DRC

Youth Employment and Inclusive Growth in Tunisia

A Market Systems Diagnosis for the Youth Inclusion and Employment Project (YIEP) Program

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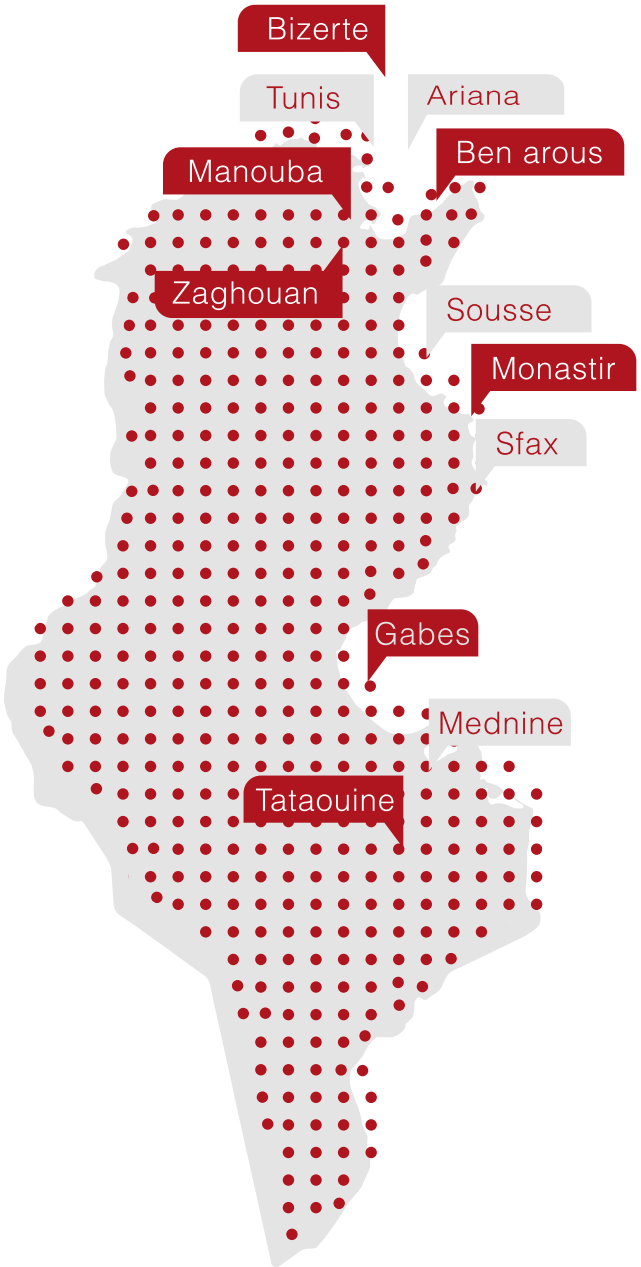
This study was conducted by DRC under the Danish Arab Partnership Programme (DAPP) in Q3 2024. The study was led by PFI, combining qualitative and quantitative data collection.

1. COUNTRY & PROJECT CONTEXT:

Following the 2011 revolution, Tunisia entered a challenging yet transformative political transition, earning recognition as the sole democratic success story of the Arab Spring. While the journey has been fraught with obstacles and remains incomplete, it has also ushered in significant shifts in economic policy. In response to the social demands that fueled the uprising, ranging from calls for political freedom to economic inclusion, the government adopted more inclusive and consensus-driven approaches. Public sector employment was expanded, wages were increased, and social programs and subsidized health insurance were rapidly scaled up. Despite these efforts, the economy began to falter, with growth slowing compared to income peers due to heightened uncertainty, security challenges that impacted tourism, and a lack of progress in structural reforms.

The pre-revolution economic model, heavily reliant on low-technology manufacturing and tourism, faced significant headwinds, while the business environment deteriorated, discouraging investment. Tunisia's demographic profile, with over 22% of the population aged 15–29 and 47% under 30, presented a potential opportunity for economic growth through an abundant labor supply. However, Tunisia has yet to fully harness its demographic dividend, as the economy continues to struggle with sluggish growth and limited fiscal resources. Persistent regional inequalities between the interior and coastal regions have further compounded these challenges. The labor market remains weak, marked by low workforce participation rates, particularly among women-and high unemployment, especially affecting youth, women, and university graduates. Informal employment is also widespread, reflecting the structural weaknesses of the economy.

The **Danish Refugee Council (DRC)**, in collaboration with Impact Partner, Injaz, **the Tunisian** Foundation for Development (TFFD), and in consortium with GAME, Action Aid Arab Region (AAAR), the Danish Chamber of Commerce, and the Danish Trade Union Development Agency, is implementing the Youth Inclusion and Employment Project (YIEP). This initiative aims to improve the employability of young Tunisian women and men and promote their engagement in entrepreneurship. Specifically, the YIEP targets enhancing the employability of 24,000 young individuals, with the goal of supporting 4,800 in entering the labor market, either through wage employment or self-employment. It is projected that at least 50% of beneficiaries will be young women, and 30% of the jobs created will be classified as Green Jobs.



The YIEP focuses on youth aged 15 to 35 from 12 governorates in Tunisia: Medenine, Tataouine, Gabes, Sfax, Sousse, Monastir, Tunis, Ariana, Ben Arous, Manouba, Bizerte, and Zaghouan. The target group is divided into three categories: disengaged youth, employment seekers, and aspiring entrepreneurs. Following a Market System Development (MSD) for youth approach, a tailored employment pathway has been designed (Figure 1) to provide appropriate support based on the specific needs and constraints faced by these young individuals as they move toward employment or self-employment.

The youth from each category will enter the project at entry point A, B, or C depending on their educational background and aspirations to enter wage or self-employment. Some youth entering through entry point A are expected to continue on their employment pathway through entry points B and C, while for others the support provided in Output 1 is not required and they will engage with the project through entry points B or even (for entrepreneurs) at entry point C. Regardless of the entry point, the pathway leads youth to a destination where they can exit the YIEP with enhanced employability, secured employment and/or as an established entrepreneur.

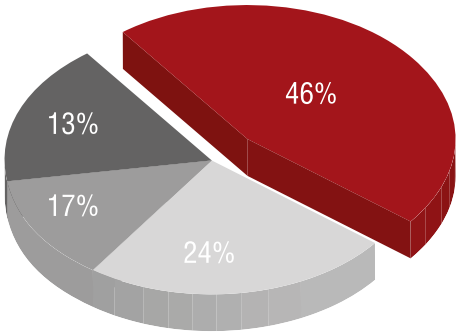
2. REPORT PURPOSE & STRUCTURE :

The purpose of this report is to develop a diagnosis of employment opportunities that exist in key economic sectors in Tunisia, while proposing how the use of an MSD approach under the YIEP can inform interventions to deliver lasting changes in the labor market outcomes for youth employment. Accordingly, the specific objectives of this report are :

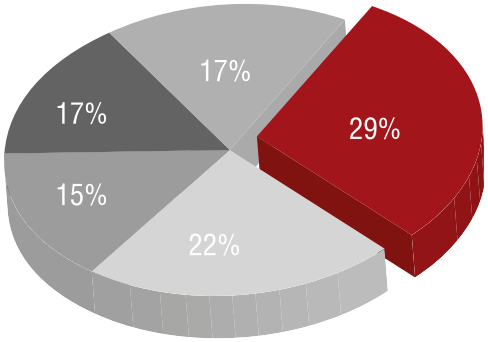
- Scanning the youth labor market in Tunisia to understand structural issues and key trends.
- Screening, and then prioritizing, market systems that offer the best potential to achieve.
- Recommending market systems development interventions that the programme can implement.

Primary data collection for this report took place between mid-may and the end of June 2025.The research team began by identifying 268 firms operating across five priority sectors, agriculture, tourism, ICT, manufacturing of electrical equipment (MEE), an dtextiles with in the 12 target governorates.The identification process combined desk research with a snowball sampling approach, allowing the team to map key actors and expand the pool of respondents through referrals.

