





The labor code  
paradoxically contributes  
to exploitation of workers  
and job insecurity



**T**he Tunisian labor market is characterized by deep dysfunctions, which have contributed to keep the economy in low productive activities and generate mainly low-quality, insecure jobs. Tunisia's economy needs to create more jobs—in particular there is a need for skilled jobs to employ the growing number of university graduates. The growing graduate unemployment over the past decade reflects the structural mismatch between the increasingly skilled labor force and an economy that has remained stuck in low productive activities (as discussed in Chapter One). Available jobs have been of low quality, both in terms of value added (and therefore pay) and also in terms of low job security. In fact, jobs have increasingly been informal or in fixed-term contracts, which entail no workers' protection, and have translated into an overly high level of turnover—in its worst manifestations, notably those linked to the infamous working arrangements often associated with outsourcing to Tunisia of assembly activities, this economic system has allowed the exploitation of workers—which Tunisians refer to as the phenomenon of the *sous-traitance*. The resulting large rates of unemployment and informality, as well as high mismatch and underemployment, underpin the great social discontent that has been violently expressed by Tunisia's youth.

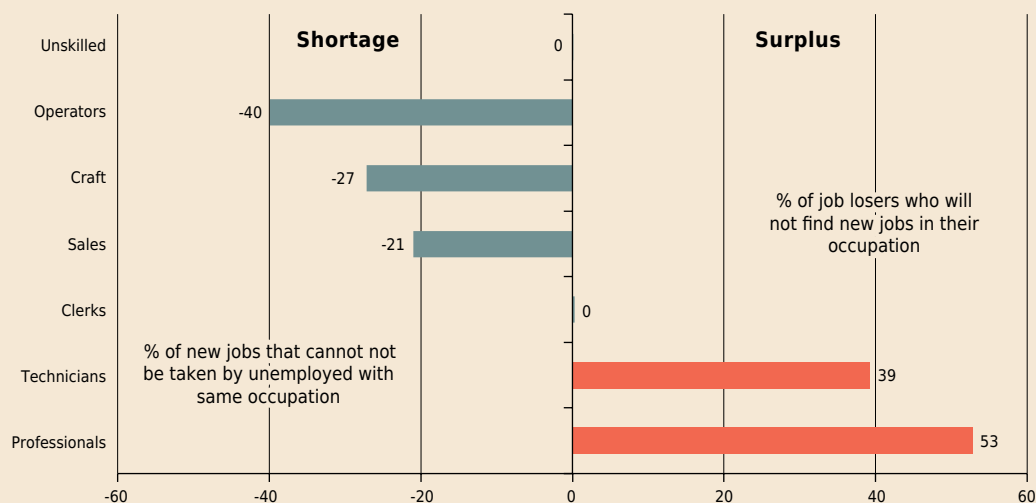
These outcomes are in part the result of the policies regulating the labor market in Tunisia. As discussed in previous chapters, the weak economic performance and insufficient and low-quality jobs creation is the result of an economic environment permeated by distortions, barriers to competition, and excessive red tape, resulting in low productivity and pervasive rent-extraction for cronies. Nevertheless, while labor market policies do not appear to be the key constraint to jobs creation in Tunisia, this chapter argues that the creation of good quality jobs is exacerbated by the policies regulating the labor market in Tunisia and the distortions introduced by the labor code, the social insurance system, and the wage negotiation mechanisms. The social insurance system in Tunisia fails to protect workers and exacerbates unemployment. Labor regulations and institutions in Tunisia promote job insecurity and the bias toward low-skill jobs. The chapter shows that the rules and institutions regulating the labor markets in Tunisia, while introduced with the best possible intentions, are in fact counterproductive, as the mix of rigidity and flexibility has hindered investment in higher value added activities and innovation, while resulting in abusive types of labor arrangements. In no small way, hence, the labor code, the social insurance system, and the wage negotiation mechanisms in Tunisia today contribute to create and perpetuate inequities, especially for youth.

This chapter discusses how to enable faster and better quality jobs creation, while ensuring better protection for the unemployed. The chapter starts by highlighting the shortcomings that characterize the Tunisian labor market in terms of insufficient and low-quality jobs creation, as well as the increasing skills mismatches and patterns of high labor mobility. It then discusses the system of social insurance, labor regulations and institutions, and the role of the public sector, highlighting the way in which these have distorted labor markets outcomes and resulted in greater, not lower, unemployment.

## 5.1 / A Labor Market Characterized by Low-Quality and Insecure Jobs

The Tunisian labor market is characterized by a significant amount of mismatch, notably a surplus of skilled labor and a shortage of unskilled and semi-skilled ones. To quantify skills mismatches in the economy, one can compare the new jobs created by the economy by occupation with the occupation declared by the stock of unemployed<sup>1</sup>. The results indicate that unskilled and semi-skilled (manual and non-manual) workers in Tunisia are in shortage, while technicians and professionals are in surplus (figure 5.1)<sup>2</sup>. Obviously, at present there is no shortage of unskilled and semi-skilled labor in Tunisia, and there will not be one in the near future. What the chart is meant to show, however, is that there is a skills mismatch: the occupational structure of unemployment is different from that of employment or jobs being created (that is, labor demand). This implies that there will be unemployment (structural) even if the economy creates more jobs. In particular, there still will be excess supply of highly educated workers, because currently the economy demands mostly less skilled manual labor<sup>3</sup>.

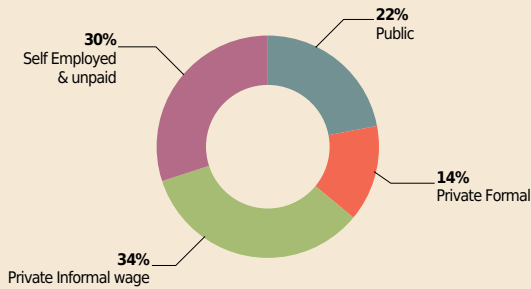
Figure 5.1: Labor Surplus and Shortages by Occupation in Tunisia, 2011



Source: Authors' calculations using the Tunisia 2011 Labor Force Survey

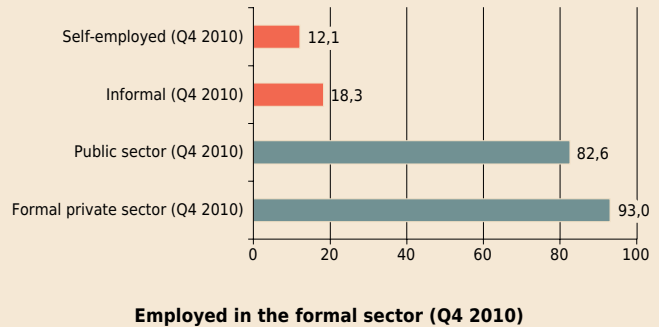
Not only there are few jobs for skilled workers but the quality of available jobs also remains low and informal employment is wide spread in Tunisia. About half of all wage earners (45 percent) work without an employment contract. Not surprisingly, informality rates are higher among younger and less educated individuals<sup>4</sup>. The large majority of all employed individuals (about 64 percent) are either informal wage earner or self-employed (figure 5.2). Formal employment accounts for only 36 percent of overall employment, and the public sector remains the main source of formal employment in Tunisia<sup>5</sup>. Only 14 percent of all employed individuals are so in the private formal sector, which traditionally is considered as the high-productivity sector—as a comparison, this share oscillates between 20 and 40 percent in middle-income countries in Europe and Central Asia (ECA) and Latin America (World Bank 2013a)<sup>6</sup>. In addition, most of these workers have fixed-term contracts (which, as will be explained below, in Tunisia are necessarily also short-term contracts), and this type of contract in Tunisia entails no job security<sup>7</sup>.

**Figure 5.2: Work Status of Employed Individuals in 2010**



Source: Authors' calculations using Tunisia's 2010 Labor Force Survey

**Figure 5.3: Transitions of the Employed Population Between 2010 and 2011**



Source: Authors' calculations using Tunisia's 2010 and 2011 Labor Force Surveys

Labor mobility in and out of joblessness is significant, signaling that available jobs have relatively short duration and result in a high rate of jobs turnover and more generally reflecting the precarious nature of employment in Tunisia<sup>8</sup>. As indicated by table 5.1, mobility in and out of joblessness during the period of study was limited. Only about a third of all individuals unemployed in year 2010 found a job in year 2011, while almost two-thirds of the unemployed remained unemployed or become inactive in 2011. In fact it is concerning that more than half of all individuals unemployed in 2010 became inactive in 2011, suggesting high rates of discouragement—that is, many unemployed opted out of the labor force. The majority of individuals employed in 2010 remained employed in 2011; only a minority became unemployed (2.7 percent) and 26.3 percent entered into inactivity, many of which could be new retirees. Inactivity was somehow stickier, as 81 percent of those individuals inactive in 2010 remained inactive in 2011. Only 14.5 percent of all inactive in 2010 found employment in 2011.

Workers with fixed-term contracts are more mobile. As expected, workers with fixed-term contracts display higher patterns of mobility than workers with open-ended contracts (table 5.2). About 25 percent of all workers who had a fixed-term contract in 2010 became informal in 2011<sup>9</sup>. This observation may have been driven by the adjustments in private sector employment in response to the economic shock after the January 2011 revolution, but as discussed below also reflects a deeper dysfunction with the use of fixed-term contracts. As expected, mobility across contract types was less pronounced among workers with open-ended contracts. Surprisingly they are also more mobile than workers with no contract, however. A significant share of informal workers in 2010 became formally employed in 2011 (3.5 percent obtained fixed-term contracts and 11.3 percent an open-ended contract). Results using the Tunisia graduate tracer survey (2004-2008) confirm the mobility patterns identified above (for details see DPR background report on "Creating Good Jobs in Tunisia", World Bank 2014c)

The very high mobility is symptomatic of the dysfunction of the Tunisian labor market, which has resulted in exploitative forms of labor. While the high mobility registered in 2010-2011 partially reflects adjustments following the economic shock in early 2011, in fact it is largely symptomatic

**Table 5.1:** Transition Matrix: Change in Employment Status of Workforce (aged 15-64) Between 2010 and 2011

	<b>Employed in Q4 2011</b>	<b>Unemployed in Q4 2011</b>	<b>Inactive in Q4 2011</b>	<b>All</b>
Employed in Q4 2010	71.0 %	2.7 %	26.3 %	100 %
Unemployed in Q4 2010	34.5 %	11.5 %	54.0 %	100 %
Inactive in Q4 2010	14.5 %	4.7 %	80.8 %	100 %

Source: Authors' calculations using the Tunisia Labor Force Survey (2010, 2011)

**Table 5.2:** Transition Matrix: Change in Type of Contract Between 2010 and 2011

	<b>Fixed term in Q4 2011</b>	<b>Open-ended in Q4 2011</b>	<b>No contract in Q4 2011</b>
Fixed term in Q4 2010	42.3%	32.9%	24.8%
Open-ended in Q4 2010	7.3%	79.4%	13.3%
No contract in Q4 2010	3.5%	11.3%	85.2%

Source: Authors' calculations using the Tunisia Labor Force Survey (2010, 2011)

of a deeper dysfunction affecting the Tunisian labor market, which is known in Tunisia as the phenomenon of the *sous-traitance*. *Sous-traitance* refers to out-sourcing of jobs (to Tunisia), which of course should be a positive development. In practice, however, this outsourcing has entailed mainly low-value added tasks (notably assembly) to Tunisian workers who have been kept under permanent job insecurity through informality and the abuse of fixed-term contracts. As will be discussed below, fixed-term contracts entail almost no job security. This type of contract was intended to provide a four-year window of flexibility to the employer following which good workers would be converted into open-ended contracts (or would have to be dismissed). In actual fact, however, some firms have used legally opaque arrangements to circumvent the four-year limit and keep the workforce in permanent job insecurity (UGTT 2009). The results of the 2012 Enterprise Survey in Tunisia highlight that the services and tourism sectors in particular make extensive use of temporary workers—on average nearly 50 percent of the labor force is in fixed term contracts (World Bank 2014c). In practice, therefore, the use of fixed-term contracts has resulted in a legalized exploitative system, which exacerbates the already high levels of informality.

