



YOUTH EMPLOYMENT AND ECONOMIC TRANSITION IN TUNISIA

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Abstract:

This paper analyzes trends in youth employment and unemployment in private sector development, with special attention to education and female employment. It uses data from a 2007 enterprise survey to study the evolution of the MSE sector and that Tunisian MSEs are suffering from similar problems faced by the private sector generally. The business environment has been plagued with corruption and many other imperfections and uncertainties, and was not conducive for substantial investment and enterprise creation. Small entrepreneurs, who are not well-connected to the old political elite, have been particularly hurt by the lack of clear rules and by rampant corruption. The paper argues for reforms of labor laws and of the financial sector in order to encourage MSEs to become formal and gain better access to credit. It also points out to huge inequalities between different regions in Tunisia (the poverty rate in the center west region is three times that in Tunis) and to a strong gender bias in the labor market (female labor market participation rate is 27 percent compared to 70 percent for males), and argues for special policies and programs to deal with them.

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INTRODUCTION

Tunisia has gone through a seismic political shock that led to the collapse of its previous autocratic regime and to the beginning of the transition to democracy. The ongoing political, social and economic institutional transformations should lead to a more democratic government and unlock great economic development potential, but the situation remains politically fragile and highly uncertain. The demands for decent jobs, justice and a better and more inclusive government are not yet satisfied, and youth, who have been the main driving force of this historic transformation, are still frustrated and angry.

Transitions to more inclusive political and economic systems take time as countries struggle to build new democratic institutions and develop a culture of dialogue and compromise that is necessary for democracy to succeed. It is also normal that economies stagnate in post-revolutionary periods because investors consider that risks are greater and prefer to wait until the country stabilizes. But prolonged economic stagnation could jeopardize Tunisia's democratic transition. Youth employment remains the biggest challenge for the country; creating opportunities and

employment for youth is a top priority for Tunisia (as well as for all Arab Spring countries) and a crucial condition for a successful transition to democracy. This transition would be hard to sustain without the empowerment of youth and their participation in national policy and decision-making.

Actually, the unemployment problem is not new and certainly not specific to the Arab Spring countries, and it has no easy solution. In Tunisia, unemployment has been persistent because the economy has not been creating sufficient jobs for the rapidly growing number of young people, especially young women, joining the working force every year. The problem has been made more difficult by the fact that educated youth expect good jobs and are not satisfied with the low-productivity, low-wage jobs offered by the private informal sector that are easier to find. They would rather queue up for formal and decent (in the International Labor Organization's sense) jobs currently offered primarily by the public sector.

The rebellious unemployed youth expect the government to respond to their legitimate demands and to offer them new opportunities. Indeed, in the short run, something has to be done by the government:

responding to youth through a credible employment program is a necessary condition for success of the democratic transition. However, obviously the government and the public sector cannot provide jobs for all the unemployed and for the ever increasing youth population. Strategically, in the medium and long run, developing the formal private sector will be the main sustainable way to meet their aspirations and to allow them to participate gradually, but more massively, in the process of economic and political development.

The focus in this paper is on the role of the private sector. It will not discuss short-term solutions, which primarily have to involve the government. It examines the strategy needed to develop the private sector. How can we increase productive and profitable investments in order to create more and better jobs and opportunities for young people? In particular, how can we move up the value chain in order to facilitate the

creation of higher value-added and higher-wage enterprises? The paper's specific purpose, however, is to analyze private sector development trends in Tunisia with a focus on SMEs and youth and to draw lessons on future private sector development in regards to factors determining the growth of the private sector and the quality of the jobs created.

The analysis is based on a description of the trends in youth employment and unemployment and in private sector development, with a special attention paid to education and female employment. Informality, which strongly impacts the employment provided by the private sector, will be addressed briefly. Sections 2 and 3 will be, on youth unemployment and private sector development. Section 4 draws some conclusions and conjectures about the scope of the transition in the Arab Spring countries and concludes.

YOUTH UNEMPLOYMENT AND INEQUALITIES

In Tunisia, unemployment has been persistently high for more than two decades preceding the 2010 revolution and afterwards. It was often above 14 percent until 2010, and between January 2011 and May 2012, about 200,000 additional jobs were lost and the unemployment rate reached 19 percent.

Youth, between 15 and 30 years old, make about one-third of the labor force and three-quarters of the unemployed. On average but with important disparities,

their unemployment rate is above 30 percent. This rate is higher for young women and in poorer regions, especially in the west of the country. There is a wide consensus that angry unemployed youth, in a context of regional disparity and increasing corruption and poverty, triggered the popular revolts and led to the fall of the previous dictatorial regime in Tunisia (as in the other Arab Spring countries).

This structural unemployment is the outcome of both supply and demand effects, including the inefficient functioning of the labor market.

	1995	2000	2010	May 2011	May 2012*
Unemployment Size (in 1000)	440	480	491	720	750
Unemployment Rate (%)	15.7	15.6	13	18.3	19

Source: INS Labor survey 2011; * May 2012 is an estimate.

The Supply Side of the Labor Market

On the supply side, the demographic pressure is high due to the rapidly increasing size of the labor force, which is expected to continue to increase for the com-

ing decade mainly as a result of increasing female participation in the labor market, in spite of the slowing population growth.

	2005	2007	2009	2011	2012*
Size (in 1000)	3,359.1	3,521.7	3,689.2	3,844.6	3,940
Growth Rate (%)		2.53	2.36	2	2.4

Source: INS Labor Survey 2012; * 2012 is an estimate.

Moreover, the Tunisian labor force is increasingly educated; the number of university graduates has been rising rapidly thanks to the open and free access to higher education. The proportion of the labor force with university degrees was less than 10 percent in 2000, but reached 13.1 percent in 2005 and more than

16 percent in 2010, and it keeps growing. The proportion of those with secondary or vocational education in the labor force is also high – above 37 percent – meaning the total educated labor force is above 53 percent.

	1966	1975	1984	1994	2001	2006	2011
Higher	1.2	1.4	3.3	7	10	15	17
Intermediate (High School & Vocational)	7.1	12.8	20	29	30	31	38
Low (Primary or None)	91.7	85.7	76.8	64	60	54	45
Total	100	100	100	100	100	100	100

Source: INS Labor survey 2001 to 2011 and population census 1966, 1975, 1984, 1994.

However, the quality of education and of training, and consequently of the skills acquired by this growing labor force, are not always adequate. The policy of free and massive access to education has been implemented at the expense of the training quality; nevertheless, the country accumulated a massive stock of human capital.

The Demand Side

On the demand side, the economy's capacity to create jobs, especially good jobs, and attractive opportunities has been weak, well below the expectations of job seekers, especially youth. Economic growth has not been adequate, and the demand for skilled and educated labor is limited. Investment has been predominately concentrated in low value-added, low-wage, labor-intensive activities based on low-level technologies. Consequently, the demand for more educated, less-experienced youth is the lowest in the labor pool. The demand is even lower for women and for those living in the poorer hinterland region located

mainly in the Western regions of the country. These regions are poorer in terms of infrastructure, access to international harbors and ports, and human capital availability. Hence, they were the least attractive for investments and entrepreneurial opportunities and have the least diversified productive activities.

Skill mismatch is also an important factor underlying the low level of employment and Tunisian employers often complain about the lack of employees with the right abilities. The quality of the education system is certainly a major issue. It is not designed to produce the appropriate skills or to ensure high-quality training, making it crucial to radically improve this system in order to move up the value chain and to ensure the transition towards a more productive economy.

However, although skill mismatch is currently an issue, it has been less important as an explanatory factor of unemployment. The weakness in the overall demand for skills is the main factor. Based on the ANETI (the national employment agency) data, only a small share

of vacancies are relatively hard to fill. For example, 86.7 percent of the vacancies are matched in less than a month, another 8.2 percent in less than three months; and for no more than 5.1 percent of the vacancies, it takes longer than three months to identify the right match.