A total of 54 firms responded to our request for interviews, distributed as follows :



- 46% Small (10 - 49)
- 24% Micro (1 - 9)
- 17% Large (250+)
- 13% Medium (50 - 249)



- 29% Tourism
- 22% Textille
- 15% ICT
- 17% Agriculture
- 17% MEEIs

3. YOUTH LABOR MARKET SCAN :

The Tunisian youth labor market is characterized by low participation rates, high unemployment, and deep-seated inequalities that disproportionately affect young people, women, and residents of interior regions. In 2024, Tunisia's working-age population (aged 15 and older) totals approximately 9 million, yet only 46% are actively engaged in the labor force, leaving around 4.9 million individuals neither employed nor seeking work. Notably, over 80% of this inactive group, approximately 3.7 million people, are not enrolled in education, signaling a significant disconnection from economic opportunities. While Tunisia's labor force participation rate surpasses the MENA regional average of 44.1% in 2019 (excluding high-income countries), it lags significantly behind the average for middle-income nations, highlighting systemic inefficiencies. Female participation is particularly concerning, standing at just 30.7% in 2024, resulting in a stark gender gap of 38.6 percentage points. Women's engagement in the labor market is heavily influenced by education and age: those with university degrees participate at a rate of 64%, compared to 21% for those with primary education and 27% for secondary education. However, participation drops sharply after age 35, often due to marriage and childbirth, compounded by entrenched social norms that place disproportionate domestic responsibilities on women, elevating their reservation wages and discouraging economic engagement. Regional disparities further complicate this picture, with urban educated women constituting 36% of the inactive population in Grand Tunis, while rural women without educational qualifications account for 37% to 38% of inactivity in the Center- West and North-West regions. These variations underscore the complex interplay of education, geography, and social norms in shaping women's labor market outcomes.

Unemployment remains a critical challenge, affecting 16% of the overall labor force and a staggering 40% of youth aged 15 to 24 in 2024, translating to approximately 0.7 million job seekers unable to find work. This unemployment rate is over three times higher than the average for middle-income countries (5.1% in 2023) and exceeds the MENA regional average by five percentage points (10.9% in 2023, excluding high-income countries). The issue has deep historical roots, with unemployment peaking at 18.3% during the 2011 revolution, declining gradually, and then spiking to 18% during the COVID-19 pandemic in 2020 before stabilizing at 16% in 2024, with youth unemployment reaching 40%. The pandemic exacerbated existing vulnerabilities, particularly for young people, whose unemployment rate rose from 33.8% in 2019 to its current level. Women face disproportionate challenges, with an unemployment rate of 22.1%-six points above the national average and nearly nine points higher than men's 13.3%. University graduates fare even worse, with a 29.1% unemployment rate, nearly double the national average and largely unchanged since 2011 (33.6%). For women with tertiary education, the rate exceeds 31%, compared to 17% for men, despite women achieving higher educational attainment. This paradox-where higher education correlates with higher unemployment-is evident when comparing the 15.6% rate for those with secondary education to 8.3% for primary education and 4.3% for no schooling, suggesting that education does not necessarily translate into better labor market outcomes, particularly for women.

Spatial disparities in unemployment are pronounced and persistent, with interior western regions suffering significantly higher rates than coastal eastern areas. In 2019, 18 governorates had unemployment rates above 15%, with 15 located in the interior. Six governorates exceeded 20%, including Kebili, Tozeur, and Gafsa in the South-West, Tataouine and Gabes in the South-East,

and Jendouba in the North-West. Between 2007 and 2019, unemployment surged unevenly, with Tataouine experiencing a 13.3% increase, Médenine 12.1%, Gabes 9.3%, Kebili 9.1%, Gafsa 7.8%, and Sidi Bouzid 6.8%. These patterns drive significant internal migration, with 60% of migrants in 2014 moving primarily for work, 20% for studies, and 10% for marriage, increasing pressure on coastal urban labor markets and exacerbating regional imbalances.

The structural causes of this underperformance are multifaceted, rooted in economic trends and policy legacies. Since the 2011 revolution, Tunisia's employment-to-growth elasticity has risen significantly, from 0.28 between 2006 and 2011 to 0.89 from 2011 to 2017, surpassing historical averages of 0.61 in the 1980s and 0.57 in the 1990s. This means that for every 1% increase in economic growth, employment rises by nearly 0.9%, with the manufacturing sector leading at an elasticity of 2.7, followed by accommodation and food services at 1.0, financial services at 0.7, and trade at 0.5. However, economic growth has been insufficient, averaging only 1.6% annually from 2011 to 2017. Had growth reached 3.5% annually, employment could have grown by approximately 3% per year. Between 2006 and 2020, the working-age population increased by 18.5%, the labor force by 20.9%, and employment by only 13.3%, with the gap widening post-2011. From 2011 to 2019, an average of 31,000 jobs were created annually, while the labor force grew by 50,200 and the working-age population by 90,000 each year, underscoring the challenge of absorbing new entrants.

This insufficiency is compounded by a phenomenon of "jobless growth," a defining feature of Tunisia's economy since the Structural Adjustment policies of the early 1990s. The agriculture sector's share of total employment fell from 20% in 2000 to 15% in 2023, despite maintaining a stable 10% contribution to GDP, indicating a weakened capacity for job creation. Similarly, manufacturing's GDP share dropped from 20% to 16%, and its employment share from 20% to 18%. In contrast, the services sector's GDP contribution rose from 56% to 68%, but its employment share increased only modestly from 46% to 54%, highlighting a disparity between economic growth and job creation. Despite manufacturing's high employment elasticity, its declining share suggests inefficient labor reallocation to services, which generates half the employment per unit of output growth (0.11% vs. 0.23% in industry, per analyses from 2000 to 2018). This reallocation, while driving economic growth, has not been optimal for employment generation.

The unemployment crisis among university graduates is driven by a significant mismatch between their fields of study and market needs. In the 2020/2021 academic year, approximately 40% of graduates earned degrees in humanities or social sciences (including commerce and law), 20% in sciences, and 20% in engineering and construction. Demand for social sciences and law has declined, yet many graduates target public sector jobs, fueled by ongoing government hiring trends. The 2019 World Bank Enterprise Survey found that 35% of Tunisian firms identified a lack of adequately skilled workers as a major obstacle, compared to a MENA average of 20.4%. High-skilled roles, such as managerial, professional, and technical positions, grew by only 1% from 2014 to 2023, and of the 47,026 private sector job openings in 2019, only 15.5% (7,269) were for medium-to-high-skilled roles. With approximately 65,000 graduates entering the labor market annually against 50,200 new labor force entrants, the scarcity of suitable roles exacerbates unemployment.

Informality is a pervasive issue, with 43.9% of private sector workers, 1.55 million informal versus 1.23 million formal in 2019, engaged in informal employment, defined as lacking contributions to the National Social Security Fund (CNSS). Informality is higher among non-wage workers (87.7%), self-employed individuals (92%), and employers (72%). Informal workers, 71% of whom fall with in the lowest welfare

deciles, earn 16% less per hour than their formal counterparts, deepening income inequality and limiting upward mobility. The public sector, accounting for 40% of formal wage employment, expanded significantly post-2011 to ensure social stability, with average monthly wages rising 27% above 2010 levels by 2014. When controlling for factors like age, education, and occupation, public sector workers earn 40% more per hour than private sector workers, making public jobs disproportionately attractive and diverting talent from private sector growth.

The private sector is dominated by self-employment and microenterprises, with 88% of the 828,821 registered firms in 2021 being single-person operations, 9.4% employing 1 to 5 workers, 2.1% employing 6 to 49, and only 0.4% classified as medium or large. From 2005 to 2021, the number of registered firms grew by 73.4%, but the proportion of microenterprises increased from 96.7% to 97.5%, driven by a rise in single-person firms from 410,645 to 730,291. Total employment in the formal private sector reached 1.8 million, with self-employed individuals comprising 40% and microenterprises (1-5 employees) 7.9%, meaning half of private sector workers are in firms with fewer than six employees. Medium and large firms contribute 38.4% to total employment but 66.3% to wage employment, generated by just 0.5% of firms, highlighting their critical role in formal job creation.