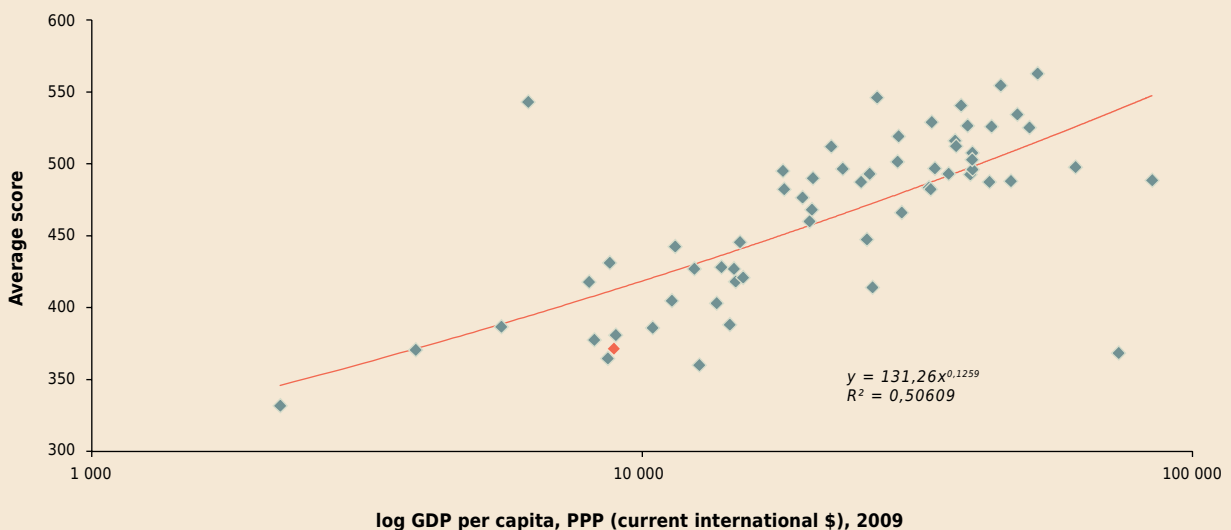
## 5.2 / Improving the Quality of Education is Key to Future Growth

Concerns about the skills of the workforce have become increasingly prominent in recent years. The levels of secondary education of the Tunisian workforce are among the highest in the region (and 47 percent of the workforce surveyed has a minimum of 10 years education). Nevertheless, irrespective of formal degrees, the Tunisian labor force may not have the skills the private sector needs. While the availability and cheap cost of labor is often cited by investors as a key attractive

feature of the business environment in Tunisia (see Chapter Four), at the same time some employers complain that the technical and “soft skills”<sup>10</sup> of the workforce are inadequate (see World Bank 2008a; ETF and World Bank 2005). The quality of workers’ skills is identified as a leading constraint to firm operations by 39 percent of employers interviewed in the 2012 Enterprise Survey (annex 4.4; see also World Bank 2014e). The concern expressed by businesses appears to reflect the difficulty of finding skilled workers to meet the specific demands of the workplace. For instance, it takes on average eight to nine weeks to find workers with specific qualifications of a technician or an engineer. The problem is even more pronounced with professionals whose qualifications require “soft skills”—businesses report needing upward of 11 weeks to find a suitably qualified candidate. Further, many firms indicated that candidates do not meet their expectations with regard to required qualifications—70 percent of respondents stated that the types of engineers and/or professionals available on the job market do not possess the adequate skills required for the position.

Although little data is available to measure objectively the quality of Tunisian university graduates, the available information suggests that learning outcomes may be weak. As discussed in Chapter One, Tunisia rapidly expanded access to education over the past 20 years, and especially to higher education. However, evidence on learning outcomes—as measured by Trends in International Mathematics and Science Studies (TIMSS) among 8th graders and by the Program for International Student Assessment (PISA) among 15 year olds—points to a relatively low quality of education. The 2007 TIMSS indicates that 80 percent of 8th graders in Tunisia displayed “low” and “below low” performance in mathematics, suggesting that secondary school students may not have even basic mathematical knowledge (based on international benchmarks; World Bank 2014c)<sup>11</sup>. Similarly, data from the 2009 PISA suggests that Tunisian pupils’ performance in sciences and mathematics is low (given the country’s level of development) (figure 5.4). While these data look only at performance in secondary education, nevertheless they signal that the education system is not producing a critical mass of students who have the fundamental quantitative skills to perform well in labor markets<sup>12</sup>.

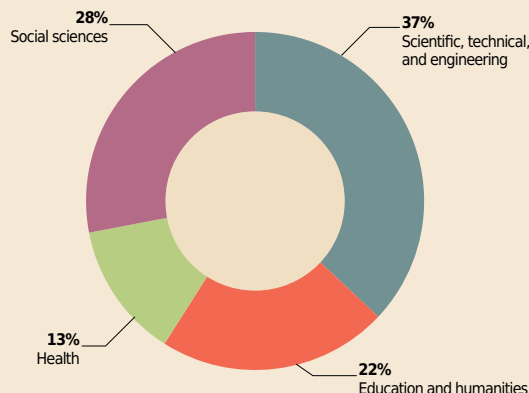
**Figure 5.4:** Math Skills and Log GDP Per Capita, PISA Results 2009



Source: Program for International Student Assessment (PISA), Organization for Economic Cooperation and Development (OECD), 2009. World Development Indicators, World Bank, 2013.  
Note: Red dot denotes Tunisia

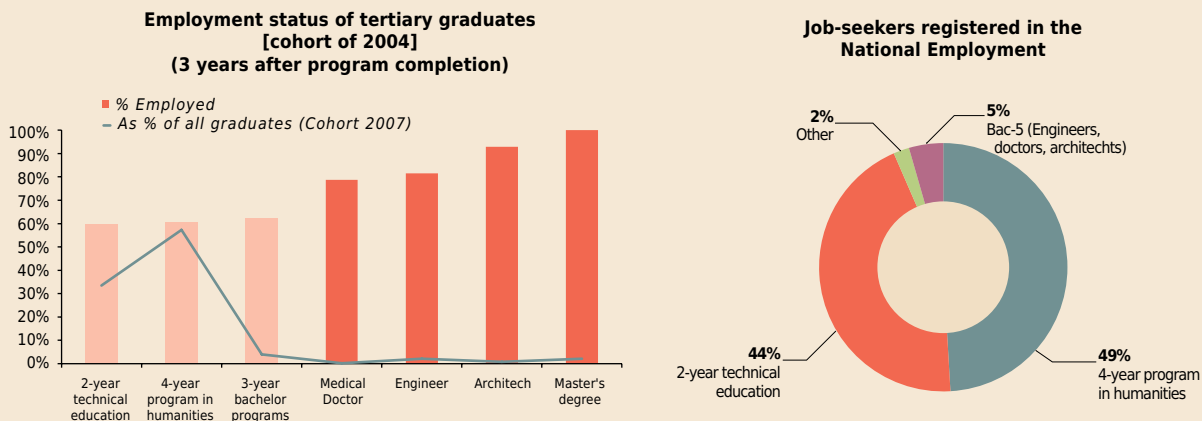
More important, the skills and competencies acquired by graduates do not seem aligned with those in demand by the private sector. In addition to the quality of education, the relevance of graduates' skills is crucial for employability. Ideally, the skills and competencies available among job seekers and those required by available jobs in the labor markets should match in order to make graduates employable. This, however, is not the case in Tunisia. About 63 percent of all students enrolled in tertiary education institutions in the academic year 2010/11 were in the fields of humanities, health, and social sciences (figure 5.5). Such skills, however, are not very attractive in sectors where employment demand for graduates is highest, such as financial services and telecommunications. In fact, graduates of humanities and technical education programs—the large majority of all graduates in Tunisia—appear to be the least employable. Nominally, about 90 percent of all graduates have diplomas in humanities (BAC+4) or technical education (BAC+2) (figure 5.6). Data from Tunisia's most recent graduate tracer survey indicate that graduates from technical education and 4-year programs in humanities face more difficulties enter the labor market after having obtained their degrees. Indeed, only 60 percent of all these graduates were employed three years after having obtained their diploma, compared to a level of 90 percent among BAC+5 graduates (World Bank 2010a). The public sector was still the principal employer, providing 54 percent of salaried employment for all graduates in the sample <sup>13</sup>. These findings suggest that the skills and competencies of a significant share of graduates are not aligned with the demand of the private sector and, thus, are likely undervalued by the labor market.

**Figure 5.5:** Distribution of Students Enrolled in Tertiary Education Institutions, Academic Year 2010/11



Source: Data from the Ministry of Higher Education, school year 2010-11; Department of Studies, Planning, and Programming .

**Figure 5.6:** Employment Status by Type of Diploma (of a 2004 Cohort of Tunisian Graduates)

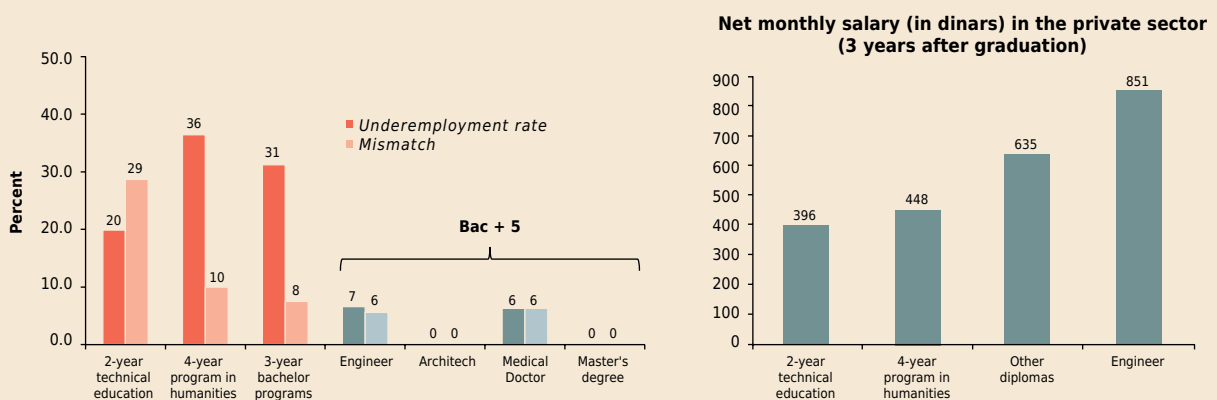


Source: Left panel: World Bank 2004 Tracer Survey of Graduates in Tunisia; Right Panel: Administrative data from the Tunisian National Employment Agency, ANETI



In fact many graduates of humanities and technical education programs who find employment do so under precarious working conditions. Besides displaying lower employment rates three years after program completion, graduates of humanities and technical education programs who find jobs tend to be under-employed, work in a different field from that of their specialization, and earn lower wages as compared to BAC+5 graduates. Figure 5.7 (left panel) plots mismatch rates (the share of graduates who work in a field that is different from that of his or her academic specialization) and underemployment rates (the share of graduates who are overqualified for a certain position) by type of diploma, three years after graduation for a cohort of tertiary graduates. Results indicate that: (a) about 30 percent of all graduates of technical education (BAC+2) are employed in fields that are unrelated to their specialization; and (b) between 20 percent and 36 percent of all graduates in humanities are underemployed (that is, they are overqualified for the position they hold). Furthermore, monthly wages earned by humanities and technical education graduates are significantly lower than those earned by BAC+5 graduates and by those who hold other diplomas (figure 5.7, right panel) <sup>14</sup>.

**Figure 5.7:** Employment Outcomes by Type of Diploma (of a 2004 Cohort of Tunisian Graduates)



Source: World Bank 2004 Tracer Survey of Graduates in Tunisia.

