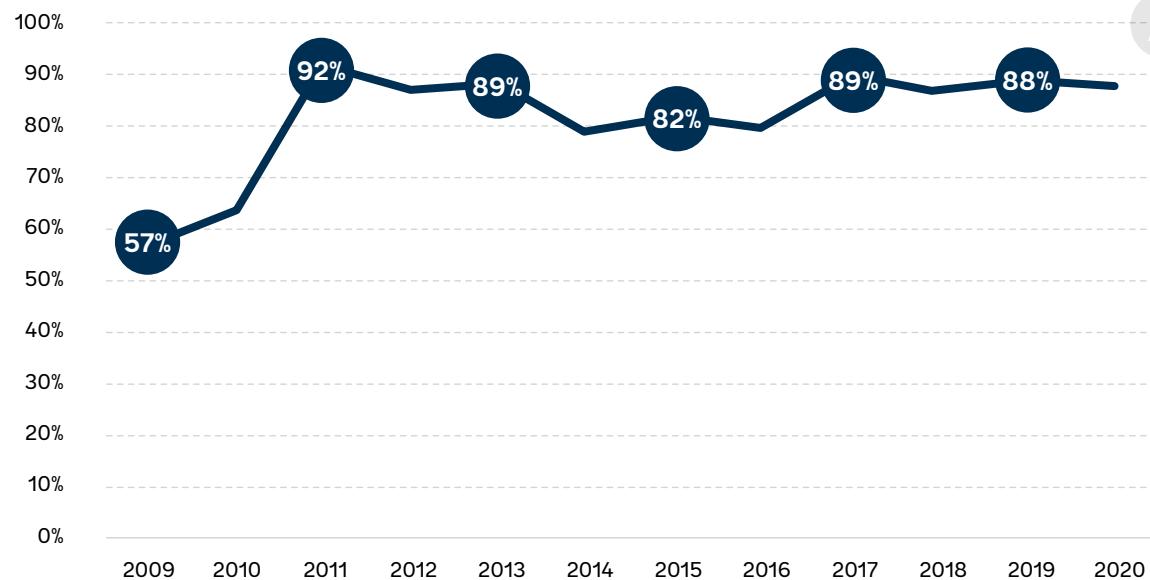
Note A: Higher score represents higher perceived corruption.  
Source: Gallup World Poll.

Source: Gallup World Poll

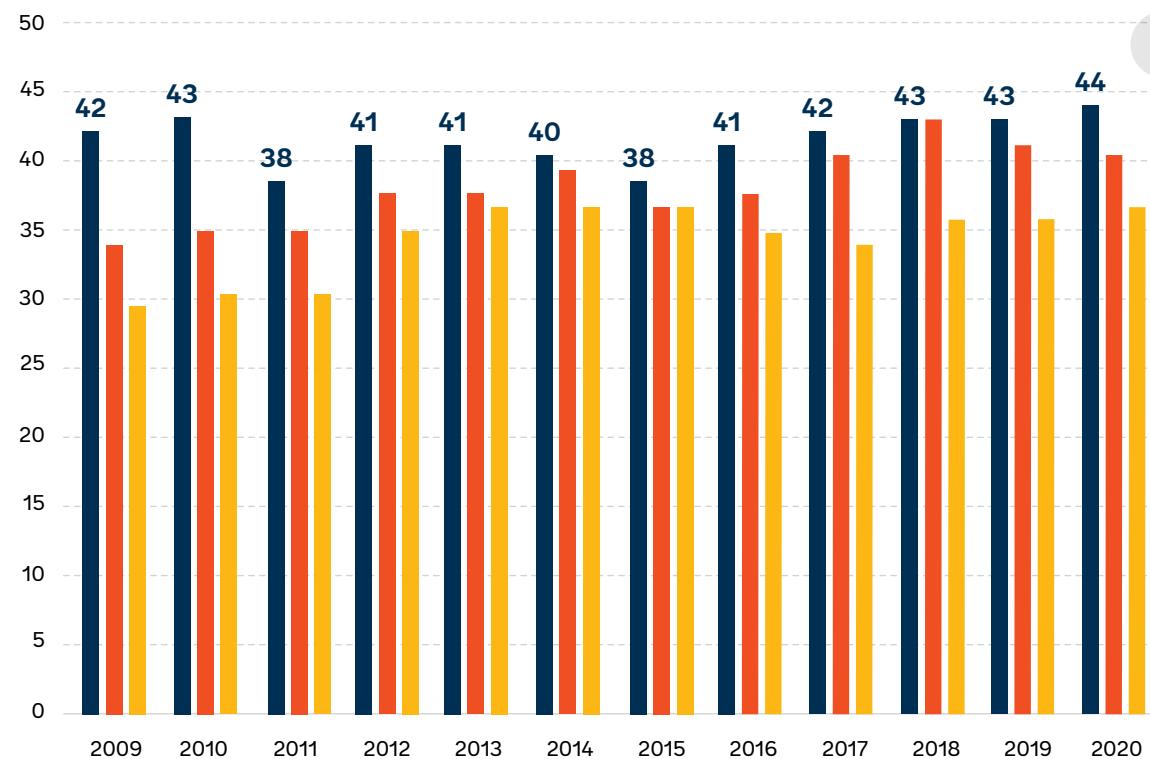
**B:** Corruption Perceptions Index (CPI)

Note B: Higher score represents lower perceived corruption.  
Source: Transparency International Corruption Perceptions Index (CPI).

Source: Transparency International Corruption Perceptions Index (CPI).



Legend: ■ Tunisia ■ Morocco ■ Algeria





**120. Several dynamics could be driving corruption patterns.** First, the democratic transition is likely to have decreased central control over corruption opportunities and the fear of repression, leading to what has become known as the “*democratization of corruption*” as it has spread beyond a narrow group to large portions of the public sector, media, political parties, the police and judiciary.<sup>91</sup> while the success of the transition itself has in part resulted from some legacy vested interests being allowed to remain in place.<sup>92</sup> Second, the regulatory environment has deteriorated markedly and is inadequate to curb corruption: in particular, the regulation of civil service integrity remains poor, including in regard to conflicts of interests, disclosure of assets, etc. Third, the continued prevalence of heavy bureaucratic procedures, especially those around private sector activity, and the low efficiency of the public administration provide incentives for citizens to attempt to facilitate or accelerate processes by providing payment or favors to public agents. Finally, gains in freedom of expression and the rise of social media have shone more light on corruption: they translate in more open reporting and discussions of corruption (and thus, for example, in less under-reporting in corruption perception surveys).

91 Yerkes, S. (2017). “*Corruption, Not Terrorism, Is Tunisia’s Biggest Threat.*” Lee-Jones, K. (2018) “Country profile: Tunisia. Overview of corruption and anti-corruption.” Christian Michelsen Institute.

92 See for example World Bank (2014) The Unfinished Revolution: Bringing Opportunity, Good Jobs, and Greater Wealth To All Tunisians.

# Part Three: A Transition at Risk





## 3.1 Dissatisfaction and trust

Ten years after the revolution, mixed outcomes have contributed to a growing sense of public frustration.

**121. Aspirations grew and were measurably high at the time of the revolution, and although optimism remains, a sense of frustration subsequently started to set in.** During the post-revolution high in January 2012, 62 percent of the population felt that the country was heading in the right direction (versus 30 percent “wrong”) signaling optimism that renewed aspirations would be met, before declining to just 9 percent a decade later (87 percent “wrong”). In addition, all income groups were more hopeful in 2011 that their well-being would increase over the next five years, and still remain hopeful a decade later (Figure 66). However, only the poorest 20 percent of households have become *more* hopeful for the future since 2011–12, with households in higher income groups feeling, on average, less well-off now than immediately after the revolution. While a majority of Tunisians polled in late 2020 (59 percent) do not regret the Arab spring protests, and those aged between 18 and 24 were significantly less likely to say the revolution was regrettable, there is a 50:50 divide between those believing their lives are better or worse than before, and 63 percent believe children have a worse future than before the protests.<sup>93</sup>

**Figure 66:**

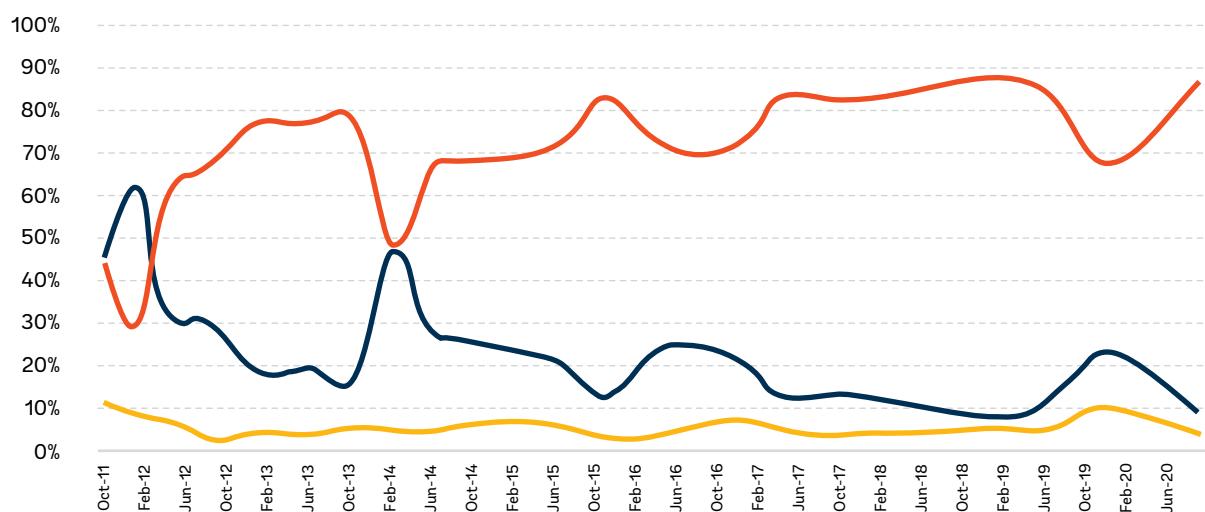
**Citizens' assessment of the country's progress**

The proportion of respondents saying the country is heading in the right direction has fallen since the revolution.<sup>a</sup>

a Responses to the survey question “In general, would you say that our country is heading in the right direction or in the wrong direction?”.

Legend: ■ Right direction ■ Wrong direction ■ Don't know/refused

Source: Center for Insights in Survey Research (2020) Public Opinion Survey: Residents of Tunisia, International Republican Institute.



93. Guardian-YouGov poll, December 2020.



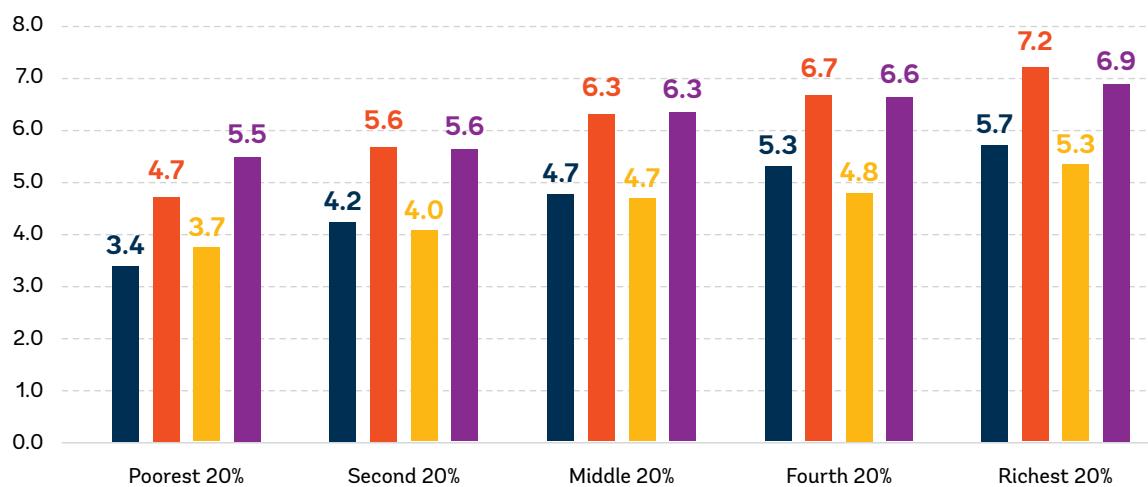
**Figure 67: Citizens' optimism for the future**

Subjective well-being assessments show most income groups feel poorer now than immediately following the revolution, with the exception of the poorest households.<sup>b</sup>

b Respondents were asked, for subjective well-being, to imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. For current well-being, respondents were asked "On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?" For an assessment of future well-being, respondents were asked "Just your best guess, on which step do you think you will stand on in the future, say about five years from now?"

Legend: ■ Nov (2011-12) ■ In 5 years (2011-12) ■ Nov (2019-20) ■ In 5 years (2019-20)

Source: Gallup World Poll data.



### 3.1.1 Growth of dissatisfaction

With mixed outcomes and limited progress in job creation, levels of dissatisfaction grew, and trust declined as a perceived sense of unmet expectations set in.

**122. Citizen perceptions of fairness of opportunity and social wellbeing have been declining since 2012.**<sup>94</sup> Figure 68 shows the evolution of citizens' perceptions along two broad dimensions: fairness of opportunity and social wellbeing. It indicates that Tunisians rank their position along these dimensions as low, and that they are increasingly dissatisfied by the rate of progress. The analysis of the sub-components for these measures suggests that perceptions of equal access to jobs and public services, and adequacy of policies to address poverty have been consistently worsening. Similarly, perceptions of the access to public services such as health and education has dropped over the past decade.

<sup>94</sup> Subjective measures of outcomes are prioritized as part of the social contract analysis because they also contain a lot of information on citizens' satisfaction and expectations. Perceived satisfaction from a given "objective level" of an outcome depends highly on peoples' initial expectations. Low expectations can lead to high satisfaction even when "objective" levels of the outcome are relatively low.

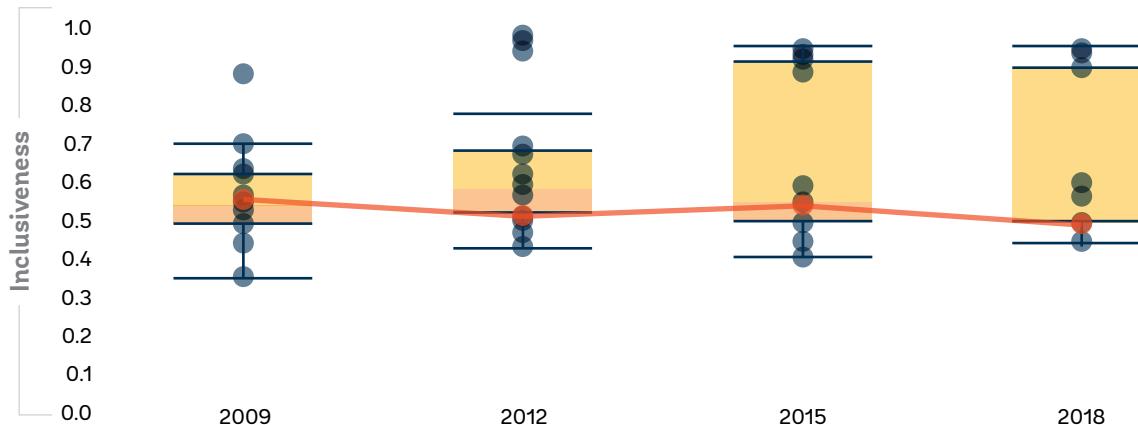
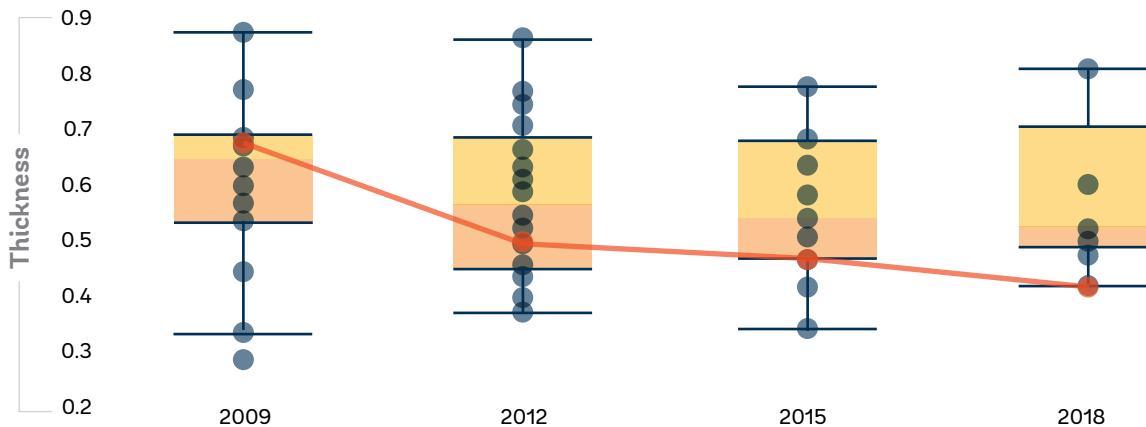


**123. Yet, outcomes under these dimensions have moderately improved and rank relatively high when observed using objective measures, indicating a gap between perceptions and realities.** Making a distinction between “objective measures” (calculated using expert-based sources) and “subjective measures” (based on perception-based household level surveys) reveals a mismatch between perceived and objective outcomes. The two graphs in Figure 68 show that the levels for both fairness of opportunity and social wellbeing on the expert-based measures are very high in comparison to other countries in the region, but that the perceived levels for these two indicators are quite low and have both declined over the period 2009-2018. While there is significant room to improve outcomes in terms of jobs, opportunities, and wellbeing in Tunisia as discussed in subsequent sections of this report, this mismatch strongly suggests that the presence of unmet expectations, which the time series analysis of the data indicates, has existed since the revolution.

**Figure 68:****A gap between subjective perceptions and objective outcomes**

Tunisians are increasingly dissatisfied of the perceived levels of fairness of opportunity and social wellbeing...

Legend: ■ Others ■ Tunisia

**Fairness of opportunity****Social wellbeing**



... and rank progress against these dimensions low even though they rank very high on objective expert-based measures.

