

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB5129

**Comment [OPCS1]:** The report number is automatically generated by the Internal Documents Unit (IDU) and should not be changed.

<b>Operation Name</b>	Tunisia Employment DPL (MILES)
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Sector</b>	Other social services (60%); General industry and trade sector (30%); General education sector (10%); Public administration-Information and communications (30%)
<b>Project ID</b>	P117161
<b>Borrower(s)</b>	GOVERNMENT OF TUNISIA
	Ministry of Development and International Cooperation 98, Av. Mohamed V Tunis Belvedere Tunisia 1002 Fax: 216-71-351666
<b>Implementing Agency</b>	MINISTERE DE L'EMPLOI ET DE L'INSERTION PROFESSIONNELLE DES JEUNES
	Ministere du Developpement et de la Cooperation Internationale 98, Av. Mohamed V Tunis Belvedere Tunisia 1002 Tel: (216-71) 892-653 Fax: (216-71) 799-069 k.benrejeb@mdci.gov.tn
	Ministere de l'Emploi et de l'Insertion Professionnelle des Jeunes 10 Boulevard Ouled Haffouz Tunis Belvedere Tunisia 1002 Tel: (216-71) 792-432 Fax: (216-71) 794-615
<b>Date PID Prepared</b>	January 14, 2010
<b>Estimated Date of Appraisal Authorization</b>	April 5, 2010
<b>Estimated Date of Board Approval</b>	May 25, 2010

### 1. Key development issues and rationale for Bank involvement

The prosperity of a country and the wellbeing of its citizens depend crucially on a well-functioning labor market. The Government of Tunisia (GT) has declared employment its number one priority in its XI<sup>th</sup> National Development Plan (NDP) 2007-2011. This approach includes demand side interventions, such as private sector development, increased competitiveness, and innovation; supply side interventions, such as education and vocational training systems, and labor market intermediation to match demand and supply.

*Tunisia's main challenges for the future are to ensure the generation of quality jobs, the supply of an adequately skilled workforce, and a dynamic and efficient matching between jobs and workers.* Despite an excellent macroeconomic track record, the pace of job creation has not kept up with the growth of the labor force and has been aggravated in the recent economic crisis. Furthermore, efficient labor market mediation

between the rising share of new labor market entrants holding university degrees and the jobs that are available as the country is moving towards a knowledge-intensive economy is lacking.

*In the past decade Tunisia showed consistent economic growth* thanks to sound economic policies and steady structural reforms. Tunisia enjoyed a 4.8 % average annual growth in GDP over the last 8 years, placing the country among the leading performers in the MENA region and in emerging economies (where average growth rates were around 4.5% and 4% respectively). Tunisia's growth performance reflects the positive effects of macroeconomic stability coupled with a gradual but steady opening to trade and foreign investment. The dynamism in growth was driven by increased exports and foreign direct investment inflows, but also large public investments and vigorous private consumption (the largest component of real GDP). Overall, Tunisia's macro-economy is consistently sound. The fiscal deficit is modest (-1.2% in 2008), inflation is low (3.5% in June 2009), external debt dropped significantly in recent years (below 54% of GDP in 2008 from 71.4% in 2004) and reserves are at healthy levels (above 4 months of imports).

*The financial crisis had a moderate effect on the financial economy, but a deeper and growing effect on the real economy.* The initial spread of financial turmoil emanating from the US and Europe in September 2008 did not significantly affect the Tunisian economy due to relatively low foreign exposure of the financial sector. Tunisia's sovereign spreads (EMBI Global spreads) increased to more than 600 basis points in December 2008, but they remained below the MENA regional average (close to 900 basis points) and are now back to under 200 basis points. The main channel of transmission of the crisis has been trade. Depressed external demand (particularly from the European Union) resulted in a drop of over 25% in export value in the first seven months of 2009, showing a slight recovery only in the month of July 2009 (where the drop was around 16% year-on-year compared to a year-on-year drop of 27% in June and May). This eventually translated in a reduction in manufacturing output and an increased upward pressure on the already high (14.2%) unemployment rate.

*The Government has taken several short term stimulus actions to support the real economy in response to the slowdown.* The Government response includes measures to: (1) increase public investment by 20% in the 2009 Budget Law; (2) assist exporting firms through measures such as: (i) subsidies towards the employer's cost of social security (50% for firms witnessing a dramatic fall in exports to Europe; 100% for firms that have to stop production and run down stocks); (ii) a subsidy of 50% of the cost of export insurance (iii) an acceleration of procurement procedures for public contracts granted to the local private sector; and (iv) selected reforms to enhance integration and improve the business climate and strengthen the financial sector.