These findings reflect the fact that in Tunisia, as in many countries in the region, the private sector and the education sector tend to operate in isolation, resulting in skills gaps and mismatches (ETF and World Bank 2005, IFC and ISDB 2011, World Bank 2008b). The lack of communication and coordination between the sectors is both cause and consequence of information and knowledge gaps on both sides. As a result, the education and training system lacks the information necessary to become responsive to the needs of the private sector, whereas the private sector lacks the capacity and/or interest to play its role in a demand-driven skill development system. This is particularly relevant in the Technical and Vocational Education and Training (TVET) subsector, where the role of employers is by definition crucial in ensuring that the skills acquired are relevant for access to the labor market. The recent successful experiment of public-private collaboration in the information and communications technology (ICT) sector in Tunisia may provide a model to extend to other sectors of the economy (box 5.1).

### Box 5.1: A Successful Model for Public-Private Partnership in Higher Education

The *Association Tunisienne Pour la Communication et la Technologie* (TACT) is a business association that was formed in Tunisia to promote Offshoring, a sector identified by several studies by the government and leading consulting firms as having high potential for growth and job creation. TACT includes representatives from major IT companies. It has launched a pilot program called TACT Academy to retrain unemployed IT graduates and place them in the Offshoring field. After successful completion of training and certification, chosen candidates are assured positions in TACT's group of companies.

Only 200 unemployed university graduates with a background in ICT were selected to take part in the first TACT pilot in 2011/2012 (out of an estimated 30,000 unemployed ICT graduates in circulation). In order for them to become rapidly "offshore-ready," they were provided a training of 10 months, broken down into components in the following way: a 24-week (6-month) curriculum that included four blocks of instruction of 180 hours in ICT fundamentals, ICT environments, languages (English and French), and communication. This was combined with 16 weeks (4 months) of on-the-job training, six weeks of which also included a 5th module (with training in finance, computer science, project management, and other skills). The 10-month program allowed each trainee to take a series of certifications: one or more IT certifications (in Java, .net, etc.) and in language (the TOEIC or TOESL).

TACT functions as a charitable trust, offering all managerial and administrative services related to this program free of charge. When candidates are selected to take the program, their TND3,000 tuition (approximately US\$2,000) is paid by the government.

There are three interesting features to this initiative. First, it is an excellent example of a functioning Public Private Partnership (PPP) for job training and labor market reintegration, as the TACT Academy brings together government and the private sector, both of whom are interested in seeing unemployed IT graduates retrained and placed in a vibrant expanding employment sector. Second, the initiative exploits a results-based approach to financing: the TACT Academy takes all responsibility for selecting and training the unemployed candidates and will only request the reimbursement of training costs from the government once the candidate is successfully placed. This is a win-win situation as the TACT group obtains the skilled candidates it requires, while the government pays only for those who are successfully retrained (and so not those who drop out or are lost from attrition). Third, this is a model that has a clear potential for use in other sectors and other countries.

Source: <http://www.esprit.ens.tn/fr/info/TACT2011.htm>

Overall, while the supply of graduate skills is not well aligned with the demands of the private sector, this does not presently appear to be the binding constraint for firms' growth in Tunisia. As discussed in previous chapters, the Tunisian economy is currently focused on low-skill activities and the vast majority of jobs created are low skilled. Indeed the level of wages offered for engineers and other skills in short supply remains very competitive by international standards. Nevertheless, as Tunisia seeks to move up the value chain into higher value added activities, it will be important to reform the education system to improve learning outcomes and to ensure a closer alignment between the skills and competencies acquired by graduates and the demands of the private sector.

## 5.3 / Labor Market Policies and Institutions are Part of the Problem

### **The Social Insurance System Fails to Protect Workers and Exacerbates the Unemployment Problem**

The problems of low job quality and high insecurity discussed in the previous sections are exacerbated by the social insurance system, which fails to protect workers. Tunisia's social insurance system today (which comprises mainly the pensions system, unemployment benefits, and medical insurance) is facing several design problems. In terms of workers' protection, current programs have failed to reach around 50 percent of workers. In addition, inappropriate financing arrangements and weak management and administration threaten the ability of the system, particularly pensions, to deliver benefits over the long term, even to workers who today are covered. Indeed, schemes for both public and private sector workers are insolvent, and the former is already generating cash deficits (box 5.2 and World Bank 2012f). At the same time, the social insurance system is negatively affecting the ability of the economy to create good jobs because it imposes a high tax on labor (see figure 5.8), reduces incentives to offer or take formal jobs, and hinders labor mobility <sup>15</sup>.

#### **Box 5.2: The Financial Sustainability of the Tunisian Pensions System**

The pensions system in Tunisia is increasingly insolvent and faces serious difficulties and challenges. In Tunisia, separate pension systems exist for public sector workers (who are covered under the *Caisse Nationale de Retraite et de Prévoyance Sociale*, CNRPS), and private sector workers (covered under *Caisse Nationale de Sécurité Sociale*, CNSS). Total pension expenditures represent around five percent of GDP while around only 37 percent of the working age population contributes to one of these two pension funds. The population covered by the CNSS is divided into eight regimes, of which by far the largest is the regime for non-agricultural workers (*Régime des Salariés Non-Agricoles*, RNSA). Both funds are in deficit or are projected to face deficits in the next two or three years. This situation imposes a heavy pressure to assure continuity of pension payments while the revenues are insufficient to provide adequate financing.

The regime for the public sector (CNRPS) is already in deficit since 2010 and requires support from the state budget, given the fact that its revenues plus reserves do not cover expenditures. The deficit of CNRPS was estimated at TND128 million in 2010 (used as base year); and, given the remaining reserves of 27 million in that year, the state budget had to finance the difference of TND100 million (table B5.2.1). With all reserves depleted, projections show that the state budget will need to finance TND500 million in 2014 (representing 0.5 percent of GDP) and almost TND1,160 million by 2018. These expenditures will help benefit the pensions of around only 250,000 beneficiaries, thus raising questions about the equity of this use of state resources. The situation of the private sector regime, and specifically of the RNSA, appears to be less serious, but this fund too will be in deficit as of 2014. This institution has not yet depleted its reserves, and not all its schemes are yet facing deficits. However, RNSA's deficit is even higher than CNRPS's, and the need for budget transfers to finance these deficits is projected to appear as soon as 2014 for TND97 million which will grow to TND713 million by 2018. Hence, under reasonable assumptions and with no reform, by 2014 reserves in both schemes would be completely depleted and the deficit of both schemes would already represent almost one percent of GDP, and it would increase rapidly to reach almost two percent of GDP by the year 2018.

The sources to finance these deficits are still unclear, since the Ministry of Finance is not expecting to have to attend to financing needs of the CNSS. However, while the CNSS is in fact a financially autonomous agency, an eventual default will become a public policy issue given the social implications; and political economy considerations will impose the need for fiscal support in spite of the legal status of CNSS.

Not only are the current pension benefits are unaffordable but the system is also regressive. Therefore any budget support to rescue the funds will transfer resources from the poorer to the higher income earners.

**Table B5.2.1 Reserves and Financial Flows of CNRPS and RSNA 2010 (million TND)**

	CNRPS	RSNA	CNRPS	RSNA	CNRPS	RSNA
	2010		2014		2018	
Initial reserves	154.9	1,660.0	-	146.5	-	-
<b>Revenues:</b>						
From contribution	1,530.7	945.8	2,014.5	1,269.4	2,542.1	1,680.a5
Investment Returns	6.4	43.9	-	19.5	-	-
<b>Expenditures:</b>						
Pensions Payments	1,623.4	1,142.3	2,460.0	1,436.8	3,633.0	2,295.4
Administrative Costs	41.4	56.6	55.5	74.2	68.8	98.1
Total Current Balance	(127.7)	(209.2)	(501.1)	(222.1)	(1,159.8)	(713.0)
As % of GDP	-0.20%	-0.33%	-0.56%	-0.25%	-0.90%	-0.55%
Final Reserves	27.2	1,450.8	-	125.4	-	-
Deficit to be financed	(100.5)	-	(501.1)	(96.7)	(1,159.8)	(713.0)
As % of GDP	-0.16%	-	-0.56%	-0.11%	-0.90%	-0.55%

Source: World Bank (2012f).

There are several problems with the current design of the system. The schemes do not adequately penalize early retirement, and therefore a considerable number of people retire before the legal retirement age. The actual average retirement age is 55, well below the normal retirement age, inducing a fast increase in system dependency ratios (around 60 percent in the fund that covers public employees retire before the age of 60 and around 33 do it in the fund that covers private sector workers). Other wrong incentives include late enrollment and strategic manipulation of wages and promotions, particularly in the public sector, where pensions are calculated as a percentage of the last salary (the private sector, in turn, computes pensions as a percentage of the average of last years of salaries), resulting in replacement rates that rank among the highest in the world. Further, the schemes are very fragmented and complex in design, and different groups of workers not only benefit differently from the social insurance programs but are also exposed differently to the risks of systemic default.

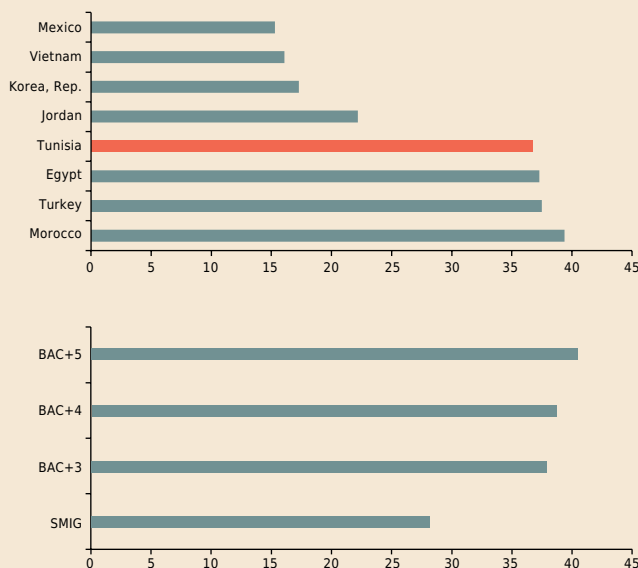
The current situation is not new: deficits in public sector pensions also happened in the past, but they were corrected with ad-hoc increases in contribution rates. There is awareness among policy makers that further increases in contribution rates are not acceptable on economic and social grounds and there is a need to rethink the system in its entirety.

Source: World Bank, 2012f, *Social Insurance in Tunisia: Sustainability, Equitability, Integration*. The World Bank, Internal Mimeo.

Tunisia’s social insurance coverage is highly fragmented and too expensive, resulting in low coverage. Part of the problem is that most social security programs rely on a labor contract and contributions from employers and employees. Therefore, they automatically exclude the self-employed, farmers, or seasonal workers in the agricultural sector. Tunisia has attempted to create specific schemes for these workers, but these have had limited impact while contributing to fragment the social insurance system. Administrative data suggest that the schemes cover around 10 percent of the labor force. The second problem is that many low-income workers and small low-productivity firms simply may not be able to finance current contributions, especially if their level of productivity (value added per capita) is below the minimum cost of labor, given by the minimum wage plus payroll taxes.

Further, current arrangements to protect workers from unemployment risks are also inadequate. Tunisia’s regulations envisage severance pay of up to three months of salary regardless of the length of the employment period to workers with open-ended contracts<sup>16</sup>. Compared to countries such as Egypt and Morocco, severance payments in Tunisia are low and probably not sufficient to support transitions between jobs<sup>17</sup>. As discussed below, however, while regular severance pay for dismissal is modest, in cases of wrongful dismissal the payment can exceed three years of salary, which is extremely high. In fact, as discussed below, however, it seems that a verdict of wrongful dismissal is the outcome of legal disputes in most occasions, such that the cost of dismissal becomes very high. Tunisia also has a “loss of employment” assistance program that offers 12 weeks of minimum wage for workers who have been dismissed for economic reasons. The program is financed by a 0.9 percent tax on wages. In practice, however, only around 6 percent of dismissed workers receive benefits, such that very few workers are covered by such a scheme (World Bank 2014c).