It is also a fact that the majority of enterprises, including large firms, invest very little in training their staff meaning they can find the skills they need at a lower cost in the market.

Matching Duration (months)	Frequency (%)	Cumulative Percentage
0-1	86.7	86.7
2-3	8.2	94.9
3-9	4.1	99.2
10-28	1.0	100

Source: Agence Nationale de l'Emploi et du Travail Indépendant (ANETI) vacancies data base and the author's calculation.

The hard to fill vacancies are concentrated in few domains:

- Electromechanical engineering
- Electromechanical technicians
- Computer science engineering
- Maintenance
- Technical marketing, including e-marketing

There has also always been an issue with seasonal unemployment. This is an important issue but not essential from the perspective of this paper.

Restrictive labor market regulations (especially those that limit firms' ability to downsize) are a more serious concern and put a more significant limitation on labor demand. These restrictions reduce formal job creation and increase precarious forms of employment. Tunisia ranks 108 out of 183 countries for "employing workers" in the World Bank's Doing Business report in spite of the revisions of the labor code in 1994 and

1996, which introduced more flexibility for employers. As a result, enforcement of labor laws and regulations is very weak. Only large firms respect labor regulations, while a sizable informal sector widely escapes regulation and leaves the employees with little protection.

Therefore, revising the current regulations and reaching a more appropriate balance between flexibility and protection of workers' rights will be a major challenge for the coming governments and for a successful economic and political transition.

Unemployment by Education Level

The educated youth are asking for better and more decent jobs. Yet, in current situation the higher the education level a person has, the lower the probability they will find a job. The unemployment rate increases with higher education levels and is highest for those with university degrees. Across the labor force, the unemployment rate for university graduates was above 20 percent in 2010 and above 30 percent for

the young university graduates. The number of the unemployed with university degrees was close to 200,000 in 2011 (compared to around 700,000 unemployed in total).

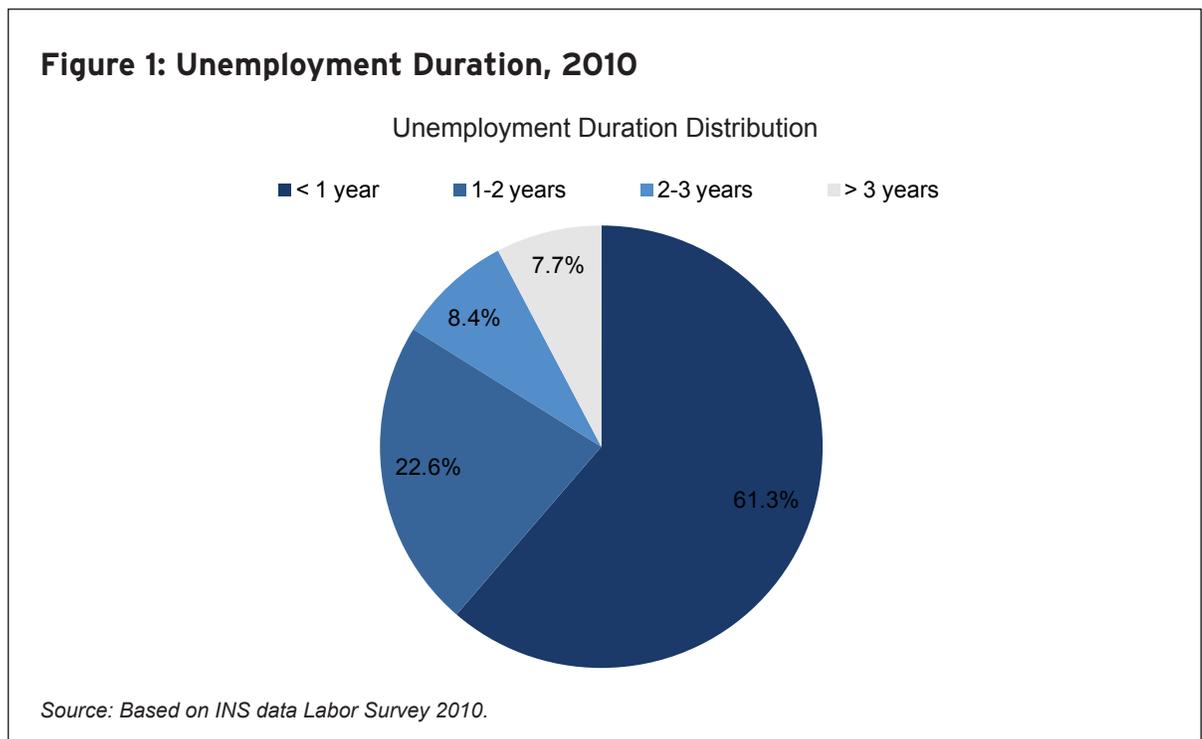
However, there are even larger numbers of young people with secondary education (more than 300,000). Although their unemployment rate is lower than those with higher education they are arguably the most

desperate, because they generally can only hope for a low-paid informal job with very little job security. They are also the most likely to keep protesting if their demands are not heard.

Currently, close to 40 percent of the unemployed wait at least one year before finding a job. On average, the more educated, who queue up for formal sector jobs, wait much longer.

Table 5: Unemployment by Education Level				
	2005	2007	2009	May 2011
None	6.3	4.4	6.1	8
Primary	14.3	11.5	10.4	12.4
Secondary	13.3	13.5	14.0	20.6
Higher	14.0	18.2	21.9	29.2

Source: INS Labor survey 2011.



Income Distribution Inequality

Several observers state that Tunisia's revolution was against inequality and injustice. However, the data does not indicate that there has been an increase in inequality over time. Over the last four decades in Tunisia, the average income (measured by the average household or per capita expenditure) has increased while inequality, measured by the Gini coefficient, continuously and significantly decreased. Poverty has also decreased, confirmed by the results recently released and based on recent calculations using a readjusted poverty line. The head count poverty rate declined from 32.4 percent in 2000, to 23.3 percent in 2005 and then to 15.5 percent in 2010.

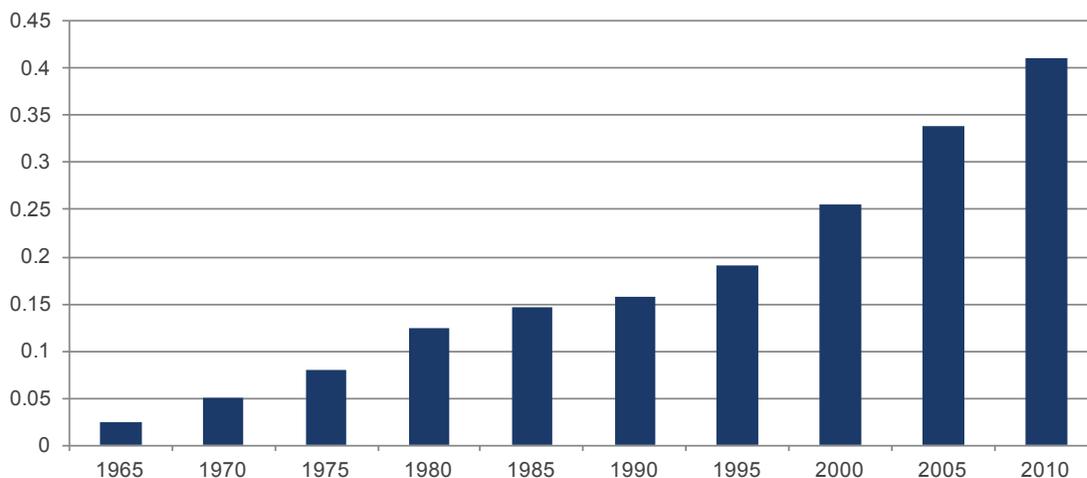
The size of the Tunisian middle class has also increased, especially in the last decade. According to the Brookings Institution's database, which defines the middle class "as those households spending be-

tween \$10 and \$100 per person per day in PPP terms," the middle class reached more than 40 percent of the total population in 2010; it was 25 percent in 2000, less than 15 percent in 1985 and less than 10 percent in 1970. The Tunisian Statistical Institute (INS) confirms this result using a less restrictive definition of the middle class. It finds that the size of the middle class changed from 70.5 percent in 1995, to 77.6 percent in 2000 and to 81.1 percent in 2005.