The private sector exhibits moderate dynamism, primarily driven by high entry and exit rates among microenterprises. In 2021, 6% of firms with fewer than six employees entered the market, compared to 1.0% for small firms and 0.4% for larger ones, with exit rates at 3.6% for micros versus 0.5% for larger firms. Net entry rates decline with firm size, from 3.8% for microenterprises to -0.1% for large firms, indicating stagnation among larger entities. Growth is limited, with only 2% of firms with 10 to 49 employees in 1996 growing to 50 or more by 2010, and virtually no medium or large firms expanding between 2016 and 2020. Limited competition and market contestability, driven by the pervasive presence of state-owned enterprises (SOEs) in 40 of 44 sectors, further hinder growth. SOEs, totalling 195, benefit from government support, state-guaranteed financing, and protective regulations like foreign investment restrictions and price controls, creating an uneven playing field that stifles private sector dynamism.

A robust labor market ecosystem, encompassing laws, policies, institutional arrangements, and informal mechanisms, is essential for enabling youth to enter and thrive in the workforce. Tunisia's 2025 Labor Code reform, enacted through Law No. 2025-9 on May 21, 2025, represents a significant overhaul aimed at securing career paths and regulating employer practices. It establishes open-ended contracts (CDI) as the default, restricting fixed- term contracts (CDD) to replacing absent employees, addressing temporary surges, or performing seasonal work. Non-compliant CDDs are automatically reclassified as CDIs retroactively, with employers given three months to comply or face fines and compensation liabilities. Probation periods are capped at six months, renewable once, with 15 days' notice for dismissal. The law bans labor-only subcontracting, imposing fines of 10,000 TND for individuals (doubled for corporations) and allowing only specialized, non-core service contracts under strict conditions. Workers under prohibited subcontracting arrangements are integrated as permanent employees of the beneficiary company with full seniority.

While hailed for curbing structural precarity, the reform has sparked debate over its economic implications. Critics argue its broad definition of subcontracting risks misclassifying legitimate arrangements, disrupting industrial partnerships, particularly in sectors reliant on specialized providers. The rigidity of mandating CDIs and limiting CDDs reduces employers' flexibility to adapt to market fluctuations, potentially slowing hiring and discouraging entrepreneurship.

The General Tunisian Labor Union (UGTT) criticized the law's hasty adoption and lack of consultation, warning of legal ambiguities that could facilitate dismissals. The tourism sector has already seen preemptive layoffs, with 400 to 500 hotel workers dismissed in Sousse alone, and similar trends in Médenine, Djerba, and Nabeul. International firms, such as Benetton, which closed three plants in Monastir, Gafsa, and Sidi Bouzid, leaving 4,000 workers unemployed, highlight the law's broader impact, with fears that other foreign enterprises may exit due to increased costs. The shift toward hiring experienced workers over youth to avoid long-term commitments further limits opportunities for new entrants, potentially exacerbating youth unemployment and pushing small firms toward informal labor due to the law's failure to address integration of informal workers.

Active labor market policies, primarily wage subsidies like the SIVP program, aim to facilitate youth employment, particularly for university graduates, by reducing employer costs and providing on-the-job training. A 2012 African Development Bank study found that SIVP increases employment probability by 8 percentage points for high-risk graduates, benefiting around 45,000 annually. However, the program's high cost, 12,600 TND per graduate versus an average salary of 6,600 TND 3.5 years post-graduation, yields low-quality jobs in terms of contract type and pay. Spending on such incentives rose 37% from 2012 to 2016, but windfall effects are significant, with 51.2% of contracts in 2016 completed without subsidy impact, suggesting limited effectiveness in reducing unemployment due to substitution and displacement effects.

Tunisia's vocational education and training (VET) system, one of the oldest in North Africa since 1956, has grown substantially, managed primarily by the National Professional Training Agency (ATFP) with 136 centers offering over 250 specialties across four diploma levels: Competence Certificate (CC), Certificate of Professional Competence (CAP), Professional Technician Certificate (BTP), and Qualified Technician Certificate (BTS). By 2018, 51,325 learners were enrolled, with 70% male, and top sectors included electricity and electronics (33.7%), construction (11.8%), and transport maintenance (10.3%). Public institutions dominate at 79%, with private providers marginal at 21%, focusing on service- sector skills. Enrollment tripled from 29,000 in 2001 to 94,000 in 2011 but plateaued by 2018, with graduation rates never exceeding 50% due to high dropouts, driven by inadequate career guidance (62% of dropouts chose programs without counseling) and low societal prestige. VET increases employment and wages, but unemployment rates for graduates match those of tertiary education, with earnings at 370 TND monthly compared to 650-700 TND for university graduates. Regional disparities, with 48.8% of learners in the northeast, limit the dual system's effectiveness, as interior regions lack firms for apprenticeships. Weak coordination with businesses, despite claimed 85% partnerships, and limited employer input further hinder alignment with market needs.

Entrepreneurship is supported by progressive legislation, including the 2018 Startup Act, 2016 Investment Law, and 2019 Finance Law, which established Startup Tunisia to promote legal frameworks, incubation, and financing. Benefits include tax exemptions, foreign currency accounts, and streamlined certification. However, bureaucratic obstacles persist, with 44.73% of entrepreneurs in the 2023 Global Entrepreneurship Monitor report citing complex procedures, protracted registration, and licensing challenges, particularly in high- growth sectors like renewable energies and eco-tourism. Access to finance remains a significant barrier for SMEs, with 25% identifying it as a major obstacle in the 2024 World Bank survey. The banking sector, despite assets equivalent to Tunisia's GDP, is fragmented, with high non-performing loans, insufficient liquidity, and excessive collateral requirements. Microfinance has grown since the 2011 law, but its reach is limited, and private equity

and leasing remain underdeveloped. Entrepreneurs often rely on informal lending or family support, which are insufficient for sustained growth, compounded by low financial literacy.

Entrepreneurial intent is high, with 50.7% of adults aged 18 to 64, particularly those aged 25 to 34, planning to start businesses within three years, and 80% viewing entrepreneurship positively. However, social networks have limited impact on opportunity recognition in post-revolutionary Tunisia, where education, work experience, and self-efficacy are key drivers. Entrepreneurship education, introduced in 2009, modestly boosts self-employment but is confined to business faculties, with limited integration into STEM fields, failing to significantly expand employment opportunities.

In conclusion, Tunisia's youth labor market is a complex landscape of untapped potential constrained by structural inefficiencies, skills mismatches, high informality, and regulatory tensions. The 2025 Labor Code reform, while protective, risks reducing flexibility and increasing informality without addressing existing informal workers. Active labor policies and vocational training show promise but are hampered by cost, quality, and alignment issues. Entrepreneurship faces bureaucratic and financial hurdles despite supportive policies. Targeted, flexible interventions are needed to bridge these gaps, enhance skills alignment, formalize employment, and foster inclusive economic growth that leverages Tunisia's youthful population to drive sustainable development.

4. SECTORS SELECTION :

The labor market scan have highlighted a long list of sectors to pass through selection criteria that reflect programme priorities. To help zero in on a small number of the highest-potential sectors to achieve program objectives and the identified youth employment priorities, selection criteria were set up based on the familiar Relevance, Opportunity, Feasibility framework and adapted from the OCDE's operational guidance. Table 1 details the general selection criteria along with the guiding questions and considerations for employment priorities used for priority sectors selection.

Table 1: Selection Criteria of Priority Sectors

General Criteria	Guiding Questions	Considerations for Employment Priorities
Relevance for target group	What are the main employment-related challenges, and how closely do these align with project objectives?	New jobs should be relevant to the target group. The target group should be facing a) identifiable and b) solvable challenges around accessing better opportunities.
	How are the target group engaging? Roles, nature of employment (e.g. formal vs informal, wage work vs self employment, % employment byemployer size), locations, incomes, headline labor market dynamics.	
Opportunity for Youth Employment	How big is the sector ? Output, share of GDP, domestic/regional/international trade	Growing, labor-intensive sectors might create new jobs more quickly. Capital-intensive, higher productivity sectors might have a better chance of supporting longer term economic transformation.
	How quickly is it growing (and why)? Historical and projected growth, demand supplytrends, level of innovation, competitiveness, productivity, inward investment, etc.	
Feasibility	To what extent is there alignment with: national development priorities (e.g. around economic transformation), sector-level policies, donor/non-donor initiatives (existingand planned), and the local political economy?	A supportive policy environment is important for sector growth and employment. The policy and institutional environment should support - or have the potential to support - better inclusion of the target group. The timeframe for job creation should be compatible with the project lifespan.
	How likely is it that the youth employment priorities can be achieved within the programme timeframe and budget, noting that this should result from systemic change?	