**Figure 5.8:** Tax wedge in selected countries and by education level in Tunisia



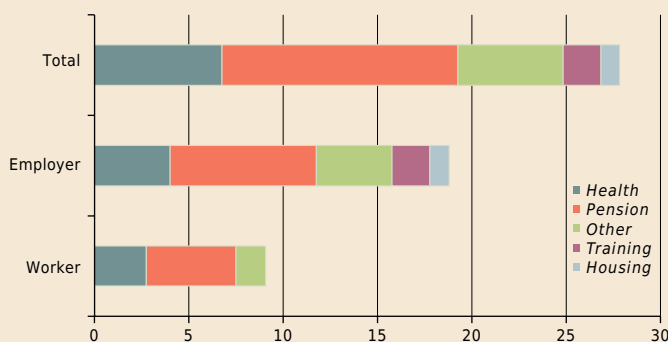
Source: Processed from World Bank (2013a) (top) and Belghazi (2012) (bottom).

Tunisia’s Social Insurance system entails a very high level of tax-wedge, which is contributing to the high level of informality, and discourages creation of high-skills jobs. The tax wedge is defined as the difference between the total cost of labor, take-home pay, and the valuation of social insurance benefits. Evidence across countries shows that, as the tax-wedge increases, formal employment declines<sup>18</sup>. In Tunisia payroll taxes (paid by employers) and social security contributions (paid by employees) approach 29 percent of wages. Depending on how much workers value the bundle of social insurance benefits, the average tax-wedge in Tunisia could be as high as 38 percent, and is certainly acting as a barrier to the creation of more formal employment, particularly among medium and small firms. Due to the progressivity of the income tax, the tax-wedge is higher for skilled than unskilled workers (figure 5.8)<sup>19</sup>.

The high tax wedge is due to the fact that the payments made by employers and employees are not linked to their own benefits. These

taxes finance, in part, implicit subsidies to others (risk pooling) that take the form of minimum pension guarantees, family allowances, or health insurance for low-income workers. In Tunisia, for example, social contributions finance training and housing allowances that are not necessarily allocated to the contributors (figure 5.9). Social security contributions then can be perceived—depending on the beneficiaries—as pure taxes, resulting in avoidance and informality (see box 5.3).

**Figure 5.9:** Contributions to Social Security by Type



Source: Author's elaboration using administrative data provided by the CNSS.

**Box 5.3: Streamlined Process Helps Tunisian Entrepreneurs Go Formal**

**BARDO, Tunis**—When his parents are at work and his sisters at school, Samir can spread out at the dining-room table. When they are at home, he takes his web-design business into his bedroom (or, rather, into that part of it that he has designated an enterprise zone).

The 24 year old is simultaneously studying to become a commercial pilot. The web design started two years ago as a way to cover his fees at pilot school. He teamed up with three fellow students he had met at another college, where had previously been studying marketing and web design before switching flight paths.

The three now offer web-marketing advice and advertising design. They keep their prices competitive in a crowded field and all work from home. Jobs completed so far have been priced at 600 dinars (270 euros) to 1,200 dinars (538 euros), says Samir (not his real name).

At first, their business was undeclared—or “underground” as he puts it. “But we worked with proper companies. We did some good work income-wise,” he says proudly.

The authorities' relaxed attitude toward tax helps start-ups, he adds. “It gives you more freedom. You say, ‘I’m a small company, no one will notice me.’ Anyway, there are companies who make millions and they don't pay taxes.” Many of his clients appear not to be paying tax either; they certainly don't ask for formal invoices.

A recent encounter with a Turkish airport operator as a client gave them the push toward establishing a legal company, however. With the Turkish client, “Everything was legal from A to Z.” He decided it was time to take his business up a level. “As an official company you have a logo, you can price more expensively” and take on work from more serious clients.

He was pleasantly surprised by how easy it was to register the company in early 2014, at the one-stop office (*guichet unique*) at a Tunis branch of the industry promotion agency (*Agence de Promotion de l'Industrie et de l'Innovation, API*).

“I had friends who started companies three or four years ago, before the revolution, and they said it was very complicated,” he said. “That's one of the reasons I had delayed starting my own company. I had this idea about the Tunisian administration....”

Source: Interview, April 2014.

Not linking contributions to benefits endangers the financial sustainability of the social security system. For instance, the current contribution rate for pensions (at 12.5 percent) is not enough to finance a pension equivalent to 80 percent of wages after 40 years of contributions—even though there is an (arbitrary) ceiling of four times the minimum wage on the salaries used to calculate the pension. To keep the current level of benefits untouched, social security contributions (and therefore the tax-wedge) would need to increase to 18 percent by 2020 and to over 50 percent in the long run to be financially sustainable.

### ***Labor Regulations and Institutions Encourage Job Insecurity and the Bias Toward Low-Skill Jobs***

While labor regulations in Tunisia are not likely to be the main cause of unemployment, they contribute to the high level of informality and job insecurity and to the focus of the economy toward low-skill jobs. Although more than 22 percent of companies in the 2012 Enterprise Survey declared that labor legislation is a major constraint to firms operation and growth, overall this was ranked as the 12th constraint facing firms. Because of their low coverage and weak enforcement, labor market institutions are not likely to be the main cause of the observed labor market outcomes in Tunisia. Some provisions in the Tunisian Labor Code, such as working time arrangements, are relatively flexible. Also some entitlements such as annual and maternity leave in Tunisia are below internationally accepted ILO standards (and ought to be increased or aligned to ILO standards). However, as is discussed below, several other provisions, especially administrative arrangements for contract termination, regulations on fixed-term contracts, and the collective wage agreements might need revisions. High payroll taxes and rigid dismissal procedures may be affecting the ability of firms to manage human resources efficiently and giving them incentives to use mainly fixed-term contracts and/or to hire workers informally. In addition, collective wage agreements in certain industries and sectors set wages that can be high relative to labor productivity, constraining labor demand for high-skilled youth. Active labor market programs, on the other hand, have been ineffective and the government has been trying to address these shortcomings. We discuss the main aspects of labor regulations below.

Rigid contract termination (dismissal) procedures for open-ended contracts severely constrain the ability of firms to manage their human resources to the detriment of productivity and competitiveness (and encourage the use of fixed-term contracts—see above). As discussed above, an inadequate system of income protection in the case of loss of job has evolved, in parallel, with rigid regulations on dismissals. Indeed, today it is difficult to dismiss workers for economic (if a company needs to downsize to avoid shutting down operations) or technical reasons (if a company adopts a technology that increases overall productivity and output but requires fewer and/or different workers). In fact, dismissal for economic reasons is legally not allowed in Tunisia and procedural inconveniences for employers to dismiss redundant workers are extremely cumbersome and costly<sup>20</sup>. Only one out of seven cases of dismissals ends up being accepted, and employers perceive that dismissal processes have a de-facto bias toward workers. As a result, annual layoffs are less than 1 percent of the workforce, compared with more than 10 percent in the average OECD country. Further, while regular severance pay for dismissal is modest (three months maximum—see previous section), in cases of wrongful dismissal, which seems to be the outcome in most occasions, the payment can exceed a three-year salary, which is extremely high<sup>21</sup>. In practice, therefore, firing workers on open-ended contracts is extremely expensive in Tunisia (in terms of procedures and punitive severance pay), thereby imposing significant rigidity on firms.

It has been shown empirically that these rigidities protect existing jobs but probably at the expense of labor productivity and growth<sup>22</sup>. As shown below, in Tunisia these regulations have had the result of pushing firms toward increased use of fixed-term contracts and informal working arrangements.

In addition, this rigidity has also the effect of discouraging investments, which require retention of the labor force, and therefore open-ended contracts. This is normally the case in higher value added activities, which require experienced or skilled labor and constant innovation. In sum, while these rules are well intentioned to protect workers (in the absence of effective loss of employment insurance), they end up contributing to undesirable labor market outcomes. Further, as discussed in the next paragraphs, they also contribute to an economic model that perpetuates inequities.

In Tunisia, fixed-term contracts have become the standard mechanism to hire workers, given rigidities with open-ended contracts—introducing a bias toward low value added activities and contributing to excessive labor mobility in the labor market <sup>23</sup>. According to the Labor Code, the fixed-term contract can be concluded upon agreement between employer and employee, provided that its duration does not exceed four years including renewals. In order to keep the staff beyond four years, firms need to enter into an open-ended contract, which as discussed above entails significant firing rigidity. As a result, in order to avoid cumbersome procedures on layoffs, many employers hire workers only on fixed-term contracts and lay off the workers and hire new workers prior to the expiry of the cumulative four-year limit (see box 5.4). These contracts provide precarious employment for the workers, thus contributing to excessive mobility of labor, and are convenient only for firms which can rotate their workforce with limited costs, thus encouraging a bias toward low value added firms employing low-skill workers <sup>24</sup>.

#### **Box 5.4: Striking a Balance—Businesses Adapt to Newly Assertive Labor in Tunisia**

BIZERTE, northern Tunisia—"We're all the same here. We don't distinguish between permanent workers and contract workers," the warehouse man says emphatically. "When there's work, we share it around. We're like family."

We are in an Italian-owned factory in Bizerte's industrial zone. It finishes garments produced by other Tunisian offshore companies for export, mainly to Europe. Smaller volumes go to the United States, Turkey and South Africa.

When business is slow, in spring or in early autumn, the factory's managers resort to using "technical unemployment" (*chomage technique*), meaning employees stay at home on half pay for days or even weeks. Some may be put onto half time, likewise getting paid for just four hours daily.

This is a low-skilled operation. The company dyes and accessorizes garments, and creates special effects such as stone washing, or the "distressed" look of fraying denim jeans. The clothing is marketed to young European consumers under brands including Diesel, Max Mara, Armani Jeans, Benetton, and Trussardi.

With average net monthly pay at 390 dinars (around 175 euros), even a few days on half time can severely strain household budgets: workers earning 2 dinars an hour find their daily income falling to the equivalent of 3.6 euros.

Lilia (not her real name), 28, gives garments the final review, checking color, labeling, seam stitching, buttons, zipper, and the alignment of any special effects.

She has been doing this for 18 months, on a so-far uninterrupted series of short-term contracts.

She is mother of a small daughter, and her husband is likewise on short-term contracts at a nearby factory. Like most on such contracts (of one month, three months, or six months), she hopes that



once she has completed four years she will achieve permanent status, in line with Tunisian labor law. And if for some reason she doesn't reach the four years to qualify? "Then I'll just have to look elsewhere," she says.

She is optimistic, however. Since the revolution of 2011, the business has stopped using *sous-traitance*, the practice under which agents supplied temporary workers who were never permitted to complete the four years.

This is still a non-unionized workplace, but there is a new assertiveness among employees. "The short-term contracts were always an issue among the shop-floor workers," said the company's financial director. Before the revolution, however, it was a topic they "only talked about in corners".

In 2012, workers in the "special effects" unit mounted an unofficial strike. Among their demands: for three-month contracts to be replaced with six-month ones. The company agreed to a 15-percent pay hike, but when the strikers also sought the dismissal of a supervisor, it decided it had given enough ground. Around 100 employees were told they were no longer needed. Some tried unsuccessfully to sue for unfair dismissal; around 20 of the group are still pursuing demands for redundancy payments through the courts.

The company has since given out about 100 permanent contracts and is considering abandoning the use of one-month contracts altogether, the financial director said. Permanent employees could rise to 60 percent of the total, but not more, he added. As long as demand continues to stay low in Europe, and with stiff competition from Asia, Morocco, and Turkey, things will continue to be difficult.