**Figure 68: continued**

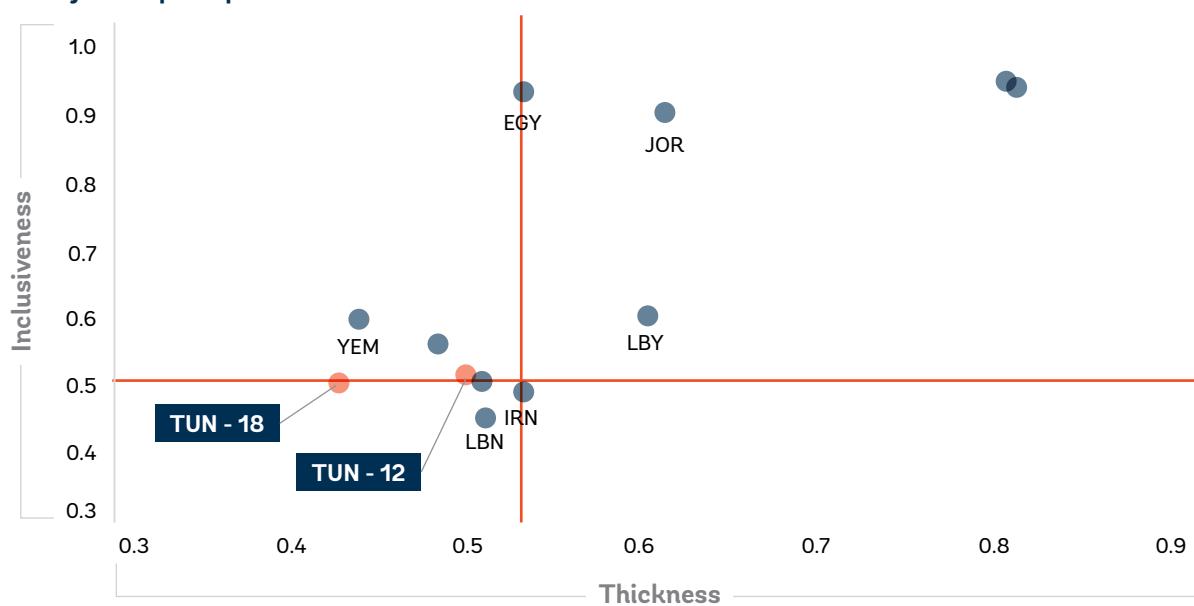
### A gap between subjective perceptions and objective outcomes

Note: The index for Inclusiveness measures aspects linked to fair treatment, opportunity, and equity in the distribution of resources within the country. It is composed of measures for levels of corruption and inequality. The index for Thickness measures the role of the state in providing public services and a social safety net for the poorest citizens. The graph on the right maps the two indexes of Inclusiveness and Thickness calculated using expert-based variables so measuring more “objective” levels of the outcomes. The graph on the left maps the same two indexes but calculated using perceptions-based measures such as household surveys (Afrobarometer and Gallup World Poll for example) so measuring more “subjective” levels of the outcomes. Both graphs use data from 2018 and add the levels from 2012 for Tunisia.

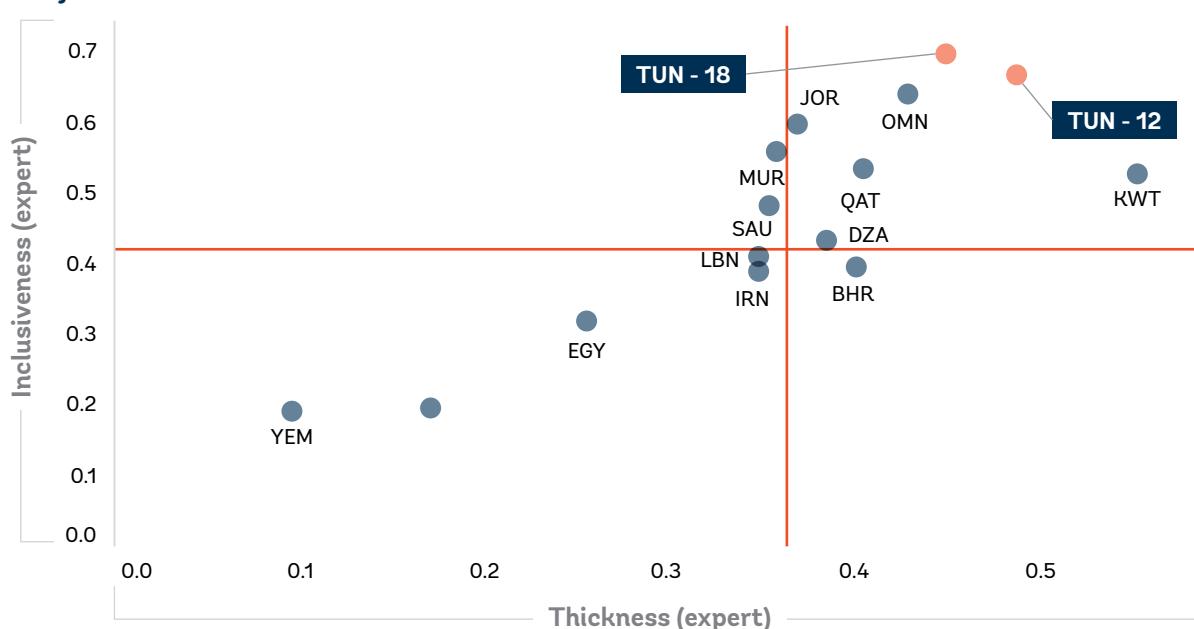
Legend: ■ Tunisia ■ Others

Source: World Bank staff calculation and Cloutier, M. 2020. Social Contracts in Sub-Saharan Africa – Concepts and Measurement, Working Paper; World Bank, forthcoming Understanding Social Contracts in Africa

#### Subjective perceptions



#### Objective outcomes





Dissatisfaction is deepest among educated urban youth in Tunis and central regions.

**124. Among Tunisians, the younger, more urban, and more educated citizens tend to be more dissatisfied than other groups.** Annex C presents the tables summarizing the perceptions measures for citizens of Tunisia stratified among the dimensions of gender, education, income, urban or rural living areas, age, and regions. The tables present the answers to multiple questions on variables linked to the social contract such as public services, satisfaction on different policies, fairness of opportunities, trust, and political support. These tables are based on the Gallup World Poll data for the years 2018-2020 in order to obtain a representative sample of 3000 individuals. It shows that in general, men are more dissatisfied than women, and especially dissatisfied about the lack of opportunity and have low trust in the courts. Citizens with some university or who have completed a bachelor are more dissatisfied than people with lower education and are mostly dissatisfied with inclusiveness-related variables. The tables also show that richer people are more satisfied about access to public services and welfare-related variables but are more dissatisfied about fairness of opportunity and equality-related variables than poorer strata of citizens. Citizens living in urban areas are relatively more dissatisfied over all measured variables than people in rural areas. Younger people are also more dissatisfied than older people. Overall, the most dissatisfied strata of populations are the young, the urban, and citizens with more education.

### 3.1.2 Declining trust

Dissatisfaction has translated to a loss of trust, growing protest and less stable foundations for Tunisia's transition.

**125. Increased dissatisfaction and poor perceptions have coincided with a deep decline in the levels of trust.** Levels of citizens' trust in Tunisia have been declining across various dimensions (Figure 69). The steepest decline observed is in the components of the political system, meaning citizens' trust in the national government and in electoral institutions. Importantly, levels of trust in the judiciary and respect for their decisions have also declined markedly.<sup>95</sup> Poorer and less educated groups of the population indicate lower interpersonal trust but higher trust in the systems, while younger, more educated, and more urban individuals have higher interpersonal trust but lower trust toward the state. Dissatisfaction and trust are closely linked. A regression analysis (presented with more detail in Annex D) shows this association between citizens' perceptions of outcomes and their levels

<sup>95</sup> World Bank (2022) Tunisia Justice Assessment, unpublished



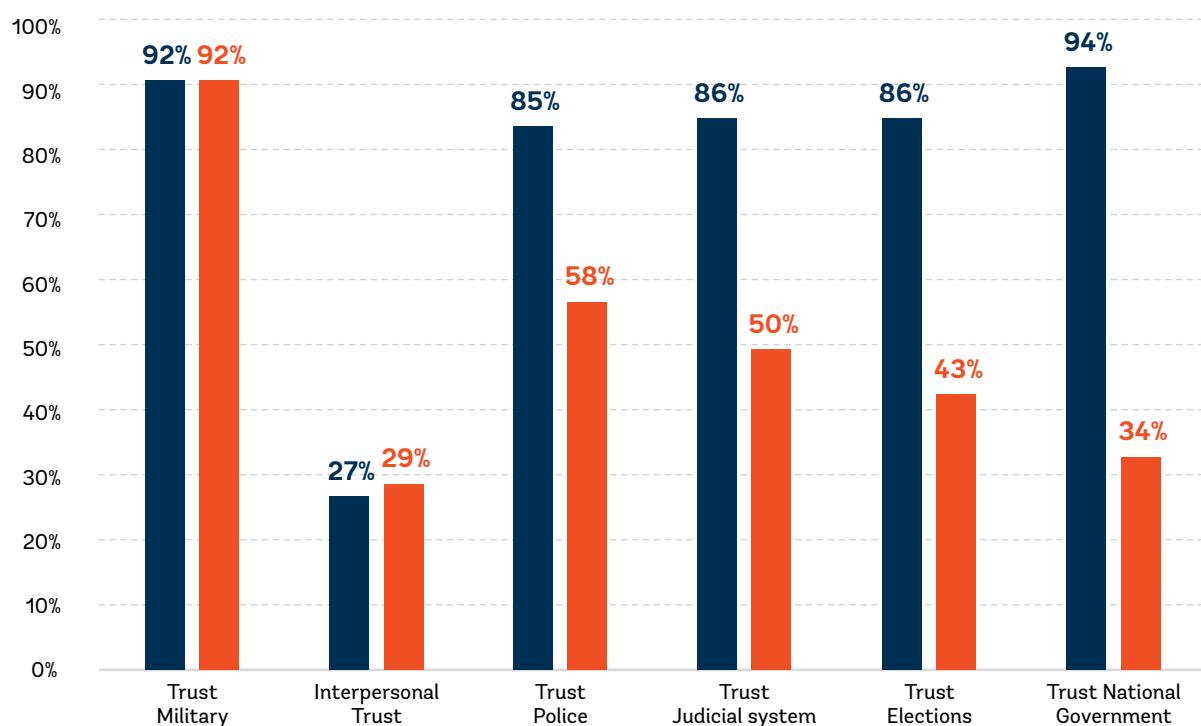
of trust. The analysis shows that citizens who are less satisfied with outcomes also tend to express lower trust toward the state. This remains true even after controlling for their regional and socio-demographic characteristics.

**Figure 69:**

**Levels of trust in Government and Elections have collapsed since the Revolution**

Legend: ■ 2010 ■ 2020

Source: Gallup World Poll data



**126. Trust is critical for the success of Tunisia's transition to the extent that it reinforces the ability of citizens and leaders to cooperate and pursue the aspirations of the revolution.** Political trust matters for citizens to engage formally and positively with the State while interpersonal trust influences collective action and policies demanded by citizens. Trust breeds legitimacy: it bolsters “the ability of leaders to win compliance with new laws or public orders because people share a widespread belief that everyone is complying” (Khemani 2020). Trust needs to be understood as part of the triad of trust, distrust, and mistrust, the three of which have different role in the stability and legitimacy of the political system: “Political trust thus functions as the glue that keeps the system together and as the oil that lubricates the policy machine. Mistrust, or rather political skepticism, plays an equally



important role in representative democracy. Critical citizens are more likely to engage in political activities and to keep office-holders accountable. When mistrust turns into widespread distrust and cynicism, then the quality of democratic representation itself may change.” (Zmerli and Van der Meer 2017). Today, the low levels of trust in Tunisia can be viewed as a substantial source of risk to the success of ongoing political, economic, and social transition, and point to the urgency of rebuilding confidence among citizens and leaders.

**127. Growing feelings of exclusion and mistrust have been reflected in increasing levels of popular protest.** contestation of natural resources, including oil and phosphates. Water is also a growing concern, which is likely to be exacerbated by climate change. The freedom of expression and peaceful protest Tunisians won through the revolution—itself having been the result of a sustained, broad-based, and successful nationwide protest movement—has given a visible outlet for public frustration. Protests in January 2021, coming ten years after the revolution, were particularly volatile, drawing on growing economic and political grievances, including the impact of the COVID-19 pandemic, and resulted in an unusually large number of arrests. Ultimately ‘the power of the street’ is an unpredictable and challenging dynamic for Tunisia’s development: the same force that drove the revolution and that could act as a check on elite power also conditions the space for necessary, and potentially difficult, reforms.

**128. The near-inevitable disappointment following revolutionary expectations has particularly pronounced in Tunisia’s South.<sup>96</sup>** The southern region of Tunisia covers over 57% of the national territory but is home to just 14.5% of the population. This ratio defines the challenges of governing a sparsely populated region far from the more heavily-populated administrative and commercial centers in the northern coastal region. The post-2011 project of decentralization—enshrined as devolution to “local authority” in the 2014 Constitution—has run up against central resistance to genuine power-sharing and the sharing of national tax revenue. Poor management, perception and turnout for the 2018 municipal elections marked a troubling junction for a decentralization process whose slow roll-out runs the risk of gradual dissipation and unmet expectations In the South, the 2015 “*winou el pétrole*” (Where is the oil?) social media campaign, calling for greater transparency in the energy sector, illustrated the issue’s ability to trigger a social protest of broad appeal. The concurrent sit-in at the oil and gas facility at El Kamour—where residents demanded that the region’s revenues and employment reflect its hydrocarbon riches—spoke to the perceived relationship between corruption and marginalization, with residents demanding a transparent review of extraction contracts (see Box 9).

<sup>96</sup> World Bank (2020) Tunisia Subnational Risk and Resilience Assessment (RRA) of Southern Tunisia, unpublished.



**Box 9:**

**Protest in Southern Tunisia – the El Kamour movement**

Source: Youssef Cherif, "The Kamour Movement and Civic Protests in Tunisia," Carnegie Endowment for International Peace, August 8, 2017, <https://carnegieendowment.org/2017/08/08/kamour-movement-and-civic-protests-in-tunisia-pub-72774>

**Since the prominent unrest in Gafsa in 2008, which disrupted Tunisia's phosphate industry, the country's energy production sites have witnessed dozens of sit-ins, protests, and strikes.**

Particularly in places like the long-marginalized South of the country, Tunisian political parties' failed promises to improve economic conditions have contributed to disengagement from politics, and resentment of the state. In April 2017, protests sprang up in Kamour, a major valve and pump station for oil extraction. Kamour is in an isolated desert region of Tunisia's southern governorate of Tataouine, one of the country's most marginalized regions, lacking development projects and enduring harsh climatic conditions. Over April and May 2017, a group of mostly young and unemployed men from the region decided to organize a sit-in around the station. The Kamour sit-in protests ranged a few hundred to over 1,000 participants. The sit-in was motivated by frustration at persistent unemployment among local residents, and the demand for jobs.

**The Kamour protest was noteworthy both for the concrete demands that demonstrators made and their decentralized, participatory approach.**

This seems to represent an important turning point for Tunisian civic activism. Protesters made specific demands with the aim of addressing the region's chronic unemployment. They accused the central government of stealing their natural resources without recompense. They asked for a fair share of the region's oil and gas revenues, requesting that 20 percent of

these revenues be invested in Tataouine. They also demanded that private companies operating in the country (including in the oil and gas sector) be obliged to create at least 4,500 jobs for local residents, while also insisting that the state invest \$40 million in infrastructure and development funds for Tataouine. Unlike in the cases of most previous protests, activists in Kamour focused on the private sector rather than public sector jobs.

**Aside from the protesters' specific demands, the way that they organized and conducted themselves exemplified the decentralized, politically independent forms that Tunisian civic activism has begun to take hold.** The logistics of the protests were largely handled by private citizens. The protest movement itself began as a largely independent force that mostly kept its distance from establishment political entities. The protesters accused the established political parties of betrayal and expressed their disappointment with traditional civil society organizations. When the government ignored their demands, they organized a general strike in Tataouine, barely including UGTT. The protesters' remarkable ability to organize a strike without UGTT support unsettled the union's leadership. The sit-in's self-sufficient organization, open participatory style, mostly peaceful tactics, and realistic demands—along with the government's understanding and relative openness to dialogue—is a model that barely exists in other Arab countries.



**129. Demonstrations have been concentrated around the urban areas of Tunis and Sousse, and the center-west regions (along with the Gafsa region) where overlapping vulnerabilities are high and support for the State and trust are low.** The maps below show the distribution of demonstrations (both peaceful and violent) through three different lenses: per capita, aggregated at the regional levels and through a density map (which measures the geographic concentration of demonstrations). Depending on which perspective is used, different regions appear to have more unrest relative to others. However, three foyers of unrest seem to appear with regularity. The Greater Tunis area including Bizerte, the urban center of Sousse, and the center-west regions including the Gafsa region. These demonstration zones overlap with the vulnerability, satisfaction and trust outcomes discussed earlier, and as indicated in Annex C.

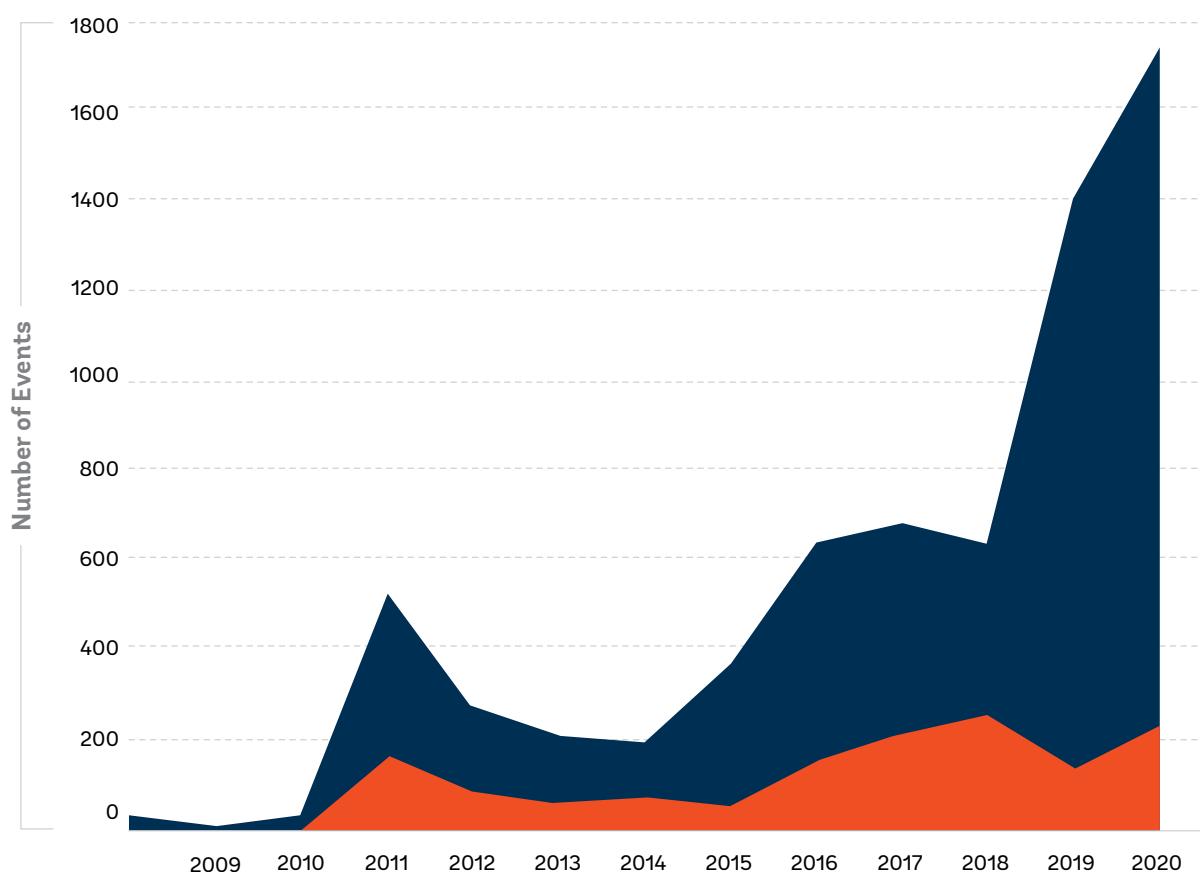
**Figure 70:**

**Protests (which are peaceful demonstrations) have been increasing in numbers in recent years**

Legend: ■ Protests ■ Riots

Source: Armed Conflict Location & Event Data Project data.