In total, five priority sectors were identified: agribusiness, manufacturing industry, tourism, ICT, and the tech startup ecosystem. It is important to note, however, that three systems: mechanical, electrical, and electronic industries; agri-food production; and textiles, were grouped under the manufacturing industry and agribusiness sector. This consolidation is justified by their highly integrated production processes, shared legal and policy frameworks for industry regulation and promotion in Tunisia, and similar structures in terms of wage employment and firm composition.

Similarly, the tech startup ecosystem encompasses a wide range of startups operating across various sectors, including software development, business platform creation, digital finance, biotech, and more. Despite this diversity, Tunisian tech startups are uniformly regulated under the legal and policy framework set up by the Tunisian Startup Act; they focus on developing and leveraging innovative technologies to create added value; draw from a similar talent pool in terms of education, age, and professional background; and operate within a shared framework of constraints and opportunities. Additionally, they are supported by a tightly-knit network of incubators, accelerators, and financiers. This cohesive structure allows the tech startup ecosystem to be treated as a distinct priority sector, despite being patently diverse.

Based on the selection criteria of Relevance, Opportunity, and Feasibility, Table 2 provides a comparative overview of the four priority sectors-manufacturing industry, tourism, ICT, and the tech startup ecosystem-highlighting their key opportunities and constraints for youth employment.

Table 2: Overview of Priority Sectors by Criteria

Sector / Sub-Sector	Relevance for Target Group	Opportunity for Youth Employment	Feasibility
Manufacturing (overall)	• Accounts for 18% of employment (2023), downfrom 20% (2000).- GDP share declined 20% ->16% (2000–2023). • Highest employment elasticity in Tunisia (2.7 vs 0.89 economy average).- Labor-intensive jobs in MEEIs & textiles.- • Provides relatively stable and formal jobs compared to services & agriculture.	• 68% of private-sector vacancies in 2019 (31,885 jobs).- Total industrial vacancies: 47,026.- MEEIs + textiles drive demand. • Manufacturing is the only sector consistently creating jobs despite GDP share decline. • Potential to attract FDI through EU “nearshoring” trends	• Strong alignment with industrial modernization policies.- Regional concentration: 64% North- East, 32% Center-East.- Major skill shortages (automation, robotics, digital manufacturing). • Infrastructure bottlenecks + high energy costs.- Faces intense competition from Turkey, Morocco, Asia in textiles and electronics.

MEEIs **Mechanical,) Electrical, Electronics (Industries**	• Leading industrial sub- sector: 28% of industrial value-added (2023).- Employs 144,329 workers (26.8% of industrial workforce). • Major export contributor: 46% of Tunisia's exports (2023). • Anchor for integration into global value chains.	• Employment grew from 94,455 (2011) -> 144,329 (2021), +3%/year.- Value-added up 9.4% annually (2018–2023). • Exports grew +16% (2022–2023) and trade deficit shrank by 60%. • High potential for skilled youth jobs in engineering, mechatronics, quality control. • FDI attraction potential as EU seeks diversified suppliers.	• 2,897 firms (2021), mostly large exporters.- 88.5% of workforce in large firms (>100 workers).- Fully export-oriented (241 firms in 2018). • Concentrated in North-East & Center-East • **Risks:** dependence on EU market cycles, automation reducing low-skill demand, competition from Eastern Europe.
Textiles & Apparel	• Employs 185,696 workers (2021, down from 199,278 in 2005).- Still largest industrial employer (34.4% of workforce).- 74% registered in CNSS (2023), but ~26% remain informal/ unprotected.- Strong female workforce participation.	• Contributes 15.7% of industrial value-added (2023).- 21,100 firms (24% of all industrial firms).- Large firms employ 37,181 workers (54% of sector jobs).- 85% of exports go to EU (France 33%, Italy 31%, Germany 11%).- Historically absorbed low-skilled youth, especially women.- Potential in "fast fashion" and nearshoring niches.	• 80% of inputs imported (Italy, France, Turkey, China). • Locked in low-value-added assembly model. • Highly vulnerable subcontracting (single-client risks). • Geographically concentrated (83% in coastal regions). • Facing long-term decline (- 4.8% export fall in 2024).

Tourism	• Employs 267,000 (7.6% of total jobs).- Direct jobs: 95,000 (stable since 2015).- High informality (46%).- Seasonal -> women & youth most affected.- Major employer in coastal governorates.	• Overnight stays nearly doubled (2015: 11.1M -> 2023: 18.7M). • Can absorb large numbers of semi-skilled youth (hospitality, food services) • Growth in cultural, desert & eco-tourism niches could attract younger workforce • Medical & wellness tourism emerging.	• 82% jobs concentrated in coastal regions. • Investments declined (200M ->150M TND, 2015–2023). • **Shocks:** terrorism, COVID, EU recessions. • **GVA contribution:** 5% of economy (2023). • **Structural weaknesses:** weak diversification, low digitalization, outdated infrastructure.
ICT	• Employs 113,000 workers (3% of workforce, 2022). • ICT graduates rose +21% (2019–2021).- • Strong female representation in STEM training. • **Brain drain:** 16% turnover, many migrate to EU/Gulf.	• 55,000 new jobs projected by 2025 (Tunisie Digital 2025). • Employment grew from 96,000 (2017) -> 113,000b (2022). • 18,000 jobs unfilled in 2019 due to skills mismatch. • Demand for software engineers, data analysts, cybersecurity, AI specialists.	• Backed by Tunisie Digital 2025 strategy. • **Weakness:** education–industry gap, outdated curricula. • Shortage of qualified ICT professors • **Risks:** persistent out-migration, freelancing "exit" from formal market.- Infrastructure & internet costs still barriers in interior regions.
Tech Startups	• Startup Act (2018) catalyzed entrepreneurship.- 650 accredited startups by 2021, employing 4,500 people.- Focus: FinTech, EdTech, SaaS.- Goal: 10,000 jobs by 2024.- 88% startups in Tunis, Sousse, Sfax.	• **Revenues:** $75.5M (2021)->projected $315M (2024).- Financing: 129 deals worth 104.8M TND (2021).- Creates high- skilled jobs for youth in tech, product development, marketing.- Opportunity to retain talent that would otherwise emigrate.	• Strong ecosystem (Startup Tunisia, Smart Capital). • Regulatory barriers: cross- border payments, public tenders. • Persistent funding gaps beyond seed stage. • Risk of over-concentration in capital city. • Tunisia seen as emerging Francophone Africa hub.

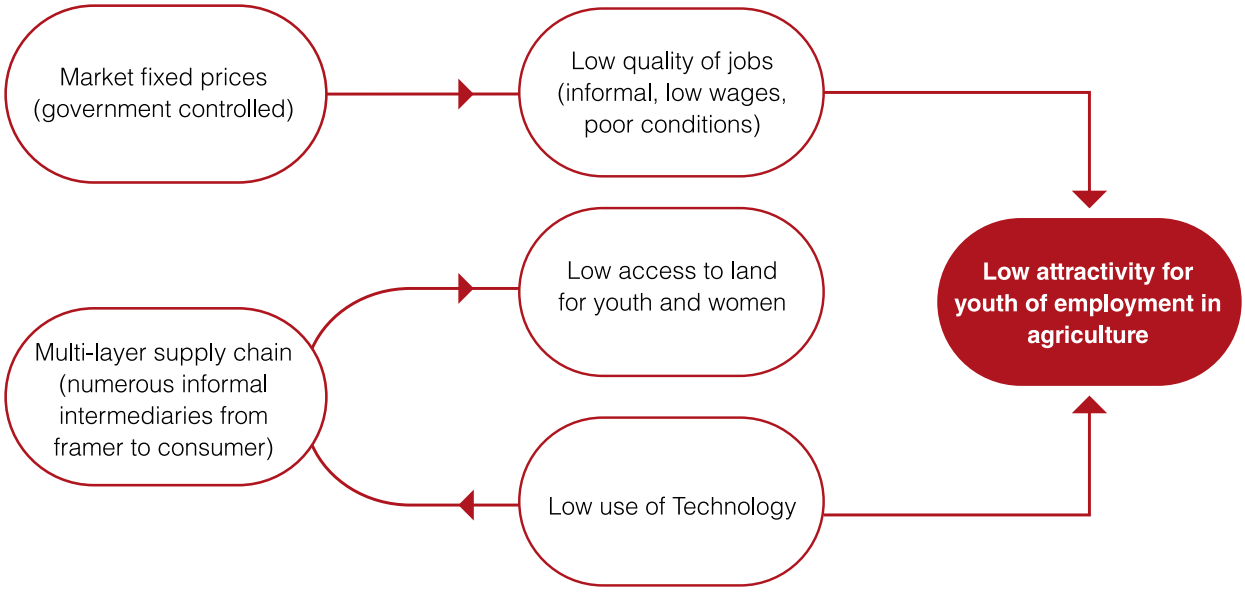
5. PROPOSED INTERVENTIONS :