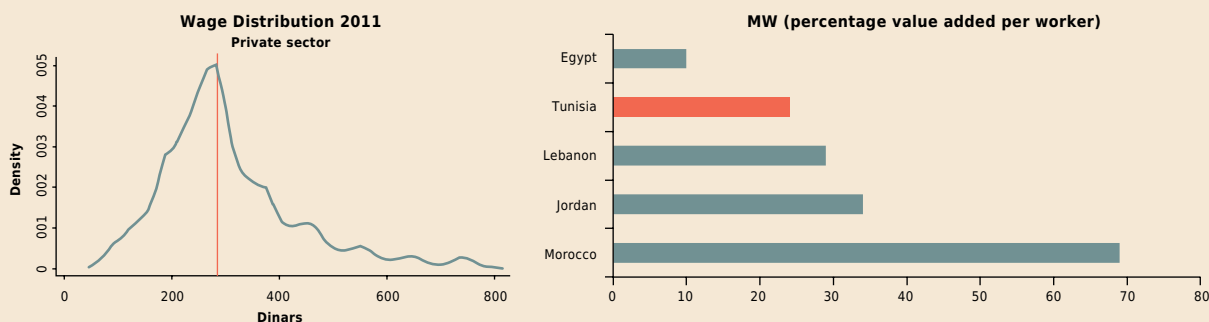
*Source: Interviews in Bizerte industrial zone, April 2014.*

Not only does this entail high levels of job insecurity but in fact there is also evidence that the system has been abused to keep workers in perpetually precarious jobs in Tunisia. In fact, workers under fixed-term contracts can be fired without notice and do not have access to severance payments or unemployment assistance (but need to be paid the remaining amount of their contract). These exploitative labor practices are often associated with the outsourcing of assembly and other low skill tasks from European firms to Tunisia, such that these practices are commonly referred to in Tunisia as the phenomenon of the *sous-traitance* (UGTT 2009).

Annual leave and maternity leave are too low in Tunisia and need revising in line with accepted ILO international standards. Tunisia has by far the lowest number of paid annual leave days in the region—from 12 working days for one year of job tenure to up to 16 days for 20 years of job tenure. According to ILO standards, holidays shall in no case be less than three working weeks for one year of service. Similarly, Tunisia has one of the shortest maternity leaves in the world: females shall be entitled at the time of childbirth, upon submittal of a medical certificate, to a maternity leave of 30 days. However, this leave may be extended each time by a period of 15 days, upon proof of medical certificates, thus resulting in an unnecessarily complicated maternity leave system. The amount of the maternity benefit is also relatively low: two-thirds (67 percent) of the average daily wage, financed from the National Social Security Fund.

In Tunisia the minimum wage for formal sector workers in non-farm activities is modest by international standards, and unlikely to be binding except perhaps for youth or low productivity workers<sup>25</sup>. Today, the minimum wage represents only 24 percent of value added per worker, a low ratio compared to countries such as Jordan and Morocco (figure 5.10)<sup>26</sup>. Nevertheless, even at this level, the minimum wage could still be a barrier to formality or could discourage the hiring of youth who, other things being equal, have less work experience than adult workers<sup>27</sup>. In fact, there appear

**Figure 5.10:** The Minimum Wage in Tunisia and in Comparator Countries

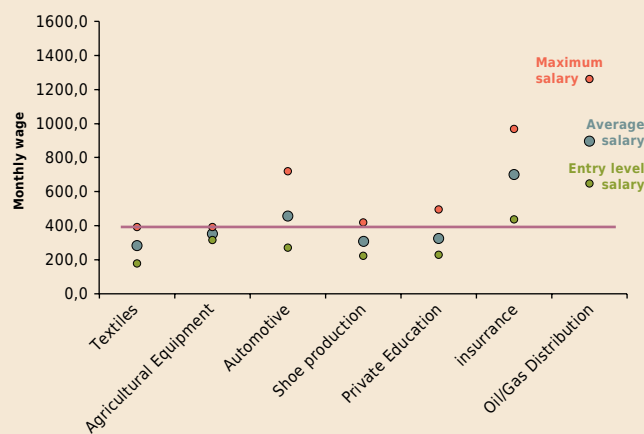


Source: Rutkowski (2013) (left panel) and Kuddo (2013) (right panel)  
 Note: Red line in left panel represents the minimum wage

to be many workers in the private sector who earn less than the minimum wage, presumably workers in low productivity firms often in the informal sector (figure 5.10).

Collective Agreements may introduce binding wage floors, which are detrimental to labor demand for graduate jobseekers. In around 70 sectors and industries in Tunisia, centralized employer and employee representatives agree on Collective Agreements (CAs) that regulate worker relations with firms beyond the labor code and also entail a country-wide pay scale with wage floors for different professional levels<sup>28</sup>. These sectorial CAs are generally negotiated between the UTICA (main employer representation) and the UGTT (main general trade union). Individual companies can deviate if needed, within a regulated negotiation ritual, but only in agreement with their worker representatives. Collective Agreements in Tunisia are not

**Figure 5.11:** Collective Wage Agreements for Professionals and Technicians (BAC+) for Selected Sectors, 2011



Source: Authors' own elaboration based on available sector Collective Agreements for the year 2011

necessarily much more generous than the labor code in terms of work arrangements, entitlements, and severance pay<sup>29</sup>. However, an analysis of CAs in selected sectors for professionals and technicians (BAC +) indicates that minimum wage floors for BAC+ graduates are at least 30 to 40 percent higher than the minimum wage—which is often the benchmark wage for youth (figure 5.11). Also, wage floors differ by industry and are particularly high in the insurance and oil sectors. If the wage floors for BAC+ individuals are set, on average, higher than youth average productivity, CAs would constrain labor demand for high-skilled youth in the private sector. Further, the process of CAs entails a few additional risks. First, the bargaining process is generally dominated by larger firms, which can afford to set the wage floors at levels that exclude smaller competitors who achieve fewer economies of scale. Second, CAs in Tunisia normally specify wages by educational attainment, thus contributing to set up wage floors for graduates

of higher education. Third, because the same pay scales apply country wide, these agreements may hamper the competitiveness of interior regions as they undermine the possibility for these regions to attract investors by offering lower labor costs. Assuming the challenges and costs of setting up a business in interior regions are higher compared to the coastal regions, it can be expected that if wages are the same across the country investors will naturally choose not to set up their firm in the interior—hence paradoxically the CAs may end up exacerbating regional disparities.

### ***Public-Private Labor Market Segmentation and Distortions***

Preliminary evidence suggests that the relatively higher remuneration package for public sector employees exacerbates the distortions affecting the labor market and, paradoxically, may result in greater graduate unemployment. In Tunisia the public sector accounts for 22 percent of all employment. Labor market segmentation between the public and private sectors exist if differences in compensation and other employment conditions between these sectors originate on the demand side rather than being explained by individual workers' productivity. This is often characterized by the existence of a sector (or sectors) that rewards human capital better than others or in cases where labor market institutions (such as a minimum wage) oblige employers to pay wages above productivity. The Tunisian labor market displays some symptoms of labor market segmentation between the public and private sectors, mainly because employment conditions in the public sector—such as wages, job safety, and social security—are superior to those offered in the private sector (annex 5.2)<sup>30</sup>. As such, the majority of all job seekers in Tunisia (56 percent) between 15 and 34 years old would prefer to work for the public sector (Gallup World Poll 2010 Survey, data available from Gallup: <http://www.gallup.com>). While additional research is required, if confirmed this feature of the labor market may contribute to increase graduate unemployment. In fact, the artificially high remuneration for the public sector could crowd out private sector employment because it causes individuals to queue for public sector jobs (which translates into higher levels of unemployment) and promotes the inefficient use of human capital (as the most talented workers are absorbed in less productive sectors).

In addition, the regulations for the hiring process for jobs in the public sector also exacerbate graduate unemployment. Strikingly, recruitment is possible for unemployed people only and the selection criteria clearly favor long-term unemployed. Providing an attestation of unemployment is mandatory (and it has to indicate the date of registration at the unemployment agency). Recruitment is based mainly on personal criteria<sup>31</sup>. A written test of competencies is not required, at the discretion of the relevant minister—but even when a written test is required its results count for only 30 percent of the evaluation, while the personal criteria count for the remaining 70 percent. These personal criteria used in the evaluation of the candidates are: the year of diploma (with each year counting two points, up to 30 points max); the level of distinction of the diploma (up to 20 points); the age of the candidate (increasing with age, up to 20 points for anyone who is 40 and above); the family status (ten points, increasing with number of dependents); and any internship and training not included in the CV (0.5 point for each month of internship and/or training, up to 20 points). In sum, the calculation of the score clearly favors long-term unemployed. In fact, in addition to the requirement that applicants be unemployed, the most important criterion is the date of diploma. Hence the rules for getting a job in the civil service privilege the years of unemployment instead of valuing the years of work experience. Although the objective of this policy is clearly to mitigate unemployment and particularly to help the long-term unemployed, paradoxically the result is that graduates prefer to wait in unemployment in order to get public sector jobs instead of actively seeking and accepting lower paying jobs in the private sector—hence increasing the pool of the graduate unemployed.

## **5.4 / Reforms Agenda to Improve Labor Market Outcomes: Toward a New “Social Pact”**

---

The evidence presented in this chapter has highlighted the opportunity of comprehensive labor market reform, building on the process that Tunisia has started with the tripartite social dialogue and the signing of the “Social Pact” in January 2013. International experience shows that labor market reforms are most successful when carried out in the context of a national social dialogue, most commonly a tripartite dialogue between the government, unions, and employers’ organizations. Tunisia is well advanced on this front and has an established tradition of tripartite dialogue. Most notably in January 2013, following a 10-month dialogue process supported by the ILO, the government, the UTICA, and the UGTT signed a landmark Social Pact which should pave the way for improvements in areas such as labor legislation and industrial relations, employment policies, vocational training and education, social protection, and balanced regional development. The Social Pact is an excellent document that outlines the broad approach and perimeter of the reforms—its signing marks the start of a process of in-depth preparation on the actual reforms. It proposes a comprehensive approach to reform of labor market rules and institutions to better protect all workers while giving firms the flexibility required to be competitive and to adjust to the changing global markets.

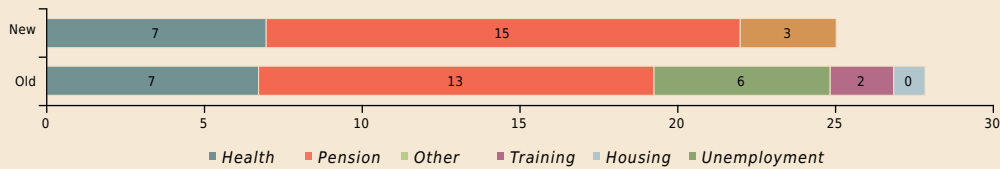
Several key aspects in need of reform have been highlighted in this chapter, notably related to social insurance and labor market rules and regulations—together these could form the basis of a “grand bargain” to realize the program envisioned in the Social Pact signed in January 2013. As discussed, there is a need to boost labor demand by lowering the tax wedge on labor, while reforming the pensions system to ensure its sustainability. There is also a need to converge the firing rules of open-ended and fixed-term contracts to remove the existing dichotomy and to remove the existing barriers to investing in higher value added activities by giving firms the required flexibility to be competitive, while in parallel strengthening workers’ protection by providing social insurance against the loss of a job. It is also important to have policies that can actively promote women’s participation in the labor force. This core set of reforms is discussed below.

### ***Reform Social Insurance to Introduce an Effective “Loss of Employment” Insurance and Ensure the Financial Sustainability of the Pensions System***

A key principle of the reforms should be to link contributions by each worker to the benefits received by that worker and to finance explicit subsidies (redistribution) through general revenues. One of the options for reducing the tax wedge to create more formal wage employment (while addressing problems of financial sustainability—as discussed in box 5.2) is to link social security contributions to benefits while financing redistribution and transfers to ad hoc programs through general revenues. Alternative options can then be considered to create the necessary fiscal space<sup>32</sup>. As discussed in Chapter Four, a reform of corporate tax to expand the tax base to exporters (who are currently exempt) and to introduce a common lower corporate tax rate for all firms could provide the fiscal space to finance some of these costs. Essentially, the social insurance system could focus on covering essential risks: sickness, disability, death, old age, and unemployment. The total contribution rate to the various programs could be capped at 25 percent (see figure 5.12).