What then triggered the Tunisian revolution? Lack of opportunities for youth seems to have been a key driver for the revolution. As shown earlier, youth face high unemployment and those who do find jobs usually end up with low-paying informal sector jobs. Poor governance is another important driver. Tunisia ranks low in corruption control and in the area of voice and accountability. The fact that politically-connected groups (including relatives of the first family) were

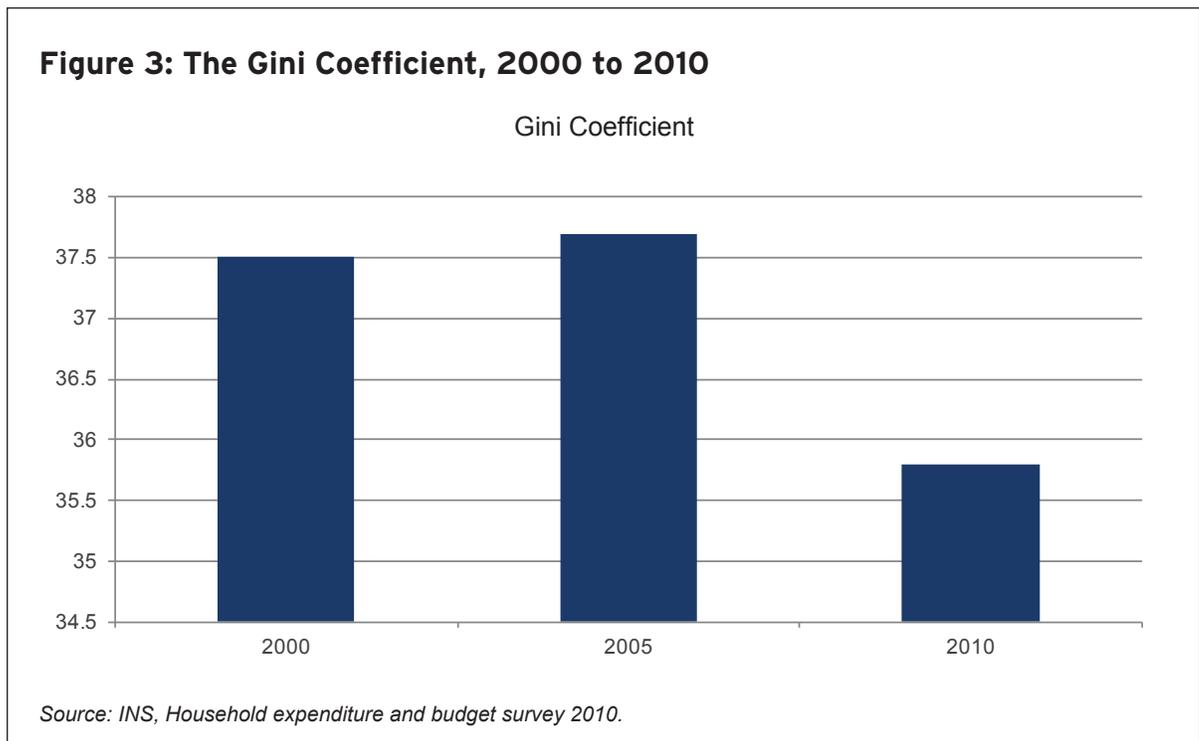
Figure 2: Income Distribution and the Middle Class, 1965 to 2010

Tunisia Middle Class



Source: Brookings database.

Figure 3: The Gini Coefficient, 2000 to 2010



able to increase their wealth because of special privileges while thousands of educated youth were unemployed or forced to accept informal work led to popular anger and frustration. Young people felt excluded from the economic life of their country. They were also politically excluded. Lack of democratic rights and institutions that allow them to voice their opinions left youth with revolution as the only option.

Regional and Gender Inequality

In spite of the overall decrease in income inequality, unemployed youth, especially those from the hinterland poor regions, have ample reasons for revolting.

All indicators confirm that regional disparities have been large and persistent: unemployment, income level and poverty by region show that the western regions are poorer and provide many less opportunities to the population and to youth who have the hardest time to find jobs or to start a business.

Per capita income (expenditure) in the wealthiest region, the Tunis region, has been around twice that of the poorest regions, which alternate between the northwestern or the center western regions.

The poverty rate is three times higher in the poorest region.

Table 6: Per Capita Expenditure by Region, 1980 to 2010							
	1980	1985	1990	1995	2000	2005	2010
Tunis District	403	725	1,007	1,289	1,761	2,390	3,228
North East	239	450	760	958	1,190	1,613	2,113
North West	169	284	501	677	1,103	1,416	1,613
Center West	168	324	502	586	909	1,138	1,496
Center East	255	544	806	1,275	1594	1,826	2,693
South	235	382	570	728	1,066	1,700	2,060
National Average	248	471	716	966	1,329	1,820	2,360

Source: INS, Household expenditure and budget survey 1980 to 2010.

Table 7: Poverty by Region, 2000 to 2010						
	Poverty Rate (%)			Extreme Poverty (%)		
	1980	1985	1990	1995	2000	2005
Tunisia total	32.4	23.3	15.5	12.0	7.6	4.6
Large cities	21.5	15.4	9.0	4.3	2.2	1.3
Medium size cities	32.5	22.1	14.0	10.5	6.5	2.9
Rural	40.4	31.5	22.6	19.1	13.4	9.2
Tunis Region	21.0	14.6	9.1	4.3	2.3	1.1
North East	32.1	21.6	10.3	10.5	5.4	1.8
North West	35.3	26.9	25.7	12.1	8.9	8.8
Center East	21.4	12.6	8.0	6.4	2.6	1.6
Center West	49.3	46.5	32.3	25.5	23.2	14.3
South East	44.3	29.0	17.9	17.5	9.6	4.9
South West	47.8	33.2	21.5	21.7	12.1	6.4

Source: INS, "Mesure de la pauvreté et des inégalités en Tunisie 2000-2010," www.ins.tn.

Unemployment rates and duration of unemployment are higher for youth and particularly for women – even more so for female graduates. Women living in the poorer regions are the least fortunate. More generally, unemployment is much higher in the west and the south of the country, including in the Sidi Bouzid and Kasserine area.

The unemployment rate is at 21 percent in Kasserine, 28 percent in Gafsa and 24 percent in Tataouine, compared to 13 percent at the national level. Gafsa (47 percent), Sidi Bouzid (41 percent), Kébili (43 percent) and Jendouba (40 percent) have the highest unemployment rates for university graduates (compared to the national 23 percent average). Most of these regions remain highly dependent on agriculture, which provides mostly seasonal, low-skill and low-

pay employment, which is not attractive for youth. Unemployment and poverty strengthened the sentiment of exclusion and discrimination among the populations of the poorer regions, who have developed a strong belief that their situation is caused by a biased public policy and regional distribution of public investments. Public investments were indeed concentrated in the coastal regions and consequently, few private investments are undertaken in these regions. Today, their populations are strongly voicing their anger and demanding a fairer distribution of public investments.