Intervention 1 Worksheet

Making agriculture attractive for youth with Technology, Sustainability and Added Value

Despite the high importance of this sector in the Tunisian economy and the national strategic plans, it is facing many challenges related to climate change, value chain management and informal employment. Drought seasons, incapacity to accede to international markets, multitude of informal intermediaries between the farmer and the consumer seizing most of the added value, are examples of the difficulties facing the farmers and leading to a sector based almost entirely on the olive oil and dates chains.

Figure 1 : Current model of the Agricultural Sector System

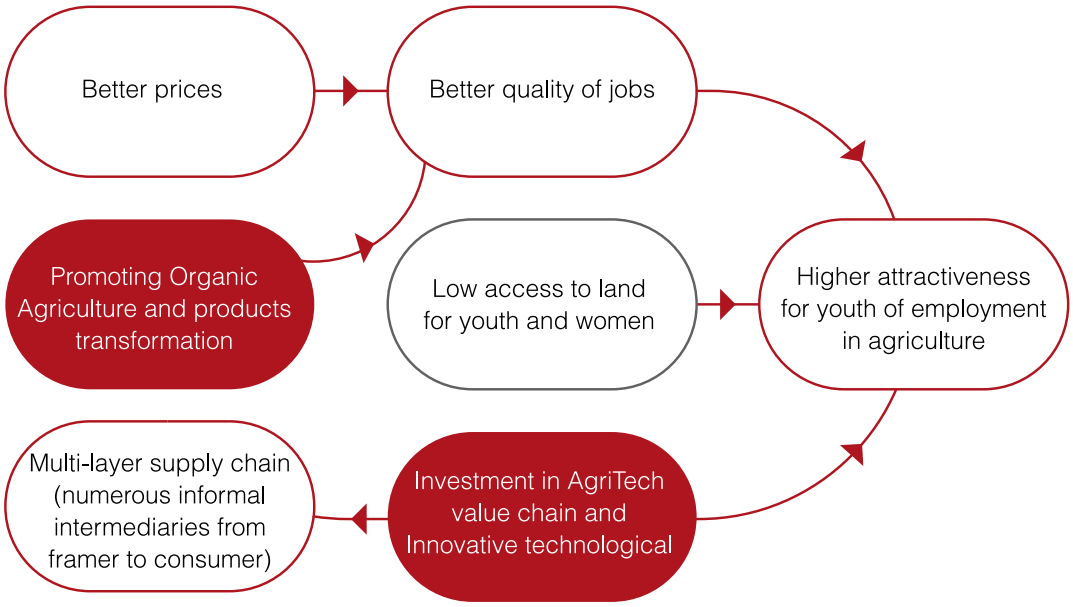


Most of the agricultural products have prices fixed or regulated by the government to ensure social objectives and affordable prices for populations with low income. When the price of production factors (human resources, inputs, machinery, etc) increase with high pace compared to the selling price, the working conditions are affected. This is also leading to very low attractiveness of agricultural activities to youth. The average age of the human workforce in this sector according to leading companies is above 45 years.

Our proposed intervention is to introduce three factors to the current system as presented in figure 1 To improve demand and offer, enhance the margin and the working conditions. We propose to:

- Promote the introduction of technology in the agricultural sector through Agritech startups which may improve the working conditions but also the attractiveness of the sector for young women and men.
- Promote the organic agriculture to have better margin, free prices and sustainable practices that can reduce, at least at long term, the effects of the climate change
- Encourage the first transformation of the agriculture products instead of being limited to the crude product lapsing period. This will create more formal jobs, higher added value and food waste reduction.

Figure 2 : Proposed model of intervention in the Agricultural



The proposed intervention includes activities such as:

1. Launching a hackathon and a call for solutions targeting young engineers, technicians to create or develop their startups in AgriTech that can resolve problems related to climate change, supply chain and working conditions in the agricultural sector in Tunisia. The project will offer technical assistance, access to finance facilitation and partial grants to the selected group of applicants. Priority will be given to applicants from interior and agricultural regions (Kairouan, Sidi Bouzid, Seliana, Kef, Beja, Jendouba, Zaghouan).

2. Launching a technical assistance program for agricultural firms and farms able and interested to certify their production as organic. They will be assisted to get certified and, in the access, to market through specialized experts in international markets.

3. In coordination with public specialized institutions, promote the creation and the development of agricultural products through small industries to be created by young investors or development of new innovative products by existing enterprises.

4. Partnering with financial institutions to offer the right financial products to the project holders (new entrepreneurs or growing existing ones) through co-founding by grants, technical assistance in the preparation of financial and commercial plans.

5. Offer targeted intervention to young women and men graduated or at the last year of studies in higher education and vocational training specialized in agricultural activities who are supposed to be already interested in working or creating business.

Intervention 2 Worksheet

Transforming threats & limitations to opportunities: Reinforcement of the AI and development of local demand

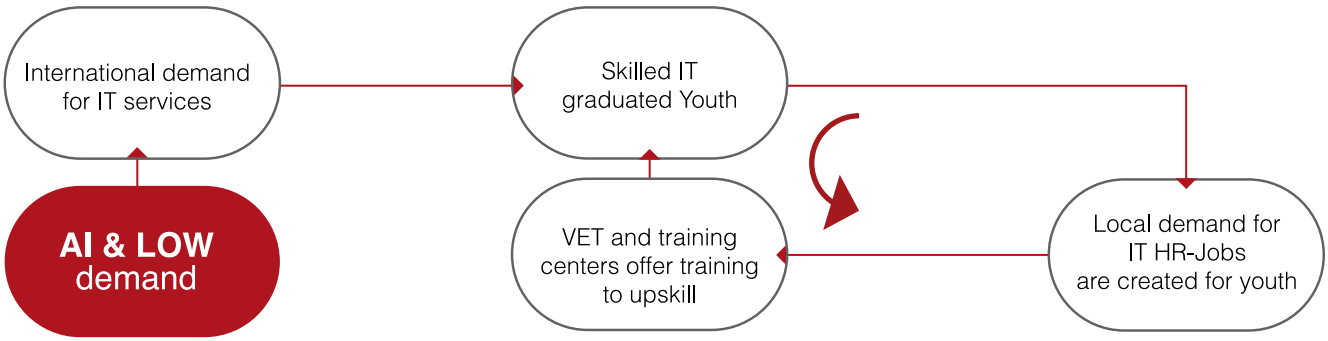
The third sector is employing most of the Tunisian workforce. It includes many activities and subsectors, but the Information & Communication Technologies represents one of the most attractive for young women and men having skills and seeking jobs. The high dependency of this field from international market demand, especially European, creates at the same time opportunities and threats. Opportunities are mainly coming from the nearshoring practice when companies in the north rive of the Mediterranean have subcontractors, self-employed staff or remote employees in Tunisia. Studies demonstrated that Tunisian IT skills are costing 40% less than Western European peers.

However, the decrease of human resources demand perceived in the IT market at the international level (US and Europe) with the appearance of the Artificial intelligence vague is also threatening the development and employment potential of this sector at national level. Interviewed businesses witnessed lower levels of training entrance and subcontracting demands from European clients. To create reactivate the wheel of job creation in this sector, our proposed intervention proposes to:

1. Introduce Artificial Intelligence at large scale of education, training and entrepreneurship as an unavoidable revolutionary innovation for almost future jobs. This will lead to create and sustain the Tunisian leadership in terms of IT skills and respond to international demand of this new "subsector".