**Demonstrations were nearly non-existent before the 2011 Tunisian revolution**  
The number of protests and riots that have occurred in Tunisia from 2008 to 2020





**Figure 71:** A majority of protests occurred in northern and central Tunisia and in the capital

Source: Armed Conflict Location & Event Data Project data

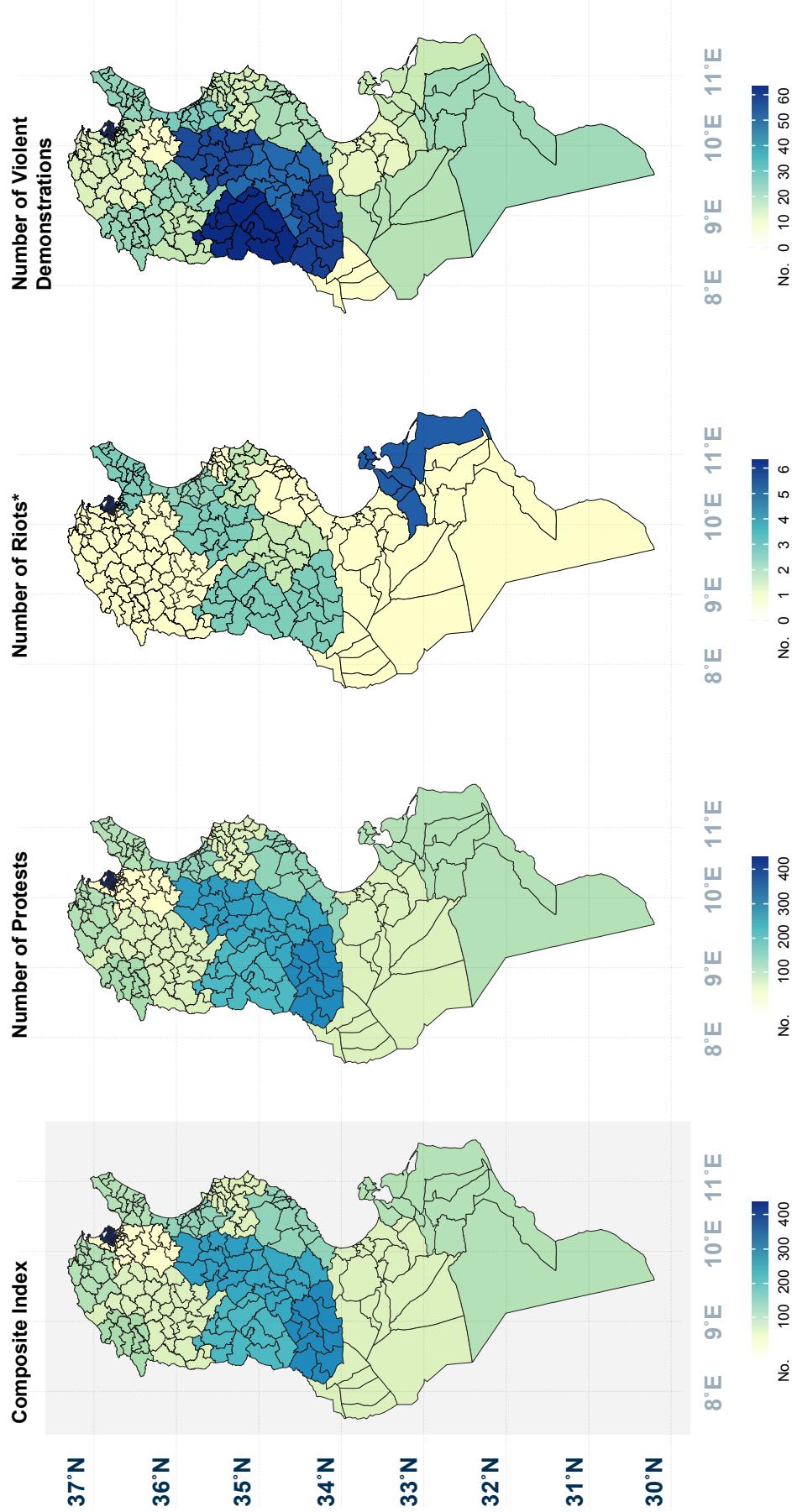




Figure 72:

Word Clouds for Protest Causes in Tunisia (2018-2020)

Source: Armed Conflict Location & Event Data Project data.

### A. By Group



### B. By Issue





**Box 10:**

**Intra-city inequalities**

**The absence or substandard quality of infrastructure that makes cities livable, such as paved roads, or water and electricity, and the fact that inequalities co-exist within the same narrow territory is a source of discontent, creating avenues for social mobilization.** A positive legacy of the revolution, Tunisian citizens now feel empowered to claim their right to these services, through various means including street protests. In December 2020, dwellers of the S'aidiyah neighborhood of Jendouba, a popular neighborhood expanding at the edge of the city and home to the city's day laborers and agricultural workers, decided to stage a protest at the entrance of their neighborhood.

**Angry that S'aidiyah lacked public lighting while other neighborhoods in Jendouba were being equipped with them, dwellers blocked the artery road leading to the neighborhood with burning tires.** They complained that the absence of public

lighting makes traveling in and out of their homes dangerous, especially for women. "If we do not block roads, they [state and local authorities] don't come. The only time they remember us is when they need our vote. Otherwise, we are forgotten." said one participant in these protests.

**In response, the mayor of Jendouba visited Sa'idiyah to listen to citizens' grievances and negotiate with them for reopening the blocked road.** One week later the municipality sent its teams to start installing public lighting poles. Addressing discrepancies in service provision within cities necessitates interventions at multiple scales. As the case of Jendouba suggests, thinking ahead about ways to tackle such challenges to reduce gaps in living standards within cities improves the quality of life, leads to better welfare outcomes, increases opportunities, and preserves social cohesion and peace.

**130. Overlapping vulnerabilities are at the source of internal migration, driving the most qualified individuals to bigger cities on the coast.**

Internal migration patterns show that coastal areas and more precisely big urban centers are attracting the most migrants. Between 2009 and 2014, the migration balance is positive for the Greater Tunis area, the north-east and the center-east and negative for the other regions (Figure 73). It should be noted that the north-east has recorded a positive balance for over fifteen years now, though it is still at a relatively low level. Migrants leave the western and southern regions of the country to settle in Great Tunis or in the eastern regions (north- and center-east). The highest negative balance is observed in the center-west region (-44.4 thousand). When assessing the push and pull factors, results show that delegations with better living standards and stronger labor demand are attracting more migrants. The most attractive delegations to migrants are those with higher levels of regional development, education, population density, and urbanization. On the other hand,

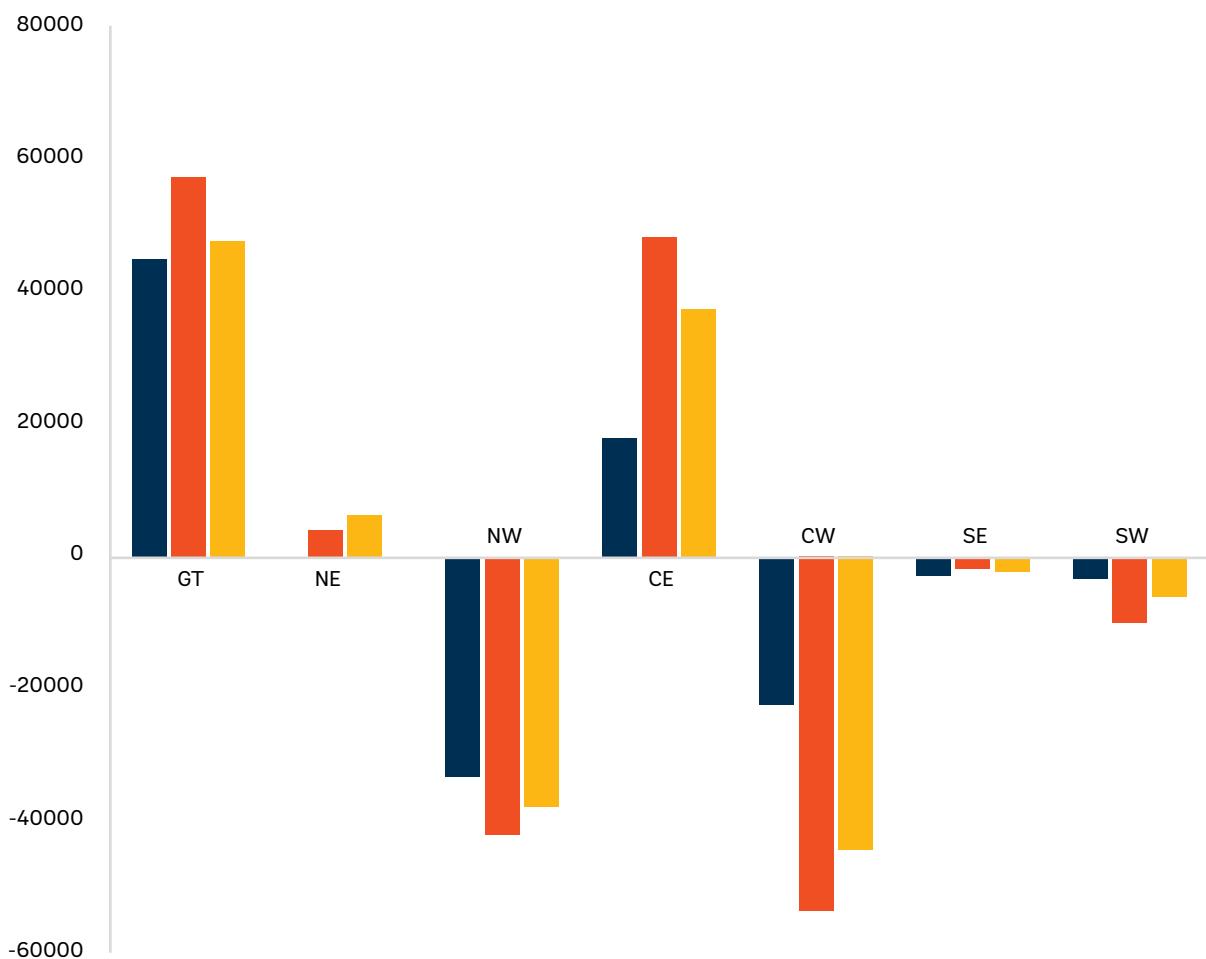


delegations with higher rates of youth unemployment attract fewer internal migrants.<sup>97</sup> Significant deterioration of climatic conditions could lead to an increase of about one-tenth to one-fifth of current migration levels in the region. Rural areas will suffer the most from agricultural productivity losses, which in turn would increase the gravitational pull of cities. Meanwhile, rising sea levels and coastal erosion could displace millions of people and jeopardize livelihoods along the densely populated coasts.

**Figure 73:** Migration balance by region (1987-2014).

Legend: ■ 1987 - 1994 ■ 1999 - 2004 ■ 2009 - 2014

Source: Tunisian census 1994, 2004 and 2014.



<sup>97</sup> To assess the push and pull factors of these internal migrations, the World Bank used a specific set of variables (Regional Development Index- Indice de Développement Régional (IDR), comprising unemployment, education level, population density, urbanization level, and youth unemployment (15-29 years) to test how the gap between the receiving and sending delegations affects the migration decision.



**131. Growing dissatisfaction, mistrust and feelings of exclusion from the post-Revolution political settlement have laid the foundations for the popularity of developments since July 25.**

The effort to build new constitutionally mandated institutions to underpin the democratic gains from the revolution has proved to be a complex, protracted and highly politicized process. Political fragmentation and the resulting “*frantic immobilism*” both in parliament and in multiple short-lived administrations unable to deliver on public expectations further exacerbated the already daunting challenge of establishing democratic institutions. The “democratization of corruption” saw corruption transition from a model centered around Ben Ali and his close circle, to a phenomenon popularly seen as much more pervasive within the public and private sectors, judiciary, and wider political elite. In parallel, the continued existence of a legacy bureaucratic and legal regime for regulating the private sector, including extensive in-built barriers to entry, both facilitated the democratization of corruption and excluded many citizens from economic activity to the benefit of large and well-connected incumbent firms. The Covid-19 pandemic exacerbated severe underlying economic problems, as well as making public mistrust of and dissatisfaction with both political elites and governing institutions more acute, as evidenced by the growth of populist and anti-system political parties and actors in recent years. These factors eventually culminated in a situation whereby the invocation of Article 80 was greeted with overwhelming popular support. The same factors also mean that it is very unclear how the resultant constitutional crisis in which Tunisia now finds itself might be resolved while sustaining the democratic gains of the Revolution.

# Part Four: Rebuilding Trust and Meeting Aspirations





## 4.1 Pathways for rebuilding trust and meeting aspirations

**132. As shown in this SCD, the past decade saw the reinvigoration of the aspirations and optimism of Tunisians in the immediate aftermath of the revolution, but a descent to dissatisfaction and mistrust thereafter.**

Although some important gains were made since 2011 in reducing poverty, building democratic institutions, and securing freedom of voice, the share of citizens living with vulnerability is high and progress in creating jobs and economic opportunities has been meager. An unstable and consensus-based political setting has stifled the economic reforms needed to enable the economy to generate enough jobs and income for the people. While the state has tried to use fiscal spending to compensate the citizens for the lack of economic opportunities, the Covid-19 crisis has aggravated the deficiencies of a model which is no longer sustainable. The ballooning public debt cannot be funded through international capital markets, which do not view Tunisia as a trustworthy borrower any longer. More importantly, this model has not gained the favor of Tunisians. Their growing distrust towards political institutions reached record levels ahead of President Saied's dismissal of the Prime Minister and freezing of Parliament on July 25th 2021.

**133. These outcomes result in large part from the underlying political settlement, which has both helped secure the transition but has also been too fragmented and exclusive to fulfil its promise.** The political settlement continues to rely on exclusive interests and rent-sharing, hindering the development of inclusive institutions. It also relies on consensus-based decision making, with veto players able to block developments contrary to their group interests, which makes agreeing and implementing change harder than in more majoritarian systems of government. This in turn has tended to foster immobilism and discord where agreement and action were most needed. Paradoxically, while the political settlement is highly consensus-based among those elite groups who are “insiders”, it still excludes many regions and groups, many of whom are trapped in precarious living circumstances. This mixture of immobilism and exclusion, and the consequent failure of the economy to deliver broad-based growth and jobs in recent years, has left a large share of Tunisians dissatisfied with and mistrustful of Tunisia’s political institutions.

**134. As the country now undergoes new political shifts post July 25<sup>th</sup>, preserving the democratic gains of the revolution will be critical if Tunisia is to rebuild trust and meet aspirations.** The shift that took place on July 25<sup>th</sup> tapped the accumulated dissatisfaction and mistrust of political institutions felt by many Tunisians, disrupting the prevailing political impasse and potentially arresting the “frantic immobilism” of the past decade. But it also introduced a renewed sense of uncertainty and institutional ambiguity that place the path forward in terms of the democratic transition in question.



It is extremely difficult to predict the path that Tunisia will take at this juncture and the institutions that will emerge from ongoing process of change.

The outcomes will ultimately depend on the course that Tunisian leaders will follow and the voice of the citizens they serve. But it is difficult to envisage a steady path towards rebuilding trust and meeting citizens' aspirations without making renewed efforts to maintain transparent and inclusive institutions, which would be at the core of Tunisia's development challenge, whilst also shifting to a more inclusive and stable political settlement.

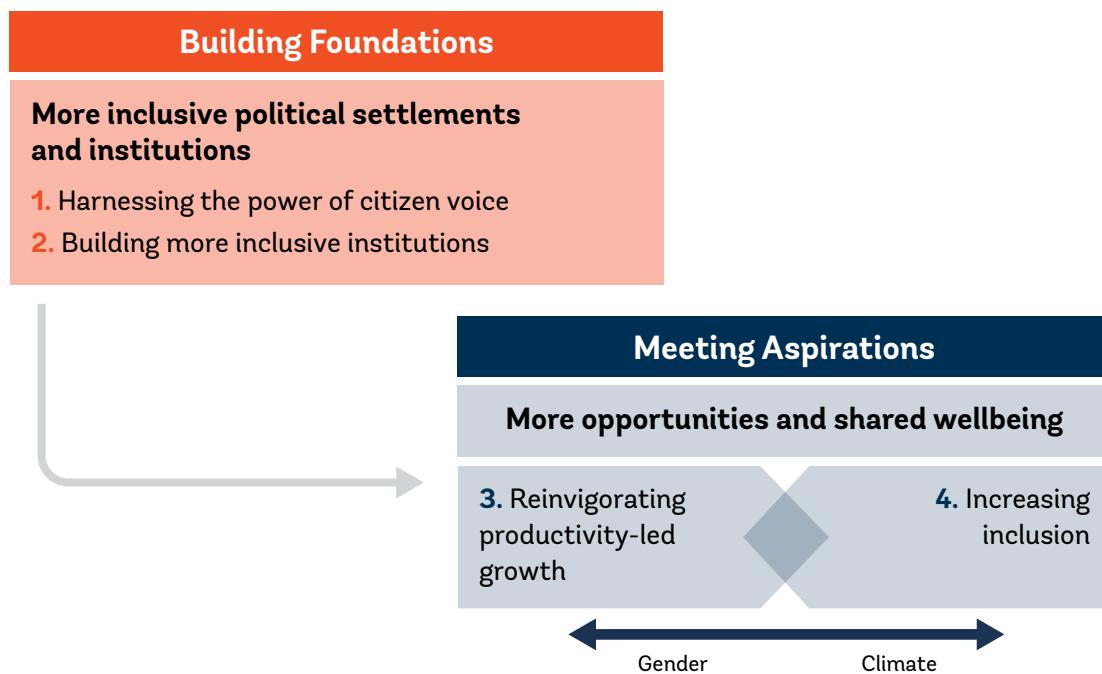
**135. No matter which path Tunisia follows at this juncture, the need to fundamentally change the economic model - which has become a source of risk to the democratic transition - remains urgent.** As development outcomes remain weak and political uncertainty continues, the risk of a fiscal and economic crisis grows. Changing the dynamics to fundamentally restructure the economic model and establish a more virtuous "win-win" cycle is a central development challenge. In the short-term, it will require a huge effort at consensus building around developing and implementing reforms, and efforts to deliver small tangible gains to help rebuild trust and establish momentum. But ultimately the time and space bought by such measures would need to be used to develop a vision for a reinvigoration of Tunisia's socio-economic development outcomes.

**136. This SCD identifies four pathways for building foundations and meeting citizens' aspirations in Tunisia.** Given the centrality of the political settlement and its implications for development outcomes, the first two pathways identified are foundational pathways that place their emphasis therein. The focus of these pathways is on harnessing the power of citizens' voice (pathway 1) and on building more inclusive institutions (pathway 2). They are presented as foundational pathways in that they could, over time, widen the space for Tunisia to pursue a wide agenda for meet citizens aspirations. Among this agenda, the SCD has prioritized two additional pathways: moving the economy to productivity-led growth (pathway 3) and increasing inclusion (pathway 4).



