I. Introduction and Context

Country Context

With the election in October 2011 of a Constituent Assembly, and the formation of a new government, Tunisia has completed the first phase of its political transition to a multi-party democracy and is preparing for forthcoming presidential and legislative elections in 2013. The January 2011 revolution was fueled by widespread anger and frustration over lack of social and political inclusion, governance and corruption problems, mounting unemployment and the rising cost of living. On October 23, 2011, ninety percent of the 4.1 million registered voters participated in the election of a Constituent Assembly. A new constitution is being debated by the Assembly and new national elections are expected to be held sometime between June and September 2013.

The continued social unrest during most of 2011 and 2012 and the crisis of confidence in the eurozone have impacted negatively economic performance in 2011, resulting in a in high unemployment and creating risks to the transition process. The main immediate challenge for Tunisia is to ensure economic and social stability in a situation where the short term economic outlook remains uncertain. In parallel, the Government of Tunisia (GOT) needs to adopt structural reforms to accelerate medium-term economic growth and sustainable jobs creation. An economic environment based on cronyism and rent-seeking had been a key factor preventing higher growth and employment, and bold reforms are needed to move from a system based on privileges and connections to one which is based on competition and merit. More generally, the lack of
transparency, social accountability and citizen participation in government affairs further exacerbated a sense of denied opportunities, leading to the January 2011 revolution.

Sectoral and Institutional Context

Labor market. While Tunisia remains on track to achieve the Millennium Development Goals (MDG), recent data suggest that poverty rates and inequality are higher than previously claimed. As of September 2012, 15 percent of the population is considered poor according to the National Institute of Statistics, with the rate nearly double in lagging regions to the west. High unemployment is the most urgent socio-economic issues for Tunisia to resolve, and is a major aspect of youth frustration that led to the January 2011 Revolution (especially in rural areas). With the economic downturn of the past year, the unemployment rate, which sat at 13 percent in 2010, peaked at over 19 percent in mid-2012 and has fallen back to 18 percent in the second half of 2012. Further demographic trends suggest that unless the pace of economic growth accelerates substantially, unemployment will continue to worsen over the decade. Extensive restrictions to economic activity in the domestic market have prevented greater investment and stifled job creation, and the private sector has not experienced the dynamism found in high-growth economies.

The high rate of unemployment, notably among highly-educated groups, youth and women, reflects several policy challenges -- skills mismatch, restrictive labor laws and an adverse business climate. Although job growth has stagnated, many job-seekers may not have the appropriate degree or skills required for available jobs, suggesting reforms to the quality, incentives and governance of the educational system. Restrictive labor laws have also made employers reluctant to hire workers in the private sector. Employment in the public sector remains the first choice among many job-seekers due to benefits, social security and job security, highlighting the need to reform civil service. Twenty percent of the overall labor force is employed in education, health and public administration collectively. The value of a tertiary qualification may be declining given the saturation of the labor market, with tertiary graduates and the perception that university training is not preparing students with the skills necessary for current and future labor market needs. These challenges have prompted short-term reforms to strengthening job search and training for graduates who are more readily employable. In the long-term, reforms are needed to more directly incorporate economic growth strategies in reforms to the education and vocational training system.

Education and training. On the skills side, quality of education and learning outcomes remains low, on average, in comparison with international benchmarks. Student learning outcomes are low, with only 35 percent of Tunisian students reaching the lowest of four international benchmarks in the 2011 TIMSS test for Grade 4 mathematics and science and none reaching the highest benchmark (compared with an international median around 90 percent and 5 percent respectively). Meanwhile, at the tertiary level, college graduates are confronted with a mismatch between the education and skills they obtain and the opportunities offered by the Tunisian job market. A study of 2004 graduates estimates that around 30 percent were in jobs that did not match the skills acquired through post-secondary education. Graduates from technical colleges do better in terms of finding and keeping jobs. With regard to gender, while Tunisia is one of the more advanced countries of the region and its positive record on the status of women needs to be carefully safeguarded, female participation in the labor force is only 27 percent. Women have benefited from Tunisia’s high level of investment in education and have made good progress in education (38 percent university enrollment compared to 25 percent of men, in 2007), wage parity, participation in politics and reduced fertility rates (by nearly half).
Tunisia’s pre-job vocational training sector, in 2011, took in just over 50,000 new students (of which 9 percent enrolled with private providers) and produced just over 43,000 graduates (with 38 percent leaving with higher-level certificates [BTS, BTP], 38 percent with lower-level certificates [CAP, CDC, CFA, CFP] and 24 percent with non-State-recognized certificates). This represents a slight drop since 2009, when almost 55,000 students graduated from pre-job vocational training programs. By way of comparison, Tunisia’s public universities and polytechnics (ISET) enrolled almost 50,000 new students for the 2011/12 academic year and graduated just over 74,000 in 2011. The vocational training sector is dominated by public providers (with some 80 percent of all enrollments), most notably the Tunisian Vocational Training Agency (ATFP) which captures 95 percent of public enrollments. As the largest single provider, the ATFP maintains a highly centralized approach to training provision and individual ATFP institutes enjoy only limited management autonomy. In recent years, there have been isolated initiatives to involve industry representatives (e.g., electricity/electronics and tourism/hotel industries) in the definition of relevant skills within an emerging National Qualifications Framework, and in the development of training/evaluation modules.