2. Create and promote local demand for IT development services within agriculture, tourism, manufacturing operating companies. The local demand, even if limited in terms of size and volume, can be sufficient to give a leverage for the client sectors and employment opportunities in IT linked jobs.

Figure 3 : Current Model of the IT market system

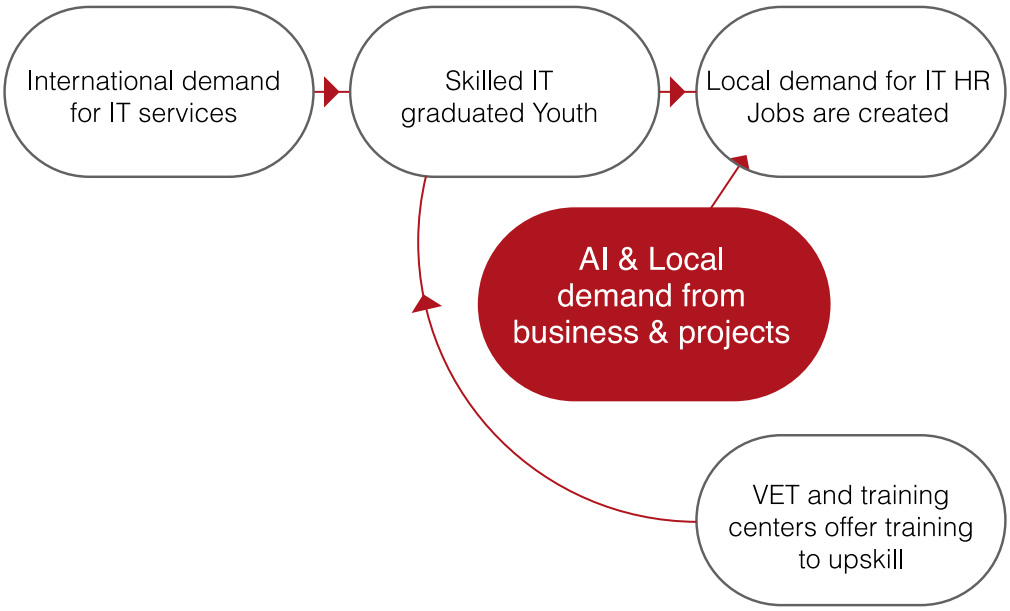


To create local demand and relaunch the international one, our intervention can include activities such as:

1. Offering specialized and high-level training in Artificial Intelligence for graduates and youth with first experience through local vocational training enterprises. This will not only inject highly demanded skills in the market but also give national actors the opportunity to offer these training sessions after the program end. The intervention can be through full or partial scholarship for youth depending on their financial capacities and professional status (jobseeker, employee, etc). To be a cost-effective intervention, the training can be blended (online and in person) and coordinated with private companies (VET and IT hiring partners).

2. Matching offer and demand of IT services in Tunisia through a freelance online platform that links IT resources with SMEs and big enterprises targeting exclusively the national job market (only Tunisian freelancers can be service providers). This platform should be well marketed to the national entrepreneurial ecosystem. It permits to create income for skilled youth in all of the country and interesting offers for companies. An onboarding plan will be automatically offered for service providers and clients. The platform should be created with a business model that ensures its sustainability.

Figure 6 : Proposed Model of intervention in the IT market



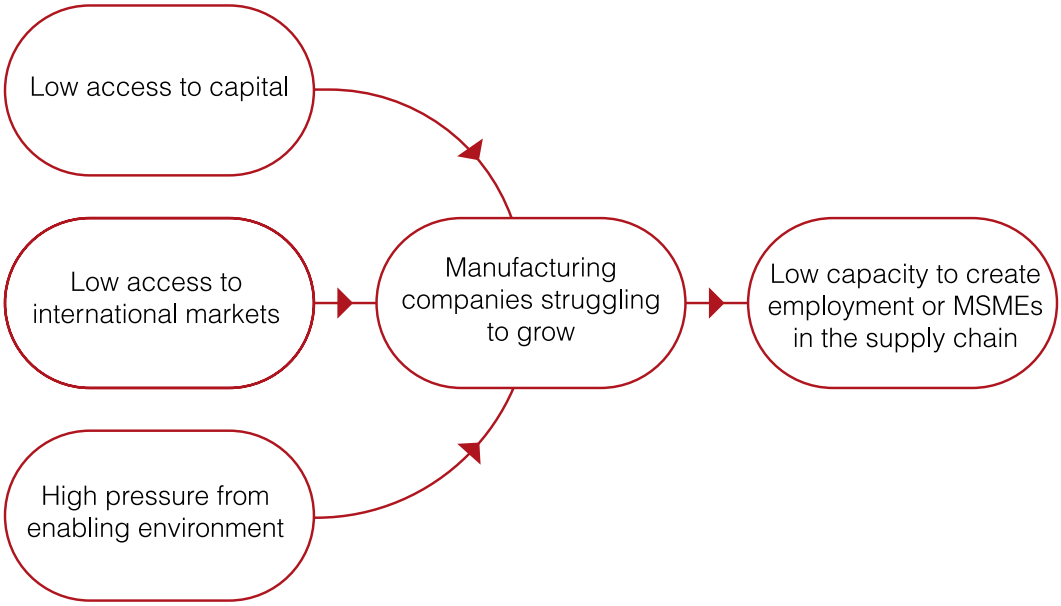
Intervention 3 Worksheet

Sustainable Employment for Youth through Industrial Growth

Studies demonstrated that employment created in the manufacturing sector had the lowest cost and highest likelihood to be sustainable. Most of the manufacturing employment is decent and formal. This proposal is focusing on three main industries as pathways to youth employment, namely: Mechanical, Electrical and Electronics Industries, Agri-business industries and textile and apparel industries.

However, the main challenge faced especially by SMEs in this sector is access to capital and access to international markets. We are proposing to leverage their employment potential through assistance to growth that includes both technical and financial support. Many of these industrial units can grow through investment in new production lines, new products, new markets, new certifications of their products, etc. They can't invest in such projects without assistance. Our proposed intervention will provide this assistance with an outcome-based approach. The amount of the grants to be allocated to each company depends on its capacity to create jobs and its capacity to rise co-investment. The outcome-based finance ensures that disbursements are mostly done after check and verification of the achieved outcomes (jobs for youth).

Figure 7 : Current situation of the manufacturing sector

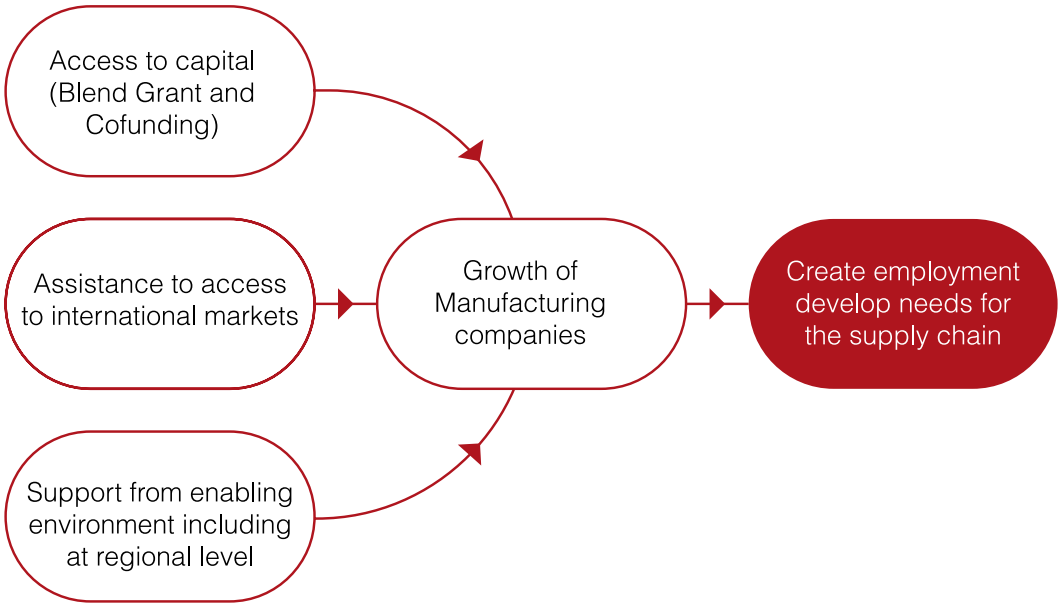


The proposed intervention includes also a set of activities related to enhancing the business enabling environment through public stakeholders' engagement at national and regional levels. Regional representatives of the Agency of Industry and Innovation, entrepreneurship support

organizations and incubators, and business unions will be invited to collaborate and coordinate for better assistance of business growth projects and new auto entrepreneurs. Training and facilitation sessions will be offered with a focus on problem solving.