**Figure 74:** The SCD's Primary Pathways

Source: Tunisian census 1994, 2004 and 2014.



#### 4.1.1 Pathways for building foundations

##### Charting a path from extractive to inclusive institutions

- 137. History shows that the path from extractive to inclusive institutions is a slow, irregular and protracted one – and Tunisia is no exception in that regard.** Moving away from extractive institutions, which “concentrate power in the hands of a narrow elite and place few constraints on the exercise of this power”, toward inclusive institutions, which “vest power broadly”<sup>98</sup> requires fundamental and contentious changes in the design of political and economic institutions. The Tunisian Revolution put the country on a path from “extractive” to “inclusive” political institutions in Acemoglu and Robinson’s terms (2012). After decades of authoritarian rule, the Revolution represented a critical juncture that opened space for more plural and inclusive power-sharing, more voice and freedom, and more transparent and accountable state institutions. This helped Tunisia emerge from the Revolution with more open political institutions. But progress in terms of building more inclusive and rule-based economic institutions that could level the playing field in markets, encourage growth and create broad based opportunities stalled since.

<sup>98</sup> Acemoglu and Robinson (2012), p. 81.



**138. Tunisia's capacity to respond to citizens' aspirations and rebuild trust hinges on the establishment and strengthening of inclusive and rule-based institutions.**

Ten years after the Arab Spring, demand for institutional change is still high. Higher levels of freedom and voice allow the more effective channeling of citizens' demands for political and socio-economic inclusion, and increased levels of transparency shed harsh light on the ills of spoils and rent-sharing among elites. The limits of the country's political settlement, evidenced by the repeated failures to push through a reform agenda, are also opening space for debate on the future of the country's institutions. Reforms need to broaden the political settlement, safeguard and expand gains in freedom and voice, and increase the transparency and accountability of state institutions.

**139. Looking ahead, two foundational pathways emerge to move political and economic institutions in Tunisia away from extraction and toward inclusion (see Table 3).**

The first pathway builds on the high civic capacity of Tunisians by harnessing the power of citizen voice. This pathway requires pushing forward the transition from a closed to an inclusive and free civic space, whereby citizens have the information and capacity to constrain the arbitrary exercise of power and hold powerholders to account, including on economic rules and policies. It also implies expanding the space for local governance and building space for bottom-up and periphery-center accountability. The second pathway consists in building more citizen-centric institutions, whereby rule based and transparent administration allows equitable access to public services and opportunities.





**Box 11:**

**Political and economic institutions**

Source: Adapted from Acemoglu and Robinson (2012).

**Both political and economic institutions matter for inclusive growth.**

Extractive political institutions tend to go hand in hand with extractive economic institutions that benefit a narrow elite, rather than generating shared prosperity. Tunisia's pre-2011 economic history is a case in point: Ben Ali's authoritarian regime went hand in hand with a crony capitalist system, whereby economic policies and regulations (e.g. taxation, customs, land) were designed to benefit politically-connected businesses and largely failed to open opportunities for all.<sup>97</sup>

The development of inclusive political institutions, on the other hand, creates interests and incentives for the design of inclusive economic institutions, which can generate sustained and pro-poor growth. Causality goes both ways: inclusive economic institutions allow for more equitable resource distribution and more plural societies. The interplay between political and economic institutions can therefore create feedback effects, potentially leading to both negative ("vicious cycle") and positive ("virtuous cycle") feedback effects:

**Vicious Cycle**



**Virtuous Cycle**





Table 3:

Foundational pathways towards more inclusive institutions

Pathways		Extractive institutions	Inclusive institutions
<b>Foundational Pathway 1:</b> Harnessing the power of citizen voice	Civic participation and transparency	Closed civic space and no transparency over resource management and decision-making	Plural and free civic space, with more transparency, allowing citizens to demand accountability and better services
	Local governance	Top-down governance, with limited voice for peripheries	More local autonomy and space for bottom-up and periphery-center accountability
<b>Foundational Pathway 2:</b> Building more citizen-centric institutions	Civic participation and transparency Local governance	Clientelist and opaque administration whereby access to public services is inequitable and of poor quality	Rule based and transparent administration that is citizen-centric and allows equitable access to public services and opportunities

## Pathway 1: Harnessing the power of citizen voice

### PW1.1 Civic participation and transparency

**140. Harnessing the gains in voice and participation to boost service delivery may offer a pathway to a more durable political settlement.** This could potentially be achieved through investing in more openness and transparency in the present, and a clearer vision for the future. Gains in access to information and transparency will need to be safeguarded and expanded through, for example, improvements in providing citizens with access to information about the quantity and quality of services delivered at the local level. Avenues for accountability also need to be strengthened, notably through advancing the Open Government agenda and leveraging the opportunities it offers to citizens to hold government accountable for reforms. This change of paradigm may also transform the role of the citizen, from a passive recipient of public services to becoming an informed agent of change, able to contribute to policy creation beyond the electoral process and protest on the streets. Every step toward an open government propounds a citizen-state relationship based on making use of information and technology in order to generate a feedback loop that could stimulate new innovative solutions, in response to complex problems.



- 141. Publicizing the costs and distributional implications of “closed deals” which govern many sectors of the economy, and taking steps to tackle associated rent-seeking, could potentially help to harness the power of citizen voice.** Many extractive or dysfunctional practices are characterized by having costs that are borne widely by society, but their benefits are captured by relatively narrow and highly connected/mobilized groups. For example, cartel-like practices to deter entry and fix prices in some sectors of the economy, resistance to controlling the size of the wage bill, performance of SOEs, or resistance to opening specific sectors of the economy to greater competition by reducing barriers to entry protecting incumbents or “insiders”. Further, in many countries excessive rules are developed precisely in order to frustrate compliance and enhance opportunities for rent-seeking.<sup>100</sup> Efforts to shed more light on some of these “closed” practices together with their estimated costs and distributional implications could represent a slower, more indirect route to moving toward more “open” and better-value practices, working with the grain of the powerful freedoms of expression and voice unleashed by the revolution.
- 142. Ideas and vision matter, and while these may be highly contested in the short-term, it is still important to invest to lay the foundations for future crises or “critical junctures”.**<sup>101</sup> In advance of such times of crisis, it is important “to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.”<sup>102</sup> Therefore, creating the institutional arrangements to support independent work on a medium- to long-term vision for socio-economic development, for example through an independent socioeconomic commission to convene, generate impartial and evidence-based knowledge, and monitor commitments, could help to lay the groundwork.<sup>103</sup> This is particularly important in a context of relative political instability, since this undermines incentives for exploring medium- to long-term scenarios for Tunisia’s socio-economic development. Further, ideas matter: a hopeful vision of change, combined with an improved response to distributional inequities, can help to launch a positive trajectory, and such independent institutions could help to

100 See Pritchett, Sen, and Walker. 2018. *Deals and Development: The Political Dynamics of Growth Episodes*. The authors argue that the very nature of “closed ordered deals” (i.e., those limited to a preferred elite) precludes the development of strong organizations that implement policy in a neutral way. The costs of closed deals are rarely quantified, and publicizing them, even to relatively limited groups of policymakers, could help to disrupt them.

101 Following Acemoglu and Robinson (2012), “Major institutional change, the requisite for major economic change, takes place as a result of the interaction between existing institutions and critical junctures. Critical junctures are major events that disrupt the existing political and economic balance in one or many societies.”

102 Milton Friedman, Capitalism and Freedom, 2nd ed. (Chicago: The University of Chicago Press, 1982), p. ix, cited in Green (2016) “How Change Happens.”

103 The *Beit Al Hikma* talks held in 2021 and associated agreements with UGTT and UTICA demonstrate that the government has the convening power to bring key actors together. See for example (i) Business News 17/03/2021 *Le plan de réforme du gouvernement au cœur des rencontres de Beit Al-Hikma*; and, (ii) Business News 31/03/2021, *Etablissements publics - Signature du plan des réformes entre le gouvernement et l'UGTT*. While they have been criticized in some quarters for being insufficiently inclusive, they represent a start in the right direction.



build and promote debate around a common vision.<sup>104</sup> Even though the current pressures associated with the risk of a fiscal crisis and increasing polarization make dialogue challenging, it is now time to build a vision for Tunisia's socio-economic model, to clearly communicate that vision publicly, and to begin to debate it.

## PW1.2 Strengthening local governance

- 143. Since grand central bargains are now much more unlikely, local and regional issues may need to be resolved at the local level through devolved governance, possibly in an asymmetric manner.** This includes changing resource sharing models, more decentralized decision-making on resource use and more autonomy for local governments. Many of the conditions for this approach go beyond the current legal and regulatory framework for decentralization, and would need to be developed, negotiated, agreed, and put in place. However, work has already been done around local conflict resolution in southern Tunisia, which could be taken as a potential model.<sup>105</sup> If, as seems likely, the possibility of a significant new grand bargain on Tunisia's socio-economic development – similar to the one reached in 2014 around questions of constitutional governance – are low, a dialogue around more decentralized decision making, including removing constraints on regional governments on attracting investments (through, for example, reforms to the authorization system which limits investment) might be an important way forward.
- 144. This would have the major advantage of creating a pathway for bringing previously marginalized groups that have significant 'spoiler' power.** For example the social action platforms that have emerged around natural resource conflicts in the South, into a more constructive debate on governance and development solutions. This would potentially channel this energy in a more constructive manner, as opposed to accommodation of grievances through adding yet more low-skilled public sector jobs to the state and state-owned enterprises. It may ultimately reverse the pattern of foreign investment in marginalized regions, whereby previous conflicts around under-investment and structural unemployment drove out private sector investment with a deleterious effect on Tunisia's energy dependency and balance sheet.

<sup>104</sup> For a discussion of the importance of hope and ideas in the South African context (a context which has parallels to Tunisia), see Levy, Brian, Alan Hirsch, Vinothan Naidoo, and Musa Nxole. 2021. "South Africa: When Strong Institutions and Massive Inequalities Collide," Carnegie Endowment for International Peace, March 2021.

<sup>105</sup> World Bank (2020) Tunisia Subnational Risk and Resilience Assessment (RRA) of Southern Tunisia, unpublished.



## Pathway 2: Building More Citizen-Centric Institutions

### PW2.1 Citizen-centric state institutions

**145. Creating more citizen-centric state institutions offers multiple potential pathways to accelerate the strengthening of state responsiveness to citizen aspirations.** This SCD has highlighted the extent to which vulnerable populations, especially in lagging and rural areas, are unable to systematically gain access to high-quality public services. The COVID-19 pandemic exacerbated the inefficiency and inequity of public service delivery, particularly social services. Digitizing the economy, society, and the public administration can help address these challenges, although this cannot be understood to mean purely technological solutions: the underlying public governance institutions must change also to adopt a more citizen-centric orientation. This includes, among other interventions: (i) digitization of public services targeted at citizens (notably education, social protection, health, and agriculture); and (ii) reforms to support digitalization of Tunisia's economy, which – despite some good early progress – is still at a relatively early stage of development and lags behind regional comparators on some dimensions. Progress on the latter could be made by adoption of the "Code du Numérique" to modernize the legal framework for Tunisia's digitalization.

**146. Key channels to develop a more citizen-centered approach to public services include:**

- » **Digital tools for social service delivery:** digitization of services in education, healthcare, and agritech, as well as more robust social targeting databases, with the aim of strengthening the efficiency of service delivery, would support the delivery of higher quality and more efficient services.
- » **Administrative simplification:** digitization of administrative processes, as prioritized through feedback from citizens and businesses at the municipal, regional, and national levels. This will help provide more efficient and targeted services, limit opportunities for petty corruption, and improve the interface between government and citizens.
- » **Digital payment:** segment-adapted and targeted digital payment would help improve the delivery of social transfers and alleviate the above-mentioned unequal access as well as further strengthen Tunisia's digital economy.
- » **Digital infrastructure:** investment in digital tools and connectivity infrastructure is needed and should be complemented by a focus on cloud systems and interoperability. Market structure is also extremely important, with measures to introduce competition into broadband provision, currently dominated by *Tunisie Telecom*.



## 4.1.2 Pathways for meeting aspirations

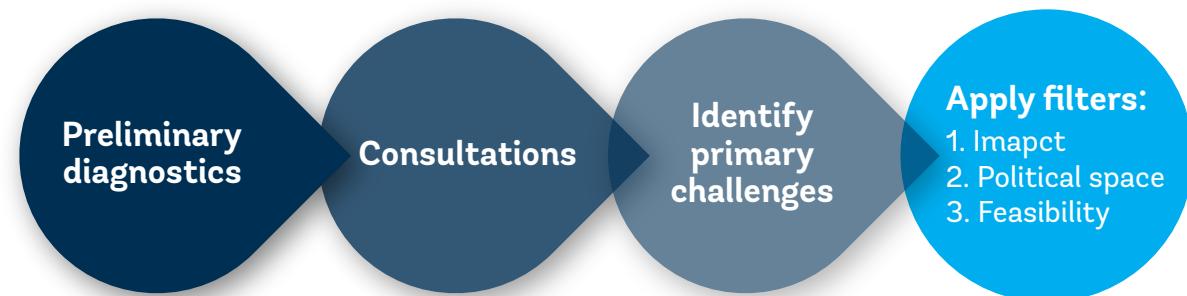
**147. From foundations to pathways:** By fostering more inclusive institutions, the foundational pathways can, overtime, open the space for the series of pathways for meeting citizens' aspirations for more opportunities and greater wellbeing.

**148. The prioritization process provided two main pathways for meeting aspirations.** The analyses presented in the previous sections of the SCD identified numerous challenges across a wide range of themes. To prioritize among the constraints, the report uses three main criteria. The first criterion is the potential impact on meeting citizens' aspirations through more opportunities and more inclusion. This criterion was the main filter used to narrow the aspirational pathways down to two, based on those with the highest potential impact. The second criterion asks whether there is space for reform under the current political settlement or whether space would increase in a scenario whereby the political settlement and institutions gradually become more inclusive. This criterion also considers whether the pathway can be part of a positive feedback loop by reinforcing the emergence of more inclusive institutions. The third criterion is feasibility, whereby state capacity and complexity limitations are not so large as to impede progress in the medium-term. These criteria yielded two main priorities, the first being moving the economy to productivity-led growth and the second being increasing inclusion, which are discussed in more detail below and in table 3. The prioritization process benefited from the SCD consultations described in annex F, which drew on the insights of thought leaders in the areas of economic and social policy, the private sector, Government of Tunisia representatives and the World Bank / IFC country teams.

**Figure 75:**

**SCD prioritization approach**

Source: Tunisian census 1994, 2004 and 2014.





## Pathway 3: Reviving productivity-led growth

**149. Shifting to a more inclusive political settlement and institutions could open the reform space for more inclusive economic institutions to reinvigorate productivity-led growth.** The Tunisian economy's loss of productivity growth signals a loss of economic potential caused by heavy restrictions to competition, which significantly stifle competitiveness and efficiency in most markets, declining trade capabilities, and years of under-investment in productive capital and innovation. The impact of these unfavorable conditions on the private sector has been severe, limiting firm entry, growth, and survival across most sectors. To reverse these outcomes and reinvigorate productivity, deep structural reforms that will open markets to competition, and modernize the financial and infrastructure sectors, are needed. These in turn will promote trade and innovation, attract foreign direct investment and climate finance. These issues are discussed below and treated in more detail in the Tunisia Country Private Sector Diagnostic (2021).

### PW3.1 Strengthening institutions for market contestability

**150. Addressing the multiple restrictions to competition across most sectors is key to accelerate the economic recovery and bring the economy on a sustainable path.** Tunisian firms are subject to a heavy authorization/licensing regime that stifles the entry and operation across most sectors. Aside from being numerous, authorizations to enter a new market or offer a new product/service are the subject of lengthy and opaque procedures. This system sets an uneven playing field, placing large well-connected incumbent firms at an advantage over new or growing firms. Since the time of the Ben Ali regime these restrictions have often served as instruments through which politically connected firms extract rents through monopolistic positions. Unfortunately, they continued largely unaltered following the Revolution.<sup>106</sup>

**151. The failure of the 2018 regulatory reform to simplify the authorizations regime illustrates the limits of a sector-by-sector as opposed to a wholesale approach to remove restrictions to competition.** In 2018 the government sought to reform the restrictive regime that subject the start of business operations to prior authorization for hundreds of economic activities, thereby implementing the 2016 investment law. Even though the ambition was relatively low (only 27 out of a total of 127 authorizations were slated to be abolished), the outcome has fallen short of expectations. Less than ten had

<sup>106</sup> The evidence shows that sectors dominated by firms connected to the Ben Ali family had a higher probability of being subject to authorizations, FDI restrictions (World Bank, 2014; Rijkers et al., 2017) and import protection (Kruse et al., 2021).



been removed by 2020 and in some cases – such as for car rental company - the authorization was replaced by an equally restrictive cahier de charge. Instead of focusing on efforts to remove restrictions on a sector-by-sector basis, a more effective approach would be to eliminate all restrictions to investments (authorizations, licenses, quotas, sectoral specifications or *cahiers des charges*, and business licenses or conditions d'exercice), which are not justified by the pursuit of a defined set of public interest objectives, such as those defined by the 2016 Investment Law.<sup>107</sup> Such reform would boost entrepreneurship and in turn, strengthen competition, innovation, and productivity.

**152. The reforms should also tackle the powers of incumbent businesses to regulate their sector so as to avoid regulatory capture at the expense of outsider competitors.** In many sectors the restrictions are enabled by a system whereby incumbent businesses participate into the regulation of the sector through intermediary bodies, such as interprofessional groups ('groupements interprofessionnel' or GIPs), technical centers, professional orders, federations, syndicates. These institutions include established businesses in the relevant sector, and can decide and enforce key rules of the sector. As such without reforming also the regulatory powers of such institutions, it would be difficult to maintain a level playing field for all. Institutions which include incumbent businesses should only have consultative but not regulatory roles. .

**153. A weak competition framework compounds the heavy restrictions to competition in Tunisia.** Recent reforms improved the antitrust framework in form, but to a much lesser extent in function, which calls for continued efforts in this area.<sup>108</sup> Tunisia updated its competition law in 2015 and strengthened the mandate of the Competition Council, increasing transparency of decision-making in antitrust enforcement. But the sizable exemptions to the law and the capabilities of the Council are shortcomings that impeded the effective enforcement of the competition law. In particular, the Competition Council's investigative actions and sanctions have been limited so far, resulting in a context of weak enforcement. Strengthening the Council's powers and ensuring its full institutional independence will be key for enforcing the Competition Law going forward.

<sup>107</sup> The Law defines as public interest objectives: national defense and security, protection of the environment, the health, natural resources and the cultural heritage.

<sup>108</sup> Tunisia Country Private Sector Diagnostic. IFC, 2021 (forthcoming).