Combating unemployment in these regions will require long-term structural reforms in order to improve productivity and to open new opportunities for youth through the creation of new innovative enterprises.

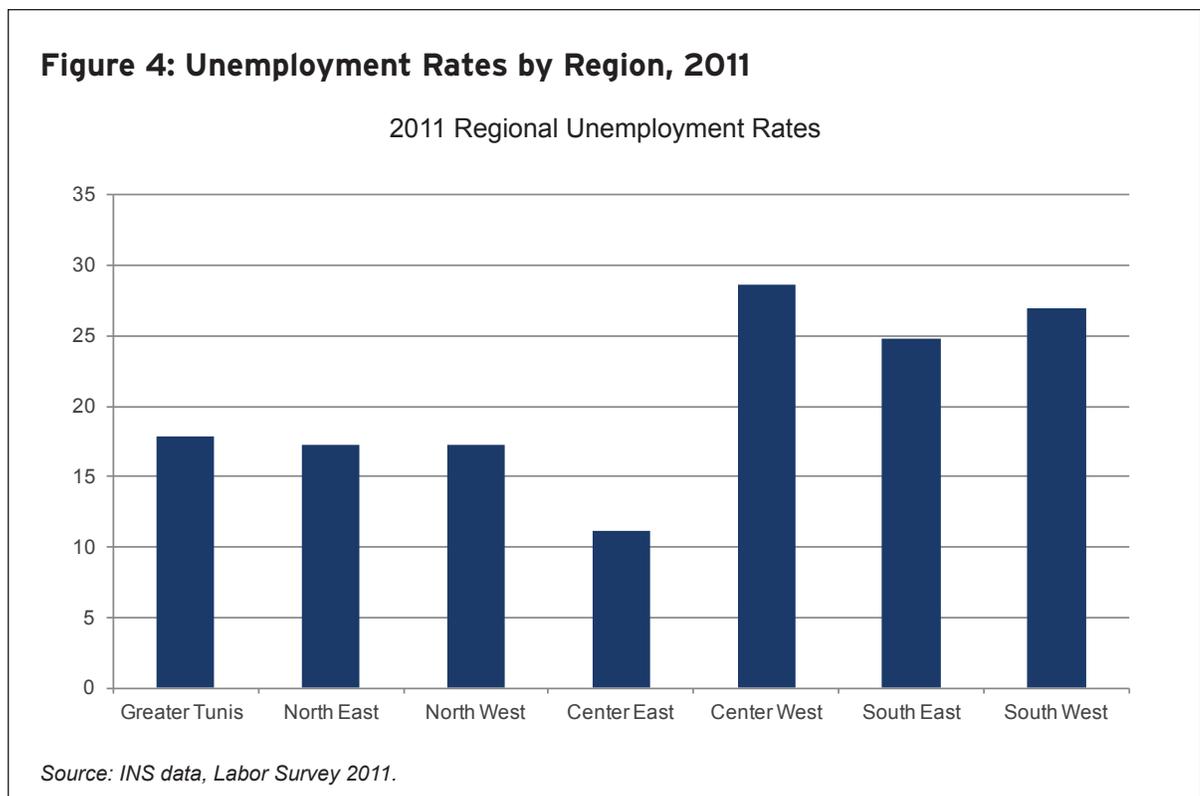
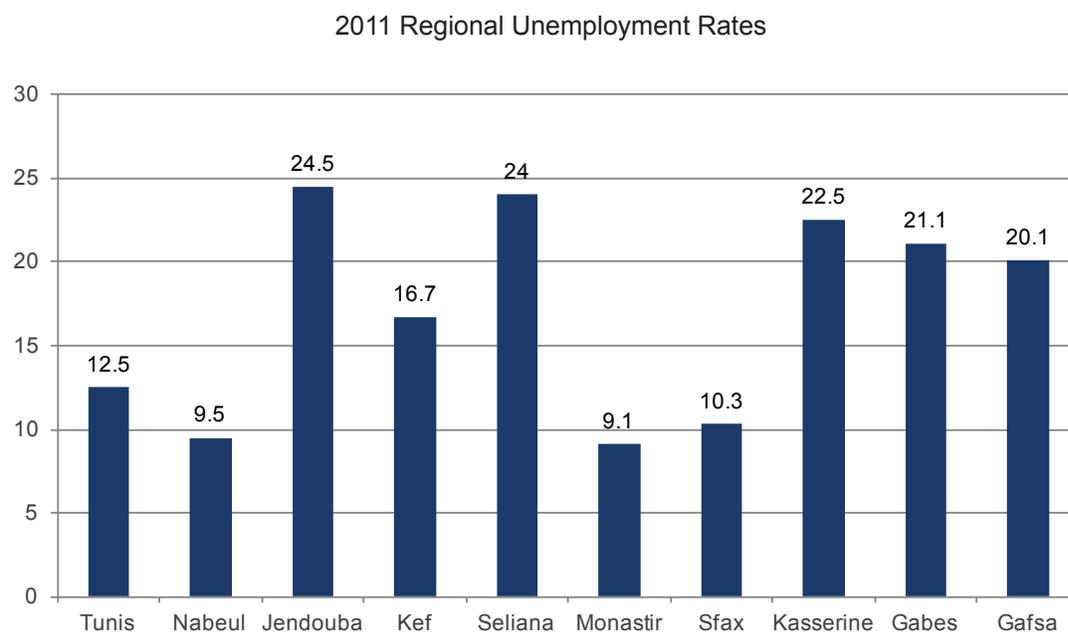


Figure 5: Unemployment Rate across Governorates, 2007



Source: INS data, Labor Survey 2007.

The Gender Bias

Gender bias is a serious concern in Tunisia. Although access to schools at all levels is equally available for males and females, the numbers of female students has become higher than the numbers of males and more than 60 percent of university graduates are

females, the rate of female participation in the labor force remains much lower (27 percent in 2011, compared to 70 percent for males), their unemployment rate is much higher (nearly 19 percent before the revolution and 27 percent in 2011) and, when employed, they often receive lower pay.

Table 8: Unemployment Rate by Gender (Percent)

	May 2008	May 2009	May 2010	May 2011
Total	12.4	13.3	13.0	18.3
Males	11.2	11.3	10.9	15.0
Females	15.9	18.8	18.9	27.4

Source: INS, Labor Survey 2011.

This bias is stronger for female university graduates whose unemployment rate across the country (32 percent) is double the rate for male university graduates (16 percent). In many regions, the unemployment rate for female graduates is above 50 percent. More gen-

erally, less opportunities are open to women because their mobility is more restricted due to social constraints and responsibilities imposed on them. They are more likely to accept low and less paid jobs as long as they can stay near home.

PRIVATE SECTOR DEVELOPMENT

Despite the relatively good ranking of Tunisia in the World Bank's Doing Business report (40 out of 183 countries in 2011), the domestic private sector development remains below expectations.

Over the last two decades, Tunisia undertook important reforms, including administrative and fiscal changes, and provided incentives for enterprise creation (the investment incentives Law 93-120 passed in 1993), which attracted substantial amounts of foreign direct investment. Despite all these performances, reforms and incentives, Tunisia's private investment remained relatively small, around 15 percent of GDP and below 60 percent of total investments.

Moreover, there has been a significant gap between rules and facts, leaving room for deals, abuses, lack of transparency and corruption. The business envi-

ronment has been plagued with corruption and many other imperfections and uncertainties, and was not conducive for substantial investment and enterprise creation, especially small and medium enterprises (SMEs).