Active labor market policies. To address these labor market challenges and promote regional development, the GOT established in 2000 the National Employment Fund (FNE), the country’s main source of financing for active labor market policies (ALMPs) and regional programs, benefiting more than 405,000 individuals in 2011 alone. The 2000 Budget Law instituted the FNE as a special treasury fund to develop and/or improve the skills and increase the employability of job seekers. The FNE resources are significant at approximately 460 million TND in 2011 (about 0.8 percent of GDP) financing primarily ALMPs delivered by the National Agency for Employment and Independent Work (ANETI) (about 80 percent of total fund allocations in 2010). ALMPs to promote insertion into wage employment, referred to as wage-insertion programs (programmes d’insertion dans l’emploi salarié) consist primarily of subsidized on-the-job training for high-skilled youth. While the FNE also finances several other programs (such as entrepreneurship programs, unemployment assistance, and regional employment programs), the focus of this operation is to support the implementation of wage-insertion programs delivered by ANETI.

In order to address these institutional failures, the GOT is launching a comprehensive reform, supported by a World Bank multi-sectoral development policy lending program, that will replace existing wage-insertion programs with “wage” and “training” vouchers delivered through public-private partnerships. The main aspect of the reform that is relevant to this operation is the replacement/consolidation of all existing wage-insertion programs with two new programs which will be implemented by ANETI through public-private partnerships: a “training voucher” (« chèque pour l’amélioration de l’employabilité ») and a “wage voucher” (« chèque appui à l’emploi »).

Relationship to CAS

The Bank’s program in Tunisia is set out in the Interim Strategy Note (ISN) FY12-13, which was prepared following the election of the Constituent Assembly and discussed by the World Bank Board on July 3, 2012. The situation remains too fluid for the Bank to lay out a new strategy, particularly given the short-term horizon of this interim government. A full Country Partnership Strategy (CPS) will likely be prepared only after a new elected government under a new constitution is in place. Hence the Bank team prepared an ISN which was approved by the Board in June 2012. The ISN outlines a Bank Group program focused on contributing directly and indirectly to the GOT’s short and medium-term employment creation objective. The program will promote private-sector led recovery and job creation, with a focus on openness, opportunity and accountability. To this end, the Bank Group will frame its support within three areas of engagement: (i) laying the
foundation for renewed sustainable growth and job creation; (ii) promoting social and economic inclusion; and (iii) strengthening governance: voice, transparency and accountability.

The current operation fits primarily within the ISN's second pillar (promoting social and economic inclusion), since it focuses on supporting job placement of unemployed Tunisians. The operation also contributes to the first pillar (laying the foundation for renewed sustainable growth and job creation), by improving labor force supply through better skills required to meet employers’ needs for job creation. Finally, the operation supports to a lesser extent the third pillar, inasmuch as it employs a transparent and competitive fund mechanism based on accountability for results.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

To improve labor market insertion rates of ALMP beneficiaries through training and wage subsidy programs that involve public-private partnerships.

Key Results (From PCN)

Share of program beneficiaries who obtain formal employment (with a contract) through the programs financed by the operation, with at least a third being women (data being collected by gender, by qualification level, by region).

III. Preliminary Description

Concept Description

The project would consist of three components: (I) Training Voucher; (II) Wage Voucher; and (III) Institutional Capacity Building, Project Management and Monitoring.

Component I: Training Voucher (chèque pour l'amélioration de l'employabilité)

Under this component, a training voucher would be established by the Ministry of Vocational Training and Employment (MVTE) to secure training and job-placement services for ANETI-registered unemployed job-seekers (hereafter "beneficiaries") that lead to their job placement. The training voucher, attached to a beneficiary, would be "redeemed" either by a training provider in partnership with a firm, or by a firm in partnership with a training provider. Approximately 4,000 beneficiaries would receive on average about 200 hours of training and job-placement activities, with the per-hour cost not to exceed US$25 (i.e., US$5,000 per beneficiary trained). This component would also finance a small monetary stipend (about US$100 per month) for beneficiaries participating in training and job-placement activities (mainly to cover for transportation costs, training materials and related personal expenses). An operations manual would set out a detailed description, objectives and procedures for the selection of proposals, the monitoring of proposal implementation and the payment against results (approximately US$ 20 million).

Component II: Wage Voucher (chèque d'appui à l'emploi)

Under this component, approximately 4,000 ANETI-registered ALMP beneficiaries (some of whom would likely be prior beneficiaries of the Component I training voucher) would be provided with a wage voucher to make them more attractive to employers as they seek employment. Employers offering an employment contract to the beneficiary (open-ended or fixed-term) could redeem the beneficiary's voucher. The voucher would cover a fraction of the contract wages (capped at 80 percent of the monthly minimum wage [salaire minimum interprofessionnel garanti]) and social
security contributions for a period of 12 months (about US$3,000 per beneficiary per year). An operations manual would set out a detailed description, objectives and procedures for the implementation of the wage voucher (approximately US$12 million).

Component III: Institutional Capacity Building, Project Management and Monitoring
This component would provide technical assistance (and perhaps office equipment) to the MVTE and related agencies (e.g. ATFP and ANETI) to: (i) set up and manage the training voucher and wage voucher programs; (ii) set up and carry out an impact evaluation study of the training voucher and wage voucher programs; (iii) monitor project progress and results; and (iv) manage the project generally [including managing procurement and finances]. (approximately US$13 million: US$8 million for capacity building and US$5 million for project management).

IV. Safeguard Policies that might apply

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V. Tentative financing

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