**154. The importance of strengthening the national antitrust framework, by strengthening the Competition Council (CC), is one of the main findings of the Tunisia Country Private Sector Diagnostic (2021).**<sup>109</sup> The CPSD highlights the need to buttress the competition framework and its enforcement in several areas, including: (i) removing important exemptions from the application of the Competition Law such as the exemption for public monopolies and the ability of government to impose price controls, and; (ii) consolidating and enhancing the CC's independence in antitrust enforcement. Presently the CC lacks the capacity to impose significant sanctions—fewer than 20 percent of all fines imposed between 1991 and 2017 had been collected by 2019. Weak antitrust enforcement hinders the development of an innovative and productive private sector, as firms lack effective protection against anti-competitive conduct by incumbents and connected firms.

### PW3.2 Strengthening trade capabilities to meet Tunisia’s export potential

**155. Although Tunisia made concrete advances in trade integration in past decades, trade openness remains restricted and is central to the growth and productivity agenda.**<sup>110</sup> Tunisian firms can access duty-free inputs from the EU, but between a third and half of inputs of non-exporting firms are still subject to most-favored-nation tariffs. Moreover, around 10 percent of trade tariff lines are excluded from the free foreign trade regime for various reason<sup>111</sup> and require import or export authorizations. Moreover, Tunisia has relatively heavy restrictions on trade in modern services, such as internet services and commercial banking, across all modes of supply. Opening the most restricted sectors<sup>112</sup>, especially those where Tunisia has or could develop a competitive advantage (such as professional services), reducing trade restrictions and deepening trade agreements are therefore channels for Tunisia to raise its export potential.

**156. A successful export sector needs a well-functioning transport and logistics ecosystem and efficient customs processes.** Yet, Tunisia has experienced a significant deterioration in this regard. Given the importance of trade to the Tunisian economy, improving trade infrastructure such as connections to inland areas, air freight logistics and the performance of customs services is an important agenda for boosting firm performance and raise productivity. Priorities include improving the performance of the Port of

109 Tunisia Country Private Sector Diagnostic (CPSD) (2021), a joint product of the IFC and World Bank.

110 Tunisia Country Private Sector Diagnostic. IFC, 2021 (forthcoming).

111 Mostly for reasons of security, public order, health, morality, or to protect fauna and flora and the country's cultural heritage

112 Amongst the most restricted services sectors are professional, transport, and finance, followed by the moderately restricted sectors such as telecommunications and distribution according to the World Bank Services Trade Restrictions Index.



Rades, which handles more than 75 percent of port traffic, by upgrading its infrastructure, streamlining procedures and attracting a private operator. Support for the export sector also involves better air transport connectivity, which is key for the tourism sector, and increasing the connectivity of lagging regions to trade infrastructure in order to boost their competitiveness in export markets.

### PW3.3 Increasing innovation

**157. Tunisia's "new" industries have shown a tendency towards innovation and sophistication that, if nurtured, could accelerate productivity and growth.** Without innovation, Tunisia will face a steeper incline in climbing the technological ladder and upgrading its economy to higher value-added activities that are critical for productivity growth. Since the early 1990s, pockets of innovation have been emerging and the share of more sophisticated products in the export basket has been increasing. This has especially been the case for products with a medium level of technological intensity such as mechanical, electrical and pharmaceutical production, among others (Ghali and Nabli, 2020). Underlying this are industries that have tended towards experimentation and product diversification, both in terms of products and destination markets. But more often than not, emerging products are struggling to mature. This indicates an opportunity to nurture these green shoots that are already visible and helping them grow.

**158. Revamping innovation policy is a priority for accelerating productivity and growth.** Innovation and technological advancement policies are not new to Tunisia, which has experimented with a range of approaches that spurred industries in some cases but yielded fewer gains in others.<sup>113</sup> Over the past decade, innovation policies became increasingly fragmented across agencies and programs, and less adapted to the emerging needs of the private sector. It is time for Tunisia to revamp innovation policy by moving away from the "*institutional spaghetti bowl problem with too many organizations with confusing/overlapping mandates*"<sup>114</sup> and developing a more coherent and efficient national innovation agenda. In addition to horizontal policies that establish a sound environment for the private sector, there is a role in this agenda for targeted vertical policies to nurture innovation in sectors such as electronics, pharmaceuticals, and precision equipment where a comparative advantage is beginning to emerge, provided that they are well defined and governed to avoid capture. This involves increasing the supply of specialized skills, supporting accreditation, encouraging the upgrade of infrastructure/equipment,

<sup>113</sup> Ghali, Sofiane and Nabli, Mustapha. Export Diversification and Sophistication and Industrial Policy in Tunisia. ERF Working Paper 1415. November 2020.

<sup>114</sup> Diop, Ndiame; Ghali, Sofiane. 2012. Are Jordan and Tunisia's Exports Becoming More Technologically Sophisticated? Analysis Using Highly Disaggregated Export Databases. Middle East and North Africa Working Paper Series;54. World Bank, Washington, DC.



and attracting external investment to promote global value chain linkages. And to successfully implement such policies, a clear vision around innovation policy and an institutional set-up for coordination are critical.

#### PW3.4 Pivoting to private sector led growth in lagging regions

**159. Pivoting to private sector led growth in lagging regions is equally important for providing opportunities to individuals in poor or vulnerable communities.** Growth convergence between leading and lagging regions had been robust prior to the revolution but slowed thereafter as growth performance slowed. An increase in public investment and transfers to lagging regions may have provided some relief but creating the conditions for a sustained reduction in vulnerability calls for greater access to jobs and sustainable economic opportunities for their labor force. Achieving these goals requires investing in leveraging the absolute advantage of lagging regions, improving access and quality of services in secondary cities, resolving land tenure issues, and creating a sound local business environment. Also imperative are improving links within and between cities through better and low carbon transport, improved digital infrastructure, and stronger supply chain linkages to coastal cities. This will be crucial to ensuring these regions and their inhabitants are well linked to input, output, and labor markets. It also requires building the capabilities of their work force by closing regional skills gaps and preparing youth and women to compete for labor market opportunities within and outside of their regions.

**160. Building a network of well-connected and attractive secondary cities can increase the competitiveness of lagging regions.** Secondary cities can become relays between rural and leading urban spaces as well as regional development hubs, serving as links between regional markets and their rural hinterland. Deepening the connectivity of secondary cities both with larger economic hubs and also among each other can facilitate the movement of goods, services and people across urban areas. But for secondary cities to become regional hubs, improving living conditions and removing barriers for business development will be required. Further, while secondary cities appear to be important stepping-stones for internal migrants in their move to larger labor markets, access to basic services and housing appears to be an important constraint for their full integration into these cities (World Bank, 2021). Improving living conditions in secondary cities can also help reduce social unrest and tap the economic potential of lagging regions. As living conditions improve, cities can become more attractive to both high-quality workers and firms. This can be achieved through targeted investments to (i) increase quality of and efficiency in the provision of services and (ii) leverage the absolute advantage of lagging areas and boost regional economic development.



### PW3.5 Developing, strengthening and greening the financial sector

- 161. Despite their important role, access to finance for SMEs is still limited in Tunisia.** SMEs receive a disproportionately small share of credit from the financial sector, with a large share of credit granted to large and well-established enterprises or used to finance government deficits, both perceived as less risky and more profitable. The financing gap is estimated at \$6.87 billion (16 percent of GDP) according to IFC SME finance gap (2017).<sup>115</sup>
- 162. Tackling the numerous structural weaknesses of the financial sector is a high priority for Tunisia if it is to boost financial intermediation and investment in the economy.** Several deep-rooted structural barriers constrain bank lending to SMEs. These include (i) underdeveloped credit infrastructure which is also limiting innovation in financial products; (ii) an effective cap on interest rates which discourages the development of risk-based lending policies for smaller firms, (iii) remaining gaps in the legal and regulatory framework for microfinance, impeding the growth of very small firms and their formalization, and (iv) limited effectiveness of public sector direct interventions through SME finance public institutions. Another barrier to SMEs' access to finance is the limited availability of information to enable the measurement and management of risk. As in many countries with such high levels of information asymmetries, lenders therefore impose higher requirements on collateral.<sup>116</sup> Lastly, an enabling

115 WBG, Tunisia Enterprise Survey 2020.

116 In Tunisia lenders almost exclusively require fixed assets such as real estate as collaterals for lending.



environment for fintech development could transform the Tunisian financial industry by generating and using data. It can enable advanced data and risk analytics to support financial services and inclusion, while improving profitability (even when serving small loans).

**Box 12: Greening the financial sector**

**Tunisian banks and institutional investors are exposed, through their lending, to sectors highly exposed to climate risks, such as agriculture, real estate, tourism and heavy industry.** All these sectors are increasingly affected by physical risks from climate and weather-related events and by transition risks in the process towards decarbonization, which could translate into financial losses and tighten financial conditions. Better management of climate-related risks in the financial sector would help (i) mobilize financial resources to build resilience and ease post-disaster recovery after a climate shock, (ii) mainstream climate finance solutions for SMEs, and support the development of green projects.

**Initial steps were taken by the Tunisian Authorities recognizing the impacts that climate change could have on the financial sector and on the economy, and more can be done.** The Central Bank of Tunisia joined the Network for Greening the Financial System and the Ministry of Economy and Finance is currently developing a Disaster Risk Financing Strategy<sup>117</sup> to increase financial resilience and protect households and businesses against climate shocks and disasters. Additional steps are needed to further build knowledge about climate risks

and the channels through which they impact the financial sector and the economy. Moreover, there is a need to better integrate climate risks in detailed sector guidance and supervisory monitoring in addition to the adoption of climate risk instruments.

**Green finance offers additional opportunities for greening the financial sector.** Emerging green financing tools such as natural capital accounting and green, blue and transition bonds all have the potential to accelerate and incentivize sustainable, resilient and decarbonized investments, while unlocking crucial private sector capital.<sup>118</sup> Tunisia could develop this potential across a number of areas such as renewable energy, green infrastructure, climate smart agriculture, and nature-based solutions. A strong pipeline of climate friendly investments and public private partnerships would be needed for channeling financing to impactful projects that scale-up private sector involvement in green growth. Carbon pricing, among other climate-smart fiscal policies, is also a powerful tool to spur decarbonization and shift incentives towards investment and innovation in green projects, while accessing a new and much needed revenue stream from international carbon markets.

117 A newly established database on financial exposures of public and private assets and vulnerable populations will inform the strategy.

118 Climate finance through the Green Climate Fund, Adaptation Fund and others are key to enable transformational 'green' projects.



### PW3.6 Rebalancing public finances

**163. Lastly, rebalancing public finances has now become an urgent priority if Tunisia is to reestablish a stable and growth friendly macroeconomic setting.** With public sector debt levels in excess of 100 percent of GDP, reducing debt through growth-friendly fiscal adjustment is a policy priority. This requires restructuring public finances to reduce the high burden posed by the public sector wage bill, minimizing fiscal risks from SOEs and pensions, and transitioning to a more targeted model of social assistance, taking into account impacts on the poor. These measures would free up resources for much-needed public investments to promote growth. Improving revenue administration and widening the tax base will also support the adjustment towards more sustainable public finances. Finally, Tunisia's fiscal framework operates in the absence of any budgetary constraints, targets, or fiscal rules to steer budgetary decisions. So, anchoring public finances in a medium-term framework with clear and widely accepted targets is essential for the success of the fiscal adjustment and as the basis for national dialogue.

## Pathway 4: Increasing inclusion

**164. Strengthening inclusion is equally crucial for the stability of Tunisia's transition.** Increasing inclusion requires more even access to economic opportunities and improved standards of living for citizens. This implies improving learning/ skill outcomes, especially in rural or lagging areas, to widen access to the benefits of future growth. Similarly, measures that support women's participation in the labor force can limit gender-based exclusion and bring additional contributions to productivity and growth. Lastly, addressing discrepancies in service provision is also important for improving living standards, and can lead to better welfare outcomes, increased opportunities, and greater social cohesion.

### PW4.1 Increasing women's participation in the labor force

**165. Increasing women's labor force participation would enhance productivity, inclusion, and also extend the demographic dividend.** Women's low rate of participation in the labor market has been a longstanding challenge in Tunisia and in the region. Getting more women to work, through a mix of social and economic policies, is a policy agenda with a number of positive attributes. It would help counter the effects of an aging population pyramid on labor supply and help extend Tunisia's demographic dividend. Progress on this front is also important for confronting women's socioeconomic exclusion, as outlined in chapter five of this SCD, and provide well-documented positive spillovers to the household when women have direct access to income (World



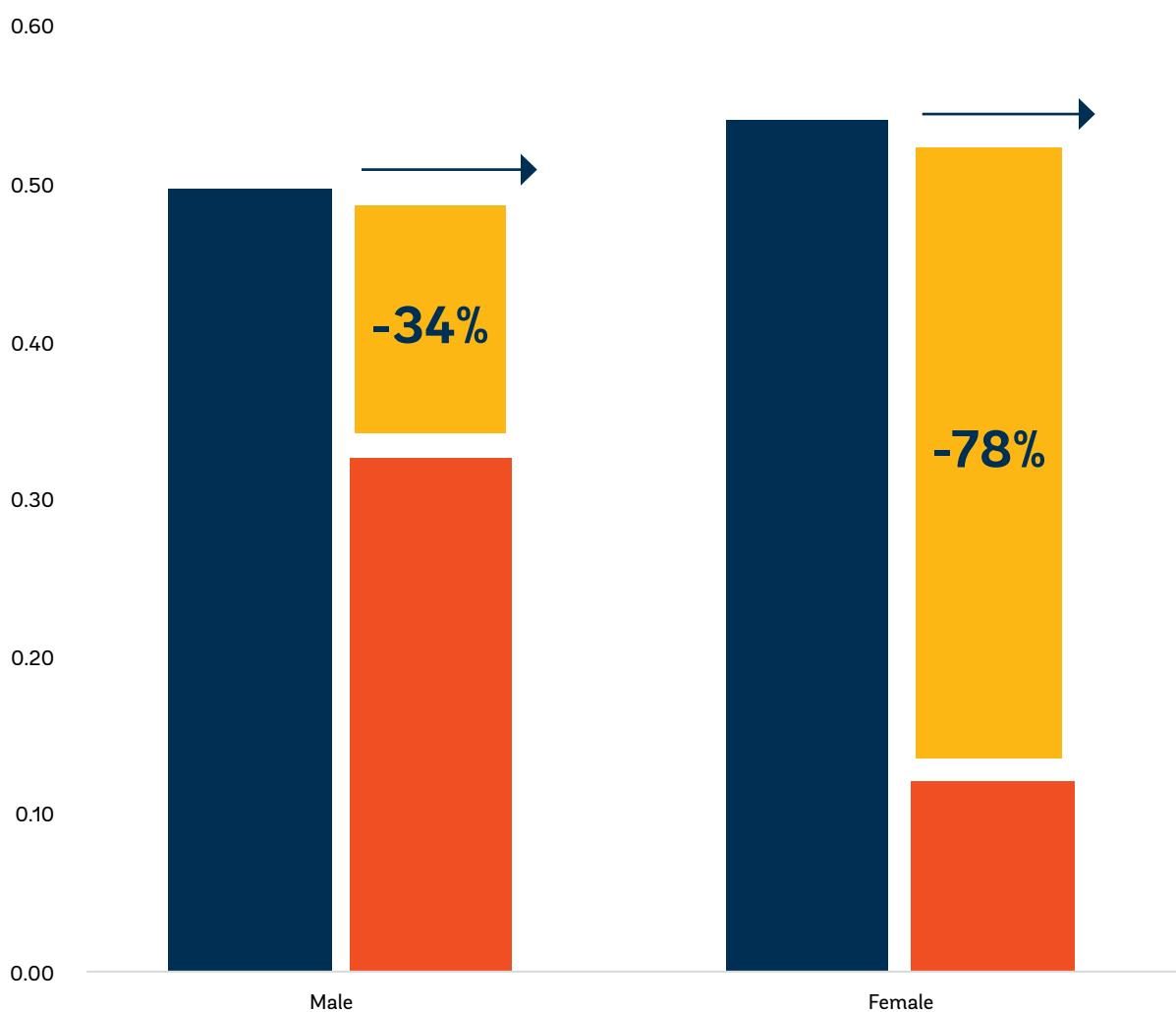
Bank 2012 - WDR). Lastly, increasing women's participation and employment is a potential channel for boosting Tunisia's productivity. As previously noted, women's educational attainment levels have been consistently high, exceeding those of men throughout the various levels of schooling. Thus, their absence from the labor market signifies lost talent and an underutilization of human capital that could contribute to accelerating economic growth. Box 13 (next page) provides additional context and measures with the potential to advance this agenda.

**Figure 76:**

**Higher human capital but lower labor market utilization for women.<sup>116</sup>**

Legend: ■ Human Capital Index ■ Utilized Human Capital Index ■ HCI loss after adjusting for under utilization

Source: Pennings (2020)



119 Source: Pennings, S. (2020). "The Utilization-adjusted Human Capital Index (UHCI)". Policy Research working paper WPS 9375 Washington, D.C. : World Bank Group.

**Box 13:****Increasing female labor force participation**

Source: Pennings (2020)

**The fact that female labor force participation (FLFP) rates in the Middle East & Africa (MENA) region, including Tunisia, are among the lowest in the world is unexpected, considering its sustained growth, gains in female education, and decline in fertility rates, all of which have been linked to increasing FLFP in other contexts.**

As discussed in Box 5, Tunisia has made extraordinary progress in not only closing but reversing the education gender gap, with women now making up nearly two-thirds of university students. Similarly, Tunisia's total fertility rate of 2.2 births per women is only marginally higher than OECD countries (World Bank). In other regions, such as the OECD, Latin America, and Asia, rising education and falling fertility have been linked to rising FLFP (Chamlou, Muzi, and Ahmed 2011), but this has not been observed in MENA: in Tunisia, FLFP has been stagnant since 2000 (Assaad et al. 2020).

**To explain the so-called “MENA paradox” of persistently low FLFP despite increasing human capital and economic growth, studies have found explanatory power in both the supply side and the demand side of the labor market.** On the supply side, researchers tend to emphasize the social and cultural factors that constrain and shape women's labor market decisions. These factors include patriarchy and the primacy of family (Verme et al. 2016), care duties (Spierings et al. 2010), sexual division of labor within the household (Dildar 2015), religiosity (Inglehart and Norris 2003), the difficulty of balancing work and family (Ben Salem 2010), marriage (Assaad and Krafft

2016), and conservative gender norms and personal values (Diwan and Vartanova 2017). According to this line of thinking, women's economic opportunities—and, therefore, inclusive growth—would be enhanced if the barriers that constrain their ability and desire to enter the work force were mitigated, such as through augmented childcare and family leave policies or by fighting against social barriers like violence against women and workplace sexual harassment.

**On the demand side, researchers argue that the failure of female employment to keep pace with women's educational attainment is due to the changing opportunity structures facing educated Tunisian women.**

Specifically, Assaad et al. (2020) and Lassassi and Tansel (2020) posit that the loss of employment opportunities for educated women in the public sector has not been matched by a commensurate increase in private sector wage employment. The public sector had long been the main source of employment for educated women, especially young women: in 1985, over 60 percent of university-educated female workers obtained their first job in the public sector, a share that had declined to 10 percent by 2015 (Assaad et al. 2020). Increased private wage employment made up for only about half of the decline in public sector employment. In part due to the social norms and expectations discussed above, men who lost out on public employment fell back on low-quality or informal employment, while women were more likely to have the option of staying out of the workforce or remaining unemployed to avoid taking



low-quality jobs. Notably, the rate of inactivity among educated Tunisian women has declined in recent decades, even as unemployment has increased, and the high

ratio of female-to-male unemployment suggests that low labor demand is a driver of low female employment and participation (Lassassi and Tansel 2020).

