

HUMAN CAPITAL ISSUE N°1

Underutilisation of human capital hampers growth and job creation

Young people in AMCs¹ represent the main human capital potential for economic prosperity, while at the same time they are the main challenge in terms of pressure on the labour market. While the relative size of the youth remains high (16.4%) compared to that in the EU-27 (5.2%), most countries have experienced a reduction in this population (average of 3.3%).

Furthermore, the region continues to experience negative net migration (emigration is higher than immigration), except in Israel, Jordan and Lebanon. This element also has significance for the demographic and labour market prospects of each country.

The labour market in the AMCs is characterised by low levels of activity and employment rates, especially for young people, limited participation by women, a large and growing informal sector, a relatively high level of emigration in general and of educated persons in particular (brain drain) and an influx of refugees and foreign workers (mainly, not exclusively, in Lebanon and Jordan).

Inactivity rates in the AMCs remain among the highest in the world, with less than 50% of people actively participating in the labour market in 2019. Even more worryingly, these inactivity rates have remained constant throughout the past decade (Lebanon, Tunisia) or have even slightly increased further (Algeria, Egypt, Jordan, Morocco, Palestine). Paradoxically, an increasing share of work in SEMED countries is in services, while wage and public employment remain the main targets for jobseekers.

The labour markets of the AMCs are also characterised by low employment, high unemployment and very large gender and age gaps. Arguably, among a number of different driving forces there is the demographic pressure coupled with the regional 'jobless' economic growth, which translates into a situation in which labour supply far outweighs labour demand, thus resulting in high rates of unemployment and very low employment, especially among young people who are new entrants to the labour market. The correlation between educational attainment and employment is rather inverse. Regardless, finding a job is an arduous struggle for young people in the region.

Both horizontal and vertical mismatches have a negative impact on youth employment in the region. Skills mismatch is recognised as a major challenge by policy makers, practitioners and social partners, as it is often associated with dynamic social and economic contexts such as restructuring processes, changing trade patterns, technological transformation, demographic change and negative social

¹ Arab Mediterranean Countries

conditions (e.g. informality, long-term unemployment, inactivity). Mismatches in human capital can also relate to skills obsolescence, whereby workers possess skills that are no longer required by the employer owing to changes in workers' abilities, technical progress or market conditions. Providing more schooling does not seem to help in solving the issues of mismatch or youth unemployment in general.

Employers have a role and also a responsibility to increase their involvement in skills development by identifying and communicating the skills they need, as well as developing mechanisms to recruit, train and retain employees. This shared responsibility should be further understood and acknowledged and its institutionalisation supported.

HUMAN CAPITAL ISSUE N°2

Exclusion increases poverty and makes it difficult to achieve social objectives

The concept of 'socioeconomic inclusion' in the report refers to the equality of individuals to access economic and employment opportunities, regardless of their gender, age, education level, socioeconomic status or geographical location. It is generally acknowledged that making socioeconomic growth and prosperity more inclusive will also make it more sustainable. In this context, in recent years social inclusion policies have become more of a priority than they were in the past in the national agendas of SEMED countries. Linkages between social inclusion and skills development are also being established.

The lack of access to affordable and quality public services, finance and technology has further hampered access to opportunities and prevented growth from benefiting all. As societies age, new technology evolves, and automation and change become faster, there is an increasing risk that new groups of people become excluded from the market, for instance those who have obsolete skills. Moreover, persistently weak growth, exacerbated by the COVID-19 health crisis, has certainly further inflated the problem of income inequalities and social exclusion.

In addition to the unfair distribution of limited resources and the political instability, several other factors can explain this precarious situation, amongst them:

- The low level and quality of (decent) job creation due to the limited regional integration, global competitiveness, innovation capacity, technological readiness and export diversification;
- The difficult transition from school to work remains problematic in most countries, with persistently high, and in most countries growing, numbers of NEETs as a result of insufficient support;
- The informality becoming a structural feature that has persisted in the region over the years, in addition to the working conditions and wage levels;
- The gender gap in labour market which constitute a loss in productivity and result in high opportunity costs and a low return on educational investments;
- Skills mismatches owing to the weak connection between the private sector and academia, with the skills and specialisations provided failing to meet employers' requirements;
- The low capacity and effectiveness of education and training systems to provide relevant skills to meet current and future labour market needs;
- The migration shift: SEMED is moving from being an emigration-sending region to one of transit or host region for immigrants and refugees which exacerbate exclusion from education and labour market.

Furthermore, having a job in the region is not a guarantee of escaping poor working conditions or poverty. In fact, jobs are often precarious and unprotected, with low wages and limited training opportunities.

The most vulnerable groups in the region are young people, women, NEETs, informal workers, rural residents and migrants and refugees.

HUMAN CAPITAL ISSUE N°3

Insufficient preparedness to anticipate and address future skills demand

Multiple transformations are shaping economies and societies in SEMED, and their impact can be as strong as the shock of the COVID-19 pandemic. Although there is no single picture of the types and magnitudes of socioeconomic transformations, SEMED countries, like those in the rest of the world, will have to face the following changes. In order for countries to grasp the opportunities offered by these trends and be ready to manage the transition to the future, the quality, relevance, efficiency and resilience of education are key.

These transformations include i) technological and digital change, implying a disruptive impact of digitalisation and artificial intelligence and new production and trade patterns; ii) globalisation leading to market integration and connectivity; iii) demographic phenomena, such as shrinking young generations and significant migration waves (inward or outward); and iv) climate change, calling for the greening of industry and consumption resource efficiency (circular economies).

The results of the Programme for International Student Assessment (PISA) 2015 and 2018 highlight **problems in the quality of basic education**. The importance of early education is obviously key for employment prospects and socioeconomic development in general. However, the low-skilled population remains sizeable in the region, despite all efforts in relation to access. According to the ETF (2020), three out of four adults in Morocco, about two out of three adults in Algeria and Palestine, and about half of adults in Tunisia and Jordan have attained at most lower secondary education (usually compulsory education).

Education in the region has been constrained by behavioural norms and ideological polarisation, which are embodied in four sets of tensions according to the WB: i) credentials vs skills; ii) discipline vs enquiry; iii) control vs autonomy; and iv) tradition vs modernity. These tensions have prevented education from evolving to deliver learning that prepares students for their futures.

Although there has been a slight improvement in PISA assessment in Jordan and Lebanon since the results from 2015 and 2018, the low level of achievement in reading, mathematics and science remains worrying: more than 60% of students aged 15 in the AMCs failed to reach PISA level 2 in mathematics. This low level of performance will obviously follow those pupils throughout their life, including in the VET system and in the workplace, depending on their future stream.

Skills systems reveal significant shortcomings in terms of effectiveness and efficiency because not sufficiently flexible, responsive and anchored in the professional environment. Although education and training systems in the SEMED region have substantially improved their outcomes in terms of increasing access and geographical coverage, more remains to be done to respond to the rapid transformations. One of the main reasons for the inadequacy of skills is the lack of relevant processes for skills anticipation and matching, poor public employment services as well as insufficient development and relevance of LLL, career guidance, adult learning and WBL.

Matching requires information about the labour market, derived from monitoring, anticipation and forecasting of skill demands and supplies, and converting this information into effective policies and activities to reduce labour market imbalances. The relevant data to carry out such monitoring

Centralised governance and not sufficiently diversified financing mechanisms of VET are other crucial factors hampering the quality, relevance, efficiency and resilience of education and leading to the depletion of human capital.