Further, it is possible to conceive a reform that achieves a lower rate of social contribution and still is able to finance a loss of employment insurance scheme. If the payroll taxes to finance other transfers (for instance, training and housing) are removed and financed through general revenues, there would be room to both increase the contribution rate for pensions and set up a larger loss of employment benefit system (figure 5.12).

**Figure 5.12:** Proposed Reform of Social Security Contributions



Source: Authors' own elaboration

The reform of the pensions system should ensure fairness, transparency, and financial sustainability. In the case of pensions, for instance, the first step would be to define a target for the replacement rate at the statutory retirement age (without a ceiling on the salary used to calculate pensions) and then set the contribution rate that is needed. In the case of a pay-as-you system such as in Tunisia, a contribution rate of 15 percent could finance a replacement rate of 50 percent after 40 years of contributions<sup>33</sup>. The second decision is to decide whether to subsidize benefits for those workers who are not able to contribute enough to accumulate a decent pension (to be defined), and to decide how to subsidize these transfers (via general revenues)<sup>34</sup>.

It is possible to introduce a loss of employment insurance and reform severance pay to improve workers' protection and facilitate labor mobility. The current unemployment benefit system and severance pay could be replaced by a scheme that offers a higher replacement rate, wider coverage, and reduced distortions in labor markets. As in the case of pensions, the first decision would be in terms of the level of benefits: a replacement rate could range between 50 to 70 percent with duration of 3 to 12 months. The contribution rate would be set accordingly, taking into account the unemployment rate of the population of beneficiaries<sup>35</sup>. The second decision is about how to subsidize benefits for those workers who are not able to contribute enough. In the case of classic unemployment insurance schemes, this is done by imposing a 100 percent tax on the contributions of plan members who have a lower unemployment risk and therefore contribute more than they get out of the system<sup>36</sup>. An alternative is to reduce the tax on savings and, as in the case of pensions, replace it by general revenues (see discussion above; some Tunisian academics have recommended the use of part of the VAT receipts for this purpose). Workers, for instance, could be allowed to withdraw upon retirement up to 50 percent of the contributions (plus interest) that were not used to finance unemployment benefits. Reducing the tax on savings could increase incentives to seek, take, and keep jobs (see Robalino and Weber, 2013)<sup>37</sup>.

In parallel it is important to gradually integrate or at least to harmonize the various social insurance programs while expanding coverage in such a way as to ensure a minimum level of protection for all Tunisian residents. The guiding principle would be that all Tunisian residents, regardless of where they work would have access to the same system under the same rules. Self-employed workers or wage employees in the agricultural sector, for instance, would also join the current system for private sector workers. Like them, they would benefit from the basic pension and be allowed to make additional contributions. In the case of civil servants, it would be disruptive to integrate them into the scheme for private sector workers and dramatically change their entitlements. An alternative approach would be to set a date when new civil servants would enroll in the schemes for private sector workers. Jordan achieved this in the year 2000 (ETF and World Bank 2005).

### ***Improve Labor Regulations to Increase Protection for Fixed-Term workers and Give More Flexibility to Firms That Use Open-Ended Contracts***

It is important to align entitlements and dismissal rules with international standards. The main recommendation when it comes to the labor code is to align maternity and annual leave entitlements (with explicit financing by employers and employees) with international standards while introducing more flexibility in dismissal procedures, extending the benefits that come with fixed-term contracts, and modernizing minimum wage policy. It is important to allow employers to dismiss workers for economic or technical reasons without requiring third-party authorization but still reinforce controls and penalties for wrongful dismissals. This can be done if an adequate unemployment insurance program is put in place, as discussed in the previous section. The main condition regulating dismissal would be to provide an adequate advance notice (for example, at least three months), a period during which the workers continue to receive their salaries but are allowed to engage in job search activities. In addition, workers should be allowed to present complaints in cases of wrongful dismissal (for instance, if linked to discrimination). Efficient mechanisms should be in place to expedite the processing of these complaints while enforcing penalties on employers that are found at fault. In parallel, the benefits in terms of social insurance should be extended to fixed-term contracts. The goal, eventually, should be to blur the line between fixed and open-ended contracts <sup>39</sup>.

Adopting an official formula can reduce discretion in the annual setting of the minimum wage(s), and acts as a benchmark for collective wage agreements. Minimum wages today are the result of an annual negotiation between employers and unions, which are overseen by the government. Although the process already works fairly well, to strengthen this process Tunisia could consider setting an independent technical commission in charge of recommending to the three parties periodic adjustments (perhaps annual) to the minimum wage, based on an objective approach (see World Bank 2011, for an application to Malaysia). The commission would be in charge of defining a simple formula linking a reference adjustment of the minimum wage to key economic aggregates (such as the cost of living, productivity growth, and the unemployment rate). At pre-specified dates (for example, the first Monday of December of every year) the commission would announce a suggested adjustment (that could be zero) to the minimum wage, which would become effective in the first day of the new year. The tripartite negotiations then would take as the starting point the minimum wage calculated with the objective formula, but also analyze and consider the potential economic and social impacts of implementing the reference adjustment and establish whether a lower or higher level is required <sup>40</sup>. The country also needs to work on improving enforcement mechanisms and having in place a transparent system to accommodate low-productivity firms that are unable to finance the minimum cost of labor. Tunisia should also assess whether a lower minimum wage should apply to first-time young job seekers who today might not be able to compete with more experienced workers at the current level of the minimum wage.

Allowing greater flexibility in the setting of industry-wide collective agreements could be beneficial to jobs creation in interior regions. Wage floors should be negotiated, taking into account information about costs of living but also the financial situation of the firms. It may also be appropriate for the agreements to specify regional variations in wages based on the results of the negotiations. Also, in case of a rapidly changing economic environment, it would be advised for the collective agreements to be revisited every two years (compared to the current five years), with possibility of extension, by consent of the parties to the agreement. Collective agreements should apply to employers that are members of employers' associations and are signatories of the collective agreement, but not to those firms that are not signatories of the collective agreement. Notably, there are many small firms who may be unable to afford these entitlements. In fact, it would also be appropriate to consider raising the requirement's threshold to companies with at least 10 employees in which the standard

redundancy arrangements, such as a severance pay, apply—which would lessen the burden on small businesses. This approach has been applied in many countries (for example, Germany, Greece, and so on).

### ***Strengthen Active Labor Market Programs***

The Active Labor Market Policies (ALMPs) also require fundamental reform to achieve the objective to support the unemployed and to reduce labor market mismatch. While not discussed in this report, an analysis of the main strengths and weaknesses of ALMPs, as well as the main recommendations for improving their effectiveness, is presented in the DPR background report "Creating Good Jobs in Tunisia" (World Bank 2014c). Active labor market policies appear to have a very limited impact on labor markets in Tunisia, as reflected by low insertion rates. Part of the problem is that the supply of employment services is a monopoly of ANETI, but ANETI's capacity to provide effective intermediation services is limited. To address these problems it would be important to integrate the special programs around four sets of interventions: (a) training and job-search assistance, (b) wage subsidies, (c) support to entrepreneurship, and (d) regional employment support programs (notably public works or workfare programs). Within these programs, it will be important to ensure that proactive policies are adopted to facilitate employment of women as well as their participation in the labor force.

### ***Reform the Education System***

In parallel to the reform of labor market regulations and institutions, there is a need to undertake a profound rethinking of the education system, starting with primary and secondary education. As discussed in this chapter, the learning outcomes of Tunisian secondary school pupils are below the level expected given Tunisia's level of income. This highlights the need to take action to improve the quality, efficiency, and integrity of primary and secondary education institutions. The first step may be commissioning an independent analysis of the reasons for the weak quality and low learning outcomes. As part of this process, it may be valuable to adopt a criteria-based assessment of quality assurance in all pre-university education and to introduce mechanisms to strengthen the accountability of teachers and schools vis-à-vis the education authorities and stakeholders (for example, a code of professional conduct, a school inspection system, and promoting the use of scorecards and other community accountability instruments).

The quality of higher education also requires improvement. A first step would be to apply the 2008 Law to grant more autonomy to higher education institutions and also to introduce mechanisms that facilitate partnership with the private sector. There should also be more merit-based funding allocation, for instance based on the number of students attracted and also based on an independent evaluation of the research output of each institution using international standards. In this context it is also essential to operationalize the recently established National Evaluation and Accreditation Agency, to consider enhancing its independence from the Ministry of Higher Education, and to adopt international certification standards.

It is also important to strengthen the relevance and the quality of the Vocational Education and Training (VET) system. This requires refocusing the role of vocational training to integrate the VET system with private sector demands by facilitating private sector participation in the design and delivery of training—and to develop and extend the pilots for decentralized management models for training centers throughout the VET system. In this context the management of the vocational training should no longer remain the monopoly of the state. In parallel there is a need to also diversify sources of vocational training financing to allow for increased cost recovery and greater financial participation by firms.

## 5.5 / Conclusions

---

This chapter has highlighted several shortcomings with labor market policies and institutions in Tunisia; however, it is important to emphasize that these problems do not constitute the key constraint to solving the jobs challenge in Tunisia. The main obstacles to job creation (including to good job creation) lie instead in creating an open and competitive environment which encourages entry of new firms and the growth of the most productive firms, as discussed in previous chapters. That said, although not the main priority, improving labor market policies and institutions can contribute to make firms more competitive, while at the same time reinforcing the security of workers and thereby moving the economy toward creating more and better quality jobs.

This chapter has emphasized that the challenge for Tunisia is not simply to reduce the high level of unemployment but also to improve the quality of available jobs. At present the few jobs available to Tunisians are mainly low quality jobs for low-skilled workers, such that the level of remuneration is low and job insecurity is high. The mismatch with the increasing levels of education goes well beyond the visible rates of unemployment, and of graduate unemployment especially. Further, the abuse of these rules enabled exploitative forms of labor—which Tunisians refer to as the phenomenon of the *sous-traitance*—which fuelled the social discontent violently expressed by Tunisia’s youth.

The evidence presented in this chapter has shown that current labor market rules and institutions, while well intentioned, in fact have exacerbated these problems. The lack of adequate social insurance has been compensated with rigid firing rules for open-ended contracts, resulting in greater levels of informality and job insecurity, and itself favoring creation of low-skills jobs. The rigid firing rules for open-ended contracts contrast sharply with the “savage flexibility” of fixed-term contracts. This dichotomy between fixed-term and open-ended contracts indirectly promotes informality and job insecurity as firms avoid giving workers open-ended contracts to maintain flexibility. Further, by making it very expensive to terminate open-ended contracts and thereby favoring informality and fixed-term contracts, which are more suited for low-skilled jobs, labor regulations have de facto contributed to direct private investment toward low value added activities. As discussed in this chapter, this mix of too much flexibility in fixed-term contracts (which entail no job protection) and too much rigidity in open-ended contracts (which are extremely expensive to terminate) has created deep dysfunctions in labor market outcomes. In addition, preliminary evidence presented in this report suggests that the relatively more generous remuneration package in the public sector and the criteria and regulations to hire personnel in the public sector paradoxically also exacerbate graduate unemployment.

Several key areas in need of reform have been highlighted above, notably related to social insurance and labor market rules and regulations—together these could form the basis of a grand bargain to realize the program envisioned in the Social Pact signed in January 2013. It is critical to change these rules in a comprehensive manner and adopt a different system that better protects all workers while giving firms the flexibility to stay competitive and adjust to changing global markets. Tunisia has already started a process of preparation reform with the establishment of the tripartite dialogue process and the signing of the Social Pact in January 2013, which outlined the overall framework for a package of comprehensive reforms. The challenge now is to agree on the specific reforms to adjust the social insurance system and labor regulations, striking a balance to bring better protection to workers and more flexibility to firms. There are a number of countries that have successfully adopted “flexicurity” arrangements, and Tunisia should seek to learn from their experience.