### **Looking forward, we identify several pathways for Tunisia to increase women's economic opportunities:**

**- The first involves tackling the adverse social norms and practices that prevent Tunisian women from fully engaging in economic activity.** As discussed above, these norms include care duties, the sexual division of household labor, and gender-based violence, as well as workplace biases in hiring, promotion, and pay. While processes required to change social norms are complex and context-specific, proven efforts include school-, enterprise-, and community-level interventions to address VAW, develop women's skills, challenge gender stereotypes, reduce the unpaid work and care burdens, enhance early childhood education and development programs, highlight female voices and role models, and encourage women to move into nontraditional occupations.

### **- A second pathway involves ensuring legal protection and reforming discriminatory laws and regulations.**

While Tunisia has long been a leader in the region for women's legal rights, the World Bank's WBL 2021 report still finds that there is no law mandating equal remuneration for work of equal value; lack of equal remarriage rights; less than the recommended 14 weeks of paid maternal

leave; no paid parental leave; no employment protection for pregnant workers; no prohibition on gender discrimination in access to credit; and gender discrimination in inheritance law. Without pay equality, protections for mothers, and equitable access to financial and inherited assets, Tunisian women may continue to find it difficult to opt into the labor market.

**- A third pathway recommends that Tunisia improve the ability of women to access, own, and develop productive assets that allow them to compete and thrive in the market.** Tunisian women are less likely than men to have accounts at financial institutions, have access to credit, and use mobile banking: all tools that are important to entrepreneurship and formal employment (Findex). As discussed above, Tunisia still lacks gender equality in inheritance law, including for both the children and surviving spouses of the deceased. Women only inherit half the share of men with the same degree of kinship. This hampers both women's ability to use inherited assets to generate income (e.g., through agriculture on inherited land) and limits the availability of credit by denying women equitable access to collateral.



## PW4.2 Learning and skills transformation in lagging regions

- 166. Reversing the decline in learning outcomes and boosting skill development would also support both growth and inclusion outcomes.** if Tunisia is to increase human capital's contribution to growth and pivot to a more innovative, resilient and productive economy, then increasing the quality of education to improve learning outcomes and deepen skill formation is essential. This agenda is equally as important for reducing vulnerability and exclusion, especially in lagging regions.
- 167. This requires reversing regional learning disparities for a skills transformation in lagging regions.** Tunisia has no regular national standardized assessments of student achievements before the baccalaureate certificate. The first step for education policy makers in managing learning disparities is to begin measuring learning outcomes to be able to benchmark progress at the national and sub-national levels. This will tell policy makers where to invest and how to allocate public resources to help make the system more equitable. Equally important for reducing learning disparities is identifying all the children at risk of dropping out, the children not going regularly to school, children in difficult socio-economic situations and children excluded (too far from a schools and for whom the indirect cost of schooling is too high). Building the capacity of teachers to respond to learning disparities is also critical, by providing them with instruments to measure learning progress, develop support strategies for low performance students and foster mutual support through teaching community of practices. Lastly, an important lesson from a recent Early Grade Reading Assessment (carried out in Tunisia in February 2021) is that teaching skills and better pedagogy do not compensate for the poor performance of children from low-income households. Poverty and socioeconomic status are strong predictors of a child's future abilities to read and learn. So, it is important to recognize the nature of the education/poverty cycle the importance of better livelihoods to break it.

## PW4.3 Increasing access to and quality of service delivery

- 168. Tackling the significant gaps in access to high quality services, especially between rural and urban areas, is identified as a priority for increasing inclusion and shared wellbeing.** These gaps, which have been persistent over time and localities, have contributed to lowering standards of living and raising dissatisfaction among citizens who experience absolute or relative deprivations, often across a number of services. Investing in a leveling-up agenda is therefore highlighted as a priority in this SCD, especially in providing access to water, sanitation and piped gas services in rural areas where a sizable share of households do not have access. Increasing the quality of services is equally as important, particularly for health and education services where, as previously mentioned, spatial disparities have tended to be large.

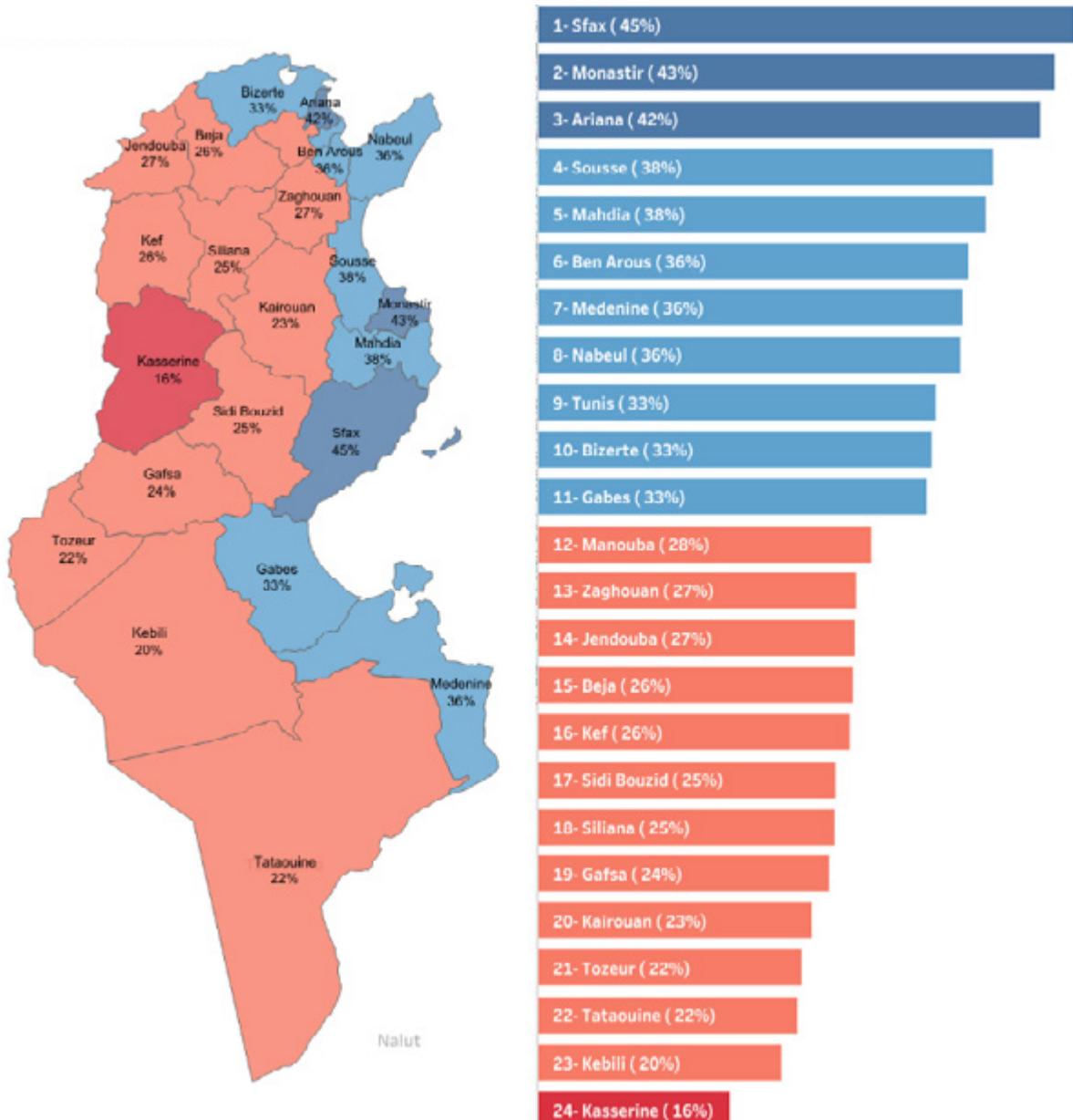


**Figure 77:**

**Persistent regional disparities in learning outcomes (baccalaureate graduation rates by governorate; 2019).**

Intervalle: ■ >40% ■ 30% - 40% ■ 20% - 30% ■ <20%

Source: Target Consulting based on Ministry of Education data.





**169. Decentralization of service delivery can offer an important channel to improve citizen's access to services, but building state capability at the municipal level is a long-term effort.** Many Tunisian municipalities still face significant difficulties in delivering infrastructure and services, due to a lack of clarity on their mandate and attributions, and the need to strengthen their human and financial resources. Key reforms are still required to fully operationalize the decentralized institutional framework by adopting and/or enforcing laws, decrees, and *arrêtés* resulting from the Local Governments' Code (including clarifying mandates of both decentralized and deconcentrated entities and setting up elected regional councils). In terms of human resources, it is crucial to activate and extend the staff re-deployment mechanism from central government to local governments created by the Governmental decree n° 2020-315 of May 19, 2020, on the functional mobility of public agents. This new mechanism offers the possibility to provide a premium for civil servants to go work for subnational governments in certain areas that are generally understaffed because they are perceived as unattractive.

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This Systematic Country Diagnostic is prepared by World Bank Group staff to identify key challenges and opportunities for Tunisia to accelerate progress rebuilding trust and meeting aspirations. It is intended to become a reference point for consultations on priorities for World Bank Group country engagement. It is also intended as a contribution to the public debate about Tunisia's path forward. Feedback and engagement with the findings of this report are therefore welcomed by World Bank Group staff.



**Table 4**

**Aspirational pathways: political space, feasibility and impact filters.**

	Political space	Feasibility	Impact
Strategic Priorities	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/reform complexity	Potential to increase opportunities and shared wellbeing
<b>Pathway: Reviving productivity-led growth</b>			
Raising SME investment and access to finance.	<b>High:</b> a shared vision for Tunisia's socio-economic transition will be necessary to launch a truly effective reform of the banking system and address regulatory gaps.(ii) increasing competition among banks is likely to encounter resistance.	<b>Moderate:</b> (i) addressing the gaps in the legal and regulatory framework can be a lengthy and complex process combining legal reforms and technical measures; (ii) some reform areas are technically complex making them difficult to internalize by legislators and the public.	<b>Very high:</b> bridging Tunisian SME's financing gap, estimated at \$6.87 billion (16 percent of GDP) could lead to important growth and job creation (especially in secondary cities with fewer low private sector investment).
Increasing firm innovation.	<b>Low:</b> while a shared vision for Tunisia's socio-economic transition would support a more coordinated national innovation agenda, innovation policies would benefit a wide cross section of firms, especially existing firms, thus could encounter less resistance.	<b>Low:</b> (i) articulating a national innovation agenda can be complex due to the number of fragmented initiatives but it remains a fairly consensual agenda that should not encounter resistance; (ii) a comparative advantage is beginning to emerge in sectors such as electronics, pharmaceuticals, and precision equipment suggesting latent capacity.	<b>High:</b> Priority for accelerating productivity and capitalizing on growth in emerging sectors.
Strengthening trade capabilities.	<b>High:</b> Possible resistance to change from key SOEs (and their unions) can impede the modernization of trade services). This requires a shift to a shared vision for strengthening trade capabilities, as well as transparency and anti-corruption reforms to push back on exclusive/ extractive interest and resistance to reforms.	<b>High:</b> (i) improving the transport and logistics ecosystem is costly; (ii) deepening trade integration and agreements is a procedurally and technically complex and lengthy process.	<b>High:</b> way for Tunisia to raise its export potential and the productivity and growth of non exporting firms by lowering the barriers to trade.

...table continues next page



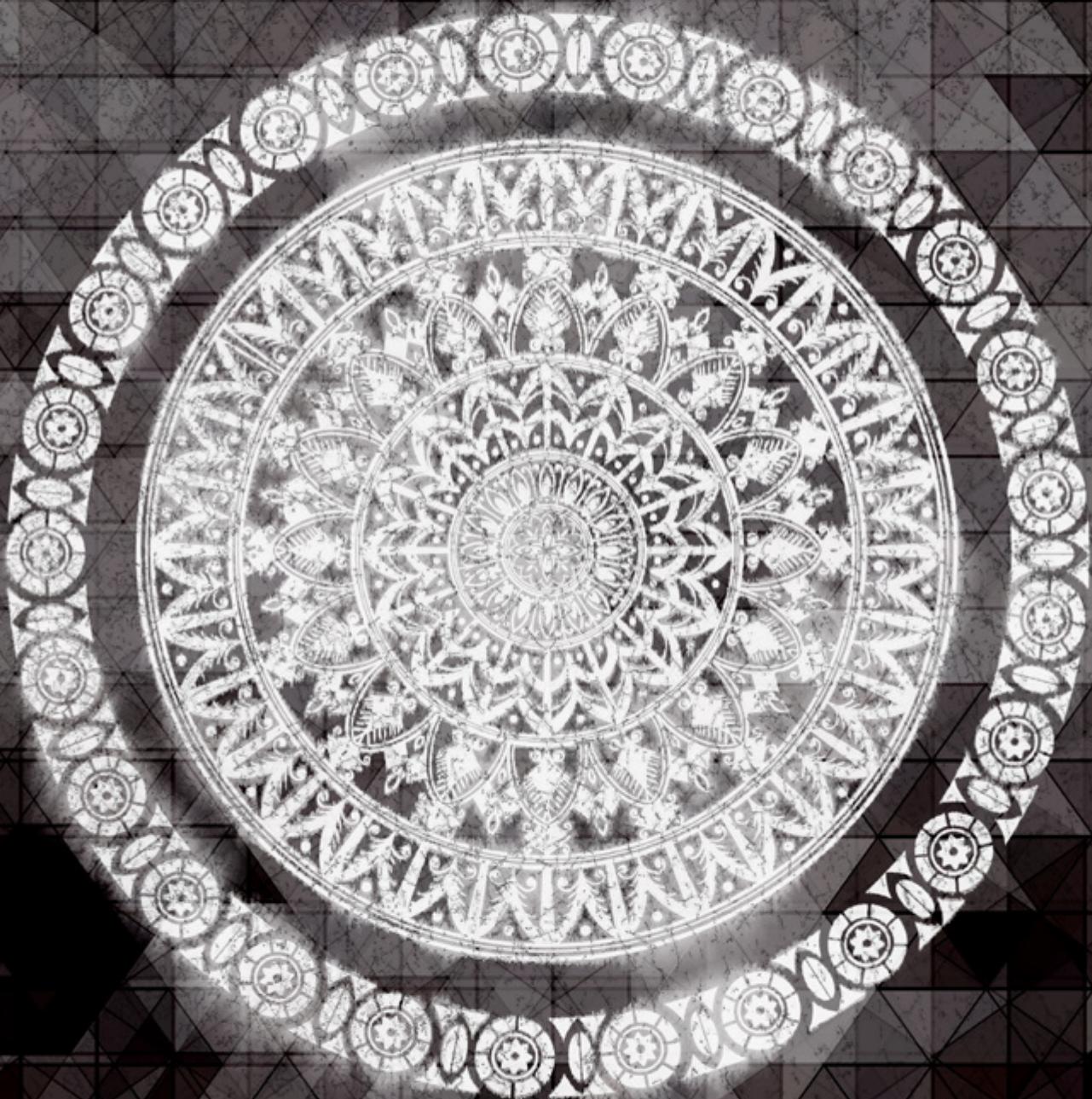
Strategic Priorities	Political space	Feasibility	Impact
Increasing market contestability/competition.	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/ reform complexity	Potential to increase opportunities and shared wellbeing
Pivoting to private sector-led growth in lagging regions.	<p><b>High :</b></p> <p>possible resistance from players benefiting from limited competition and opaque administrative authorization regime is a significant factor. This requires a shift to a shared vision for opening markets and leveling the playing field, as well as transparency and anti-corruption reforms to push back on exclusive/ extractive interest and resistance to reforms.</p>	<p><b>Moderate:</b></p> <p>(i) some momentum exists (2015 competition law reform and 2018 regulatory reform) but much more needs to be done for effective implementation; (ii) the implementation of follow-on measures requires numerous regulatory reforms and this is impeded by frequent changes in leadership.</p>	<p><b>Very high:</b></p> <p>can boost investment, innovation, and productivity.</p>
Sustainable public finances through growth friendly fiscal consolidation.	<p><b>Moderate:</b></p> <p>fairly wide consensus on the need to boost regional development and reduce disparities but implementation would benefit from opening participation in national dialogue to previously excluded local political actors and representative institutions.</p>	<p><b>Moderate:</b></p> <p>(i) consensus around the need for regional development; (ii) decentralization reforms have already been launched but more momentum and targeted investments to increase quality of and efficiency in the provision of services and leverage the absolute advantage of lagging areas are needed; (iii) fiscal space is limited to invest in more competitive regions/ secondary cities is limited.</p>	<p><b>Very high:</b></p> <p>secondary cities can become key regional development hubs in lagging regions thereby meeting citizens aspirations for better living conditions and economic opportunities.</p>
	<p><b>High:</b></p> <p>reducing the public sector wage bill, lowering subsidy spending and widening the tax base will likely encounter resistance; however this could be partly mitigated by transitioning to a more targeted model of social assistance and improving revenue administration. A shared socioeconomic vision is needed to manage the trade-offs from fiscal consolidation.</p>	<p><b>Low:</b></p> <p>key reforms such as reducing the public sector wage bill, lowering subsidy spending and widening the tax base are broadly within the existing capacity of the authorities and can be supported by technical assistance from international development partners but SOE reforms can be more complex; (ii) given the centralized nature of the public finance system, coordination with subnational is not a challenge.</p>	<p><b>Very high:</b></p> <p>rebalancing public finances could free up resources for public investments to promote growth. Reviving productivity-led growth</p>

...table continues next page



	Political space	Feasibility	Impact
Strategic Priorities	Need for a more inclusive political settlement / institutions	Obstacles due to state capacity/ reform complexity	Potential to increase opportunities and shared wellbeing
<b>Pathway: Increasing inclusion</b>			
<b>Increasing female labor force participation.</b>	<b>Moderate:</b>  important progress in terms of women's education shows that basis for this reform already exists but implementation would benefit from opening participation in national dialogue to women's movements and representative institutions.	<b>Moderate:</b>  (i) Tunisia has already reversed the education gender gap, with women now making up nearly two-thirds of university students; (ii) more effort is needed to tackle the adverse social norms and practices, ensure legal protection and reform discriminatory laws and regulations.	<b>High:</b>  enhance productivity, inclusion, and also extend the demographic dividend.
<b>Learning and skills transformation in lagging regions.</b>	<b>Low:</b>  implementation would benefit from opening participation in national dialogue to previously excluded local and youth groups, and representative institutions.	<b>High:</b>  (i) need for a high level of central-local coordination to strengthen education outcomes; (ii) limited fiscal space to shift resources to lagging regions to retool schools and teachers; (iii) Important role of household socioeconomic status in learning outcomes means it is also important to improve livelihoods in those regions.	<b>Very high:</b>  would reduce skills mismatch in lagging regions and promote growth and inclusion.
<b>Increasing access to and quality of service delivery.</b>	<b>Low :</b>  implementation would benefit from opening participation in national dialogue to previously excluded local and youth groups, and representative institutions.	<b>High:</b>  (i) need for a high level of central-local coordination to strengthen service delivery outcomes; (ii) limited resources available (fiscal constraints); (iii) need to improve the performance of key SOEs for service delivery such as STEG and SONDE; (iv) reforms are still required to fully operationalize the decentralized institutional framework.	<b>Very High:</b>  key pathway to meet citizen aspirations for inclusion and better living conditions, as well as rebuild trust.