*Tunisia's production structure has changed only marginally in the past decade. The pace of the structural transformation has not been adequate to move the economy up the value chain, towards high value added sectors.* Domestic commercial services (except tourism) dominate the economy, representing almost 48% of GDP (and 38.8% of total employment) in 2008. The manufacturing sector (19.7%), the largest exporting sector, is quite diversified with textiles and clothing (4.7% of GDP), agro-industry (4.7%) and mechanical and electrical engineering (4% of GDP) sectors standing out as prominent. Agriculture remains important, accounting for a little less than one-tenth of GDP and 18.3% of total employment. The evolution of the domestic private investment rate, in contrast to that of FDI, followed a declining trend in the most recent years from over 11% of GDP in 2003 to 8.9% in 2008. This is a key longer term challenge to change the structure of the economy and is being addressed by the Competitiveness DPL. Further, employment-output elasticities have gone up since 1995 (excluding the agricultural sector), reflecting lower labor productivity and growth towards lower value added jobs.<sup>1</sup>

*In spite of solid growth, unemployment remains a persistent problem.* Tunisia has a relatively high unemployment rate at 14.2 % (compared to 6.4% for all middle income countries, 2008). The overall rate masks a striking divergence by age, with younger groups of the labor force being more affected. Unemployment increasingly affects the better educated, although the low and medium skilled still make up the bulk of the stock of unemployed. The unemployment rate of Higher Education graduates, below

---

<sup>1</sup> Robalino et al. (MILES I) "Skills Development, Social Insurance and the Labor Market: towards an Integrated Strategy", World Bank Policy Note, 2007

5% in 1994, has increased strongly to now 19%. However, in the overall stock of the unemployed, 40% have a secondary, and 35% a primary education level, and only 20% have a university degree.

*In the near future, unemployment numbers will likely worsen, especially for graduates, because of still growing labor supply, insufficient demand, and a poorly functioning labor market leading to long average unemployment spells.* The overall labor force is projected to grow at above 2% until 2012, which would require the creation of around 860,000 additional jobs.<sup>2</sup> Between 70 and 80 thousand net new jobs would be needed each year only to absorb the new entrants (i.e., without taking into account the current stock of the unemployed). Furthermore, a large and growing share of new labor market entrants will hold university degrees (from 60,900 in school year 2006-2007 to 79,900 in school year 2010-11), but only a limited number of jobs (about 30,000) at graduate level are created every year.

*The education system does not respond to the needs of the labor market, leading to simultaneous over-supply of graduates and shortages of vocational technicians.* Graduates who do work often find themselves over-qualified or in jobs that do not match their acquired skills. About 28% of graduates are not working in jobs using their levels of education three and a half years after graduation, while 15% are matched to the wrong job.<sup>3</sup> These issues are being addressed in the Higher Education Quality and Skills Development Projects.

*Unemployment spells are long and turnover low. The average duration of search for the first job or between two jobs is long, half of the workforce report having searched between 10 and 24 months (LFS 2007).* Further, between 2002 and 2008, the number of layoffs reached only 0.3% of total employment, while the comparable figure for OECD countries is 10% (OECD 1996). It is not surprising that in this context, newcomers, such as the young and women (unemployment rate close to 18% vs. 13% for men), face a more difficult labor market situation. In addition to higher unemployment rates, women are considerably less active in the labor market than men. In 2008, the labor force participation rate among women aged 15 to 64 was 28%, compared to 74% among men (ILO, 2009).

*Informal employment and term contracts are much more widespread than open-ended contracts.* Fifty-four percent of the workforce does not have a contract, and over 40% of graduates in their first job have a term contract only. This is likely related to rigidities and transaction costs of formal employment. For instance, an employer needs to request authorization from and notify a commission headed by the labor inspection, prior to laying off any open-ended worker for economic reasons.