A key economic challenge for Tunisia today is to improve the business environment in order to increase investments and to create more and better enterprises able to create more attractive employment opportunities for youth. Private investments remained modest quantitatively and also at the bottom level of the technological scale. In most sectors, except for few exceptions, even the most competitive firms were clearly unable to move up the value chain or to improve their productivity fast enough, the way development occurred in South Asian countries. They have not succeeded in switching from labor-intensive, low-wage activities to more capital and skill-intensive ones.

Table 9: Tunisia's Doing Business Ranking			
Doing Business 2012 Rank	Doing Business 2011 Rank	Change in Rank	
46	40	↓ -6	
Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	56	46	↓ -10
Dealing with Construction Permits	86	85	↓ -1
Getting Electricity	45	46	↑ 1
Registering Property	65	60	↓ -5
Getting Credit	98	96	↓ -2
Protecting Investors	46	44	↓ -2
Paying Taxes	64	61	↓ -3
Trading Across Borders	32	31	↓ -1
Enforcing Contracts	76	78	↑ 2
Resolving Insolvency	38	37	↓ -1

Source: World Bank Doing Business 2012.

The aim of analyzing past trends in enterprise development in Tunisia is to try to understand why there has been so little development. It is also a preliminary step towards designing a new strategy in favor of more rapid private sector development and better opportunities for youth.

In the literature dealing with private sector development, many people, especially at the World Bank (World Bank 2011), argue that the best way to create opportunities for youth is through the development of a more open private sector focusing on small and medium enterprises. The pro-SME advocates argue that SMEs not only enhance competition and entrepreneurship because they are easier to establish than large enterprises, but that they are also more productive and can boost employment and alleviate poverty more effectively than larger firms because they are presumably more labor intensive. Advocates also argue SMEs can create better quality and more stable jobs. However, this view is challenged by many skeptics (Schmitter, Phillipe 1974; Weidig, Dorte 2011), who emphasize the benefits of large firms that allow for economies of scale, create even better and more stable jobs, and are likely to be more competitive in the international market with more exports. Our view is that, for any given economy, the optimal enterprise structure should include and combine all sizes of businesses and that the proportion of SMEs would vary according to many variables, mainly the country's endowment of land, labor and capital, its technological capacities and its trade policies.

Private Sector Development and the Role of SMEs

How have SMEs performed in Tunisia and to what extent do they confirm pro-SMEs arguments? Enterprises are generally defined as follows: Microenterprises employ fewer than 10 persons, small

enterprises employ between 10 and 50 persons, medium enterprises employ more than 50 and fewer than 250 persons, and large enterprises employ more than 250 persons. In Tunisia, however, we will define large enterprises as those employing 200 persons or more.

The Tunisian economy is predominantly private. Although some of the largest and most important enterprises of the country remain state owned, the size of the public sector – including the state-owned enterprises and the government – has been rather modest and stable for the last decade. The share of employment in the public sector was 22 percent in 2011 and GDP was around 25 percent. The public sector's role is still quite dominant in three specific sectors: energy and utilities (100 percent of total employment), banking and mining, and, significant but less important, community services and communications. Agriculture, manufacturing, construction and trade are all predominately private as well as business services, transport and communications, and tourism. These are mostly small and micro enterprises and family-owned firms that emerged in the 1970s.

Informal Sector

The informal sector, constituted mainly of small businesses (microenterprises), is actually the largest and the fastest growing of private enterprises. The number of microenterprises, which form the bulk of the informal sector, is growing annually at 5.1 percent compared to 2.1 percent for the larger enterprises. Microenterprises are, although with a great deal of heterogeneity, the least structured, the most volatile and uncertain, and generate mostly low-quality, informal jobs. Based on the most recent national microenterprise survey conducted in 2007¹, 98 percent employ no more than two persons and 87 percent employ only one individual (the employer himself). Total

Table 10: Distribution of Employment Between Public and Private Sectors (in 1,000s)						
Sector	2011	2010	2009	2008	2007	2006
Public	695.6	693.4	692.9	687.0	684.9	677.9
Private	2,444.2	2,584.0	2,506.0	2,468.4	2,400.2	2,327.0
Total	3,139.8	3,227.4	3,198.9	3,155.4	3,085.1	3,004.9

Source: INS (provided to the author directly by INS Management).

employment of the informal microenterprise sector is little more than 500,000 people, 80 percent of whom are men. This is about 16 percent of the country's total workforce and only about 5 percent of wage-earning employees making a little less than the minimum legal wage (slightly less than TND 250 per month in 2007) and often without any social security. Female employees earn 30 percent less than male employees (182 TND for women and 262 TND for men in 2007). Even within this category, wage is positively correlated with the size of the enterprise. The remainder of the workforce is predominantly self-employed persons whose average income is more than twice the average wage, but with a very wide variation. Eighty percent have a primary or secondary education and 10 percent have a higher education. Microenterprises cover a large spectrum of activities but are concentrated in food, retail commerce, construction, transportation and automobile repair. Micro-firms have very limited access to formal financing, which covers less than 10 percent of their investment, and depend mainly on their self financing (close to 90 percent of investments). They also have very limited access to new technology; only a minority (less than 10 percent) have access to the internet. Therefore, it is no surprise that there is lower productivity and that educated youth are not attracted to these enterprises for employment or satisfied by the informal jobs they offer – unless they are themselves the entrepreneurs.

SMEs (Employing Between 10 and 200 Persons)

Like in many other countries, SMEs are actually the backbone of the Tunisian private sector. Although their number is just 2.5 percent of the total number of firms, they generate about one-third of total employment and 43 percent of salaried employees. Yet, the environment in which they operate is not always conducive for their growth and development mainly because of the regulatory framework, fiscal treatment, worker-employer qualification and attitude, and access to finance. Actually, SMEs form an extremely heterogeneous set. The small enterprises (between 10 and 50 employees), which are by far the majority among SMEs, are likely to be closer to the informal sector and keep many informal features, in particular in their human resources management; while the larger category behaves more like modern and formal enterprises. The larger the size the closer they are to formality. Since half of the Tunisian SMEs are really small and employ less than 20 persons and 25 percent employ between 20 and 50 persons, informality is widespread among SMEs. In 2010, only 2,613 enterprises out of 11,242 SMEs employed between 50 and 200 persons each and qualified as medium enterprises and, presumably, fully formal enterprises.

Altogether, smaller SMEs (employing less than 50 persons) account for 75 percent of the total number

Table 11: Employment in Microenterprises by Activity Sector, 2007				
Division	Sector	Females	Males	Total
14	Other Extractive Industries	11	379	389
15	Food Industry	2,460	16,235	18,695
17	Textile Industry	1,463	834	2,297
18	Clothing and Fur Industry	6,685	4,059	10,744
19	Leather and Shoe Industry	929	3,239	4,168
20	Carpentry Industry	186	10,105	10,291
22	Publishing, Printing, and Copying Industry	711	2,141	2,852
24	Chemical Industry	197	717	914
25	Plastics Industry	51	138	189
26	Nonmetallic Mineral Products Manufacturing	260	4,156	4,416
27	Metallurgical Industry		468	468
28	Metal Work	54	12,078	12,132
29	Machinery and Equipment Production	6	581	587
31	Electrical Machinery and Equipment Production	8	573	581
32	Radio, Television, and Communication Equipment Industry	10	131	141
33	Production of Medical, Precision, and Optical Instruments and Watches	156	317	473
34	Auto Industry		107	107
35	Manufacturing of Other Materials in the Transport Industry	39	613	652
36	Furniture Manufacturing; Other Industries	189	6,849	7,038
37	Recycling Industry	265	347	612
41	Water Resource Management	2	25	27
45	Construction	181	11,966	12,147
50	Auto Business and Repair	288	23,655	23,943
51	Wholesale	435	13,205	13,640
52	Retail Business and Repair of Household Goods	40,491	130,483	170,974
55	Hotels and Restaurants	4,702	38,835	43,537
60	Ground Transportation	1,710	66,410	68,120
61	Maritime Transportation		28	28
63	Transportation Auxiliary Services	217	758	975
64	Telecommunication and Postal Services	5,821	7,383	13,204
66	Insurance	61	72	133
67	Financial and Insurance Auxiliaries	220	279	499
70	Real Estate	358	1,426	1,784
71	Dry Hire (rentals without operators)	1,572	2,012	3,584
72	Information Technology	1,341	2,159	3,500
74	Business-Oriented Services	7,560	11,051	18,611
80	Education	5,114	3,743	8,857
85	Health and Social Services	10,403	5,115	15,518
90	Sanitation, Roads, and Waste Management	30	531	561
92	Recreational, Cultural, and Sports Activities	618	3,507	4,125
93	Personal Services	9,544	16,214	25,758
	Total	104,347	402,924	507,271