# Appendices and references





## Annex A: Poverty Profiles (2019)

Variable	Non-poor, percent	Nonstructural poor, percent	Structural poor, percent
<b>Household's head age group</b>			
29 and younger	0.4	0.9	2.0
30 - 39	8.1	11.1	11.2
40 - 49	21.8	28.0	49.4
50 - 59	30.9	29.2	21.7
60 - 69	24.9	16.7	7.5
70 - 79	8.8	8.7	3.7
80 - 89	4.6	5.0	4.1
90 and older	0.5	0.4	0.4
<b>Household's head gender</b>			
Male	86.6	88.76	95.2
Female	13.4	11.24	4.8
<b>Household's head education level</b>			
Nothing	19.3	29.1	37.4
Primary school	37.5	49.0	49.1
Secondary school	31.1	19.7	13.4
University and above	12.1	2.2	0.2
<b>Household's head labour status</b>			
Employed	61.7	66.8	68.3
Unemployed	0.5	1.4	4.5
Inactive	37.8	31.8	27.2
<b>Household's head sector of employment</b>			
Agriculture	12.4	23.8	38.3
Industry	17.3	12.0	6.3
Construction	11.8	22.5	33.2
Services	48.7	31.2	19.1
Other	9.9	10.5	3.1
<b>Household's head marital status</b>			
Single	1.9	1.3	0.3
Married	85.5	88.4	94.9
Widow	11.4	9.1	4.4
Divorced	1.2	1.2	0.4
<b>Living area</b>			
Metropolitan	44.3	17.5	8.8
Urban	29.3	31.1	18.0
Non-urban	26.4	51.4	73.2



## Annex B: Estimating sub-national GDP using NTL data

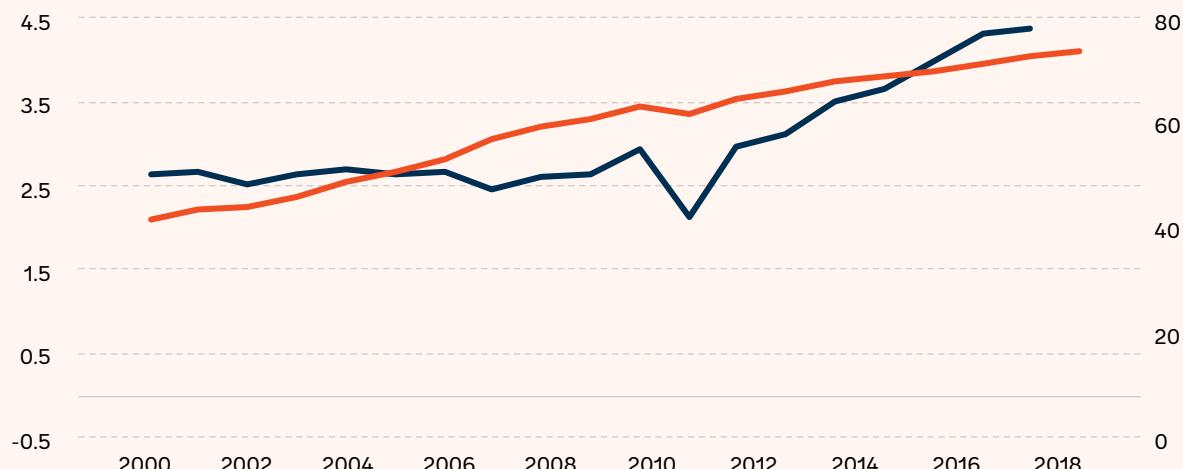
**The relationship between NTLs and economic growth is well documented (Henderson, 2012), widely used by economists (Donaldson, 2016), and is a particularly effective economic proxy in countries with poor statistical capacity (Chen and Nordhaus, 2010).** At the subnational level, there are several studies that have studied the relationship between NTLs and socio-economic variables. For example, Doll (2005) finds a correlation between GRP and NTLs for EU countries and the United States at the subnational level. Even in the developing world, Beyer (2019) shows a strong relationship between NTLs and income levels at the state level in India and Southeast Asia, while Omar (2019) confirms the same for Egypt, and Basihos (2016) for Türkiye. We used NTL data from National Oceanic and Atmospheric Administration (NOAA) and the National Aeronautics and Space Administration (NASA) to compile estimates of light output and intensity in Tunisia. This data is augmented with official GDP and population figures from the National Institute of Statistics (INS) to produce GDP per capita estimates at the governate level.

**The NTL data comes from Defense Meteorological Satellite Program (DMSP) from 1992-2012, and from the Visible Infrared Imaging Radiometer Suite (VIIRS) for 2012-2020.** Each dataset requires specific attention in order to use the dataset effectively. For example, the DMSP data requires intercalibration among the various satellites used to compile the dataset, while the VIIRS data requires careful masking to remove background noise. Both datasets were pre-processed by applying a built-up land mask to remove lighting from gas flaring and other ephemeral lights. To harmonize the data into a single timeseries, we leverage the overlapping year between the two datasets and use growth rates from the DMSP dataset to backcast the VIIRS data to 1992. The evolution of NTLs in Tunisia shows a good fit against GDP, and when regressed has an R-squared above 65 percent across all specifications. Even at the subnational level, our estimates are in line with GDP per capita statistics compiled by Tunisia's INS using a household budget survey



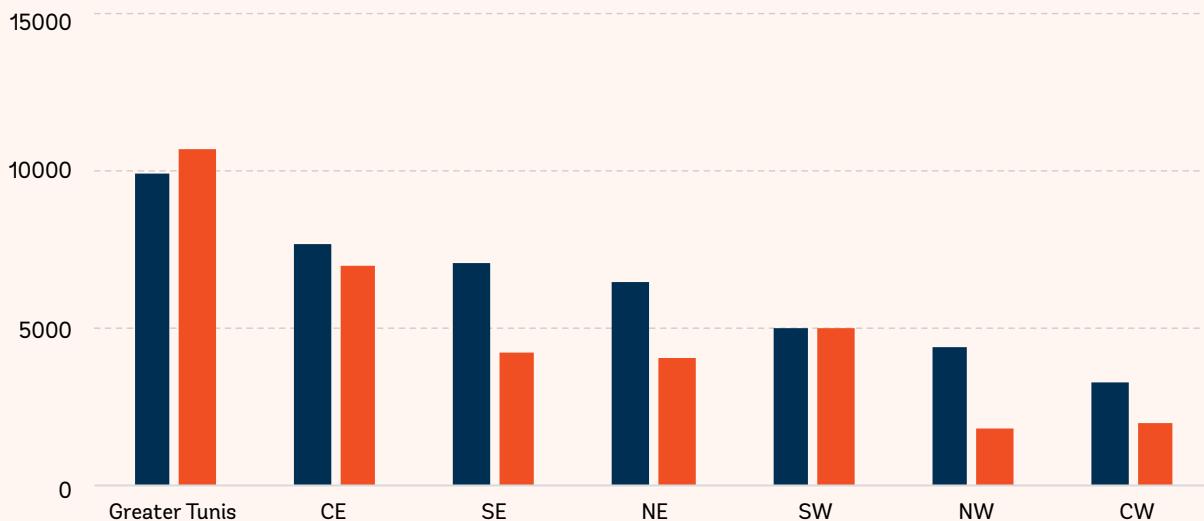
### Annex Figure 1: Comparing official GDP with nighttime lights estimates

Legend: ■ Total NTLs ■ GDP (Billions)



### Annex Figure 2: Comparing INS GDP with NTL based GDP estimates (by region)

Legend: ■ GDP INS (2013) ■ GDP pc (2013) NTLs



**To measure economic wellbeing at the regional level, we develop a measure of GDP per capita at governorate level.** This is done by first calculating the share of NTLs by dividing the regional NTL by the total. Here, we define NTLs as the “Sum-of-Lights,” which is the sum of all pixel-radiance values in a given area. Next, we multiply each regional share by the total GDP for each year, which results in our GRP estimate. Finally, GRP per capita is calculated by dividing GRP by each region’s population for every year to obtain a timeseries for each region.



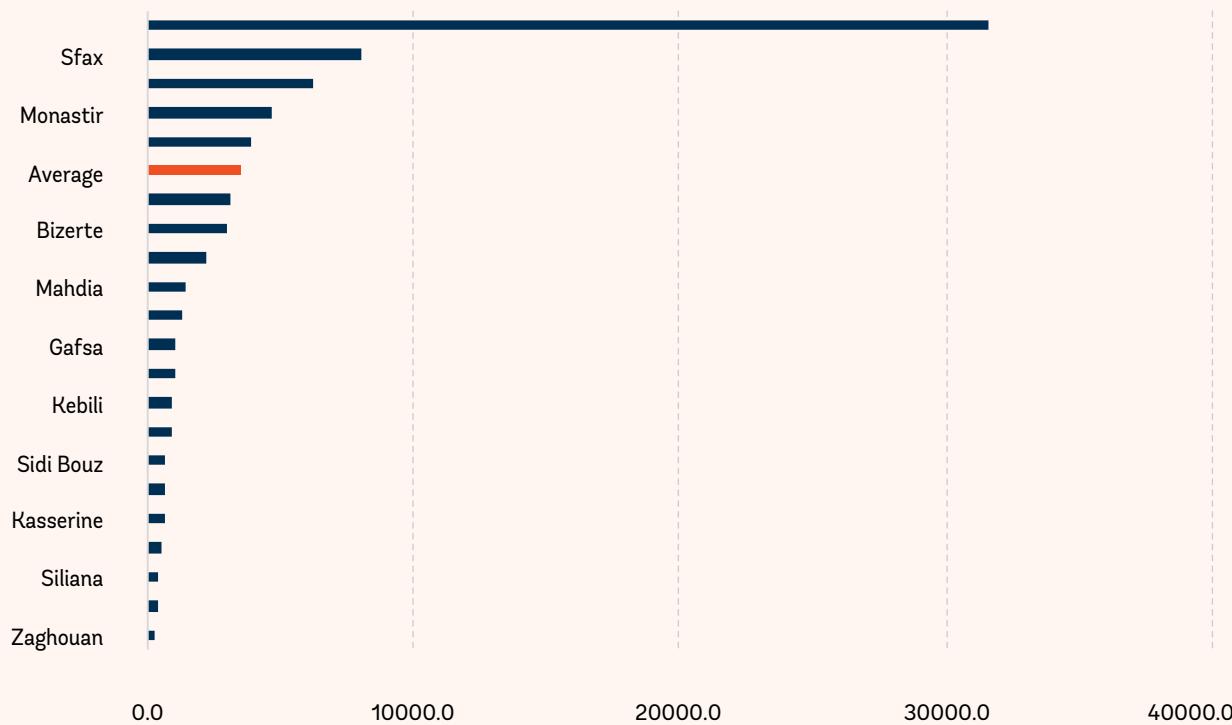
$$GRP_i = \frac{NTL_i}{\sum_i NTL_i} * GDP_{Total}$$

$$GRP_i^{capita} = \frac{GRP_i}{Pop_i}$$

### Leading and lagging areas

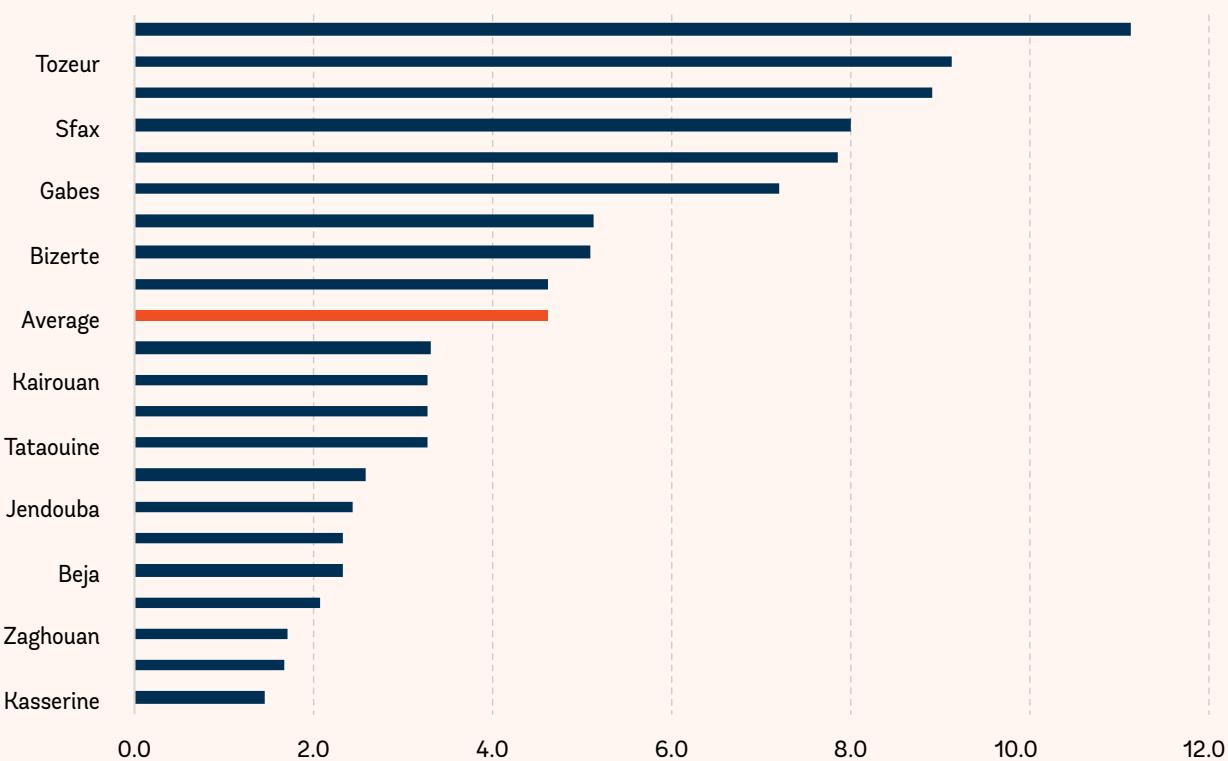
**Greater Tunis has the highest output levels, accounting for 40 percent of total GDP in 2018 but falls to fifth place in per capita terms given the size of its population.** As the major metropolitan area of the country, Tunis and its surroundings dominate consumption and economic activity, especially given the importance of services sectors. The other leading areas (with output levels above the average) are situated along the eastern coast: Sfax, Sousse, Nabeul and Monastir. These areas contain a large share of Tunisia's manufacturing base and its tourism industries. In per capita terms, areas with low population densities such Kebili and Tozeur take first and second place, followed by the economically dominant coastal areas and Greater Tunis.

**Annex Figure 3: GDP Rankings - 2019**





**Annex Figure 4:** GDP pc Rankings - 2018



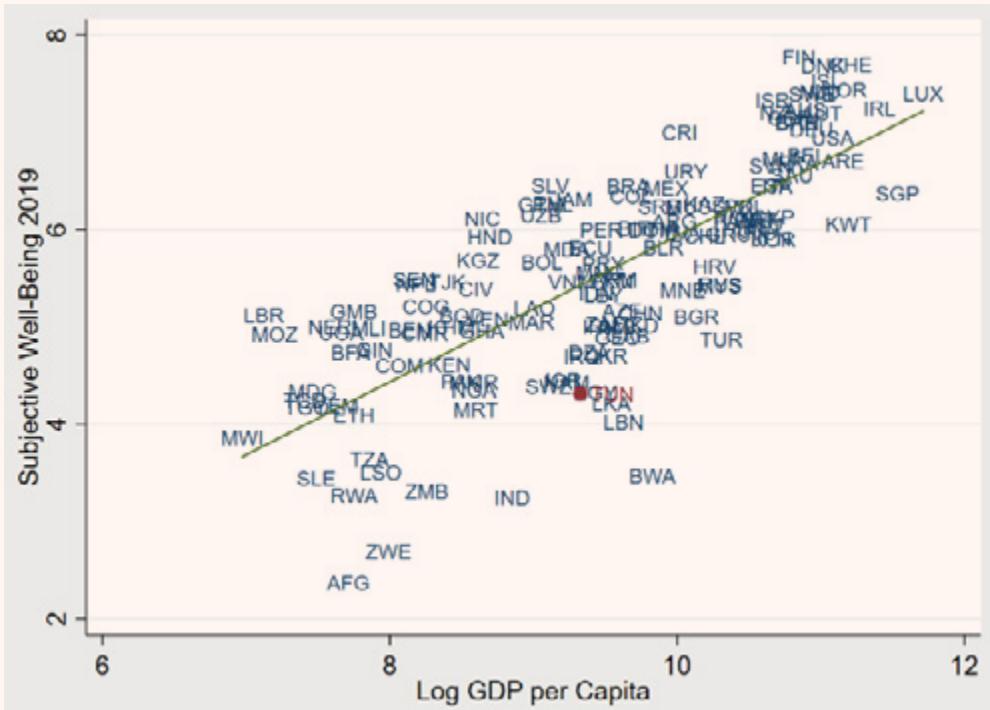
## Annex C: How satisfied are Tunisians?

This annex presents tables summarizing the perceptions-based measures of satisfaction of Tunisians, stratified among the dimensions of gender, education, income, urban or rural living areas, age, and regions.

**First, Annex Figure 5 and 6 compare Tunisians' subjective well-being with the rest of the world.** The measures of subjective wellbeing shown below come from two Gallup World Poll questions: (1) "Please imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?"; and the similar question but for five years from now (2) "Just your best guess, on which step do you think you will stand on in the future, say about five years from now?". The two graphs below show the data from 2019.