*The positive externalities of migration are not yet fully tapped.* Although migrants constitute a relatively small share of the labor force (0.3 to 0.4%)<sup>4</sup>, approximately 13% of new entrants to the labor force emigrate. This can ease pressure on the labor market in the short-run and provide long run benefits to Tunisia. At the moment, however, the lack of proper regulation of the intermediation agencies, the non-equivalency of diplomas, and the lack of data hamper the optimization of migration benefits. A range of agencies offer international employment intermediation, with strongly heterogeneous services. Stakeholder report about fraudulent and misleading offers abounds. Further, those who migrate often struggle to signal their skills in the European market, as the Tunisian National Qualifications Framework follows different standards and does not translate into the European Qualifications Framework. Also, at this point, there is little data on the characteristics of migrants and about the key determinants of migration flows, so that evidence-based policy making is difficult. In this context, both migrants and the Tunisian economy would benefit from developing migration management institutions that (i) facilitate the matching between migrants and international vacancies, (ii) offer mechanisms to protect migrants against certain risks (i.e. portable health insurance), (iii) offer focused training activities specific to the

---

<sup>2</sup> Robalino et al. (MILES I) "Skills Development, Social Insurance and the Labor Market: towards an Integrated Strategy", World Bank Policy Note, 2007

<sup>3</sup> Grun et al. (MILES II) "Labor Demand, Skills Supply and Employment", 2008

<sup>4</sup> During the period 1999-2004 there was a net migration outflow of 48,000 individuals. Some 76,000 Tunisian left the country mainly to France (43%) and Italy (22%). This implies an average of 9,600 net migrant outflows per year.

needs of prospective employers, and (iv) monitor the characteristics of migrants as well as key determinants of migration to enhance evidence-based policy making.

The GT has requested the World Bank to support this integrated approach through the Country Partnership Strategy (2010-2013), which would include the following operations: (1) on the labor demand side the Integration and Competitiveness DPL, the Third Export Development Project, and the Energy Efficiency Project, (2) on the labor supply side the Higher Education Quality and Skills Development Projects, and (3) on the matching of labor demand and supply the proposed Employment DPL series.

In the short term, the key challenge for Tunisia is to mitigate the adverse impact of the global economic crisis, in particular depressed external demand compounding structurally high unemployment. In the medium to long term, the main challenge will be to generate quality jobs by, on the one hand, advancing the structural transformation of the economy, and on the other hand, ensuring an adequate institutional setting for efficient matching of labor demand and supply. The proposed Employment DPL supports the efforts of the GT in facing this latter challenge.

The GT has invited the World Bank and the EU to join forces to support the above objectives on the basis of a shared vision over a five year perspective. Financial support would be granted first from the World Bank followed by the European Commission. This will include the following coordinated instruments over the next five years (a) reform financing through Development Policy Loans (World Bank two-single tranches in 2010 and 2011) and Budget Support (EC over 2012-14), which will support a common set of reforms to improve the functioning of the labor market, especially young graduates' school-to-work transition, (b) technical assistance, which will build the capacity for employment intermediation and labor market analysis, and (c) trust funds to pilot innovative forms of employment in social entrepreneurship. Thus, the proposed Employment DPL engages both the World Bank and the European Commission with coordinated policy and technical assistance.

This is the first time that the GT requests external support for this area and it builds on the gradual trust built with the WB on employment issues since 2000. The proposed engagement follows the pattern that the GT has set with the WB in other sectors, where first steps were cautious and specific but laid the foundations for reliable and sustained reforms in priority policy areas such as competitiveness, infrastructure, and macroeconomic policy. The national political economy requires a gradual, consensus-based approach involving all stakeholders. This does not preclude, but rather progressively consolidates the prerequisites for sustainable and far-reaching reform.

## **2. Proposed objective(s)**

The overall objective of the proposed DPL series would be to expand employment opportunities, through tapping new sources of employment, strengthening labor intermediation and placement - nationally and internationally - and improving the information base on employment.

## **3. Preliminary description**

Concretely, the DPL would support the following three strategic objectives:

- Facilitate employment through active labor market policies, more efficient public employment services, and lifelong learning;
- Enhance domestic and international labor mobility, through legislation that allows firms to adjust labor inputs in response to economic shocks, unemployed workers to benefit from a consumption-smoothing social safety net, and to mobilize national benefits from migration; and
- Foster monitoring, evaluation and dissemination of employment data and mainstream evidence-based policy-making.

#### **4. Environment Aspects**

No significant environmental and natural resource impacts are associated with the operation. The reforms supported by the program are related to the adoption of policies and only a few could have a future, and only indirect, environmental impact. Specifically, the enterprises founded by the participants of the Business Plan Competition could be active in areas with environmental consequences, such as manufacturing. In any case, the companies will be subject to the existing environmental legislation. The community childcare ALMP pilot will not entail new construction. The services will meet the quality standards set by the Ministry of Women's Affairs and Family.

#### **5. Tentative financing**

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	50
Total	50

#### **6. Contact point**

Contact: Rebekka E. Grun  
Title: Senior Economist  
Tel: (202) 473-4984  
Fax:  
Email: [rgrun@worldbank.org](mailto:rgrun@worldbank.org)