Source: INS, *Enquête Micro Entreprises 2007*.

of SMEs and less than 20 percent of wage-earning employment, much less than the larger SMEs, which provide 25 percent. Comparatively, the less than 1,000 large firms provide more than 40 percent of wage-earning employment, and if large firms and larger SMEs are combined, there is still less than 2,500 enterprises offering 66 percent of private sector jobs, which are certainly the most stable occupations. Half of the total number of jobs is created by about 1 percent of the total number of enterprises (with at least 20 employees per enterprise). This means that larger firms create relatively more jobs, which challenges the idea that SMEs are best at creating jobs.

However, in terms of productivity, in Tunisia, medium size private firms perform better and create more value added than large firms. On average, medium firms are more capital intensive than the large private firms, and they consequently generate more value added. This is due to the higher concentration, in the

case of Tunisia, of the large private firms in highly labor-intensive activities such as textile and clothing, whereas the medium firms are in more diversified activities. Medium size private firms are more productive and more capital intensive than the large ones, but this situation may be reversed as the structure is changing and medium sized firms are likely to be down scored by larger firms. The highest proportion of large firms has been in textile and clothing, but this proportion is decreasing while the share of the electric and electronic (EEI) manufacturing sector, which is more capital and skill intensive and where productivity is higher, is increasing. In 2005, out of a total number of large manufacturing firms, 202 were in textile and clothing (TC) and 55 in EEI; in 2010 the number of TC firms dropped to 171, those of EEI firms went up to 79. The value added by a worker in the EEI sector is equal to TND 45,840 and is much higher than the manufacturing average, which is equal to TND 26,840. Growth in the EEI sector has been the

Number of Workers	Number of Firms	% of Firms	Number of Jobs	% of Employment	% Firms Cumulative	% Employment Cumulative
1	344,684	83.30%	345,753	28.18%	83.30%	28.18%
2	29,318	7.46%	56,290	4.76%	90.76%	32.94%
3-4	16,505	4.07%	53,696	4.44%	94.83%	37.38%
5 - 9	10,223	2.52%	64,010	5.29%	97.35%	42.67%
10 - 19	4,657	1.15%	61,661	5.12%	98.50%	47.79%
20- 49	3,077	0.77%	94,056	7.83%	99.27%	55.62%
50 - 99	1,362	0.34%	95,241	7.92%	99.61%	63.54%
100 - 199	898	0.23%	126,078	10.55%	99.84%	74.09%
200 - 999	636	0.16%	228,812	18.93%	100.00%	93.02%
1000 or more	51	0.01%	86,874	6.98%	100.00%	100.00%
Total	405,843		1,191,822		100.00%	100.00%

Source: Ministry of Planning and Regional Development, based on the yearly Firm Survey data (provided directly to the author).

fastest in terms of employment and more so in terms of production and value added. Its value added almost doubled in real terms between 2005 and 2010, compared to an overall growth of 38 percent in the

productive (enterprise) sector. This trend is likely to continue and may even accelerate if a new and more appropriate industrial policy is introduced.

Table 13: Average Productivity According to Firm Size, 2006-2010		
2006-2010	Ln (Production/Employee)	
Total Employees	Mean	Median
10-19	18.14	18.03
20-19	18.04	17.98
50-99	17.94	17.91
100-199	17.82	17.79
200-999	17.62	17.65
1000 or more	17.28	17.48

Source: Ministry of Planning and Regional Development (provided directly to the author).

Table 14: Value Added by Sector (in million constant TND)					
	2006	2007	2008	2009	2010
Agriculture	4,143.8	4,281.4	4,280.8	4,737.6	4,420.7
Manufacturing	6,766.8	7,935.5	8,656.6	9,879.8	10,301.9
Food Industries	1,173.8	1,303.0	1,430.1	1,608.5	1,701.5
Tobacco	58.4	60.5	65.5	73.6	79.6
Textile, Clothing and Leather	1,737.2	1,950.8	2,051.1	1,911.0	2,066.1
Other Manufacturing Industries	806.4	835.2	891.0	936.1	1,029.9
Oil Refinery	132.4	415.8	296.0	827.4	250.1
Chemical Industries	637.8	701.6	758.2	1,283.7	1,199.4
Construction Materials	633.1	694.1	755.1	794.5	856.5
Electric and Electronic Industries	1,587.6	1,974.5	2,409.5	2,445.0	3,118.8
Other Industries	4,505.9	5,702.9	5,944.5	7,432.8	6,756.9
Petroleum and natural gas	1,691.5	2,678.6	2,700.5	3,762.7	2,911.1
Mines	252.2	294.2	320.1	621.8	471.9
Electricity and Gas	398.8	412.0	526.2	518.1	575.5
Water	156.1	155.9	161.1	176.2	186.2
Construction	2,007.4	2,162.2	2,236.6	2,354.0	2,612.2
Services	18,407.6	20,044.2	21,898.6	23,080.1	25,459.4
Maintenance and Repair	172.2	180.7	196.0	204.3	218.2
Commerce	3,545.3	3,802.7	4,057.2	4,217.7	4,787.7
Hotels and Restaurants	2,350.5	2,508.0	2,736.3	2,764.7	3,045.2
Transportation	3,490.2	3,815.9	4,330.9	4,673.1	4,943.5
Mailing and Telecommunication	1,898.9	2,026.5	2,261.1	2,554.2	2,891.1
Financial Services	1,549.1	1,969.3	2,226.9	2,355.1	2,212.8
Other Services	5,401.3	5,741.1	6,090.2	6,310.9	7,360.9
Total Merchandise Sector	33,195.6	37,164.6	39,863.8	44,144.7	46,023.3

Source: ISN, Comptes Nationaux 2011.