**Annex  
Figure 5:**

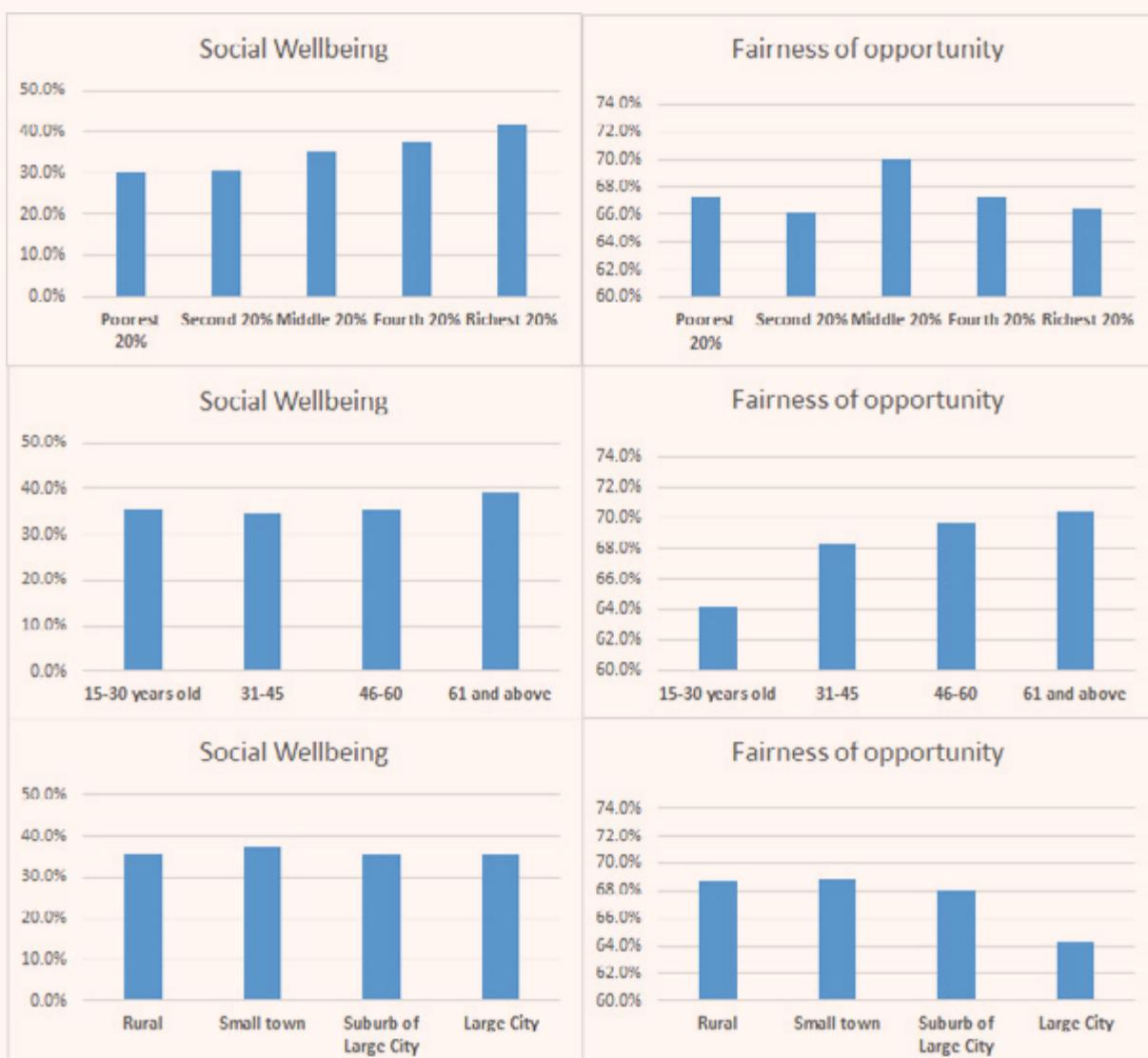




**Annex Figure 7 looks at the distribution of perceptions and how they meet citizens aspirations across the main groups within the population.**

The numbers represent the percentage (weighted to be representative) of all the respondents of each particular group that expressed being satisfied with a specific element of the social contract. The only exception is for the Corruption column where a high number represents a larger share of the group perceiving corruption in the government (so being dissatisfied with the outcome). The sample for the survey is composed of 3000 individuals interviewed in person between 2018 and 2020.

**Annex Figure 7: GDP pc Rankings - 2018**





**The table below disaggregates the indicator into their subcomponents.** The data suggests that groups with lower levels of educational attainment are generally more satisfied of the outcomes of the social contract than groups with more education. This could come from lower expectations or bargaining power from that specific group. Younger and more urban individuals also express significantly more dissatisfaction with the outcomes measured than older and more rural individuals.

**Annex Table 1: Perception-based Measures of Tunisian Citizens Satisfaction**

	Healthcare	Education System	Water	Welfare Policies	Corruption	Opportunity	Trust Courts	Fairness	Leadership	Trust Government
<b>Gender</b>										
Male	30.8%	29.6%	41.7%	34.3%	88.1%	79.6%	48.8%	64.2%	36.6%	31.9%
Female	39.0%	32.8%	40.6%	39.0%	87.2%	84.9%	56.7%	70.8%	37.5%	37.3%
<b>Education</b>										
No formal education	39.8%	35.3%	49.5%	43.4%	81.4%	87.2%	66.7%	76.9%	48.3%	46.2%
Some Elementary	35.7%	32.5%	40.1%	44.5%	83.8%	80.4%	52.2%	66.3%	39.9%	37.8%
Some High School	33.8%	29.2%	41.4%	33.0%	91.0%	83.1%	50.6%	66.9%	34.1%	30.6%
Some University	35.2%	31.7%	44.4%	27.0%	89.9%	78.1%	54.5%	66.3%	37.8%	28.1%
Completed Bachelor	33.4%	30.5%	36.1%	23.7%	90.5%	85.7%	49.6%	67.7%	30.6%	31.6%
<b>Income Quantiles</b>										
Poorest 20%	30.2%	29.6%	40.5%	38.1%	83.3%	81.9%	52.7%	67.3%	35.5%	39.8%
Second 20%	30.5%	28.2%	39.4%	37.3%	88.5%	79.9%	52.2%	66.1%	39.0%	31.6%
Middle 20%	35.0%	31.4%	39.4%	36.6%	85.8%	83.4%	56.7%	70.0%	40.4%	36.6%
Fourth 20%	37.3%	30.1%	40.3%	38.2%	90.2%	84.0%	50.8%	67.4%	35.9%	30.4%
Richest 20%	41.8%	36.6%	46.1%	32.9%	90.1%	82.2%	50.8%	66.5%	34.4%	34.4%
<b>Age</b>										
15-30	35.2%	31.0%	40.3%	32.5%	89.6%	78.5%	49.8%	64.2%	32.7%	28.8%
31-45	34.6%	29.2%	40.4%	36.2%	87.2%	85.0%	51.7%	68.3%	38.1%	37.2%
46-60	33.7%	33.0%	39.4%	38.1%	86.5%	83.7%	55.6%	69.7%	37.2%	34.8%
61 and above	37.1%	33.6%	47.6%	46.2%	85.0%	83.1%	57.7%	70.4%	47.0%	44.4%
<b>Area</b>										
Rural	31.4%	31.3%	44.2%	38.2%	81.8%	82.4%	54.9%	68.7%	36.5%	38.4%
Small town	36.7%	29.7%	45.4%	38.4%	88.5%	87.8%	49.9%	68.9%	38.3%	33.2%
Suburb of Large City	35.8%	31.0%	39.6%	33.0%	88.6%	82.1%	54.0%	68.0%	39.2%	34.4%
Large City	36.0%	31.7%	38.9%	39.4%	90.6%	79.2%	49.6%	64.4%	33.6%	32.1%

## Annex D: Dissatisfaction and Trust - A regression analysis

**There is a very strong correlation between individuals' trust in government and their levels of satisfaction on the performance of the government.**

Regression analysis demonstrates this association, where the performance of the government on the social contract (service delivery: health education and water) and of variables measuring inclusiveness of the government (fairness in terms of: opportunity, welfare policies, corruption). These relations remain strong even when controlling for individual characteristics in terms of age, income, education, and gender, and controlling for year and regional fixed effects. In other words, citizens' perceptions of a "thicker" and more inclusive social contract are associated with more trust in the government.



**The tables below present the results from the regression analysis.** The analysis uses the Gallup World Poll data for the years 2018 to 2020. Table B-1 shows the impact of levels of satisfaction on various outcomes on the likelihood that an individual responds yes to the question of whether he has trust in the government. Given that the independent variable is binary (0 for No and 1 for Yes), a Probit regression is used. The relations indicated in Table B-1 are quite strong and robust as they control for many socio-demographic and geographic characteristic of the individuals as well as the year that the interview took place. It is important to keep in mind that these regressions can only indicate correlation and cannot establish causality in the relations. Table B-2 presents a regression of the dependent variable “Trust in the State” on those controls used in Table B-1. The table shows similar relations that were identified in Table A-1. For example, individuals aged 60 and above are more likely to trust the state, more educated and more urban people are less likely to trust the state, etc.

**Table B -1:**

	(1)	(2)	(3)
	Trust Government	Trust Government	Trust Government
Satisfaction Health	0.404*** (6.52)		0.250** (1.98)
Satisfaction Education	0.380*** (6.29)		0.377*** (3.11)
Satisfaction Water	0.178*** (2.90)		0.0967 (0.77)
Satisfaction Welfare Policies		0.777*** (7.30)	0.687*** (5.98)
Dissatisfaction Corruption		-0.335*** (-2.61)	-0.272** (-2.03)
Satisfaction Opportunity		0.381*** (2.73)	0.334** (2.30)
N	2473	734	679
pseudo R-sq	0.085	0.145	0.169
Fixed Effects Regions	Yes	Yes	Yes
Fixed Effects Age	Yes	Yes	Yes
Fixed Effects Education	Yes	Yes	Yes
Fixed Effects Income	Yes	Yes	Yes
Fixed Effects Year	Yes	Yes	Yes
Fixed Effects Gender	Yes	Yes	Yes
z statistics in parentheses, robust			
= * p<0.1   ** p<0.05   *** p<0.01"			



Table B - 2:

	(1)	(2)	(3)	(4)	(5)
	Trust Government	Trust Government	Trust Government	Trust Government	Trust Government
31 to 45 years old	0.113*				0.0565
	(1.87)				(0.91)
46 to 60 years old	0.183***				0.0974
	(2.59)				(1.31)
More than 60 years old	0.391***				0.195**
	(4.78)				(2.13)
Female	0.148***				0.125**
	(2.95)				(2.46)
Some elementary		-0.325***			-0.230**
		(-3.17)			(-2.08)
Some High School		-0.501***			-0.351***
		(-5.14)			(-3.19)
Some university		-0.546***			-0.398***
		(-4.26)			(-2.78)
Completed bachelor's degree		-0.554***			-0.391***
		(-5.34)			(-3.31)
Second Poorest quintile			-0.193**		
			(-2.19)		
Middle quintile			-0.123		
			(-1.45)		
Fourth poorest quintile			-0.269***		
			(-3.23)		
Richest quintile			-0.179**		
			(-2.25)		
Small town				-0.0642	-0.0220
				(-0.71)	(-0.24)
A suburb				-0.102	-0.0481
				(-1.48)	(-0.68)
A large city				-0.150**	-0.0871
				(-1.99)	(-1.13)
Year 2019				-0.274***	-0.271***
				(-4.52)	(-4.39)
Year 2020				-0.263***	-0.182***
				(-4.14)	(-2.76)
_cons	-0.607***	0.0189	-0.252***	-0.147**	-0.0341
	(-12.70)	(0.21)	(-3.96)	(-2.25)	(-0.27)
N	2716	2716	2716	2709	2709
pseudo R-sq	0.010	0.011	0.003	0.009	0.021
z statistics in parentheses, robust standard errors					
** p<0.1 ** p<0.05 *** p<0.01"					



## Annex E: Framing the Social Contract

**The use of social contract terminology in this report builds on recent work done by the World Bank.**<sup>120</sup> In 2019, an IEG review found that social contract diagnostics add significant value to the World Bank's work, provided they are carefully selected, executed, and disseminated. Such diagnostics help teams understand policy failures, local political dynamics, and intractable development challenges, as well as contribute to building partnerships. The report highlighted the importance of this work given the growing use of social contract terminology in the World Bank's lexicon, but that currently the World Bank has no formal conceptual framework or shared understanding of social contracts, leading to a wide variety of uses, sometimes not anchored in social contract theory or in a framework that can help trace a theory of change for reforms.

**To support teams using a social contract framing, a forthcoming report by the World Bank proposes a conceptual and empirical framework to analyze the nature of social contracts and their link to development outcomes.** The report adopts the following simple definition of a social contract: "a dynamic agreement between state and society on their mutual roles and responsibilities." (OECD 2008) This definition highlights what is seen as the three core aspects of the social contract: the citizen-state bargain, the social outcomes and the resilience of the contract. First, by emphasizing that social contracts are agreements, although often implicit ones, the definition introduces the idea that some form of bargaining is involved and therefore that the parties to the contract have bargaining positions and bargaining powers. This relates closely to the framework set out in the Governance and the Law WDR 2017, which defines governance as the processes through which state and non-state actors interact to design and implement policies within a given set of formal and informal rules. It is shaped by, and in turn shapes, power relations. Second, when the definition mentions the roles played by the actors and their responsibility toward each other it implies that the policies that result from the citizen-state bargain influence the observed and experienced social outcomes. In other words, a country's policies, programs, and laws represent the contents of the social contract and impact how resources and rents are allocated within society. Third, by recognizing that the agreement is dynamic, the definition also highlights the fact that social contracts are not static. They are continuously renegotiated; they are subject to self-reinforcing cycles and feedback loops; their evolution is highly endogenous and path-dependent. Social contracts can also break down. Therefore, a framework for understanding social contracts needs to consider how they evolve over time and their level of resilience.

**Approaching the social contract from a citizen-state bargain perspective is useful for many reasons.** First, it directly connects with many of the ideas

120 World Bank, forthcoming, Understanding Social Contracts in Sub-Saharan Africa; IEG, 2019, Social Contracts and the World Bank Engagements.



suggested in the WDR 2017 that can be adapted and extended. Second, it suggests a straightforward way of explaining some of the observed variation in outcomes across different contexts. Third, it gives the framework some predictive power since changes in the bargaining powers should naturally lead to changes in the bargain outcomes. The conceptual framework of this report examines three aspects of social contracts, which the SDC refers to as ‘compasses’:

**(1) Process—what is the nature of the bargaining space for social contracts?**

Drawing on WDR 2017, this element seeks to understand how formal and informal bargaining mechanisms mediate the range of state and non-state interests and capabilities.

**(2) Outcomes—what is the substantive outcome of the bargain?** What does the state commit to deliver in return for compliance, stability, or staying in power etc.

**(3) Resilience—to what extent is the outcome responsive to and aligned with citizen expectations (or to what extent is it misaligned and counter to expectations); how open is the dialogue between citizens and the state; and how does this in turn lead to changes or breakdowns in the bargaining dynamic?**

## Annex F: SCD consultation

### Outreach Rational:

**The Systemic Country Diagnostic edition outreach was exceptional this year due to the COVID-19 circumstances.** Digital engagement has been privileged over mainstream to overcome challenges imposed by the pandemic. The team has privileged the digital approach to respect social distancing and safety measures without compromising the quality and the quantity of the feedback.

**The World Bank SCD team has partnered with a local digital media outlet with considerable digital outreach and digital production capacities.**

**The approach helped reach out to cumulatively 300.000+ Tunisians via Facebook and Instagram (Tunisians are mostly active on these two platforms).**

### SCD Engagement Strategy:

**The 2021 SCD communication and outreach strategy was based on 2 main phases.** In the first phase we have triggered the debate with scholars and public opinion makers as well as the Tunisian digital sphere. In the second phase we have closed the feedback loop and widely disseminated the SCD.

**The first phase has two parallel streams: Stream 1: Engagement with Academia, Public Opinion Makers and Public Administration: Through this**



**stream we succeeded to trigger the debate and advocate on the need to implement reforms to help Tunisia overcome its socio-economic crisis.**

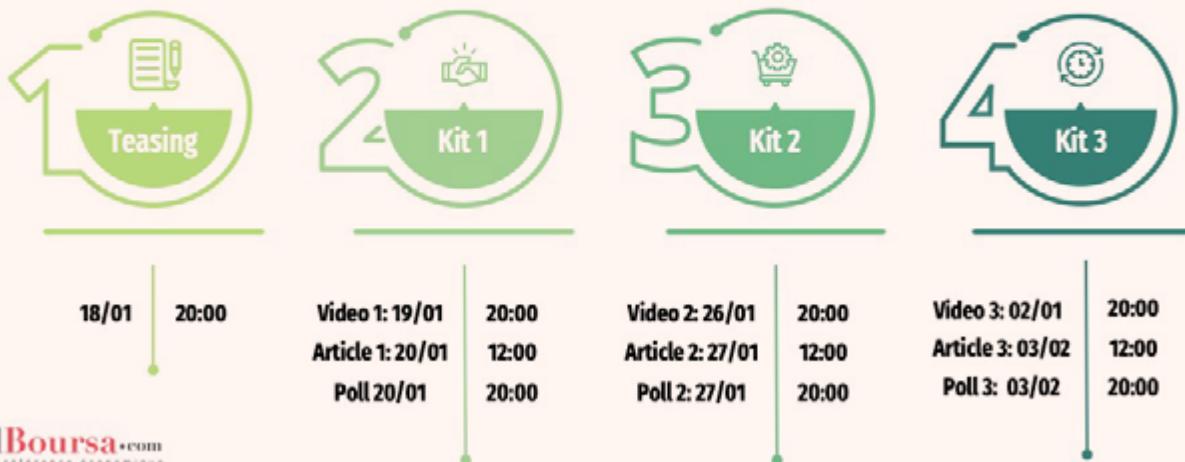
**Stream 2: Digital Engagement: Large digital engagement based on innovative communications products (i.e. short interactive videos and digital polls) and getting people's reactions on.** This step helped with raising awareness at a larger scale about the sensitivity of the situation and the urgency of reform. In this stream, the SCD team partnered with a local media to leverage its outreach capacity and digital engagement know how.

**Three media kits were produced based on the three SCD themes namely, 1) Aspirations for a renewed social contract, 2) Spatial and Socio-economic Inclusion, 3) Pathways and disruptors for meeting aspirations.**

**The second phase followed the SCD's release through the implementation of an engagement plan involving the SCD presentation to both institutional and key economic and social stakeholders.** This phase also included the deployment of a communication plan aiming to broadly disseminate the main recommendations of the SCD.

### Digital Engagement Plan

#### Timeline of posting on social media channels





## Digital Engagement Results:

### Kit 1: Video & Digital Opinion Poll - Facebook

#### The poll:

**33% of the people who saw the poll responded to it.** Overall, we have received 315 responses to the poll. For the first question, 77.3% said that creating new jobs is the responsibility of the private sector. However, 69.9% of the respondents think that a national economic recovery plan is what it takes to find a way forward for the economy.

#### Comments:

**The opinions were diversified between those who think it's the states' job to create employment opportunities and those who believe it's the responsibility of the private sector.**

### Kit 2: Video & Digital Opinion Poll - Facebook

#### The poll:

**Overall, we have received 233 responses to the poll.** For the first question, 77.7% said that what is needed to transform the Tunisian economy is Quality public services & Less bureaucracy. However, 46.4% of the respondents think that better public services is what it takes to improve the quality of life compared to 38.6% who believe that more social justice is the key to achieve it.

#### Comments:

**The opinions were diversified between those who believe in the importance of better public services and those who insist on the role that plays the private sector in this matter.**



## Kit 3: Video & Digital Opinion Poll – Facebook

### The poll:

**Overall, we have received 291 responses to the poll.** For the first question, 70.1% said that the state alone cannot reduce regional disparities, compared to 29.9% of the respondents who believe it can. As for the second question, 57.7% agreed that the key disruptor for improving living conditions in lagging areas and boosting job opportunities is relaunching key economic sectors namely tourism and enhancing agriculture productivity and modernization. However, 36.8% believe the solution is mainly in further strengthening the decentralization process and going for the creation of regions/collectivites-locales and 5.5% of the respondents think that government jobs created in internal and lagging areas is what is needed.

### Comments:

**The opinions were diversified between those who believe that the main reason behind the regional inequality is political and goes back to the decisions made by the former president Habib Bourguiba and others think that these regions unless they have the adequate infrastructure they will not be able to improve the living conditions.**



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Rebuilding trust and meeting  
aspirations for a more prosperous  
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