The partnered businesses (beneficiaries of the project) will be offered the possibility to benefit from a blended financial mechanism that ensures impact creation through a win-win partnership. Projects proposed should at least ensure 50% of the overall investment amount to be eligible with a minimum number of jobs for youth to be fixed by sector and seized. The project will offer technical assistance for companies having good proposals to develop business plans and apply for financing from partnered financial institutions including guarantee and insurance companies, if needed.

Figure 8 : Proposed model of intervention in the manufacturing sector



Activities to be implemented within this intervention can be grouped into the following:

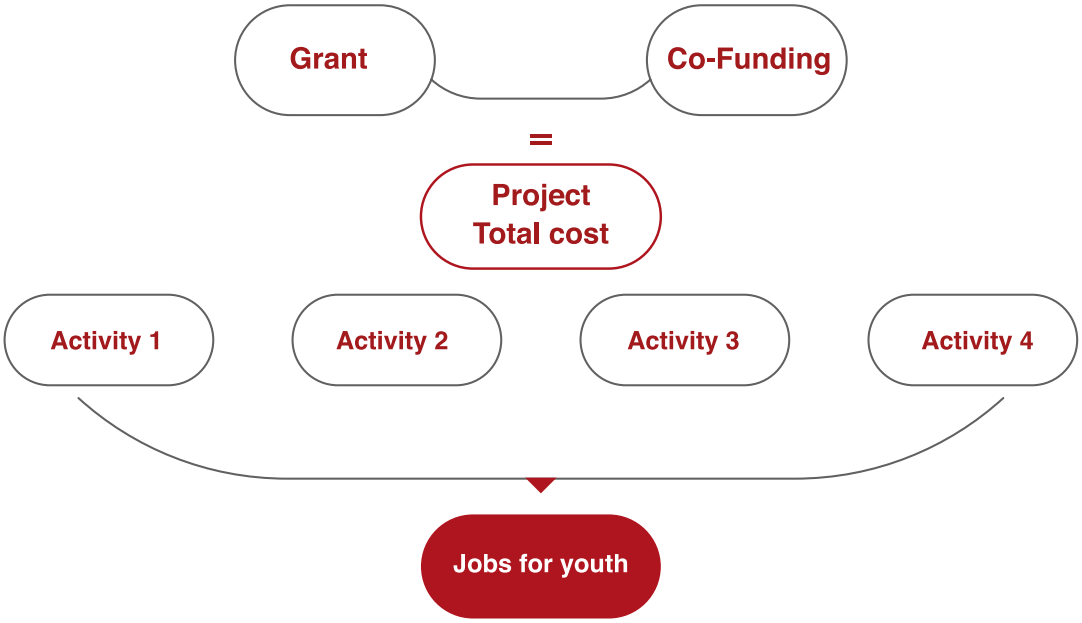
1. Enterprises engagement through a process of mobilization, application with projects to grow and create jobs, evaluation, selection and contracting. Focus will be on the targeted sectors with selection criteria prioritizing employment and growth potential.

2. Provision of technical assistance to companies starting from the review of their business plans to facilitation of access to markets, human resources development, etc

3. .Provision of financial support (grants) on a Result-based basis related to outputs (example: machines purchased, certifications obtained, etc) and outcomes (employment and entrepreneurship opportunities created).

4. Tracking of the progress of results achievement during the whole period of the project with assistance for underperforming (outputs and outcomes)

Figure 9 : Proposed model for private sector engagement for job creation



Intervention 4 Worksheet

Tourism Sector Transformation in Tunisia: Sustainability and Technology for Youth

Tourism sector in Tunisia was marked with positive achievements during the last two years. 11 million tourists visited Tunisia during 2024 with an increase compared to the previous year, and a total income registered during the same period of 7.5 billion dinars. Tunisia has a hospitality culture and a history of tourism development in many regions of the country. However, the development approach adopted for more than thirty years based on the low cost, "all inclusive" and in general "mass tourism" demonstrates its limitations. The three pillars of the economic model are all alarming: economic performance is very limited compared to the competitors' countries in the region. The environmental and social effects are negative (water scarcity) or merely positive (job creation for short periods of the year, etc). The current system can be described as in the figure 8

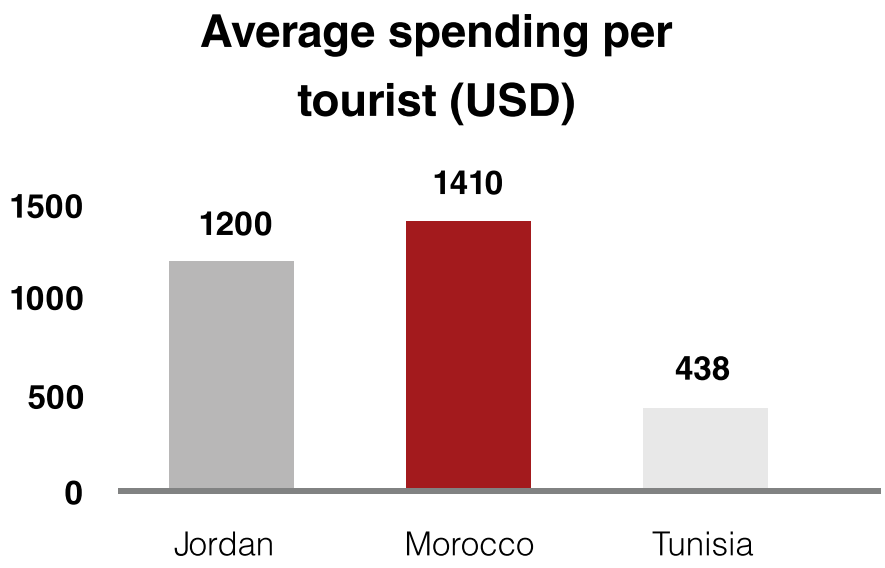
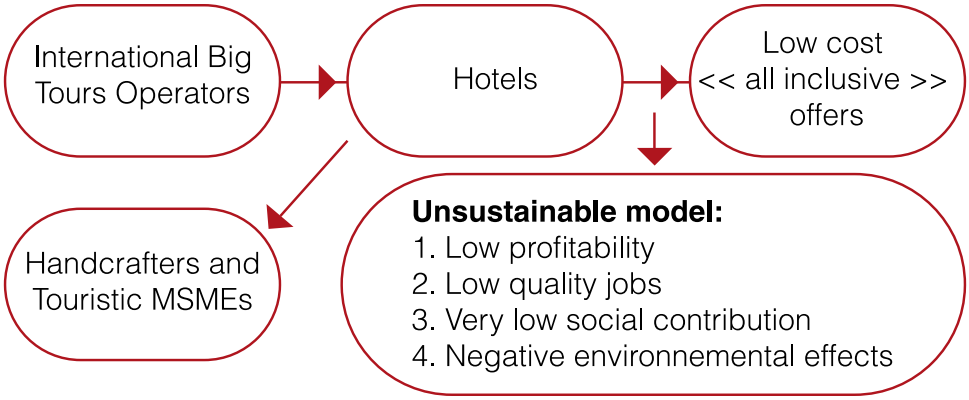


Figure 10 : Current Model of the Tourism market system



To set a new sustainable development model for the tourism sector in Tunisia, we propose to build on the debate and the recent studies from the Ministry of Tourism and other specialized NGOs such as IACE and Leaders Tunisia. Our proposed intervention includes three main pillars:

- Launch an incubator specialized in Tourism and IT "to serve as a development framework for Tunisian startups active in AI, augmented reality, or predictive management applied to tourism."
- Mobilize youth for training and capacity development for touristic entities
- Reinforcement and support for the "alternative" tourism that includes ecotourism, creative tourism and Pesca tourism, etc.