Table 15: Number of Private Enterprises by Activity Sector and Size, 2010

Private Enterprises by Sector of Activity and Size in 2010

Sector	Salary Ranges										Total
	0	1-2	3-5	6-9	10-19	20-49	50-99	100-199	>=200		
Agriculture, Hunting and Fishing, Forestry, Fish Farming, and Aquafarming	1,649	279	181	133	179	113	47	26	26	2,633	
Extractive Industries	974	167	76	45	65	75	28	12	6	1,448	
Food and Agriculture Industries	7,012	1,415	1,537	896	448	174	74	47	34	11,637	
Textile and Clothing Industry	11,578	695	437	336	489	637	435	296	171	15,074	
Leather and Shoe Industry	2,043	178	103	74	85	103	55	35	23	2,699	
Carpentry Industry	10,343	1,704	354	102	78	31	10	5		12,627	
Paper and Carton Industry; Publishing and Printing	1,941	266	165	88	95	65	36	17	5	2,678	
Chemical Industry	1,213	192	106	68	73	64	27	18	15	1,776	
Rubber and Plastics Industry	606	131	85	65	84	89	42	17	9	1,128	
Other Nonmetallic Mineral Production	2,357	325	183	103	107	86	44	26	31	3,262	
Metallurgical and Metal Work Industry	7,746	936	465	214	216	176	65	32	14	9,864	
Mechanical, Electrical and Electronic Machinery, and Equipment Production	3,267	488	261	148	147	145	92	57	79	4,684	
Other Manufacturing Industries	4,374	483	243	151	112	99	38	26	21	5,547	
Total	53,454	6,980	4,015	2,290	1,999	1,744	946	588	408	72,424	
Construction	20,604	2,048	1,106	542	484	322	125	63	54	25,348	
Auto Repair and Trade	21,198	2,242	740	382	274	83	16	10	6	24,951	
Business-to-Business and Wholesale	25,936	2,999	1,467	707	592	264	91	30	15	32,101	
Retail Business and Repair of Household Goods	193,341	9,549	2,646	618	282	120	31	10	13	206,610	
Total	240,475	14,790	4,853	1,707	1,148	467	138	50	34	263,662	
Hotels and Restaurants	20,012	4,461	1,972	547	238	142	66	69	96	27,603	
Transportation, Postal, and Telecommunication Services	95,994	1,508	540	300	235	158	56	27	25	98,843	
Financial Services	809	362	142	47	43	26	18	11	16	1,474	
Real Estate, Rentals, and Business-Oriented Services	45,501	6,552	2,057	785	569	432	188	114	161	56,359	
Education, Health, and Social Services	11,178	6,646	688	206	169	47	33	19	9	18,995	
Community, Social, and Personal Services; Other Activities	27,764	1,608	350	111	73	41	18	11	4	29,980	
Total	517,440	45,234	15,904	6,668	5,137	3,492	1,635	978	833	597,321	

Source: INS, "Statistiques issues du Répertoire National des Entreprises : Nombre et démographie des entreprises du secteur privé » 2010.

Table 16: Number of Employees in Private Enterprises by Activity Sector and Size, Self-Employed Excluded											
Number of Private Sector Employees by Sector and Size (in 2009)											
Activity	Size (Number of Employees)										
	1-2	3-5	6-9	10-19	20-49	50-99	100-199	>=200	Total		
Agriculture, Hunting and Fishing, Forestry, Fish Farming, and Aquafarming	284	585	929	2,336	3,425	2,674	4,274	8,836	23,342		
Extractive Industry	177	267	261	756	2,457	2,196	1,326	1,745	9,183		
Food and Agriculture Industries	1,591	5,430	6,302	5,961	5,402	5,180	5,901	12,356	48,122		
Textile and Clothing Industry	771	1,559	2,472	6,524	20,109	32,040	43,351	72,157	178,983		
Leather and Shoe Industry	231	353	534	1,103	3,129	3,705	5,748	15,035	29,839		
Carpentry Industry	1,887	1,249	662	935	919	635	731		7,018		
Paper and Carton Industry; Publishing and Printing	296	510	525	1,267	1,866	2,675	1,884	1,715	10,737		
Chemical Industry	213	373	495	941	2,042	1,679	2,480	4,207	12,431		
Rubber and Plastics Industry	143	367	476	1,018	2,422	2,714	2,251	2,120	11,511		
Other Nonmetallic Mineral Production	371	628	776	1,452	2,636	3,081	2,852	12,605	24,400		
Metallurgical and Metal Work Industry	1,029	1,538	1,539	2,657	5,249	4,377	3,835	5,088	25,311		
Mechanical, Electrical, and Electronic Machinery and Equipment Production	472	875	840	1,796	5,036	4,646	8,522	49,847	72,033		
Other Manufacturing Industries	597	825	1,006	1,719	2,646	3,104	3,098	10,856	23,849		
Construction	2,022	3,705	3,719	6,109	8,692	8,401	9,132	37,383	79,163		
Auto Repair and Trade	2,516	2,659	2,561	3,456	2,148	1,271	1,134	936	16,681		
Business-to-Business and Wholesale	3,185	4,909	4,784	6,949	8,155	5,107	4,105	4,705	41,900		
Retail Business and Repair of Household Goods	10,851	8,618	3,743	3,680	2,983	1,887	1,870	10,963	44,593		
Hotels and Restaurants	5,374	6,949	3,598	3,110	4,471	5,134	8,795	10,848	78,279		
Transportation, Postal, and Telecommunication Services	1,470	1,882	1,889	3,211	4,251	3,538	3,436	12,638	32,315		
Financial Services	426	524	254	520	828	859	1,569	11,336	16,316		
Real Estate, Rentals, and Business-Oriented Services	7,008	6,524	4,796	7,015	12,145	10,878	15,641	83,313	147,321		
Education, Health, and Social Services	6,256	2,096	1,242	2,137	1,248	1,783	2,764	2,534	20,061		
Community, Social, and Personal Services; Other Activities	1,694	1,224	862	779	1,244	1,399	1,247	1,559	10,007		
TOTAL	48,864	53,646	44,266	65,433	103,500	108,962	135,945	402,782	963,396		

Source: INS (Provided directly to the author).

Table 17: Employment by Size and Enterprise Age, 1996 to 2010 (Annual Average)													
Age	Size											Total	Share
	1	2	[3,4]	[5,9]	[10,49]	[49,50]	[50,99]	[100, 199]	[200, 999]	>=1000			
1	37,843	2,773	1,697	1,543	1,269	1,676	1,354	1,012	1,785	74	51,026	3.72%	
2	33,123	3,789	3,456	3,839	3,437	5,027	4,364	4,197	7,203	2,333	70,767	5.16%	
3	29,763	3,766	3,518	4,145	3,683	5,788	5,178	5,995	9,080	3,731	74,647	5.44%	
4	27,058	3,588	3,371	4,066	3,756	5,807	5,596	6,547	10,745	4,922	75,456	5.50%	
5	24,757	3,385	3,139	3,958	3,518	5,498	5,080	6,248	9,796	4,794	70,173	5.12%	
6	22,742	3,213	2,969	3,752	3,554	5,260	5,034	6,393	8,751	3,148	64,813	4.73%	
7	20,828	3,033	2,868	3,592	3,466	5,012	4,987	6,064	9,092	3,101	62,044	4.52%	
8	19,102	2,917	2,685	3,420	3,350	4,882	4,958	6,494	8,432	2,632	58,871	4.29%	
9	17,319	2,728	2,558	3,249	3,185	4,676	4,758	6,195	8,822	2,801	56,290	4.10%	
10	15,598	2,506	2,430	3,067	3,008	4,417	4,406	6,137	8,492	2,204	52,264	3.81%	
[11-15]	57,612	10,958	10,318	12,624	12,641	18,243	17,652	24,096	40,619	7,788	212,551	15.50%	
[16-20]	32,379	7,860	7,869	8,849	8,799	13,621	13,430	17,728	34,325	9,045	153,906	11.22%	
[21-30]	27,506	7,477	8,241	9,375	9,483	15,570	16,173	23,334	53,567	31,639	202,365	14.75%	
>=30	8,229	2,586	2,880	3,949	4,303	7,474	10,135	16,875	49,627	60,360	166,419	12.13%	
Total	373,858	60,579	57,999	69,427	67,453	102,950	103,105	137,314	260,334	138,573	1,371,592		
Share	27.26%	4.42%	4.23%	5.06%	4.92%	7.51%	7.52%	10.01%	18.98%	10.10%			

Source: Source: INS (Provided directly to the author).

The previous table (Table 16) gives the number of full time permanent employees only. Total private sector employment in 2010 is 2.5 million persons.