Finally the chapter has also highlighted the need for a comprehensive reform of the education system. Preliminary evidence suggests that on average the quality of Tunisian graduates is below the level expected given Tunisia level of income. Just as important, there is a strong mismatch between the supply of graduate skills and the demands of the private sector. However, overall the low quality of the workforce does not presently appear to be the binding constraint for firms' growth in Tunisia. As discussed in previous chapters the Tunisian economy is currently focused on low-skill activities—such that low demand for skilled labor remains the principal challenge facing Tunisia today. Adjusting the education system and producing high quality graduates is a long term process, however. Hence, in parallel with other reforms to open up the economy (and enable a structural transformation towards higher productivity and value added activities), it is important for Tunisia to start the reform of its education system to ensure that tomorrow's graduates will be ready to fulfill the demand for high skill jobs.

The next chapter discusses how the financial sector also suffers from deep dysfunctions. As discussed in this chapter, labor market policies have contributed to hamper the structural transformation of the economy. Chapter Six focuses on another essential component of a well-functioning economy. As will be discussed, the financial sector in Tunisia has been unable to direct resources toward the most productive projects, thereby also contributing to entrench the misallocation of resources that is at the root of the weak economic performance and feeble jobs creation.

## Notes

---

1. By doing such comparison, results indicate that 53 percent of unemployed professionals—categorized as professionals based on their occupation prior to unemployment—would not be able to find jobs requiring professional skills. At the same time, 40 percent of newly created jobs for operators and 27 percent of new jobs craft workers will not be filled by the unemployed who worked as operator and craftsmen.
2. As discussed below, this mismatch also results in educated workers in the private sector generally being underemployed.
3. The hypothetical shortage of manual labor would materialize only if the economy created a large number of new jobs, replicating the existing occupational structure of labor demand.
4. At the risk of stating the obvious, it is important to state clearly that informal workers create value and contribute to the overall wellbeing of the country. The main problem with informality is for these workers themselves, as they have to live in permanent uncertainty and do not have any social security coverage.
5. It is worth clarifying that hiring graduates in the public sector was not needed in terms of the requirements of the public sector; however, in the absence of sufficient private sector demand for graduates, the government has felt compelled to absorb an increasing number of graduates in the civil service.
6. According to Loayza and Wada (2010), already in 2004 Tunisia produced about 38 percent of its GDP and employed about 54 percent of its labor force informally (using the Schneider Index and the share of the labor force with pension coverage, respectively). These results indicate that about half of all the workers in the country may not have access to health insurance and/or are not contributing to a pension system that would provide them with income security after their retirement. From a fiscal perspective, these results indicate that more than one-third of total economic output in the country remains undeclared and therefore not registered for tax purposes.
7. As discussed below, these are fixed-term contracts renewable up to a cumulated total maximum of four years, following which the worker has to be hired under an open-ended contract or must be replaced.
8. In order to assess labor mobility, it is necessary to use data that allow for tracking individuals across time. To do so, we rely on simple Markov transition matrixes using the panel component of the Labor Force Survey for years 2010 and 2011—last quarter (for the entire workforce)—and the Tunisia Graduate Tracer survey developed by the National Observatory of Employment and Qualification for the years 2004 to 2008 (for tertiary education graduates). It is worth noting that the period between the last quarters of 2010 and 2011 coincides with Tunisia's political transition, which was characterized by a rapid deterioration in labor market outcomes and economic growth. As such, results presented here need to be regarded with care and may not be representative of normal economic and political times. Unfortunately, these were the only data available for this analysis.
9. A significant share (approximately 33 percent) of workers with fixed-term contracts in 2010 became open ended in 2011. Nevertheless, this may likely reflect the policy response to the post-revolution economic crisis, whereby the government decided to regularize a significant number of public sector workers in 2011.
10. "Soft skills" include for instance the ability to communicate clearly, creativity, problem-solving, and interpersonal skills for success in the workplace.
11. TIMSS uses five points on the scale as international benchmarks: "advanced" (>625), "high" (550-624), "intermediate" (477-554), "low" (400-474), and "below low" (<400). According to this definition, high means "students can apply their understanding and knowledge in a variety of relatively complex situations and explain their reasoning," whereas low indicates that "students have some basic mathematical knowledge."
12. In fact, critical reasoning skills are increasingly seen as central to success in high-value added jobs (Autor, Levy, and Murnane 2003).
13. While it is somehow expected that graduates in humanities are harder to place, since there is not appetite for these diplomas in the private sector, it is less clear why BAC+2 graduates in technical education face similar challenges finding jobs. One hypothesis is that the technical skills acquired by these graduates are not aligned with the technical skills in demand in the private sector or that these technical positions are often filled by individuals with more developed skills (such as BAC+5).
14. It is worth mentioning that entrance to BAC+5 diplomas is regulated in Tunisia. Access to faculties that issue these diplomas (for example, architecture, engineering, medicine, and pharmacy) is subject to annual entry exams while access is open to diplomas in law, humanities, and social sciences.
15. High tax and contribution rates inflate firms' labor costs and at the margin reduce Tunisia's labor competitiveness. Nevertheless, labor costs in Tunisia remain highly competitive, as confirmed by the findings of the 2012 Investor Motivation Survey (see Chapter Four).
16. As discussed below, however, in practice most dismissals are ruled as wrongful so that the level of severance payment jumps to 36 months.
17. Moreover, employers often do not create cash reserves to pay for severance payments. Indeed, in many cases businesses dismissing workers for economic reasons (and obliged as such to pay severance) might not have the necessary liquidity to pay these obligations. Finally, international experiences show that enforcing the payment of severance pay is not easy and that receiving benefits can be a lengthy process often involving courts. As a consequence, across middle- and low-income countries only a small percentage of eligible workers receive severance (see Ribe, et al., 2012).
18. It is estimated that a 10 percentage point increase in the tax wedge can reduce formal employment by between one and five percentage points, with the effects being larger among low-skilled workers (Lehmann and Muravyev, 2014). This occurs as firms substitute labor with capital in the formal sector (that is, they reduce hiring) and as lower-productivity firms and jobs move into the informal sector.
19. We do not have direct evidence in Tunisia on how the demand for both types of skills changes as a result of the tax wedge—and relative to each other. In fact, even if the tax wedge is higher for skilled labor, low-skilled labor is likely to be more affected, as the demand for low-skill labor is generally more elastic (more price responsive). The demand for skilled labor is not inelastic either, however, and in the presence of a large informal sector the substitution is not only between labor

and capital but also between formal and informal contracts. For a range of businesses, the tax wedge could be a barrier to formalization even for high-skills labor (for example, university graduates).

20. In particular, companies must notify the labor inspector of planned dismissals, individual or collective, in writing one month ahead, indicating the reasons and the workers affected. The Labor Inspectorate with territorial jurisdiction or the Directorate General of Labor Inspection (DGIT), as applicable, shall, within fifteen days from the date of referral, conduct an investigation concerning the request for dismissal or for putting employees on short time and attempt to reconcile the two parties. If it fails to reconcile the two parties, the Labor Inspectorate or the DGIT shall refer the case of dismissal to the regional commission or the Central Commission on Control of Redundancies, within three days from completing the reconciliation attempt. The regional commission or the Central Commission on Control of Redundancies shall be required to advise on the issue of dismissal. The commission decides by a majority vote: if the inspector and union reject the proposal, no dismissal is possible.

21. In addition, the Labor Code stipulates a retraining or reassignment obligation before an employer can make a worker redundant; there are priority rules that apply to redundancy dismissals or lay-offs associated with seniority, family situation, and professional values; and there are priority rules that apply to reemployment, neither of which are based on the worker's productivity.

22. A recent review of the literature shows that adequate labor regulations can protect workers without having negative effects on employment levels or the type of jobs (see World Bank 2013a; Betcherman 2014). It also shows that these policies tend to have two distributional impacts: they have an equalizing effect among covered workers but tend to result in the exclusion (that is, no coverage) of youth, women, and the less skilled. Further, in some cases, overregulated labor markets can have an adverse effect on unemployment and formal employment. For instance, excessively high payroll taxes can be associated with higher unemployment rates (Elmeskov, Martin, and Scarpetta 1998) and overprotective employment protection regulation could slow down the reallocation of labor from low- to high-productivity activities if well enforced (Besley and Burgess 2004; Boeri and Jimeno 2005; Haltiwanger, Scarpetta, and Schweiger 2010).

23. There is nothing inherently wrong in the use of short-term contracts, and indeed these are part of the standard set of contracts available in most countries. Fixed-term work contributes to making labor markets more flexible. It provides a buffer for cyclical fluctuations of demand, allowing companies to adjust employment levels without incurring high firing costs. Research has pointed out a number of risks associated with the use of fixed-term work, especially for workers but also for employers. For instance, fixed-term workers are subject to higher turnover, earn lower wages on average, and receive less training. In addition, the expansion of temporary employment may reinforce labor market duality. In particular, when firms can easily hire temporary workers but it is costly to dismiss regular ones, they do not have any incentives to convert workers from temporary to permanent contracts. The problem in Tunisia arises because of the extreme dichotomy created between highly flexible fixed-term (short-term) contracts and highly rigid open-ended contracts.

24. It is worth clarifying that fixed-term (which in Tunisia are necessarily also short-term) contracts do not constitute an incentive toward low-value added jobs. Rather the problem is that in Tunisia the rigidity introduced in the use of fixed-term contracts (which cannot be renewed beyond a cumulative total of four years), combined with the rigidity in the use of open-

ended contracts (which de facto are difficult to terminate even in case of serious economic distress to the firm), results in a set of choices open to the entrepreneur allowing the use of short-term labor that can be dismissed and replaced every few years—and this type of labor force profile is most easily suitable for low-value added activities.

25. Minimum wages can have a role in protecting workers in labor markets that are not perfectly competitive and where employers have market power and are able to impose wages that are too low relative to productivity. In these situations, a minimum wage set at the right level does not increase unemployment and can, on the contrary, increase employment as more workers participate in the labor market. Minimum wages that are too high, however, can reduce formal employment.

26. Wages increased by 2.1 percent on average during 2000-2009 (ILO 2010), which is below the increase in labor productivity over the period of approximately 2.5 percent per year (as discussed in Chapter One). The wage restraint increased the competitiveness of Tunisian firms, contributing to attract investments in the offshore sector (see Chapter Four). At the same time, the state provided an environment where low salaries could be maintained by reducing the cost of basic necessities for the population, through a mix of direct and indirect interventions. The government heavily subsidized and/or controlled the price of basic food and fuel products and kept affordable the price of basic utilities, notably public transport, water, electricity, and gas. In addition, pensions were relatively generous (compared to contributions) and access to health care was reasonably priced.

27. According to the labor code, there is a special minimum wage for youth in Tunisia, but it does not seem to be respected. Youth, therefore, are subject to the same minimum wage as adults. To a certain extent, having a lower minimum wage for young workers could reduce the need for wage subsidies. Results based on a search model calibrated for Tunisia using data from the 2011 labor force survey suggest that with a lower minimum wage employers could be more likely to hire first time job-seekers who are expected to have, at least initially, lower productivity and require more investments in training. The model simulates the speed at which vacancies become available and job matches occur in a dual (formal vs. informal) labor market and allows for quantifying the effects of labor market institutions (notably minimum wages and subsidies) in labor market outcomes, notably unemployment and formal employment. Simulations for Tunisia show that in the absence of a minimum wage: (a) the unemployment rate for youth could be reduced by close to 6 percentage points; (b) self-employment (probably low quality and low pay) would decrease by nearly 2.5 percentage points, and (c) formal employment could increase by six percentage points (see Robalino, et al. 2013).