1. Tunisia Tourism Lab (TT Lab):

To draw inspiration from pioneering models in France (France Tourism Lab), Morocco (TechnoPark Casablanca), and Spain, and to sustainably anchor innovation in the Tunisian economy, priority should be given to creating a national incubator specializing in technologies applied to tourism. Tunisia has a solid foundation to host such a system, for example to the existence of smart technology parks, the startups ecosystem which offer infrastructure suited to innovation, support for startups, and the

creation of cross-sector synergies. TT Lab role would be to:

- Serve as a development framework for young Tunisian companies active in AI, augmented reality, or predictive management applied to tourism.
- Become a platform for collaboration between developers, tourism institutions, researchers, and public stakeholders.
- A lever for access to open data, targeted funding and an international network of expertise.

2. Youth mobilization for capacities building in tourism

According to an opinion poll conducted between March 15 and April 15, 2024, owners of tourist establishments expressed their willingness to provide approximately 10,800 jobs. 2700 jobs have been confirmed as immediately vacant last year. Our proposed intervention is to

- Partner with a selected group of public and private vocational training centers to offer capacity building sessions in a predetermined list of highly demanded skills requested by the touristic entities.
- Offer technical assistance to improve the current curricula on hard skills and complete them with soft skills including languages and communication
- Mobilize thousands of young women and men from the regions to the training sessions.
- Offer opportunities to match demand and offer of employment with a yearly JobFair dedicated to Tourism.

3. Reinforcement and support for the responsible tourism

Sustainability becomes a necessary component of the touristic offer because of raising awareness by both at the client and the hosting communities of the ecotourism entity. The durability of the tourism sector and its resilience are also depending on its environmental and social management.

Our proposed interventions third action is about:

Supporting the Tunisian responsible tourism ecosystem composed of about 1000 guest houses and hundreds of related services micro-enterprises (adventure, cultural, etc)

- Supporting local and regional initiatives to develop or enhance creative tourism including events organizations. This model will permit us to move beyond the sun-and-sea formula and invest in an experience that is immersive, authentic and economically empowering. This
- support can be through a mapping of existing initiatives, a diagnostic of their needs (technical skills, access to market, assistance in access to finance).

This package of complementary actions will transform the tourism national industry to a sustainable model that can be drawn as follows:

Figure 11: Proposed model of intervention in the Tourism sector

RECOMMENDATIONS :

For the implementation of these interventions, we recommend:

1 Be realistic about the systemic change objectives. Market System projects organically target improving systems functioning in order to have a sustainable impact during and especially after the delivery end. Such change necessitates however a buy-in from different stakeholders like Government, businesses, beneficiaries, civil society, intermediaries, etc. The projected interventions should consider a risk of resistance or weak engagement from one or more actors which makes introduction of a systemic change very difficult. It is also important to note that its perception, measurement and reporting will be challenging if the project is lasting only a few years. Our recommendation is thus to have a communicated objective of initiating a systemic change instead of changing the market systems.

2 Mix the profiles of businesses to target by the program. Each group of the startups, starting entrepreneurial projects, established businesses, small and medium enterprises that already demonstrated their business models, has interesting capabilities in terms of objectives. Nevertheless, creating employment at scale (5000 jobs) can only be achieved with well established businesses that have high potential of development and employment. Startups and new projects can be very useful for deep impact especially in regions where the entrepreneurial ecosystem is very limited. They also have high innovation' contribution.

3 Take into consideration the job attractiveness for youth. Some employment opportunities in a few sectors can simply be uninteresting for most of the young people because of a social perception, lack of development opportunities, difficult working conditions, etc. When the project objectives depend on these less attractive employment opportunities, delivery is inevitably transformed to a non-efficient "push implementation". Experience has demonstrated that several simple jobs with very low technological inputs and working conditions in sectors such as agriculture, waste management, fishery, etc are not preferred for Tunisian youth.

4 Use a different collaboration approach when dealing with the private sector compared to civil society. Financial support using Outcome based finance is very effective to keep the business interested in the project objectives. Technical assistance diagnostics should prioritize outcomes achievement (employment creation) and impact deepening instead of standardization of its offer. Projects that try to offer mostly the same TA to the maximum of businesses finish by very low additionality.

5 For synergy and learning objectives, we recommend developing partnerships with other donors and international implementing partners working on employment and youth empowerment in Tunisia. This kind of collaboration can facilitate the identification of relevant actors in the regions, coordinate a complementary intervention for the beneficiaries (training for youth, technical assistance or funding for businesses, etc).

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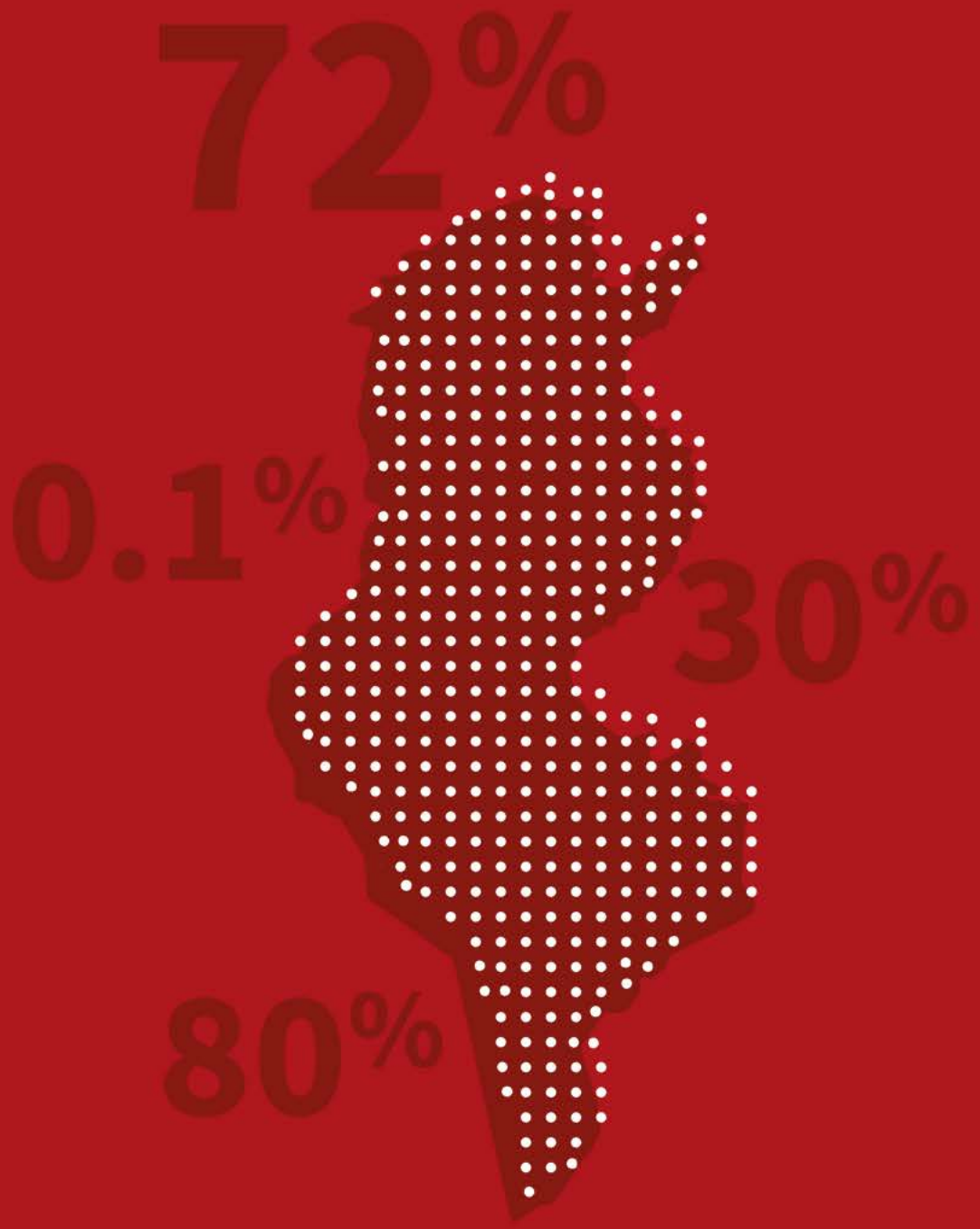

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