Private Sector Development and Economic Integration: Exports and Foreign Direct Investment (FDI)

Large firms contribute much more to exports than SMEs, about 75 percent. Medium firms export 22 percent of total exports, while small and micro firms contribute less than 3 percent. This distribution is not unexpected since micro and small private firms are concentrated, both in terms of number of enterprises and of employment, in commerce, business services, land transportation, construction and manufacturing of products that are usually less tradable and do not comply with international export standards.

In Tunisia, there is a distinct category of exporting firms, the offshore firms, of which an important proportion are small and medium enterprises. Offshore firms are those firms that have to export most of their output² and are also called fully exporting firms. These firms are granted very generous fiscal incentives based on the investment incentives code. There are near 2,000 offshore enterprises, approximately 50 percent are small, 30 percent medium, and less than 20 percent large. The fact is that the small exporting firms are numerous but their volume of exports is relatively small. Large firms, fully and partially exporting firms, export the most.

This particular dual structure of the Tunisian private sector is the outcome of investment incentives confirmed by the December 1993 Investment Code, which gives specific incentives that primarily target investments in exported commodities and also incentivizes

investments in favor of regional development. This code was amended several times in order to provide more ad hoc support to other specific private investment, especially SMEs investments. It allows for general and specific incentives:

General Incentives:

- Tax deductibility of reinvested earnings to a limit a 35 percent of net individual and company taxable income.
- In addition, all imported equipment that does not have a domestically produced equivalent is taxed at a lower 10 percent rate. This incentive has now lost most of its impact since equipments imported from the EU are admitted freely as a result of the Tunisian-European Union Free Trade Agreement.

Export Specific Incentives:

- Export-only firms are granted a virtual tax holiday, which includes a tax break on personal income tax for 10 years, followed by a 50 percent income tax rate afterwards.

Regional Development Investments:

- Relatively poor regions benefit from the same income tax holiday as export-only firms, and a set of subsidies, as regards, for instance, the investment cost and the infrastructure construction.

Agriculture is also granted substantial and specific tax and financial incentives, which have arguably produced a substantial impact on exports, but a limited impact on total private investment, be it onshore, offshore or through foreign direct investment. Private investment growth has been slower than expected and the trend for FDI, excluding privatization and energy FDIs, has overall been rather modest and in the low productivity sectors.

Previous studies have shown that tax incentives are minor determinants for foreign direct investments and that they matter only for foot loose mobile investments, such as the investments undertaken in the textile and clothing sector, which have been so far the most important in the Tunisian case.

In the future, Tunisia aims to encourage and attract better and more skill-intensive and higher value-added investments. To reach this objective, fiscal incentives are not sufficient. They need to be complemented by policies that enhance the availability of financial resources, improve infrastructure, and lower labor costs. At the same time reforms are needed to streamline regulations and improve the quality of institutions that deal with the business environment.

SMEs Financing and the Soundness of the Banking Sector

SMEs are particularly more constrained by the financial factor. They do not have easy access to finance that allows for sustainable growth. Access to bank credit is not equally open to them: large industrial conglomerates and offshore enterprises have easier access. Small businesses, as already mentioned, rely more on short-term debt and on self-financing.

Real Estate Collateral

Banks insist on the use of real estate collateral to secure loans they grant to their clients, which is also required by Tunisian law. This sort of rule is not really specific to Tunisia, but in the Tunisian context, not only does this law tend to make access to financial resources almost impossible for a large proportion of investors, especially SMEs, but it also does not effectively guarantee creditor rights. In Tunisia, it may take many years to recover this type of collateral and

a long time before a court of law could authorize the sale of real estate and allow the bank to recuperate its capital. It may take even longer for such decision to be implemented. This indicates to what extent the judiciary system has been inefficient and unreliable.

The Tunisian Banking system is fragile and not well prepared to respond to the financial needs of SMEs, especially the smaller ones. Banks continue to suffer from a high proportion of nonperforming loans (NPL), a low level of provisioning and a very high exposure to vulnerable and risky sectors, mainly in tourism. Several government-sponsored programs were designed to provide more funds to microenterprises and SMEs, but the size of these programs remains small compared to the total investment needs.

For instance, the Solidarity Bank, a fully operational bank with a national network, specializes in providing small credits mainly to micro-firms. Obviously, this single bank cannot satisfy all the needs of the micro-firms. The Industrial Fund (FOPRODI)³ is a national government fund whose aim is to promote SMEs with a priority to specific regions of the country. During the 1970s and 1980s, this fund financed some 1,700 enterprises (one-fourth of all industrial projects), and public banks had to allocate a share of their resources to this program. However, because only 50 percent of the SMEs repaid their loans and the requirement on the banks was lifted, FOPRODI became less active during the 1990s until it was redesigned to support job creation by providing venture capital.

Under the new scheme, FOPRODI operates through venture capital firms during the project implementation rather than being immediately granted to the entrepreneur in order to strengthen supervision and monitoring of the entrepreneur's activities.

The Tunisian experience confirms that access to financial resources is an important constraint for SMEs but that financing is not the only problem. SMEs are actually very heterogeneous and should not be treated in the same manner. The informality of a large part of the SMEs is perhaps a more important constraint to their development. Their informality implies that they are unable to provide reliable and standardized information about their performance and their assets, that they have limited access to technology, public infrastructure and markets, and that they are unable to attract workers with the right skills. Consequently, they look riskier and less profitable for banks. Informality is

itself an outcome of the regulatory system (fiscal, labor laws, customs and administrative procedures, and the judiciary) and of the quality of the institutions in charge of enforcing the regulations. Weak and corrupt institutions combined with complex and inappropriate regulations make the cost of formality high compared to the cost of informality. Therefore, if the purpose is to qualify SMEs for access to finance and to help them grow faster, it is crucial to undertake the main reforms in terms of regulations and to reduce the cost of formality. Will the Arab Spring make these types of reforms possible?

THE ARAB SPRING AND AFTER

So far in Tunisia little has been done to respond to youth expectations and to regional unbalance in terms of strategic reforms. Little attention has been paid to the key economic issues and political bodies have concentrated more on political and electoral issues rather than economic ones.

Yet, a main pattern emerges and allows for some reasonable predictions. The Arab Barometer surveys show that support for democracy was and continues to be high in all countries surveyed. There is still hope for establishing democracy and development with more transparency, rule of law, political competition and accountability. Although Tunisia faces a number of challenges in its current political and economic context, it has a unique opportunity to free the economy from the bottlenecks and red tape that previously impeded its development, and to establish reforms that create a climate conducive to private initiative and rapid and inclusive economic development.

Youth, especially angry and unemployed youth, and those who have been ignored and the least integrated, remain a powerful driving force and a source of hope. The situation has not stabilized and the only conceivable pathway to a stable state is through a successful democratic and pluralistic transition. Otherwise,

unrest will persist. Convergence toward such a stable state requires effective leadership, political cohesion and institutional developments, and also a new and innovative participative and inclusive economic strategy focusing on the aspirations of youth and allowing for their participation.

There is a need to combine private sector development with new roles of the state: to focus on an appropriate industrial policy, macroeconomic stability and wise and equitable public spending and investment, economic integration and capacity development through a radical reform of the education system.

Some sort of socio-economic pact that is acceptable to different segments of the population based on a compromise among the major groups in society is also necessary. This compromise would be first between business interests, the expectations of the working class and the other politically aware groups in society. This means improving the business environment and building confidence for investors, and also satisfying workers and the demands of those calling for more social justice. An agreement needs to be reached between employer associations and trade unions recognizing each other's rights. This agenda should be incorporated in the programs of the emerging political formations.

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ENDNOTES

1. Enquête sur les Micro Entreprises en 2007, INS.
2. They are also allowed to market up to 30 percent of their produce in the local market, but under certain conditions and after paying custom duties.
3. FOPRODI: Fonds de Promotion et de Développement Industriel.



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