28. These collective agreements entail wage matrixes that set pay brackets for workers for a certain level of competence, responsibility level, educational level, experience, or a combination of these factors. Each bracket of the matrix contains a minimum-to-maximum wage range (or only a minimum in some cases).

29. While there is a general perception in Tunisia that collective agreements are much more generous than the labor code concerning employment protection and entitlements, analysis indicates that in many aspects the collective agreements largely converge with labor code stipulations.

30. Public sector jobs, notably in SOEs, are better paid than formal private sector ones (for all types of skills, except managerial); they offer better conditions and, very important, offer extremely good job security. New labor market entrants in the public sector earn wages that are on average nearly 50 percent higher than in the formal private sector. In addition,

workers in the public sector benefit from more generous pension and other entitlements, and have better job security. Many of the entitlements given to civil servants, such as annual leave policies, are also better than those regulated in the labor code for the private sector.

31. The process and criteria for hiring in the public sector are defined in the Decree-Law 2011-32 (of April 2011) and its implementation Decree 2011-544 (of May 14, 2011).

32. Clearly, financing part of the social insurance through explicit transfers from general revenues raises questions about fiscal sustainability and equity. If the current government budget cannot be reallocated, reducing or changing the composition of payroll taxes, would require raising additional revenues—basically increasing other taxes. As discussed in Chapter Four, the ongoing discussions on the reform of corporate tax could provide some fiscal space to finance some of these costs. Alternatively the reduction of fuel subsidies (which are highly regressive) could help finance a reform of the state's redistribution programs, strengthening the security and social protection systems. While this issue is not discussed in detail in this report, there are various possibilities: consumption taxes, taxes on corporate profits, taxes on property, and others. The fiscal and economic implications of the various options would need to be assessed in the context of the overall tax reform (see Chapter Four and IMF 2012). It is worth highlighting, however, that some recent research shows that for the same level of distortions payroll taxes raise fewer revenues (see Bird and Smart 2014). In terms of equity issues, an argument against moving toward general revenue financing is that it could lead to a regressive redistribution of income. This is because the social insurance programs today benefit mainly formal sector workers who are likely, on average, to be better off than self-employed and informal wage employees. If the general revenues needed are higher than those mobilized today through payroll taxes, that would be the case. This issue could be resolved, however, if the coverage of social insurance programs is extended to all workers. For instance, if the minimum pension guarantee also applies to the self-employed and wage employees in the agricultural sector (see discussion below).

33. Contribution Rate =  $\alpha * G(r,i)$ . Where  $\alpha$  is the accrual rate (the percentage of the reference salary received for each year of contributions and  $G$  is an annuity factor that depends on the retirement age ( $R$ ) and the discount rate ( $i$ ). When the discount rate is zero, the annuity factor is equal to life expectancy at retirement. Hence, the higher the retirement age, the lower the annuity factor and the higher the pension. Similarly, as the discount rate increases, the value of the pension increases. In Tunisia, it is assumed that the discount rate can be close to three percent per year. Countries often delink contributions from benefits to protect workers who do not contribute for 40 years and therefore would receive lower replacement rates and pensions that are too low. This problem could be better addressed, however, by having a minimum pension guarantee that would be set as a percentage of the minimum wage. For instance, a worker earning the minimum wage and who has contributed for only 20 years could receive a base pension of 60 percent of the minimum wage, plus a contributory pension worth 25 percent of his or her last salary (that is, a total 75 percent replacement rate). The minimum pension guarantee could be the same for all workers or, in order to reduce costs, lower for those who are able to accumulate a higher pension through their contributions. In all cases, however, the cost of this minimum pension guarantee would not be financed through payroll taxes but through general revenues.

34. The use of (part of) VAT tax receipts for this purpose is advocated by several academics (see for instance [\[sociale-lettre-du-cercle-numero-1/\]\(http://www.cercle-economistes-tunisie.org/publications/lettre/1-la-tva-sociale-lettre-du-cercle-numero-1/\) \)](http://www.cercle-economistes-tunisie.org/publications/lettre/1-la-tva-sociale-une-piste-de-lutte-contre-le-chomage-en-tunisie/la-tva-</a></p></div><div data-bbox=)

35. For instance, the contribution rate necessary to finance a 50-percent replacement rate during a period of three months could vary between 1.5 and 5.5 percent depending on the level of the unemployment rate. The contribution rate necessary to equilibrate the system is given by:

$$\beta = \alpha * u/e$$

where  $\alpha$  is the replacement rate and  $u$  and  $e$  respectively the unemployment and employment rates. Thus, the lower (higher) the unemployment (employment) rate the lower the contribution rate.

36. The problem with this system, however, is that it can provide incentives to delay exit from unemployment (see Robalino, et al. 2013). For instance, workers can take informal jobs and maximize the amount of benefits they receive from the system. Controlling this is, institutionally, very difficult.

37. To replace the forgone revenue from the savings tax, one important alternative to consider, if severance pay is reformed, is a dismissal tax. Employers dismissing a worker, for any reason, would pay a given percentage of the worker's salary to a common pool that would then finance redistribution. The dismissal tax would internalize part of the social costs of unemployment (see Ribe, et al. 2012).

38. Because it is difficult to observe their earnings—and for many these earnings fluctuate seasonally—the system would give them more flexibility in terms of the level and frequency of their contributions. The contributions, for instance, do not have to be set up as a percentage of earnings but can be made in absolute terms subject to a minimum floor (for example, five percent of the SMIG). What is important is that these contributions receive the same, implicit, interest rate paid on the contributions of private-sector workers (see above). So, for example, if a self-employed worker contributes, on average, 30 dinars per month during a period of 20 years (the equivalent of a 15 percent contribution for a salary of 200 dinars), his or her pension would be equivalent to 50 dinars (25-percent replacement rate over 200, since a 15-percent contribution rate finances a 50-percent replacement rate only after 40 years). Workers contributing more than 30 dinars would, of course, receive higher pensions. Again, as discussed above, this pension would come on top of the minimum pension guarantee.

39. It is worth noting that there is nothing wrong inherently with the use of short-term contracts, and indeed these are part of the standard set of tools in most countries. The problem in Tunisia arises because of the extreme dichotomy created between highly flexible fixed-term (short-term) contracts and highly rigid open-ended contracts. There is a need therefore to reduce the gap between these so as to increase protection and predictability of fixed-term (short-term) contracts while introducing some flexibility for firms in the de facto rigid system for dismissals of open-ended contracts.

40. To inform the negotiation it is also recommended to commission an independent technical assessment of the economic and social impacts of any change to the minimum wage.

## References

---

- Autor, D. H., F. Levy, and R. J. Murnane. 2003. "The Skill Content of Recent Technological Change: An Empirical Exploration." *Quarterly Journal of Economics* 118 (4): 1279–334.
- Belghazi, S. 2012. "Evaluation Stratégique du Fonds National pour l'Emploi de la Tunisie." World Bank, Tunis.
- Besley, T., and R. Burgess. 2004. "Can Labor Regulation Hinder Economic Performance? Evidence from India." *Quarterly Journal of Economics* 119 (1): 91–134.
- Betcherman, Gordon. 2014. "Labor Market Regulations: What Do We Know about their Impacts in Developing Countries?" Policy Research Working Paper 6819. World Bank, Washington, DC.
- Bird, R., and M. Smart. 2014. "Financing Social Expenditures in Developing Countries: Payroll or Value Added Taxes?" In *Social Insurance, Informality, and Labor Markets: How to Protect Workers while Creating New Jobs*, edited by Frolich Markus, David Kaplan, Carmen Page, Jamele Rigolini, and David Robalino. Oxford: Oxford University Press.
- Boeri, T., and J. F. Jimeno. 2005. "The Effects of Employment Protection: Learning from Variable Enforcement." *European Economic Review* 49(8): 2057–77.
- Elmeskov, J., J. Martin, and S. Scarpetta. 1998. "Key Lessons for Labour Market Reform: Evidence from OECD Country Experiences." *Swedish Economic Policy Review* 5 (2): 205–52.
- ETF (European Training Foundation) and World Bank. 2005. *Reforming Technical Vocational Education and Training in the Middle East and North Africa: Experiences and Challenges*. Luxembourg: Office for Official Publications of the European Communities.
- Haltiwanger, J.C., S. Scarpetta, and H. Schweiger. 2010. "Cross Country Differences in Job Reallocation: The Role of Industry, Firm Size and Regulations." Working Paper 116, European Bank for Reconstruction and Development, London.
- IFC (International Finance Corporation) and ISDB (Islamic Development Bank). 2011. *Education for Employment: Realizing Arab Youth Potential*. Washington, DC: IFC and ISDB.
- ILO (International Labour Organization). 2010. *Global Wage Report 2010/11: Wage Policies in Times of Crisis*. ILO, Geneva.
- Kuddo, Arvo. 2013. "Comments on the Labor Code from 1966 of the Republic of Tunisia" (last time amended in 2007). Unpublished Manuscript, World Bank, Washington, DC.
- Lehmann, Hartmut, and Alexander Muravyev. 2014. "Labor Market Institutions and Informality in Transition and Latin American Countries." In *Social Insurance, Informality, and Labor Markets: How to Protect Workers while Creating New Jobs*, edited by Markus Frölich, David Kaplan, Carmen Pagés, Jamele Rigolini and David Robalino. Oxford University Press.
- Loayza, N., and T. Wada. 2010. "Informal Labor in the Middle East and North Africa: Basic Measures and Determinants." Mimeo. World Bank, Washington, DC.
- Ribe, H., D. Robalino, and I. Walker. 2012. "From Right to Reality: Incentives, Labor Markets, and the Challenge of Achieving Universal Social Protection in Latin America and the Caribbean." Latin American Development Forum Series. Washington, DC: World Bank.
- Robalino, D.A., and M. Weber. 2013. "Designing and Implementing Unemployment Benefit Systems in Middle and Low-Income Countries: Beyond Risk-Pooling vs. Savings." *IZA Journal of Labor Policy* 2013 2:12.
- Robalino, D.A., M. Weber, A. Kuddo, F. Rother, A. Posarac, and K. Otoo. 2013. "Towards Smarter Worker Protection Systems: Improving Labor Regulations and Social Insurance Systems while Creating (Good) Jobs." Social Protection & Labor Discussion Paper 1212, World Bank, Washington, DC.
- Rutkowski, J. 2013. "Wage Determinants in Tunisia." Power Point Presentation, World Bank, Washington DC.
- UGTT (Union Générale Tunisienne du Travail). 2009. *La Précarité de l'Emploi en Tunisie et ses Impacts sur les Travailleurs : Résultats d'une Enquête dans le Grand Tunis*. UGTT, Tunis.
- World Bank. 2008a. "Etude sur la Compétitivité des Entreprises Tunisiennes." Unpublished report prepared by LINPICO, World Bank, Washington, DC.
- World Bank. 2008b. *The Road Not Traveled: Education Reform in the Middle East and North Africa*. Washington, DC: World Bank.
- World Bank. 2010a. *Tunisia Development Policy Review: Towards Innovation-Driven Growth*. Washington, DC: World Bank.
- World Bank. 2011. *Doing Business 2012: Doing Business in a More Transparent World*. Washington, DC: World Bank.
- World Bank. 2012f. "Social Insurance in Tunisia: Sustainability, Equitability, Integration." Internal Mimeo, World Bank, Washington, DC.
- World Bank. 2013a. *Jobs for Shared Prosperity: Time for Action in the Middle East and North Africa*. Washington, DC: World Bank.
- World Bank. 2014c. "Creating Good Jobs in Tunisia Revisiting Labor Market Outcomes, Constraints, and Institutions in Tunisia." Background Report for the *Tunisia Development Policy Review*. Washington, DC: World Bank.
- World Bank. 2014e. *Tunisia Investment Climate Assessment*. Washington, DC: World Bank.